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XSUNX INC
Form 10KSB/A
May 13, 2005

FORM 10-KSB/A

SECURITIES EXCHANGE COMMISSION
Washington, D.C. 20549

Annual Report Pursuant to
the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2004

Commission file number: 000-29621

XSUNX, INC.

(Exact name of registrant as specified in its charter)

Colorado

(State of incorporation)

84-1384159

(I.R.S. Employer Identification No.)

65 Enterprise, Aliso Viejo, CA 92656

(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (949) 330-8060

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: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. Yes No

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year. \$0

Transitional Small Business Disclosure Format: Yes No

Aggregate market value of the authorized voting stock held by non-affiliates of the registrant as of September 30, 2004: \$41,420,791 based on the last sale price at year end of \$.45 as reported by OTCBB.

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Number of authorized outstanding shares of the registrant's no par value common stock, as of January 13, 2005: 119,577,012

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

COMPANY HISTORY

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

Pursuant to the Plan the Company acquire the following three patents for Seventy Million (70,000,000) shares (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.

GENERAL OVERVIEW

XsunX, Inc. is developing Power Glass(TM) - an innovative solar technology that allows glass windows to produce electricity from the power of the sun. This process for producing electricity is known as Photovoltaics. Photovoltaic ("PV") is the science of capturing and converting solar energy into electricity.

Using patented solar cell design and manufacturing processes, the Company is focused on the development of very thin semi-transparent coatings on thin-film flexible plastics that create large area monolithic solar cell structures that you can see through. This semi-transparency makes Power Glass(TM) glazing desirable for placing over glass, plastics, and other see-through structures.

XsunX is leveraging its development efforts to commercialize Power Glass(TM) technology as a solution for integrating renewable power generating properties onto modern architectural glass and building facades. The process of integrating renewable power generating properties into building materials and onto buildings is know as Building Integrated Photovoltaics or "BIPV."

The Company believes that Power Glass(TM) technology can provide a solution for the wide scale integration of BIPV energy producing products into living and working environments - all without causing disruptive and costly changes to lifestyles. Upon the completion of our commercialization process the Company anticipates the majority of revenues to be derived from the licensing of its technology.

NATURE OF OPERATIONS

Management has established a plan under which the Company is commercializing its Power Glass(TM) technology and developing new technology through the contracting for research, development and commercialization processes with certain qualified facilities that specialize in the Company's target market segments. This product development process is anticipated to provide the Company with the fastest path to marketable products, the

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maximization of corporate resources, and, the broadest access to cutting edge device, optical and material engineering facilities and technical expertise.

Although the Company faces many challenges in perfecting and establishing viable commercial processes it is encouraged by its developments efforts in which the production of working model samples of semi-transparent photovoltaic glazing exceed 4% electrical conversion efficiencies. These working models established the basis for process and cell refinement that the Company believes will provide conversion efficiencies approaching 6% or greater. Through the use of contracted facilities the Company is continuing to concentrate on the refinement of cell structures, manufacturing processes, the balancing of light transmittance and transparency, and conversion efficiencies.

In June 2004 XsunX established a strategic relationship with Colorado based MVSystems, Inc. that designs, builds, and delivers state-of-the-art manufacturing tools designed specifically for the thin film semiconductor market. MVSystems, Inc. is equipped with both the technical staff and tools necessary for the development and commercialization of the XsunX glazing process. The terms of the working relationship provide XsunX with complete R&D facilities without mark-up for profit on the use of staff and equipment. The objective of the plan is to provide the Company with commercially viable processes and manufacturing techniques necessary for the development of demonstrable products.

XsunX, Inc. has increased its patent and technology assets by acquiring an exclusive royalty free license from MV systems to a suite of patents and technologies specific to the design and manufacture of its semi-transparent solar electric glazing initiative.

The patent portfolio and technologies of MVSystems, Inc., an internationally recognized authority in the field of solar cell design and manufacturing processes, are now part of the intellectual property assets of XsunX. The technologies licensed encompass a wide spectrum of both material and device sciences that the Company believes provides them with key aspects to the commercial viability of integrating electrical power generating properties on to millions of square feet of modern architectural glass facades.

The Company has and continues to make investments in the development of intellectual property assets as part of a business-restructuring plan. The purpose of these on going investments is to acquire, develop and market patented and proprietary semi-transparent solar electric glazing processes.

PRODUCT STRATEGY

We anticipate that the primary product opportunity for Power Glass(TM) technology will be in establishing a viable process for the commercial manufacture of solar electric glass. This proprietary process will allow manufacturers to apply a coating, film or glazing to glass, plastic and other materials, which is semi-transparent and photovoltaic. Because XsunX Power

Glass(TM) glazing is semi-transparent, the general appearance of products manufactured using the XsunX process, which is in development, is not, or will be minimally changed. When Power Glass(TM) is exposed to light, the light energy is converted into electrical energy for use as a power source.

In today's, highly competitive, multi-billion dollar glass industry, XsunX hopes Power Glass(TM) may become a source of competitive advantage for many glass

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manufacturers - as solar glazing technology may become a competitive alternative to non-energy producing coating and glazing.

GROWTH PLAN

The Company's strategy is to complete the development and commercialization of its Power Glass(TM) process and enter into licensing agreements with channel partners who would agree to manufacture and distribute products made with the XsunX solar electric glass technology. We hope to have glass manufactures incorporate the Power Glass(TM) technology into their manufacturing process as an "original equipment manufacturer" (OEM) and sell the finished product to their consumers.

The Company will offer non-exclusive licensing for a 3% royalty on gross sales. By licensing the Power Glass(TM) technology to glass manufacturers, the Company reduces operating expenses and saves capital in plant, property and equipment. As a result, should the Company realize earnings it intends to reinvest its retained earnings in R&D in an effort to continuously develop related new technologies that will achieve sustainable competitive advantages for the Company.

PROPRIETARY TECHNOLOGY AND PATENTS

XsunX has been awarded, and exclusively owns, the following three patents from the United States Patent and Trademark Office for use in the development and commercialization of Power Glass(TM):

- o Transparent Solar Cell and Method of Fabrication - United States Patent Number 6,180,871 - granted on January 30, 2001. (Device)
- o Transparent Solar Cell and Method of Fabrication - United States Patent Number 6,320,117 - granted on November 20, 2001. (Method of Fabrication)
- o Transparent Solar Cell and Method of Fabrication - United States Patent Number 6,509,204 - granted on January 21, 2003. (Formed with a Schottky barrier diode and method of its manufacture)

In addition, XsunX licensed the patent and technology portfolio of MVSystems, Inc., a Colorado corporation ("MVSystems") in September 2004. The MVSystems portfolio represents over thirty years of photovoltaic technology design, development, and best practices. Further, MVSystems provides XsunX with expertise in the design of manufacturing systems necessary for the commercialization of the Power Glass(TM) technology. The following are two of the key patents licensed from MVSystems:

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- o Semiconductor Vacuum Deposition System And Method Having A Reel-To-Reel Substrate Cassette: US6, 258,408 B1: July 10th, 2001. (Method of Fabrication)
- o US Provisional Patent Application serial number 60/536,151- three terminal and four terminal solar cells, solar cell panels, and method of manufacture. (Device and Method of Fabrication); (Note: This is a broad patent which covers the use of various approaches to lead to high efficiency devices, whether they are semi transparent or opaque).

The Company intends to continue to develop additional processes,

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techniques, and device designs. These research and development efforts may provide the Company with additional proprietary technology that may lead to the filing of new provisional and patent applications.

APPLICATIONS FOR SOLAR ELECTRIC GLASS AND GLAZINGS

Power Glass(TM) represents a new type of solar cell design that balances solar cell efficiencies and manufacturing costs with broad applications and uses. By balancing energy density and energy efficiency in product form factors that cover large portions of our buildings, the Company anticipates that the XsunX process may provide as much as a 100% efficiency-to-cost gain over many conventional amorphous opaque solar cells. The Company anticipates that the XsunX process may operate at up to 50%, or half, the efficiency of many conventional amorphous opaque solar cells yet its preliminary manufacturing cost estimates are anticipated to run at 25% of conventional solar cells. As a result, Power Glass(TM) provides an opportunity for large portions of a building's exterior surface to produce electricity. Power Glass(TM) has ubiquitous applications -- including, but not limited to:

Large Buildings - Architectural Glass:

XsunX glazing could be applied to the windows of large buildings, turning these structures into virtual power plants. Electrical power generated can be used to run building systems augmenting other power sources.

Industrial and Public Facilities - Canopy, Skylight, Roof & Laminates:

XsunX glazing could be applied to the various transparent surfaces of large manufacturing and public facilities to supply a clean and renewable portion of electrical power. XsunX believes that these types of products and applications will provide economic incentives for the wide scale adoption of the integrated use of Power Glass(TM) technologies. Film produced by major company licensees using the XsunX process could be supplied to building material manufacturers worldwide for development and use in numerous applications.

BUSINESS DEVELOPMENT MODEL

The Company's management believes that the primary target opportunity for XsunX's technology is makers and fabricators of glass and optical films. The Company's strategy is to complete the development and commercialization of the XsunX process, and then enter into relationships with channel partners who will

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manufacture and distribute products made with XsunX solar electric glazing technology. The Company's management believes that the most achievable path for the Company involves licensing the XsunX process to companies with established manufacturing and distribution facilities.

REVENUE AND DISTRIBUTION MODEL

The Company's management believes that virtually all of the Company's revenues will come from the licensing of its proprietary Power Glass(TM) solar electric glazing technology to major manufacturers. The Company will offer non-exclusive licensing rights for a 3% royalty on gross sales. In this manner,

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it is anticipated that glass manufacturers will incorporate the Power Glass(TM) technology into their manufacturing process as an "original equipment manufacturer" (OEM) and sell the finished product(s) to their consumers. No licenses or contracts now exist with any manufacturer.

MARKET

The Company's technology can be applied to the already quite large and established glass industries. That is, transparent glazing may enable solar energy-production to enter mainstream markets because it can readily become integral to the designs of buildings. Builders and manufacturers already use glass, plastic and other materials, so they may be especially attracted to the economic benefits of using the same materials that also produce electrical energy.

According to the US Department of Energy, the global photovoltaic industry reached \$4.7 billion in worldwide sales in 2003 and is expected to grow at a rate in excess of 15-20% per year over the next several decades. Management believes the most compelling aspect to the solar electric opportunity is the sheer size and scope of the present antiquated energy marketplace.

In the long view, solar energy production is intrinsically attractive, not only environmentally but also economically. Sunlight is readily, regularly, and widely available; it is renewable; and it is easily accessible without the massive expense of mining, drilling, or constructing huge dams or other facilities. Tapping the sun directly, rather than through the solar energy stored in fossil fuels, wood, or ethanol, makes too much economic sense not to be inevitable.

MARKETING STRATEGY

XsunX's marketing strategy is to create a favorable environment to license its solar electric glass technology. The Company intends to enhance, promote and support the fact that products produced with the Power Glass(TM) process provide users with a best of class technology that spans and interconnects glass, optical film and energy markets to provide substantial economic and environmental benefits.

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ADVERTISING AND PROMOTION

XsunX recognizes that a key to success will be to undertake focused advertising and promotion efforts aimed at developing product awareness within the glass manufactures, fabricators, optical film, and building industries. This campaign will be performed on a scale necessary to meet license sales goals. To accomplish its licensing goals, the Company requires a capable advertising agency and public relations firm. When the process is ready to market, subject to the recommendation of a marketing director, an agency will be selected and, with their assistance, a comprehensive advertising and promotion plan will be drafted.

BACKLOG OF ORDERS

There are currently no orders for sales at this time.

GOVERNMENT CONTRACTS

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None at this time.

COMPETITIVE CONDITIONS

Currently, management is not aware of other products substantially similar to those of the company on the market. However, larger existing firms may be developing competitive products and may have extensive capital for development work.

COMPANY SPONSORED RESEARCH AND DEVELOPMENT

No research was done by the Company prior to September 30, 2003. After acquiring the technology, subsequent to September 30, 2003 the Company has begun research and commercialization development and planning efforts. With proceeds of capital raising efforts, the Company has engaged in on going development of its technology for the purpose of commercializing its proprietary process for licensing to glass manufacturers.

COMPLIANCE WITH ENVIROMENTAL LAWS AND REGULATIONS

The operations of the Company are subject to local, state and federal laws and regulations governing environmental quality and pollution control. To date, compliance with these regulations by the Company has had no material effect on the Company's operations, capital, earnings, or competitive position, and the cost of such compliance has not been material. The Company is unable to assess or predict at this time what effect additional regulations or legislation could have on its activities.

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ADMINISTRATIVE OFFICES

As of September 30, 2004 the Company leased administrative office facilities located at 65 Enterprise, Aliso Viejo CA 92656 for approximately \$750 per month pursuant to a six month lease agreement and month to month thereafter.

EMPLOYEES

The Company is a development stage company and as of September 30, 2004 had one salaried employee. Upon the completion of its reorganization the Company retained its current President and Chief Executive Officer, Mr. Tom M. Djokovich, on October 1, 2003. The Company projects that during the next 12 months the Company's workforce is likely to increase to 8, with 3 of the new employees being in Administrative and 4 in marketing and sales positions. In addition to the retention of these new employees the Company expects to continue to use consultants, subcontract labor, attorneys and accountants as necessary, and may find a need to engage additional full-time employees as necessary.

ADVISORY BOARD

In September 2004 the Company established the XsunX Scientific Advisory Board to attract qualified specialists from the fields of material and device engineering, and, industry specialists representing expertise in manufacturing,

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design, certification and applications associated with glass, plastics and building materials. It is anticipated that panel members will be engaged for a period of two years. The advisory board retained a chairman, Dr. Arun Madan to lead the panel, advise the development process and recommend additional candidates for inclusion on the panel.

BIOGRAPHICAL INFORMATION DR. ARUN MADAN

Dr. Madan is a Research Professor in the Department of Metallurgical and Materials Engineering at The Colorado School of Mines, President of MVSsystems Inc. and an adjunct professor at The University of Waterloo, Canada. He became one of the originators of Amorphous Silicon technologies in 1970 and fabricated the first TFT (thin film transistor) as part of his Ph.D thesis. With over 30 years of leading edge scientific accomplishments he has published well over one hundred scientific papers, published a textbook now in use at several universities and holds fourteen patents on thin film semiconductor technology as well as advanced vacuum semiconductor deposition systems. In addition to his recognized leadership in the fields of thin film semiconductors and solar cells, he is the founder of two firms, Glasstech Solar Inc. in 1985 and MVSsystems, Inc. in 1989. As founder of these firms he has gained over twenty years of international business, marketing and management experience successfully establishing technology sales exceeding \$150 million dollars. Leveraging his extensive scientific, business and leadership capabilities he has led teams of scientists/engineers in multi-disciplinary programs providing contract research and development work for a multitude of domestic and international agencies and firms including the National Renewable Energy Laboratory (USA), BP-Solar (USA), Shell (The Netherlands), Kovio (USA), Zettacore (USA), QinetiQ (UK), ENEA (Italy) and Pacific Solar (Australia) etc. Dr Madan received his Ph.D. - Physics from the University of Dundee, Scotland.

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TRADEMARKS AND PATENTS

The Company entered into an agreement for the purchase of the U.S. registered trademark "Power Glass(TM)" and Internet domain name PowerGlass.com in May 2004 from Western Gas and Electric Company, a California corporation. The Company has not been issued registered trademarks for its "XsunX" trade name. The Company may file trademark and trade name applications with the United States Office of Patents and Trademarks for its proposed trade names and trademarks.

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. (See "Certain Relationships and Related Party Transactions.")

In addition, XsunX licensed the patent and technology portfolio of MVSsystems, Inc., a Colorado corporation ("MVSsystems") in September 2004. The license granted XsunX the royalty free exclusive rights for use by XsunX in its pursuit to establish a commercially viable process for the manufacture of semi-transparent solar cells and solar electric glazing processes and, accordingly, included all MVSsystems technology, know how, and resources which are part of or related to the licensed patents and technology that was then or may become applicable or beneficial to the furtherance of the business

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objectives of XsunX in the future. The license was exclusive as to technology pertaining to XsunX field of use as it pertains to the business of developing, commercializing and licensing processes for the manufacture of semi-transparent (greater than 5% transparency) solar cells or photovoltaic glazing technologies.

The following are two of the patents licensed from MVSystems that are management believes to be beneficial to the development of scalable manufacturing processes for Power Glass(TM) technology. Semiconductor Vacuum Deposition System And Method Having A Reel-To-Reel Substrate Cassette: US6, 258,408 B1: July 10th, 2001. (Method of Fabrication); and US Provisional Patent Application serial number 60/536,151- three terminal and four terminal solar cells, solar cell panels, and method of manufacture. (Device and Method of Fabrication); (Note: This is a broad patent which covers the use of various approaches to lead to high efficiency devices, whether they are semi transparent or opaque). See "Certain Relationships and Related Party Transactions."

RISK FACTORS

Need For Additional Financing. The Company has very limited funds, and such funds may not be adequate to develop the Company's current business plan. The ultimate success of the Company may depend upon its ability to raise additional capital. If additional capital is needed, there is no assurance that funds will be available from any source or, if available, that they can be obtained on terms acceptable to the Company. If not available, the Company's operations will be limited to those that can be financed with its modest capital.

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Regulation of Penny Stocks. The Company's securities, when available for trading, will be subject to a Securities and Exchange Commission rule that imposes special sales practice requirements upon broker-dealers who sell such securities to persons other than established customers or accredited investors. For purposes of the rule, the phrase "accredited investors" means, in general terms, institutions with assets in excess of \$5,000,000, or individuals having a net worth in excess of \$1,000,000 or having an annual income that exceeds \$200,000 (or that, when combined with a spouse's income, exceeds \$300,000). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell the Company's securities and also may affect the ability of purchasers in this offering to sell their securities in any market that might develop therefore.

In addition, the Securities and Exchange Commission has adopted a number of rules to regulate "penny stocks." Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Securities Exchange Act of 1934, as amended. Because the securities of the Company may constitute "penny stocks" within the meaning of the rules, the rules would apply to the Company and to its securities. The rules may further affect the ability of owners of Shares to sell the securities of the Company in any market that might develop for them.

Shareholders should be aware that, according to Securities and Exchange Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) "boiler room" practices involving high-pressure sales tactics and unrealistic price

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projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The Company's management is aware of the abuses that have occurred historically in the penny stock market. Although the Company does not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to the Company's securities.

Lack of Operating History. The Company was formed in 1997 and has had an unsuccessful operating history. The re-organization of the Company and the acquisition of solar electric glazing patents have provided the Company with a new opportunity for business development which carries continued special risks inherent in a new business opportunity. The Company must be regarded as a new or start-up venture with all of the unforeseen costs, expenses, problems, and difficulties to which such ventures are subject.

No Assurance of Success or Profitability. There is no assurance that the Company will successfully commercialize its proprietary patented technology. Even if the Company should successfully commercialize its proprietary patented technology, there is no assurance that it will generate revenues or profits, or that the market price of the Company's common stock will be increased thereby.

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Lack of Diversification. Because of the limited financial resources that the Company has, it is unlikely that the Company will be able to diversify its operations. The Company's probable inability to diversify its activities into more than one area will subject the Company to economic fluctuations within a particular business or industry and therefore increase the risks associated with the Company's operations.

Dependence upon Management. The Company currently has only two (2) individuals who are serving as its officers and three (3) as directors. The Company will be heavily dependent upon their skills, talents, and abilities to implement its business plan.

Indemnification of Officers and Directors. The Colorado Business Corporation Act provides for the indemnification of its directors, officers, employees, and agents, under certain circumstances, against attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with or activities on behalf of the Company. The Company will also bear the expenses of such litigation for any of its directors, officers, employees, or agents, upon such person's promise to repay the Company therefore if it is ultimately determined that any such person shall not have been entitled to indemnification. This indemnification policy could result in substantial expenditures by the Company which it will be unable to recoup.

Director's Liability Limited. The Colorado Business Corporation Act excludes personal liability of its directors to the Company and its stockholders for monetary damages for breach of fiduciary duty except in certain specified circumstances. Accordingly, the Company will have a much more limited right of action against its directors than otherwise would be the case. This provision does not affect the liability of any director under federal or applicable state securities laws.

Dependence upon Outside Advisors. To supplement the business experience of its officers and directors, the Company employs accountants, technical

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experts, appraisers, attorneys, or other consultants or advisors. The selection of any such advisors will be made by the Company's President without any input from stockholders. Furthermore, it is anticipated that such persons may be engaged on an "as needed" basis without a continuing fiduciary or other obligation to the Company. In the event the President of the Company considers it necessary to hire outside advisors, he may elect to hire persons who are affiliates, if they are able to provide the required services.

Competition. The Company expects to be at a disadvantage when competing with many firms that have substantially greater financial and management resources and capabilities than the Company.

No Foreseeable Dividends. The Company has not paid dividends on its common stock and does not anticipate paying such dividends in the foreseeable future.

Limited Public Market. There is only a limited public market for the Company's common stock, and no assurance can be given that a market will continue or that a shareholder ever will be able to liquidate his investment without considerable delay, if at all. If a market should continue, the price may be highly volatile. Factors such as those discussed in this "Risk Factors" section may have a significant impact upon the market price of the securities

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

ITEM 2. DESCRIPTION OF PROPERTY

As of September 30, 2004 the Company leased administrative office facilities located at 65 Enterprise, Aliso Viejo CA 92656 for approximately \$750 per month pursuant to a six month lease agreement. The Company owns no real property.

ITEM 3. LEGAL PROCEEDINGS

The Company is not currently a party to any pending legal proceedings, nor is its property subject to such proceedings, at January 14, 2005.

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

None in fiscal year.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

| Year Ended September 30, 2004 | HIGH | LOW | CLOSE |
|-----------------------------------------|--------|--------|--------|
| First Quarter ended December 31, 2003 | \$2.50 | \$.025 | \$.51 |
| Second Quarter ended March 31, 2004 | \$1.25 | \$.25 | \$.465 |
| Third Quarter ended June 30, 2004 | \$1.01 | \$.34 | \$.60 |
| Fourth Quarter ended September 30, 2004 | \$.75 | \$.30 | \$.45 |

Year Ended September 30, 2003

| | | | |
|-----------------------------------------|--------|--------|--------|
| First Quarter ended December 31, 2002 | \$.017 | \$.005 | \$.006 |
| Second Quarter ended March 31, 2003 | \$.012 | \$.007 | \$.007 |
| Third Quarter ended June 30, 2003 | \$.025 | \$.01 | \$.01 |
| Fourth Quarter ended September 30, 2003 | \$.07 | \$.007 | \$.03 |

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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, 2004, there were approximately 536 record holders of the Company's common stock, not counting shares held in "street name" in brokerage accounts which is unknown. As of September 30, 2004, there were approximately 114,036,102 shares of common stock outstanding on record with the Company's stock transfer agent, Mountain Share Transfer. On September 30, 2004 the last reported sales price of our common stock on the OTCBB was \$.45 per share.

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.

SALE OF UNREGISTERED SECURITIES

GRANT OF OPTIONS/WARRANTS

1. In September 2004 as part of a technology sharing and license agreement the Company issued a total of 6,000,000 warrants with an exercise price of \$0.15 per share with a 5-year exercise term to MVSystems, Inc. (beneficially Dr. Arun Madan. A License Stock Warrant in the amount of 5,000,000 shares was issued for a royalty free license in the exclusive use of certain patents applicable to the Company's product development efforts. All warrants associated with the License Stock Warrant vested upon issuance of the warrant. A separate Technology Sharing Warrant in the amount of 1,000,000 shares was issued

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as considerations for access to proprietary know how and the use of research and development facilities at cost without mark-up for profit. The Technology Sharing Warrant carries the following vesting provisions:

- (i) 250,000 shares upon the satisfactory completion of Phase 2 under the Phase 2 development plan.
- (ii) 250,000 shares upon the satisfactory completion, as reasonably determined by the XsunX Board of Directors, of any subsequent phase of development as may be defined under a subsequent and future development proposal.
- (iii) 500,000 shares upon the commercialization, meaning the attainment of revenues exceeding \$200,000, of an XsunX process.

2. In September 2004 the Company issued a consultancy and advisory warrant in the amount of 1,000,000 shares with an exercise price of \$0.15 per

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share. The warrant was issued as part of a Consultancy and Advisory Agreement and carries a 5 year exercise term and the following vesting provisions:

- (i) 25,000 Shares per month during and up to the first twenty-four months (24) of engagement by XsunX, Inc. of consultant.
- (ii) 150,000 shares upon the satisfactory completion of Phase 2 of the XsunX, Inc. development proposal as defined under that certain Phase 2 development plan.
- (iii) 250,000 shares upon the sale and/or licensure of an XsunX process.

3. In September 2004 the Company issued a consultancy and advisory warrant in the amount of 1,000,000 shares with an exercise price of \$0.15 per share. The warrant was issued for the conversion of \$15,000.00 dollars in accrued consultancy fee's, and as part of a Consultancy and Advisory Agreement and carries a 3 year exercise term and the following vesting provisions:

- (i) 500,000 shares upon the effective date of the Warrant. Thereafter, the Warrant shall become exercisable at the rate of 125,000 Shares per calendar quarter up to the full amount of the Warrant.

The following table sets forth information with respect to warrants for the purchase of common stock of the Company granted during fiscal year ended September 30, 2004. None of the Options were to officers, directors, or affiliates.

Summary Warrant Chart

Number of shares to Weighted-average Number of options

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| be issued upon exercise of outstanding stock options or warrants | exercise price of outstanding stock options or warrants | or warrants vested and available for exercise as of September 30, 2004 |
|---------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------|
|---------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------|

8,000,000

\$0.15

5,525,000

SALES OF SHARES

In a private placement of the Company's common stock made by the Company that began on December 19, 2003 pursuant to Regulation S of the Act at a variable price equal to 27% of the five (5) day average closing bid price, the Company raised gross proceeds of \$102,386.70 from the sale of 983,750 shares during the quarter year ending September 30, 2004. The total gross proceeds rose in this offering as of December 31, 2004 total \$210,863.20 from the sale of 1,636,800 shares. The Company is offering a total of 3,000,000 shares pursuant to this private placement, which has not been terminated and can be terminated at the discretion of the Company with three (3) days prior written notice to the purchaser.

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In a private placement of the Company's common stock pursuant to Regulation S of the Act that began on April 9, 2004 at a variable price equal to 30% of the closing bid price on the date of the purchase, the Company raised gross proceeds of \$105,802.67 from the sale 724,204 shares during the year ending September 30, 2004. This offering was terminated on December 31, 2004.

In a private placement of the Company's common stock to accredited investors on June 16, 2004 pursuant to Section 4(6) of Regulation D thereof, the Company accepted an offer for the sale of 30,000 shares of common stock, at a price of \$.15 per share, which raised gross proceeds of \$4,500.00. This offer and sale was completed on June 16, 2004.

In a private placement of the Company's common stock pursuant to Regulation S of the Act that began on August 26, 2004 at a variable price equal to 25% of the previous days closing bid price on the date of the purchase, the Company raised gross proceeds of \$70,000.00 from the sale 1,000,000 shares during the year ending September 30, 2004. The total gross proceeds raised in this offering as of December 31, 2004, total \$162,966.84 from the sale of 2,294,110 shares. This offering was terminated on December 1, 2004.

In a private placement of the Company's common stock pursuant to Regulation S of the Act on November 8, 2004, the Company accepted an offer for the sale of 1,543,500 shares at a price of \$.11 per share, which raised gross proceeds of \$169,785.00. This offer and sale was completed on November 8, 2004.

USES OF PROCEEDS FROM SALES OF UNREGISTERED SECURITIES

The proceeds from the above sales of unregistered securities were used primarily to fund the research and developments efforts and day-to-day operations of the Company and to pay the accrued liabilities associated with these operations.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

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CAUTIONARY AND FORWARD LOOKING STATEMENTS

In addition to statements of historical fact, this Form 10-KSB contains forward-looking statements. The presentation of future aspects of XsunX, Inc. ("XsunX," the "Company" or "issuer") found in these statements is subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," or "could" or the negative variations thereof or comparable terminology are intended to identify forward-looking statements.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause XsunX's actual results to be materially different from any future results expressed or implied by XsunX in those statements. Important facts that could prevent XsunX from achieving any stated goals include, but are not limited to, the following:

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Some of these risks might include, but are not limited to, the following:

- (a) volatility or decline of the Company's stock price;
- (b) potential fluctuation in quarterly results;
- (c) failure of the Company to earn revenues or profits;
- (d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement its business plans;
- (e) failure to commercialize its technology or to make sales;
- (f) rapid and significant changes in markets;
- (g) litigation with or legal claims and allegations by outside parties;
- (h) insufficient revenues to cover operating costs.

There is no assurance that the Company will be profitable, the Company may not be able to successfully develop, manage or market its products and services, the Company may not be able to attract or retain qualified executives and technology personnel, the Company's products and services may become obsolete, government regulation may hinder the Company's business, additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of warrants and stock options, and other risks inherent in the Company's businesses.

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-QSB and Annual Report on Form 10-KSB filed by the Company in 2004 and any Current Reports on Form 8-K filed by the Company.

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XsunX, Inc. is developing Power Glass(TM) - an innovative solar technology that allows glass windows to produce electricity from the power of the sun. This process for producing electricity is known as Photovoltaics. Photovoltaic ("PV") is the science of capturing and converting solar energy into electricity.

Using patented solar cell design and manufacturing processes, the Company is focused on the development of very thin semi-transparent coatings on thin-film flexible plastics that create large area monolithic solar cell structures that you can see through. This semi-transparency makes Power Glass(TM) glazing desirable for placing over glass, plastics, and other see-through structures.

The Company's strategy is to complete the development and commercialization of its Power Glass(TM) process and enter into licensing

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agreements with channel partners who will manufacture and distribute products made with the XsunX solar electric glass technology. In this manner, it is anticipated that glass manufacturers will incorporate the Power Glass(TM) technology into their manufacturing process as an "original equipment manufacturer" (OEM) and sell the finished product to their consumers.

For the year ended September 30, 2004, the Company had and continues to focus on the development and refinement commercially appealing solar cell designs, proprietary manufacturing processes and facilities design that could be provided to our future licensees as turn-key solutions for the mass production of Power Glass(TM) films. A large part of the Company's investment capital was used for product development. However, this may begin to shift towards marketing, sales, and business development in this new fiscal year ending September 30, 2005.

Management has established a plan under which the Company is commercializing its Power Glass(TM) technology and developing new technology through the contracting for research, development and commercialization processes with certain qualified facilities that specialize in the Company's target market segments. This product development process is anticipated to provide the Company with the fastest path to marketable products, the maximization of corporate resources, and the broadest access to cutting edge device, optical and material engineering facilities and technical expertise.

In June 2004 XsunX established a strategic relationship with Colorado based MVSystems, Inc. that designs, builds, and delivers state-of-the-art manufacturing tools designed specifically for the thin film semiconductor market. MVSystems, Inc. is equipped with both the technical staff and tools necessary for the development and commercialization of the XsunX glazing process. The terms of the working relationship provide XsunX with complete R&D facilities without mark-up for profit on the use of staff and equipment. The objective of the plan is to provide the Company with commercially viable processes and manufacturing techniques necessary for the development of demonstrable products.

XsunX, Inc. has increased its patent and technology assets by acquiring an exclusive royalty free license from MV systems to a suite of patents and technologies specific to the design and manufacture of its semi-transparent solar electric glazing initiative.

BUSINESS DEVELOPMENT MODEL

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The Company's management believes that the primary target opportunity for XsunX's technology is makers and fabricators of glass and optical films. The Company's strategy is to complete the development and commercialization of the XsunX process, and then enter into relationships with channel partners who will manufacture and distribute products made with XsunX solar electric glazing technology. The Company's management believes that the most achievable path for the Company involves licensing the XsunX process to companies with established manufacturing and distribution facilities.

REVENUE AND DISTRIBUTION MODEL

The Company's management believes that virtually all of the Company's revenues will come from the licensing of its proprietary Power Glass(TM) solar electric glazing technology to major manufacturers. The Company will offer non-exclusive licensing rights for a 3% royalty on gross sales. In this manner, it is anticipated that glass manufacturers will incorporate the Power Glass(TM) technology into their manufacturing process as an "original equipment manufacturer" (OEM) and sell the finished product(s) to their consumers. No licenses or contracts now exist with any manufacturer.

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MARKETING STRATEGY

XsunX's marketing strategy is to create a favorable environment to license its solar electric glass technology. The Company intends to enhance, promote and support the fact that products produced with the Power Glass(TM) process provide users with a best of class technology that spans and interconnects glass, optical film and energy markets to provide substantial economic and environmental benefits.

ADVERTISING AND PROMOTION

XsunX recognizes that a key to success will be to undertake focused advertising and promotion efforts aimed at developing product awareness within the glass manufactures, fabricators, optical film, and building industries. This campaign will be performed on a scale necessary to meet license sales goals. To accomplish its licensing goals, the Company requires a capable advertising agency and public relations firm. When the process is ready to market, subject to the recommendation of a marketing director, an agency will be selected and, with their assistance, a comprehensive advertising and promotion plan will be drafted.

The Company intends to continue to make investments in the commercial development of its patents and evolving technologies through the course of the next year. To finance these development efforts we are currently engaged in on going capital formation efforts to fund the Company's projected deficits for development costs in the current year.

The Company's strategy is to complete the development and commercialization of its Power Glass(TM) process and enter into licensing agreements with channel partners who would agree to manufacture and distribute products made with the XsunX solar electric glass technology. We hope to have glass manufactures incorporate the Power Glass(TM) technology into their manufacturing process as an "original equipment manufacturer" (OEM) and sell the finished product to their consumers.

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The Company has developed an operating budget for fiscal 2005 as follows:

\$850,000 for R&D
\$175,000 for Equipment
\$300,000 for G&A
\$170,000 for Sales, marketing, consultants
\$305,000 for General working capital
\$1,800,000

The Company intends to seek a private placement to achieve funding of its budget, but there is no assurance of achieving such funding, and no committed source now exists for such funding.

The Company needs to seek financing for this budget. (See "Risk Factors" at p. 11.

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 change in primary business focus and new business opportunities 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.

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RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004, COMPARED TO FISCAL YEAR ENDED SEPTEMBER 30, 2003

The Company incurred expenses totaling \$1,528,193 in 2004 compared to \$145,890 in 2003. The increase of \$1,382,303 resulted from an increase of \$482,303 in normal and customary operational expenses and \$900,000 in non-reoccurring one time expenses as follows; research and product development expenses increased by \$129,493 as compared to \$0 expenses incurred for the same period in 2003. Technical consulting expenses increase by \$194,700 during the twelve months ended September 30, 2004 to \$319,900 from \$125,200. This included \$300,000 in non-cash expenses associated with the grant of in-the-money warrants as consideration for technical and scientific consulting services for which we may make similar arrangements for in future periods (see "Item 12. Certain Relationships and Related Party Transactions"). And, there was a one-time expense of \$900,000 associated with the grant of in-the-money warrants as consideration for a technology sharing and license agreement granting a royalty free license to the Company (see "Item 12. Certain Relationships and Related Party Transactions"). General and administrative expenses increased by \$138,734 in the twelve months ended September 30, 2004 to \$178,800 from \$20,690 in 2003. The increase of \$158,110 in general and administrative expenses was primarily the result of an increase to operational expenses associated with the development of the Company's business. The Company had no revenues in 2002 or 2003.

For the twelve months ended September 30, 2004, the Company's consolidated net loss was \$(1,509,068) as compared to a consolidated net loss of \$(145,868) for the same period ended September 30, 2003. \$900,000 of this consolidated net loss was attributable to a one-time expense associated with the grant of in-the-money warrants as consideration for a technology sharing and license agreement granting a royalty free license to the Company (see "Item 12. Certain Relationships and Related Party Transactions"). The net loss per share was less than \$(0.01) for the twelve month period ended September 30, 2004.

Due to the Company's change in primary business focus and new business

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opportunities 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. Since inception in 1997 the Company has accumulated deficits totaling (\$4,328,445) to September 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

Working capital (deficit) at September 30, 2004 was \$(38,819) as compared to \$2,346 at September 30, 2003. There were no cash flows provided by operations during the twelve months ended September 30, 2004.

Cash and cash equivalents at September 30, 2004 were \$57,344, an increase of \$54,998 from September 30, 2003. During the year ended, September 30, 2004, the Company used \$1,436,630 net cash in operating activities as compared to using \$27,372 net cash for the year ended, September 30, 2003. This increase of net cash used in operations of \$1,409,258 was primarily a result of an increase in operational costs associated with the development of the Company's business plan and a one-time expense of \$900,000 associated with the grant of in-the-money warrants as consideration for a technology sharing and license agreement granting a royalty free license to the Company (see "Item 12. Certain Relationships and Related Party Transactions").

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For the twelve months ended, June 30, 2004, the Company's capital needs have primarily been met from the proceeds of (i) private placements of unregistered common stock pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended (the "Act"), to accredited investors at \$0.15 per share which raised gross proceeds of \$4,500; (ii) private placements of common stock made by the Company pursuant to Regulation S of the Act, at a variable price ranging from 25% to 30% of the closing bid price on the date of the purchase of the stock, which raised gross proceeds of \$278,170; and (iii) loans to the Company with a remaining balance \$1,225. Total cash provided by financing activities during the year ended September 30, 2004 decreased to \$283,895 from \$562,420 during the period ended September 30, 2003. The decrease of \$278,525 was mainly attributable to a decrease of \$336,970 in the use of stock for the payment of services in non-cash transactions.

During the year ended, September 30, 2004, we used \$12,267 for investing activities as compared to \$3, for the year ended, September 30, 2003. The increased use of cash for investing activities resulted from an increase in the acquisition of assets in the form of equipment and trademark rights.

We had, at September 30, 2003, working capital of \$57,344. We anticipate that there will not be sufficient cash generated from operations in the current year necessary to fund our current and anticipated cash requirements. We plan to obtain additional financing from equity and debt placements. 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 such 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.

NET OPERATING LOSS

For federal income tax purposes, we have net operating loss carry forwards of approximately \$4,328,445 as of September 30, 2004. These carry forwards will begin to expire in 2010. The use of such net operating loss carry forwards to be

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offset against future taxable income, if achieved, may be subject to specified annual limitations.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Please refer to pages F-1 through F-10.

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

Michael B. Johnson & Company, CPA's of Denver, Colorado was retained in 1997 as auditors for the Company for fiscal year 1997 and thereafter.

ITEM 8A. CONTROLS AND PROCEDURES

The management of the Company has evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the report (evaluation date) and have concluded that the disclosure controls and procedures are adequate and effective based upon their evaluation as of the evaluation date.

There were no significant changes in disclosure controls and procedures or in internal controls or in other factors that could significantly affect disclosure controls and procedures or internal controls in the fourth fiscal quarter, including any corrective actions with regard to significant deficiencies and material weaknesses.

ITEM 8B. SUBSEQUENT EVENTS

None

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a)

The following table lists the executive offices and directors of the Company as of September 30, 2004:

| NAME | Age | POSITION HELD | TENURE |
|-----------------|-----|-------------------------------|----------------------|
| Brian Altounian | 41 | Secretary, Director | Since September 2003 |
| Tom Djokovich | 47 | President, CEO, CFO, Director | Since September 2003 |
| Thomas Anderson | 38 | Director | Since August 2001 |

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The directors named above will serve until the next annual meeting of the Company's stockholders. Thereafter, directors will be elected for one-year terms at the annual stockholders' meeting. Officers will hold their positions at the pleasure of the board of directors, absent any employment agreement, of which none currently exists or is contemplated. There is no arrangement or understanding between the directors and officers of the Company and any other person pursuant to which any director or officer was or is to be selected as a director or officer.

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

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BIOGRAPHICAL INFORMATION

BRIAN ALTOUNIAN, age 41, Chairman of the Board, and Secretary as of September 30, 2003;

Mr. Altounian has over 16 years of experience in the area of finance, administration and operations. Most recently, he served as Executive Vice President of Plyent, Inc., a provider of a proprietary software solution that allows dynamic wireless Web access by Web enabled wireless thin clients, such as cell phones and personal digital assistants (PDAs). Mr. Altounian previously served as the Vice President of Finance for Lynch Entertainment, a producer of family television series' for the Nickelodeon and Disney Channels. While at Lynch, he established subsidiary corporations, purchased and oversaw the construction of a state-of-the-art television studio facility, and built the infrastructure of the company. Prior to joining Lynch Entertainment, Mr. Altounian held key management positions at numerous entertainment companies including Director of Finance and Administration at Time Warner Interactive; Finance Manager for National Geographic Television; and Manager of Business Services for WQED, the nation's first community-owned public television station. He also founded his own consulting company, BKA Enterprises, a firm that supported and advised entertainment and multimedia companies in the areas of financial and business management. Mr. Altounian holds an undergraduate degree from UCLA and an MBA from Pepperdine University.

TOM DJOKOVICH, age 47, President and Chief Executive Officer as of September 30, 2003, and Director;

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 firm in California. In 1995 Mr. Djokovich developed an early Internet based business-to-business ordering system for the construction industry. Mr. Djokovich also currently serves as a Director and Chairman of the Audit

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Committee for Roaming Messenger, Inc., a publicly reporting company that provides a breakthrough software solution for delivering real-time actionable information for Homeland Security, emergency response, military and enterprise applications.

THOMAS ANDERSON, age 38, became a director of the Company in August 2001;

Mr. Anderson has spent much of the last 10 years working as a geologist in the environmental consulting field. His primary focus has been stratigraphic, hydrogeologic, and geochemical characterization, and remediation of hazardous waste sites. Mr. Anderson completed a M.S. in Environmental Science and Engineering at the Colorado School of Mines in 1998. Since 1998, he has provided consulting services to the Department of Energy and Department of Defense for complex problems encountered during characterization and remediation of radioactive and hazardous waste sites. He has been a Senior Environmental Scientist at Concurrent Technologies Corp. from November 2000 to date. From March 2000 to November 2000 he was employed as a hydrologist at Stone & Webster Engineering, Inc. From July 1998 to March 2000 he was employed by advanced Integrated Management Services as an Environmental Scientist/Engineer. From 1997 to 1998 he was a research assistant at Colorado School of Mines in Graduate Program/Environmental Science.

COMPLIANCE WITH SECTION 16(A) OF EXCHANGE ACT

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 Securities and Exchange Commission (the "SEC"). Reporting Persons are required by the SEC to furnish the Company with copies of all Section 16 Reports they file.

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Based solely on its review of the copies of such Section 16 Reports received by it, or written representations received from certain Reporting Persons, the following persons were required to file forms pursuant to Section 16(a):

| Name | Form | Filed |
|-----------------|---------|------------------|
| Tom Djokovich | Form 3 | October 24, 2003 |
| Brian Altounian | Form 3 | October 22, 2003 |
| Xoptix, Inc. | Form 3* | Did not file |

* NOTE: Xoptix, Inc. was being liquidated pursuant to a Plan of Liquidation, and the shares were distributed in December, 2003 pro rata to shareholders of Xoptix, Inc. in a liquidating distribution of assets in kind. Xoptix has represented that no shareholder of Xoptix, Inc. receiving shares holds more than 10% of the issued and outstanding shares of Registrant.

ITEM 10. EXECUTIVE COMPENSATION

DIRECTOR COMPENSATION

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Directors received no cash compensation for their service to the Company as directors, but can be reimbursed for expenses actually incurred in connection with attending meetings of the Board of Directors.

SUMMARY COMPENSATION TABLE OF DIRECTORS

| Name | Annual Retainer Fees (\$) | Meeting Fees (\$) | Consulting Fees/Other Fees (\$) | Number of Shares (#) |
|---------------------------|---------------------------|-------------------|---------------------------------|----------------------|
| Director, Tom Djokovich | \$0 | \$0 | \$0 | 0 |
| Director, Brian Altounian | \$0 | \$0 | \$0 | 0 |
| Director, Thomas Anderson | \$0 | \$0 | \$0 | 0 |

EXECUTIVE OFFICER COMPENSATION

The annual compensation for the executive officers of the Company for the post reorganization operations has not yet been determined, but is expected to be established by a resolution of the Company's Board of Directors in the near future. The Company has not entered into any employment agreements with its executive officers to date. The Company may enter into employment agreements with them in the future.

The following table and notes set forth the annual cash compensation paid to officers of the Company.

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SUMMARY COMPENSATION TABLE OF EXECUTIVES

| Name & Principal Position | Fiscal Year | Annual Salary (\$) | Annual Bonus (\$) | Awards Other Annual Compensation (\$) | Restricted Stock Awards (\$) |
|----------------------------|-------------|--------------------|-------------------|---------------------------------------|------------------------------|
| Tom Djokovich, President | 2004 | \$130,000 | 0 | 0 | 0 |
| | 2003 | \$0 | 0 | 0 | 0 |
| | 2002 | \$0 | 0 | 0 | 0 |
| Brian Altounian, Secretary | 2004 | \$0 | 0 | 0 | 0 |
| | 2003 | \$0 | 0 | 0 | 0 |
| | 2002 | \$0 | 0 | 0 | 0 |

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| | | | | | |
|---------------------------|------|-----|---|---|---|
| Thomas Anderson, Director | 2004 | \$0 | 0 | 0 | 0 |
| | 2003 | \$0 | 0 | 0 | 0 |
| | 2002 | \$0 | 0 | 0 | 0 |

(1) The Company has agreed to pay Mr. Djokovich \$2,500 per week for services provided as Chief Executive Officer up to and until the Company determines executive compensation pursuant to an employment agreement as determined by the Board. When necessitated by the Company's adverse financial condition Mr. Djokovich has agreed to the deferment of his monthly salary up to and until such time that the Company can repay any such deferred amounts. In the period ended September 30, 2004 Mr. Djokovich agreed to the deferment of \$65,000 dollars of his salary until such time that the Company could begin to repay him.

Option/SAR Grants Table (None)

Aggregated Option/SAR Exercises in Last Fiscal Year an FY-End Option/SAR value (None)

Long Term Incentive Plans - Awards in Last Fiscal Year (None)

WARRANTS

The following table sets forth information with respect to options to purchase common stock of the Company granted during fiscal year ended September 30, 2004.

Non-Qualified Options

| Name | Date Issued | Number Issued | Exercise Price | Expiration Date |
|---------------------|--------------------|---------------|----------------|--------------------|
| James (1) Bentley | September 9, 2004 | 1,000,000 | \$0.15 | September 9, 2007 |
| MVSystems, Inc. (2) | September 17, 2004 | 5,000,000 | \$0.15 | September 17, 2009 |
| MVSystems, Inc. (2) | September 17, 2004 | 1,000,000 | \$0.15 | September 17, 2009 |
| Dr. Arun Madan (3) | September 17, 2004 | 1,000,000 | \$0.15 | September 17, 2009 |

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- (1) Warrants granted to James Bentley shall become exercisable in the amount of 500,000 shares upon the effective date of the Warrant. There -after, the Warrant shall become exercisable at the rate of 125,000 Shares per calendar quarter up to the full amount of the Warrant.

- (2) The Technology Sharing Warrant granted to MVSystems, Inc. in the amount of 1,000,000 shares carries the following vesting provisions: The Warrant shall become exercisable in the amount of 250,000 shares upon the satisfactory completion of Phase 2 under the Phase 2 development plan; 250,000 shares upon the satisfactory completion, as reasonably determined by the XsunX Board of Directors, of any subsequent phase of development as may be defined under a subsequent and future development proposal; and, 500,000 shares upon the commercialization, meaning the attainment of revenues exceeding \$200,000, of an XsunX process.

- (3) The Warrant granted to Dr. Arun Madan carries the following vesting schedule: The Warrant shall become exercisable at the rate of 25,000 Shares per month during and up to the first twenty-four months (24) of engagement by XsunX, Inc. of consultant; 150,000 shares upon the satisfactory completion of Phase 2 of the XsunX, Inc. development proposal as defined under that certain Phase 2 development plan; and, 250,000 shares upon the sale and/or licensure of an XsunX process.

Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR value

| Name | Shares Acquired on Exercise (#) | Value Realized (\$) | Number of Securities Underlying Unexercised Option/SARs at FY-End (#) Exercisable / Unexercisable | Value of Unex In the Money Options/SARs FY-End (\$) Exercisable / Unexercisable |
|-------|------------------------------------|------------------------|------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| ----- | | | | |
| None | | | | |

No other compensation not described above was paid or distributed during the last fiscal year to the executive officers of the Company. There are no compensatory plans or arrangements, with respect to any executive officer of the Company, which result or will result from the resignation, retirement or any other termination of such individual's employment with the Company or from a change in control of the Company or a change in the individual's responsibilities following a change in control.

INCENTIVE STOCK OPTIONS

Effective June 30, 2004, the Company adopted the 2004 Xsunx, Inc. Option Plan (the "Plan") to provide incentives for obtaining and retaining the services of eligible Employees, Consultants and Directors who are anticipated to contribute to the Company's long range success and insure to the benefit of all

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stockholders of the Company. The Plan authorizes the issuance of up to 30,000,000 shares of the Company's common stock pursuant to the grant and exercise of up to 30,000,000 stock options. No options were issued to Employee's or Directors under the Plan during the year ended September 30, 2004.

The Plan authorizes the issuance of up to 30,000,000 shares of the Company's common stock pursuant to the grant and exercise of up to 30,000,000 stock options. The Plan was approved by unanimous written consent of the Board of Directors of Xsunx, Inc. The adoption of the Plan is subject to ratification by a majority of the Company's stockholders, which approval must be obtained within 12 months from the date the Plan was adopted by the Board.

The Board of Directors administers the Plan or such committee or committees as the Board may, from time to time, appoint to administer the Plan ("Administrator"). The Plan currently administered by the Board of Directors. The Administrator selects the eligible persons to whom Awards may be granted and the type of Award to be granted and determines, as applicable, the number of shares to be subject to each Award, the exercise price and the vesting. In making such determination, the Administrator takes into account the grantees' present and potential contributions to the success of the Company and other relevant factors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of the date of this Report, 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 as of December 31, 2004. Also included are the shares held by all executive officers and directors as a group.

| SHAREHOLDERS/ BENEFICIAL OWNERS | NUMBER OF SHARES | OWNERSHIP PERCENTAGE |
|---------------------------------------------------------------------------------|------------------|-------------------------|
| ----- | | |
| Tom Djokovich President & Director 65 Enterprise Aliso Viejo, CA 92656 | 17,903,000 | 14.97% |
| Brian Altounian Secretary 65 Enterprise Aliso Viejo, CA 92656 | 4,000,000 | 3.34% |
| Thomas Anderson 1020 21st Street Golden, Colorado 80401 | 11,900 | >.01% |
| All directors and executive officers as a group (3 persons) | 21,914,900 | 18.32% |

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

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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

No officer or director 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 security holdings, contracts, options, or otherwise.

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 would 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.

TRADEMARK PURCHASE

On May 6, 2004 the Company entered into an agreement for the purchase of the U.S. registered trademark "Power Glass(TM)" and the Internet domain name "PowerGlass.com." The terms of the agreement provided that the purchase price for the Trademark shall be: (i) the sum of \$10,000.00 if paid within one (1) year from the effective date of this Agreement; (ii) the sum of \$20,000.00 if paid after the conclusion of the first (1st) year but prior to the conclusion of the second (2nd) year after the effective date of this Agreement; (iii) the sum of \$35,000.00 if paid after the conclusion of the second (2nd) year but prior to the conclusion of third (3rd) year after the effective date of this Agreement; or (iv) the sum of \$50,000.00 if paid after the conclusion of the third (3rd) year but prior to the conclusion of three (3) years and six (6) months after the effective date of this Agreement. If payment is not made prior to the conclusion of three (3) years and six (6) months after the effective date of this Agreement, XsunX shall re-assign the Trademark back to Western as set forth herein. As of the date of this report the Company has not paid any amounts against the purchase of the trademark and domain name.

CONSULTANCY WARRANT, JAMES BENTLEY

In September 2004 the Company granted Mr. James Bentley a consultancy and advisory warrant in the amount of 1,000,000 shares with an exercise price of \$0.15 per share. Mr. Bentley has worked with the Company in its initial stage helping to establish a plan for the development of working samples and the review and selection process for engaging qualified research and development firms to initiate development efforts. Mr. Bentley has also assisted the Company in continued efforts to expand research efforts and business development opportunities. The warrant was issued for the conversion of \$15,000.00 dollars in accrued consultancy fee's, and as part of a Consultancy and Advisory Agreement and carries a 3 year exercise term and the following vesting provisions:

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- (i) 500,000 shares upon the effective date of the Warrant. Thereafter, the Warrant shall become exercisable at the rate of 125,000 Shares per calendar quarter up to the full amount of the Warrant.

TECHNOLOGY SHARING AND LICENSE AGREEMENT

In September 2004 XsunX licensed the patent and technology portfolio of MVSystems, Inc., a Colorado corporation ("MVSystems." The license granted XsunX

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the royalty free exclusive rights for use by XsunX in its pursuit to establish a commercially viable process for the manufacture of semi-transparent solar cells and solar electric glazing processes and, accordingly, included all MVSystems technology, know how, and resources which are part of or related to the licensed patents and technology that was then or may become applicable or beneficial to the furtherance of the business objectives of XsunX in the future. The license was exclusive as to technology pertaining to XsunX field of use as it pertains to the business of developing, commercializing and licensing processes for the manufacture of semi-transparent (greater than 5% transparency) solar cells or photovoltaic glazing technologies.

The following are two of the patents licensed from MVSystems that management believes to be beneficial to the development of scalable manufacturing processes for Power Glass(TM) technology. Semiconductor Vacuum Deposition System And Method Having A Reel-To-Reel Substrate Cassette: US6,258,408 B1: July 10th, 2001. (Method of Fabrication); and US Provisional Patent Application serial number 60/536,151- three terminal and four terminal solar cells, solar cell panels, and method of manufacture. (Device and Method of Fabrication); (Note: This is a broad patent which covers the use of various approaches to lead to high efficiency devices, whether they are semi transparent or opaque).

In September 2004 as part of the above-described transaction the Company issued a total of 6,000,000 warrants with an exercise price of \$0.15 per share with a 5-year exercise term. A License Stock Warrant in the amount of 5,000,000 shares was issued for a royalty free license in the exclusive use of certain patents applicable to the Company's product development efforts. All warrants associated with the License Stock Warrant vested upon issuance of the warrant. A separate Technology Sharing Warrant in the amount of 1,000,000 shares was issued as considerations for access to proprietary know how and the use of research and development facilities at cost without mark-up for profit. The Technology Sharing Warrant carries the following vesting provisions:

- (i) 250,000 shares upon the satisfactory completion of Phase 2 under the Phase 2 development plan.
- (ii) 250,000 shares upon the satisfactory completion, as reasonably determined by the XsunX Board of Directors, of any subsequent phase of development as may be defined under a subsequent and future development proposal.
- (iii) 500,000 shares upon the commercialization, meaning the attainment of revenues exceeding \$200,000, of an XsunX process.

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ADDITION OF CHAIRMAN TO SCIENTIFIC ADVISORY BOARD

In September 2004 Dr. Arun Madan was appointed as Chairman of XsunX's Scientific Advisory Board. Dr. Madan has worked with the Company in its initial phase helping to establish working models and a foundation of research and development on which XsunX recently launched phase two of its development efforts to bring innovative semi-transparent photovoltaic technologies to market. The Board of Directors unanimously approved the appointment of Dr. Arun Madan to chair the advisory board under the terms of a 5-year consulting agreement. As compensation for services rendered under the terms of the agreement Dr. Madan was granted a Consulting and Advisory Warrant for the

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purchase of up to 1,000,000 shares with an exercise price of \$0.15 per share, a 5-year exercise term the following vesting provisions:

- (i) 25,000 Shares per month during and up to the first twenty-four months (24) of engagement by XsunX, Inc. of consultant.
- (ii) 150,000 shares upon the satisfactory completion of Phase 2 of the XsunX, Inc. development proposal as defined under that certain Phase 2 development plan.
- (iii) 250,000 shares upon the sale and/or licensure of an XsunX process.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

The following documents are filed as part of this report:

- 1. Reports on Form 8-K:
 - 8-K filed 5/28/03
 - 8-K filed 7/16/03
 - 8K/A filed 7/25/03
 - 8-K filed 7/25/03
 - 8-K filed 10/2/03
 - 8-K/A filed 10/29/03
- 2. Exhibits:
 - 10.1 Technology Sharing and License Agreement
 - 10.2 Consultancy and Advisory Warrant to Purchase Common Stock of XsunX, Inc. (MVSystems, Inc.)
 - 10.3 Consultancy and Advisory Warrant to Purchase Common Stock of XsunX, Inc. (James Bentley)
 - 10.4 Consulting and Advisory Agreement (Dr. Arun Madan)
 - 10.5 License Agreement Warrant to Purchase Common Stock of XsunX, Inc
 - 10.6 Technology Sharing Warrant to Purchase Common Stock of XsunX, Inc.
 - 10.7 Transfer of Trademark Agreement
 - 32 Sarbanes-Oxley Certification
 - 33 Sarbanes-Oxley Certification

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Company's Board acts as the audit committee and had no "pre-approval policies and procedures" in effect for the auditors' engagement for the audit year 2003 and 2004.

All audit work was performed by the auditors' full time employees.

Michael Johnson & Co., LLC, CPAs ("MJC") is the Company's principal

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auditing accountant firm. The Company's Board of Directors has considered whether the provision of the audit services is compatible with maintaining MJC's independence.

AUDIT FEES 2004:

MJC billed the Company \$5,900 for the following professional services: audit of the annual financial statement of the Company for the fiscal year ended September 30, 2003, and review of the interim financial statements included in quarterly reports on Form 10-QSB for the periods ended December 31, 2003, March 31, 2004, and June 30, 2004.

AUDIT FEES 2003:

MJC billed the Company \$3,000 for the following professional services: audit of the annual financial statement of the Company for the fiscal year ended September 30, 2003, and review of the interim financial statements included in quarterly reports on Form 10-QSB for the periods ended December 31, 2002, March 31, 2003, and June 30, 2003. MJC billed the Company \$4,250 for the 2002 audit.

The Company's Board acts as the audit committee and had no "pre-approval policies and procedures" in effect for the auditors' engagement for the audit year 2002 and 2003.

ALL OTHER FEES

MJC billed the Company \$200 for other services, including preparation of the tax returns for the Company for 2003, during the fiscal year ended September 30, 2004.

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| Regulation S-K Number | Exhibit | Form 10-KSB Consecutive Page Number |
|--------------------------|---------------------------|-----------------------------------------------------------------------------------|
| 3.1 | Articles of Incorporation | Incorporated by reference to Registration Statement Form 10SB12G #000-29621 |
| 3.2 | Bylaws | Incorporated by Reference to Registration Statement Form 10SB12G #000-29621 |

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SIGNATURES

Pursuant to the requirements of Section 12 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.

Dated: May 12, 2005

XsunX, INC.

/s/ Tom Djokovich

Tom Djokovich
President

DIRECTORS:

/s/ Tom Djokovich

/s/ Brian Altounian

/s/ Thomas Anderson

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XSUNX, INC.
(Restated)

(A DEVELOPMENT STAGE COMPANY)
FINANCIAL STATEMENTS

September 30, 2004 and 2003

Michael Johnson & Co., LLC.
9175 Kenyon Ave., #100
Denver, CO 80237
303-796-0099
303-796-0137 - Fax

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
XSUNX, INC.
Aliso Viejo, CA

We have audited the accompanying balance sheets of XSUNX, Inc., (formerly Sun River Mining, Inc). (A Development Stage Company) as of September 30, 2004 and 2003, and the related statements of operations, cash flows, and stockholders' equity for the years ended September 30, 2004 and 2003 and for the period from February 25, 1997 (inception) to September 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits "in accordance with the standards of the Public Company Accounting Oversight Board (United States)" as outlined in PCAOB Auditing Standard No. 1. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XSUNX, INC., (formerly Sun River Mining, Inc.) at September 30, 2004 and 2003 and the results of their operations and their cash flows for the years ended September 30, 2004 and 2003 and for the period from February 25, 1997 (inception) to September 30, 2004 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, conditions exist which raise substantial doubt about the Company's ability to continue as a going concern unless it is able to generate sufficient cash flows to meet its obligations and sustain its operations. Management's plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Michael Johnson & Co., LLC
Michael Johnson & Co., LLC
Denver, Colorado
February 24, 2005
May 5, 2005

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XSUNX, INC.
 (Formerly Sun River Mining, Inc.)
 (A Development Stage Company)
 Balance Sheets
 September 30,
 (Restated)

| | 2004 |
|-------------------------------------------------------------------------------------------------------------|------------|
| ASSETS: | |
| Current assets: | |
| Cash | \$ 37,34 |
| Prepaid Expense | 20,00 |
| | 57,34 |
| Total current assets | 57,34 |
| | |
| Fixed Assets: | |
| Office Equipment | 2,27 |
| | 2,27 |
| Total Fixed Assets | 2,27 |
| | |
| Other Assets: | |
| Patents | 10,00 |
| Deposits | 2,50 |
| | 12,50 |
| Total other assets | 12,50 |
| | |
| TOTAL ASSETS | \$ 72,11 |
| | |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | |
| Current liabilities: | |
| Accounts Payable | \$ 89,03 |
| Accrued Expenses | 5,90 |
| Note Payable - Stockholder | 1,22 |
| | 96,16 |
| Total current liabilities | 96,16 |
| | |
| Stockholders' equity: | |
| Preferred Stock, par value \$0.01 per share; 50,000,000 shares authorized; no shares issued and outstanding | |
| Common Stock, no par value; 500,000,000 shares authorized; | |
| 114,036,102 shares issued and outstanding in 2004, and 111,298,148 shares issued and outstanding in 2003. | 3,104,39 |
| Common Stock Warrants | |
| Deficit accumulated during the development stage | |
| | 1,200,00 |
| | (4,328,44) |
| Total stockholders' deficit | (24,04) |

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TOTAL LIABILITIES AND
STOCKHOLDERS' EQUITY

\$ 72,11
=====

The accompanying notes are an integral part of these financial statements.

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XSUNX, INC.
(Formerly Sun River Mining, Inc.)
(A Development Stage Company)
Statements of Operations
(Restated)

| | Year Ended September 30, | | February (Incept Septe 2 |
|---------------------------------|-----------------------------|---------|-----------------------------------|
| | 2004 | 2003 | 2 |
| | ----- | ----- | ----- |
| Revenue | \$ - | \$ - | |
| Expenses: | | | |
| Abandoned Equipment | - | - | |
| Bank Charges | 401 | 45 | |
| Consulting | 19,900 | 125,200 | |
| Depreciation | - | - | |
| Directors' Fees | - | - | |
| Due Dilgence | - | - | |
| Equipment Rental | - | - | |
| Impairment loss | - | - | |
| Legal and Accounting | 27,203 | 18,320 | |
| Licenses & Fees | 190 | - | |
| Meals & Entertainment | - | - | |
| Office Expenses | 5,218 | - | |
| Salaries | 119,336 | - | |
| Postage | - | - | |
| Printing | - | - | |
| Public Relations | 6,640 | - | |
| Rent | 8,905 | - | |
| Research & Development | 129,493 | - | |
| Taxes | - | - | |
| Telephone | 4,270 | - | |
| Transfer Agent Expense | 2,997 | 2,325 | |
| Travel | 3,640 | - | |
| Warrant Option Expense (Note 6) | 1,200,000 | - | |
| | ----- | ----- | ----- |
| Total Expenses | 1,528,193 | 145,890 | |
| | ----- | ----- | ----- |
| Other Income and Expense | | | |
| Interest Expense | 251 | - | |
| Interest Income | - | (22) | |

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| | | | |
|---------------------------------------------------------|----------------|--------------|-------|
| Forgiveness of Debt | (19,376) | - | |
| | ----- | ----- | ----- |
| Net Loss | \$ (1,509,068) | \$ (145,868) | \$ |
| | ===== | ===== | ===== |
| Per Share Information: | | | |
| Weighted average number of common shares outstanding | 114,036,102 | 111,298,148 | |
| | ----- | ----- | |
| Net Loss per Common Share | \$ (0.01) | (*) | |
| | ===== | === | |

* Less than \$.01

The accompanying notes are an integral part of these financial statements.

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XSUNX, INC.
(Formerly Sun River Mining, Inc.)
(A Development Stage Company)
Statements of Cash Flows

(Indirect Method)
(Restated)

| | Year Ended September 30, | |
|--------------------------------------------------------------------------|-----------------------------|--------------|
| | 2004 | 2003 |
| | ----- | ----- |
| Cash Flows from Operating Activities: | | |
| Net Loss | \$ (1,509,068) | \$ (145,868) |
| Issuance of Common Stock for Services | - | 336,970 |
| Adjustments to reconcile net loss to net net cash used in operations. | | |
| (Increase) in Deposits | (22,500) | - |
| Increase (Decrease) in Accounts Payable | 89,030 | (199,616) |
| Increase (Decrease) in Accrued Liabilities | 5,908 | (18,858) |
| | ----- | ----- |
| Net Cash Flows Used by Operations | (236,630) | (27,372) |
| | ----- | ----- |
| Cash Flows from Investing Activities: | | |
| Purchase of Equipment | (2,270) | - |

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| | | |
|--------------------------------------------------|-----------|------------|
| Purchase of Intangible Assets | (9,997) | (3) |
| | ----- | ----- |
| Net cash used by investing activities | (12,267) | (3) |
| | ----- | ----- |
| Cash Flows from Financing Activities: | | |
| Proceeds from Notes payable | 1,225 | - |
| Payments on Notes payable | - | (195,729) |
| Issuance of Common Stock Warrants | 1,200,000 | - |
| Issuance of Common Stock | 282,670 | 225,450 |
| | ----- | ----- |
| Net Cash Flows Provided by Financing Activities | 1,483,895 | 29,721 |
| | ----- | ----- |
| Net Increase (Decrease) in Cash | 34,998 | 2,346 |
| | ----- | ----- |
| Cash at Beginning of Period | 2,346 | - |
| | ----- | ----- |
| Cash at End of Period | \$ 37,344 | \$ 2,346 |
| | ===== | ===== |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for Interest | \$ - | \$ - |
| | ===== | ===== |
| Cash paid for income taxes | \$ - | \$ - |
| | ===== | ===== |
| NON-CASH TRANSACTIONS | | |
| Stock issued for compensation | \$ - | \$ 336,970 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

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XSUNX, INC.
(Formerly Sun River Mining, Inc.)
(A Development Stage Company)
Stockholders' Equity (Deficit)
September 30, 2004
Restated

| Common Stock | Common Stock | Warrants | Deficit Accumulated During Development Stage |
|--------------|--------------|----------|----------------------------------------------|
| # of Shares | Amount | Warrants | Stage |
| ----- | ----- | ----- | ----- |

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| | | | | |
|------------------------------------------|----------|-----------|------|-------------|
| Inception February 25, 1997 | - | \$ - | \$ - | \$ - |
| Issuance of stock for cash 3/97 | 5,000 | 100 | - | - |
| Issuance of stock for cash 3/97 | 5,590 | 111,800 | - | - |
| Issuance of stock to Founders 3/97 | 14,110 | - | - | - |
| Issuance of stock for Consolidation 4/97 | 445,000 | 312,106 | - | - |
| Issuance of stock for cash 8/97 | 2,900 | 58,000 | - | - |
| Issuance of stock for cash 9/97 | 2,390 | 47,800 | - | - |
| Net Loss for year | - | - | - | (193,973) |
| Balance - September 30, 1997 | 474,990 | 529,806 | - | (193,973) |
| Issuance of stock for services 11/97 | 1,500 | 30,000 | - | - |
| Issuance of stock for cash 9/98 | 50,000 | 200,000 | - | - |
| Consolidation stock cancelled 9/98 | (60,000) | (50,000) | - | - |
| Issuance of stock for cash 9/98 | 200 | 4,000 | - | - |
| Net Loss for year | - | - | - | (799,451) |
| Balance - September 30, 1998 | 466,690 | 713,806 | - | (993,424) |
| Issuance of stock for cash 10/98 | 21,233 | 159,367 | - | - |
| Issuance of stock for services 1/99 | 40,000 | 40,000 | - | - |
| Issuance of stock for cash 1/99 | 37,500 | 296,125 | - | - |
| Issuance of stock for services 1/99 | 25,000 | 276,500 | - | - |
| Issuance of stock for cash 2/99 | 7,500 | 70,313 | - | - |
| Issuance of stock for cash 4/99 | 45,225 | 122,108 | - | - |
| Issuance of stock for services 6/99 | 70,000 | 147,000 | - | - |
| Issuance of stock for cash 9/99 | 40,000 | 69,200 | - | - |
| Net Loss for year | - | - | - | (1,482,017) |
| Balance - September 30, 1999 | 753,148 | 1,894,419 | - | (2,475,441) |
| Issuance of stock for cash 9/00 | 15,000 | 27,000 | - | - |
| Net Loss for year | - | - | - | (118,369) |
| Balance - September 30, 2000 | 768,148 | 1,921,419 | - | (2,593,810) |
| Extinguishment of debt | - | 337,887 | - | - |
| Net Loss for year | - | - | - | (32,402) |
| Balance - September 30, 2001 | 768,148 | 2,259,306 | - | (2,626,212) |
| Net Loss for year | - | - | - | (47,297) |
| Balance - September 30, 2002 | 768,148 | 2,259,306 | - | (2,673,509) |

The accompanying notes are integral part of these financial statements.

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XSUNX, INC.
(Formerly Sun River Mining, Inc.)
(A Development Stage Company)
Stockholders' Equity (Deficit)
September 30, 2004

| | | | | |
|--------------------------------------|-------------|-------------|--------------|----------------|
| Issuance of stock for Assets 7/03 | 70,000,000 | 3 | - | - |
| Issuance of stock for Cash 8/03 | 9,000,000 | 225,450 | - | - |
| Issuance of stock for Debt 9/03 | 115,000 | 121,828 | - | - |
| Issuance of stock for Accruals 9/03 | 115,000 | 89,939 | - | - |
| Issuance of stock for Services 9/03 | 31,300,000 | 125,200 | - | - |
| Net Loss for year | - | - | - | (145,868) |
| | ----- | ----- | ----- | ----- |
| Balance - September 30, 2003 | 111,298,148 | 2,821,726 | - | (2,819,377) |
| | ----- | ----- | ----- | ----- |
| Issuance of stock for 3/04 | 181,750 | 21,071 | - | - |
| Issuance of stock for 4/04 | 217,450 | 22,598 | - | - |
| Issuance of stock for 5/04 | 254,956 | 34,669 | - | - |
| Issuance of stock for 6/04 | 694,649 | 96,306 | - | - |
| Issuance of stock for 7/04 | 157,649 | 21,421 | - | - |
| Issuance of stock for 8/04 | 57,000 | 5,133 | - | - |
| Issuance of stock for 9/04 | 1,174,500 | 81,472 | - | - |
| Issuance of Common Stock Warranties | - | - | 1,200,000 | - |
| Net Loss for year | - | - | - | (1,509,068) |
| | ----- | ----- | ----- | ----- |
| Balance - September 30, 2004 | 114,036,102 | \$3,104,396 | \$ 1,200,000 | \$ (4,328,445) |
| Figures reflect a 20-1 reverse split | ===== | ===== | ===== | ===== |

The accompanying notes are integral part of these financial statements.

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XSUNX, INC.
(Restated)
(A Development Stage Company)
Notes to Financial Statements
September 30, 2004

Note 1 - Organization and Summary of Significant Accounting Policies:

Organization:

On February 25, 1997, Sun River Mining, Inc. (the Company) was incorporated under the laws of Colorado. The Company is in the business

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of raising capital to acquire or merge with any entity which has an interest in being acquired by, or merging into the company. In May 1999 management decided to write-off the Sun River Bolivian subsidiaries and to take the subsequent loss, of all investments associated with the subsidiaries. On July 9, 2003 Sun River Mining, Inc. signed a Plan of Reorganization and Asset Purchase with Xoptix, Inc.. This was a purchase agreement for the intangible assets of Xoptix, Inc. and the name was then changed to Xsunx, Inc.

Basis of Presentation - Development Stage Company:

The Company has not earned significant revenues from planned principal operations or raising capital for exploration and acquisition of mining property. Accordingly, the Company's activities have been accounted for as those of a "Development Stage Enterprise" as set forth in Financial Accounting Standards Board Statement No. 7 ("SFAS 7"). Among the disclosures required by SFAS 7 are that the Company's financial statements be identified as those of a development stage company, and that the statements of operations, stockholders' equity (deficit) and cash flows disclose activity since the date of the Company's inception.

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Cash and Cash Equivalents:

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

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Loss Per Share:

Net loss per share is based on the weighted average number of common shares and common shares equivalents outstanding during the period.

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XSUNX, INC.
(Restated)
(A Development Stage Company)
Notes to Financial Statements

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September 30, 2004

Note 1 - Organization and Summary of Significant Accounting Policies (cont):

Other Comprehensive Income

The Company has no material components of other comprehensive income (loss) and accordingly, net loss is equal to comprehensive loss in all periods.

Note 2 - Federal Income Tax:

The Company accounts for income taxes under SFAS No. 109, which requires the asset and liability approach to accounting for income taxes. Under this approach, deferred income taxes are determined based upon differences between the financial statement and tax bases of the Company's assets and liabilities and operating loss carryforwards using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized if it is more likely than not that the future tax benefit will be realized.

Significant components of the Company's deferred tax liabilities and assets are as follows:

| | 2004 ----- | 2003 ----- |
|-----------------------------------------|---------------|---------------|
| Deferred Tax Liability | \$ 4,328,445 | \$ 2,829,377 |
| Deferred Tax Assets | | |
| Net Operating Loss Carryforwards | | |
| Book/Tax Differences in Bases of Assets | 0 | 0 |
| | ----- | ----- |
| Valuation allowance | \$ 4,328,445 | \$ 2,829,377 |
| | ----- | ----- |
| Net Deferred tax assets | \$ 0 | \$ 0 |
| | ===== | ===== |

At September 30, 2004, the Company had net operating loss carryforwards of approximately, \$4,328,445 for federal income tax purposes. These carryforwards if not utilized to offset taxable income will begin to expire in 2010.

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Note 3 - Going Concern:

The financial statements of the Company have been presented on the basis that they are a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has no assets, generated no revenue and has an accumulated deficit at September 30, 2004 of \$4,328,445.

The future success of the Company is likely dependent on its ability to attain additional capital, or to find an acquisition to add value to its present shareholders and ultimately, upon its ability to attain future profitable operations. There can be no assurance that the Company will be successful in obtaining such financing, or that it will attain positive cash flow from operations. Management believes that actions presently being taken to revise the Company's operating and financial requirements provide the opportunity for the Company to continue as a going concern.

The Company has made substantial investments this last year in the development of intellectual property assets as part of a business-restructuring plan. The purpose of these investments was to acquire patented solar electric glass technology. The Company believes that its patented solar electric glass technology has a number of market opportunities in the multi-billion dollar worldwide architectural glass markets.

Note 4 - Capital Stock Transactions:

The authorized capital stock of the Company was established at 500,000,000 with no par value. On September 29, 2003 the Board of Directors authorized a reverse split of 1 for 20 shares of stock. The stocks issued in 2003 were for accrued directors fees and salaries and to paid off past debt to investors. 70,000,000 shares of stock were issued to obtain the patent rights from Xoptix, Inc. Also shares of stock were issued in 2003 for consulting fees in arranging the formation of the new Corporation. In 2004 2,737,954 shares of stock were issued for cash and consulting fees.

Note 5 - Trademark Transfer Agreement:

On May 6, 2004 a Trademark transfer agreement was signed with Western Gas and Electric Company of California. Western solely owns all rights and interest in and to the registered trademark consisting of printed words styled as "POWERGLASS" as more fully set forth herein ("Trademark") and desires to assign and transfer, subject to the terms and conditions set forth herein, all rights and interest in the Trademark to XsunX in exchange for the payment set forth in this Agreement. The purchase price for the Trademark shall be: (1) the sum of \$10,000 if paid within one (1) year from the effective date; (2) the sum of \$20,000 if paid after the conclusion of the first (1st) year but prior to the conclusion of the second (2nd) year after the effective date of this Agreement; (3) the sum of \$35,000 if paid after the conclusion of the second (2nd) year but prior to the conclusion of the third (3rd) year after the effective date of this Agreement; or (4) the sum of \$50,000 if paid after the conclusion of the third (3rd) year but prior to the conclusion of three (3) years and six (6) months after the effective date of this Agreement. If payment is not made prior to the conclusion of three (3) years and six (6) months after the effective date of this Agreement, XsunX shall re-assign the Trademark back to Western as set forth

herein.

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XSUNX, INC.
(Restated)
(A Development Stage Company)
Notes to Financial Statements
September 30, 2004

Note 6 - Warrant for Purchase of Shares:

License stock warrant - As consideration for the grant of the License, XsunX shall, grant MVS a warrant ("License Stock Warrant") for the purchase of up to Five Million (5,000,000) shares of common stock of XsunX (the "License Stock Warrant Shares"), the warrant to expire five (5) years after the date of the grant.

Technology Sharing Warrant - As consideration for access to MVS know how and Service at Cost pursuant to the technology sharing set forth above, XsunX shall grant to MVS a warrant to purchase up to One Million shares (1,000,000) of common stock of XsunX ("Technology Sharing Warrant Shares"). The Technology Sharing Warrant shall be in the form of a Warrant to Purchase Common Stock of XsunX, Inc. The Technology Sharing Warrant shall be for a five (5) year term and subject to conditional vesting in accordance with the following provisions:

- (1) The Technology Sharing Warrant shall become exercisable in the amount of 250,000 shares upon the satisfactory completion of Phase 2 under the MVS Phase 2 Development Agreement.
- (2) The Technology Sharing Warrant shall become exercisable in the amount of 250,000 shares upon the satisfactory completion, as reasonably determined by the XsunX Board of Directors, of any subsequent phase of development as may be defined under the MVS future development proposal.
- (3) The Technology Sharing Warrant shall become exercisable in the amount of 500,000 shares upon the Commercialization of an XsunX process.

Consultancy Warrant - In September 2004 the Company granted James Bentley a consultancy and advisory warrant in the amount of 1,000,000 shares with an exercise price of \$.15 per share. Mr. Bentley has worked with the Company in its initial stage helping to establish a plan for the development of working samples and the review and selection process for engaging qualified research and development firms to initiate development efforts. Mr. Bentley has also assisted the Company in continued efforts to expand research efforts and business development opportunities. The warrant was issued for the conversion of \$15,000 in accrued consultancy fees, and as part of a Consultancy and Advisory Agreement and carries a 3 year exercise term and the following vesting provisions:

- (1) 500,000 shares upon the effective date of the warrant. Thereafter, the warrant shall become exercisable at the rate of 125,000 shares per calendar quarter up to the full amount of the warrant.

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XSUNX, INC.
(Restated)
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Notes to Financial Statements
September 30, 2004

Note 6 - Warrant for Purchase of Shares (Cont):

Consultancy and Advisory Warrant - Pursuant to the offer of consultancy and advisory services for the position of Chairman of the XsunX Scientific Advisory Board as set forth herein, XsunX shall, as compensation for Dr. Madan's advice and consultation efforts in the furtherance of XsunX business initiatives, offer to Dr. Madan the grant of a warrant ("Consultancy and Advisory Warrant") to purchase up to One Million (1,000,000) shares of common stock of XsunX ("Consultancy and Advisory Stock Warrant Shares"). This Warrant shall be for a five (5) year term and shall be subject to conditional vesting in accordance with the following provisions:

- (1) The Consultancy and Advisory Warrant shall become exercisable at the rate of 250,000 Shares per month during and up to the first twenty-four months (24) of services.
- (2) The Consultancy and Advisory Warrant shall become exercisable in the amount of 150,000 shares upon the satisfactory completion of Phase 2 under the MVS Phase 2 Development Agreement.
- (3) The Consultancy and Advisory Warrant shall become exercisable in the amount of 250,000 shares upon the Commercialization of an XsunX process.

Note 7 - Stock Option Plan:

On July 15, 2004, the Board of Directors of XsunX resolved to establish the 2004 Stock Option Plan. The plan was adopted to provide equity incentives to employees, consultants and suppliers of the Company. No stocks had been issued under the Plan at September 30, 2004.

Note 8 - Restatement of Financials:

These financials have been restated to explain the warrants and the expenses of them per the Black-Shoals method. Also to explain the valuation of the asset purchased per purchase agreement.

