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XsunX, Inc.
(OTC.BB:XSNX.OB)

www.xsunx.com

Stock Price and Share Data

Trading symbol: XSNX.OB
Exchange: OTC.BB
Recent price: $0.37
52-week range: $0.26-$0.80
Avg. volume: 452,544 shares
Shares outstanding: 157.0 MM
Float (E): 138.8 MM shares
Fiscal year ends: September 30

Summary of Projections
(estimated; millions)

Year	Rev.	Gross Profit	Oper. Profit
2006 A	$ 0.0	$ 0.0	$ (3.4)
2007 E	0.0	0.0	(2.0)
2008 E	1.5	0.2	(3.3)
2009 E	59.4	27.5	22.0
2010 E	282.0	132.0	120.6
2011 E	270.0	121.5	114.2
2012 E	271.3	116.3	108.3
2013 E	306.0	135.0	123.5

(estimated)

Year	Mega-watts Sold	Rev. per Watt	Oper. Profit per Watt
2006 A	N/A	N/A	N/A
2007 E	N/A	N/A	N/A
2008 E	0.5	$2.90	$(6.60)
2009 E	22.0	2.70	1.00
2010 E	120.0	2.35	1.00
2011 E	135.0	2.00	0.85
2012 E	155.0	1.75	0.70
2013 E	180.0	1.70	0.69

Balance Sheet Summary
(millions; as of June 30, 2007)

Cash & equivalents	$1.4
Working capital	1.1
Long-term liabilities	0.0
Shareholders' equity	4.7

15 October 2007 **Update Report**

XsunX, Inc.
(OTC.BB:XSNX.OB)

On a Strong Foundation of Proprietary Intellectual Property Regarding Amorphous Silicon Thin-Film Solar Energy Modules, XsunX Prepares to Commence Production in 2008

Worldwide demand for energy is exploding, global energy prices are surging, and the implementation of alternative energy sources is advancing at powerful double-digit rates. Economic and social reforms have swept the People's Republic of China and the Republic of India, the world's two most populous countries, and both are achieving sustained annual GDP growth of 10.0%-plus and 8.0%-plus, respectively. This growth has created an insatiable demand for conventional sources of energy in both countries, and per capita demand for energy among a combined population of 2.4 billion-plus—this represents roughly 39.0% of the world's population—is set to quadruple from current levels. As a result, developed and developing nations are locked in a competitive frenzy for "energy security" via access to conventional energy supplies. Increasingly apparent, though, is the fact that those supplies are limited and rapidly fading. Simply put, shrinking supplies and surging prices in traditional energy markets are already driving strong double-digit growth in the demand for alternative sources of energy. And we expect this growth to accelerate.

Under the direction of CEO Tom Djokovich, complemented by a management team that is well-versed in the commercialization of cutting-edge solar energy technologies, XsunX has positioned itself, in our view, to seize the tremendous profit opportunities presented by the rapid expansion of the solar energy market, and the faster growth that we anticipate for the thin-film segment of that market. Since its inception in September 2003, XsunX has developed a portfolio of proprietary intellectual property and experience related to amorphous thin-film silicon and its manufacturing techniques. In our opinion, this experience and IP portfolio will provide the Company with an important edge in the highly competitive solar energy space and, in our view, offset a substantial portion of the risk that might otherwise be attached to our projections of the Company's earnings.

XsunX currently plans to commission a base line production system in March 2008 and begin limited commercial production of thin-film solar modules by mid 2008. We expect production to climb sharply as the Company's solar module production capacity grows to 25 megawatts by early 2009 and then expands to 100 megawatts by early 2010. Based on these figures, we are projecting that XsunX can achieve revenue of $1.5 million, $59.4 million, and $282.0 million, and operating profit of $(3.3) million, $22.0 million, and $120.6 million in its 2008, 2009, and 2010 fiscal years (ended September), respectively. Notably, the Company is embarking on its final ascendancy to commercial production with a balance sheet boasting a 3.1x current ratio and no long-term debt.

Please see important Analyst Certification and Disclosure information on the last page of this report.

XsunX, Inc.
An Update Report

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I. XsunX, Inc.: On The Doorstep Of Commercialization

I. A. Background

Thin-film photovoltaic solar cell technologies generally reduce the amount of light-absorbing material required in creating a solar cell, thereby reducing manufacturing costs and product weight. The current generation of amorphous silicon thin-film solar cells generally exhibits lower "peak efficiency potential" but higher "average" and "total" energy producing capabilities versus solar cells based on older bulk silicon wafer technologies.

Throughout this analysis, we refer to the term ***watt (W),*** which is a measurement of the rate at which electrical energy is consumed or generated. One watt is equal to one joule of energy per second. For instance, a common 100-watt household light bulb uses electrical energy at a rate of 100 watts, or 100 joules per second.

Watts are commonly expressed in terms of kilowatts, megawatts and gigawatts. A **kilowatt (kW)** is one thousand watts, and is equal to one thousand joules per second. A **megawatt (MW)** is one million watts, and equals one million joules per second. A **gigawatt (GW)** is one billion watts, or one billion joules per second.

As a matter of perspective, a typical modern diesel-electric railroad locomotive has a peak power generating capacity of three to five MW (three to five million watts or three to five million joules per second). A typical modern nuclear power plant has a peak power generating capacity of 0.5 to 2.0 GW (0.5 to 2.0 billion watts or 0.5 to 2.0 billion joules per second).

XsunX, Inc., incorporated in Colorado and headquartered in Aliso Viejo, California, was created in 2003 to develop and commercialize advanced thin-film photovoltaic (TFPV) solar cell technologies and manufacturing processes.

During the past year, XsunX has executed an important shift in its business model, away from the licensing of its solar cell designs and manufacturing technologies and into the use of its technologies to design a cutting edge multi-mega watt manufacturing system to produce and market commercially viable thin-film amorphous solar modules. We view this shift as a significant positive in that it provides the Company with greater control over its own destiny, enhances the Company's ability to leverage its considerable intellectual property portfolio and proprietary manufacturing know how, and sharply boosts the Company's revenue and profit potential. Here are the details.

- ***XsunX management has achieved an impressive long list of key milestones towards the commercialization of large-area (1x1.6 meter) high-power output (120-watt) tandem-junction thin-film amorphous solar energy modules.*** During its development phase, XsunX has focused on creating advanced amorphous thin-film solar cell technologies that can 1) efficiently convert sunlight into electricity, 2) be easily adapted across a broad range of applications and operating conditions and 3) be manufactured inexpensively in large scale commercial quantities.

- ***On 27 April 2007, XsunX revealed its plan to build a multi-megawatt thin-film solar cell and module manufacturing plant. More recently, the Company has announced that this new facility will be based in the US state of Oregon.*** XsunX plans to commission a base line production system in March 2008 and commence limited commercial production of thin-film solar modules by mid 2008. We expect production to climb sharply as the Company's "annualized" solar module manufacturing capacity grows to 25 megawatts by early 2009 and 100 megawatts by early 2010.

- ***XsunX expects that, over the near-term, it will produce solar cells and modules incorporating thin-film amorphous silicon on glass substrates.*** Longer-term, the Company expects to broaden its product offerings to include nano-crystalline and proprietary multi-junction solar cell designs to improve performance and further reduce per watt production costs.

- ***The Company currently expects that its primary target markets will be large-scale solar energy device installers and operators.*** These include solar farms, government agencies (in particular, the US Department of Defense), power purchase associations, utility companies, and large commercial installations.

XsunX management, in our view, is making excellent progress in creating the infrastructure necessary to support a competitively superior solar energy manufacturing and marketing operation.

- ***In addition to its corporate headquarters facility in southern California, XsunX has already established a research and development facility in Golden, Colorado.*** A steep product development curve is, in our view, essential to achieving and maintaining competitiveness in the global market for energy. Specifically, XsunX must not only achieve grid parity, but must also compete effectively with other solar energy companies that achieve the same.

- ***As mentioned above, XsunX has announced its plan to construct a state-of-the-art solar module manufacturing plant in Oregon.*** Company management has recently indicated that a combination of attractive operating incentives, operating credits, and low-cost financing opportunities attracted the Company to the state.

- ***XsunX has also been adding key members to its senior management team as it transitions from a development stage enterprise to a commercial solar cell manufacturer and marketer.*** Importantly, the Company's current management team has decades of combined experience in the areas of developing and commercializing thin-film solar energy devices. Here are the details.

  On April 17, 2006 XsunX announced the appointment of Joseph Grimes to the position of Chief Operating Officer. Mr. Grimes came to XsunX with more than eight years of direct experience in thin-film photovoltaic technology and manufacturing. Furthermore, Mr. Grimes provides a wealth of experience in the development and execution of plans associated with establishing manufacturing facilities. Most notably, while working for Applied Magnetics, a large disk drive manufacturer, he effectuated the build-out of several disk manufacturing facilities in Asia, and one domestically. He specializes in risk mitigation and the development of executable plans.

  On January 8, 2007, the Company announced the appointment of Mr. Jeff Huitt to the position of Chief Financial Officer. In that position, Mr. Huitt's primary responsibilities include financial reporting and compliance, audit, strategic planning, and financial resource management in support of the firm's growth. Mr. Huitt has 20 years of finance/executive management experience.

  On March 5, 2007, XsunX announced that Mr. Robert Wendt was hired as the Company's Vice President of Engineering. His primary focus is management and control of all aspects of the Company's scientific operations including manufacturing, engineering, product development, facilities, and technology departments. Importantly, Mr. Wendt has more than 20 years of experience in the development, manufacturing and commercialization of thin-film solar energy technologies. Most notably, he has served as Vice President of Sales and Operations for privately held Global Solar Energy, Inc., a major producer of thin-film photovoltaics.

XsunX is led by Tom Djokovich, President and CEO, who has more than 30 years of executive management/entrepreneurial experience in the high-tech and building industries. An experienced professional, Mr. Djokovich leads XsunX's efforts to leverage its technology and experience to produce large scale commercial quantities of thin-film amorphous solar modules to help meet the burgeoning demand for alternative sources of energy. He is a veteran manager of publicly held corporations and has successfully attracted millions of dollars in capital investments for business development.

I. B. Milestone Analysis

Since its inception in September 2003, XsunX has achieved an impressive list of milestones towards the commercialization of advanced thin-film solar energy technologies. In our view, these milestones, including the internal development of key technologies, the licensing and acquisition of critical intellectual properties, and the successful completion of important "proof of concept" demonstrations, offset a substantial portion of the risk that might otherwise be attached to our projections of the Company's operating performance.

Highlights of XsunX's corporate development milestones, which have become increasingly sophisticated over time, include the following. Please see Chart I on the following two pages for a list of milestone highlights achieved by XsunX in the four years since its inception.

- ***Intellectual property, external*** - Within a month of its inception, XsunX completed its acquisition of three existing patents for solar energy devices and manufacturing methods relating to semi-transparent photovoltaic devices integrated into windows. One year later, in September 2004, the Company acquired the exclusive rights to a broad portfolio of chemical and plasma deposition technologies and proprietary know-how including a patented method for the use of a cassette based reel-to-reel manufacturing process. In October 2005, the Company licensed a patent pending, multi-terminal solar cell device.

- ***Intellectual property, internal*** - In 2004, XsunX created its first functioning small- and large-area solar cells. In June 2005, XsunX successfully demonstrated a process for the manufacture of large area (30 cm X 40 cm) semi-transparent solar cells on a plastic substrate. In October 2005, XsunX developed low-temperature processing techniques enabling the use of inexpensive and lightweight plastics as substrates for solar cells. In January 2006, the Company began the development of a multi-terminal solar device employing the use of amorphous silicon and nano-crystalline silicon. It also worked to design and build the tools necessary for the development of this device. And, in September 2006, XsunX worked to develop the basis of a laser process for segmenting large-area solar cells into an integrated device. In January 2007, the Company commenced planning for a state-of-the-art solar module production facility, a process that was largely completed in August 2007.

Chart I
XsunX, Inc.
Analysis: Corporate Milestone Highlights
(as of October 2007)

Year	Milestone Event	Milestone Significance
2003	**Inception:** On September 24, 2003, XsunX, Inc. was created to develop and commercialize advanced thin film solar cell designs and manufacturing processes.	XsunX was created in 2003 to seize revenue and profit opportunities in the global solar energy market, particularly in the high-growth thin-film photovoltaic (TFPV) sector of the market.
	Intellectual property: In October 2003, XsunX acquired three existing patents for devices and manufacturing methods related to the integration of semi-transparent photovoltaic devices into windows.	In the month following its founding, XsunX acquired three patents that quickly established the foundation for a roadmap towards the commercialization of proprietary solar energy technologies.
2004	**Product prototype:** In May 2004, XsunX created its first functioning small area (12 cm X 12 cm) prototype of semi-transparent photovoltaic coatings on a glass substrate.	This achievement provided XsunX with "proof of concept" and the credibility to attract further financing for continued research and development activities.
	Product prototype: In June 2004, XsunX created its first functioning large area (40 cm X 40 cm) prototype of semi-transparent photovoltaic coatings on a glass substrate.	This achievement confirmed the "scalability" of XsunX's semi-transparent photovoltaic coatings on a glass substrate technology, a critical milestone necessary for potential commercialization.
	Intellectual property: In September 2004, XsunX acquired exclusive rights to an extensive portfolio of chemical and plasma deposition technologies, including a patented method for a cassette based, reel-to-reel production process using flexible substrates and eliminating cross-process contamination.	These proprietary rights for reel-to-reel manufacturing positioned XsunX to work towards exploiting commercial opportunities based on the use of inexpensive plastic and other low-cost, flexible solar cell substrates in the manufacture of thin-film solar cells.
	Research and development: In September 2004, XsunX secured at cost research and development services for the development of its technologies.	This agreement provided the oppotunity for XsunX to minimize cash outlays and maximize return-on-investment by leveraging a third-party research facility and its staff under an at-cost/without-profit relationship.
2005	**Manufacturing process:** In June 2005, XsunX successfully demonstrated a process for the manufacture of large area (30 cm X 40 cm) semi-transparent solar cells on a plastic substrate.	This demonstration was an important step necesssary for the eventual commercialization of solar cells created on low-cost, light-weight plastic substrates.
	Intellectual property: In October 2005, XsunX expanded its intellectual property portfolio with the licensure of a patent pending, multi-terminal solar cell device.	The structure of this device eliminates certain limiting characteristics of modern multi-junction device types and opens possibilities for use of new solar absorbers within the same device.
	Manufacturing process: In October 2005, XsunX developed low temperature processing techniques enabling the use of inexpensive, low-temperature plastics as substrates for solar cells.	The high-temperature processing techniques used for the manufacture of solar cells on a glass substrate had previously inhibited the use of plastic as a solar cell substrate.
	Industry award: XsunX was awarded the 2005 World Technology Award, Energy Division, for the development of a semi-transparent solar cell for use on windows.	This WTA Award provided significant validation of XsunX as a leading innovator in solar energy technologies.

(continued on next page)

Source: Company publications.
Compilation and analysis: Laguna Research Partners LLC.

Chart I (continued from previous page)
XsunX, Inc.
Analysis: Corporate Milestone Highlights
(as of October 2007)

2006	**Manufacturing process:** In September 2006, XsunX developed the basis for a commercially viable, laser-based process for segmenting large-area solar cells.	This process enables XsunX to create large-area, integrated solar devices while maintaining an aesthetic monolithic appearance.
	Product prototype: In January 2006, XsunX 1) began the development of a multi-terminal solar device employing the use of amorphous silicon and nano-crystalline silicon, 2) design the tools necessary for device development, and 3) achieved roughly 8.0% efficiency before re-direction of resources to less complex devices.	As part of a continuing technology enhancement road map, the commercial opportunities for this type of device can deliver significant energy conversion gains by allowing dissimilar materials and operating currents to be used to their maximum potential without the limitation of current design technologies.
	Research and development: In March 2006, XsunX established a Research & Development and Sales/Marketing facility in Golden, Colorado. The Company also began assembly of a state-of-the-art, multi-chamber vacuum deposition tool that can use various company-owned and/or company-developed intellectual property.	The creation of an internal R&D office in Golden gave XsunX the support and execution infrastructure it needed to commence the next stage of technology commercialization efforts.
	Management: In April 2006, XsunX hired its first Chief Operating Officer.	This hiring was an important step towards technology commercialization.
2007 to Date	**Management:** In January 2007, XsunX expanded its management team to include a VP of Engineering, deposition process engineers, a VP of Sales, and a CFO.	The Company's core staff begins designing a commercial-scale production facility that will implement the Company's proprietary manufacturing technologies.
	Manufacturing: In August 2007, XsunX completed its design of a 25 MW thin-film solar cell manufacturing plant which will use the Company's process for producing tandem-junction a-Si solar modules. Also, XsunX has developed a multi-phased plan for establishing 100 MW of cell and module production capacity within roughly 29 months of launching the plant.	Design of manufacturing systems and solar modules employs industry "best practices" for system architecture, vendors, components, and assembly methods providing the Company with one of the lowest cost per watt of installed capacity, and independence allowing continuous product upgrade paths and differentiation opportunities.
	Manufacturing - On October 2, XsunX announced that its Solar Module Reservation Program for solar system integrators, installers, green field operators, and utilities had been well received at the Solar Power 2007 Conference and Trade Show. One operator signed into the Program indicating interest for sixty mega watts of module capacity over the 2009 to 2011 production periods, and nineteen other potential customers were provided with reservation program agreements for review.	In the view of Laguna Research Partners, this positive response to XsunX's Solar Module Reservation Program substantially reduces the risk that we attach to our revenue and profit forecasts for XsunX.

Source: Company publications.
Compilation and analysis: Laguna Research Partners LLC.

I. C. Sophisticated Strategic Analysis

We are particularly impressed with the disciplined and sophisticated approach that XsunX management is taking to the identification of unique, high-growth revenue and profit opportunities in the solar energy market and the commercialization of its reserve of proprietary intellectual property and manufacturing know how. The Company's thorough and high quality approach to strategic planning, most likely a reflection of the management team's highly successful entrepreneurial careers, is rare among small capitalization enterprises and much more typical of successful, large-capitalization companies. In our opinion, this is a key intangible that will give XsunX a critical competitive edge in the solar energy marketplace.

A partial list of questions that management scrutinizes when considering whether a candidate technology is "manufacturable" and marketable is as follows.

- Does the candidate technology provide marketable energy density (i.e., percentage of solar energy converted to power)? Management generally feels that 7.0% is the "base" conversion efficiency.
- How well known is the candidate technology, and is there a large body of previous work/success with the technology to draw on?
- What are the pros and cons of candidate technologies and how do they compare with each other in real world applications.
- Is the manufacturing process for a candidate technology scalable?
- Does the candidate technology provide XsunX with the opportunity for a robust road map to improve conversion efficiencies and cell structure types?
- Can the existing landscape of vendors provide a dependable supply of the components AND materials needed to manufacture the systems necessary to deliver a candidate solar module product? Also, can XsunX leverage existing vendors and material technologies?
- Which candidate technologies have a potential vendor base that has enjoyed multiple years of funding and technology development from investments made by previous companies' forays into solar manufacturing.

  What is the optimal mix of components for minimizing the total component cost for a candidate solar module product? For instance, although XsunX has spent several years working on the use of flexible plastic substrates, the Company has identified the cost per watt benefits and disadvantages of each-and-every possible component. This analysis led XsunX to select a rigid glass substrate rather than a plastic substrate, a choice that we anticipate should generate substantial savings per watt.

A Conversation with Tom Djokovich, President and Chief Executive Officer, XsunX, Inc.

On August 30, 2007, Kevin B. Skislock, Partner and CEO of Laguna Research Partners, visited the Aliso Viejo, California headquarters of XsunX, Inc. and interviewed Tom Djokovich, the Company's President and CEO. Here is an excerpt from that interview...

Laguna Research Partners: Tom, there is a lot of misunderstanding on Wall Street about how the performance of solar energy cells, modules and systems should be evaluated and compared. Could you please walk us through the best way to approach this key issue?

Tom Djokovich: Sure. The solar industry markets its products, and investors and consumers compare and evaluate those products, on the basis of an industry "gold standard" metric called "efficiency". Unfortunately, though, there is a two-fold problem with the "efficiency" metric as it's currently defined by the industry. First, efficiency is defined as a device's peak potential for converting sunlight into electrical power and, second, that peak potential is measured under ideal laboratory conditions. As a result, the efficiency metric rates a device on the basis of that "single moment" in a 24-hour cycle when its performance is at its peak. Compounding the problem, this snap shot is taken under highly contrived "best case" or "down hill with the wind at my back" operating conditions, ignoring the wide variety of less-than-optimal conditions under which solar devices are actually called upon to perform in the real world.

Laguna Research Partners: Highly misleading…

Tom Djokovich: That's right. In our view, what is currently called "efficiency"—a device's peak potential for converting sunlight into electricity under ideal circumstances—should be called "peak conversion potential". And, further, this metric shouldn't be the industry gold standard that it is.

Laguna Research Partners: So, by looking only at controlled best-case results, investors and consumers aren't being provided with the information necessary to evaluate how different types of solar cells perform versus each other or how they perform at different geographic locations… And there's no way of calculating a decent ROI…

Tom Djokovich: Correct. The industry's current "efficiency" metric is expressed in terms of watts, and PV [photovoltaic] is priced on a "per watt" basis. For the purpose of illustration, let's look at how natural gas is accounted for and sold. When a BTU of natural gas is delivered to your house or business, you pay a market-based price for that BTU. This is comparable, by the way, to the sunlight that is "delivered" to your solar device, except that the sunlight is free. How effectively your furnace or solar panels "process" those BTUs or that sunlight, determines your operating costs and your return on investment. All things are possible until that BTU—or ray of sunshine—is crippled by ineffective equipment or, at the other extreme, converted into electricity with minimal energy loss by effective equipment.

Laguna Research Partners: That's a terrific analogy. And it brings us back to the two-fold issue of solar device performance metrics… First, developing a meaningful performance metric and, second, testing under conditions that are more reflective of real world operating conditions…

Tom Djokovich: That's right. By basing the price of a solar device on its "peak" efficiency, the industry is ignoring the fact that some types of solar cells—XsunX's amorphous silicon cells are a good example—might have lower "peak" potential, but they provide superior "per watt average" performance for the whole of the day. The industry is also ignoring the fact that different geographic locations have different profiles in terms of total hours of sunlight, angle of the Sun, average cloud cover, average temperature, the average level of air pollution, etc.

Laguna Research Partners: The implications for PV purchase decisions are significant…

Tom Djokovich: Substantial. With regard to a meaningful performance metric, competing PV devices might have "efficiency" ratings of 100 watts and 80 watts, respectively, but that's just "peak conversion potential". The 80-watt device might actually generate superior "per watt average" amounts of electricity over the whole of the day. With regard to real world operating conditions, if I pay for 100 watts of "peak conversion potential", but I only receive 80 watts due to the cloudy or hazy conditions typical in my locale, am I receiving the full benefit of what I paid for? Probably not. The new metric for evaluating and pricing solar cells should reflect how a cell operates in the production of one watt of power across an "average" period. And competing solar energy technologies should be priced on real world performance in the form of delivered watts and not potential watts.

- Instead of focusing solely on how to increase a solar device's energy conversion efficiencies, how can XsunX establish the most efficient way to deliver a marketable solar module at price points that allow the Company to work towards the holy grail of grid priced electrical power parity?

II. Photovoltaics Overview

II. A. Photovoltaics: A Summary of the Science

The solar radiation hitting the outer surface of the Earth's atmosphere measures an estimated 174 million GW (174 million billion watts or 174 million billion joules per second) or roughly 1.368 kW/m^2 (1,368 watts per square meter or 1,368 joules per second per square meter). This latter figure is referred to as the **solar constant** and it includes the entire spectrum of visible and non-visible solar radiation. The average amount of solar radiation reaching the Earth's surface is approximately 1.0 kW/m^2 (1,000 watts per square meter or 1,000 joules per second per square meter). **Insolation** is the term used to describe direct solar radiation at the Earth's surface.

A **semiconductor** is a room-temperature solid whose electrical conductivity is between that of a conductor and that of an insulator. Its conductivity can be controlled over a wide range, either permanently or dynamically.

A **split-spectrum solar cell** is a compound photovoltaic device in which sunlight is first divided into spectral regions by optical means. Each region is then directed to a different photovoltaic cell optimized for converting that portion of the spectrum into electricity. Such a device achieves significantly greater overall conversion of sunlight into electricity.

At given distances from the Sun, solar radiation—about half of this radiation is in the visible "sunlight" portion of the electromagnetic (EM) spectrum—is nearly constant outside of the Earth's atmosphere. It varies, though, across locations beneath the Earth's atmosphere. Factors that contribute to these variations in solar radiation include a location's distance from the Earth's equator, seasonal changes in the position of the Earth relative to the Sun, and variations in atmospheric conditions such as cloud cover, air pollution, and atmospheric dust. Despite these variations, however, most of the planet's population resides in regions where useful solar resources, from an energy standpoint, can be accessed.

The term "photovoltaics" (PV) refers to solar power technologies that employ semiconductor materials to directly convert solar radiation into electricity.

- ***Solar radiation***—both visible and non-visible—is comprised of energy/matter packets called photons.

- The ***photon*** is the carrier of all electromagnetic radiation wavelengths, including solar radiation and the visible "sunlight" portion of solar radiation. Solar radiation exhibits wavelengths of roughly 100 to 14,000 nanometers. Within that range, visible sunlight exhibits wavelengths of 400 to 700 nanometers.

- A ***high-energy photon*** is one that exhibits a shorter wavelength and, hence, a higher frequency.

- A ***solar cell***—this is sometimes called a "photovoltaic device"—consists of multiple layers of various semiconductor materials having different electronic properties. The material in one layer of a solar cell has a positive charge while the material comprising another layer has a negative charge. These positively and negatively charged layers are separated by an interface layer called a junction. The various layers of a solar cell are applied to a substrate—this is commonly made of metal, glass or plastic—that provides a sturdy structure for the solar cell.

  When visible and non-visible solar radiation photons hit a solar cell, some of those photons are absorbed in the solar cell's positively charged layer. This enables electrons, which are negatively charged, to separate from their atoms and enter an external circuit. As these electrons flow through the external circuit, they produce electricity and then return to the solar cell.

  Importantly, solar cells are completely solid-state and the photovoltaic process is completely self-contained. As a result, solar cells have no moving parts and no materials are consumed or emitted by a solar cell.

- ***Solar modules***—these are also called solar panels or photovoltaic modules—are integrated assemblies of interconnected solar cells. They are designed to generate a targeted level of voltage and current at its output terminals.

- The term ***solar array*** typically refers to two or more interconnected solar modules.

- A ***photovoltaic system*** is comprised of a solar module (or solar array), hardware that anchors the solar module or array onto a structure such as a building, and cables that connect the solar module or array to an inverter. In addition, an inverter transforms the direct current (DC) output of solar cells into usable alternating current (AC) electricity.

II. B. Evaluating Photovoltaic Device Performance

The solar energy industry uses standard test conditions and measurement procedures for determining the "conversion efficiency" (single-moment peak conversion potential) and "power rating" of every photovoltaic device. These conditions, called Standard Test Conditions, include specifications for ambient temperature, solar irradiance level, and angle of the sun.

In discussions regarding solar energy, the terms **solar radiation** and **solar irradiance** are generally interchangeable. Solar irradiance, the term most commonly used in scientific circles, is defined as the amount of electromagnetic energy incident on a surface per unit of time per unit of area. Historically, this quantity has also been referred to as **flux.**

- As described earlier in this report, visible and non-visible solar radiation, combined, provide an estimated one kilowatt (1,000 watts or 1,000 joules per second) of energy per square meter of the Earth's surface. This figure assumes 1) a time-of-day of noon and 2) a cloudless sky.

- A photovoltaic device operating at a 10.0% conversion efficiency level under these ideal conditions has the potential to generate peak (single-moment) energy of 100 watts (100 joules per second) of direct current (DC) power per square meter.

Energy **conversion efficiency** is the ratio of the useful output of an energy conversion device to the input. In discussions regarding solar energy, this ratio is typically expressed in percent terms.

Unfortunately, the solar energy industry has yet to develop standard metrics for "average" and "total" conversion potential in either laboratory or real-world circumstances. Such metrics, as an alternative to the time-worn single-moment peak conversion potential metric, would greatly enhance the ability of customers and investors to accurately evaluate and compare competing solar energy solutions. This is particularly important because solar cells and modules are sold on a dollar-per-watt basis, and the "watt" that is being paid for is the single-moment "peak" watt that the cell or module is capable of generating. This would be akin to buying a sports utility vehicle (SUV) based on the best-case mileage that it can achieve under controlled laboratory conditions rather than on the average mileage that it can achieve in real-world city and highway driving conditions.

Industry sources indicate that, in 2006, crystalline silicon photovoltaic device technologies that were, at that time, in commercial production had an estimated conversion efficiency of 14.0%. In contrast, in the same year, thin-film solar modules in high volume commercial production—this is defined by industry sources as production of more than 20 megawatts annually—had an average efficiency level ranging from 6.0% to 10.0%.

II. C. Solar Cell Technologies: Crystalline Silicon versus Thin-Film

There are primarily two types of solar cells in active use today. The first is ***crystalline silicon,*** and is named for the light-absorbing layer of material that it employs in "slice" or "wafer" form. The second is ***thin-film,*** and is named for the thin layer of light-absorbing material that is deposited on the solar cell's substrate surface using various "vapor deposition" techniques.

- ***Crystalline silicon –*** The most common type of solar cell uses crystalline silicon (c-Si) as its light-absorbing material. Solar cells in this category are sometimes referred to as "bulk" or "wafer-based" solar cells because their light-absorbing material is originally created in bulk form, sliced into wafers approximately 180 to 240 micrometers thick, and then positioned as a layer in the solar cell structure.

  The most common types of light-absorbing materials used in crystalline silicon solar cells are ***monocrystalline silicon*** (which is sliced from a single, large silicon crystal), ***polycrystalline*** or ***multicrystalline silicon*** (sliced from square cast ingots of silicon), and ***ribbon silicon*** (formed by drawing flat ribbons from molten silicon).

  Industry sources estimate that, in 2006, ***92.0% of the megawatt volume of solar modules*** sold worldwide employed crystalline silicon technology.

- ***Thin-film –*** In contrast to crystalline silicon solar cells, the light-absorbing materials incorporated into thin-film solar cells are "applied" to substrate surfaces using deposition techniques capable of creating layers that are 1/100th the thickness of the light-absorbing wafers in crystalline silicon cells.

  The most common light-absorbing materials used in thin-film solar cells are ***cadmium telluride*** (CdTe), ***copper indium gallium diselenide*** (CIGS), and ***amorphous silicon*** (a-Si), a non-crystalline form of silicon. ***Gallium arsenide*** (GaAs) is used in thin-film solar cells developed for high-efficiency applications such as space commerce and exploration.

  Thin-film solar cell technologies accounted for an estimated ***8.0% of the megawatt volume of solar modules*** sold worldwide in 2006.

From the standpoints of both <u>production cost</u> and <u>real-world conversion performance</u>, thin-film solar cell technologies, in our opinion, enjoy a notable competitive edge versus crystalline silicon technologies.

- ***Material cost and availability*** - Until 2000, the silicon feedstock typically used in the manufacture of crystalline silicon solar cells consisted of semiconductor materials that were judged not suitable for use by the semiconductor industry. Due to the powerful, double-digit growth in solar energy installations, though, traditional sources of supply have become insufficient and the primary source for crystalline silicon is now virgin silicon. In total, demand for silicon feedstock now outstrips available supply and silicon feedstock prices have risen sharply. Industry sources estimate that this supply deficit is likely to persist through 2010.

In sharp contrast, the light-absorbing materials employed in most thin-film solar energy technologies are commodities that are not expected to be plagued by either availability or price concerns.

- ***Raw material costs*** – Thin-film technologies employ light-absorbing materials that are relatively efficient absorbers of wavelengths comprising the solar radiation portion of the electromagnetic spectrum. As a result, thin-film technology enables manufacturers to produce solar cells with approximately $1/100^{th}$ the light-absorbing material used in the manufacture of crystalline silicon solar cells. This provides thin-film technology manufacturers with a significant cost advantage versus the makers of crystalline silicon cells and modules. It also limits the potential negative impact of material cost increases on thin-film manufacturers, since thin-film light-absorbers account for a relatively small portion of total cost.

- ***"Continuous" versus "batch" manufacturing processes*** – Thin-film solar energy technologies generally employ a highly-efficient continuous production process that enables manufacturers to deposit small amounts of light-absorbing materials directly onto inexpensive, large-area substrates. This is in sharp contrast to the relatively expensive, multi- step "batch" production process used to manufacture crystalline silicon wafer-based solar cells.

- ***Conversion efficiency and product performance*** - The "peak conversion potential" of thin-film solar modules that are currently in high-volume commercial production—this is generally defined as 20-plus MW annually—is estimated by industry sources to range from 6.0% to 10.0%. The peak conversion potential of crystalline silicon solar modules that are currently in commercial production is estimated to be 14.0%. As discussed on page 9 of this report, though, in an excerpt from our recent interview with XsunX CEO Tom Djokovich, the peak conversion potential metric can be significantly misleading. Specifically, solar cell technologies such as crystalline silicon, generally have better peak conversion potential, but thin-film technologies such as amorphous silicon can produce more electricity under low-light conditions such as morning, late afternoon, and cloudy days. As a result, these thin-film technologies have superior "average" and "total" power generating potential over a 24-hour cycle. And thin-film technologies that generate more electricity under real world conditions, increases the end-user's return on investment.

In sum, crystalline silicon technologies currently offer superior "single-moment" peak conversion potential vis-à-vis thin-film, but thin-film technologies produce superior "average" and "total" power delivery metrics over a 24-hour cycle. As thin-film manufacturers improve their own "single-moment" peak conversion potential—this misleading metric is quite dated, but is still the most closely watched in the industry—thin-film's superior "average" and per-watt "total" power delivery performance characteristics will also continue to improve.

II. D. Further Improvements to Thin-Film Performance

We have identified several technologies that appear to have the potential for significantly boosting thin-film's peak, average, and total power delivery potential.

- One emerging technology of particular note, in our view, is ***nano-crystalline silicon thin-film on a glass substrate***. This technology seeks to combine the advantages of high-efficiency crystalline silicon as a light-absorbing material with the material and cost savings of thin-film deposition.

- Other emerging technologies combine lightweight, low-cost substrates with ***special techniques for improving photon absorption via improved light-trapping techniques.*** Enhanced light trapping could significantly boost the peak, average, and total conversion potential of thin-film solar technologies.

- ***Multi-junction, hybrid technologies*** that merge amorphous silicon and crystalline silicon as light-absorbing materials also appear top have the potential for boosting thin-film conversion potential.

Beyond supporting possible improvements in peak, average, and total conversion potential, new technologies could sharply broaden the range of applications for thin-film solar technologies. For instance, the implementation of new materials—such as PET, or polyethylene terephthalate, as flexible substrates could significantly boost the size of the addressable market for thin-film solar technologies.

Our analysis indicates that the peak conversion potential of thin-film solar technologies could reach 10.0%-plus by 2010 and 13.0%-plus by 2013.

III. The Opportunity: Explosive Growth in the Solar Energy Market

III. A. Solar Energy Market Dynamics

Over the past several years, Laguna Research Partners has documented its case for sustained, long-term increases in the cost of traditional energy sources, particularly crude oil and natural gas. Our original April 2005 report on the topic, *Crisis on the China Rim: An Economic, Crude Oil and Military Analysis,* outlined the unrelenting trends in energy demand that, in our opinion, are driving an epic shift in relative energy prices. Most important among these, in our view, is the on-going surge being recorded in per capita energy consumption in the world's two most populous nations, the People's Republic of China and the Republic of India.

Concomitant with the epic shift that we see continuing in relative energy prices, two significant events are unfolding in the solar energy space.

- First, certain solar energy technologies, most notably thin-film amorphous silicon, appear to be within three to four years of achieving ***"grid parity".***
- Second, we expect that ***the superior real-life power generation characteristics of thin-film solar technologies, particularly amorphous silicon,*** will drive the market share of those technologies from the current 8.0% level to the 20.0% level by 2012.

In our view, XsunX is ideally positioned to benefit from 1) an acceleration in solar energy demand once grid-parity is achieved, 2) the faster growth rate that we are expecting for the thin-film photovoltaics segment of the market, and 3) the appeal of amorphous silicon within the thin-film segment. In general, we see thin-film technologies as offering the industry's clearest path for continued improvements in automation, on-going cost reductions at the system level, and parity with traditional grid-based sources of electricity.

III. B. Solar Energy Market Size and Growth

Despite the fact that photovoltaics technologies appear to be three to four years away from grid parity, solar energy industry installations are already generating annual revenue of more than $10.0 billion and are achieving strong double-digit percent growth annually. Key macro factors driving the industry's growth are 1) an on-going surge in global energy demand versus fossil fuel supply constraints, 2) strong demand for solar energy versus available supply, 3) financial incentives from government sources, 4) national energy security, and 5) growing interest in clean energy.

On March 19, 2007, Solarbuzz LLC, a San Francisco, California-based solar energy consultancy, issued the latest edition of its annual photovoltaics market study, **Marketbuzz 2007.** This closely watched annual survey includes data regarding installation, production, and revenue trends for the worldwide photovoltaics industry.

- ***Solar cells produced across the globe in 2006, says Solarbuzz, had a power generating capacity of 2,204 MW (2.204 billion watts or 2.204 billion joules per second), up 33.1% from 1,656 MW (1.656 billion watts or 1.656 billion joules per second) a year earlier.*** The market share commanded by Japanese manufacturers declined during the year roughly 39.0% from the year-earlier estimate of 46.0%. Solarbuzz indicates that Chinese cell manufacturers appear to have been the beneficiaries of this drop.

- ***In 2006, says Solarbuzz, the power generating capacity of solar photovoltaic installations reached a record high of 1,744 MW (1.744 billion watts or 1.744 joules per second).*** This represented growth of 19% over the previous year.

  Germany's grid connect PV market, says Solarbuzz, grew an estimated 16.0% in 2006 to 960 MW (960 million watts or 960 million joules per second). As of 2006, the country accounted for approximately 55.0% of the world market. Installations were up 200.0%-plus in Spain and grew an estimated 33.0% in the US.

- ***Solarbuzz estimates that global PV industry revenues were an $10.6 billion in 2006.***

Solarbuzz projects that PV industry revenue will increase to the $18.6 billion to $31.5 billion level by 2011. These figures imply compound annual growth, versus 2006, of 11.9% at the low end of the range to 24.3% at the high end. The mid-point of this range is $25.1 billion, which implies a compound annual growth rate of 18.8%.

As mentioned above, annual installations of photovoltaic systems are estimated to have grown to 1,744 MW in 2006 versus 0.4 GW in 2002, implying a compound annual growth rate of 43.6%. Industry sources estimate that, in 2006, the cumulative installed capacity of solar modules globally was nearly 7.0 GW.

- ***In 2006, industry sources estimate, Germany led the world in photovoltaic installations with a share of 55.0%. Japan was second with a 17% share, and the US was third with a share of 8.0%.*** Combined, Germany and Japan accounted for 72.0% of worldwide installations in 2006, while the top three markets for photovoltaic installations accounted for a share of 80.0%.

- ***The German and Japanese photovoltaic markets are characterized by relatively aggressive government incentive programs. Similar programs are being introduced in other European markets as well as in Asia and in several US states.*** The California Solar Initiative (CSI) provides for $2.9 billion in incentives over 10 years. Specifically, CSI offers 1) photovoltaic incentives starting at $2.50 per watt for systems up to 1 megawatt in size, 2) funds for solar installations for existing and new low-income and affordable housing, and 3) a pay-for-performance incentive structure to reward high-performing solar projects. CSI's primary goal is to facilitate 3.0 GW of new photovoltaic installations by 2017.

III. C. The Case for Solar Energy

From a broader perspective, global demand for electricity is expected to expand at a steady 2.0% to 3.0% annual rate over the next two decades. In our opinion, though, a wide range of risks and issues related to traditional energy sources is likely to create a significant growth opportunity for renewable energy sources, including solar energy.

- ***The US Energy Information Administration (EIA) estimates that global electricity demand will increase from 15.4 trillion kilowatt hours in 2004 to an 27.1 trillion kilowatt hours in 2025, implying a compound annual growth rate of 2.72%.*** Further, the EIA estimates that fossil fuels including coal, natural gas and oil generated approximately 80.0% of the world's electricity. Importantly, though, supply constraints, rising prices, geopolitical risks and environmental issues are likely, in our opinion, to limit the role of traditional energy sources in continuing to satisfy such a large share of global electricity demand.

- ***The US Department of Energy (DOE) has identified solar energy as the only source of renewable power with a large enough resource base to supply a significant portion of the world's expanding demand for electricity.*** Annual installations by the global photovoltaic industry grew from 0.4 gigaWatts (GW) in 2002 to 1.7 GW in 2006. This represented a compound annual growth rate of 43.6%. In 2006, industry sources estimate that the cumulative installed capacity of solar modules worldwide was nearly 7.0 GW.

- ***A study commissioned by the DOE estimates that, on average, 120,000 trillion Watts (TW) of solar energy strike the Earth each year, 8.4x the global electricity consumption rate of 14.3 TW in 2002.*** Theoretically, these figures imply that a net 10% efficient solar energy farm covering only 1.6% of the US land area at the "average" US latitude could meet the US's entire demand for electricity. The same study estimates that the total geothermal energy at the surface of the Earth is 12 TW (only a small fraction of which is exploitable), the total amount of exploitable wind power is 2 TW to 4 TW, the total energy in all of the tides and ocean currents in the world is less than 2 TW, and the remaining global, exploitable hydroelectric resource is less than 0.5 TW,

In addition to the tremendous pool of untapped, renewable solar energy remaining to be exploited, solar energy enjoys key advantages compared to conventional energy sources as well as other renewable energy sources. Here are the details.

- Unlike nearly all other sources of electricity, solar energy is ***highly distributive*** in that it can be installed at the point of energy consumption, in both urban and rural settings. As a result, distribution and transmission costs are negligible. Further, photovoltaic installations can be easily scaled to the consumption needs of any location, large or small.

- Following installation, photovoltaic systems typically have ***minimal operating expenses*** over the expected 25-year life of a system because maintenance costs are low and, beyond the Sun's free supply of photons, no fuel. In effect, the the cost of electricity generated by a photovoltaic system is substantially fixed at the time of installation and is subject to minimal increase or volatility over the life of the system

In general, the local generation of solar energy coincides with periods of peak local energy consumption. Specifically, solar energy systems generate most of their electricity during the afternoon hours. This is when the energy from the sun is strongest and it is also the demand for electricity is at its daily peak. As a result, energy consumers can replace peak-demand sources of conventional electricity with less expensive and more reliable electricity from solar energy systems.

IV. The Business Model: Xsunx, Inc.

IV. A. Overview

Since its inception in September 2003, XsunX management has, in our opinion, done a particularly impressive job of managing the Company's cash resources and developing a proprietary base of intellectual property and production know-how that position the Company well for its impending ascendancy to commercial status.

- ***During its development phase, XsunX has focused on creating advanced amorphous thin-film solar cell technologies.*** The Company intends to apply its proprietary technology and know-how towards the commercialization of large-area (1x1.6 meter), high-power output (120 watt) tandem-junction thin-film amorphous solar energy modules.

- ***Importantly, XsunX has shifted its business model during the past year away from the licensing of its solar cell designs and manufacturing technologies and into the production and marketing of commercially viable thin-film amorphous solar modules.*** This shift, in our opinion, provides the Company with greater control over its own destiny, enhances the Company's ability to leverage its extensive portfolio of intellectual property and production know how, and sharply boosts the Company's revenue and profit potential.

- ***In April 2007, XsunX revealed its plan to build a multi-megawatt thin-film solar cell and module manufacturing plant. The Company plans to locate that plant in the US state of Oregon.*** XsunX plans to commission a base line production system in March 2008 and commence limited commercial production of thin-film solar modules by mid 2008. We expect production to climb sharply as the Company's "annualized" solar module manufacturing capacity grows to 25 megawatts by early 2009 and 100 megawatts by early 2010.

IV. B. The Amorphous Silicon Thin-Film Advantage

Notably, XsunX's amorphous silicon thin-film solar cells enjoy several key competitive advantages versus traditional crystalline silicon solar cells as well as some thin-film solar cells incorporating other types of light-absorbing materials.

- ***Amorphous silicon solar energy technologies outperform silicon wafer, CIGS, and CdTe technologies in cloudy and indirect light conditions.*** For this reason, a-Si solar cells and modules are capable of generating superior "average" and "total" watts during a 24-hour cycle versus other solar energy technologies that might have a superior "peak power" potential.

- ***Amorphous silicon solar energy technologies also outperform silicon wafer, CIGS, and CdTe in warm climates.***

- ***Amorphous silicon, in our opinion, has minimal material supply risk.*** Glass, a-Si, gases are commodities. Materials are less toxic.

- ***Amorphous silicon is a proven and mature solar cell technology*** **-** Highly commercialized process with minimal technology risk. 30 years of industry development. a-Si volume manufacturing is a proven technology with volume production track records.

- ***XsunX is implementing a tandem-junction solar cell structure that has potential efficiency levels exceeding 10.0%.***

- ***Amorphous silicon technology is generally compatible with the environment.*** This is in sharp contrast to some solar cell technologies that contain hazardous heavy metals.

IV. C. Products and Markets

Over the near-term, XsunX expects that it will produce solar cells and modules incorporating thin-film amorphous silicon on glass substrates. Longer-term, the Company expects to broaden its product offerings to include nano-crystalline and proprietary multi-junction solar cell designs to improve performance and further reduce per watt production costs.

The thin-film amorphous silicon on glass substrate products that XsunX anticipates producing when its manufacturing facility commences production in mid 2008, are likely, we expect, to have a strong appeal with large-scale users. The specifications for those early products will likely boast an industry standard profile as follows.

- Each module's ***physical dimensions*** will likely be in line with the industry standard of 100x160x5 centimeters, and the weight of each module would likely be in the 13.0 to 14.0 kilogram range.

- The ***temperature range*** for optimal performance, we expect, will be -40°F to 180°F, and the recommended storage temperature will likely be the same.

- The ***structural and power characteristics*** of such a module typically include cell spacing of 1.2 cm, 82 cells per module, maximum power of 120 watts, and a total-area module efficiency of approximately 7.9%.

Currently XsunX expects that its primary target markets will be large-scale solar energy installers and operators. The specific large-scale applications that XsunX intends to exploit include on-grid users with power needs of one megawatt and above. These include solar farms, government agencies (particularly the US Department of Defense), projects funded by MMA Renewable Ventures, utility companies, and large commercial installations.

The ideal type of application for XsunX's amorphous silicon modules is large-area installations. Compared with silicon wafers, amorphous silicon requires more square footage to achieve a certain power production goal, so, in choosing to focus its attention on large-scale solar energy application, XsunX is matching the application with the correct product.

Importantly, large-scale solar energy applications are typically managed by more sophisticated operators such as power utilities. These operators are likely to perform an on-going analysis of key solar energy system performance metrics such as the ratio of power delivered-to-power potential paid for. The superior performance of amorphous silicon on an "average" and "total" power delivery basis indicates that it will be well suited to large-scale applications.

IV. D. Operating Results

On August 18, 2007, XsunX released its operating results for FQ3:07 ended June 30, 2007. Please see Tables I-A through I-E on pages 28 through 32 and Tables II-A and II-B on page 33 for an overview of XsunsX's quarterly operating performance since FQ1:06 (ended December 2005).

In general, Xsunx's FQ3:07 operating results reflect the Company's continued status as a development stage company.

- ***As generally expected, XsunX generated no revenue in FQ3:07, and that compared with no revenue generated in the year-ago quarter.*** Nor was there any related cost of sales in either quarter.

- ***XsunX's operating expenses in FQ3:07 totaled $566,804, down $68,876 from the year-earlier $634,680.*** As is common for many development stage companies, XsunX's salary and legal & accounting expense lines are the Company's largest. Consulting and public relations are also important expense lines. The YoY decline in total FQ3 operating expenses, in our opinion, provides a good example of management's continued attention to cost controls during its late development stage. Operating profit in the quarter was $(566,804).

- ***Reflecting the benefits of $71,820 in interest income, net profit for the quarter was $(495,635).*** This compared favorably with the year-earlier figure of $(1,121,424).

IV. E. Finances

Notably, XsunX is embarking on its final ascendancy to commercial production with a balance sheet boasting a 3.1x current ratio and no long-term debt. Details regarding the Company most recently released balance sheet, dated June 30, 2007, are as follows.

- On June 30, current assets and total liabilities totaled $1.7 million and $0.5 million, indicating a ***current ratio*** of 3.1x and ***working capital*** more than $1.1 million. In August 2007, XsunX entered a settlement agreement that resulted in the transfer to XsunX of $1.1 million. The benefit to XsunX of that transfer will be reflected in the Company's FQ4:07 (ended September 2007) balance sheet.

- Also on June 30, XsunX had no ***long-term debt,*** so that the Company's ***net working capital*** (working capital net of long-term debt) was also $1.1 million.

As we would expect for a development stage, pre-production company, XsunX's cash, current assets, and total assets declined between the previous fiscal year end of September 30, 2006 and June 30, 2007. In fact, we view the Company's finances as particularly well-managed, given that, over the same timeframe, the Company's accounts payable dropped 14.5% and total current liabilities declined 8.9%, while the Company avoided taking on any long-term debt. This is quite an impressive feat, in our view, given the important advances towards commercialization that the Company accomplished during that period. We estimate that the Company will need to raise an additional $15 million to $20 million in new financing prior to the generation of its first revenue dollar in, we project, mid 2008.

Please see Table III on page 34 of this report for a detailed analysis of XsunX's September 30, 2006 and June 30, 2007 balance sheets.

V. Projected Performance

V. A. Our FY 2007 E through FY 2013 E Earnings Model

Laguna Research Partners believes that XsunX is on the doorstep of reaping substantial benefits from its development and commercialization of cutting-edge thin-film amorphous silicon solar energy technologies. We estimate that the Company's revenue will increase from $1.5 million in FY 2008 to $306.0 million in FY 2013. Further, we estimate that operating profit will rise from $(3.3) million in FY 2008 to $123.5 million in FY 2013, and that "operating profit per watt" will stabilize in the $0.69 to $0.70 range in the FY 2012 to FY 2013 period. Additionally, we see the most likely direction of surprise in XsunX's operating results as being to the upside. Here are the details.

XsunX expects that its new solar module manufacturing plant will have an **annualized production capacity** of 100 megawatts by early 2010. This means that the solar modules manufactured at this facility would have a peak energy generating capacity of 100 megawatts (one hundred million watts or one hundred million joules per second).

A manufacturer of solar cells and modules can expand its production capacity through a combination of 1) expanding its **physical capacity** for the production of solar cells and modules and/or 2) increasing the **efficiency** of each solar cell and module produced.

- ***Production*** – As discussed earlier in this report, XsunX plans to commission a base line production system in March 2008 and commence limited commercial production of thin-film solar modules by mid 2008. We expect production to climb sharply as the Company's "annualized" solar module manufacturing capacity grows to 25 megawatts by early 2009 and 100 megawatts by early 2010.

  For the purpose of our XsunX financial projections (please see Tables V-A through V-D on pages 36 through 39 of this report), we are estimating that the Company will produce 0.5 megawatts of solar modules during FY 2008. We are estimating production of 22.0 MW in FY 2009, and we expect that the entire 21.5 MW YoY increment to production during that period will be driven by an expansion in XsunX's physical production capacity.

  In FY 2010, we are estimating that XsunX will produce 120.0 MW of solar modules, up 98.0 MW or 445.5% versus FY 2009. Importantly, we are assuming that roughly half of this YoY increase in FY 2010 production will be driven by an expansion in the Company's physical capacity for producing solar modules. We are assuming that the remaining portion of the FY 2010 production increment will be driven by improvements in solar cell and module efficiency.

  In FY 2011, FY 2012, and FY 2013, we are projecting that XsunX will produce 135.0 MW, 155.0 MW, and 180.0 MW of solar modules, respectively. These figures represent YoY increments of 15.0 MW. 20.0 MW, and 25.0 MW, respectively, and YoY growth of 12.5%, 14.8%, and 16.1%, respectively. We are assuming that XsunX's entire FY 2011, FY 2012, and FY 2013 increase in production will be driven by improved solar cell and module efficiency.

  In general, we are impressed with the positive reaction that XsunX received from solar system integrators, installers, green field operators, and utilities at the recent Solar Power 2007 conference in Long Beach, California. Management indicates that, by the end of the show, one operator had signed into XsunX's Solar Module Reservation Program, indicating interest for 60 megawatts of module capacity for delivery during FY 2009 to FY 2011. In addition, the Company indicates that 19 other potential customers are currently reviewing Reservation Program agreements.

- ***Price*** – We estimate that the revenue per watt achieved by XsunX, and by the industry at large, during the forecast period will decline from $2.90 in FY 2008 to $1.70 in FY 2013. We do, however, expect that the annual rate of decline in revenue per watt will diminish in FY 2013 as a result of two factors. First, we are assuming that our projected declines in industry revenue per watt during the FY 2009 through FY 2012 period will force many marginal operators out of business, and we anticipate that this attrition will likely have a firming effect on industry pricing. Second, our analysis indicates that, in the 2011 to 2012 timeframe, the cost of electricity generated by advanced thin-film solar technologies could reach parity with the cost of electricity generated by the electrical grid. We are assuming that, once this "grid parity" is achieved, the demand for solar energy solutions will accelerate sharply. And this surge in demand, in our opinion, will also have a firming effect on revenue per watt, particularly in 2013 and beyond.

  In sum, we are projecting that XsunX's revenue per watt will decline by 6.9%, 13.0%, 14.9%, and 12.5%, in FY 2009, FY 2010, FY 2011, and FY 2012, respectively. Our projected decline for FY 2013, though, is only 2.9%, reflecting the favorable impact of industry consolidation and "grid parity" on solar device pricing.

- ***Total revenue*** - Based on our projections of XsunX's solar module production and revenue per watt, we are estimating that the Company can achieve total revenue of $1.5 million, $59.4 million, and $282.0 million in FY 2008, FY 2009, and FY 2010, respectively. In FY 2011 and FY 2012, we are projecting that total revenue could be essentially flat as expected increases in production are largely offset by projected declines in revenue per watt. In FY 2013, as discussed above, we expect that the slide in revenue per watt will ameliorate, and that total revenue will advance by 12.8%.

- ***Cost of revenue*** – We are projecting that XsunX will achieve a substantial cut in "cost of revenue per watt" during the forecast period, from $2.50 in FY 2008 (under limited production) to $0.95 in FY 2013. This decline, we expect, will be driven by the implementation of technologies such as laser scribing/monolithic integration, faster deposition rates for thin-film solar cell layers, possible increases in the number of production shifts, improved solar cell and module efficiencies, and evolution to nano-crystalline and four-terminal solar cell structures.

- ***Gross profit*** – Our projections for revenue per watt and cost of revenue per watt imply that XsunX's "gross profit per watt" will experience an estimated decline from $1.25 in FY 2009 to $0.90 in FY 2011. Following that, though, our revenue and cost of revenue projections imply that gross profit per watt will stabilize at an estimated $0.75 in FY 2012 and FY 2013.

Our revenue and cost of revenue assumptions also imply that XsunX's gross profit margin will decline by slightly more than two percentage points from 46.3% in FY 2009 to 44.1% in FY 2013.

- ***Operating expenses*** – We estimate that XsunX's research and development expenses will rise from $1.0 million in FY 2008 to $4.5 million in FY 2013. In general, we believe that it is imperative for the Company to maintain a robust research and development program in order keep its product development curve steep, maintain the competitive initiative, and avoid the "commodity" end of the industry's product spectrum. Similarly, we project that the Company's transition from development status to operating status will drive selling, general, and administrative expenses up from $1.5 million in FY 2008 to $7.0 million in FY 2013. Beyond these "core" operating expenses, we anticipate that operating expenses related to the first phase of the Company's investment in physical production capacity will be largely over in FY 2010. Combining these three expense projections, we are estimating that the Company's "operating expenses per watt" will decline dramatically from an estimated $0.25 in FY 2009 to an estimated $0.06 in FY 2013.

- ***Operating profit*** – Our assumptions regarding revenue per watt, cost of revenue, and operating expenses, generate an "operating profit per watt" estimate of $1.00 for FY2009 and FY 2010. We are forecasting that this important metric will decline to $0.85 in FY 2011, and then stabilize in the $0.69 to $0.70 range during FY 2012 and FY 2013.

  We are projecting that XsunX's operating profit margin will rise from 37.0% in FY 2009 and peak at 42.8% in FY 2010, before gradually declining to 42.3% in FY 2011, and 39.9% in FY 2012. Our revenue, cost of sales, and operating expense projections drive an increase in XsunX's operating profit margin in FY 2013 to an estimated 40.4%.

In our opinion, the "most likely direction of surprise" for XsunX's future operating performance versus our forecasts is to the upside. In particular, we believe that our production and price per watt projections could prove to be quite conservative.

- ***Production*** – Our analysis indicates that the cost of electricity generated by thin-film solar technology could reach parity with the cost of electricity generated by the electrical grid within the next three to four years. Once that parity is achieved, we expect that demand for solar energy solutions will skyrocket. Further, in our opinion, XsunX is likely to be a major beneficiary of that surge in demand. For this reason, we view our XsunX production growth forecasts of 12.5%, 14.8%, and 16.1%, for FY 2011, FY 2012, and FY 2013, to be quite conservative.

- ***Price*** – As noted above, we are projecting annual declines in XsunX's revenue per watt of 6.9%, 13.0%, 14.9%, 12.5%, and 2.9% in each of fiscal years 2009 through 2013, respectively. We do believe, however, that, if grid parity is achieved within the next three to four years as we are projecting, solar energy demand could surge and revenue per watt could be stronger in the post-FY

2011 period than our model currently indicates. Our view appears to be bolstered by data indicating that industry pricing has actually increased during the past 24 months. Further, our research users should keep in mind that global energy markets are continuing to experience substantial upward pricing pressure.

The possible combination of higher-than-anticipated production and higher-than-anticipated revenue per watt, in our opinion, could generate a substantial upside surprise in XsunX's revenue and profit performance during the FY 2011 through FY 2013 timeframe. It is noteworthy, we feel, that conventional wisdom on Wall Street currently holds that revenue per watt in the solar energy space will suffer declines in perpetuity, despite what we view as the likely realization of industry consolidation and grid parity during the forecast period.

As mentioned earlier in this analysis, we estimate that XsunX will need to raise an additional $15.0 million to $20.0 million in new capital prior to the generation of its first revenue dollar. We currently estimate that the Company's first revenue dollar will be realized in mid 2008.

V. B. Risks

In the view of Laguna Research Partners, the key risks attached to the operating outlook for XsunX are 1) the Company's need to raise sufficient capital to construct its first manufacturing plant, 2) the need for the Company to maintain a consistent product development program, and 3) the Company's reliance on government funding for solar energy technologies. In our view, though, the high quality of XsunX's management team, as evidenced, in our opinion, by the Company's impressive list of milestone achievements, represents a significant offset to these risks.

Table I-A
XsunX, Inc.
Income Statement, Consolidated
FQ1:06 (ended December 2005) through FQ3:07 (ended June 2007)
Fiscal Year Ends September 30
(as reported)

	Fiscal Quarter (Ending)						
	FQ1:06 (Dec. 2005)	FQ2:06 (March 2006)	FQ3:06 (June 2006)	FQ4:06 (Sept. 2006)	FQ1:07 (Dec. 2006)	FQ2:07 (March 2007)	FQ3:07 (June 2007)
Revenue							
Service income	$ 8,000	$ -	$ -	$ -	$ -	$ 6,800	$ -
Other income	-	-	-	-	-	-	-
Revenue, total	$ 8,000	$ -	$ -	$ -	$ -	$ 6,800	$ -
Expenses:							
Consulting	-	-	19,382	28,468	35,982	4,269	59,462
Depreciation	-	27,647	27,647	27,647	27,047	16,714	16,826
Legal & accounting	33,750	35,009	21,244	50,290	77,418	41,252	84,501
Loan fees	213,000	-	-	415,834	-	-	-
Public relations	33,352	25,168	76,742	46,889	26,630	670	24,660
Research & development	274,603	238,409	368,608	67,852	209,945	109,236	15,313
Rent	2,250	2,250	1,950	13,408	14,860	15,638	19,764
Salaries	44,229	40,670	87,152	103,038	140,615	216,105	220,736
Other	965,172	23,042	31,955	33,430	84,026	102,096	125,542
Operating expenses, total	1,566,356	392,195	634,680	786,856	616,523	505,980	566,804
Operating profit, total	(1,558,356)	(392,195)	(634,680)	(786,856)	(616,523)	(499,180)	(566,804)
Other income (expense)							
Interest expense	37,177	160,500	515,555	(554,899)	-	364	651
Interest income	-	(1,224)	(28,811)	(858,445)	(32,843)	(51,515)	(71,820)
Forgiveness of debt	-	-	-	-	-	-	-
Other income/expense, total	37,177	159,276	486,744	(1,413,344)	(32,843)	(51,515)	(71,169)
Net profit	(1,595,533)	(551,471)	(1,121,424)	(173,512)	(583,680)	(447,949)	(495,635)
Average shares outstanding (basic)	123,888,194	128,401,012	147,013,051	N/A	157,169,856	157,046,230	157,169,856
Earnings per share (basic)	$ (0.01)	$ (0.01)	$ (0.01)	N/A	$ (0.00)	$ (0.01)	$ (0.00)

Source: Company publications and SEC filings.
Calculations: Laguna Research Partners LLC.

Table I-B
XsunX, Inc.
Income Statement, Consolidated
FQ1:06 (ended December 2005) through FQ3:07 (ended June 2007)
Fiscal Year Ends September 30
(consecutive quarter % change)

	Fiscal Quarter (Ending)						
	FQ1:06 (Dec. 2005)	FQ2:06 (March 2006)	FQ3:06 (June 2006)	FQ4:06 (Sept. 2006)	FQ1:07 (Dec. 2006)	FQ2:07 (March 2007)	FQ3:07 (June 2007)
Revenue							
Service income		-100.0%	0.0%	0.0%	0.0%	n.m.	-100.0%
Other income		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Revenue, total		-100.0%	0.0%	0.0%	0.0%	0.0%	-100.0%
Expenses:							
Consulting		0.0%	n.m.	46.9%	26.4%	-88.1%	1292.9%
Depreciation		n.m.	0.0%	0.0%	-2.2%	-38.2%	0.7%
Legal & accounting		3.7%	-39.3%	136.7%	53.9%	-46.7%	104.8%
Loan fees		-100.0%	0.0%	n.m.	-100.0%	0.0%	0.0%
Public relations		-24.5%	204.9%	-38.9%	-43.2%	-97.5%	3580.6%
Research & development		-13.2%	54.6%	-81.6%	209.4%	-48.0%	-86.0%
Rent		0.0%	-13.3%	587.6%	10.8%	5.2%	26.4%
Salaries		-8.0%	114.3%	18.2%	36.5%	53.7%	2.1%
Other		-97.6%	38.7%	4.6%	151.3%	21.5%	23.0%
Operating expenses, total		-75.0%	61.8%	24.0%	-21.6%	-17.9%	12.0%
Operating profit, total		n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Other income (expense)							
Interest expense		331.7%	221.2%	-207.6%	-100.0%	n.m.	78.8%
Interest income		n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Forgiveness of debt		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other income/expense, total		328.4%	205.6%	n.m.	n.m.	n.m.	n.m.
Net profit		n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Average shares outstanding (basic)		3.6%	14.5%	n.m.	n.m.	-0.1%	0.1%
Earnings per share (basic)		n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

Source: Company publications and SEC filings.
Calculations: Laguna Research Partners LLC.

Table I-C
XsunX, Inc.
Income Statement, Consolidated
FQ1:06 (ended December 2005) through FQ3:07 (ended June 2007)
Fiscal Year Ends September 30
(consecutive quarter value change)

	Fiscal Quarter (Ending)						
	FQ1:06 (Dec. 2005)	FQ2:06 (March 2006)	FQ3:06 (June 2006)	FQ4:06 (Sept. 2006)	FQ1:07 (Dec. 2006)	FQ2:07 (March 2007)	FQ3:07 (June 2007)
Revenue							
Service income		$ (8,000)	$ -	$ -	$ -	$ 6,800	$ (6,800)
Other income		-	-	-	-	-	-
Revenue, total		$ (8,000)	$ -	$ -	$ -	$ 6,800	$ (6,800)
Expenses:							
Consulting		-	19,382	9,086	7,514	(31,713)	55,193
Depreciation		27,647	-	-	(600)	(10,333)	112
Legal & accounting		1,259	(13,765)	29,046	27,128	(36,166)	43,249
Loan fees		(213,000)	-	415,834	(415,834)	-	-
Public relations		(8,184)	51,574	(29,853)	(20,259)	(25,960)	23,990
Research & development		(36,194)	130,199	(300,756)	142,093	(100,709)	(93,923)
Rent		-	(300)	11,458	1,452	778	4,126
Salaries		(3,559)	46,482	15,886	37,577	75,490	4,631
Other		(942,130)	8,913	1,475	50,596	18,070	23,446
Operating expenses, total		(1,174,161)	242,485	152,176	(170,333)	(110,543)	60,824
Operating profit, total		1,166,161	(242,485)	(152,176)	170,333	117,343	(67,624)
Other income (expense)							
Interest expense		123,323	355,055	(1,070,454)	554,899	364	287
Interest income		(1,224)	(27,587)	(829,634)	825,602	(18,672)	(20,305)
Forgiveness of debt		-	-	-	-	-	-
Other income/expense, total		122,099	327,468	(1,900,088)	1,380,501	(18,672)	(19,654)
Net profit		1,044,062	(569,953)	947,912	(410,168)	135,731	(47,686)
Average shares outstanding (basic)		4,512,818	18,612,039	N/A	N/A	(123,626)	123,626
Earnings per share (basic)		$ 0.00	$ 0.00	N/A	N/A	$ (0.01)	$ 0.01

Source: Company publications and SEC filings.
Calculations: Laguna Research Partners LLC.

Table I-D
XsunX, Inc.
Income Statement, Consolidated
FQ1:06 (ended December 2005) through FQ3:07 (ended June 2007)
Fiscal Year Ends September 30
(year-over-year % change)

	Fiscal Quarter (Ending)						
	FQ1:06 (Dec. 2005)	FQ2:06 (March 2006)	FQ3:06 (June 2006)	FQ4:06 (Sept. 2006)	FQ1:07 (Dec. 2006)	FQ2:07 (March 2007)	FQ3:07 (June 2007)
Revenue							
Service income					-100.0%	n.m.	0.0%
Other income						0.0%	0.0%
Revenue, total					-100.0%	n.m.	0.0%
Expenses:							
Consulting					n.m.	n.m.	206.8%
Depreciation					n.m.	-39.5%	-39.1%
Legal & accounting					129.4%	17.8%	297.8%
Loan fees					-100.0%	0.0%	0.0%
Public relations					-20.2%	-97.3%	-67.9%
Research & development					-23.5%	-54.2%	-95.8%
Rent					560.4%	595.0%	913.5%
Salaries					217.9%	431.4%	153.3%
Other					-91.3%	343.1%	292.9%
Operating expenses, total					-60.6%	29.0%	-10.7%
Operating profit, total					n.m.	n.m.	n.m.
Other income (expense)							
Interest expense					-100.0%	-99.8%	n.m.
Interest income					n.m.	n.m.	149.3%
Forgiveness of debt					0.0%	0.0%	0.0%
Other income/expense, total					n.m.	n.m.	n.m.
Net profit					n.m.	n.m.	n.m.
Average shares outstanding (basic)					26.9%	22.3%	6.9%
Earnings per share (basic)					n.m.	0.0%	n.m.

Source: Company publications and SEC filings.
Calculations: Laguna Research Partners LLC.

Table I-E
XsunX, Inc.
Income Statement, Consolidated
FQ1:06 (ended December 2005) through FQ3:07 (ended June 2007)
Fiscal Year Ends September 30
(year-oever-year value change)

	Fiscal Quarter (Ending)						
	FQ1:06 (Dec. 2005)	FQ2:06 (March 2006)	FQ3:06 (June 2006)	FQ4:06 (Sept. 2006)	FQ1:07 (Dec. 2006)	FQ2:07 (March 2007)	FQ3:07 (June 2007)
Revenue							
Service income					$ (8,000)	$ 6,800	$ -
Other income					-	-	-
Revenue, total					$ (8,000)	$ 6,800	$ -
Expenses:							
Consulting					35,982	4,269	40,080
Depreciation					27,047	(10,933)	(10,821)
Legal & accounting					43,668	6,243	63,257
Loan fees					(213,000)	-	-
Public relations					(6,722)	(24,498)	(52,082)
Research & development					(64,658)	(129,173)	(353,295)
Rent					12,610	13,388	17,814
Salaries					96,386	175,435	133,584
Other					(881,146)	79,054	93,587
Operating expenses, total					(949,833)	113,785	(67,876)
Operating profit, total					941,833	(106,985)	67,876
Other income (expense)							
Interest expense					(37,177)	(160,136)	(514,904)
Interest income					(32,843)	(50,291)	(43,009)
Forgiveness of debt					-	-	-
Other income/expense, total					(70,020)	(210,791)	(557,913)
Net profit					1,011,853	103,522	625,789
Average shares outstanding (basic)					33,281,662	28,645,218	10,156,805
Earnings per share (basic)					$ 0.01	$ -	$ 0.01

Source: Company publications and SEC filings.
Calculations: Laguna Research Partners LLC.

Table II-A
XsunX, Inc.
Operating Expense Analysis
FQ1:06 (ended December 2005) through FQ3:07 (ended June 2007)
Fiscal Year Ends September 30
(as reported)

	Fiscal Quarter (Ending)						
	FQ1:06 (Dec. 2005)	FQ2:06 (March 2006)	FQ3:06 (June 2006)	FQ4:06 (Sept. 2006)	FQ1:07 (Dec. 2006)	FQ2:07 (March 2007)	FQ3:07 (June 2007)
Operating expenses:							
Consulting	$ -	$ -	$ 19,382	$ 28,468	$ 35,982	$ 4,269	$ 59,462
Depreciation	-	27,647	27,647	27,647	27,047	16,714	16,826
Legal & accounting	33,750	35,009	21,244	50,290	77,418	41,252	84,501
Loan fees	213,000	-	-	415,834	-	-	-
Public relations	33,352	25,168	76,742	46,889	26,630	670	24,660
Research & development	274,603	238,409	368,608	67,852	209,945	109,236	15,313
Rent	2,250	2,250	1,950	13,408	14,860	15,638	19,764
Salaries	44,229	40,670	87,152	103,038	140,615	216,105	220,736
Other	965,172	23,042	31,955	33,430	84,026	102,096	125,542
Operating expenses, total	$ 1,566,356	$ 392,195	$ 634,680	$ 786,856	$ 616,523	$ 505,980	$ 566,804

Source: Company publications and SEC filings.
Calculations: Laguna Research Partners LLC.

Table II-B
XsunX, Inc.
Operating Expense Analysis
FQ1:06 (ended December 2005) through FQ3:07 (ended June 2007)
Fiscal Year Ends September 30
(as a % of total operating expenses)

	Fiscal Quarter (Ending)						
	FQ1:06 (Dec. 2005)	FQ2:06 (March 2006)	FQ3:06 (June 2006)	FQ4:06 (Sept. 2006)	FQ1:07 (Dec. 2006)	FQ2:07 (March 2007)	FQ3:07 (June 2007)
Operating expenses:							
Consulting	0.0%	0.0%	3.1%	3.6%	5.8%	0.8%	10.5%
Depreciation	0.0%	7.0%	4.4%	3.5%	4.4%	3.3%	3.0%
Legal & accounting	2.2%	8.9%	3.3%	6.4%	12.6%	8.2%	14.9%
Loan fees	13.6%	0.0%	0.0%	52.8%	0.0%	0.0%	0.0%
Public relations	2.1%	6.4%	12.1%	6.0%	4.3%	0.1%	4.4%
Research & development	17.5%	60.8%	58.1%	8.6%	34.1%	21.6%	2.7%
Rent	0.1%	0.6%	0.3%	1.7%	2.4%	3.1%	3.5%
Salaries	2.8%	10.4%	13.7%	13.1%	22.8%	42.7%	38.9%
Other	61.6%	5.9%	5.0%	4.2%	13.6%	20.2%	22.1%
Operating expenses, total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company publications and SEC filings.
Calculations: Laguna Research Partners LLC.

Table III
XsunX, Inc.
Balance Sheet, Consolidate
June 30, 2007 (unaudited) versus September 30, 2006 (audited)
(as reported)

	September 30, 2006	June 30, 2007	Change: Value	Change: %
Assets:				
Cash	$ 4,305,105	$ 1,363,815	$ (2,941,290)	-68.3%
Prepaid research and development expense	3,200	-	(3,200)	-100.0%
Prepaid research, development and professional expense	330,918	291,088	(39,830)	-12.0%
Prepaid legal expense	15,000	25,167	10,167	67.8%
Current assets, total	4,654,223	1,680,070	(2,974,153)	-63.9%
Fixed assets:				
Office & miscellaneous equipment	9,774	36,034	26,260	268.7%
Research and development equipment	392,301	502,153	109,852	28.0%
Leasehold improvement	80,492	89,825	9,333	11.6%
Fixed assets, total	482,567	628,012	145,445	30.1%
Less: depreciation	84,941	(145,528)	(230,469)	-271.3%
Fixed assets, total	397,626	482,484	84,858	21.3%
Other assets:				
Patents	40,000	40,000	-	0.0%
Security deposit	2,615	5,815	3,200	122.4%
Accrued interest receivable	-	68,493	68,493	N.M.
Note receivable	-	1,225,000	1,225,000	N.M.
Marketable prototype	1,765,000	1,765,000	-	0.0%
Other assets, total	1,807,615	3,104,308	1,296,693	71.7%
Assets, total	$ 6,859,464	$ 5,266,862	$ (1,592,602)	-23.2%
Liabilities and shareholders' equity:				
Accounts payable	$ 582,161	$ 497,919	$ (84,242)	-14.5%
Accrued expenses	6,538	38,350	31,812	486.6%
Total current liabilities	588,699	536,269	(52,430)	-8.9%
Preferred Stock, par value $0.01 per share; 50,000,000 shares authorized; no shares issued and outstanding	-	-	-	0.0%
Treasury Stock, no par value; 26,798,418 issued and outstanding	-	-	-	0.0%
Common Stock, no par value; 500,000,000 shares authorized; 157,169,856 shares issued and outstanding at September 30, 2006 and 157,019,856 shares issued and outstanding at June 30, 2007	13,290,869	13,278,869	(12,000)	-0.1%
Common stock warrants	2,151,250	2,151,250	-	0.0%
Deficit accumulated during the development stage	(9,171,354)	(10,699,526)	(1,528,172)	16.7%
Shareholders' equity, total	6,270,765	4,730,593	(1,540,172)	-24.6%
Liabilities and shareholders' equity, total	$ 6,859,464	$ 5,266,862	$ (1,592,602)	-23.2%
Calculations:				
Current ratio (x)	7.9	3.1	(4.8)	N.M.
Working capital	$ 4,065,524	$ 1,143,801	$ (2,921,723)	-71.9%
Long-term debt	$ -	$ -	$ -	0.0%
Working capital, net	$ 4,065,524	$ 1,143,801	$ (2,921,723)	-71.9%
Shares outstanding	157,137,931	157,019,856	-118,075	-0.1%
Shareholders' equity per share	$ 0.04	$ 0.03	(0.01)	-24.5%

Source: Company SEC filings.
Calculations: Laguna Research Partners LLC.

Table IV
XsunX, Inc.
Statement of Cash Flows
Nine Months Ended June 30, 2006 and 2007, and Inception through June 30, 2007
(as reported)

	Nine Months Ended June 30, 2006	Nine Months Ended June 30, 2007	February 25, 1997 (Inception) through June 30, 2007
Cash flows from operating activities:			
Net loss	(2,710,445)	(1,526,880)	(10,699,532)
Issuance of common stock for services	7,500	(12,000)	1,336,998
Issuance of common stock for loan inducement	-	-	310,117
Warrant expense	951,250	-	2,151,250
Amortization of loan fees	316,666	-	-
Issuance of stock for interest	10,550	-	241,383
Depreciation	55,294	60,587	145,528
Written-off equipment	-	-	-
Adjustments to reconcile net loss to cash used in operating activities:			
(Increase) Accounts receivable	-	-	-
(Increase) Security deposit	(2,615)	(3,200)	(5,815)
(Increase) in Prepaid expense	(253,445)	29,644	(316,249)
(Decrease) in Accounts payable	207,800	(84,242)	497,919
Increase in Accrued expenses	828,586	31,812	38,350
Net cash flows used for operating activities	(588,859)	(1,504,259)	(6,300,051)
Cash flows from investing activities:			
Purchase of equipment	(307,232)	(143,538)	(628,012)
Note receivable	-	(1,225,000)	(1,225,000)
Accrued interest earned	-	(68,493)	(68,493)
Purchase of intangible assets	(1,775,000)	-	(1,805,000)
Net cash flows used for investing activities	(2,082,232)	(1,437,031)	(3,726,505)
Cash flows from financing activities:			
Proceeds from debenture issue	4,500,000	-	5,000,000
Issuance of common stock for warrants	-	-	3,171,250
Issuance of common stock for cash	3,171,250	-	3,219,121
Net cash flows provided by financing activities	7,671,250	-	11,390,371
Net increase (decrease) in cash	5,000,159	(2,941,290)	1,363,815
Cash and cash equivalents - beginning of period	175,869	4,305,105	-
Cash and cash equivalents - end of period	5,176,028	1,363,815	1,363,815
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	160,500	1,015	72,361
Income Taxes	-	-	-
NON-CASH TRANSACTIONS			
Common stock issued (returned) in exchange for services	7,500	(12,000)	1,225,557
Conversion of debt for stock	3,850,000	-	-

Source: Company SEC filings.
Calculations: Laguna Research Partners LLC.

Table V-A
XsunX, Inc.
Summary Operating Model
FY 2007 E through FY 2013 E
(estimated)

	Fiscal Year Ended September 30:						
	FY 2007 E	FY 2008 E	FY 2009 E	FY 2010 E	FY 2011 E	FY 2012 E	FY 2013 E
Megawatts sold	-	0.5	22.0	120.0	135.0	155.0	180.0
Megawatts sold, increment	-	0.5	21.5	98.0	15.0	20.0	25.0
Revenue	$ -	$ 1,450,000	$ 59,400,000	$ 282,000,000	$ 270,000,000	$ 271,250,000	$ 306,000,000
Revenue per watt	$ -	$ 2.90	$ 2.70	$ 2.35	$ 2.00	$ 1.75	$ 1.70
Cost of revenue	$ -	$ 1,250,000	$ 31,900,000	$ 150,000,000	$ 148,500,000	$ 155,000,000	$ 171,000,000
Cost of revenue per watt	$ -	$ 2.50	$ 1.45	$ 1.25	$ 1.10	$ 1.00	$ 0.95
Gross profit	$ -	$ 200,000	$ 27,500,000	$ 132,000,000	$ 121,500,000	$ 116,250,000	$ 135,000,000
Gross profit per watt	$ -	$ 0.40	$ 1.25	$ 1.10	$ 0.90	$ 0.75	$ 0.75
Gross profit margin	0.0%	13.8%	46.3%	46.8%	45.0%	42.9%	44.1%
Operating expenses:							
Research and development	$ 450,000	$ 1,000,000	$ 1,200,000	$ 1,440,000	$ 1,800,000	$ 2,000,000	$ 4,500,000
Selling, general and administrative	$ 1,100,000	$ 1,500,000	$ 1,800,000	$ 5,000,000	$ 5,500,000	$ 6,000,000	$ 7,000,000
Production start-up expenses	$ -	$ 1,000,000	$ 2,500,000	$ 5,000,000	$ -	$ -	$ -
Operating expenses, total	$ 1,550,000	$ 3,500,000	$ 5,500,000	$ 11,440,000	$ 7,300,000	$ 8,000,000	$ 11,500,000
Operating expenses per watt	$ -	$ 7.00	$ 0.25	$ 0.10	$ 0.05	$ 0.05	$ 0.06
Operating profit	$ (1,550,000)	$ (3,300,000)	$ 22,000,000	$ 120,560,000	$ 114,200,000	$ 108,250,000	$ 123,500,000
Operating profit per watt	$ -	$ (6.60)	$ 1.00	$ 1.00	$ 0.85	$ 0.70	$ 0.69
Operating profit margin	0.0%	-227.6%	37.0%	42.8%	42.3%	39.9%	40.4%

* Note: 1 Megawatt = 1,000,000 watts or 1,000,000 joules per second.

Source: Laguna Research Partners LLC estimates.

Table V-B
XsunX, Inc.
Summary Operating Model
FY 2007 E through FY 2013 E
(estimated; year-over-year % change)

	Fiscal Year Ended September 30:						
	FY 2007 E	FY 2008 E	FY 2009 E	FY 2010 E	FY 2011 E	FY 2012 E	FY 2013 E
Megawatts sold		n.m.	4300.0%	445.5%	12.5%	14.8%	16.1%
Megawatts sold, increment		n.m.	4200.0%	355.8%	-84.7%	33.3%	25.0%
Revenue		n.m.	3996.6%	374.7%	-4.3%	0.5%	12.8%
Revenue per watt		n.m.	-6.9%	-13.0%	-14.9%	-12.5%	-2.9%
Cost of revenue		n.m.	2452.0%	370.2%	-1.0%	4.4%	10.3%
Cost of revenue per watt		n.m.	-42.0%	-13.8%	-12.0%	-9.1%	-5.0%
Gross profit		n.m.	13650.0%	380.0%	-8.0%	-4.3%	16.1%
Gross profit per watt		n.m.	212.5%	-12.0%	-18.2%	-16.7%	0.0%
Gross profit margin		n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Operating expeenses:							
Research and development		122.2%	20.0%	20.0%	25.0%	11.1%	125.0%
Selling, general and administrative		36.4%	20.0%	177.8%	10.0%	9.1%	16.7%
Production start-up expenses		n.m.	150.0%	100.0%	-100.0%	0.0%	0.0%
Operating expenses, total		125.8%	57.1%	108.0%	-36.2%	9.6%	43.8%
Operating expenses per watt		n.m.	-96.4%	-61.9%	-43.3%	-4.6%	23.8%
Operating profit		112.9%	-766.7%	448.0%	-5.3%	-5.2%	14.1%
Operating profit per watt		n.m.	-115.2%	0.5%	-15.8%	-17.4%	-1.8%
Operating profit margin		n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

* Note: 1 Megawatt = 1,000,000 watts or 1,000,000 joules per second.

Source: Laguna Research Partners LLC estimates.

Table V-C
XsunX, Inc.
Summary Operating Model
FY 2007 E through FY 2013 E
(estimated; year-over-year value change)

	Fiscal Year Ended September 30:						
	FY 2007 E	FY 2008 E	FY 2009 E	FY 2010 E	FY 2011 E	FY 2012 E	FY 2013 E
Megawatts sold		0.5	21.5	98.0	15.0	20.0	25.0
Megawatts sold, increment		0.5	21.0	76.5	(83.0)	5.0	5.0
Revenue		$ 1,450,000	$ 57,950,000	$ 222,600,000	$ (12,000,000)	$ 1,250,000	$ 34,750,000
Revenue per watt		n.m.	$ (0.20)	$ (0.35)	$ (0.35)	$ (0.25)	$ (0.05)
Cost of revenue		$ 1,250,000	$ 30,650,000	$ 118,100,000	$ (1,500,000)	$ 6,500,000	$ 16,000,000
Cost of revenue per watt		n.m.	$ (1.05)	$ (0.20)	$ (0.15)	$ (0.10)	$ (0.05)
Gross profit		$ 200,000	$ 27,300,000	$ 104,500,000	$ (10,500,000)	$ (5,250,000)	$ 18,750,000
Gross profit per watt		n.m.	$ 0.85	$ (0.15)	$ (0.20)	$ (0.15)	$ -
Gross profit margin		n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Operating expeenses:							
Research and development		$ 550,000	$ 200,000	$ 240,000	$ 360,000	$ 200,000	$ 2,500,000
Selling, general and administrative		$ 400,000	$ 300,000	$ 3,200,000	$ 500,000	$ 500,000	$ 1,000,000
Production start-up expenses		$ (1,000,000)	$ (3,500,000)	$ (7,500,000)	$ (5,000,000)	$ -	$ -
Operating expenses, total		$ 1,950,000	$ 2,000,000	$ 5,940,000	$ (4,140,000)	$ 700,000	$ 3,500,000
Operating expenses per watt		n.m.	$ (6.75)	$ (0.15)	$ (0.04)	$ (0.00)	$ 0.01
Operating profit		$ (1,750,000)	$ 25,300,000	$ 98,560,000	$ (6,360,000)	$ (5,950,000)	$ 15,250,000
Operating profit per watt		n.m.	$ 7.60	$ 0.00	$ (0.16)	$ (0.15)	$ (0.01)
Operating profit margin		n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

* Note: 1 Megawatt = 1,000,000 watts or 1,000,000 joules per second.

Source: Laguna Research Partners LLC estimates.

Table V-D
XsunX, Inc.
Summary Operating Model
FY 2007 E through FY 2013 E
(estimated; as a % of revenue)

	Fiscal Year Ended September 30:						
	FY 2007 E	FY 2008 E	FY 2009 E	FY 2010 E	FY 2011 E	FY 2012 E	FY 2013 E
Megawatts sold	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Megawatts sold, increment	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue per watt	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue	0.0%	86.2%	53.7%	53.2%	55.0%	57.1%	55.9%
Cost of revenue per watt	0.0%	86.2%	53.7%	53.2%	55.0%	57.1%	55.9%
Gross profit	0.0%	13.8%	46.3%	46.8%	45.0%	42.9%	44.1%
Gross profit per watt	0.0%	13.8%	46.3%	46.8%	45.0%	42.9%	44.1%
Gross profit margin	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Operating expeenses:							
Research and development	n.m.	69.0%	2.0%	0.5%	0.7%	0.7%	1.5%
Selling, general and administrative	n.m.	103.4%	3.0%	1.8%	2.0%	2.2%	2.3%
Production start-up expenses	0.0%	69.0%	4.2%	1.8%	0.0%	0.0%	0.0%
Operating expenses, total	n.m.	241.4%	9.3%	4.1%	2.7%	2.9%	3.8%
Operating expenses per watt	0.0%	241.4%	9.3%	4.1%	2.7%	2.9%	3.8%
Operating profit	n.m.	-227.6%	37.0%	42.8%	42.3%	39.9%	40.4%
Operating profit per watt	0.0%	-227.6%	37.0%	42.8%	42.3%	39.9%	40.4%
Operating profit margin	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

* Note: 1 Megawatt = 1,000,000 watts or 1,000,000 joules per second.

Source: Laguna Research Partners LLC estimates.

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