

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended **February 28, 2018**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

000-53598

Commission File Number

SAUER ENERGY, INC.

(Name of small business issuer in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

26-3261559

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

1620 Emerson Avenue, Oxnard, CA 93033

(Address of principal executive offices)

888-829-8748

(Registrant's telephone number, including area code)

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

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

**Emerging Growth Company**

If an emerging growth company, indicate by check mark if registrant has elected not to extended transition period for complying with any new or revise financial accounting standards provided pursuant to 'Section 7(a)(2)(B) of the Security Act. YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company filer. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated Filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 437,040,839 shares of common stock, par value \$0.0001 per share, as of April 23, 2018.

SAUER ENRGY, INC.  
REPORT ON FORM 10-Q  
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**SAUER ENERGY, INC.**  
**Condensed Balance Sheets**

	February 28, 2018 (Unaudited)	August 31, 2017 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,015	\$ 1,952
Petty Cash	1,500	1,500
<b>Total Current Assets</b>	<b>2,515</b>	<b>3,452</b>
<b>Property and Equipment, net</b>	<b>33,617</b>	<b>41,635</b>
<b>Other Assets</b>		
Intangible Assets (net)	1,067,543	1,112,631
Security Deposit	13,507	13,507
	1,081,050	1,126,138
<b>Total Assets</b>	<b>\$ 1,117,182</b>	<b>\$ 1,171,225</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable and accrued liabilities	\$ 114,595	\$ 37,947
Accounts Payable and accrued liabilities - Related Party	5,000	3,000
Notes payable	45,000	105,000
<b>Total Current Liabilities</b>	<b>164,595</b>	<b>145,947</b>
<b>Commitments and Contingencies</b>	<b>-</b>	<b>-</b>
<b>Stockholders' Equity</b>		
Common Stock, \$0.0001 par value; authorized 650,000,000 shares, issued and outstanding were		
437,040,839 on February 28, 2018 and 351,229,209 on August 31, 2017	43,703	35,121
Additional Paid-In Capital	13,130,256	12,473,432
Accumulated deficit	(12,221,372)	(11,483,275)
<b>Total Stockholders' Equity</b>	<b>952,587</b>	<b>1,025,278</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,117,182</b>	<b>\$ 1,171,225</b>

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

<b>SAUER ENERGY, INC.</b>				
<b>Condensed Statements of Operations</b>				
for the three and six months ended February 28,				
(Unaudited)				
	three months ended		six months ended	
	2018	2017	2018	2017
<b>Revenue</b>	\$ -	\$ -	\$ 29,649	\$ -
<b>Cost of goods sold</b>	-	-	15,106	-
<b>Gross Profit</b>	-	-	14,543	-
<b>General and Administrative Expenses:</b>				
Professional Fees	21,672	28,443	33,449	41,445
Consulting	25,007	67,650	79,780	120,500
Rent Expense	44,022	45,013	89,035	84,086
Research & development expense	39,857	79,494	84,710	151,428
Other general and administrative expenses	56,737	111,528	128,868	187,127
Total Operating Expenses	187,295	332,128	415,842	584,586
<b>Loss from operations</b>	(187,295)	(332,128)	(401,299)	(584,586)
<b>Other Income (expense)</b>				
Interest and finance	(190,008)	(149,076)	(356,631)	(276,483)
Changes in derivative liability	(667)	-	19,833	-
	(190,675)	(149,076)	(336,798)	(276,483)
(Loss) before taxes	(377,970)	(481,204)	(738,097)	(861,069)
Provision (credit) for taxes	-	-	-	-
<b>Net (Loss)</b>	\$ (377,970)	\$ (481,204)	\$ (738,097)	\$ (861,069)
<b>Earnings (loss) per common share, basic and diluted</b>	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
<b>Basic and diluted weighted average number of common shares outstanding, basic</b>	415,700,229	308,790,242	351,229,209	170,260,964

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

<b>SAUER ENERGY, INC.</b>		
<b>Condensed Statements of Cash Flows</b>		
for the six months ended February 28,		
(Unaudited)		
	2018	2017
<b>Cash flows from operating activities:</b>		
Net (loss)	\$ (738,097)	\$ (861,069)
Adjustments to reconcile net loss to		
net cash provided (used) by operating activities:		
Depreciation and Amortization	53,106	66,932
Change in debt discount	93,981	
Change in derivative	(19,834)	
Note issued for commitment fee	45,000	
Financing costs paid in shares	219,779	274,494
Changes in operating assets and liabilities:		
Other Assets	-	2,995
Accounts payable and accrued expenses - related party	2,000	-
Accounts payable and accrued expenses	81,729	(21,609)
Net cash flows (used by) operating activities	<u>(262,336)</u>	<u>(538,257)</u>
<b>Cash flows from investing activities:</b>		
Purchase of furniture and equipment	-	-
Net cash (used by) investing activities	<u>-</u>	<u>-</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of note payable	-	-
Payments on note payable	-	(90,000)
Proceeds from issuance of common stock, net of costs	261,399	689,500
Net cash (used by) provided by financing activities	<u>261,399</u>	<u>599,500</u>
Net increase (decrease) in cash	(937)	61,243
Cash, beginning of the period	1,952	46,585
<b>Cash, end of the period</b>	<u>\$ 1,015</u>	<u>\$ 107,828</u>
Supplemental cash flow disclosure:		
Interest paid	<u>\$ 5,161</u>	<u>\$ 1,991</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</u>

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

**Sauer Energy, Inc.**  
**Notes to the Financial Statements**  
**February 28, 2018**  
**(unaudited)**

**Note 1 - Organization and summary of significant accounting policies:**

These unaudited interim financial statements as of and for the six months ended February 28, 2018, reflect all adjustments which, in the opinion of management, are necessary to fairly state the Company's financial position and the results of its operations for the periods presented, in accordance with the accounting principles generally accepted in the United States of America. All adjustments are of a normal recurring nature.

These unaudited interim financial statements should be read in conjunction with the Company's financial statements and notes thereto included in the Company's fiscal year end August 31, 2017, report. The Company assumes that the users of the interim financial information herein have read, or have access to, the audited financial statements for the preceding period, and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. The results of operations for the six month period ended February 28, 2018, are not necessarily indicative of results for the entire year ending August 31, 2018.

**Organization**

Sauer Energy, Inc. was incorporated in California on August 7, 2008. The Company was incorporated to develop and market wind power electric generators.

**Current Business of the Company**

On July 25, 2010, the Company executed a plan of reorganization with BCO Hydrocarbon Ltd., a Nevada exploration stage enterprise, in which Sauer Energy Inc. became a subsidiary of BCO. BCO changed its name to Sauer Energy, Inc.

The Company leases warehouse/office facilities in Oxnard, California, in which the Company develops wind power technology. A production prototype of a vertical axis wind turbine ("VAWT") has been developed. Its compact size is aimed at the small business and home market. The company is focused on plans to manufacture and distribute the product. In May, 2012, the acquisition of the entire assets of a wind turbine company added two more wind turbine models to the Company, together with patents and a distribution network. During 2016 and 2017, the Company continued to develop its technology.

**NOTE 2**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared using the basis of accounting generally accepted in the United States of America. Under this basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred. The Company has adopted August 31 as the fiscal year-end.

**Cash and Cash Equivalents**

The Company considers all liquid investments with a maturity of three months or less from the date of purchase that are readily convertible into cash to be cash equivalents.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Fair Value of Financial Instruments**

The Financial Accounting Standards Board issued ASC (Accounting Standards Codification) 820-10 (SFAS No. 157), "Fair Value Measurements and Disclosures" for financial assets and liabilities. ASC 820-10 provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. FASB ASC 820-10 defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required by the standard that the Company uses to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of the Company's financial instruments as of August 31, 2017, reflect:

- Cash: Level 1 Measurement based on bank reporting.  
Level 2 Loans from Officers and related parties
- Level 2 Based on promissory notes.

### **Federal income taxes**

The Company utilizes FASB ACS 740, "Income Taxes", which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is recorded when, in the opinion of management, it is "more likely-than-not" that a deferred tax asset will not be realized. The Company generated a deferred tax credit through net operating loss carry-forward. A valuation allowance of 100% has been established.



Interest and penalties on tax deficiencies recognized in accordance with ASC accounting standards are classified as income taxes in accordance with ASC Topic 740-10-50-19.

### **Research and development costs**

The Company expenses costs of research and development cost as incurred. The costs for the three months ended February 28, 2018, and three months ended February 28, 2017, were \$ 39,857 and \$79,494 respectively. The costs for the six months ended February 28, 2018, and February 28, 2017, were \$84,710 and \$151,428 respectively.

### **Stock-based Compensation**

The Company records stock-based compensation in accordance with ASC 718, Compensation – Stock Based Compensation and ASC 505, Equity Based Payments to Non-Employees, which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based awards made to employees and directors, including stock options.

ASC 718 requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes option-pricing model as its method of determining fair value. This model is affected by the Company's stock price as well as assumptions regarding a number of subjective variables. These subjective variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The value of the portion of the award that is ultimately expected to vest is recognized as an expense in the statement of operations over the requisite service period.

All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable.

### **Basic and Diluted Earnings (Loss) Per Share –**

Net loss per share is calculated in accordance with FASB ASC 260, Earnings Per Share, for the period presented. Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. The Company does not have potentially dilutive securities outstanding consisting of warrants to purchase common stock or convertible loans.

### **Recent Accounting Pronouncements**

Management has considered all recent accounting pronouncements.

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, the Company's management has not determined whether implementation of such standards would be material to its financial statements.

The Company is reviewing the effects of following recent updates. The Company has no expectation that any of these items will have a material effect upon the financial statements.

- Update 2016-15—Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)
- Update 2016-09—Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting
- Update 2016-07 —Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting
- Update 2016-06 —Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force)
- Update 2016-03—Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance (a consensus of the Private Company Council)
- Update 2016-01—Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities
- Update 2015-17 —Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes
- Update 2015-16—Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments
- Update 2015-15—Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update)

### **Reclassifications**

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported losses, total assets, or stockholders' equity as previously reported.

### Note 3 – Going Concern

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has accumulated a deficit of \$(12,221,372) as of February 28, 2018, and had no revenues, which raises substantial doubt as to the Company's ability to continue as a going concern.

In view of these matters, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheets is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to raise additional capital, obtain financing and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Management plans to raise additional capital through the sale of stock to pursue business development activities.

### Note 4 – Property and Equipment

Property and Equipment consisted of the following at February 28, 2018, and August 31, 2017:

	2/28/17	8/31/17
Property Plant and Equipment	\$ 282,427	\$ 282,427
Less accumulated depreciation	(248,810)	(240,792)
Property and equipment, net	\$ 33,617	\$ 41,635

The Company depreciates its property and equipment using accelerated methods over lives of five or seven years. In six months ended February 28, 2018, and 2017, depreciation was \$8018 and \$9,480, respectively.

### Note 5 – Asset Purchase

On May 11, 2012, the Company entered into an Asset Purchase Agreement with St. George Investments LLC, an Illinois limited liability company, to acquire certain assets in foreclosure for 6,000,000 common shares. The assets were formerly owned by Helix Wind, Inc., a Nevada corporation in the same business as the Company. The assets and agreed prices were:

Tangible Assets	
Equipment	\$ 23,000
Supplies	1,000
Inventory	1,000
Total Intangible Assets	\$ 25,000

Intangible Assets

Goodwill	\$ 5,000
Intellectual Property (10 patents, 2 trademarks, network systems, wind turbine monitoring system, URL)	1,467,500
Restrictive Covenant	2,500
Total Intangible Assets	<u>\$ 1,475,000</u>

### Note 6 – Intangible Property

The Company has acquired intangible property in patents, patents pending and goodwill. The patents are being amortized over their expected lives of not more than seventeen years. The restrictive covenants were fully amortized as of August 31, 2013. Those patent costs allocated to pending patents do not begin amortizing until the underlying patent is issued. If for some reason a patent is not issued the costs - associated with the acquisition and the continuation of the application are fully amortized in the year of the denial.

	February 28, 2018	August 31, 2017
Patents	\$ 109,092	\$ 109,092
Purchased Patents	1,467,500	1,467,500
Goodwill	5,000	5,000
Less Amortization	(514,049)	(468,961)
	<u>\$ 1,062,543</u>	<u>\$ 1,112,631</u>

In six months ended February 28, 2018 and 2017, amortization was \$45,088 and \$45,088, respectively.

### Note 7 - Notes Payable

On July 26, 2016, the Company entered into short term note agreement with Beaufort Capital Partners, LLC., in the amount of \$50,000 with an interest rate of 10% per annum, with a due date of October 26, 2016. It has been paid in full.

On August 30, 2016, the Company entered into a short term note agreement with Beaufort Capital Partners, LLC., in the amount of \$40,000 with an interest rate of 10% per annum, with a due date of December 1, 2016. The balance has been paid in full.

On May 2, 2017, the Company entered into a short-term note agreement with an investor in the amount of \$50,000 with an interest rate of 10% per annum, with a due date of September 2, 2017. The balance has been paid in full.

On May 24, 2017, the Company entered into a convertible promissory note with an investor in the amount of \$105,000 with an interest rate of 8% per annum, with a due date of May 24, 2018. Convertible 180 days after issuance, at 80% of the lowest trading price over the previous 20 trading days. The balance has been paid in full.

On February 21, 2018, the Company entered into a Promissory Note in the amount of \$45,000, with an interest rate of 8% per annum, with a due date of November 21, 2018, which can be prepaid at any time, without consequence, and is not convertible.

#### **Note 8 - Related Party Note**

As of February 28, 2018, we have related party payable to Deiter Sauer for consulting in the amount of \$5000.

#### **Note 9 – Commitments and Contingencies**

##### **Rental Agreement:**

On August 7, 2015, the Company entered into a Commercial Single-Tenant Lease for a 26,550 square foot building in Oxnard, California, with monthly payments of \$13,507 for sixty months, plus common area costs of \$507.38 per month. All company operations will be concentrated at the site.

Lease Commitments – following five fiscal years:

Fiscal year ended

August 31,

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Year	Lease
2018	84,086
2019	168,173
2020	168,173

For the three months ending February 28, 2018, and 2017, the rent expense was \$42,043 and \$42,043, respectively. For the six months ending February 28, 2018, and 2017, the rent expense was \$84,086 and \$84,086, respectively.

#### **Note 10 - Federal income tax**

No provision was made for federal income tax, since the Company has had significant net operating losses. Net operating loss carryforwards may be used to reduce taxable income through the year 2035. The availability of the Company's net operating loss carryforwards are subject to limitation if there is a 50% or more positive change in the ownership of the Company's stock, unless the same or similar business is carried on. The net operating loss carryforward for federal and state income tax purposes was approximately \$12,221,372, which will expire in 2029 through 2035 if not utilized. The Company uses 21% for a composite tax rate to estimate the value of net operating losses for deferred taxes.

The Company as of six months ended February 28, 2018, and 2017, recognized net operating losses of approximately \$738,097 and \$861,069, respectively. The total estimated deferred tax asset as of three months ended February 28, 2018, was \$2,566,488. The Company recorded a 100% valuation allowance for the deferred tax asset since it is more likely than not that some part or all of the deferred tax asset will not be realized.

Although Management believes that its estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in our tax provisions. Ultimately, the actual tax benefits to be realized will be based upon future taxable earnings levels, which are very difficult to predict.

No provision was made for federal income tax, since the Company had an overall net operating loss and has accumulated net operating loss carryforwards.

For the three and six months ended February 28, 2018, and 2017, no income tax expense has been realized as a result of operations and no income tax penalties and/or interest have been accrued related to uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and in the State of California. These filings are subject to a three-year statute of limitations. The Company's evaluation of income tax positions included the years ended August 31, 2014, through 2018 could be subject to agency examinations. No filings are currently under examination. No adjustments have been made to reduce the estimated income tax benefit at fiscal year-end or at the quarterly reporting dates. Any valuations relating to these income tax provisions will comply with U.S. generally accepted accounting principles.

#### **Note 11 – Capital Stock**

The Company went public on 7/25/ 2010. Its Common Stock is traded on the open market under the symbol OTCQB: SENY.

During the quarter ending November 30, 2016, the Company issued 26,075,562 shares of common stock for \$322,500 pursuant to an Equity Purchase Agreement.

During the quarter ending February 28, 2017, the Company issued 24,365,406 shares of common stock for \$367,000 pursuant to an Equity Purchase Agreement.

During the quarter ending May 31, 2017, the Company issued 5,259,032 shares of common stock for \$73,075 pursuant to an Equity Purchase Agreement.

During the quarter ending August 31, 2017, the Company issued 22,095,545 shares of common stock for \$210,000 pursuant to an Equity Purchase Agreement.

During the quarter ending November 30, 2017, the Company issued 29,068,414 shares of common stock for \$185,000 pursuant to an Equity Purchase Agreement.

During the quarter ending February 28, 2018, the Company issued 27,507,176 shares of common stock for \$75,481.72 pursuant to a convertible note.

During the quarter ending February 28, 2018, the Company issued 21,236,040 shares of common stock for \$76,398.84 pursuant to an Equity Purchase Agreement.

## **NOTE 12 – Subsequent Events**

Management has reviewed and evaluated subsequent events and transactions occurring after the balance sheet date, February 28, 2018, through the filing of this Quarterly report on April 23, 2018, and determined that the following additional subsequent events have occurred:

On February 28, 2018, the Company entered into a convertible Promissory Note with Geneva Roth Remark Holdings, Inc., in the amount of \$78,000, with an interest rate of 12% per annum and a due date of February 28, 2019, which can be prepaid prior to 180 days. The unpaid portion becomes convertible after 180 days, at 61% of the average of the lowest two trading prices over the 15 trading days prior to the conversion date. Funds were received on March 1, 2018.

The Company has initiated a one for five reverse split of its outstanding and authorized shares of common stock. Effecting this corporate action is subject to regulatory (FINRA) approval, which has not, as of the date of this report, been obtained.

## **Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operation**

### **Overview**

We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions could be incorrect. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances. Some of the factors that may cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements.

### **RESULTS OF OPERATION**

#### ***Three and Six months ended February 28, 2018 v. Three and Six months ended February 28, 2017***

We have not realized any revenue through the three and six months ended February 28, 2018. Our operating expenses decreased to \$187,295 for the three months ending February 28, 2018, from \$332,128 for the three months ended February 28, 2017, and they decreased to \$415,842 for the six months ending February 28, 2018, from \$584,586 for the six months ended February 28, 2017.

Our interest and financing expenses increased to \$190,008 for the three months ending February 28, 2018, from \$149,076 for the three months ended February 28, 2017, and they increased to

\$356,631 for the six months ending February 28, 2018, from \$276,483 for the six months ended February 28, 2017.

The overall decreases in operating expenses and increases in financing costs resulted in our net loss of \$738,097 for the six months ended February 28, 2018, as compared to the net loss of \$861,069 for the six months ended February 28, 2017, and a net loss of \$377,970 for the three months ended February 28, 2018, as compared to the net loss of \$481,204 for the three months ended February 28, 2017.

We anticipate continued increased costs associated with increased levels of operation anticipatory to our entering into the manufacturing stage and our marketing processes which will begin in the current fiscal year.

## **LIQUIDITY AND CAPITAL RESOURCES**

Net cash flows used in operating activities for the six months ended February 28, 2018, and 2017, was \$307,336 and \$538,257, respectively.

Net cash flows used in investing activities for the six months ended February 28, 2018 and 2017, was \$0 and \$0, respectively.

Net cash flows provided by financing activities for the six months ended February 28, 2018, and 2017, was \$306,399 and \$599,500, respectively.

We had cash resources of \$1,015 at February 28, 2018, and we intend to rely on the sale of stock in private placements to increase liquidity to enable us to execute on our plan to manufacture and market vertical axis wind turbines. As reported on a Current Report on Form 8-K filed on March 2, 2018, we entered into an Equity Purchase Agreement.

As of February 16, 2018, the Registrant entered into two agreements with GHS Investments, LLC, a Nevada limited liability corporation (“GHS”), an Equity Purchase Agreement (the “EPA”) and a Registration Rights Agreement (the “RRA”). The two agreements we filed as exhibits to the Registrant’s Current Report on Form 8-K dated March 2, 2018, and the Registrant’s Registration Statement on Form S-1 Number 333-223604 and the following summary is qualified in its entirety by reference to such exhibits.

The agreements required the Registrant to file a registration statement for the common stock underlying the EPA. Subject to various limitations set forth in the EPA, GHS, after effectiveness of such registration statement, was required to purchase up to \$7,000,000 worth of the Registrant’s common stock at a price equal to 80% of the lowest closing price as determined under the EPA (prior ten trading days). The EPA provides for volume limitations on the amount of shares that GHS must purchase at any time and provides that the Registrant will be paid for the common stock upon electronic delivery of the shares to GHS. GHS bore the attorney fees relating to the Registration Statement and is not charging the Registrant any additional fees. The S-1 Registration Statement was filed on March 12, 2018, and is not effective as of the filing of this report.



Funds on hand are not sufficient to fund our operations and we intend to rely on the sale of stock in private placements to increase liquidity and, we anticipate deriving additional revenue from product sales in fiscal 2018 but we cannot at this time quantify the amount. If we are unable to raise cash through the sale of our stock, we may be required to severely restrict our operations.

### **Critical Accounting Policies**

Financial Reporting Release No. 60 of the SEC encourages all companies to include a discussion of critical accounting policies or methods used in the preparation of the financial statements. There are no current revenue-generating activities that give rise to significant assumptions or estimates. Our financial statements filed as part of our February 28, 2018, Quarterly Report on Form 10-Q includes a summary of the significant accounting policies and methods used in the preparation of our financial statements.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### **Item 3. - Quantitative and Qualitative Disclosures About Market Risk**

The Company is a smaller reporting company and is not required to provide this information.

### **Item 4T. - Controls and Procedures**

#### ***Disclosure Controls and Procedures***

Regulations under the Securities Exchange Act of 1934 (the “Exchange Act”) require public companies to maintain “disclosure controls and procedures,” which are defined as controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We conducted an evaluation, with the participation of our Chief Executive Officer who is also our principal financial officer, of the effectiveness of our disclosure controls and procedures as of February 28, 2018. Based on that evaluation, our Chief Executive Officer has concluded that as of February 28, 2018, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses described below.

In light of the material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure our financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2) or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified the following three material weaknesses that have caused management to conclude that, as of February 28, 2018 our disclosure controls and procedures were not effective at the reasonable assurance level:

1. We do not have written documentation of our internal control policies and procedures. Management evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.
2. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.
3. The Board of Directors has not provided an appropriate level of oversight of the Company's financial reporting and procedures for internal control over financial reporting since there are, at present, no independent directors who could provide an appropriate level of oversight, including challenging management's accounting for and reporting of transactions. Accordingly, we have determined that this control deficiency constitutes a material weakness.

To address these material weaknesses, management performed additional analyses and other procedures to ensure that the financial statements included herein fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

### ***Management's Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external

purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the issuer; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

As of the end of our most recent fiscal quarter, management assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments. Based on that evaluation, they concluded that, as of February 28, 2018, such internal control over financial reporting was not effective. This was due to deficiencies that existed in the design or operation of our internal control over financial reporting that adversely affected our internal controls and that may be considered to be material weaknesses.

The matters involving internal control over financial reporting that our management considered to be material weaknesses under the standards of the Public Company Accounting Oversight Board were: (1) lack of a functioning audit committee due to a lack of a majority of independent members and a lack of a majority of outside directors on our board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures; and (2) inadequate segregation of duties consistent with control objectives of having segregation of the initiation of transactions, the recording of transactions and the custody of assets. The aforementioned material weaknesses were identified by our Chief Executive Officer in connection with the review of our financial statements as of February 28, 2018.

Management believes that the material weaknesses set forth in items (1) and (2) above did not have an effect on our financial results. However, management believes that the lack of a functioning audit committee and the lack of a majority of outside directors on our board of directors results in ineffective oversight in the establishment and monitoring of required internal controls and procedures, which could result in a material misstatement in our financial statements in future periods.

This quarterly 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 SEC that permit the Company to provide only the management's report in this quarterly report.

### ***Management's Remediation Initiatives***

In an effort to remediate the identified material weaknesses and other deficiencies and enhance our internal controls, we have initiated, or plan to initiate, the following series of measures: We will increase our personnel resources and technical accounting expertise within the accounting function when funds are available to us. First, we will create a position to segregate duties consistent with control objectives of having separate individuals perform (i) the initiation of transactions, (ii) the recording of transactions and (iii) the custody of assets. Second, we will create a senior position to focus on financial reporting and standardizing and documenting our accounting procedures with the goal of increasing the effectiveness of the internal controls in preventing and detecting misstatements of accounting information. Third, we plan to appoint one or more outside directors to our board of directors who shall be appointed to an audit committee resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures such as reviewing and approving estimates and assumptions made by management when funds are available to us. Although there is substantial uncertainty in any such estimate, we anticipate the costs of implementing these remediation initiatives will be approximately \$100,000 to \$150,000 a year in increased salaries, legal and accounting expenses.

Management believes that the appointment of one or more outside directors, who shall be appointed to a fully functioning audit committee, will remedy the lack of a functioning audit committee and a lack of a majority of outside directors on our Board.

We anticipate that these initiatives will be at least partially, if not fully, implemented by August 31, 2018.

### ***Changes in Internal Control over Financial Reporting***

There have been no 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 the quarter ended February 28, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1 – Legal Proceedings**

None.

### **Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3 – Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable

### **Item 5 – Other Information**

None.

## **Item 6 – Exhibits**

The following documents are filed as part of this Report:

31.1\* Certification of Chief Executive and Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a).

32.1\* Certification pursuant to Securities Exchange Act of 1934 Rule 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

101.INS\*\* XBRL Instance Document

101.SCH\*\* XBRL Taxonomy Extension Schema Document

101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document

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\*Filed herewith.

\*\*Furnished herewith.

SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

SAUER ENERGY, INC.

Date: April 23, 2018

By: /s/Dieter R. Sauer, Jr.

Name: Dieter R. Sauer, Jr., CEO

(Principal Executive, Accounting and Financial Officer)