AGNICO EAGLE MINES LTD
Form 20-F/A
May 20, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A
(Amendment No. 2)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ TO __________

Commission file number: 1-13422

AGNICO-EAGLE MINES LIMITED

(Exact name of Registrants Specified in its Charter)

Not Applicable

(Translation of Registrant's Name or Organization)

Ontario, Canada

(Jurisdiction of Incorporation or Organization)

145 King Street East, Suite 500
Toronto, Ontario, M5C 2Y7

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Common Shares without par value *(Title of Class)*	**The Toronto Stock Exchange and the New York Stock Exchange** *(Name of exchange on which registered)*

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

Share Purchase Warrants *(Title of Class)*	**The Toronto Stock Exchange and the Nasdaq National Market** *(Name of exchange on which registered)*

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act

Convertible Subordinated Debentures due 2012

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

84,469,804 Common Shares as of December 31, 2003

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 ý

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* Omitted pursuant to General Instruction E(b) of Form 20-F.

** Pursuant to General Instruction E(c) of Form 20-F, the registrant has elected to provide the financial statements and related information specified in Item 18.

EXPLANATORY NOTE

This Amendment No. 2 on Form 20-F/A (the "Form 20-F") amends the Annual Report on Form 20-F/A for the year ended December 31, 2003 filed on January 18, 2005 (the "Amended Filing"), which amended and replaced the Annual Report on Form 20-F filed on May 18, 2004 (the "Original Filing"). Agnico-Eagle Mines Limited ("Agnico-Eagle" or the "Company") has filed this Form 20-F in response to comments received from securities regulators regarding the disclosure in the Amended Filing. While the Amended Filing updated the Original Filing to reflect certain 2004 operating data and 2005 budget information, neither the Amended Filing nor this 20-F reflects financial results for the financial year ended December 31, 2004. **This 20-F does not update any results or information from that contained in the Amended Filing.** Accordingly, you should read this Form 20-F together with the Amended Filing and other documents that we have filed with the Canadian securities regulators and the U.S. Securities and Exchange Commission (the "SEC") subsequent to the date of the Original Filing, including the Company's Annual Report on Form 20-F for the year ended December 31, 2004, which includes the Company's financial results for such period. Information in such reports and documents updates and supersedes certain information contained in this Form 20-F. The filing of this Form 20-F shall not be deemed an admission that the Original Filing or the Amended Filing, when made, included any known, untrue statement of material fact or knowingly omitted to state a material fact necessary to make a statement not misleading.

PRELIMINARY NOTE

Incorporation by Reference: This Form 20-F sets out only those items of and exhibits to the Company's Annual Report on Form 20-F/A for the year ended December 31, 2003 to which amendments have been made and hereby incorporates by reference from the Amended Filing all items and exhibits from the Amended Filing that are not set out herein or attached hereto.

Exhibit 99C: Attached hereto as Exhibit 99C is the Registrant's 2003 Annual Audited Consolidated Financial Statements and Management's Discussion and Analysis (prepared in accordance with US GAAP) containing information incorporated by reference in answer or partial answer to certain items of this Form 20-F including consolidated financial statements as at and for the years ended December 31, 2003 and 2002, and the related notes, together with the auditors' report thereon and the management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2003.

Currencies: The Registrant presents its consolidated financial statements in United States dollars. All dollar amounts in this Form 20-F (and in Exhibit 99C) are stated in United States dollars (US dollars, $, or US$), except where otherwise indicated. All dollar amounts in Exhibit 99D are stated in Canadian dollars, except where otherwise indicated. See "Item 3: Key Information Selected Financial Information Currency Exchange Rates" for a history of exchange rates of Canadian dollars into US dollars.

Generally Accepted Accounting Principles: Effective January 1, 2002, the Registrant changed its primary basis of financial reporting from Canadian generally accepted accounting principles ("Canadian GAAP") to United States generally accepted accounting principles ("US GAAP") due to its substantial U.S. shareholder base and to maintain comparability with other gold mining companies. All references to financial results herein are to those calculated under US GAAP. Financial statements and Management's Discussion and Analysis under Canadian GAAP are prepared and distributed to shareholders for statutory reporting purposes.

Forward-Looking Information: Certain statements in this Form 20-F and the documents incorporated herein by reference as Exhibits 99C and 99D constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Registrant or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, which will, among other things, impact demand for gold and other metals produced by the Registrant; industry capacity; the ability of the Registrant to implement its business strategy; and changes in, or the failure to comply with, government regulations (especially safety and environmental laws and regulations). See also "Item 3: Key Information Risk Factors", under the subheadings "Recent Losses", "Dependence on the LaRonde Division", "Metal Price Volatility", "Uncertainty of Production Estimates", "Cost of Exploration and Development Programs", "Total Cash Costs of Gold Production at the LaRonde Mine", "Restrictions in the Bank Credit Facility", "Risk of Acquisitions", "Competition for and Scarcity of Mineral Lands", "Uncertainty of Mineral Reserve and Mineral Resource Estimates", "Mining Risks and Insurance", "Laws and Regulations", "Currency Fluctuations", and "Interest Rate Fluctuations".

NOTE TO INVESTORS CONCERNING ESTIMATES OF MINERAL RESOURCES

Cautionary Note to Investors concerning estimates of Measured and Indicated Resources

This document and documents incorporated by reference herein use the terms "measured resources" and "indicated resources". The Company advises investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. **Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.**

Cautionary Note to Investors concerning estimates of Inferred Resources

This document and documents incorporated by reference herein use the term "inferred resources". The Company advises investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. "Inferred resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. **Investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.**

NOTE TO INVESTORS CONCERNING CERTAIN MEASURES OF PERFORMANCE

This document and documents incorporated by reference herein present certain measures, including "total cash cost per ounce" and "minesite cost per ton", that are not recognized measures under US GAAP. This data may not be comparable to data presented by other gold producers. For a reconciliation of these measures to the closest measures recognized under US GAAP see "Results of Operations Production Costs" in Exhibit 99C to this Form 20-F. The Company believes that these generally accepted industry measures are realistic indicators of operating performance and useful in allowing year over year comparisons. However, both of these non-GAAP measures should be considered together with other data prepared in accordance with US GAAP, and these measures, taken by themselves, are not necessarily indicative of operating costs or cash flow measures prepared in accordance with US GAAP.

ITEM 3. KEY INFORMATION

Selected Financial Data

The following selected financial data for each of the years in the five-year period ended December 31, 2003 are derived from the consolidated financial statements of Agnico-Eagle Mines Limited ("Agnico-Eagle" or the "Company") audited by Ernst & Young LLP. The selected financial data should be read in conjunction with management's discussion and analysis of the Company's operations and financial condition, the consolidated financial statements and accompanying notes in Exhibit 99C to this Form 20-F and other financial information included elsewhere in this Form 20-F.

	Year ended December 31,				
	2003	2002	2001	2000	1999
	(in thousands of US dollars, US GAAP basis)				
Income Statement Data					
Revenues from mining operations[1]	126,820	108,027	96,043	63,676	23,392
Interest and sundry income	2,775	1,943	5,752	2,145	(5,519)
	129,595	109,970	101,795	65,821	17,873
Production costs[1]	104,990	75,969	67,009	49,997	28,447
Exploration expense	5,975	3,766	6,391	3,213	3,838
Equity loss in junior exploration company[2]	1,626				
Amortization	17,504	12,998	12,658	9,220	4,479
General and administrative	7,121	5,530	4,461	4,223	4,044
Provincial capital tax	1,240	829	1,551	1,301	1,192
Interest	9,180	7,341	12,917	5,920	5,583
Foreign exchange (gain) loss	72	(1,074)	(336)	890	1,401
Write down of mining properties and other[3]					974
Income (loss) before income and mining taxes (recoveries)	(18,113)	4,611	(2,856)	(8,943)	(32,085)
Income and mining taxes (recoveries)	(358)	588	2,862	(3,906)	(13,016)
Income before cumulative catch-up adjustment	(17,755)	4,023	(5,718)	(5,037)	(19,069)
Cumulative catch-up adjustment[1][5]	(1,743)			(1,831)	
Net income (loss)	(19,498)	4,023	(5,718)	(6,868)	(19,069)
Net income (loss) before cumulative catch-up adjustment per share basic and diluted	(0.21)	0.06	(0.09)	(0.09)	(0.36)
Net income (loss) per share basic and diluted	(0.23)	0.06	(0.09)	(0.12)	(0.36)
Weighted average number of shares outstanding basic	83,889,115	70,821,081	61,333,630	54,446,693	53,331,268
Weighted average number of shares outstanding diluted	83,889,115	71,631,263	61,333,630	54,446,693	53,331,268
Total common shares outstanding	84,469,804	83,636,861	67,722,853	56,139,480	54,216,771
Dividends declared per common share	0.03	0.03	0.02	0.02	0.02

	As at December 31,				
	2003	2002	2001	2000	1999

	As at December 31,				
	(in thousands of US dollars, US GAAP basis)				
Balance Sheet Data (at end of period)					
Mining properties (net)	399,719	353,059	301,221	281,497	221,067
Total assets	637,101	593,807	393,464	364,333	297,015
Long term debt[4]	143,750	143,750	151,081	186,261	131,458
Reclamation provision and other liabilities[5]	15,377	5,043	4,055	5,567	5,433
Shareholders' equity[6]	400,723	397,693	198,426	124,361	128,569

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Notes:

(1) Revenues from mining operations consist of gold and byproduct zinc, silver and copper revenues, net of smelting, refining and transportation costs. Effective 2000, the Company changed its accounting policy with respect to revenue recognition. As a result of the change, revenue from concentrates is recognized when legal title passes to custom smelters and is valued on an estimated net realizable value basis. Periodic adjustments on the final settlement of concentrates previously sold to smelters are included in revenue as soon as the amount can be reasonably determined. Revenue from gold and silver in the form of dore bars is recorded when the refined gold and silver are sold and also included in revenues from mining operations. Prior to this change, the Company recognized revenues from concentrates on a production basis. Under this basis of accounting, revenue was recognized once the ore was extracted and processed at the onsite mill facilities. The accounting change was accounted for as a cumulative catch-up adjustment and resulted in a loss of $1.8 million or $0.03 per share in 2000.

(2) As a result of issuances of stock by Contact Diamond Corporation (formerly Sudbury Contact Mines Limited) ("Contact Diamond"), the Company's interest in Contact Diamond was diluted to below 50% during 2003. The Company therefore no longer consolidates the results of Contact Diamond but accounts for its investment using the equity method of accounting. The Company now reports its share of losses in Contact Diamond as a separate line item in the consolidated financial statements. The Company began using the equity method to account for its interest in Contact Diamond on September 1, 2003.

(3) On August 31, 1999, the Company settled a lawsuit commenced by Noranda Inc. ("Noranda") relating to the acquisition of Dumagami Mines Inc. for $1.3 million (C$1.9 million), of which C$950,000 was paid on signing of settlement documentation and the remaining C$950,000 was paid in August 2000. The lawsuit was dismissed without costs.

(4) On February 15, 2002, Agnico-Eagle issued $143.8 million aggregate principal amount of 4.50% convertible subordinated debentures due February 15, 2012 (the "Convertible Debentures") for net proceeds of $138.5 million after deducting underwriting commissions of $4.3 million. Other costs of issuing the debentures totalled $1.0 million. The debentures bear interest of 4.50% per annum on the principal amount payable in cash semi-annually. The debentures are convertible into common shares of Agnico-Eagle at the option of the holder, at any time on or prior to maturity, at a rate of 71.429 common shares per $1,000 principal amount. The debentures are redeemable by Agnico-Eagle, in whole or in part, at any time on or after February 15, 2006 at a redemption price equal to par plus accrued and unpaid interest. The Company may redeem the debentures in cash or, at the option of the Company, by delivering freely tradeable common shares.

On February 15, 2002, the entire amount of the Company's senior convertible notes due January 27, 2004 (the "Senior Notes") was called for redemption.

For the year ended December 31, 2003, interest expense was $9.2 million (2002 $7.3 million; 2001 $12.9 million; 2000 $5.9 million; 1999 $5.6 million) and cash interest payments were $8.0 million (2002 $24.4 million; 2001 $10.4 million; 2000 $4.4 million; 1999 $5.6 million). Approximately $19 million of the cash interest payments in 2002 were in connection with the redemption of the Senior Notes. See Note 4(b) to the consolidated financial statements on page 35 of Exhibit 99C to this Form 20-F.

(5) Effective January 1, 2003, the Company adopted the provisions of FASB Statement No. 143 ("FAS 143") related to asset retirement obligations. FAS 143 applies to legal obligations resulting from the construction, development and operation of long-lived assets, such as mining assets. This standard requires companies to recognize the present value of reclamation costs as a liability in the period the legal obligation is incurred. The Company estimated the final reclamation provision taking into account current circumstances such as projected mine life at the end of 2003 and current throughput. Subsequent revisions to the final reclamation estimate could result from legislative changes or changes in the underlying assumptions such as life-of-mine.

For periods prior to January 1, 2003, estimated future reclamation costs were based primarily on legal, environmental and regulatory requirements. Future reclamation costs for the Company's inactive mines were accrued based on management's best estimate of the costs at the end of each period, comprising costs expected to be incurred at a site, on an undiscounted basis. Such cost estimates included, where applicable, ongoing care and maintenance and monitoring costs. Changes in estimates were reflected in income in the period an estimate was revised.

(6) For each period ending December 31, 2000 or earlier, these amounts are net of the common shares of the Company held by Mentor Exploration and Development Co., Limited ("Mentor"), a former associate of the Company, which for accounting purposes, was treated as a subsidiary and was consolidated into the Company's financial statements. In October 2001, pursuant to a plan of arrangement, the Company amalgamated with Mentor and issued 369,948 common shares pursuant to that plan.

In 2002, the Company completed a public offering of 13,800,000 units, each unit consisting of one common share and one-half warrant, at $13.90 per unit for net proceeds of $182.9 million, after deducting issue costs of $9.1 million. Each whole share purchase warrant ("Share Purchase Warrant") entitles the holder to acquire one common share for a price of $19 at any time on or prior to November 14, 2007. If all outstanding Share Purchase Warrants are exercised, the Company would be required to issue an additional 6,900,000 common shares. See Note 6(c) to the consolidated financial statements on page 39 of Exhibit 99C to this Form 20-F. In 2001, the Company completed a public offering of 10,350,000 common shares at $7.90 per common share for net proceeds of $76.2 million. See Note 6(c) to the consolidated financial statements on page 39 of Exhibit 99C to this Form 20-F.

In 2003, the Company issued 255,768 common shares (2002 40,161; 2001 200,000; 2000 475,000) under a flow-through share private placement for proceeds of $3.6 million (2002 $0.6 million; 2001 $2.5 million; 2000 $3.6 million) net of share issue costs. See Note 6(b) to the consolidated financial statements on page 39 of Exhibit 99C to this Form 20-F.

Currency Exchange Rates

All dollar amounts in this Form 20-F are in United States dollars, except where otherwise indicated. The following tables present, in Canadian dollars, the exchange rates for the US dollar, based on the noon buying rate in New York City for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"). On January 13, 2005, the Noon Buying Rate was US$1.00 equals C$1.2005.

	Year Ended December 31,					
	2004	2003	2002	2001	2000	1999
High	1.3970	1.5750	1.6128	1.6023	1.5592	1.5302
Low	1.1775	1.2923	1.5108	1.4933	1.4350	1.4440
End of Period	1.2034	1.2923	1.5800	1.5925	1.4995	1.4440
Average	1.3017	1.4012	1.5704	1.5519	1.4855	1.4828

	2004					
	December	November	October	September	August	July
High	1.2401	1.2263	1.2726	1.3071	1.3323	1.3353
Low	1.1856	1.1775	1.2194	1.2648	1.2964	1.3082
End of Period	1.2034	1.1902	1.2209	1.2648	1.3166	1.3296
Average	1.2189	1.1968	1.2469	1.2881	1.3127	1.3634

Risk Factors

Recent Losses

Although the Company reported net income for the nine months ended September 30, 2004 and expects to report net income for the year ended December 31, 2004, it incurred net losses in 2003 and in each of the five years prior to 2002. For a discussion of the factors contributing to the losses, please refer to pages 1 to 22 in Exhibit 99C to this Form 20-F under the caption "Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations." The Company's profitability depends on the price of gold, gold production, total cash costs, the prices and production levels of byproduct zinc, silver and copper and other factors discussed in this section of the Form 20-F. Substantially all of these factors are beyond the Company's control and there can be no assurance that the Company will sustain profitability in the future.

Dependence on the LaRonde Division

The Company's mining and milling operations at the LaRonde Division account for all of the Company's gold production and will continue to account for all of its gold production in the future unless additional properties are acquired or brought into production. Any adverse condition affecting mining or milling conditions at the LaRonde Division could be expected to have a material adverse effect on the Company's financial performance and results of operations until such time as the condition is remedied. In addition, the Company's principal development program is the expansion of the LaRonde Division. This program involves the exploration and extraction of ore from new zones and may present new or different challenges for the Company. In addition, gold production at the LaRonde Mine is expected to begin to decline commencing in 2007. Unless the Company can successfully bring into production the Lapa property, the Goldex property or its other exploration properties or otherwise acquire gold producing assets prior to 2007, the Company's results of operations will be adversely affected. There can be no assurance that the Company's current exploration and development programs at the LaRonde Division will result in any new economically viable mining operations or yield new mineral reserves to replace and expand current mineral reserves.

Metal Price Volatility

The Company's earnings are directly related to commodity prices as revenues are derived from precious metals (gold and silver), zinc and copper. The Company's policy and practice is not to sell forward its future gold production; however, under the Company's Price Risk Management Policy, approved by its Board of Directors, the Company may review this practice on a project by project basis, making use of hedging strategies where appropriate to ensure an adequate return to shareholders on new projects. In addition, in accordance with the Company's revolving bank credit facility, the Company has purchased put options to ensure projected revenues from sales of gold are sufficient to reasonably ensure that the Company will be in compliance with the financial and other covenants of the facility. See "Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations Risk Profile" on pages 12 to 15 of Exhibit 99C to this Form 20-F for more details of the Company's hedging activities. Gold prices fluctuate widely and are affected by numerous factors beyond the Company's control, including central bank sales, producer hedging activities, expectations of inflation, the relative exchange rate of the US dollar with other major currencies, global and regional demand and political and economic conditions, and production costs in major gold producing regions. The aggregate effect of these factors is impossible to predict with accuracy. Gold prices are also affected by worldwide production levels. In addition, the price of gold has on occasion been subject to very rapid short-term changes because of speculative activities. Fluctuations in gold prices may adversely affect the Company's financial performance or results of operations. If the market price of gold falls below the Company's total costs and remains at such a level for any sustained period, the Company may experience losses and may curtail or suspend some or all of its exploration, development and mining activities. The prices received for the Company's byproducts (zinc, silver and copper) affect the Company's ability to meet its targets for total cash cost per ounce of gold produced. Byproduct prices fluctuate widely and are affected by numerous factors beyond the Company's control. The Company occasionally implements hedging strategies to mitigate the effects of fluctuating byproduct metal prices.

The volatility of gold prices is illustrated in the following table which sets forth, for the periods indicated, the high and low afternoon fixing prices for gold on the London Bullion Market (the "London P.M. Fix") and the average gold prices received by the Company.

	2004	2003	2002	2001	2000	1999
High price ($ per ounce)	454	417	350	293	313	326
Low price ($ per ounce)	375	323	278	256	264	253
Average price received ($ per ounce)	418	368	312	273	278	274

On January 13, 2005, the London P.M. Fix was $423.60 per ounce of gold.

Based on 2005 production estimates, the approximate sensitivities of the Company's after-tax income to a 10% change in metal prices from 2004 market average prices are as follows:

	Income per share
Gold	$ 0.09
Zinc	$ 0.04
Silver	$ 0.03
Copper	$ 0.01

Sensitivities of the Company's after-tax income to changes in metal prices will increase with increased production.

Uncertainty of Production Estimates

The Company's gold production may fall below estimated levels as a result of mining accidents such as cave-ins, rock falls, rock bursts or flooding. In addition, production may be unexpectedly reduced if, during the course of mining, unfavourable ground conditions or seismic activity are encountered, ore grades are lower than expected, or the physical or metallurgical characteristics of the ore are less amenable than expected to mining or treatment. Accordingly, there can be no assurance that the Company will achieve current or future production estimates.

A rock fall that occurred in two production stopes during the first quarter of 2003 led to an initial 20% reduction in the Company's 2003 gold production estimate from 375,000 ounces to 300,000 ounces. Production drilling challenges and lower than planned recoveries in the mill in the third quarter of 2003 led to a further reduction in the production estimate by 21%. Final gold production in 2003 was 236,653 ounces.

Cost of Exploration and Development Programs

The Company's profitability is significantly affected by the costs and results of its exploration and development programs. As mines have limited lives based on proven and probable mineral reserves, the Company actively seeks to replace and expand its reserves, primarily through exploration and development and, from time to time, through strategic acquisitions. Exploration for minerals is highly speculative in nature, involves many risks and frequently is unsuccessful. Among the many uncertainties inherent in any gold exploration and development program are the location of economic ore bodies, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities. In addition, substantial expenditures are required to pursue such exploration and development activities. Assuming discovery of an economic ore body, depending on the type of mining operation involved, several years may elapse from the initial phases of drilling until commercial operations are commenced and during such time the economic feasibility of production may change. Accordingly, there can be no assurance that the Company's current exploration and development programs will result in any new economically viable mining operations or yield new reserves to replace and expand current reserves.

Total Cash Costs of Gold Production at the LaRonde Mine

The Company's total cash costs to produce an ounce of gold are dependent on a number of factors, including primarily the prices and production levels of byproduct zinc, silver and copper, the revenue from which is offset against the cost of gold production, the US dollar/Canadian dollar exchange rate, smelting and refining charges and production royalties, which are affected by all of these factors and the gold price. All these factors are beyond the Company's control.

Total cash cost is not a recognized measure under US GAAP and this data may not be comparable to data presented by other gold producers. Management uses this generally accepted industry measure in evaluating operating performance and believes it to be a realistic indication of such performance and useful in allowing year over year comparisons. The data also indicates the Company's ability to generate cash flow and operating income at various gold prices. This additional information should be considered together with other data prepared in accordance with US GAAP and is not necessarily indicative of operating costs or cash flow measures prepared in accordance with US GAAP (see the information set out under the caption "Results of Operations Production Costs" on pages 4 to 7 of Exhibit C to this 20-F for a reconciliation of total cash costs per ounce and minesite costs per ton to their closest GAAP measure).

Risks of Acquisitions

The Company regularly evaluates opportunities to acquire shares or assets of other mining businesses. Such acquisitions may be significant in size, may change the scale of the Company's business, and may expose the Company to new geographic, political, operating, financial or geological risks. The Company's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, acquire them on acceptable terms and integrate their operations successfully with those of the Company. Any acquisitions would be accompanied by risks, such as the difficulty of assimilating the operations and personnel of any acquired businesses; the potential disruption of the Company's ongoing business; the inability of management to maximize the financial and strategic position of the Company through the successful integration of acquired assets and businesses; the maintenance of uniform standards, controls, procedures and policies; the impairment of relationships with employees, customers and contractors as a result of any integration of new management personnel; and the potential unknown liabilities associated with acquired assets and businesses. In addition, the Company may need additional capital to finance an acquisition. Debt financing related to any acquisition may expose the Company to increased risk of leverage, while equity financing may cause existing shareholders to suffer dilution. The Company is permitted under the terms of its recently amended bank credit facility to raise additional debt financing provided that it complies with certain covenants including that no default under the credit facility has occurred and is continuing, the terms of such indebtedness are no more onerous to the Company than those under the credit facility and the incurrence of such indebtedness would not result in a material adverse change in respect of the Company or the LaRonde Mine. There can be no assurance that the Company would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

Restrictions in the Bank Credit Facility

The Company's recently amended $100 million revolving bank credit facility limits, among other things, the Company's ability to incur additional indebtedness, pay dividends or make payments in respect of its common shares, make investments or loans, transfer the Company's assets, or make expenditures relating to property secured under the credit agreement at that time that is not consistent with the mine plan and operating budget delivered pursuant to the credit facility. Further, the bank credit facility requires the Company to maintain specified financial ratios and meet financial condition covenants. Events beyond the Company's control, including changes in general economic and business conditions, may affect the Company's ability to satisfy these covenants, which could result in a default under the bank credit facility. While there are currently no amounts of principal or interest owing under the bank credit facility, if an event of default under the bank credit facility occurs, the Company would be unable to draw down on the facility, or if amounts were drawn down at the time of the default, the lenders could elect to declare all principal amounts outstanding thereunder at such time, together with accrued interest, to be immediately due and payable and to enforce their security interest over substantially all property relating to the LaRonde Mine and the El Coco property. An event of default under the bank credit facility may also give rise to an event of default under existing and future debt agreements and, in such event, the Company may not have sufficient funds to repay amounts owing under such agreements.

Competition for and Scarcity of Mineral Lands

Many companies and individuals are engaged in the mining business, including large, established mining companies with substantial capabilities and long earnings records. There is a limited supply of desirable mineral lands available for claim staking, lease or other acquisition in the areas where the Company contemplates conducting exploration activities. The Company may be at a competitive disadvantage in acquiring mining properties, as it must compete with these individuals and companies, many of which have greater financial resources and larger technical staffs than the Company. Accordingly, there can be no assurance that the Company will be able to compete successfully for new mining properties.

Uncertainty of Mineral Reserve and Mineral Resource Estimates

The figures for mineral reserves and mineral resource presented herein are estimates, and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery of gold will be realized. The ore grade actually recovered by the Company may differ from the estimated grades of the mineral reserves and mineral resource. Such figures have been determined based on assumed gold prices and operating costs. The Company has estimated proven and probable mineral reserves based on a $325 per ounce gold price. While gold prices have generally been above $325 per ounce since mid 2002, for the four years prior to that the market price of gold has been, on average, below $325 per ounce. Prolonged declines in the market price of gold may render mineral reserves containing relatively lower grades of gold mineralization uneconomic to exploit and could materially reduce the Company's reserves. Should such reductions occur, the Company could be required to take a material write-down of its investment in mining properties or delay or discontinue production or the development of new projects, resulting in increased net losses and reduced cash flow. Market price fluctuations of gold, as well as increased production costs or reduced recovery rates, may render mineral reserves containing relatively lower grades of mineralization uneconomical to recover and may ultimately result in a restatement of mineral resources. Short-term factors relating to mineral reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may impair the profitability of a mine in any particular accounting period.

Mineral resource estimates for properties that have not commenced production are based, in most instances, on very limited and widely spaced drill hole information, which is not necessarily indicative of conditions between and around the drill holes. Accordingly, such mineral resource estimates may require revision as more drilling information becomes available or as actual production experience is gained.

Mining Risks and Insurance

The business of gold mining is generally subject to certain types of risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected rock formations, changes in the regulatory environment, cave-ins, rock bursts, rock falls and flooding and gold bullion losses. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. The Company carries insurance to protect itself against certain risks of mining and processing in amounts that it considers to be adequate but which may not provide adequate coverage in certain unforeseen circumstances. The Company may also become subject to liability for pollution, cave-ins or other hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons or the Company may become subject to liabilities which exceed policy limits. In such case, the Company may be required to incur significant costs that could have a material adverse effect on its financial performance and results of operations.

Laws and Regulations

The Company's mining and mineral processing operations and exploration activities are subject to extensive Canadian federal and provincial laws and regulations, and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, waste disposal, toxic substances, environmental protection, mine safety and other matters. Compliance with such laws and regulations increases the costs of planning, designing, drilling, developing, constructing, operating, closing, reclaiming and rehabilitating mines and other facilities. Amendments to current laws and regulations governing operations and activities of mining companies or more stringent implementation or interpretation thereof could have a material adverse impact on the Company, cause a reduction in levels of production and delay or prevent the development of new mining properties.

In January 2003, the Company received a notice of infraction from the Quebec Ministry of the Environment in connection with a controlled discharge of water of excess toxicity, which was carried out over a three-month period in the summer of 2002. The purpose of the discharge was to establish favourable construction conditions for the increase of tailings pond capacity in the autumn of 2002. No fine was payable in respect of the notice of infraction, however, the notice required production of a report detailing the causes of algae proliferation at the LaRonde Mine, which was delivered in 2003.

Under mine closure plans originally submitted to the Minister of Natural Resources in Quebec in 1996, the estimated current reclamation costs for the LaRonde Division and the Bousquet property are approximately $17 million and $6 million respectively. These reclamation plans are subject to approval by the Minister of Natural Resources and there can be no assurance that the Minister of Natural Resources will not impose additional reclamation obligations with attendant higher costs. In addition, the Minister of Natural Resources may require that the Company provide financial assurances to support such plans. At December 31, 2003, the Company had a total reclamation provision of $11.7 million, with $5.8 million allocated for the LaRonde Division and $5.9 million allocated for Bousquet.

Prior to January 1, 2003, reclamation costs were accrued on an undiscounted unit-of-production basis, using proven and probable reserves as the base. On this basis, the Company recorded its annual reclamation provision for the LaRonde Division at approximately $5 per ounce of gold produced. Effective January 1, 2003, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 143 relating to asset retirement obligations, which applies to long-lived assets such as mines. (See Note 6 to the table under the caption "Item 3 Key Information Selected Financial Information" for an explanation of the new standard.) The application of the new provisions resulted in the Company recording a one-time, net of tax, non-cash charge of $1.7 million on January 1, 2003 reflecting the cumulative effect of adopting this standard.

Currency Fluctuations

The Company's operating results and cash flow are significantly affected by changes in the US dollar/Canadian dollar exchange rate. Exchange rate movements can have a significant impact as all of the Company's revenues are earned in US dollars but most of its operating and capital costs are in Canadian dollars. The US dollar/Canadian dollar exchange rate has varied significantly over the last several years. During the period from

January 1, 1999 to December 31, 2004, the Noon Buying Rate fluctuated from a high of C$1.6128 to a low of C$1.1775. Historical fluctuations in the US dollar/Canadian dollar exchange rate are not necessarily indicative of future exchange rate fluctuations. Based on the Company's anticipated 2005 after-tax operating results, a 10% change in the average annual US dollar/Canadian dollar exchange rate would affect net income by approximately $0.10 per share. To hedge its foreign exchange risk and minimize the impact of exchange rate movements on operating results and cash flow, the Company has periodically used foreign currency options and forward foreign exchange contracts to purchase Canadian dollars. However, there can be no assurance that the Company's foreign exchange hedging strategies will be successful or that foreign exchange fluctuations will not materially adversely affect the Company's financial performance and results of operations.

Interest Rate Fluctuations

Fluctuations in interest rates can affect the Company's results of operations and cash flows. The Company's 4.50% convertible subordinated debentures due 2012 are at a fixed rate of interest; however both its bank debt and cash balances are subject to variable interest rates.

Potential Unenforceability of Civil Liabilities and Judgments

The Company is incorporated under the laws of the Province of Ontario, Canada. All but one of the Company's directors and officers and certain of the experts named in this Form 20-F are residents of Canada. Also, almost all of the Company's assets and the assets of these persons are located outside of the United States. As a result, it may be difficult for shareholders to initiate a lawsuit within the United States against these non-United States residents, or to enforce judgments in the United States against the Company or these persons which are obtained in a United States court. Our Canadian counsel has advised us that a monetary judgment of a U.S. court predicated solely upon the civil liability provisions of U.S. federal securities laws would likely be enforceable in Canada if the U.S. court in which the judgment was obtained had a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. We cannot assure you that this will be the case. It is less certain that an action could be brought in Canada in the first instance on the basis of liability predicated solely upon such laws.

ITEM 4. INFORMATION ON THE COMPANY

History and Development of the Company

The Company is an established Canadian gold producer with mining operations located in northwestern Quebec and exploration and development activities in Canada and the western United States (principally Nevada and Idaho). The Company's operating history includes almost three decades of continuous gold production primarily from underground operations. Since its formation in 1972, the Company has produced over 3.5 million ounces of gold. The Company believes it is currently one of the lowest cash cost producers in the North American gold mining industry. In 2004, the Company produced 271,567 ounces of gold at an average cash cost estimated to have been between $75 and $85 per ounce and, in 2003, the Company produced 236,653 ounces of gold at an average cash cost of $269 per ounce, in each case net of revenues received from the sale of zinc, silver and copper byproducts. For 2005, the Company expects total cash costs per ounce of gold produced to be between $135 and $145. These expected increased costs are due to an anticipated decline in byproduct metals prices below those realized in 2004 and a reduction in the contribution of foreign exchange hedging activities. The Company has traditionally sold all of its production at the spot price of gold due to its general policy not to sell forward its future gold production. However, the Company has purchased put options that will allow it to set a floor price of $260 per ounce on a portion of its gold production prior to December 31, 2007. For a definition of terms used in the following discussion, see the section entitled "Mineral Reserve and Mineral Resource" on page 21.

The Company's principal operating divisions are the LaRonde Division and the Exploration Division. The LaRonde Division consists of the LaRonde Mine and the adjacent El Coco and Terrex properties, each of which is 100% owned and operated by the Company. The LaRonde Mine, with its single production shaft (the "Penna Shaft"), currently accounts for all of the Company's gold production. Since the commissioning of the mill in 1988, the LaRonde Division has produced over 2.5 million ounces of gold. In March 2000, the Company completed the Penna Shaft at the LaRonde Mine to a depth of 7,380 feet, which the Company believes makes it the deepest single-lift shaft in the Western Hemisphere. Production was expanded at the LaRonde Mine to 7,000 tons of ore treated per day in October 2002. An extensive surface and underground exploratory drilling program to delineate additional mineral reserve began in 1990 and is continuing. The program successfully outlined several ore zones and a large mineral resource to the east of what was, at the time, the main production shaft. As at December 31, 2003, the LaRonde Division had established proven and probable mineral reserves of approximately 5.0 million ounces of contained gold.

The Company's strategy is to focus on the continued exploration, development and expansion of its properties in the Abitibi region of Quebec in which the LaRonde Mine is situated, with a view to increasing annual gold production and gold mineral reserve. The Company also plans to pursue opportunities for growth in gold production and gold reserves through the acquisition or development of advanced exploration properties, development properties, producing properties and other mining businesses in the Americas or Europe.

Expenditures on the expansion of the LaRonde Mine and exploration and development in the surrounding region as at September 30, 2004 and the three preceding fiscal years were $32.0 million, $44.1 million, $62.5 million and $37.6 million, respectively. Expenditures for mine expansion, exploration and development for 2004 are expected to have been $55 million. These estimated 2004 expenditures include $27 million of capital expenditures at the LaRonde Mine, $8 million at the LaRonde II project, $13 million for the exploration and development of the Lapa property, $5 million for the exploration and development of the Goldex property, and $2 million for the exploration and development of the Bousquet and Ellison properties. Budgeted 2005 exploration and capital expenditures of $42.0 million consist of $14.1 million of sustaining capital expenditures at the LaRonde Mine, $12.7 million on projects relating to the LaRonde II project, $12.1 million at the Lapa property, $1.5 million on bulk sample and engineering projects at the Goldex property and $1.6 million on drilling at the Bousquet and Ellison properties. The financing for these expenditures is expected to be from internally generated cash flow from operations and from the Company's existing cash balances. Depending on the success of the exploration programs at this and other properties, the Company may be required to make additional capital expenditures for exploration, development and preproduction.

In addition, the Company continuously evaluates opportunities to make strategic acquisitions. In the second quarter of 2004, the Company acquired an ownership interest in Riddarhyttan Resources AB ("Riddarhyttan"), representing 13.8% of its outstanding shares. In late December 2004, Riddarhyttan concluded a rights offering for 7.5 million shares pursuant to which the Company raised its ownership level to 14% of Riddarhyttan's outstanding shares. In connection with this acquisition, two representatives of the Company were elected to Riddarhyttan's board of directors. Riddarhyttan is a precious and base metals exploration and development company with a focus on the Nordic region of Europe. Its shares are listed on the Stockholm Stock Exchange under the symbol "RHYT". Riddarhyttan is the 100% owner of the Suurikuusikko gold deposit, located approximately 550 miles north of Helsinki near the town of Kittilä in Finnish Lapland. Riddarhyttan's property position in the Suurikuusikko area consists of 22 contiguous claims (approximately 4,261 acres) with similar Precambrian greenstone belt geology and topography to the Company's land package in the Abitibi region of Quebec. The Company also recently signed a non-binding letter of intent pursuant to which it is conducting due diligence on an exploration property in northern Mexico with a view to purchasing an option to acquire the property. The Company has no other commitments or agreements with respect to any other acquisitions.

The Company, through its Exploration Division, focuses its exploration activities primarily on the identification of new mineral reserve, mineral resource and development opportunities in the proven producing regions of Canada, with a particular emphasis on northwestern Quebec. The Company currently directly manages exploration on 56 properties in central and eastern Canada and the western United States, including properties acquired from Contact Diamond Corporation (formerly Sudbury Contact Mines Limited) ("Contact Diamond") in September 2004. The Company's Reno, Nevada exploration office, acquired in that transaction, is focused on evaluating exploration opportunities in the western United States and northern Mexico.

The Company was formed by articles of amalgamation under the laws of the Province of Ontario on June 1, 1972 as a result of the amalgamation of Agnico Mines Limited ("Agnico Mines") and Eagle Gold Mines Limited ("Eagle"). Agnico Mines was incorporated under the laws of the Province of Ontario on January 21, 1953 under the name "Cobalt Consolidated Mining Corporation Limited". Eagle was incorporated under the laws of the Province of Ontario on August 14, 1945. The Company's executive and registered office is located at Suite 500, 145 King Street East, Toronto, Ontario, Canada M5C 2Y7; telephone number (416) 947-1212; website: http://www.agnico-eagle.com. The information contained on the website is not part of this Form 20-F.

On December 19, 1989, Agnico-Eagle acquired the remaining 57% interest in Dumagami Mines Limited not already owned by it as a consequence of the amalgamation of Dumagami Mines Limited with a wholly-owned subsidiary of Agnico-Eagle, to continue as one company under the name Dumagami Mines Inc. ("Dumagami"). On December 29, 1992, Dumagami transferred all of its property and assets, including the LaRonde Mine, to Agnico-Eagle and was subsequently dissolved. On December 8, 1993, the Company acquired the remaining 46.3% interest in Goldex Mines Limited not already owned by it, as a consequence of the amalgamation of Goldex Mines Limited with a wholly-owned subsidiary of the Company, to continue as one company under the name Goldex Mines Limited. On January 1, 1996, the Company amalgamated with two wholly-owned subsidiaries, including Goldex Mines Limited.

In October 2001, pursuant to a plan of arrangement, the Company amalgamated with an associated corporation, Mentor Exploration and Development Co., Limited ("Mentor"). In connection with the arrangement, the Company issued 369,348 common shares in consideration for the acquisition of all of the issued and outstanding shares of Mentor that it did not already own.

Effective February 11, 1999, two subsidiaries of the Company, Sudbury Contact Mines, Limited and Silver Century Explorations Ltd. ("Silver Century"), amalgamated pursuant to a court-approved plan of arrangement to form Contact Diamond.

The Company has an approximate 44.2% interest in Contact Diamond. Contact Diamond is a junior exploration and development company with diamond properties in Ontario, Quebec, Nunavut and the Northwest Territories. Contact Diamond is incorporated under the laws of the Province of Ontario and is listed on the Toronto Stock Exchange.

Business Overview

The Company believes that it has a number of key operating strengths that provide distinct competitive advantages.

First, the Company and its predecessors have over three decades of continuous gold production, experience and expertise in metals mining. The Company's operations are located in areas that are supportive of the mining industry. These operations are concentrated in areas among North America's principal gold-producing regions.

Second, the Company believes that it is one of the lowest total cash cost producers in the North American gold mining industry. Although total cash cost per ounce of gold was $269 for 2003, this increased level resulted, in part, from the rescheduling of stope mining sequencing required as a result of the rock fall that occurred during the first quarter of 2003. For 2004, the Company's total cash cost per ounce of gold is estimated to have been between $75 and $85, due principally to higher gold production, higher net byproduct revenue resulting from increased production, higher byproduct metal prices and the elimination of the production royalty on an area of the mine that is mined out. The Company has achieved significant improvements in these measures through the strength of its byproduct revenue, the economies of scale afforded by its large single shaft mine and its dedication to cost-efficient mining operations. In addition, the Company believes its highly motivated work force contributes significantly to continued operational improvements and to the Company's low cost producer status. For 2005, the Company expects total cash cost per ounce of gold produced to be between $135 and $145.

Third, the Company's existing operations at the LaRonde Division provide a sound economic base for additional mineral reserve and production development at the property. The experience gained through building and operating the LaRonde Mine, along with the LaRonde Mine's extensive infrastructure, are expected to support the development of new projects in the region including the Lapa property, the Goldex property and the development project at LaRonde to access the Company's mineral resource base located outside of the Penna Shaft infrastructure (the "LaRonde II" project).

Fourth, the Company's senior management team has an average of 16 years of operating and exploration experience in the mining industry. Management's significant experience has been instrumental in the Company's historical growth and provides a solid base upon which to expand the Company's operations. The geological knowledge that management has gained through its years of experience in mining and developing the LaRonde Division is expected to benefit the Company's current expansion program in the region.

The Company believes it can benefit not only from the existing infrastructure at its mines, but also from geological knowledge that it has gained in mining and developing its properties. The Company's strategy is to capitalize on its mining expertise to exploit fully the potential of its properties. The Company's goal is to apply the proven operating principles of the LaRonde Division to each of its existing and future properties.

The Company continues to focus its resources and efforts on the exploration and development of its properties in the Abitibi region of Quebec, including LaRonde II, the Lapa property, the Goldex property and the LaRonde Mine with a view to increasing annual gold production and gold mineral reserve. The Company is evaluating these properties as potential growth opportunities in the Abitibi region. In 2003, although LaRonde's proven and probable gold mineral reserves were essentially unchanged on a tonnage basis, on the basis of contained gold ounces the Company added approximately 1.0 million ounces of gold to proven and probable mineral reserve, including replacement of 252,000 ounces of gold mined (before mill recoveries and smelter charges). As a result, the LaRonde Division's current proven and probable mineral reserve is estimated to contain approximately 5.0 million ounces of gold, 68.2 million ounces of silver, 2.2 billion pounds of zinc and almost 271.0 million pounds of copper.

The underground workings at the Penna Shaft provide a base from which the Company conducted its drilling program of 161,000 feet in 2004 and will conduct an estimated 174,000 feet of drilling in 2005. For 2004, capital expenditures at the LaRonde Mine together with expenditures on regional projects and other exploration and development projects are estimated to have been $55 million, of which $44.1 million had been spent as at September 30, 2004. These 2004 estimates include $27 million of capital expenditures at the LaRonde Mine, $8 million at the LaRonde II project, $13 million for the exploration and development of the Lapa property, $5 million for the exploration and development of the Goldex property and $2 million for the exploration and development of the Bousquet and Ellison properties. Expenditures at LaRonde II in 2004 are estimated to have been $8 million. The regional development team continues to evaluate the LaRonde II, Lapa and Goldex development project. The Company plans to continue to invest in sustaining and project capital expenditures at the LaRonde Mine together with regional projects and other exploration and development projects. Budgeted 2005 exploration and capital expenditures of $42.0 million consist of $14.1 million at the LaRonde Mine, $12.7 million at the LaRonde II project, $12.1 million at the Lapa property, $1.5 million at the Goldex property and $1.6 million at the Bousquet and Ellison properties. There can be no assurance that the Company will not revise its anticipated capital expenditure program.

In the first quarter of 2003, a rock fall of an estimated 30,000 tons occurred in two production stopes above Level 215 at 7,050 feet below surface during routine operations at the LaRonde Mine. The rock fall did not cause any injuries to employees, damage to equipment or loss of mineral reserves. However, the incident limited the Company's ability to extract ore from the higher grade areas of the mine. Remedial steps were taken, the fallen ore was extracted and the void was backfilled with cemented rock fill. Recovery studies also established that the mining width on four blocks needed to be narrower to establish more quickly the pyramid sequence. This narrowing of stope sizes was a contributing factor to the lower than budget gold production for 2003. In the third quarter of 2003, production drilling challenges further limited the Company's ability to mine higher grade mining blocks in the gold-copper mining areas in the lower part of the mine. As a result, mining activity was concentrated in the zinc-silver rich zones in the upper part of Zone 20 North rather than the higher grade gold stopes in Zone 20 North at depth. This re-sequencing of production resulted in lower than anticipated gold production in 2003 and pushed into future years gold production initially scheduled for 2003.

The Company's growth strategy has been to pursue the expansion of its development base through the acquisition of additional properties in the Americas and Europe. Historically, the Company's producing properties have resulted from a combination of investments in early-stage exploration companies and primary exploration activities. By investing in early-stage exploration companies, the Company has been able to acquire control of exploration properties at favourable prices. The Company's approach to property acquisition has evolved to include joint ventures and partnerships and the acquisition of producing properties and, more recently, has evolved to include consideration of properties outside of Canada and the United States. The Company is currently considering opportunities to acquire development and producing properties in the Americas and Europe.

In the first quarter of 2004, two accidents claimed the lives of an employee and a contract miner. The Commission de la santé et de la sécurité du travail has completed an investigation into these accidents, but has not yet announced a decision as to if it intends to proceed further in respect of the matter. Also, in January 2005, an accident claimed the life of an employee. Other than the investigation discussed above, no regulatory or other action has been initiated against the Company in connection with these industrial accidents. The Company's LaRonde Mine remains one of the safest mines in Quebec with a lower accident frequency index than the provincial mining industry average. Nevertheless, the Company and all of its employees continue with a focused effort to improve workplace safety.

Mining Legislation and Regulation

The mining industry in Canada operates under both federal and provincial legislation governing the exploration, development, operation and decommissioning of mines and mineral processing facilities. Such legislation relates to the method of acquisition and ownership of mining rights, labour, occupational or worker health and safety standards, royalties, mining, exports, reclamation, closure and rehabilitation of mines, and other matters.

The mining industry in Canada is also subject to extensive laws and regulations at both the federal and provincial levels concerning the protection of the environment. The primary federal and provincial regulatory authorities with jurisdiction over the Company's mining operations in respect of environmental matters are the Department of Fisheries and Oceans, the Quebec Ministry of the Environment and the Quebec Ministry of Natural Resources. The construction, development and operation of a mine, mill or refinery requires compliance with applicable environmental laws and regulations and/or review processes including the obtaining of land use permits, water permits, air emissions certifications, hazardous substances management and similar authorizations from various governmental agencies. Environmental laws and regulations impose high standards on the mining industry to reduce or eliminate the effects of waste generated by mining and processing operations and subsequently deposited on the ground or emitted into the air or water. Laws and regulations regarding the decommissioning, reclamation and rehabilitation of mines may require approval of reclamation plans, the provision of financial assurance and the long-term management of former mines.

In Quebec, mining rights are governed by the *Mining Act* (Quebec). In 1966, the mining concession system set out for Crown lands containing mineralized zones by the *Mining Act* (Quebec) was replaced by a system of claims and mining leases. A claim entitles its holder to explore for minerals on the subject land. It remains in force for a term of two years from the date it is registered and may be renewed indefinitely subject to continued exploration works in relation thereto. A mining lease entitles its holder to mine and remove valuable mineral substances from the subject land. Leases are granted initially for a term of 20 years and are renewable up to three times, each for a duration of 10 years.

Organizational Structure

The Company's only significant associate is Contact Diamond (formerly Sudbury Contact Mines Limited), a public company listed on the TSX under the symbol "CO". The Company has an approximate 44.2% interest in Contact Diamond. Contact Diamond is an exploration and development company with diamond properties in Ontario, Quebec, Nunavut and the Northwest Territories. Contact Diamond is a corporation incorporated under the laws of the Province of Ontario. Historically and until August 31, 2003 Contact Diamond had been a subsidiary of the Company. However in 2003, through a series of equity financings, Contact Diamond became more financially independent and the Company's ownership was diluted to less than 50%. Accordingly, Contact Diamond is no longer a subsidiary of the Company and the Company no longer consolidates Contact Diamond's operations with its own. The Company now uses the equity method to account for its interest in Contact

Diamond. Each member of Contact Diamond's management team (other than Matthew Manson, its recently appointed President and Chief Operating Officer) is also a member of the management team of the Company, two of its directors are also directors of the Company (including one director of the Company who is also an officer of the Company), and two of its directors are also officers of the Company. The Company does not have any significant subsidiaries.

Property, Plant and Equipment

LaRonde Division Property

The Company's LaRonde Division consists of the LaRonde property, currently the Company's only material property, and the adjacent El Coco and Terrex properties (collectively the "LaRonde Mine"), each of which is 100% owned and operated by the Company. The LaRonde Mine is situated approximately 35 miles west of the City of Val d'Or in northwestern Quebec (approximately 400 miles northwest of Montreal, Canada) in the municipalities of Preissac and Cadillac. The LaRonde Mine can be accessed from either Val d'Or or Rouyn- Noranda, which is approximately 35 miles west of the LaRonde Mine, via Quebec provincial highway No. 117. The LaRonde Mine is situated approximately 1.2 miles north of highway No. 117 on Quebec regional highway No. 395. The Company has access to the Canadian National Railway at Cadillac, Quebec, roughly four miles from the LaRonde Mine.

Location Map of Agnico-Eagle LaRonde Division

The LaRonde Mine is located in the Abitibi region of northwestern Quebec, a region characterized by its availability of experienced mining personnel. The elevation is 1,106 feet above sea level. All of the LaRonde Mine's power requirements are supplied by Hydro-Quebec through connections to its main power transmission grid. Water used in the LaRonde Mine's operations is sourced from Lac Preissac and is transported approximately 2.5 miles to the mine site through a surface pipeline. The climate of the region is continental and the average annual rainfall is 25 inches and the average annual snowfall is 125 inches. The average monthly temperatures range from a minimum of -23 degrees Celsius in January to a maximum of 23 degrees Celsius in July. Under normal circumstances, mining operations are conducted year round without interruption due to

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weather conditions. However, in 2002 high underground temperatures due to extreme summer heat caused delay in development activity in lower portions of the mine.

The LaRonde Mine operates under mining leases obtained from the Quebec Ministry of Natural Resources and under certificates of approval granted by the Quebec Ministry of the Environment. The LaRonde property consists of 35 contiguous mining claims and two provincial mining leases and covers in total approximately 2,785 acres. The El Coco property consists of 22 contiguous mining claims and a portion of one of the LaRonde provincial mining leases and covers in total approximately 888 acres. The Terrex property consists of 20 mining claims that cover in total approximately 1,009 acres. In Quebec, in order to retain title to mining claims, in addition to paying a small bi-annual rental fee, exploration work (or an equivalent value cash payment) has to be completed in advance (either on the claim or on adjacent claims) and filed with the Quebec Ministry of Natural Resources. The amount of exploration work (and bi-annual rental fee) required bi-annually ranges from $500 to $2,500 per claim (the rate is fixed by Quebec Government regulations). The mining leases on the LaRonde property and on the LaRonde and El Coco properties expire in 2008 and 2021, respectively, and are automatically renewable for three further ten-year terms on payment of a small fee.

The LaRonde Mine includes underground operations at the LaRonde and El Coco properties that can both be accessed from the Penna Shaft, a mill, treatment plant, secondary crusher building and related facilities. The El Coco property was acquired from Barrick Gold Corporation ("Barrick") in June 1999 and is subject to a 50% net profits interest in future production from approximately 500 meters (1,640 feet) east of the LaRonde property boundary. The remaining 1,500 meters (4,921 feet) is subject to a 4% net smelter return royalty. This area of the property is now substantially mined out and therefore the Company did not pay royalties in 2004 and does not expect to pay royalties in 2005. In 2003, exploration work started to extend outside of the LaRonde property on to the Terrex property where a down plunge extension of the 20 North gold zone was discovered. The Terrex property is subject to a 5% net profits royalty to Delfer Gold Mines Inc., a 1% of the net smelter return royalty to Breakwater Resources Ltd. and a 2% of the net smelter return royalty to Barrick. In addition, the Company owns 100% of the Sphinx property immediately to the east of the El Coco property.

Mining and Milling Facilities

The LaRonde Mine was originally developed utilizing a 3,961 foot shaft (Shaft #1) and an underground ramp access system. The ramp access system is available down to the 25th Level of Shaft #1 and then continues down to Level 152 at the Penna Shaft. The mineral reserve accessible from Shaft #1 was depleted in September 2000. Shaft #1 is currently being used as a second escape way and provides services for the Penna Shaft (i.e. ventilation, compressed air, water). A second production shaft (Shaft #2), located 4,000 feet to the east of Shaft #1, was completed in 1994 down to a depth of 1,722 feet and was used to mine Zones #6 and #7. Both ore zones were depleted in March 2000 and the workings were allowed to flood up to the 6th Level. A third shaft (Penna Shaft, formerly called Shaft #3) located approximately 1,640 feet to the east of Shaft #1, was completed down to a depth of 7,380 feet in March 2000. The Penna Shaft is used to mine Zones 20 North, 20 South, 7 and 6.

Four mining methods have historically been used at the LaRonde Mine: open pit for the two surface deposits, sublevel retreat, longitudinal retreat with cemented backfill, and transverse open stoping with both cemented and unconsolidated backfill. The primary source of ore at the LaRonde Mine continues to be from underground mining methods. During 2003, two methods were used: longitudinal retreat with cemented backfill and transverse open stoping with both cemented and unconsolidated backfill. In the underground mine, sublevels are driven at 100 foot and 130 foot intervals, depending on the depth. Stopes are undercut in 45-foot panels. In the longitudinal method, panels are mined in 45-foot sections and backfilled with 100% cemented rock fill or paste fill. In the transverse open stoping method, 50% of the ore is mined in the first pass and filled with cemented rock fill or paste fill from the paste backfill plant completed two years ago located on the surface at the milling facility. On the second pass, the remainder of the ore is mined and filled with unconsolidated waste rock fill or paste fill.

Currently, water is treated at various facilities at the LaRonde Division. Prior to the water entering the tailings pond system, cyanide is removed at a cyanide destruction facility using a sulphur dioxide (Inco) process. A secondary treatment plant located between the #1 and #2 polishing ponds uses a peroxysilica process to complete the cyanide destruction process. In addition, water with higher than permissible acidity is treated by lime in the mill complex prior to being released to the environment. In the first quarter of 2004, in response to revised Federal mining effluent regulations, the Company completed and commissioned a new water treatment plant that will reduce tailing effluent toxicity immediately prior to discharge. The plant uses a biological treatment process. Prior to the completion of the water treatment plant, the Company retained excess water in its tailing pond complex. At the end of March 2004 treated water released from the plant successfully passed a toxicity test. The flow rate is steadily being increased as the biomass continues to build up. In 2004, high water levels at the tailings pond at LaRonde caused by above average rainfall and overcast conditions were mitigated by a discharge of slightly toxic water into the environment that was permitted by the Quebec Ministere de l'Environnement. Also, the Company installed a coffer dam in the tailings pond to provide extra capacity. In 2004, the Company initiated construction on a second phase expansion of the water treatment plant and to further increase treatment capacity. Estimated expenditures on this second phase expansion are $4.2 million and construction is expected to be completed in the first quarter of 2005.

Tailings are stored in tailings ponds covering an area of approximately 293 acres and waste rock is stored in two waste rock piles with a combined volume of approximately 50.4 million cubic feet. The Company holds mining claims to the northeast, to the east and to the southeast of the tailings ponds that would allow expansion of the tailings ponds and the establishment of additional waste disposal areas.

Surface facilities at the LaRonde Mine include a 7,000 tons of ore treated per day milling complex, which has been expanded three times from the original 2,000 tons of ore treated per day rate. The first expansion to 3,600 tons per day was completed at the beginning of 2000 and the second expansion to 5,000 tons per day was completed at the end of the third quarter of 2001. The expansion to 7,000 tons per day was completed in October 2002. This expansion consisted of additions to the grinding and precious metals circuits and modifications to the copper and zinc flotation circuits. A new ore handling system was completed at the end of 1999. It included a truck dump linked by a new conveyor gallery to a 5,000-ton coarse ore bin. The coarse ore bin feeds a semi-autogenous (SAG) mill that was installed at the end of 1999. Ore from the Penna Shaft is transported to the ore handling facility by 35-ton trucks.

The milling complex consists of a grinding, gravity, copper flotation, zinc flotation, and a precious metals recovery circuit and refinery. A copper concentrate containing approximately 75% of the gold and by product silver and copper is recovered. The zinc flotation circuit produces a zinc concentrate containing approximately 5% of the gold. The remaining 20% is recovered partly by the gravity circuit (5%) and the precious metals circuit including a new refinery using the Merrill Crowe process (15%) and shipped as doré bars. Both the zinc and copper flotation circuits consist of a series of column and mechanical cells that sequentially increase the zinc concentrate and copper concentrate quality. In 2003, zinc recoveries averaged 78.2% with peak monthly recovery rates exceeding 82.5% on a daily basis (83.1% on a monthly basis). Zinc concentrate quality has averaged over 53.25% zinc. Copper recoveries have averaged over 80.3%, however, with peak monthly recovery rates of 86.2% on a monthly basis. Copper concentrate quality averaged 17.1% for the year. In the first three quarters of 2004, zinc recoveries averaged 84.0% with high and low monthly recovery rates approximately 85.1% and 80.7%, respectively, and copper recoveries averaged 78.8%, with high and low monthly recovery rates of 83.1% and 72.3%, respectively. Copper concentrate quality averaged 14.7% for the first three quarters of 2004.

Since commercial production began in 1988, gold recoveries have averaged over 92%. During 2003 and the first three quarters of 2004, gold recoveries averaged over 91.4% and 91.9%, respectively. In 2003, silver recoveries averaged 82.6%. During 2003 and the first three quarters of 2004, the mill processed approximately 2.4 million and 2.2 million tons of ore, respectively, averaging approximately 6,700 and 8,000 tons of ore treated per day, respectively, and operating over 89.6% and 93.2% of available time in such periods, respectively.

The following table sets out the metal recoveries, concentrate grades and contained metals for the 2.449 million tons of ore extracted by the Company at the LaRonde Division in 2003.

		Copper Concentrate (63,037 tons produced)		Zinc Concentrate (111,747 tons produced)				
	Head Grades	Grade	Recovery	Grade	Recovery	Doré Produced (000s)	Overall Metal Recoveries	Payable Production (000s)
Gold	0.11 oz/t	2.40 oz/t	57.63%	0.22 oz/t	9.57%	62.1 oz	91.51%	236.7 oz
Silver	2.16 oz/t	44.16 oz/t	47.93%	6.97 oz/t	14.74%	924.6 oz	82.79%	3,953 oz
Zinc	3.10%	7.43%		53.25%	78.19%		78.19%	100,337 lbs
Copper	0.55%	17.10%	80.30%				80.30%	20,131 lbs

Development

In the latter half of 2003 and in 2004, development was focused on preparing mining blocks well in advance of their planned production to mitigate the impact of any unforeseen development delays on production. Development also focused on completing ramp development between Level 194 and Level 215. This ramp development was completed in the third quarter of 2003 bringing about additional mining flexibility as mining equipment is no longer captive on mining horizons between these levels. In 2004, the Company initiated ramp development construction between Level 215, the lowest producing level of the LaRonde Mine, and Level 236 in order to establish a new mining horizon for production on this lower level. The Company expects that the first mining blocks on Level 236 should be ready for mining by the end of 2005. Also construction will continue on a ramp between the upper and lower mining horizons of the Penna Shaft that will provide the Company with continuous ramp access from the surface to Level 236. The Company expects to complete this ramp development program in mid 2005.

Development along Level 215 continued in 2003 as the Level 215 drift continued toward the western property boundary. This drift is a base for our continued drilling on Zone 20 North at depth. For 2004, development crews focused on continuing the Level 215 drift to the west as drilling from this level is pivotal to the Company's ongoing testing of Zone 20 North at depth and to the west. In 2005, development and exploration activity will continue from the Level 215 Exploration Drift. At September 30, 2004, development activity had reached 200 feet to the west of the boundary between the LaRonde and Bousquet properties. The exploration drift will be extended an additional 2,000 feet by mid 2005. The focus of the development activity will be to define the western limit of Zone 20 North at depth and to acquire additional information on the high grade polymetallic zone of Zone 20 North at depth and to the west.

Geology and Diamond Drilling

Geologically, the LaRonde Mine property is located near the southern boundary of the Archean-age (2.7 billion years old) Abitibi Sub-Province and the Pontiac Sub-Province within the Superior Province of the Canadian Shield. The most important regional structure is the Cadillac-Larder Lake fault zone marking the contact between the Abitibi and the Pontiac sub-provinces, located approximately 1.2 miles to the south of the LaRonde property.

The geology that underlies the LaRonde Mine consists of three east-west trending, steeply south dipping and generally southward facing regional lithological units (geological Groups). The units are, from north to south: (i) 1,200 feet of the Kewagama Group which is made up of thick band of interbedded wacke; (ii) 5,000 feet of the Blake River Group, a volcanic assemblage which hosts all the known economic mineralisation on the property; and (iii) 1,800 feet of the Cadillac Group, made up of thick band of wacke interbedded with pelitic schist and minor iron formation.

Zones of strong sericite and chlorite alterations, which enclose massive to disseminated sulphide mineralization (in which gold, silver, copper and zinc are mined at the LaRonde Mine) follow steeply dipping, east-west trending, anastomosing shear zone structures within the Blake River Group volcanic units from east to west across the property. These shear zones comprise a larger structure, the Doyon-Dumagami Structural Zone, which hosts several important gold occurrences (including the Doyon gold mine and the former Bousquet mines) and has been traced for over 6 miles within the Blake River Group from the LaRonde Division property westward to the Mouska gold mine.

The gold bearing zones at the LaRonde Division are lens-shaped aggregates of disseminated, stringer through to massive, aggregates of coarse pyrite with a copper, zinc and silver content. Ten zones that vary in size from 50,000 to 40,000,000 tons have been identified, of which eight are believed to be economic. Gold content is not proportional to the total sulphide content but does increase with copper content. Gold values are also enhanced where closely spaced north-south fractures cut the pyrite lenses.

These historical relationships are maintained at the Penna Shaft zones. The zinc-silver (i.e. Zone 20 North) mineralization, which is common in the upper Penna Shaft area and contains lower gold values, grades into gold-copper mineralization at depth. North-south fractures have been noted in the Penna Shaft underground development along with the associated gold value enhancement.

The copper mineral that is present at the Penna Shaft is chalcopyrite while the predominant zinc mineral is sphalerite.

Compared to the mineral reserve estimate as of December 31, 2002, on a tonnage basis, the LaRonde Division's combined proven and probable mineral reserve decreased 0.2% to 41.6 million tons in 2003. The 41.6 million tons of mineral reserves includes the replacement of 2.4 million tons that were mined in 2003. The Company's ability to sustain its level of proven and probable mineral reserve was primarily due to continued successful exploration results at depth.

In 2003, drilling targeted continued definition of Zone 20 North, delineation and definition drilling of Zone 7, deep exploration testing the extension of Zone 20 North at depth and to the west. The Zone 7 drilling program was largely completed in 2003 with the first production mining block from Zone 7 being mined in January 2004. The testing of Zone 20 North at depth and to the west continued into 2004 as the property boundary constraints were removed with the Company's purchase of the Bousquet property and the Terrex property. In 2004, the focus of the exploration program was to continue the conversion of mineral resource to mineral reserve, to complete the definition of Zone 20 North at depth, to confirm potential higher grade core at depth, and to test for the extension of Zone 20 South at depth and to the west. The results of the exploration program will be incorporated into the deep mining feasibility study that the Company expects to complete by mid 2005. A summary of the diamond drilling completed on the LaRonde Mine property is set out below:

	Number of Holes Drilled		**Feet Drilled**	
LaRonde Target for Diamond Drilling	**2003**	**2004**	**2003**	**2004**
Production Stope Delineation	218	180	43,285	35,880
Definition	84	54	50,479	24,852
Deep Exploration (Zone 20 North)	41	41	69,171	98,749
TOTAL	343	275	162,935	159,481

The combined cost of the diamond drilling at the LaRonde Mine was approximately $5.0 million in 2003 (including $0.5 million in definition drilling expenses charged to operating costs at the LaRonde Mine and also the cost of the Level 215 exploration drift and services) and is estimated to have been $2.0 million in 2004. The total cost of exploration incurred since production started at the LaRonde Mine in 1988 is estimated to be over C$53.9 million. Expenditures on exploration and studies for LaRonde II (Zone 20 North at depth) are estimated to have been $3.8 million in 2004 and is expected to be $12.7 million in 2005. In the first three quarters of 2004, the Company spent $3.0 million on exploration and studies for LaRonde II.

Zone 20 North has developed into what the Company believes is one of the largest gold bearing massive sulphide mineralized zones known in the world and one of the largest mineralized zones known in the Abitibi region of Ontario and Quebec. The following table summarizes Zone 20 North's contribution to the LaRonde Mine's mineral reserve:

	Proven and Probable Mineral Reserves
Total LaRonde Property	41,602,000 tons
Zone 20 North	39,208,000 tons

The following table summarizes Zone 20 North's contribution to the LaRonde Mine's mineral resource (see "Note to Investors Concerning Estimates of Mineral Resources"):

	Measured and Indicated Mineral Resources
Total LaRonde Property	3,716,000 tons
Zone 20 North	2,468,000 tons

	Inferred Mineral Resource
Total LaRonde Property	15,294,000 tons
Zone 20 North	14,189,000 tons

Zone 20 North initially occurs at a depth of 2,700 feet below surface and has been traced down to a depth of 9,900 feet below surface. With increased access on the lower levels of the mine (i.e., Levels 170, 194, 212, 215 and 220), the transformation from a "zinc/silver" ore body to a "gold/copper" deposit continued during 2003 and 2004. Most of the definition drilling was conducted from Levels 194 and 215. In 2003 and 2004, exploration drilling was also conducted from Level 220, the lowest level of the Penna Shaft.

Zone 20 North can be divided into an upper zinc/silver-enriched zone and a lower gold/copper-enriched zone. The zinc zone has been traced over a vertical distance of 2,600 feet and a horizontal distance of 1,900 feet, with thicknesses approaching 125 feet. The gold zone has been traced over a vertical distance of over 4,400 feet and a horizontal distance of 2,000 feet, with thicknesses varying from 35 feet to 100 feet. The zinc zone consists of massive zinc/silver mineralization containing 50% to 90% massive pyrite and 10% to 50% massive light brown sphalerite. The gold zone mineralization consists of 30% to 70% finely disseminated to massive pyrite containing 1% to 10% chalcopyrite veinlets, minor disseminated sphalerite and rare specks of visible gold. Gold grades are generally related to the chalcopyrite or copper content. This is the same historical relationship noted at Shaft #1's Main Zone. At depth, the massive sulphide lens becomes richer in gold and copper. During 2003, 2.1 million tons of ore grading 0.09 ounces of gold per ton, 2.44 ounces of silver per ton, 0.41% copper and 4.06% zinc were mined from Zone 20 North. In the first three quarters of 2004, 2.1 million tons of ore grading 0.10 ounces of gold per ton, 2.62 ounces of silver per ton, 0.55% copper and 4.31% zinc were mined from Zone 20 North.

Drilling results in 2003 continued to delineate and increase the size of the zone while demonstrating the transformation from a zinc/silver ore body to a gold deposit at depth. One of the most significant results of the year was obtained from drill hole 3215-68A. The drill hole intersected the following values:

Drill Hole	True Thickness (ft)	Interval (ft) From	Interval (ft) To	Gold (oz/ton) Cut (1.5 oz)	Silver (oz/ton)	Copper (%)	Zinc (%)
3215-68A (North)	45.9	4,160.0	4,245.0	0.19	2.21	0.61	1.87

The result is significant because of the reoccurrence of the massive sulphide bands with locally up to 15% chalcopyrite mineralization and the reoccurrence of zinc values. The value was located 4,352 feet to the west of the Penna Shaft, on the recently acquired Terrex property, representing the most westerly drill hole completed on Zone 20 North at depth.

The 2003 development and drilling results have indicated the following:

- Existence of a higher grade gold core at depth.
- Existence of multiple lenses at depth that are open for further exploration.
- Zone 20 North is open for further expansion at depth and more importantly on the recently acquired Bousquet and Terrex properties to the west and south.
- The drilling results continue to have major geologic implications for further exploration along the Cadillac Belt.

In the first nine months of 2004, two additional drill holes were completed which tested the Zone 20 North's polymetallic zone at depth. The results are summarized below:

Drill Hole	True Thickness (ft)	Interval (ft) From	Interval (ft) To	Gold (oz/ton) Cut (1.5 oz)	Silver (oz/ton)	Copper (%)	Zinc (%)
3215-85D	12.1	3,784.1	3,800.2	0.26	1.95	0.37	9.66
Uncut	12.1	3,784.1	3,800.2	0.59	1.95	0.37	9.66
3215-95	40.7	3,103.6	3,152.2	0.22	1.60	0.52	6.26
Uncut	40.7	3,103.6	3,152.2	0.26	1.60	0.52	6.26

These results further confirm the existence of a higher grade polymetallic zone at depth. The most significant result was obtained in drill hole 3215-95, which is the third hole to confirm the existence of a higher grade polymetallic zone at depth. The intercept, located at a depth of 9,339 feet and approximately 3,700 feet to the west of the Penna Shaft, straddles the boundary of the LaRonde and Terrex properties. The intersection consisted of 30% to 90% massive pyrite with occurrences of sphalerite and chalcopyrite hosted by a siliceous matrix. Visible gold was noted in a quartz vein. The vein graded 2.55 ounces of gold (uncut) over an interval of 2.1 feet. With the most recent results, the polymetallic zone has been traced over a length of approximately 1,500 feet and a vertical height of 500 feet. These results will be used in the preparation of the Company's deep mining feasibility study that is expected to be completed in mid 2005.

Agnico-Eagle currently controls almost 20 miles along this belt both east and west of the LaRonde Mine, much of which remains unexplored. Access to a portion of this property holding provided by the LaRonde Mine's underground infrastructure will facilitate further exploration.

Historically, increased drill hole density has improved initial mineral reserve and mineral resource estimates based on widely spaced drill holes usually drilled from the shaft stations. Ultimately, development within the ore zones has confirmed or upgraded the original estimates.

Zone 20 South is located approximately 400 feet south of Zone 20 North. It consists of at least two known disseminated to massive sulphide gold/copper/zinc-bearing lenses made up of 80% to 90% pyrite, 5% to 10% sphalerite and 1% to 3% chalcopyrite. The Zone 20 South horizon has been traced over a vertical distance of 5,300 feet and a horizontal distance of 400 feet, with a mineralized thickness varying from 10 feet to 40 feet. The El Coco property contains the eastern extension of Zone 20 South. The current mineral reserve position on Zone 20 South on the LaRonde property is 189,600 ounces and on the El Coco property is 3,900 ounces. In 2003, approximately 114,100 tons grading 0.14 ounces of gold per ton were mined from Zone 20 South on the LaRonde property and over 178,800 tons grading 0.17 ounces of gold per ton were mined from Zone 20 South on the El Coco property. In the first three quarters of 2004, approximately 36,100 tons grading 0.14 ounces of gold per ton were mined from Zone 20 South on the LaRonde property and over 22,800 tons grading 0.20 ounces of gold per ton were mined from Zone 20 South on the El Coco property. As at December 31, 2003, the reserves on the El Coco property were substantially depleted.

Reserves in Zone 20 South in the upper Penna Shaft area are depleting rapidly and have been substantially depleted on the El Coco property. The bulk of the current reserves (almost 193,500 ounces of gold) are located in the lower mine area. Mineralization of Zone 20 South in this lower area of the Penna Shaft appears to be very similar to what was initially encountered in Zone 20 South near Level 146 where the mineralization is narrow, high-grade but more difficult to define. Additional high-grade gold mineralization at depth could have a significant impact on the long-term mine plan. High grade mineralization just above Level 215 has not yet been factored into the long-term mine plan.

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The significance of Zone 20 South production can be summarized as follows:

- Zone 20 South is characterized by higher-grade mineralization frequently accompanied by coarse visible gold.

- Reserves on the El Coco property were substantially depleted as at December 31, 2003 and production since then has come from royalty-free areas of Zone 20 South lens production.

- Unlike the typical LaRonde massive sulphide model, higher gold grades are frequently accompanied by higher-grade silver/zinc mineralization. In the LaRonde geological model, higher-grade gold mineralization is normally accompanied by corresponding higher copper values.

- Mineralization is continuous down to Level 154 (5,050 feet below surface). Economic mineralization reoccurs at the Level 170 horizon (5,600 feet below surface) and is open at depth. Mineralization has been traced to a depth of 7,800 feet.

- Zone 20 South will require significantly more delineation drilling. Zone 20 South will be drilled from the Level 215 exploration drift, resulting in shorter drill holes and significantly tighter drill spacing.

In the first three quarters of 2004, 14 drill holes were completed in Zone 20 South below Level 215. The results were highly erratic and generally poor. While additional drilling will be conducted in 2005, the current results do not justify an economic evaluation.

The 2004 drilling program continued testing Zone 20 North at depth and to the west and will continue upper and lower mine delineation drilling. In addition to drilling conducted from the LaRonde Mine infrastructure, drilling was also conducted in 2004 using the underground infrastructure available from the Company's recently acquired Bousquet property. For 2004, three main areas of drilling were conducted including testing potential extensions of mineralization at depth on the Ellison property from the 9th Level and drilling from bottom of the Bousquet Shaft to probe the results at depth encountered in Drill Hole 3215-68A, intersected from LaRonde's Level 215 exploration drift.

Capital Projects and Expansion

Installation of a crushing plant and conveyor system at 7,200 feet below surface was completed in the second quarter of 2003. In addition, the paste backfill distribution network in the lower areas of the mine was completed in the fourth quarter of 2003. The Company also completed the extension of the exhaust system to Level 215 and installed additional cooling systems at depth during the second quarter of 2003.

In 2004, the Company commissioned a water treatment plant that reduces tailing effluent toxicity immediately prior to discharge. The Company has initiated construction on a second phase expansion of the water treatment plant to further increase treatment capacity. In 2004, the Company initiated ramp development between Level 215 and Level 236. The Company expects to complete this development and ramp construction between the upper and lower mining horizons at the Penna Shaft in 2005.

The regional development team will continue to evaluate the development project at LaRonde II, the Company's mineral resource base located outside of the Penna Shaft infrastructure. In 2004, the Company continued the deep drilling program from the Level 215 drift and the bottom of the Bousquet Shaft to incorporate those results into a feasibility study which is expected to be completed in mid 2005. In connection with the preparation of this feasibility study, the development team is also refining studies of the technical issues associated with deep mining.

The Company initially planned capital expenditures of $31.4 million in 2004, but revised that amount to $55 million, with the increase primarily due to the commencement of underground programs at Lapa and Goldex projects (see "Lapa Project" and "Goldex Project"). Budgeted 2005 exploration and capital expenditures of $42 million consist of $14.1 million of sustaining capital expenditures at the LaRonde Mine, $12.7 million on projects relating to LaRonde II, $12.1 million on the Lapa property, $1.5 million on the bulk sample and engineering projects at the Goldex property and $1.6 million on drilling at the Bousquet and Ellison properties. During 2005, the Company plans exploration expenditures on grassroots exploration projects of approximately $4.8 million.

Mineral Reserve and Mineral Resource

The information set forth below with respect to the mineral reserves at the LaRonde Division, Bousquet, Ellison, Goldex and Lapa properties has been prepared by the following qualified people in accordance with the Canadian Securities Administrators' National Instrument 43-101 ("National Instrument 43-101"):

Property	Qualified person responsible for mineral reserve estimates
LaRonde Division	Guy Gosselin, P.Eng., P.Geo., Chief Geologist, LaRonde Division
Bousquet and Ellison	Normand Bedard, P.Geo., Senior Geologist, Regional Project Division
Lapa and Goldex	Marc Legault, P.Eng., Manager, Project Evaluations

The qualified person responsible for the LaRonde II, Lapa and Goldex preliminary feasibility studies is Rosaire Emond, P.Eng., Senior Mining Engineer, Regional Project Division.

The Company's Manager, Project Evaluations, Marc H. Legault, P.Eng., a "qualified person" under National Instrument 43-101, has supervised the preparation of and verified the information that forms the basis for the scientific and technical information in this Form 20-F.

The criteria set forth in National Instrument 43-101 are similar to the reserve definitions and guidelines for classification of mineral resource used by the United States Securities and Exchange Commission's Industry Guide No. 7. However, the definitions in National Instrument 43-101 differ in certain respects from the definitions set forth in the United States Securities and Exchange Commission's Industry Guide No. 7 concerning mining operations. The Company's mineral reserve estimate was derived from internally generated data or audited reports.

Cautionary Note to Investors concerning estimates of Measured and Indicated Resources

This section uses the terms "measured resources" and "indicated resources." We advise investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. **Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.**

Cautionary Note to Investors concerning estimates of Inferred Resources

This section uses the term "inferred resources." We advise investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. "Inferred resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases**. Investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.**

A "Mineral Reserve" is the economically mineable part of a measured or indicated resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allows for losses that may occur when the material is mined.

A "Proven Mineral Reserve" is the economically mineable part of a measured resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit.

A "Probable Mineral Reserve" is the economically mineable part of an indicated mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit.

A "Mineral Resource" is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

A "Measured Mineral Resource" is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

An "Indicated Mineral Resource" is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

A "Preliminary Feasibility Study" means a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established, and which, if an effective method of mineral processing has been determined, includes a financial analysis based on reasonable assumptions of technical, engineering, operating, economic factors and the evaluation of other relevant factors which are sufficient for a qualified person, acting reasonably, to determine if all or part of the Mineral Resource may be classified as a Mineral Reserve.

Canadian Securities Administrators' National Instrument 43-101 requires mining companies to disclose reserves and resources using the subcategories of "proven" reserves, "probable" reserves, "measured" resources, "indicated" resources and "inferred" resources. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

"Cut-off Grade" means (a) in respect of mineral resources, the lowest grade below which the mineralized rock currently cannot reasonably be expected to be economically extracted, and (b) in respect of mineral reserves, the lowest grade below which the mineralized rock currently cannot be economically extracted as demonstrated by either a preliminary feasibility study or a feasibility study. Cut-off grades vary between deposits depending upon the amenability of ore to gold extraction and upon costs of production and metal prices.

	at December 31,		
LaRonde Division	**2003**	**2002**	**2001**
Gold			
Proven(1) tons	4,083,000	3,800,000	1,900,000
Average grade gold ounces per ton	0.14	0.13	0.17
Probable(1) tons	25,893,000	22,700,000	18,200,000
Average grade gold ounces per ton	0.16	0.13	0.14
Zinc			
Proven tons	2,764,000	4,200,000	4,500,000
Average grade gold ounces per ton	0.03	0.03	0.03
Probable tons	8,862,000	11,000,000	11,700,000
Average grade gold ounces per ton	0.03	0.03	0.03
Total mineral reserve tons	41,602,000	41,700,000	36,300,000
Total contained gold ounces(2)	**5,020,000**	4,022,000	3,267,000

Tonnage information is rounded to the nearest 100,000 tons.

Notes:

(1) The proven and probable mineral reserves set forth in the table above are based on net smelter return cut-off value of the ore that varies between C$35.38 per ton and C$54.43 per ton depending on the deposit. (For instance, the C$35.38 cut-off, which is supported by LaRonde engineering reports that demonstrate that economic extraction can be justified, is applied only in respect of the recovery of gold mineralization located in a part of the LaRonde Mine immediately adjacent to zinc mineralization to which the C$54.43 cut-off applies. The zinc mineralization is economic at a cut-off grade of C$54.43 and will be extracted in the ordinary course. When the zinc mineralization is extracted, the access costs for the zinc will have been incurred. To extract the gold mineralization from this area once the adjacent zinc mineralization has been extracted, the Company will not have to incur additional access costs. As a result, the incremental cost of extracting the gold mineralization is low, and a cut-off grade of C$35.38 is appropriate.) The metal grades reported in the mineral reserve estimate represent in-place grades and do not reflect losses in the recovery process, that is, the metallurgical losses associated with processing the extracted ore. The Company's historical metallurgical recovery rates for gold at the LaRonde Mine to December 31, 2003 were 92.0%. The Company's estimated metallurgical recovery rates for the first three quarters of 2004 from the LaRonde Mine were 91.9% for gold, 86.7% for silver, 78.8% for copper and 84.0% for zinc. The mineral reserve figures presented herein are estimates, and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized.

The 2004 mineral reserve and mineral resource estimate at LaRonde was calculated using a gold price of $325 per ounce, a silver price of $5.00 per ounce, a copper price of $0.80 per pound, a zinc price of $0.50 per pound and a US$/C$ exchange rate of $1.40. The metal and foreign exchange assumptions were changed in 2003 resulting from changes in the prices for each metal and US$/C$ exchange rate. The impact of the increase in gold price from $300 to $325 was essentially negated by the change in the US$/C$ exchange rate from $1.50 to $1.40. Using a $300 gold price, gold reserves would decrease by approximately 6%, whereas using a gold price of $350 would increase reserves by approximately 6%.

(2) Represents contained gold ounces and does not include equivalent gold ounces for the byproduct metals contained in mineral reserve.

Reconciliation of LaRonde Division Mineral Reserve

The following table shows the reconciliation of mineral reserve (in nearest 100,000 tons) at the LaRonde Division by category as at December 31, 2002 to December 31, 2003.

	Proven	**Probable**	**Total**
December 31, 2002	8,000,000	33,700,000	41,700,000
Mined	(2,410,000)		(2,410,000)

	Proven	Probable	Total
Revision	1,258,000	1,054,000	2,312,000
December 31, 2003	6,848,000	34,754,000	41,602,000

Preparation of Scientific and Technical Data

The personnel at the LaRonde Division utilize quality assurance procedures and assay protocols in connection with drilling and sampling that conform to industry-accepted quality control procedures. Exploration drilling is carried out on approximately a 400-foot by 400-foot pattern, whereas reserve drilling is carried out on approximately a 130-foot by 130-foot pattern. Samples are taken at regular (one foot to five feet) intervals and assayed for gold using the fire assay method. Drill hole collar, survey and assay information used in modelling and resource estimation are manually verified by on-site geologic staff and all core sample metal grades are verified by independent assay laboratories. Factors that could affect the accuracy or reliability of the results of the sampling and assaying carried out at the LaRonde Division include uncleanliness of the coreshack area, a dirty coresaw, the lack of an unobstructed drain for water and rock cuttings during the cutting process, the inability to collect uniform representative samples of adequate size, as well as an ore core recovery of less than 100%. In cases of irregular mineralization, representative samples are sometimes chosen in order to avoid introducing a sampling bias during cutting.

Complete information on the verification procedures, the quality assurance program, quality control procedures, operating and capital cost assumptions, parameters and methods and a full discussion of the factors that may materially affect mineral reserve and mineral resource estimates may be found in the 2004 LaRonde Mineral Resource and Mineral Reserve Estimate, Agnico-Eagle Mines Limited, LaRonde Division dated November 15, 2004, filed with Canadian Securities Administrators on SEDAR.

Lapa Project

The Lapa Project is an advanced stage exploration property located approximately seven miles east of the LaRonde Mine near Cadillac, Quebec and is accessible by provincial highway. The Lapa property, which contains the Contact Zone deposit, is made up of the Tonawanda property, which consists of 42 mining claims totalling approximately 1,912 acres, and the Zulapa property, which consists of one mining concession totalling approximately 231 acres. In 2003, the Company purchased the Lapa property from Breakwater Resources for a payment of $8.925 million, a 1% net smelter return royalty on the Tonawanda property and a 0.5% net smelter return royalty on the Zulapa property. An additional $1 million is payable to Breakwater if the published inferred mineral resource at the Lapa property reaches 2.0 million ounces of gold. Of the total potential cash consideration of $9.925 million, $2.0 million may be used by the Company as a credit to offset net smelter return royalties payable.

In the first quarter of 2003, the Company completed a mineral reserve and mineral resource estimate on the Contact Zone deposit conforming to National Instrument 43-101. In February 2003, the mineral resource estimate was 3,270,546 tons grading 0.249 ounces per ton of gold. Most of the mineralized drill holes contain visible gold. For this mineral resource estimate, high assay values were capped at 1.50 ounces per ton. Drilling throughout 2003 also confirmed a potentially new zone, the Contact South Zone, immediately adjacent to the west of the Contact Zone. The 2003 drilling program also focused on infill drilling that resulted in the resource to reserve conversion at year end.

Throughout 2003, the Company also focused on collecting material to be used in conducting metallurgical testing and preliminary engineering and baseline environmental studies have been initiated. Drilling in 2004 concentrated on expanding the known orebodies (Contact Zone and Contact South Zone) as well as drilling untested portions of the volcano-sedimentary contact in the eastern portion of the property. Preliminary engineering throughout 2004 was focused on providing various options for the development of the property. In 2004 the Company initiated a project to sink a 2,700 foot deep shaft at the Lapa property. Completion of the shaft is expected to occur in 2006. The shaft will provide access for underground diamond drilling to test the depth potential of the deposit, confirm appropriate mining methods and initiate a bulk sampling program. Activity at the Lapa property in 2005 will focus on the construction of the shaft and initiating the underground drilling program.

As of December 31, 2003, a mineral reserve estimate was conducted on the Lapa property which, when it was incorporated into a preliminary feasibility study, led to the following results.

	December 31, 2003
Gold	
Probable tons	4,661,000
Average grade gold ounces per ton	0.25
Total mineral reserve tons	4,661,000
Total contained gold ounces	**1,187,000**

Tonnage information is rounded to the nearest 100,000 tons.

Notes:

(1) The 2003 mineral reserve and mineral resource estimate was calculated using a gold price of $325 per ounce and a US$/C$ exchange rate of $1.40. In estimating the Lapa probable mineral reserve and mineral resource, cut-off grades of 0.19 and 0.15 ounces per ton, respectively, were used to evaluate drill intercepts that have been adjusted to respect a minimum mining width of 9.2 feet. Separate cut-off grades are used for the estimation of mineral reserves and mineral resources. The cut-off grade used for the estimate of mineral reserves is based on the grades used in the preliminary feasibility study or feasibility study that supports the estimate of mineral reserves whereas the cut-off grade used for the estimation of mineral resources is determined by the Company based on the minimum grade of ore that has reasonable prospects for economic extraction. The estimate was derived using a three dimensional block model of the deposit; the grades were interpolated using the inverse distance power squared method. The metal grades reported in the mineral reserve estimate represent in-place grades and do not reflect losses in the recovery process, that is, the metallurgical losses associated with processing the extracted ore. The mineral reserve figures presented herein are estimates, and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. In addition to the mineral reserves set out above, the Lapa property contained 0.7 million tons of measured and indicated mineral resource grading 0.16 ounces of gold per ton and 0.3 million tons of inferred mineral resource grading 0.18 ounces of gold per ton.

(2) For the 2004 mineral reserve and mineral resource estimate, high assay values were capped at 1.5 and 2.0 ounces of gold per ton, respectively, for the Contact and Contact South Zones.

Preparation of Scientific and Technical Data

All Lapa drill core has been logged and the results have been verified by Dino Lombardi, P.Geo., Senior Geologist, Exploration Division, who is fully qualified per the standards outlined in National Instrument 43-101. The Exploration Division personnel utilize quality assurance and assay protocols that conform to industry accepted quality control procedures. Exploration drilling at Lapa is carried out on approximately a 400-foot by 400-foot pattern, whereas probable reserve drilling is carried out on approximately a 260-foot by 260-foot pattern. Samples are taken consecutively at one foot to five feet intervals. The drill core selected for analysis is sawed in half with one half sent to a commercial laboratory and the other half retained for future reference. Upon reception of the assay results, the pulps and rejects are recovered and submitted to a second laboratory for check-assay purposes. The gold assaying method uses a 30-gram sample by Fire Assay or Metallic Sieve finish as requested by the project geologist. The laboratories used are Bourlamaque Assay Laboratories Ltd., Val d'Or, Quebec, and Expert Laboratories Inc., Rouyn-Noranda, Quebec.

Goldex Project

The Goldex Project is an exploration property held under 22 claims, totalling approximately 661.7 acres. The Goldex property is located in Val d'Or, Quebec and is accessible by provincial highway. The claims are renewable every second year upon payment of a small fee. The Company has a 100% working interest in the Goldex property. The Goldex property is made of three claim blocks: the Probe block (ten claims, 302.4 acres); the Dalton block (one claim, 25.7 acres); and the Goldex Extension block (11 claims, 333.6 acres). The Goldex Extension Zone, which is the gold deposit on which the Company is currently focusing its exploration and development efforts, was discovered in 1989 on the Goldex Extension claim block (although a small portion of the deposit is interpreted to occur on both the Dalton and Probe claim blocks). Probe Mines Ltd. holds a 5% net smelter return royalty interest on the Probe claim block. Should commercial production commence on the Dalton claim, 18,000 shares of the Company will be issued to the estate of John Michael Dalton Jr. The Goldex Extension block claims are subject to a 20% net profits royalty interest in favour of Explorations Ormico Ltée and a 1% net smelter return royalty interest in favour of Donald, Bernard, Marlin and Christine Charlebois.

The surface facilities at the Goldex Project include a headframe, a surface building containing a mechanical shop, a warehouse, an office and a 2,600-foot shaft, which provides underground access. Since 1989, the Company has undertaken a major exploration program on the Goldex Extension Zone. This program included deepening the shaft from 1,500 feet to its current 2,600-foot depth, over 158,700 feet of drilling, over 6,833 feet of horizontal development, 146,500 cubic feet of slashing, 476.2 feet of raising and the extraction and milling of two bulk samples (36,743 tons in 1995 and 113,395 tons in 1996). Underground exploration drilling in 1997 confirmed earlier results that outlined a large zone of low-grade mineralization. A mineral resource estimate was calculated which returned 22.6 million tons, grading 0.068 ounces of gold per ton, using a cutting factor of one ounce per ton.

In 1997, a mining study showed that the deposit was not economically viable to mine using the mining approach chosen and drill-hole indicated grade. Results from the bulk sampling suggested, however, that the estimation method used may have underestimated the realized grade for the Goldex Extension Zone. However, in late 1997, in view of the then-prevailing market price of gold, the property was placed on a care and maintenance basis. In September 1998, the workings were allowed to flood. The carrying value of the Goldex Project was written down to nil in 1997.

In January 2003, a new mineral resource estimate was completed conforming with National Instrument 43-101. The indicated mineral resource of the Goldex Extension Zone was estimated to be approximately 13.7 million tons at 0.073 ounces of gold per ton with an additional 5.6 million tons grading 0.075 ounces of gold per ton in the inferred mineral resource category. The estimate was based on a $300 per ounce gold price, a cut-off grade of 0.045 ounces per ton and 0.03 ounces per ton for internal dilution (or sloughing), and a US$/C$ rate of $1.50.

Throughout 2003, the Company re-evaluated the Goldex project reviewing mining methods and grade estimation methods. In February 2004, a new reserve and resource estimate was completed for the Goldex Extension Zone conforming to National Instrument 43-101 which, coupled with a new preliminary feasibility study, led to a resource to reserve conversion of 1.6 million ounces of gold.

Dewatering of the underground workings was completed in 2004 in preparation for a bulk sample. The shaft bottom is at a depth of 2,610 feet. Shaft rehabilitation was completed to a depth of 750 feet.

In 2004, a total of 2,000 feet of raise development was excavated through the center of the gold mineralization at three separate locations along the 1,500 feet strike length of the Goldex deposit. Mapping and sampling of these raises started in 2004 and are expected to be completed in early 2005. During the first three quarters of 2004, 373 feet of raise development and other development have been completed and 4,700 tons of ore have been extracted with an average grade of 0.07 ounces of gold per ton. A 20,000-ton bulk sample of the rock extracted from the deposit during development is scheduled to be processed at a local milling facility in January 2005. The mill tests, the information from a 21,000-foot diamond drilling program and detailed mapping will be used to refine the current mineral reserve estimate and for the final feasibility study, expected to be completed in the second quarter of 2005. During the first three quarters of 2004, 6,840 feet of diamond drilling was completed and the preliminary results are within the predicted grade range. Work on projects at the Goldex property is currently proceeding on schedule. The following table shows the Goldex property reserves as of December 31, 2003.

	December 31, 2003
Gold	
Probable tons	23,983,000
Average grade gold ounces per ton	0.069
Total mineral reserve[(1)] tons	23,983,000
Total contained gold ounces	**1,647,000**

Tonnage information is rounded to the nearest 100,000 tons.

Note:

(1) The 2003 mineral reserve and mineral resource estimate was calculated using a gold price of $325 per ounce and a US$/C$ exchange rate of $1.40. The cut-off grade used to evaluate drill intercepts at Goldex was 0.04 ounces per ton over a minimum true thickness of 50

feet. The reserve was derived by evaluating a three-dimensional model of the Goldex Extension Zone, whose gold grade was estimated using a 95% confidence interval grade calculation method, and then adjusting the model envelope to only include sectors with a high probability of exceeding the cut-off grade. The metal grades reported in the mineral reserve estimate represent in-place grades and do not reflect losses in the recovery process, that is, the metallurgical losses associated with processing the extracted ore. The mineral reserve figures presented herein are estimates, and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. In addition to the mineral reserves set out above, the Goldex property contained 1.2 million tons of measured and indicated resource grading 0.08 ounces of gold per ton and 2.8 million tons of inferred mineral resource grading 0.06 ounces per ton.

Preparation of Scientific and Technical Data

At Goldex, exploration drilling was carried out on approximately a 300-foot by 600-foot pattern whereas probable reserve drilling was carried out on approximately a 100-foot by 100-foot pattern. Core samples were taken consecutively at one foot to five feet intervals. The core selected for analysis was cut or sawed in half with one half sent to a commercial assay laboratory. Upon reception of the assay results, at least 10% of the pulps and rejects were sent to another laboratory for check assay purposes. The gold assaying method was 30-gram sample by either a Fire Assay or Metallic Sieve finish. The principal laboratory used was Abilab Laboratories, Val d'Or Quebec.

Bousquet and Ellison Properties

The Bousquet property is located immediately west of the LaRonde property and consists of two mining leases (180.6 acres) and 31 claims (951.0 acres). The property, along with various equipment and other mining properties, was acquired from Barrick in September 2003 for $3.9 million in cash (including transaction costs), $1.5 million in common shares of the Company, and the assumption of specific reclamation and other obligations related to the Bousquet property. The property is subject to a 2% net smelter return royalty interest in favour of Barrick.

The Ellison property is located immediately west of the Bousquet property and consists of eight claims (249.8 acres). The property was acquired in August 2002 for C$0.5 million in cash and a commitment to spend C$0.5 million in exploration over four years. The property is subject to a net smelter return royalty interest in favour of Yorbeau Resources Inc. that varies between 1.5% and 2.5% depending on the price of gold. Should commercial production commence, Yorbeau Resources will receive an additional C$0.5 million in cash.

In the first quarter of 2003, a mineral resource was estimated for the A Zone on the Ellison property conforming to National Instrument 43-101. The estimate, which used a gold price of $300 per ounce and 0.09 ounce per ton cut-off grade, revealed an indicated mineral resource of 249,000 tons grading 0.16 ounces of gold per ton. With the underground exploration access provided by the Bousquet II infrastructure, an exploration program was initiated in 2004 to test the potential of both the Ellison and Bousquet properties.

In addition, in 2003, the mineral resources at the Bousquet and Ellison properties were reviewed with the possibility of mining resource blocks which could become potentially economic given the proximity of the mill facility at LaRonde. The result was the definition of a small proven mineral reserve (104,000 tons grading 0.09 ounces of gold per ton) associated with a possible open pit at the Bousquet property.

The 2003 measured and indicated mineral resource at the Bousquet property is approximately 1.6 million tons grading 0.16 ounces of gold per ton and the inferred mineral resource is 2.4 million tons grading 0.27 ounces of gold per ton. The December 31, 2003 measured and indicated mineral resource at Ellison is 0.2 million tons grading 0.16 ounces of gold per ton, unchanged from December 31, 2002, but the inferred resource increased to 1.7 million tons grading 0.29 ounces of gold per ton.

Preparation of Scientific and Technical Data

In estimating the Bousquet and Ellison 2003 mineral reserve and mineral resource, a minimum gold cut-off grade of 0.09 ounces of gold per ton was used to evaluate drill intercepts that have been adjusted to respect a minimum mining width of 9.8 feet. The estimate was derived using a combination of three dimensional block modelling (grades were interpolated using the inverse distance power squared method) for certain zones and for the other zones, by the polygonal method on longitudinal sections. A portion of the resource estimate is based on estimates reported when the Bousquet I mine closed in 1996. A portion of the resource estimate is based on estimates reported when the Bousquet I mine closed in 1996. The resource was reviewed and reclassified using the CIM definitions and guidelines. This information is of a good quality and is considered reliable.

Joutel Project

The Joutel properties consist of the Eagle Mine (including the Eagle West Zone) and the Telbel Mine, in Joutel Township, Quebec. The Eagle Mine and Telbel Mine are held under two adjoining provincial mining leases, totalling approximately 911 acres. Dismantling of the Eagle Mine and Telbel Mine facilities was completed in 2000. Mining and milling operations at the Eagle and Telbel Mines in Joutel ceased in December 1993 and the Company began the restoration of the Joutel mining and milling site in 1998. The carrying value of the Joutel mine site was written down to nil in 1997.

During 1996, the Company submitted a mine closure plan for the Joutel Project to the Minister of Natural Resources in Quebec. Based on this closure plan, the estimated current reclamation cost is $0.3 million. Expenditures on reclamation at the Joutel Project under this closure plan were $0.1 million in 2003 and $0.1 million in 2002. As of December 31, 2003, the Company's reclamation provision for the Joutel Project was $0.8 million.

All decommissioning and rehabilitation of the Joutel property has been completed except for re-vegetation of the tailings area. In 2002, the Company submitted a modelling study with respect to the tailings area to the Ministry of Environment in Quebec. The Company is currently monitoring the site and will commence contouring and re-vegetation of the tailings area once the Ministry of Environment has made a ruling with respect to the Company's modelling study.

Vezza Project

The Company's Vezza Project is located approximately 38 miles from the Joutel properties and consists of the Vezza deposit located in Vezza Township, Quebec and a number of properties in the Vezza, Noyon and Cavalier Townships in Quebec. The Vezza Project currently comprises ten exploration properties held under 578 mining claims, totalling approximately 22,152 acres. The Company owns 100% of the Vezza deposit free of royalty interests. The carrying value of the Vezza Project was written down to nil in 1997. The Company has submitted a closure plan to the Ministry of Environment in Quebec which was accepted. Rehabilitation will be carried out after the Company has made a decision on the future exploration potential of the property.

Agnico-Eagle's Exploration Activities

Agnico-Eagle continued to actively explore in Quebec, Newfoundland, Nevada and Idaho. At the end of December 2004, the land holdings of Agnico-Eagle consisted of 3,162 mineral titles (claims, mining leases, etc.) covering 139,123 acres. During 2003 and 2004, Agnico-Eagle's exploration activities were focused mainly on the Lapa property and acquiring additional property along the Cortez sector of the Battle Mountain trend in Nevada.

Riddarhyttan

In May 2004, the Company acquired 12.7 million common shares in Riddarhyttan from its then largest shareholder, Swedish private company, Dunross & Co. AB, bringing its total ownership interest in Riddarhyttan to 13.8%. Together with an additional 800,000 shares of Riddarhyttan purchased by the Company in the second quarter of the year and transaction costs, total cash consideration of $11.8 million was paid by the Company. In late December 2004, Riddarhyttan concluded a rights offering for 7.5 million shares pursuant to which the Company raised its ownership level in Riddarhyttan to 14.0% of the outstanding shares. In connection with this acquisition, two representatives of the Company were elected to Riddarhyttan's board of directors.

Riddarhyttan is a precious and base metals exploration and development company with a focus on the Nordic region of Europe. Its shares are listed on the Stockholm Stock Exchange under the symbol "RHYT". Riddarhyttan is the 100% owner of the Suurikuusikko gold deposit, located approximately 550 miles north of Helsinki near the town of Kittilä in Finnish Lapland. Riddarhyttan's property position in the Suurikuusikko area consists of 22 contiguous claims (approximately 4,261 acres) with similar Precambrian greenstone belt geology and topography to the Company's land package in the Abitibi region of Quebec.

Riddarhyttan has reported an indicated mineral resource at Suurikuusikko, made up of several zones that occur over a 2.5 mile structure, of 7.2 million tons grading 0.18 ounces of gold per ton and an additional inferred gold resource, consisting of 5.5 million tons grading 0.13 ounces of gold per ton.

The mineral resource estimate for Suurikuusikko was prepared for Riddarhyttan in accordance with the Australasian Code for Reporting Mineral Resources and Ore Reserves, September 1999 (JORC Code). Mineral resources that have been disclosed herein were estimated using a minimum gold grade cut-off of approximately 0.064 ounces of gold per ton. Mineral resources estimates prepared under reporting codes other than National Instrument 43-101 should not be relied upon as they may not conform to National Instrument 43-101 standards and definitions. However, reserve and resource categories in the JORC Code are substantially similar to the corresponding categories of mineral reserves and resources required under National Instrument 43-101. To the best of the Company's knowledge, the Riddarhyttan estimate is relevant and reliable.

Legal and Regulatory Proceedings

As disclosed by the Company on March 18, 2004, the staff of the Ontario Securities Commission had been investigating the Company in relation to the timing and content of the Company's disclosure concerning a rock fall that occurred at the LaRonde Mine in the first quarter of 2003. The Company is currently in discussions with Ontario Securities Commission staff concerning this matter and the timing of the Company's disclosure of a production shortfall prior to its earnings announcement in the third quarter of 2003. The Company believes it is unlikely that there will be any material financial impact resulting from this matter.

In addition, on November 4, 2004, the Company was advised that Ontario Securities Commission staff were investigating an officer of the Company for potential insider trading violations. On November 5, 2004, the Company suspended the officer with pay pending the outcome of an internal investigation into the allegations. On November 8, 2004 the Board of Directors met and appointed an independent director to conduct, with the assistance of the Company's external counsel, an investigation into the matter and to report back to the Board. The Board of Directors met again on November 15, December 1, December 3 and December 7, 2004 in connection with the investigation. On December 7, 2004, the Company terminated the officer. The Company is cooperating with the Ontario Securities Commission in its investigation.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Operating Results

See "Management's Discussion and Analysis of the Company's Operations and Financial Condition Results of Operations" on pages 3 to 10 of Exhibit 99C to this Form 20-F for information about operations and production, which should be read in conjunction with the consolidated financial statements and accompanying notes, and in conjunction with "Item 3: Key Information Risk Factors" on pages 4 to 9 of this Form 20-F.

Liquidity and Capital Resources

See "Management's Discussion and Analysis of Operations and Financial Condition Liquidity and Capital Resources" on pages 10 to 11 of Exhibit 99C to this Form 20-F for information about the Company's liquidity. In the opinion of the Company, its working capital is sufficient for its present requirements.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Metal Price and Foreign Currency

The Company's net income is sensitive to metal prices and the US$/C$ exchange rate. For the purpose of the sensitivities presented in the graph below, the Company used the following metal price and exchange rate assumptions:

Gold $340;

Silver $5.00;

Zinc $0.40;

Copper $0.85; and

US$/C$ $1.30.

Changes in the market price of gold are due to numerous factors such as demand, global mine production levels, forward selling by producers, central bank sales and investor sentiment. Changes in the market prices of other metals are due to factors such as demand and global mine production levels. Changes in the US$/C$ exchange rate are due to factors such as supply and demand for Canadian and U.S. currencies and economic conditions in each country. In 2003, the price ranges for metal prices and the US$/C$ exchange rate were:

Gold $323-$416;

Silver $4.35-$5.97;

Zinc $0.34-$0.46;

Copper $0.70-$1.05; and

US$/C$ $1.29-$1.57.

The following graph shows the estimated impact on budgeted income per share in 2004 of a 10% change in assumed metal prices and exchange rates. A 10% change in each variable was considered in isolation while holding all other assumptions constant. Based on historical market data and 2003 price ranges shown above, a 10% change in assumed metal prices and exchange rates is reasonably likely in 2004.

In order to mitigate the impact of fluctuating precious and base metal prices, the Company enters into hedging transactions under its Metal Price Risk Management Policy, approved by the Board of Directors. The Company's policy and practice is not to sell forward its gold production. The Policy does allow the Company to review this to use hedging strategies where appropriate to ensure an adequate return opt; FONT-FAMILY: times new roman">

Weighted

Number

average

Number

average

of

exercise

of

exercise

Options

price

Options

price

Outstanding, beginning of year	5,750,000	$0.39	1,950,000	$0.46
Granted	5,350,000	$0.17	3,800,000	$0.36
Exercised	-	$-	-	$-
Expired	(920,000)	$0.41	-	$-
Outstanding, end of year	10,180,000	$0.27	5,750,000	$0.39
Exercisable at the end of year	4,927,500	$0.33	2,927,500	$0.40
Weighted average fair value of options granted during the year		$0.11		$0.28

The weighted average remaining contractual life of options outstanding issued under the plan as of September 30, 2009 was as follows:

Exercisable Prices		Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
$	0.46	1,150,000	950,000	2.32 years
$	0.53	100,000	100,000	2.40 years
$	0.45	100,000	100,000	2.56 years
$	0.41	100,000	100,000	2.91 years
$	0.36	2,500,000	1,437,500	3.07 years
$	0.36	500,000	437,500	3.12 years
$	0.36	500,000	437,500	3.16 years
$	0.36	115,000	57,501	4.03 years
$	0.16	5,115,000	1,307,499	4.50 years
		10,180,000	4,927,500	

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the year ended September 30, 2009, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of September 30, 2009 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to September 30, 2009, based on the grant date fair value estimated. We account for forfeitures as they occur. The stock-based compensation expense recognized in the statement of operations during the fiscal years ended September 30, 2009 and 2008 was $534,518 and $673,287, respectively.

Warrants

During the fiscal year ended September 30, 2009, the Company issued no warrants. At September 30, 2009, the Company had a total of 4,195,332 warrants to purchase 4,047,332 shares of common stock outstanding.

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

	2009 Number of Options	2009 Weighted average exercise price	2008 Number of Options	2008 Weighted average exercise price
Outstanding, beginning of year	4,195,332	$ 0.61	15,362,000	$ 0.22
Granted	-	$ -	3,333,332	$ 0.63
Exercised	-	$ -		$ -
Expired	-	$ -	(14,500,000)	$ 0.20
Outstanding, end of year	4,195,332	$ 0.61	4,195,332	$ 0.61
Exercisable at the end of year	4,047,332	$ 0.62	4,047,332	$ 0.61
Weighted average fair value of warrants granted during the year		$ -		$ 0.63

At September 30, 2009, the weighted average remaining contractual life of options outstanding:

Exercisable Prices	Warrants Outstanding	Warrants Exercisable	Weighted Average Remaining Contractual Life (years)
$ 1.69	112,000	112,000	1.51 years
$ 0.51	500,000	352,000	1.80 years
$ 0.20	250,000	250,000	2.25 years
$ 0.50	1,666,666	1,666,666	3.09 years
$ 0.75	1,666,666	1,666,666	3.09 years
	4,195,332	4,047,332	

Recent Sales of Securities (Registered and Unregistered)

The authorized Common stock of the Company was established at 500,000,000 shares with no par value. The Company is also authorized to issue 50,000,000 shares of preferred stock with a par value of $0.01 per share. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares. The following represents a detailed analysis of the 2009 Common stock transactions.

In the fiscal period ended September 30, 2009, there was a placement of the Company’s common stock pursuant to an S-1 Registration declared effective by the U.S. Securities and Exchange Commission on April 10, 2008. Pursuant to the S-1 Registration, the Company sold 3,000,000 shares of common stock at a price of $0.20 each, for total proceeds of $600,000 to Fusion Capital Fund II, LLC. Pursuant to the S-1 Registration Statement declared effective by the SEC on April 10, 2008, the Company has sold to Fusion Capital Fund II, LLC through September 30, 2009, a total of approximately 18,347,581 shares for a total investment of $5,808,723. These shares were sold at various pricing between $0.405 and $0.20 per share. The registration statement is currently not available for use for sales to Fusion.

Through private placements, on September 8th and 23rd, 2009, which were made in reliance upon an exemption from registration under rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act of 1933, we issued 1,129,483 and then 5,000,000 restricted shares of common stock respectively to an Accredited Investor, as defined in

Rule 501(a) of Regulation D as promulgated by the SEC, for gross cash proceeds of $70,000 on September 8, 2009, and gross cash proceeds of $350,000 on September 23, 2009.

Issuance of Shares for Services

For the fiscal period ended September 30, 2009, the Company issued a total of 1,062,690 shares of its restricted common stock in connection with service agreements to provide various marketing, and consulting services to the Company as follows:

In November 2008, the Company issued 50,000 shares of its restricted common stock in connection with a service agreement to provide marketing and financing service to the Company. The shares were valued at $0.22 per share, the share price on the date the agreement was reached. The service agreement ended on December 31, 2008.

In August 2009, the Company issued 76,976 shares of its restricted common stock as payment for $10,500 in accrued service fees in connection with a service agreement to provide marketing and public relations services to the Company. The shares were valued at $0.1364 per share, the average share price between the period May 1, 2009 and August 30, 2009 in which the fees were accrued and services were rendered.

In August 2009, the Company issued 900,000 shares of its restricted common stock in connection with a service agreement to provide marketing and public relations services to the Company. The shares were valued at $0.12 per share, the share price on the date the agreement was reached. The service provider has agreed not to sell or transfer the shares prior to September 2010.

In September 2009, the Company issued 35,714 shares of its restricted common stock in connection with a service agreement to provide marketing and financing service to the Company. Subject to the service agreement the shares were valued at $5,000.

Use of Proceeds from the Sale of Securities

The proceeds from the above sales of securities were and are being used primarily to fund efforts by the Company to develop marketable technologies for the manufacture of thin film solar technologies, and in the day-to-day operations of the Company and to pay the accrued liabilities associated with these operations.

Item 6. Selected Financial Data

N/A

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

Cautionary and Forward-Looking Statements

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

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

Business Overview

In the fiscal year ended September 30, 2009 XsunX modified its previous plans to directly establish solar module manufacturing infrastructure. We have re-focused operations on the development of a cross-industry thin film solar manufacturing concept that we believe provides an opportunity for XsunX to establish a competitive advantage within the industry. Our current efforts are focused on the combination of highly developed thin film solar processes with state-of-the-art mature magnetic media thin film manufacturing technologies derived from the hard disc drive (HDD) industry to improve manufacturing output, increase cell efficiency and production yields, and lower the costs for the production of high efficiency Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells.

It is our belief that by leveraging the manufacturing processes from the HDD industry and adapting them to thin-film solar technologies, we can reduce the cost per watt for solar to well below $1 per watt, thereby making solar a viable alternative in the energy field. Furthermore, it is our belief that our expertise, experience and proprietary technology in this area will allow us to seek joint ventures with larger companies thereby generating revenue streams through licensing fees and manufacturing royalties.

Plan of Operations

For the fiscal year ending September 30, 2010, the Company has developed a plan of operations based upon three significant management implementations which began in the 2009 fiscal year. The first is cost-cutting measures, including the closure of the Oregon solar module manufacturing facility which was under assembly, layoff of staff employed under efforts to establish the Oregon facility, and an across the board reduction of salaries, with the intended goal of reducing operating expenses not directly related to the development of new technologies under the Company's revised plans. The second was a modified sales strategy. Rather than operate under a direct manufacturing business model, XsunX plans to develop joint-ventures with pre-existing semi-conductor companies that management believes may be capable and prepared to invest in the green energy market. Lastly, we have re-focused operations on the development of a cross-industry thin film solar manufacturing concept that we believe provides an opportunity for XsunX to establish a competitive advantage within the industry. In furtherance of these efforts the Company has begun the development of a hybrid manufacturing system combining certain technologies derived from the magnetic media manufacturing industry with manufacturing techniques for thin film solar to produce high efficiency Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells.

Our current Plan of Operations, based upon the aforementioned activities, commits $1.65 million for general, administrative and working capital under a phase one plan necessary to prove and prepare the commercial viability of the new thin film CIGS manufacturing systems we are developing. Once we have completed our initial development efforts and proven the commercial viability of these new manufacturing technologies we plan to launch a phase two plan to establish a pilot production system for marketing and sales efforts, continued process improvement, and general business development efforts related to the commercialization of our proposed new CIGS manufacturing technology.

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

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

Results of Operations for the Fiscal Year Ended September 30, 2009 Compared to Fiscal Year Ended September 30, 2008

Revenue and Cost of Sales:

The Company generated no revenues in the fiscal years ended September 30, 2009, and 2008. There were no associated costs of goods sold in any of the fiscal periods represented above. The Company to date has had minimal revenue and cost of sales, and is still in the development stage.

Selling and Marketing Expenses:

Selling and Marketing (S&M) expenses decreased by ($224,498) during the fiscal year ended September 30, 2009 to $212,700 as compared to $437,198 for the fiscal year ended September 30, 2008. The decreases in S&M expenses were primarily due to a decrease in branding efforts and investor relations expenses associated with the Company's efforts to modify its plan of operations.

General and Administrative Expenses:

General and Administrative (G&A) expenses increased by $55,494 during the fiscal year ended September 30, 2009 to $2,745,269 as compared to $2,689,775 for the fiscal year ended September 30, 2008. The increase in G&A expenses were primarily due to the increase in rent and operating expense for the Oregon facilities related to the Company's prior efforts to establish amorphous silicon solar module manufacturing operations, and accounting expenses related to the Company's re-audit of the fiscal years ended September 30, 2007, and 2006.

Research and Development:

Research and development expenses increased by $399,474 during the fiscal year ended September 30, 2009 to $358,884 as compared to ($40,590) for the fiscal year ended September 30, 2008. The increase in R&D was due primarily to an increase in contract engineering expenses and laboratory materials related to the Company's efforts to develop new manufacturing technology for the production of thin film CIGS solar technologies, and because the Company had recovered previous R&D expenses in the fiscal year ended September 30, 2008.

Net Loss:

For the fiscal year ended September 30, 2009, our net loss was ($10,634,133) as compared to a net loss of ($4,058,952) for the fiscal year ended September 30, 2008. This increase in Net Loss of $6,575,180 compared to the fiscal year ended September 30, 2008 was primarily driven by the Company's impairment of certain assets related to the Company's prior efforts to establish amorphous silicon solar module manufacturing infrastructure. This impairment resulted in an expense of $5,826,990. This represents a total write down to zero for the portion of the Company's Manufacturing Equipment in Process account that the Company does not anticipate using under its new plan of operations. The valuation adjustment was the result of an analysis of certain significant unobservable events and the inputs used in determining the amount of the valuation adjustment include the decision to move to new manufacturing technology under efforts to establish a competitive advantage.

Liquidity and Capital Resources

We had working capital at September 30, 2009 of $517,387, as compared to working capital of $3,321,294 as of September 30, 2008. The decrease in working capital of $2,803,907 was the result of an increase in operating expenses, and no revenue producing activities for the fiscal year ended September 30, 2009.

Cash flow used by operating activities was ($2,862,327) for the fiscal year ended September 30, 2009, as compared to cash flow used by operating activities of ($2,695,476) for the fiscal year ended September 30, 2008. The increase in cash flow used of $166,851 by operating activities was primarily due to the increase of $(6,575,181) in operating net loss due to the Company refocusing its operations from solar module manufacturing to focus on development of new thin film solar technology. The majority of the net change in net loss consisted of an increase in asset impairment of $5,611,365, and an increase in write down of inventory asset of $1,117,000.

Cash flow used in investing activities was $(16,174) for the fiscal year ended September 30, 2009, as compared to cash flow used in investing activities of ($4,228,623) during the fiscal year ended September 30, 2008. The decrease in investing activities of $4,212,449, primarily due to the Company's change in business development focus, whereby, there were no investments in manufacturing equipment and facilities in process, and the purchase of fixed assets decreased by $95,039 Also, the Company had a no notes receivable for the fiscal year ended September 30, 2009.

Cash flow provided by financing activities was $1,020,000 for the fiscal year ended September 30, 2009, as compared to cash provided by financing activities of $7,544,700 during the fiscal year ended September 30, 2008. The decrease in cash flow provided by financing activities of $6,524,700 was the result of a reduction to cash provided through equity financing.

The Company is currently engaged in efforts to develop a cross-industry thin film solar manufacturing concept that we believe provides an opportunity for XsunX to establish a competitive advantage within the solar industry. However the cash flow requirements associated with the completion of these development efforts, and the transition to revenue recognition will exceed cash generated from operations in the current and future periods. We may seek to obtain additional financing from equity and/or debt placements. We have been able to raise capital in a series of equity and debt offerings in the past. While there can be no assurances that we will be able to obtain such additional financing, on terms acceptable to us and at the times required, or at all, we believe that sufficient capital can be raised in the foreseeable future as necessary.

Off-Balance Sheet Arrangements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

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

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

The PCAOB revoked the registration of our former independent registered public accounting firm, Jaspers + Hall, PC on or about October 21, 2008. After receiving notice of such revocation, the Company's Board of Directors dismissed

Jaspers + Hall, PC effective October 31, 2008 and engaged Stark Winter Schenkein & Co., LLP ("SWS") to serve as the Company's new independent registered public accounting firm effective as of November 3, 2008 as set forth in the Company's Current Report on Form 8-K as filed with the SEC on November 6, 2008. On December 23, 2008, the Company received a Comment Letter from the SEC stating that the Company may not include the reports of Jaspers + Hall, PC in its filings and that the Company should have a firm that is registered with the PCAOB re-audit that year. In addition to auditing the Company's financial statements for the fiscal year ended September 30, 2008, SWS also re-audited the Company's financial statements for the fiscal years ended September 30, 2007 and 2006. All audit work performed on the September 30, 2008, 2007 and 2006, financial statements by SWSC was performed by SWS's full time employees.

Effective as of July 17, 2009 (the "Effective Date"), Stark Winter Schenkein & Co., LLP ("SWS") was dismissed by the board of directors of XsunX as the Company's principal independent registered public accounting firm. None of SWS's reports included in the Company's financial statements for the past two (2) fiscal years, as well as the subsequent interim periods through the Effective Date, contained an adverse opinion or a disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope, or accounting principles. SWS's report did contain a paragraph relating to the Company's ability to continue as a going concern. During the Company's two (2) most recent fiscal years, as well as the subsequent interim period through the Effective Date, there were no disagreements between the Company and SWS on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference to the subject matter of the disagreement in connection with SWS's report. During the Company's most recent two (2) fiscal years, as well as the subsequent interim period through the Effective Date, SWS did not advise the Company of any of the matters identified in Item 304(a)(v)(A) - (D) of Regulation S-K.

Effective as of July 17, 2009, the board of directors of the Company approved the engagement of HJ Associates & Consultants, LLP (“HJ”) as its principal independent registered public accounting firm to audit the Company’s financial statements. The Company did not consult HJ on any matters described in Item 304(a) (2) of Regulation S-K during the Registrant’s two (2) most recent fiscal years or any subsequent interim period prior to engaging HJ.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control structure and procedures over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) under the Exchange Act. The SEC rule making for the Sarbanes-Oxley Act of 2002 Section 404 requires that a company's internal controls over financial reporting be based upon a recognized internal control framework. Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2009 based on the framework set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) that has been modified to more appropriately reflect the current limited operational scope of the Company as a Development Stage company. The Company used the COSO guide - The Internal Control over Financial Reporting - Guidance for Smaller Public Companies to implement the Company’s internal control framework. Additionally, the limited scope of operations of the Company means that traditional separation of duties controls are not used by the Company as a result of the limited staffing within the Company. The Company relies on alternative procedures to overcome this non-material control weakness.

During the Company's fiscal year ended September 30, 2009, management continued revising the Company's internal and controls procedure document basing this revision upon additional guidance for implementing the model framework created by COSO as is appropriate to our operations and operations of smaller public entities. This framework is entitled Internal Control-Integrated Framework. The COSO Framework, which is the common shortened title, was published in 1992 and has been updated, and we believe will satisfy the SEC requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As the Company expands operations, additional staff will be added to implement separation of duties controls as well.

Based on that evaluation, our Chief Executive Officer and our Chief Operating Officer concluded that our internal control over financial reporting as of September 30, 2009 was effective. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

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

Auditors Report on Internal Control over Financial Reporting

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

Item 9B. Other Information

Under the Company's previous efforts to establish a thin film solar module manufacturing facility the Company had placed an order for certain thin film deposition equipment with a vendor. In June the vendor and XsunX proposed terms for the cancellation of the order without further obligation to either party. On December 21, 2009 the parties agreed to the termination of the order.

On October 16, 2009 the Company accepted an offer for the sale of 2,556,818 shares of its restricted common stock in a private placement for cash proceeds of $225,000.

On November 16, 2009 the Company issued 53,789 shares of its common restricted stock for services related to marketing and public relations valued at $10,000 dollars.

On December 31, 2009 the Company accepted an offer for the sale of 1,000,000 shares of its restricted common stock in a private placement for cash proceeds of $88,000.

In the fiscal year ended September 30, 2009 XsunX modified its previous plans to directly establish amorphous silicon product manufacturing infrastructure. We have re-focused operations on the development of a cross-industry thin film solar manufacturing concept that we believe provides an opportunity for XsunX to establish a competitive advantage within the industry. In furtherance of these efforts the Company has begun the development of a hybrid manufacturing system combining certain technologies derived from the magnetic media manufacturing industry with manufacturing techniques for thin film solar. The Company has agreed to an estimate of $1,150,000 from a vendor for the cost of this prototype system, and in October 2009 paid an initial $115,000 deposit towards the manufacture of this system. The vendor and the Company are now engaged in efforts to complete the testing and engineering designs necessary to build the system.

In March 2009 XsunX received notice from the State of Colorado offering determination that sales tax and penalties were due for what the state perceived as a purchase of a machine for use by XsunX rather than as an inventory item that was developed for re-sale. On April 10, 2009 the Company filed a protest and hearing request disputing the findings of the tax auditor requesting that the total tax liability determination be reversed. On November 17, 2009 the Colorado Department of Revenue withdrew and cancelled its assessment of tax liability in total.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The following table lists the executive offices and directors of the Company during the fiscal year ended September 30, 2009:

Name	Age	Position Held	Tenure
Tom Djokovich	52	CEO, Director, Secretary, and acting Principal Accounting Officer	CEO and Director since October 2003, Secretary and PAO since September 2009
Joseph Grimes	52	President, COO, Director	President since March 2009, COO since April 2006, and as a director Since August 2008
Jeff Huitt (1)	48	CFO	Since January 2007
Robert Wendt	47	CTO	Since March 2009
Thomas Anderson	44	Director	Since August 2001
Oz Fundingsland	66	Director	Since November 2007

Michael Russak	62 Director	Since November 2007

(1) In March, 2009, as part of our efforts to modify the Company's plan of operations, the Company and Mr. Huitt agreed to the termination of Mr. Huitt's employment agreement and status as an employee of the Company. In March the Company and Mr. Huitt's consulting firm, Orion Business Services, LLC, entered into a professional service consulting agreement under which Mr. Huitt would provide financial consulting services to the Company as a consulting chief financial officer. Effective September 9, 2009 Mr. Huitt and the Company agreed to the termination of services in the capacity of CFO.

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

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

Biographical Information

Mr. Tom Djokovich, age 52, Chief Executive Officer and a Director as of October 2003, acting Principal Accounting Officer as of September 2009;

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

Mr. Joseph Grimes, age 52, Chief Operating Officer as of April 2006, a Director as of August 2008, and President as of March 2009;

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

Mr. Robert Wendt, age 47, Chief Technology Officer as of March 2009;

Mr. Wendt holds a B.S. and M.S. in Metallurgical Engineering and Material Science from the Colorado School of Mines. His responsibility encompasses technical specification of the facilities, equipment, and manufacturing processes for XsunX. Prior to joining XsunX in 2007, Mr. Wendt served at various times as Vice President of Sales, Product Development, and Engineering at Global Solar Energy from May 1996 to 2005. At Global Solar, Mr. Wendt has led and directed several areas including copper indium gallium di-selenide (CIGS) technology development, equipment design and integration, facilities design and construction, engineering, production, and operations

Prior to Global Solar, Mr. Wendt was at ITN with responsibility for the development of thin-film deposition technologies, thin-film PV, and development of charge controller/battery systems for portable solar cell powered systems. Prior to joining ITN, Mr. Wendt spent eight years with Lockheed Marietta Astronautics, Denver Division. While in this position, Mr. Wendt was program manager/principal investigator on over 20 material-based programs. During 1994/1995, Mr. Wendt was the technical lead for thin-film PV research at the Denver Division.

Independent Directors

Mr. Thomas Anderson, age 44, became a director of the Company in August 2001;

Mr. Anderson presently works as the Director of Southwest Business Operations for American Capital Energy, a commercial and utility scale solar integrator. He has been with American Capital Energy since October, 2008. He recently served as Managing Director of the Environmental Science and Engineering Directorate of Qinetiq North America in Los Alamos, New Mexico. He was with Qinetiq North America, formerly Apogen Technologies, from January, 2005, through September, 2008. Mr. Anderson worked for 19 years in the environmental consulting field, providing consulting services in the areas of environmental compliance, characterization and remediation services to Department of Energy, Department of Defense, and industrial clients. He formerly worked as a Senior Environmental Scientist at Concurrent Technologies Corp. from November 2000 to December 2004. He earned his B.S. in Geology from Denison University and his M.S. in Environmental Science and Engineering from Colorado School of Mines.

Mr. Oz Fundingsland as Director, age 66, became a director of the Company in November 2007;

On November 12, 2007, the Company announced the appointment of Mr. Oz Fundingsland as Director, effective November 12, 2007. Mr. Fundingsland brings over forty years of sales, marketing, executive business management, finance, and corporate governance experience to XsunX. His professional and business experience principally originated with his tenure, commencing in 1964, at Applied Magnetics Corp., a disk drive and data storage company. Prior to his retirement from Applied Magnetics in 1994, Mr. Fundingsland served as an Executive Officer and Vice President of Sales and Marketing for 11 years directing sales growth from $50 million to over $550 million. Commencing in 1993 through 2003 Mr. Fundingsland served as a member of the board of directors for the International Disk Drive Equipment Manufacturers Association “IDEMA” where he retired emeritus, and continues to serve as an advisor to the board. For the last 13 years, Mr. Fundingsland has provided consulting services assisting with sales, marketing, and management to a host of companies within the disk drive, optical, software, and LED industries.

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Dr. Michael A. Russak as Director, age 62, became a director of the Company in November 2007;

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

Involvement in Certain Legal Proceedings

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

Board Committees; Audit Committee

As of September 30, 2009, the Company's board was comprised of five directors, three of which are considered independent directors and the Company did not have an audit committee. Further, none of the members of the board of directors is qualified as a financial expert. We are a development stage company with limited resources and we are actively seeking a qualified financial expert for addition to the board. The board of directors will appoint committees as necessary, including an audit committee as resources permit. In the meantime, the Board serves as the Company's audit committee utilizing business judgment rules and good faith efforts.

Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers and directors, and certain persons who own more than 10% of a registered class of the Company's equity securities (collectively, "Reporting Persons"), to file reports of ownership and changes in ownership ("Section 16 Reports") with the SEC. Reporting Persons are required by the SEC to furnish the Company with copies of all Section 16 Reports they file. Based on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that, during the fiscal year ended September 30, 2009, all filing requirements applicable to its officers, directors, and greater than ten-percent beneficial owners were complied with the exception that one report, covering an aggregate of three gift and donation transactions were not timely filed by the chief executive officer with the SEC via Form 4 or via year-end report on Form 5.

Code of Ethics

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

Item 11. Executive Compensation

Overview

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

In this Compensation Discussion and Analysis, the individuals in the Summary Compensation Table set forth below are referred to as the “named executive officers”. Generally, the types of compensation and benefits provided to the named executive officers may be similar to what we intend to provided to future executive officers. The named executive officers for fiscal 2009 are Tom M. Djokovich, our chief executive officer, Joseph Grimes, our chief operating officer, Jeff Huitt our chief financial officer for portions of the 2009 fiscal year, and Robert Wendt, our chief technical officer.

Executive Compensation

The following table sets forth information with respect to compensation earned by our chief executive officer, our former chief financial officer, our chief operating officer, and our chief technical officer (collectively, our “named executive officers”) for the fiscal years ended September 30, 2009, and 2008 respectively.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Tom Djokovich, CEO(1)	2009	165,000	0	0	0	4,800	169,800
	2008	220,000	0	0	0	4,800	224,800
Joe Grimes, COO(2)	2009	157,500	0	0	107,750	4,800	270,050
	2008	210,000	30,000	0	44,600	4,800	289,400
Jeff Huitt, CFO(3)	2009	155,000	0	0	39,000	4,800	198,800
	2008	155,000	0	0	44,600	4,800	204,400
Robert Wendt, CTO(4)	2009	150,000	0	0	107,750	4,800	262,550
	2008	200,000	0	0	44,600	3,600	203,600

(1) In March 2009 Mr. Djokovich and the Company agreed to the reduction of annual salary from $220,000 to $165,000 as part of cost cutting measures approved by the Board of Directors in association with the Company’s efforts to modify its plan of operations. In addition to Mr. Djokovich’s base compensation the Company also provides Mr. Djokovich with a $400 monthly health insurance allowance.

(2) In March 2009 Mr. Grimes and the Company agreed to the reduction of annual salary from $210,000 to $157,500 as part of cost cutting measures approved by the Board of Directors in association with the Company’s efforts to modify its plan of operations. In addition to Mr. Grimes base compensation the Company also provides Mr. Grimes with a $400 monthly health insurance allowance. Mr. Grimes employment agreement with the Company included a facilities finders and relocation bonus of $30,000 which was fully paid in the year ended September 30, 2008 upon completion of the requirements.

(3) In March, 2009, as part of our efforts to modify the Company’s plan of operations, the Company and Mr. Huitt agreed to the termination of Mr. Huitt’s employment status as an employee of the Company and annual salary of $155,000 and a $400 monthly health insurance allowance. In March the Company and Mr. Huitt’s consulting firm, Orion Business Services, LLC, entered into a professional service consulting agreement under

which Mr. Huitt would provide financial consulting services to the Company as a consulting chief financial officer. The Company paid $65,625 for these professional consulting services in the fiscal year ended September 30, 2009. Effective September 9, 2009 Orion Business Services, LLC and the Company agreed to the termination of Mr. Huitt's services in the capacity as chief financial officer for the Company.

(4) Prior to March 2009 Mr. Wendt held the position of Vice President of Engineering and Product Development and was not an executive officer to the Company. In March 2009 Mr. Wendt was elected to the position of chief technical officer for XsunX. In March 2009 Mr. Wendt and the Company also agreed to the reduction of annual salary from $200,000 to $150,000 as part of cost cutting measures approved by the Board of Directors in association with the Company's efforts to modify its plan of operations. In addition to Mr. Wendt's base compensation the Company also agreed to provide Mr. Wendt with a $400 monthly health insurance allowance.

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

Grants of Plan-Based Awards Table

The following table sets forth summary information regarding all grants of plan-based awards made to our named executive officers during the two years ended September 30, 2009, and 2008 respectively.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Tom Djokovich, CEO	2009	0	0	0
	2008	0	0	0
Jeff Huitt, CFO	2009	0	0	0
	2008	0	0.46	44,600
Joe Grimes, COO	2009	2,500,000	0.16	68,750
	2008	500,000	0.36	44,600
Robert Wendt, CTO	2009	2,500,000	0.16	68,750
	2008	500,000	0.36	44,600

Outstanding Equity Awards at Fiscal Year End Table

The following table sets forth the outstanding equity awards with respect our named executive officers for the fiscal year ended September 30, 2009

OPTION AWARDS					STOCK AWARDS			
Number of Securities Underlying Unexercised	Number of Securities Underlying Unexercised Unearned	Equity Incentive Plan Awards: Number of Securities Underlying Unexercisable	Option	Option	Number of Shares or Units of Stock That	Market Value of Shares or Units of Stock that	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights

Name	Options (#) Exercisable	Options (#) Unexercisable	Unearned Options (#)	Exercise Price ($)	Expiration Date	Have Not Vested (#)	Have Not Vested ($)	Have Not Vested (#)	That Have Not Vested (#)
Tom Djokovich, CEO	—	—	—	—	—	—	—	—	—
Jeff Huitt, CFO	—	—	—	—	—	—	—	—	—
Joe Grimes, COO	624,999	1,875,001	0	$ 0.16	4/1/2014	—	—	—	—
	0	500,000	0	$ 0.36	10/23/2012	—	—	—	—
	400,000	100,000	0	$ 0.46	1/26/2012	—	—	—	—
	352,000	148,000	0	$ 0.51	7/19/2011	—	—	—	—
	112,000	0	0	$ 1.69	4/4/2011	—	—	—	—
Robert Wendt	624,999	1,875,001	0	$ 0.16	4/1/2014	—	—	—	—
	0	500,000	0	$ 0.36	10/23/2012	-	-	-	-
	400,000	100,000	0	$ 0.46	1/26/2012	-	-	-	-

Option Exercises

None

Pension Benefits

None

Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans

None

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Employment Agreements and Arrangements

Tom M. Djokovich

Mr. Djokovich serves as our chief executive officer, acting principal accounting officer, and a director. We do not have an employment agreement with Mr. Djokovich. He currently works at the discretion of the board of directors as he has since October 2003. His annual base salary compensation for the 2009 period was initially $220,000, and he was provided a $400 per month allowance for use in the payment of medical benefits. In March 2009 Mr. Djokovich and the Company agreed to the reduction of annual salary from $220,000 to $165,000 as part of cost cutting measures approved by the Board of Directors in association with the Company's efforts to modify its plan of operations. His medical allowance payment was unchanged. His total compensation is based solely on the annual base cash salary and we do not have any equity based, cash bonus, or special compensation agreements or understanding in place with Mr. Djokovich.

Joseph Grimes

On November 6, 2007, we entered into an amended and restated employment agreement with Mr. Joseph Grimes, our chief operating officer. Under the terms of his employment agreement, Mr. Grimes is entitled to a minimum annual base salary of $210,000 (subject to annual review and increase upon the attainment by the Company of a minimum of $5,000,000 in revenue in any calendar year) and is eligible to receive additional compensation in the form of a cash payment bonus upon certain remaining business development attainment goals as follows; a $5,000 cash payment bonus upon the successful implementation of a pilot production line,. Mr. Grimes is also eligible for cash payment bonus subject to attainment by the Company of certain minimum revenues in the course of a calendar year as follows; a $5,000 cash payment bonus upon the attainment by the Company of $5,000,000 in revenue, a $10,000 cash payment bonus upon the attainment by the Company of $10,000,000 in revenue, a $15,000 cash payment bonus upon the attainment by the Company of $15,000,000 in revenue. We also provide Mr. Grimes a $400 monthly allowance for use in payment for health benefits with the balance of such benefits paid by Mr. Grimes. Our employment agreement with Mr. Grimes provides that, in the event that Mr. Grimes employment is terminated by us without good cause, Mr. Grimes will receive a severance payment in the amount equal to 6 months of his annual base salary, payable within 30 days of such termination. Under the employment agreement Mr. Grimes is also subject to confidentiality and non-solicitation provisions which provide that Mr. Grimes will not divulge information or solicit employees for 24 months after termination of his employment.

In March 2009 Mr. Grimes and the Company agreed to the reduction of annual base salary from $210,000 to $157,500 as part of cost cutting measures approved by the Board of Directors in association with the Company's efforts to modify its plan of operations. In conjunction with agreeing to the reduction in base salary the Company provided Mr. Grimes with a stock option grant to purchase 2,500,000 shares of our common stock, exercisable at $0.16 cents per share.

Jeff Huitt

On January 1, 2007, we entered into an employment agreement with Mr. Jeff Huitt, our former chief financial officer. Under the terms of his employment agreement, Mr. Huitt was initially entitled to a minimum annual base salary of $135,000 which was adjusted to $155,000 in November 2007 after review by the board. We also provide Mr. Huitt a $400 monthly allowance for use in payment for health benefits with the balance of such benefits paid by Mr. Huitt.

In March, 2009, as part of our efforts to modify the Company's plan of operations, the Company and Mr. Huitt agreed to the termination of Mr. Huitt's employment status as an employee of the Company and annual salary of $155,000 and a $400 monthly health insurance allowance. In March the Company and Mr. Huitt's consulting firm, Orion Business Services, LLC, entered into a professional service consulting agreement under which Mr. Huitt would provide financial consulting services to the Company as a consulting chief financial officer. The Company paid $65,625 for these professional consulting services in the fiscal year ended September 30, 2009. Effective September 9, 2009 Orion Business Services, LLC and the Company agreed to the termination of Mr. Huitt's services in the capacity as chief financial officer for the Company.

Robert Wendt

On January 1, 2007, we entered into an employment agreement with Mr. Robert Wendt, our chief technical officer. Under the terms of his employment agreement, Mr. Wendt was initially entitled to a minimum annual base salary of $150,000 which was adjusted to $200,000 in November 2007 after review by the board. We also provide Mr. Wendt a $300 monthly allowance for use in payment for health benefits with the balance of such benefits paid by Mr. Wendt.

In March 2009 Mr. Wendt and the Company agreed to the reduction of annual salary from $200,000 to $150,000 as part of cost cutting measures approved by the Board of Directors in association with the Company's efforts to modify its plan of operations. In conjunction with agreeing to the reduction in base salary the Company provided Mr. Wendt with a stock option grant to purchase 2,500,000 shares of our common stock, exercisable at $0.16 cents per share.

Potential Payments Upon Termination or Change-In-Control

Terms of an amended and restated employment agreement dated November 6, 2007, with Mr. Grimes, our chief operating officer, provide that in the event that Mr. Grimes employment is terminated by us without good cause, Mr. Grimes may receive a severance payment in the amount equal to 6 months of his annual base salary then paid to Mr. Grimes, all payable within 30 days of such termination. Potential cost to the Company could total at minimum $100,000 for the termination of Mr. Grimes subject to the termination without good cause by the Company.

Terms of a two year Key Employee Retention Agreement dated September 1, 2009, with Mr. Robert Wendt, our chief technical officer, provide that in the event that Mr. Wendt's employment is terminated by the Company without good cause, Mr. Wendt may receive twelve months salary at the then salary rate at time of termination, twelve months Company paid costs for actual costs incurred by Mr. Wendt for medical benefits related to COBRA coverage, and a relocation payment up to $2,500. Potential cost to the Company could total at minimum $164,500 for the termination of Mr. Wendt subject to the termination without good cause by the Company.

Long Term Incentive Plans — Awards in Last Fiscal Year

The following table and notes set forth the incentive awards provided to named officers of the Company in 2009 fiscal year.

	Date Issued	Number Issued	Exercise Price		Expiration Date	Consideration
Joseph Grimes (1)	31-March-09	2,500,000	$	0.16	1-April-14	As part of an employment incentive agreement related to salary reductions
Robert Wendt (1)	31-March-09	2,500,000	$	0.16	1-April-14	As part of an employment incentive agreement related to salary reductions

(1) The vesting schedule for Mr. Grimes and Mr. Wendt is as follows:

The option shall become exercisable in the following amounts upon the delivery and/or achievement by the optionee(s) of the following employment and performance milestones:

(a) 208,333 shares vested on April 1, 2009 and thereafter 208,333 shall vest per each XsunX fiscal calendar quarter of continuous employment from the date of grant.

(b) In the event of a sale or merger of all or substantially all of the Company's assets to an acquiring party following which the Company would not be a surviving operating entity, the Company will provide Optionee a fifteen (15) day prior notice of such proposed event providing for immediate vesting of all remaining unvested Options.

(c) All remaining unvested Options shall vest and become exercisable upon the assembly and third party validation of a functioning XsunX manufactured solar module producing a 10% frame to frame average DC power conversion rating under standard test conditions (STC), and the subsequent sale and delivery of a solar module manufactured by XsunX meeting similar specifications.

Director Compensation

In the fiscal year ended September 30, 2009, Directors received no additional cash or non cash compensation for their service to the Company as directors. Outside Directors received an annual retainer fee of $9,000. All Directors were reimbursed for expenses actually incurred in connection with attending meetings of the Board of Directors.

SUMMARY COMPENSATION TABLE OF DIRECTORS

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Tom Djokovich	0	0	0	0	0
Joseph Grimes	0	0	0	0	0
Thomas Anderson	$ 9,000	0	63,011	0	$ 72,011
Oz Fundingsland	$ 9,000	0	59,063	0	$ 68,063
Dr. Michael Russak	$ 9,000	0	53,150	0	$ 62,150

Compensation Committee Interlocks and Insider Participation

For the fiscal year ended September 30, 2009 adjustments or additions to new or existing employment agreements were reviewed and deliberated by the five members of the Company’s Board of Directors.

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

The following table sets forth, as of January 8, 2010, the number of shares of common stock owned of record and beneficially by executive officers, directors and persons who hold 5.0% or more of the outstanding common stock of the Company. Also included are the shares held by all executive officers and directors as a group. Unless otherwise indicated, the address of each beneficial owner listed below is c/o XsunX, Inc., 65 Enterprise, Aliso Viejo, California 92656.

Shareholders/Beneficial Owners	Number of Shares	Ownership Percentage(1)
Tom Djokovich(2) President & Director	16,293,000	8.1%
Thomas Anderson Director	1,500,000	< 1%
Oz Fundingsland Director	500,000	< 1%
Mike Russak Director	500,000	< 1%
Joseph Grimes(3) Chief Operating Officer	1,697,332	< 1%
Robert Wendt(3) Chief Technical Officer	1,048,332	< 1%

All directors and executive officers as a group of (6 persons) account for ownership of 21,538,664 shares representing 10.76% of the issued and outstanding common stock. Each principal shareholder has sole investment power and sole voting power over the shares.

(1) Applicable percentage ownership is based on 200,095,217 shares of common stock issued and outstanding as of January 8, 2010. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of January 8, 2010 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) Includes 15,368,000 shares owned by the Djokovich Limited Partnership. Mr. Djokovich shares voting and dispositive power with respect to these shares with Mrs. Djokovich.

(3) Includes 500,161 warrants/options that may vest and be exercised within 60 days of the date of January 7, 2010.

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

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

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

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

The following directors are not independent: Tom Djokovich and Joseph Grimes.

Item 14. Principal Accounting Fees and Services

Audit Fees 2009

As of the fiscal year ended September 30, 2009 HJ Associates & Consultants, LLP had billed the Company $17,359 for the following professional services: review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended June 30, 2009, and for audit fees related to the Company's annual report on Form 10-K. No other fees were billed by HJ Associates & Consultants, LLP in the fiscal year ended September 30, 2009.

During the fiscal year ended September 30, 2009 Stark Winter Schenkein & Co., LLP (" SWSC ") had billed the Company $95,550 for the following professional services: $10,000 for preparation of Income Tax Returns for the tax years 2006, 2007, and 2008, $62,500 for related audit work and services on the Form 10K for the fiscal year 2008, and the re-audit of the 2007, and 2006 periods, $23,050 for review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended December 31, 2008 and March 31, 2009. They were not paid any fees relating to the 2009 audit based on their dismissal as auditor.

Audit Fees 2008

As of September 30, 2008 Stark Winter Schenkein & Co., LLP had not yet been engaged by the Company. Billings and payments related to the audit work and services on the Form 10K for the fiscal period 2008 were made in the fiscal year ended September 30, 2009 as described above in the review of the audit fees for 2009.

Jaspers + Hall, PC was paid $12,300 for work performed in the fiscal period ended September 30, 2008 for work on our first through third quarter reports Form 10-Q and for its work on the Companies Form S-1 Registration statement. They were not paid any fees relating to the 2008 audit based on their dismissal as auditor.

The Company's Board acts as the audit committee and had no "pre-approval policies and procedures" in effect for the auditors' engagement for audit years 2008, and 2009.

PART IV

Item 15. Exhibits, Financial Statement Schedules

Exhibits:

Exhibit	Description
3.1	Articles of Incorporation(1)
3.2	Bylaws(2)
10.1	XsunX Plan of Reorganization and Asset Purchase Agreement, dated September 23, 2003.(3)
10.2	XsunX 2007 Stock Option Plan, dated January 5, 2007.(4)
10.3	MVSystems, Inc. Non-Exclusive License and Cross-License Agreement, dated May 30, 2008.(5)
10.4	Form of Employment Retention agreement between the Company and Robert Wendt, dated September 1, 2009 (6)
10.5	Form of Stock Sale Agreement used in connection with the sale of equity to accredited investors totaling 6,000,000 shares of common stock(6)
10.6	Form of Stock Option Agreement used in connection with the issuance of Options to employees in the fiscal year ended September 30, 2009. (6)
10.7	Lease Termination and Mutual Release of Claims, dated August 27, 2009 between the Company and Merix Corporation(6)
10.8	Promissory Note in the amount of $456,920.66, dated August 27, 2009 between the Company and Merix Corporation(6)
10.9	Form of Professional Services Agreement between Orion and the Company, dated March 9, 2009(6)
10.10	Sencera LLC, Separation Agreement, dated June 13, 2008.(7)
16.1	Auditor Letter(6)
31.1	Sarbanes-Oxley Certification(6)

31.2	Sarbanes-Oxley Certification(6)
32.1	Sarbanes-Oxley Certification(6)
32.2	Sarbanes-Oxley Certification(6)

(1) Incorporated by reference to Registration Statement Form 10SB12G #000-29621dated February 18, 2000 and by reference to exhibits included with the Company's prior Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.

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

(3) Incorporated by reference to exhibits included with the Company's prior Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.

(4) Incorporated by reference to exhibits included with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission dated January 5, 2007.

(5) Incorporated by reference to exhibits included with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission dated June 6, 2008.

(6) Provided herewith

(7) Incorporated by reference to exhibits included with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission dated June 17, 2008.

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SIGNATURES

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

Date: January 12, 2010	XSUNX, INC.	
	By:	/s/ Tom Djokovich
	Name:	Tom Djokovich
	Title:	CEO and Principal Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Tom Djokovich Tom Djokovich, Chief Executive Officer, Principal Executive Officer, Principal Financial and Accounting Officer, and Director	January 12 , 2010
/s/ Joseph Grimes Joseph Grimes, President, Chief Operating Officer and Director	January 12, 2010
/s/ Thomas Anderson Thomas Anderson, Director	January 12, 2010
/s/ Oz Fundingsland Oz Fundingsland, Director	January 12, 2010
/s/ Michael Russak Michael Russak, Director	January 12, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheet of XsunX, Inc. (a development stage company) as of September 30, 2009, and the related statements of operations, stockholders' equity (deficit), and cash flows for the year then ended and the period from February 25, 1997 (inception) to September 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements for the period from February 25, 1997 (inception) to September 30, 2008 were audited by other auditors and our opinion, insofar as it relates to cumulative amounts included for such prior periods, is based solely on the reports of such other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XsunX, Inc. as of September 30, 2009, and the results of its operations and its cash flows for each of the year ended September 30, 2009 and the period from February 25, 1997 (inception) to September 30, 2009, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of XsunX, Inc.'s internal control over financial reporting as of September 30, 2009, included in the accompanying managements' report and, accordingly, we do not express an opinion thereon.

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

HJ Associates & Consultants, LLP
Salt Lake City, Utah
January 11, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
XsunX, Inc.

We have audited the accompanying balance sheet of XsunX, Inc., as of September 30, 2008 and the related statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XsunX, Inc., at September 30, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As described in Note 1 of the financial statements, the Company has an accumulated deficit as of September 30, 2008, and needs to raise additional capital to finance its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans as to this matter are further described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Stark Winter Schenkein & Co. LLP
Denver, Colorado
January 30, 2009

XSUNX, INC.
(A Development Stage Company)
Balance Sheets

	September 30, 2009	September 30, 2008
ASSETS		
CURRENT ASSETS		
Cash & cash equivalents	$ 530,717	$ 2,389,218
Inventory asset	300,000	1,417,000
Prepaid expenses	118,332	11,986
Total Current Assets	949,049	3,818,204
PROPERTY & EQUIPMENT		
Office & miscellaneous equipment	51,708	50,010
Machinery & equipment	450,386	435,910
Leasehold improvements	89,825	89,825
	591,919	575,745
Less accumulated depreciation	(378,353)	(299,559)
Net Property & Equipment	213,566	276,186
OTHER ASSETS		
Manufacturing equipment in progress	207,219	5,824,630
Security deposit	5,815	5,815
Total Other Assets	213,034	5,830,445
TOTAL ASSETS	$ 1,375,649	$ 9,924,835
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 389,293	$ 425,548
Accrued expenses	24,451	30,957
Credit card payable	17,918	40,405
Total Current Liabilities	431,662	496,910
LONG TERM LIABILITIES		
Accrued interest on note payable	4,256	-
Note payable, vendor	456,921	-
Total Long Term Liabilities	461,177	-
TOTAL LIABILITIES	892,839	496,910
SHAREHOLDERS' EQUITY		

Preferred stock, $0.01 par value; 50,000,000 authorized preferred shares		-		-
Common stock, no par value; 500,000,000 authorized common shares 196,484,610 and 186,292,437 shares issued and outstanding, respectively		23,767,869		22,613,369
Paid in capital, common stock warrants		3,175,930		2,641,412
Additional paid in capital		5,248,213		5,248,213
Deficit accumulated during the development stage		(31,709,202)		(21,075,069)
TOTAL SHAREHOLDERS' EQUITY		482,810		9,427,925
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	1,375,649	$	9,924,835

The Accompanying Notes are an Integral Part of These Financial Statements

XSUNX, INC.
(A Development Stage Company)
Statements of Operations

	Years Ended September 30, 2009	Years Ended September 30, 2008	From Inception February 25, 1997 to September 30, 2009
REVENUE	$ -	$ -	$ 14,880
OPERATING EXPENSES			
Selling, general and administrative, and research and development expense	3,316,853	3,331,683	14,597,953
Stock option and warrant expense	534,518	673,287	3,450,120
Depreciation and amortization expense	127,293	257,222	562,406
TOTAL OPERATING EXPENSES	3,978,664	4,262,192	18,610,479
LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSE)	(3,978,664)	(4,262,192)	(18,595,599)
OTHER INCOME/(EXPENSES)			
Interest income	5,443	176,250	445,493
Impairment of assets	(5,826,990)	(215,625)	(7,031,449)
Legal settlement	-	-	1,100,000
Loan fees	-	-	(7,001,990)
Write down of inventory asset	(1,117,000)	-	(1,117,000)
Forgiveness of debt	287,381	245,000	592,154
Other, non-operating	-	(1,331)	(5,215)
Interest expense	(4,303)	(1,054)	(95,596)
TOTAL OTHER INCOME/(EXPENSES)	(6,655,469)	203,240	(13,113,603)
NET LOSS	$ (10,634,133)	$ (4,058,952)	$ (31,709,202)
BASIC AND DILUTED LOSS PER SHARE	$ (0.06)	$ (0.02)	
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED	189,455,449	166,998,772	

The Accompanying Notes are an Integral Part of These Financial Statements

XSUNX, INC.
(A Development Stage Company)
Statements of Stockholders' Equity
From Inception February 25, 1997 to September 30, 2009

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Stock Options/ Warrants Paid-in-Capital	Treasury Stock Shares	Deficit Accumulated during the Development Stage	Total
Balance at February 25, 1997	-	$ -	$ -	$ -	-	$ -	$ -
Issuance of stock for cash	15,880	217,700	-	-	-	-	217,700
Issuance of stock to Founders	14,110	-	-	-	-	-	-
Issuance of stock for consolidation	445,000	312,106	-	-	-	-	312,106
Net Loss for the year ended September 30, 1997		-	-	-	-	(193,973)	(193,973)
Balance at September 30, 1997	474,990	529,806	-	-	-	(193,973)	335,833
Issuance of stock for services	1,500	30,000	-	-	-	-	30,000
Issuance of stock for cash	50,200	204,000	-	-	-	-	204,000
Consolidation stock cancelled	(60,000)	(50,000)	-	-	-	-	(50,000)
Net Loss for the year ended September 30, 1998	-	-	-	-	-	(799,451)	(799,451)
Balance at September 30, 1998	466,690	713,806	-	-	-	(993,424)	(279,618)
Issuance of stock for cash	151,458	717,113	-	-	-	-	717,113
Issuance of stock for	135,000	463,500	-	-	-	-	463,500

services							
Net Loss for the year ended September 30, 1999	-	-	-	-	-	(1,482,017)	(1,482,017)
Balance at September 30, 1999	753,148	1,894,419	-	-	-	(2,475,441)	(581,022)
Issuance of stock for cash	15,000	27,000	-	-	-	-	27,000
Net Loss for the year ended September 30, 2000	-	-	-	-	-	(118,369)	(118,369)
Balance at September 30, 2000	768,148	1,921,419	-	-	-	(2,593,810)	(672,391)
Extinguishment of debt	-	337,887	-	-	-	-	337,887
Net Loss for the year ended September 30, 2001	-	-	-	-	-	(32,402)	(32,402)
Balance at September 30, 2001	768,148	2,259,306	-	-	-	(2,626,212)	(366,906)
Net Loss for the year ended September 30, 2002	-	-	-	-	-	(47,297)	(47,297)
Balance at September 30, 2002	768,148	2,259,306	-	-	-	(2,673,509)	(414,203)
Issuance of stock for assets	70,000,000	3	-	-	-	-	3
Issuance of stock for cash	9,000,000	225,450	-	-	-	-	225,450
Issuance of stock for debt	115,000	121,828	-	-	-	-	121,828
Issuance of stock for expenses	115,000	89,939	-	-	-	-	89,939
Issuance of stock for services	31,300,000	125,200	-	-	-	-	125,200
Net Loss for the year ended	-	-	-	-	-	(145,868)	(145,868)

September 30, 2003							
Balance at September 30, 2003	111,298,148	2,821,726	-	-	-	(2,819,377)	2,349
Issuance of stock for cash	2,737,954	282,670	-	-	-	-	282,670
Warrant expense	-	-	-	825,000	-	375,000	1,200,000
Net Loss for the year ended September 30, 2004	-	-	-	-	-	(1,509,068)	(1,509,068)
Balance at September 30, 2004	114,036,102	3,104,396	-	825,000	-	(3,953,445)	(24,049)
Issuance of stock for cash	6,747,037	531,395	-	-	-	-	531,395
Issuance of stock for services	3,093,500	360,945	-	-	-	-	360,945
Warrant expense	-	-	-	180,000	-	-	180,000
Beneficial conversion	-	-	400,000	-	-	-	400,000
Shares held as collateral for debentures	-	-	-	-	26,798,418	-	-
Net Loss for the year ended September 30, 2005	-	-	-	-	-	(1,980,838)	(1,980,838)
Balance at September 30, 2005	123,876,639	3,996,736	400,000	1,005,000	26,798,418	(5,934,283)	(532,547)
Issuance of stock for services	72,366	31,500	-	-	-	-	31,500
Warrant expense	-	-	-	996,250	-	-	996,250
Beneficial conversion	-	-	5,685,573	-	-	-	5,685,573
Debenture conversion	21,657,895	5,850,000	-	-	-	-	5,850,000
Issuance of stock for interest expense	712,956	241,383	-	-	-	-	241,383
	10,850,000	3,171,250	-	-	-	-	3,171,250

Issuance of stock for warrant conversion							
Net Loss for the year ended September 30, 2006	-	-	-	-	-	(9,112,988)	(9,112,988)
Balance at September 30, 2006 (restated)	157,169,856	13,290,869	6,085,573	2,001,250	26,798,418	(15,047,271)	6,330,421

The Accompanying Notes are an Integral Part of These Financial Statements

XSUNX, INC.
(A Development Stage Company)
Statements of Stockholders' Equity
From Inception February 25, 1997 to September 30, 2009

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Stock Options/ Warrants Paid-in-Capital	Treasury Stock Shares	Deficit Accumulated during the Development Stage	Total
Cancellation of stock for serivces returned	(150,000)	-	-	-	-	-	-
Release of security collateral	-	-	-	-	(26,798,418)	-	-
Issuance of stock for warrants	900,000	135,000	-	-	-	-	135,000
Stock option and warrant expense	-	-	-	772,315	-	-	772,315
Net Loss for the year ended September 30, 2007	-	-	-	-	-	(1,968,846)	(1,968,846)
Balance at September 30, 2007 (restated)	157,919,856	13,425,869	6,085,573	2,773,565	-	(17,016,117)	5,268,890
Fusion Equity common stock purchase	15,347,581	5,200,000	(55,300)	-	-	-	5,144,700
Commiment fees	3,500,000	1,190,000	(1,190,000)	-	-	-	-
Cumorah common stock purchase	8,650,000	2,500,000	-	-	-	-	2,500,000
Wharton settlement	875,000	297,500	(397,500)	-	-	-	(100,000)
MVS warrant cancellation	-	-	805,440	(805,440)	-	-	-
Stock options and warrant expense	-	-	-	673,287	-	-	673,287
	-	-	-	-	-	(4,058,952)	(4,058,952)

Net Loss for the year ended September 30, 2008							
Balance at September 30, 2008	186,292,437	22,613,369	5,248,213	2,641,412	-	(21,075,069)	9,427,925
Issuance of stock for cash	2,000,000	400,000	-	-	-	-	400,000
Issuance of stock for cash	1,000,000	200,000	-	-	-	-	200,000
Issuance of stock for services	50,000	11,000	-	-	-	-	11,000
Issuance of stock for cash	1,129,483	70,000	-	-	-	-	70,000
Issuance of stock for services	900,000	108,000	-	-	-	-	108,000
Issuance of stock for services	76,976	10,500	-	-	-	-	10,500
Issuance of stock for services	35,714	5,000	-	-	-	-	5,000
Issuance of stock for cash	5,000,000	350,000	-	-	-	-	350,000
Stock compensation expense	-	-	-	534,518	-	-	534,518
Net Loss for the year ended September 30, 2009	-	-	-	-	-	(10,634,133)	(10,634,133)
Balance at September 30, 2009	196,484,610	$ 23,767,869	$ 5,248,213	$ 3,175,930	$ -	$ (31,709,202)	$ 482,810

The Accompanying Notes are an Integral Part of These Financial Statements

XSUNX, INC.
(A Development Stage Company)
Statements of Cash Flows

	Years Ended September 30, 2009	Years Ended September 30, 2008	From Inception February 25,1997 to September 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (10,634,133)	$ (4,058,952)	$ (31,709,202)
Adjustment to reconcile net loss to net cash used in operating activities			
Depreciation & amortization	127,293	257,222	562,406
Common stock issued for services and interest	134,500	-	1,964,134
Stock option and warrant expense	534,518	673,287	3,450,120
Beneficial conversion and commitment fees	-	-	5,685,573
Asset impairment	5,826,990	215,625	7,031,449
Write down of inventory asset	1,117,000	-	1,117,000
Gain on settlement of debt	(287,381)	-	(287,381)
Settlement of lease	59,784	-	59,784
Change in Assets and Liabilites			
(Increase) Decrease in:			
Prepaid expenses	(106,346)	329,771	(118,332)
Inventory asset	-	(1,700,000)	(1,417,000)
Other assets	-	1,638,326	(5,815)
Increase (Decrease) in:			
Accounts payable	345,211	16,729	2,439,940
Accrued expenses	(2,250)	(36,951)	28,707
Credit cards payable	22,487	(30,533)	17,918
NET CASH USED IN OPERATING ACTIVITIES	(2,862,327)	(2,695,476)	(11,198,617)
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Purchase of manufacturing equipment and facilities in process	-	(5,617,410)	(5,824,629)
Payments on note receivable	-	-	(1,500,000)
Receipts on note receivable	-	1,500,000	1,500,000
Purchase of marketable prototype	-	-	(1,780,396)
Purchase of fixed assets	(16,174)	(111,213)	(591,919)
NET CASH USED IN INVESTING ACTIVITIES	(16,174)	(4,228,623)	(8,196,944)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from warrant conversion	-	-	3,306,250
Proceeds from debentures	-	-	5,850,000
Proceeds for issuance of common stock, net	1,020,000	7,544,700	10,770,028

NET CASH PROVIDED BY FINANCING ACTIVITIES		1,020,000		7,544,700		19,926,278
NET INCREASE (DECREASE) IN CASH		(1,858,501)		620,601		530,717
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR		2,389,218		1,768,616		-
CASH & CASH EQUIVALENTS, END OF YEAR	$	530,717	$	2,389,218	$	530,717
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION						
Interest paid	$	46	$	47,217	$	119,663
Taxes paid	$	-	$	-	$	-

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES
During the fiscal year ended September 30, 2009, the Company agreed upon a settlement of its remaining lease obligation on the Oregon facility, and issued a promissory note in the amount of $456,921. During the year ended September 30, 2008, the Company issued 875,000 shares of common stock for settlement of debt at a fair value of $297,500.

The Accompanying Notes are an Integral Part of These Financial Statements

XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements
September 30, 2009 and 2008

1. ORGANIZATION AND LINE OF BUSINESS

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

Line of Business
In the fiscal year ended September 30, 2009 XsunX modified its previous plans to directly establish product manufacturing infrastructure. We have re-focused operations on the development of a cross-industry thin film solar manufacturing concept that we believe provides an opportunity for XsunX to establish a competitive advantage within the industry. Our current efforts are focused on the combination of proven thin film solar processes with state-of-the-art mature magnetic media thin film manufacturing technologies derived from the hard disc drive (HDD) industry to improve manufacturing output, increase cell efficiency and production yields, and lower the costs for the production of high efficiency Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells.

It is our belief that by leveraging the manufacturing processes from the HDD industry and adapting them to thin-film solar technologies, we can reduce the cost per watt for solar to well below $1 per watt, thereby making solar a viable alternative in the energy field. Furthermore, it is our belief that our expertise, experience and proprietary technology in this area will allow us to seek joint ventures with larger companies thereby generating revenue streams through licensing fees and manufacturing royalties.

Going Concern
The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has obtained funds from its shareholders since its inception through September 30, 2009. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its core of business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Development Stage Activities and Operations

The Company has been in its initial stages of formation and for the fiscal years ended September 30, 2009, and 2008, had no revenues. A development stage activity as one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant.

Use of Estimates

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

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The Company's financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities are carried at cost, which approximates their fair value, due to the relatively short maturity of these instruments. As of September 30, 2009, and 2008, the Company's notes payable have stated borrowing rates that are consistent with those currently available to the Company and, accordingly, the Company believes the carrying value of these debt instruments approximates their fair value.

Revenue Recognition

The Company recognizes revenue when services are performed, and at the time of shipment of products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured. To date, only a limited amount of consulting revenue has been earned and the Company is still in the development stage. The Company's revenue recognition policy will be re-evaluated in light of the licensing of solar manufacturing technologies in the future.

XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements
September 30, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Company capitalizes property and equipment over $500. Property and equipment under $500 are expensed in the year purchased.

Loss per Share
Loss per Share is the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The Company’s diluted loss per share is the same as the basic loss per share for the fiscal years ended September 30, 2009, and 2008, as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss.

Advertising
Advertising costs are expensed as incurred. Total advertising costs were $11,340, and $19,894 for the fiscal years ended September 30, 2009, and 2008, respectively.

Research and Development
Research and development costs are expensed as incurred. Total research and development costs were $358,884, and $(40,590) for the fiscal years ended September 30, 2009, and 2008, respectively. In the fiscal year ended September 30, 2008 the Company recovered previous R&D expenses.

Inventory
Inventories are stated at the lower of cost or market, and consist of a marketable production prototype. As of September 30, 2009 and 2008, the value of the inventory was $300,000 and $1,417,000, respectively.

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

Income Taxes

Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

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

Recent Accounting Pronouncements

In June 2009, the FASB issued guidance under Accounting Standards Codification ("ASC") Topic 105, "Generally Accepted Accounting Principles" (SFAS No. 168, The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles). This guidance establishes the FASB ASC as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. SFAS 168 and the ASC are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the ASC has become non-authoritative. Following SFAS 168, the FASB will no longer issue new standards in the form of Statements, FSPs, or EITF Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to update the ASC, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the ASC. We adopted ASC 105 effective for our financial statements issued as of September 30, 2009. The adoption of this guidance did not have an impact on our financial statements but will alter the references to accounting literature within the consolidated financial statements.

XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements
September 30, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2009, the FASB issued guidance under Accounting Standards Update ("ASU") No. 2009-05, "Measuring Liabilities at Fair Value". This guidance clarifies how the fair value a liability should be determined. This guidance is effective for the first reporting period after issuance. We will adopt this guidance for our fiscal year ended September 30, 2009. The adoption of this guidance has no material impact on our financial statements

Reclassification
Certain expenses for the fiscal year ended September 30, 2008 were reclassified to conform with the expenses for the fiscal year ended September 30, 2009.

3. CAPITAL STOCK

At September 30, 2009, the Company's authorized stock consisted of 500,000,000 shares of common stock, with no par value. The Company is also authorized to issue 50,000,000 shares of preferred stock with a par value of $0.01 per share. The rights, preferences and privileges of the holders of the preferred stock will be determined by the Board of Directors prior to issuance of such shares. During the year ended September 30, 2009, the Company issued 3,000,000 shares of common stock issued through a private placement at a price of $0.20 per share for cash of $600,000; 5,000,000 shares of common stock issued at a price of $0.07 per share for cash of $350,000; 1,129,483 shares of common stock issued at a price of $0.062 per share for cash of $70,000; 1,062,690 shares of common stock issued at prices between $0.12 and $0.22 per share for services. During the year ended September 30, 2008, the Company issued 8,650,000 shares of common stock at a price of $0.2890 per share for cash of $2,500,000; 15,347,581 shares of common stock issued at an average price of $0.3388 per share for gross cash proceeds of $5,200,000; 3,500,000 shares of common stock issued at a price of $0.34 per share as part of a financing commitment fee of $1,190,000; 875,000 shares of common stock issued at a price of $0.34 per share for settlement of a debt.

4. STOCK OPTIONS AND WARRANTS

The Company adopted a Stock Option Plan for the purposes of granting stock options to its employees and others providing services to the Company, which reserves and sets aside for the granting of Options for Twenty Million (20,000,000) shares of Common Stock. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company's Board of Directors ("Board"). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement. During the fiscal year ended September 30, 2009, the Company granted 5,350,000 stock options. The stock options are exercisable for a period of five years from the date of grant at an exercise price between $0.16 and $0.36 per share and expire at various times through March 2014.

	2009	2008
Risk free interest rate	1.67% to 2.77%	3.23% to 4.87%
Stock volatility factor	90.56% to 104.73%	53% to 122%
Weighted average expected option life	5 years	5 years
Expected dividend yield	None	None

XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements
September 30, 2009 and 2008

4. STOCK OPTIONS AND WARRANTS (Continued)

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

	2009		2008	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	5,750,000	$ 0.39	1,950,000	$ 0.46
Granted	5,350,000	$ 0.17	3,800,000	$ 0.36
Exercised	-	$ -	-	$ -
Expired	(920,000)	$ 0.41	-	$ -
Outstanding, end of year	10,180,000	$ 0.27	5,750,000	$ 0.39
Exercisable at the end of year	4,927,500	$ 0.33	2,927,500	$ 0.40
Weighted average fair value of options granted during the year		$ 0.11		$ 0.28

The weighted average remaining contractual life of options outstanding issued under the plan as of September 30, 2009 was as follows:

Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
$ 0.46	1,150,000	950,000	2.32 years
$ 0.53	100,000	100,000	2.40 years
$ 0.45	100,000	100,000	2.56 years
$ 0.41	100,000	100,000	2.91 years
$ 0.36	2,500,000	1,437,500	3.07 years
$ 0.36	500,000	437,500	3.12 years
$ 0.36	500,000	437,500	3.16 years
$ 0.36	115,000	57,501	4.03 years
$ 0.16	5,115,000	1,307,499	4.50 years
	10,180,000	4,927,500	

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the fiscal year ended September 30, 2009, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of September 30, 2009 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to September 30, 2009, based on the grant date fair value estimated. We account for forfeitures as they occur. The stock-based compensation expense recognized in the statement of operations during the fiscal years ended September 30, 2009 and 2008 was $534,518 and $673,287, respectively.

XSUNX, INC.
(A Development Stage Company)
Notes to Financial Statements
September 30, 2009 and 2008

4. STOCK OPTIONS AND WARRANTS (Continued)

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

	2009			2008		
	Number of Options		Weighted average exercise price	Number of Options		Weighted average exercise price
Outstanding, beginning of year	4,195,332	$	0.61	15,362,000	$	0.22
Granted	-	$	-	3,333,332	$	0.63
Exercised	-	$	-		$	-
Expired	-	$	-	(14,500,000)	$	0.20
Outstanding, end of year	4,195,332	$	0.61	4,195,332	$	0.61
Exercisable at the end of year	4,047,332	$	0.62	4,047,332	$	0.61
Weighted average fair value of warrants granted during the year		$	-		$	0.63

At September 30, 2009, the weighted average remaining contractual life of options outstanding:

Exercisable Prices		Warrants Outstanding	Warrants Exercisable	Weighted Average Remaining Contractual Life (years)
$	1.69	112,000	112,000	1.51 years
$	0.51	500,000	352,000	1.80 years
$	0.20	250,000	250,000	2.25 years
$	0.50	1,666,666	1,666,666	3.09 years
$	0.75	1,666,666	1,666,666	3.09 years
		4,195,332	4,047,332	

5. INCOME TAXES

The Company files income tax returns in the U.S. Federal jurisdiction, and the state of California. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2006.

Included in the balance at September 30, 2009, are no tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the fiscal year ended September 30, 2009, the Company did not recognize interest and penalties.

6. DEFERRED TAX BENEFIT

At September 30, 2009, the Company had net operating loss carry-forwards of approximately $16,648,000 that may be offset against future taxable income from the year 2010 through 2030. No tax benefit has been reported in the September 30, 2009 financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carry-forwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carry-forwards may be limited as to use in future years.

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6. DEFERRED TAX BENEFIT (Continued)

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rate of 40% to pretax income from continuing operations for the fiscal year ended September 30, 2009 due to the following:

		2009
Book Income	$	(4,253,653)
State Income Taxes		-
Nondeductible Stock Compensation		213,807
Other		1,784
NOL Carryover		-
Valuation Allowance		4,038,062
Income Tax Expense	$	-

At September 30, 2008, the Company had net operating loss carry forwards of approximately, $6,576,177 for federal income tax purposes. The deferred tax assets of $2,630,471 are composed of the Company's net operating loss carry forwards of approximately $6,576,177 at the approximate tax effect of 40%. There are no other material deferred tax assets or liabilities of the Company as of September 30, 2008.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net deferred tax assets consist of the following components as of September 30, 2009:

		2009
Deferred Tax Assets:		
NOL Carryforward	$	6,659,187
Depreciation		38,990
Contribution Carryforward		40
Section 179 Expense Carry-Forward		90,686
Deferred Tax Liabilities:		-
Valuation Allowance		(6,788,903)
Net Deferred Tax Asset	$	-

7. IMPAIRMENT OF ASSETS

Manufacturing Equipment in Process

In response to changes within the financial markets and solar industry the Company modified its business development efforts. The change to operation and business development plans required the review and valuation assessment of each of the assets that make up the total under the Company's Manufacturing Equipment in Process account. The review has resulted in a write down of certain assets related to the Company's efforts to establish amorphous silicon solar module manufacturing infrastructure that the Company does not anticipate utilizing under its new plan. This impairment resulted in an expense of $5,826,990. This represents a total write down to zero for the portion of the Company's Manufacturing Equipment in Process account that the Company does not anticipate using under its new plan of operations. The valuation adjustment was the result of an analysis of certain significant unobservable events and the inputs used in determining the amount of the valuation adjustment include the decision to move to new manufacturing technology under efforts to establish a competitive advantage. As these assets were not in service, there was no impact to depreciation expense or accumulated depreciation. The non-cash expense for the period ended September 30, 2009 is $209,580. However, there was an impact to the impairment expense recorded for the period.

Inventory Asset for Sale

The Company has engaged in efforts to market and sell a production prototype machine held in inventory for sale. We have engaged in efforts to solicit buyers, but we cannot be assured that a sale of the machine will be finalized in the near term. In an effort to develop alternate methods for the sale of the system the Company is engaged in discussions with interested parties for an arms-length trade of the system for services related to the Company's efforts to develop new thin film manufacturing techniques for CIGS thin films. As a result of these negotiations utilizing the system as a trade for services, the company reasonably believes that the book value of the marketable prototype should be adjusted to reflect a current fair market valuation of $300,000 representing an average of the trade discussions under way at September 30, 2009. Management also believes that the write down of $1,117,000 to a book value of $300,000 represents the reasonable salvage value for the marketable prototype machine.

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8. PROMISSORY NOTE

During the fiscal year ended September 30, 2009, the Company converted an accounts payable for accrued facility lease payments to a promissory note in the amount of $456,921 The note accrues interest at 10% per annum. The note, including all principal and interest are due September 1, 2011. The interest expense for the fiscal year ended September 30, 2009 is $4,256. Also, as part of the lease payments the Company returned equipment to the lease holder and recognized a non-cash loss of $59,784.

9. SETTLEMENT OF DEBT

During the fiscal year ended September 30, 2009, the Company was forgiven an accounts payable liability for equipment and services in the amount of $287,381.

10. CONCENTRATION OF CREDIT RISK

The Company has a concentration of credit risk for cash by maintaining deposits with banks, which may at a time exceed insured amounts. The accounts are insured by the Federal Deposit Insurance Corporation up to $250,000 per financial institution. At September 30, 2009, the Company's uninsured cash deposits were $280,717.

11. COMMITMENTS AND CONTINGENCIES

California Corporate Office Lease
Effective April 1, 2009 the Company reduced its leased facilities at its Aliso Viejo, CA offices by approximately 50%. This resulted in associated reductions to monthly lease and facility expenses totaling approximately $2,000 leaving a monthly lease and facility liability of approximately $1,400. The Company plans to continue to lease these facilities for the foreseeable future.

Oregon Manufacturing Facility Lease
In furtherance of its revised plan of operations focusing on the development of new manufacturing technology for CIGS thin films and plans to establish manufacturing operations through joint venture license agreements for such new technology the Company elected to eliminate its Oregon based facility. On August 27, 2009, the Company entered into a lease termination and mutual release of claims with Merix Corporation, an Oregon corporation. Pursuant to the terms of the Agreement, the Parties agreed to terminate that certain sublease agreement by and between the Parties, dated April 1, 2008, related to certain real property described therein which comprised the Company's Oregon based facility (the "Premises"). Accordingly, the Company agreed to vacate the Premises on or before September 1, 2009. In connection with the termination of the Sublease, the Company also agreed (a) to sell certain equipment, currently housed on the Premises, to Merix for the amount of $111,620, (b) to allow Merix to complete a full drawdown of that certain $106,000 irrevocable letter of credit issued by Wells Fargo Bank, N.A., at the request of the Company, in favor of Merix. The combined amounts of the sale of equipment and draw down to the letter of credit totaling $217,620 were credited to the accrued lease payment liabilities. The remaining accrued lease payment liabilities and contractual term lease obligation were reduced to $456,920.66 and the Company issued an unsecured promissory note in favor of Merix in the amount of $456,920.66. The note accrues interest at 10% per annum. The Parties agreed to unconditionally release each other from the obligations imposed by, or related to, the Sublease, except for the obligations established by the Agreement. The termination of the Sublease eliminates

continued monthly operating costs associated with the facility, which the Company no longer requires for its plan of operations, while also reducing the Company's short-term liabilities associated with the lease to zero and reducing the Company's long-term liabilities by approximately sixty-five percent (65%).

Colorado Facilities Lease

On September 30, 2009 the Company extended the lease at its Golden, Colorado facility for an additional six months expiring on March 31, 2010 at the lease rate of $1,790 per month plus $945.00 in triple net for a total of $2,735 per month. While the Company does not currently conduct operations of any significance in the facility a machine built under contract for the Company, and held in inventory for sale by the Company, is housed in this facility and we are engaged in efforts to market and sell this machine. Upon the sale of the machine we do not anticipate continued use of the facility in our operations.

Marketable Production Prototype Machine

An inspection on April 30, 2009 of a production prototype machine built for the Company to prove technology for intended resale by the Company resulted in the determination that the machine continues to fail to meet contractual requirements and on May 4, 2009 XsunX provided the vendor, MVSystems Inc., a notice asserting that MVSystems is in material default of the terms of the agreement for the machine between the parties. No resolution to this notice of default has been agreed to by the parties.

Marketable Production Prototype Sales Tax Dispute

In March 2009 XsunX received notice from the State of Colorado offering determination that sales tax and penalties were due for what the state perceived as a purchase of a machine for use by XsunX rather than as an inventory item that was developed for re-sale. On April 10, 2009 the Company filed a protest and hearing request disputing the findings of the tax auditor requesting that the total tax liability determination be reversed. As of September 30, 2009 we had not yet received a final determination from the Colorado Department of Revenue and we had a potential contingent liability in the amount of $72,800 for tax on the machine. On November 17, 2009 the Colorado Department of Revenue withdrew and cancelled its assessment of tax liability in total.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

Manufacturing Facility Production Equipment Dispute
Under the Company's previous efforts to establish a thin film solar module manufacturing facility the Company had placed an order for certain thin film deposition equipment with a vendor. While the Company worked with the vendor to verify and approve the contractual compliance of certain deliverables associated with $2,500,000 in invoicing received by the Company from the vendor the Company reported this invoice as a liability in its quarterly report for the period ended December 31, 2008 on Form 10Q. We completed our review of the deliverables and the vendor's compliance with contractual requirements and determined that the deliverables under the invoice did not meet the required contractual specifications. For the period ended March 31, 2009 the Company reversed the $2,500,000 accounts payable liability until such time that the contractual requirements had been met by the vendor. In June the vendor and XsunX proposed terms for the cancellation of the order without further obligation to either party. As of the year ended September 30, 2009 the parties had agreed to terms but had not executed a signed release. The terms did not include or create any current or continuing liabilities for XsunX or the vendor. On December 21, 2009 the parties agreed to the termination of the order and all liabilities associated with the order further providing that neither party would be require to provide continuing services or payment.

Under the Company's previous efforts to establish a thin film solar module manufacturing facility the Company had placed an order for glass washing systems totaling $523,950 with a vendor. Deposits totaling $130,987.50 were paid to the vendor prior to the cancellation of the order by the Company, and no systems have been delivered. The vendor is claiming that a balance is due prior to shipment in the amount of $408,963 which includes certain accrued interest payments. The Company has cancelled this order and disputes this amount and has instructed the vendor to apply the deposit payment of $130,987.50 towards re-stocking fees as full and final settlement to the account. Invoicing for this item totaling $209,580 remains on the Company's account payables until such time that a final adjustment can be determined between the parties. In the judgment of management this remaining accounts payable amount of $209,580, if necessary, fairly represents an allowance sufficient to account for adjustments to re-stocking credits.

On September 3, 2009, XsunX received notice of an action filed by a vendor in the State of Oregon, Multnomah County, requesting, a) that the court grant the re-possession of certain industrial gas management equipment (the "equipment") for shipment back to the vendor (XsunX had returned the equipment to the vendor on August 28, 2009), b) that the court grant the vendor unspecified re-stocking and re-shipment fees, or c) the sum of $117,207.07 plus interest and collection fees for payment for the equipment. The vendor allegations stem from XsunX's determination that the vendor had modified an order for the equipment previously placed by XsunX without approval by XsunX through the issuance of an authorizing purchase order. Attempts by XsunX to return the equipment were met with demands for re-stocking fees from the vendor. XsunX has refused to pay re-stocking fees for equipment it believes was modified without approval. The vendor agreed to the return of the equipment and then subsequently filed its claim. Since the filing of the claim the vendor has proposed that it provide XsunX with a re-stocking credit leaving approximately $95,000 in re-stocking fees, interest, and collection fees. We dispute this amount and have retained counsel to aggressively defend this matter. At this time the Company is unable to estimate a loss related to this action.

Employment Agreements
On November 6, 2007, we entered into an amended and restated employment agreement with Mr. Joseph Grimes, our chief operating officer. Under the terms of his employment agreement, Mr. Grimes is entitled to a minimum annual base salary of $210,000. In March 2009 Mr. Grimes and the Company agreed to the reduction of annual base salary

from $210,000 to $157,500 as part of cost cutting measures approved by the Board of Directors in association with the Company’s efforts to modify its plan of operations. In conjunction with agreeing to the reduction in base salary the Company also provided Mr. Grimes with a stock option grant to purchase 2,500,000 shares of our common stock, exercisable at $0.16 cents per share. In the event that Mr. Grimes employment is terminated by us without good cause, Mr. Grimes may receive a severance payment in the amount equal to 6 months of his annual base salary then paid to Mr. Grimes, all payable within 30 days of such termination. Potential cost to the Company could total at minimum $100,000 for the termination of Mr. Grimes subject to the termination without good cause by the Company.

On January 1, 2007, we entered into an employment agreement with Mr. Robert Wendt, our chief technical officer. Under the terms of his employment agreement, Mr. Wendt was initially entitled to a minimum annual base salary of $150,000 which was adjusted to $200,000 in November 2007 after review by the board. In March 2009 Mr. Wendt and the Company agreed to the reduction of annual salary from $200,000 to $150,000 as part of cost cutting measures approved by the Board of Directors in association with the Company’s efforts to modify its plan of operations. In conjunction with agreeing to the reduction in base salary the Company also provided Mr. Wendt with a stock option grant to purchase 2,500,000 shares of our common stock, exercisable at $0.16 cents per share. In September 2009 the Company agreed to the terms of a two year Key Employee Retention Agreement with Mr. Robert Wendt providing that in the event that Mr. Wendt’s employment is terminated by the Company without good cause, Mr. Wendt may receive twelve months salary at the then salary rate at time of termination, twelve months Company paid costs for actual costs incurred by Mr. Wendt for medical benefits related to COBRA coverage, and a relocation payment up to $2,500. Potential cost to the Company could total at minimum $164,500 for the termination of Mr. Wendt subject to the termination without good cause by the Company.

12. NOTE RECEIVABLE

On January 1, 2007, XSUNX, Inc. issued a secured, seven year, 10% note to Sencera, LLC in the amount up to $1,500,000. Under the terms, the Company provided Sencera, LLC with $400,000 at the time of signing and $137,500 per month for up to eight months. These funds were to be used to develop technology and obtain licenses in agreement with the Technology Development and License Agreement between Sencera and XsunX, Inc also signed on January 1, 2007. The note may be converted into a membership interest in Sencera, LLP and an extension of the license for a period of three years. The security consists of the license rights, the ability to exercise the conversion and all other rights and remedies provided by law. On September 7, 2007, XsunX initiated the final funding of disbursements under a Promissory Note and Loan Agreement dated January 1, 2007, between XsunX and a private technology development firm. Under the Promissory Note and Loan Agreement XsunX has funded and extended the principal amount of $1,500,000 dollars to the private firm. On June 13, 2008, the Company entered into a separations agreement with Sencera, LLC which resulted in the full repayment of the principal $1,500,000 balance of the note plus accrued interest of approximately $173,251.

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13. SUBSEQUENT EVENTS

The following are items management has evaluated as subsequent events as of January 11, 2010, the date the financial statements were issued.

Under the Company's previous efforts to establish a thin film solar module manufacturing facility the Company had placed an order for certain thin film deposition equipment with a vendor. In June the vendor and XsunX proposed terms for the cancellation of the order without further obligation to either party. On December 21, 2009 the parties agreed to the termination of the order and all liabilities associated with the order further providing that neither party would be require to provide continuing services or payment.

On October 16, 2009, the Company accepted an offer for the sale of 2,556,818 shares of its restricted common stock in a private placement for cash proceeds of $225,000.

On November 16, 2009 the Company issued 53,789 shares of its common restricted stock for services related to marketing and public relations valued at $10,000 dollars.

On December 31, 2009 the Company accepted an offer for the sale of 1,000,000 shares of its restricted common stock in a private placement for cash proceeds of $88,000.

In the fiscal year ended September 30, 2009 XsunX modified its previous plans to directly establish amorphous silicon product manufacturing infrastructure. We have re-focused operations on the development of a cross-industry thin film solar manufacturing concept that we believe provides an opportunity for XsunX to establish a competitive advantage within the industry. In furtherance of these efforts the Company has begun the development of a hybrid manufacturing system combining certain technologies derived from the magnetic media manufacturing industry with manufacturing techniques for thin film solar. The Company has agreed to an estimate of $1,150,000 from a vendor for the cost of this prototype system, and in October 2009 paid an initial $115,000 deposit towards the manufacture of this system. The vendor and the Company are now engaged in efforts to complete the testing and engineering designs necessary to build the system.

In March 2009 XsunX received notice from the State of Colorado offering determination that sales tax and penalties were due for what the state perceived as a purchase of a machine for use by XsunX rather than as an inventory item that was developed for re-sale. On April 10, 2009 the Company filed a protest and hearing request disputing the findings of the tax auditor requesting that the total tax liability determination be reversed. On November 17, 2009 the Colorado Department of Revenue withdrew and cancelled its assessment of tax liability in total.