

XSUNX INC
Form 10-Q
August 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended: June 30, 2018

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

For The Transition Period From _____ to _____

Commission File Number: 000-29621

XSUNX, INC.

(Exact name of registrant as specified in its charter)

Colorado **84-1384159**
(State of incorporation) (I.R.S. Employer Identification No.)

65 Enterprise, Aliso Viejo, CA 92656

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

| | |
|---|---------------------------|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer (Do not check if a smaller reporting company) | Smaller reporting company |
| Emerging growth company | |

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

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

The number of shares of common stock issued and outstanding as of August 14, 2018 was 1,468,106,819

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Table of Contents**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements.****XSUNX, INC.****CONDENSED BALANCE SHEETS**

| | June 30, 2018 | September 30, 2017 |
|--|--------------------------|-------------------------------|
| | (Unaudited) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$85,588 | \$23,056 |
| Contract receivables | 6,172 | 17,125 |
| Prepaid expenses | 619 | 6,967 |
| Contract asset | 60,248 | - |
| Total Current Assets | 152,627 | 47,148 |
| PROPERTY & EQUIPMENT | | |
| Office & miscellaneous equipment | 29,842 | 29,842 |
| Machinery & equipment | 1,398 | 1,398 |
| | 31,240 | 31,240 |
| Less accumulated depreciation | (30,304) | (30,094) |
| Net Property & Equipment | 936 | 1,146 |
| TOTAL ASSETS | \$153,563 | \$48,294 |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$155,541 | \$83,870 |
| Credit card payable | 63,694 | 67,521 |
| Accrued expenses and interest on notes payable | 50,100 | 39,206 |
| Contract liabilities | 109,513 | 14,955 |
| Derivative liability | 7,058,846 | 625,645 |
| Promissory note, related party | 31,500 | 31,500 |
| Convertible promissory note, related party | 12,000 | 12,000 |
| Convertible promissory notes, current portion net of debt discount of \$40,899 and \$865, respectively | 54,134 | 92,168 |

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| | | |
|--|---------------------|---------------------|
| Total Current Liabilities | 7,535,328 | 966,865 |
| LONG TERM LIABILITIES | | |
| Convertible promissory notes, net of debt discount of \$116 and \$147, respectively | 165,764 | 125,653 |
| Total Long Term Liabilities | 165,764 | 125,653 |
| TOTAL LIABILITIES | 7,701,092 | 1,092,518 |
| SHAREHOLDERS' DEFICIT | | |
| Preferred stock 50,000,000 shares authorized, shares issued and outstanding designated as follows: | | |
| Preferred Stock Series A, \$0.01 par value, 10,000 authorized | | |
| 5,000 and 5,000 shares issued and outstanding, respectively | 50 | 50 |
| Common stock, no par value; | | |
| 2,000,000,000 authorized common shares | 33,229,814 | 32,935,727 |
| 1,406,800,138 and 1,040,146,548 shares issued and outstanding, respectively | | |
| Additional paid in capital | 5,335,398 | 5,335,398 |
| Paid in capital, common stock warrants | 3,811,700 | 3,811,700 |
| Accumulated deficit | (49,924,491) | (43,127,099) |
| TOTAL SHAREHOLDERS' DEFICIT | (7,547,529) | (1,044,224) |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT | \$153,563 | \$48,294 |

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

Table of Contents**XSUNX, INC.**

CONDENSED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|----------------------|--------------------------|----------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| SALES | \$393,011 | \$159,647 | \$524,108 | \$1,091,258 |
| COST OF GOODS SOLD | 307,567 | 77,825 | 376,952 | 740,430 |
| GROSS PROFIT | 85,444 | 81,822 | 147,156 | 350,828 |
| OPERATING EXPENSES | | | | |
| Selling, general and administrative expenses | 95,744 | 110,895 | 308,916 | 351,946 |
| Depreciation and amortization expense | 70 | 31 | 210 | 94 |
| TOTAL OPERATING EXPENSES | 95,814 | 110,926 | 309,126 | 352,040 |
| LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSES) | (10,370) | (29,104) | (161,970) | (1,212) |
| OTHER INCOME/(EXPENSES) | | | | |
| Penalties | - | - | - | (200) |
| Loss on conversion of debt | - | - | (207,190) | (170,124) |
| Gain (Loss) on change in derivative liability | (6,226,878) | (124,245) | (6,356,104) | 38,549 |
| Interest expense | (34,394) | (6,490) | (72,128) | (29,391) |
| TOTAL OTHER INCOME/(EXPENSES) | (6,261,272) | (130,735) | (6,635,422) | (161,166) |
| NET LOSS | \$(6,271,642) | \$(159,839) | \$(6,797,392) | \$(162,378) |
| BASIC AND DILUTED LOSS PER SHARE | \$(0.00) | \$(0.00) | \$(0.01) | \$(0.00) |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING | 1,406,800,138 | 967,318,748 | 1,320,387,002 | 901,849,325 |
| BASIC AND DILUTED | | | | |

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

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CONDENSED STATEMENT OF SHAREHOLDERS' DEFICIT

FOR THE NINE MONTHS ENDED JUNE 30, 2018

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Stock Options/Warrants Paid-in-Capital | Accumulated Deficit | Total |
|--|------------------------|---------------|---------------------|---------------|-----------------------------------|---|----------------------------|---------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at September 30, 2017 | 5,000 | \$ 50 | 1,040,146,548 | \$32,935,727 | \$5,335,398 | \$ 3,811,700 | \$(43,127,099) | \$(1,044,224) |
| Common stock issued upon conversion of debt and accrued interest | - | - | 366,653,590 | 294,087 | - | - | - | 294,087 |
| Net Loss | - | - | - | - | - | - | (6,797,392) | (6,797,392) |
| Balance at June 30, 2018 (unaudited) | 5,000 | \$ 50 | 1,406,800,138 | \$33,229,814 | \$5,335,398 | \$ 3,811,700 | \$(49,924,491) | \$(7,547,529) |

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

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CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED JUNE 30, 2018

(Unaudited)

| | Nine Months Ended | |
|--|--------------------------|-----------------|
| | June 30, | June 30, |
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(6,797,392) | \$(162,378) |
| Adjustment to reconcile net loss to net cash | | |
| (used in) provided by operating activities | | |
| Depreciation & amortization | 210 | 94 |
| (Gain)/Loss on change in derivative liability | 6,356,104 | (38,549) |
| Amortization of debt discount recorded as interest expense | 37,095 | 10,752 |
| Loss on conversion of debt | 207,190 | 170,124 |
| (Increase) Decrease in Change in Assets: | | |
| Contract receivables | 10,953 | (3,699) |
| Contract assets | (60,248) | (19,143) |
| Prepaid expenses | 6,348 | (4,604) |
| Increase (Decrease) in Change in Liabilities: | | |
| Accounts payable | 67,844 | 107,598 |
| Accrued expenses | 22,870 | 15,623 |
| Billing in excess of cost | 94,558 | (41,454) |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | (54,468) | 34,364 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from convertible promissory notes | 117,000 | 25,000 |
| Payments on convertible promissory notes | - | (25,000) |
| Payments on related party promissory notes | - | (3,500) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 117,000 | (3,500) |
| NET INCREASE/(DECREASE) IN CASH | 62,532 | 30,864 |
| CASH, BEGINNING OF PERIOD | 23,056 | 22,172 |
| CASH, END OF PERIOD | \$85,588 | \$53,036 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |

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| | | |
|---------------|---------|---------|
| Interest paid | \$2,364 | \$3,016 |
| Taxes paid | \$- | \$- |

SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS

| | | |
|---|-----------|-----------|
| Fair value of issuance of common stock upon conversion of debt and accrued interest | \$294,087 | \$250,658 |
|---|-----------|-----------|

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

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED

JUNE 30, 2018

1. Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ended September 30, 2018. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended September 30, 2017.

Going Concern

The accompanying unaudited condensed financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying unaudited condensed financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. During the nine months ended June 30, 2018, the Company did not generate significant revenue, incurred a net loss of \$6,797,392, and used cash in operations of \$54,468. As of June 30, 2018, the Company had a working capital deficiency of \$7,382,701, and a shareholders' deficit of \$7,547,529. These factors among others raise substantial doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has obtained funds from its shareholders since its inception through the nine months ended June 30, 2018. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due and will allow the development of its business development efforts in the solar PV industry.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of XsunX, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is

responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Use of Estimates

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

Cash and Cash Equivalents

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

Revenue Recognition

We recognize revenue when services are performed, and at the time of shipment of products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured.

Revenue and related costs on construction contracts are recognized using the “percentage of completion method” of accounting in accordance with ASC 605-35, Accounting for Performance of Construction-Type and Certain Production Type Contracts (“ASC 605-35”). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Revenue is recognized based on the percentage of cost incurred. Costs include all direct materials, subcontractor costs, direct labor and those indirect costs related to contract performance, such as indirect labor, supplies, project planning and preparation, tools and repairs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined.

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED

JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts, which require the revision, become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The Asset, “Costs in excess of billing” represents revenues recognized in excess of amounts billed on contracts in progress. The Liability, “Billing in excess of costs”, represents billings in excess of revenues recognized on contracts in progress.

Contract Receivables

Contract receivables are recorded on contracts for amounts currently due based upon progress billings, as well as any retentions, which are collectible upon completion of the contracts. Accounts payable to material suppliers and subcontractors are recorded for amounts currently due based upon work completed or materials received, as are retention due subcontractors, which are payable upon completion of the contract. General and administrative expenses are charged to operations as incurred and are not allocated to contract costs.

Project Warranties

Customers in our target market of California who purchase solar energy systems are covered by a warranty of up to 10 years in duration for material defects and workmanship. In addition, we provide a pass-through of the major components such as module mounting, inverter and solar panel manufacturers’ warranties to our customers, which generally range from 10 to 25 years. The Company has a limited history of project installations and will access potential warranty costs, and other allowances, based on our experience in servicing warranty claims as they may arise in the future. During the nine months ended June 30, 2018, the Company did not experience costs related to warranty claims.

Stock-Based Compensation

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

Net Earnings (Loss) per Share Calculations

Net earnings (Loss) per share dictates the calculation of basic earnings (loss) per share and diluted earnings per share. Basic earnings (loss) per share are computed by dividing by the weighted average number of common shares outstanding during the year. Diluted net earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the effect of stock options and stock based awards (Note 4), plus the assumed conversion of convertible debt (Note 5).

For the nine months ended June 30, 2018, the Company calculated the dilutive impact of the convertible debt of \$272,913, which is convertible into shares of common stock. The convertible debt was not included in the calculation of net loss per share, because their impact was antidilutive.

For the nine months ended June 30, 2017, the Company calculated the dilutive impact of the convertible debt of \$197,833, which is convertible into shares of common stock. The convertible debt was not included in the calculation of net loss per share, because their impact was antidilutive.

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED

JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

Fair Value of Financial Instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of June 30, 2018, the balances reported for cash, prepaid expenses, accounts payable, accrued expenses approximate the fair value because of their short maturities.

We adopted ASC Topic 820 for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

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

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

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

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

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2018:

| | Total | (Level 1) | (Level 2) | (Level 3) |
|--|--------------|----------------------|----------------------|------------------|
| Liabilities | | | | |
| Derivative Liability | \$7,058,846 | \$ - | \$ - | \$7,058,846 |
| Total Liabilities measured at fair value | \$7,058,846 | \$ - | \$ - | \$7,058,846 |

The following is a reconciliation of the derivative liability for which Level 3 inputs were used in determining the approximate fair value:

| | |
|---|-------------|
| Balance as of September 30, 2017 | \$625,645 |
| Fair value of derivative liabilities issued | 77,098 |
| Net Loss on change in derivative liability and conversion of debt | 6,356,103 |
| Ending balance as of June 30, 2018 | \$7,058,846 |

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASC 606), to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services. In addition, ASC 606 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASC is effective for fiscal years beginning after December 15, 2017. The Company has adopted ASC 606 beginning on January 1, 2018. See Note 7 for additional disclosures in accordance with the new revenue recognition standard.

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED

JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In August 2016, FASB issued accounting standards update ASU-2016-15, “Statement of Cash Flows” (Topic 230) – Classification of Certain Cash Receipts and Cash Payments”, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this ASU are effective for public and nonpublic entities for fiscal years beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of ASU 2016-15 on the Company’s financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying condensed financial statements.

3. CAPITAL STOCK

At December 31, 2017, the Company’s authorized stock consisted of 2,000,000,000 shares of common stock, with no par value. The Company is also authorized to issue 50,000,000 shares of preferred stock with a par value of \$0.01 per share of which 10,000 shares have been designated as Series A Preferred Stock. The rights, preferences and privileges of the holders of the preferred stock are determined by the Board of Directors prior to issuance of such shares.

During the nine months ended June 30, 2018, the Company issued 366,653,589 shares of common stock upon conversion of principal in the amount of \$74,920, plus accrued interest of \$11,977, with an aggregate fair value loss on settlement of debt of \$207,190.

4. STOCK OPTIONS

On May 20, 2014, the Company adopted the 2014 XSUNX, Inc. Stock Option and Award Plan (the "Plan") to enable the Company to obtain and retain the services of the types of Employees, Consultants and Directors who will contribute to the Company's long-range success and to provide incentives which are linked directly to increases in share value which will inure to the benefit of all stockholders of the Company. The 2007 Stock Option Plan is superseded by the newly adopted 2014 XSUNX, Inc. Stock Option and Award Plan. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company's Board of Directors ("Board"). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement. There are no stock options outstanding as of June 30, 2018.

5. CONVERTIBLE PROMISSORY NOTES

As of June 30, 2018, the outstanding convertible promissory notes are summarized as follows:

| | |
|--|-----------|
| Convertible Promissory Notes, net of debt discount | \$219,898 |
| Less current portion | 54,134 |
| Total long-term liabilities | \$165,764 |

Maturities of long-term debt for the next three years are as follows:

| | |
|---------------|-----------|
| Year Ending | |
| September 30, | |
| 2020 | \$- |
| 2021 | 50,880 |
| 2022 | 114,884 |
| | \$165,764 |

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED

JUNE 30, 2018

5. CONVERTIBLE PROMISSORY NOTES (Continued)

At June 30, 2018, the \$260,913 in convertible promissory notes has a remaining debt discount of \$41,015, leaving a net balance of \$165,764.

On October 20, 2015, the Company entered into a third extension of the Note originally issued September 30, 2013. The extension terms included mandatory payments of \$10,000 per month beginning November 1, 2015 until the note in the amount of \$143,033 is paid in full. The Note bears interest at 12% annum, and a conversion price of 60% of the lowest volume weighted average price (“VWAP”) occurring during the twenty trading days preceding any conversion date by Holder. The balance of the provisions of the Note remained substantially the same. As of December 31, 2017, the remaining balance of the Note is \$18,033. As of June 30, 2018, the Note has matured, and the Company and the Holder have entered into discussions for the repayment of the Note.

On November 20, 2014, the Company issued a 10% unsecured convertible promissory note (the “November Note”) for the principal sum of up to \$400,000 plus accrued interest on any advanced principal funds. The November Note matures eighteen months from each advance. The November Note may be converted by the lender into shares of common stock of the Company at the lesser of \$.0125 per share or (b) fifty percent (50%) of the lowest trade prices following issuance of the November Note or (c) the lowest effective price per share granted to any person or entity. On November 20, 2014, the lender advanced \$50,000 to the Company under the November Note at inception. On various dates from February 18, 2015 through September 30, 2016, the lender advanced an additional \$350,000 under the November Note. During the nine months ended June 30, 2018, the Company issued 366,653,589 shares of common stock upon conversion of \$74,920 in principal, plus accrued interest of \$11,977, with a fair value loss of \$207,190. As of June 30, 2018, there remains an aggregate outstanding principal balance of \$50,880. During the nine months ended June 30, 2018, the Company recognized debt amortization as interest expense in the amount of \$147.

On May 10, 2017, the Company issued a 10% unsecured convertible promissory note (the “May Note”) for the principal sum of up to \$150,000 plus accrued interest on any advanced principal funds. The Lender may pay additional consideration at the Lenders discretion. The Company received a tranche in the amount of \$25,000 upon execution of the May Note. On various dates, the Company received additional tranches in the aggregate sum of \$90,000. The principal balance at December 31, 2017 was \$115,000. The May Note matures twelve months from each tranche. Within thirty (30) days prior to the maturity date, the Lender may extend the maturity date to sixty (60) months. The May Note may be converted by the lender into shares of common stock of the Company at the lesser of \$.01 per share

or (b) fifty percent (50%) of the lowest trade price of common stock recorded on any trade day after the effective date, or (c) the lowest effective price per share granted to any person or entity. The Company recorded debt discount related to the conversion feature of the May Note, along with derivative liability at inception. During the nine months ended June 30, 2018, the Company recognized debt amortization as interest expense in the amount of \$847.

The Company issued an unsecured convertible promissory note (the "Note"), in the amount of \$52,000 on date of January 11, 2018, which was funded on January 16, 2018. The Note matures on October 20, 2018 and bears interest at 10% per annum. The Note may be converted into shares of the Company's common stock at a variable conversion price of 65% of the two lowest dollar volume weighted average price ("VWAP") occurring during the fifteen trading days prior to conversion. The conversion feature of the Notes was considered a derivative in accordance with current accounting guidelines because of the reset conversion features of the Notes. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$36,101 during the nine months ended June 30, 2018.

Issuance of Convertible Promissory Notes for Services to Related Party

As of June 30, 2018, the remaining unsecured Convertible Promissory Notes (the "Notes") in the amount of \$12,000 to a Board member (the "Holder") in exchange for retention as a director during the fiscal year ending September 30, 2014. The Note can be converted into shares of common stock by the Holder for \$0.0045 per share. The Note matured on October 1, 2015 and bore a one-time interest charge of \$1,200 which was applied to the principal on October 1, 2014. So long as any shares issuable under a conversion are subject to transfer and sale restrictions imposed pursuant to SEC Rule 144 of the Rules promulgated under the Securities Act of 1933, the Company shall, upon written request by Holder, file Form S-8, if applicable, with the U.S. Securities and Exchange commission to register the issued.

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XSUNX, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – UNAUDITED

JUNE 30, 2018

5. CONVERTIBLE PROMISSORY NOTES (Continued)

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

| | |
|-------------------------|--------------------------|
| Risk free interest rate | Between 1.53% and 2.73% |
| Stock volatility factor | Between 38.0% and 179.0% |
| Months to Maturity | 1 - 5 years |
| Expected dividend yield | None |

At June 30, 2018, the fair value of the derivative liability was \$7,058,846.

6. NOTE PAYABLE-RELATED PARTY

On August 5, 2014 the Company issued a 10% unsecured promissory note (the “Note”) to a related party in the aggregate principal amount of up to \$80,000, plus accrued interest on any advanced principal funds. The principal use of the proceeds from any advance under the Note are intended to assist in the purchase of materials, and services for the solar PV systems that we sell and install. Consideration advanced under the Note matures twenty-four (24) months from each advance. The balance as of December 31, 2017 was \$31,500, plus accrued interest of \$8,998.

7. SUBSEQUENT EVENTS

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

On August 6, 2018, XsunX, Inc. (the "Company") issued a 10% unsecured convertible promissory note (the "Note") and entered into a Securities Purchase Agreement (the "Purchase Agreement") with an accredited investor (the "Lender") for the principal amount of \$30,000 (the "Note") which transactions consummated and closed upon the advanced of the principal amount on August 9, 2018. The Note matures on May 15, 2019. The Company has the right to redeem a portion or all amounts outstanding under the Note prior to one hundred and eighty-one days from issuance of the Note under a variable redemption rate premium. After one hundred and eighty days the holder may convert into shares of common stock at a conversion price to be 65% of the average of the two lowest dollar volume weighted average price ("VWAP") occurring during the fifteen trading days preceding any conversion date by Holder. Upon closing of the transaction, the Company agreed to allow the Investor to retain \$2,000 of the advanced sum for Lenders legal and due diligence expenses.

The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and Rule 506 of Regulation D promulgated thereunder since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

Between July 16 and 26, 2018, the Company issued 61,306,681 shares of common stock upon the aggregate conversion of \$50,000 of principal, and \$2,600 of accrued interest to the holder of a 10% convertible note originally issued January 11, 2018. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a) 2 of the Securities Act since among other things the transactions did not involve a public offering.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

CAUTIONARY AND FORWARD LOOKING STATEMENTS

In addition to statements of historical fact, this Quarterly Report on Form 10-Q 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. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under “Item 1A: Risk Factors” in the Company’s Annual Report on Form 10-K.

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:

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-Q and Annual Reports on Form 10-K and Form 10-K/A filed by the Company and any Current Reports on Form 8-K filed by the Company.

Management believes the summary data 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.

Organization

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

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Business Overview/Summary

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

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

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

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

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

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

Critical Accounting Policies

The Securities and Exchange Commission ("SEC") defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Not all of the accounting

policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies could be deemed to be critical within the SEC definition.

Revenue Recognition

We recognize revenue when services are performed, and at the time of shipment of products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured.

Revenue and related costs on construction contracts are recognized using the “percentage of completion method” of accounting in accordance with ASC 605-35, Accounting for Performance of Construction-Type and Certain Production Type Contracts (“ASC 605-35”). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Revenue is recognized based on the percentage of cost incurred. Costs include all direct materials, subcontractor costs, direct labor and those indirect costs related to contract performance, such as indirect labor, supplies, project planning and preparation, tools and repairs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss, as it is determined. The Contract Asset represents revenues recognized in excess of amounts billed on contracts in progress. The Contract Liability represents billings in excess of revenues recognized on contracts in progress.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include estimates used to review the Company’s goodwill, impairments and estimations of long-lived assets, revenue recognition on percentage of completion type contracts, allowances for uncollectible accounts, inventory valuation, valuations of non-cash capital stock issuances and the valuation allowance on deferred tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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Fair Value of Financial Instruments

Fair value of financial instruments requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of June 30, 2018, the amounts reported for cash, prepaid expenses, accounts payable and accrued expenses approximate the fair value because of their short maturities.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASC 606), to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services. In addition, ASC 606 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASC is effective for fiscal years beginning after December 15, 2017, including interim reporting periods therein. The Company is currently evaluating the impact of the adoption of ASU 2016-12 on the Company's financial statements.

In August 2016, FASB issued accounting standards update ASU-2016-15, "Statement of Cash Flows" (Topic 230) – Classification of Certain Cash Receipts and Cash Payments", to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this ASU are effective for public and nonpublic entities for fiscal years beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of ASU 2016-15 on the Company's financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying condensed financial statements.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO THREE MONTHS ENDED JUNE 30, 2017.

Revenue and Cost of Sales:

The Company generated revenues in the three months ended June 30, 2018 and 2017 of \$393,011 and \$159,647 respectively. The increase in revenue during the three months ended June 30, 2018 was attributable to an increase in sold commercial projects for which we were able to secure permits for installation in the period. We anticipate that through our marketing efforts purchase interest, and sales, for our solar carport and energy storage systems will continue to improve and provide us with increased project flow that may result in more consistent period to period revenue growth results.

The costs of goods sold for the three months ended June 30, 2018 and 2017 was \$307,567 and \$77,825, respectively. The Company to date has had minimal revenue and cost of sales and anticipates continuing to generate revenues while working to increase sales volumes as it matures the scope of the Company's capabilities and brand awareness.

Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by \$15,151 during the three months ended June 30, 2018 to \$95,744 as compared to \$110,895 for the three months ended June 30, 2017. The decrease in SG&A expenses was related primarily due to the Company experiencing a decrease in administrative costs. Management expects SG&A expenses to increase in future periods as the Company continues to expand its marketing, sales, and service efforts.

Depreciation Expense:

Depreciation expense for the three months ended June 30, 2018 was \$70, compared to \$31 for the three months ended June 30, 2017.

Other Income/(Expenses):

Other income and (expenses) increased by \$6,130,537 to \$(6,261,272) for the three months ended June 30, 2018, compared to \$(130,735) for the three months ended June 30, 2017. The increase was the result of an increase in non-cash loss on change of fair value of the derivative instruments of \$6,130,537, and an increase in interest expense of \$27,904, which included a decrease in non-cash amortization of debt discount in the amount of \$26,343.

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Net Income (Loss):

For the three months ended June 30, 2018, our net loss was \$(6,271,642) as compared to \$(159,839) for the three months ended June 30, 2017. This increase in net loss primarily stems from the increase in other income (expenses) associated with the derivative instruments, and an overall decrease in operating expenses, with a decrease in gross profit due to a decrease in revenue. While management is working to increase sales and revenues as it matures the scope of the Company's capabilities and brand awareness for its commercial and residential solar PV systems, the Company anticipates there is no assurance that any continued trend in sales growth will continue.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JUNE 30, 2018 COMPARED TO NINE MONTHS ENDED JUNE 30, 2017.

Revenue and Cost of Sales:

The Company generated revenues in the nine months ended June 30, 2018 and 2017 of \$524,108 and \$1,091,258 respectively. The decrease in revenue during the nine months ended June 30, 2018 was attributable to delays in revenue recognition for commercial projects due to time requirements in the permitting processes, and customer project financing that caused project start dates, and revenues for these projects, to span reporting periods. We can often encounter these types of delays in commercial solar energy project delivery that can result in revenue recognition spanning reporting periods. We anticipate that through our marketing efforts purchase interest, and sales, for our solar carport and energy storage systems will continue to improve and provide us with increased project flow that may result in more consistent period to period revenue growth results.

The costs of goods sold for the nine months ended June 30, 2018 and 2017 was \$376,952 and \$740,430, respectively. The Company to date has had minimal revenue and cost of sales and anticipates continuing to generate revenues while working to increase sales volumes as it matures the scope of the Company's capabilities and brand awareness.

Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by \$43,030 during the nine months ended June 30, 2018 to \$308,916 as compared to \$351,946 for the nine months ended June 30, 2017. The decrease in SG&A expenses was related primarily due to the Company experiencing a decrease in administrative costs. Management expects SG&A expenses to increase in future periods as the Company continues to expand its marketing, sales, and service efforts.

Depreciation Expense:

Depreciation expense for the nine months ended June 30, 2018 was \$210, compared to \$94 for the nine months ended June 30, 2017.

Other Income/(Expenses):

Other income and (expenses) increased by \$(6,474,256) to \$(6,635,422) for the nine months ended June 30, 2018, compared to \$(161,166) for the nine months ended June 30, 2017. The increase in income (expenses) was the result of an increase in non-cash loss on net change of fair value of the derivative instruments of \$6,394,653, and an increase in fair value of loss on conversion of debt of \$37,066, an increase in interest expense of \$42,737, which included a decrease in non-cash amortization of debt discount in the amount of \$20,717, with a decrease in penalties of \$200.

Net Income (Loss):

For the nine months ended June 30, 2018, our net loss was \$(6,797,392) as compared to net loss of \$(162,378) for the nine months ended June 30, 2017. This increase in net loss primarily stems from the increase in other income (expenses) associated with the derivative instruments related to convertible notes issued by the Company, and an overall decrease in operating expenses, with a decrease in gross profit due to a decrease in revenue. While management is working to increase sales and revenues as it matures the scope of the Company's capabilities and brand awareness for its commercial and residential solar PV systems, the Company anticipates there is no assurance that any continued trend in sales growth will continue.

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Liquidity and Capital Resources

We had a working capital deficit at June 30, 2018 of \$7,382,701, as compared to a working capital deficit of \$919,717 as of September 30, 2017. The increase in working capital deficit of \$6,462,984 was the result of an increase in cash, contract assets, accounts payable, accrued expenses, contract liabilities, derivative liability, and convertible notes, with a decrease in contract receivables, and prepaid expenses.

Cash flow used by operating activities was \$(54,468) for the nine months ended June 30, 2018, as compared to cash flows provided in operating activities of \$34,364 for the nine months ended June 30, 2017. The increase in cash flow used by operating activities was due to a decrease in contract receivables.

Cash flow provided by (used in) investing activities for the nine months ended June 30, 2018 and 2017 were \$0, respectively.

Cash provided by financing activities for the nine months ended June 30, 2018 was \$117,000, as compared to cash used of \$(3,500) in financing activities for the nine months ended June 30, 2017. Our capital needs have primarily been met from the proceeds of private placements, convertible notes, and initial revenues resulting from our change in business operations focused on the sale, design, and installation of Solar Photovoltaic (PV), and managed Energy Storage Systems (ESS) for commercial and industrial real-estate in in the period.

Our financial statements as of June 30, 2018 have been prepared under the assumption that we will continue as a going concern. Our independent registered public accounting firm has issued their report dated December 20, 2017, that included an explanatory paragraph expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. Our ability to continue as a going concern ultimately is dependent on our ability to generate a profit which is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For the nine months ended June 30, 2018, the Company's capital needs have been met from the use of working capital provided by the proceeds of (i) the convertible notes and (ii) revenues in the amount of \$524,108.

Capital Resources

We have only common and preferred stock as our capital resources. We have no material commitments for capital expenditures within the next year, however as we work to market and make sales of our commercial solar PV system services, substantial capital may be needed to expand and pay for these activities.

Need for Additional Financing

We do not have capital sufficient to meet our cash needs. We will have to seek loans or equity placements to cover such cash needs. No commitments to provide additional funds have been made by our management or other stockholders. Accordingly, there can be no assurance that any additional funds will be available to us to allow it to cover our expenses as they may be incurred.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, result of operations, liquidity or capital expenditures.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We do not have any market risk sensitive instruments. Since all operations are in U.S. dollar denominated accounts, we do not have foreign currency risk. Our operating costs are reported in U.S. dollars.

The Company does not invest in term financial products or instruments or derivatives involving risk other than money market accounts, which fluctuate with interest rates at market.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change to our internal control over financial reporting that occurred during our second fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in the Registrant's Form 10-K filed with the Securities and Exchange Commission dated December 20, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mining and Safety Disclosures

None.

Item 5. Other information

Between July 16 and 26, 2018, the Company authorized the issuance of 61,306,681 shares of common stock upon the aggregate conversion of \$50,000 of principal, and \$2,600 of accrued interest to the holder of a 10% convertible note originally issued January 11, 2018. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a) 2 of the Securities Act since among other things the transactions did not involve a public offering.

On August 6, 2018, XsunX, Inc. (the "Company") issued a 10% unsecured convertible promissory note (the "Note") and entered into a Securities Purchase Agreement (the "Purchase Agreement") with an accredited investor (the "Lender") for the principal amount of \$30,000 (the "Note") which transactions consummated and closed upon the advanced of the principal amount on August 9, 2018. The Note matures on May 15, 2019. The Company has the right to redeem a portion or all amounts outstanding under the Note prior to one hundred and eighty-one days from issuance of the Note under a variable redemption rate premium. After one hundred and eighty days the holder may convert into shares of common stock at a conversion price to be 65% of the average of the two lowest dollar volume weighted average price ("VWAP") occurring during the fifteen trading days preceding any conversion date by Holder. Upon closing of the transaction, the Company agreed to allow the Investor to retain \$2,000 of the advanced sum for Lenders legal and due diligence expenses.

The foregoing is qualified in its entirety by the form of Note attached as Exhibit 10.1, and the Securities Purchase Agreement attached as Exhibit 10.2, which are incorporated herein by reference.

The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and Rule 506 of Regulation D promulgated thereunder since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

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Item 6. Exhibits

The following is a complete list of exhibits filed as part of this Form 10-Q. Exhibit numbers correspond to the numbers in the Exhibit Table of Item 601 of Regulation S-K.

Exhibit Description

| | |
|---------|---|
| 10.1 | <u>Form of 10% Convertible Promissory Note funded and closed on August 9, 2018 used in connection with the sale of a convertible promissory note in the amount of \$30,000. (1)</u> |
| 10.2 | <u>Form of Securities Purchase Agreement used in connection with the sale of a 10% convertible promissory note which funded and closed on August 9, 2018 in the amount of \$30,000. (1)</u> |
| 31.1 | <u>Certification of Chief Financial Officer and Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act</u> |
| 32.1 | <u>Certification of Principal Executive and Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Label Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

(1) Filed Herewith

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SIGNATURES

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

XSUNX, INC.

Dated: August 14, 2018 *By: /s/ Tom M. Djokovich*
Tom M. Djokovich,

Principal Executive and Accounting Officer