UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

Commission File Number: 000-30415

Health Enhancement Products, Inc.
(Name of small business issuer as specified in its charter)

Nevada	**87-0699977**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

7740 East Evans Rd, Scottsdale, Arizona 85260
(Address of principal executive offices)

(480) 385-3800
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:
None

Securities registered under Section 12(g) of the Exchange Act:
None

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if no disclosure of delinquent filers, in response to Item 405 of Regulation S-B, is contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The aggregate market value of the issuer's voting stock held as of March 31, 2005 by non-affiliates of the issuer was $2,601,611, based on the closing price of the registrant's common stock.

As of May 1, 2005, there were 12,372,503 shares of $0.001par value common stock issued and outstanding.

The issuer's revenue for its most recent fiscal year was: $49,058.

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(Inapplicable items have been omitted)

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve known and unknown risks, uncertainties and other factors which may cause our or our industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements Forward-looking statements include, but are not limited to statements regarding:

- our ability to raise the funds we need to continue our operations;
- our goal to increase our revenues and become profitable;
- regulation of our product;
- our ability to expand the production of our product;
- market acceptance of our product;
- future testing of our product;
- the anticipated performance and benefits of our product;
- our financial condition or results of operations.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as otherwise required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. Description of Business

Business Development

We were incorporated under the laws of the State of Nevada on March 28, 1983, under the name of "L. Peck Enterprises, Inc.", with authorized common stock of 2,500 shares, at no par value. On May 27, 1999, our authorized capital stock was increased to 100,000,000 shares, with a par value of $0.001, in connection with a name change to "Western Glory Hole, Inc." ("WGH"). On May 27, 1999, we completed a forward common stock split of 225 shares for each outstanding share.

From 1990 until October 2003, we had no business operations; we were in the development stage and were seeking profitable business opportunities.

On October 30, 2003, we and Health Enhancement Corporation ("HEC") entered into an Agreement and Plan of Reorganization under which we acquired HEC. Under this Agreement, we acquired 100% of the outstanding shares of HEC, in exchange for 9,000,000 of our post-split shares, making HEC our wholly-owned subsidiary. In connection with this transaction, we changed our name to Health Enhancement Products, Inc. ("HEPI"). We currently operate through our wholly-owned subsidiary, HEC.

We acquired HEC because it had the material necessary for the production of ProAlgaZyme. We have since established a manufacturing plant, which consists of a laboratory and production facility, and hired production and research staff. In addition, we acquired the ReplenTish and Zodiac Herbal Vitamins and Tea products. We have abandoned the Zodiac product lines, and, due to a lack of funds, are not currently marketing the ReplenTish product. Although ProAlgaZyme is currently available for sale, we do not expect any meaningful revenue from sales of ProAlgaZyme until at least 2006. We believe any future revenue from sales of ProAlgaZyme will depend upon the results of testing regarding, among other things, the product's composition and method of action. Accordingly, we intend to focus our resources on testing directed toward determining the exact composition of the product and the method of action of the substances comprising the product.

Principal Product

We were founded on, and remain committed to, the principle of producing only 'natural' products.

At present, our sole product is the enzyme-based, all natural dietary supplement known as ProAlgaZyme.

- *ProAlgaZyme™* is a naturally-generated proteolytic enzymatic protein derived from a natural plant culture grown in a purified aqueous environment solution with proprietary feeding. This enzymatic protein appears to support a compromised immune system, thereby potentially aiding the defense of the body against introduced or naturally-occurring harmful substances.

In addition, we had been marketing our ReplenTish™ product.

- *ReplenTish™* is a blend of vitamins specifically selected to address bodily vitamin and mineral deficiencies created by exposure to smoking. We believe that the product is helpful for both smokers and non-smokers. We are not currently marketing or selling the ReplenTish product. Subject to the availability of capital, we may in the future resume marketing of the ReplenTish product.

Marketing and Sales

We have attempted to implement a marketing plan for ProAlgaZyme, but our progress has been severely impeded by the limited cash resources that have been available to us and by the need for further information regarding the composition and method of action of the product. Our initial emphasis in marketing has been to seeking to confirm the effectiveness of the ProAlgaZyme product (using both internal studies and external, independent studies), as a basis for making supportable and appropriate claims for the product, and also to enable us to determine the specific markets to which ProAlgaZyme might be addressed. We have completed two external studies on laboratory animals, and the results of these studies suggest that ProAlgaZyme is non-toxic to animals and reduces edema (swelling) in animals. All external testing on animals and humans has been terminated due primarily to a lack of funding.

During 2004 we undertook the development and implementation of a new direct selling strategy for the distribution and marketing of ProAlgaZyme. We recruited distributors, but none of the distributors are active. We have suspended the marketing of ProAlgaZyme, pending further testing regarding, among other things, its composition and method of action.

As disclosed above, due to lack of funding, we are no longer pursuing the promotion of ReplenTish. Our initial introduction of the product was not as successful as had been planned, and the lack of funds for advertising has forced us to suspend distribution of this product.

On September 23, 2004, we announced that, due to our continued heavy concentration on the primary ProAlgaZyme product and the heavy expenditure of resources commensurate with that concentration and with other unforeseen expenditures, we had not been able to devote the resources necessary to the launch and marketing of the Zodiac Herbal Vitamins and Zodiac Herbal Teas products. In addition, we are involved in a dispute with the persons from whom we purchased the Zodiac trademarks and products (the "Zodiac Sellers"). We do not believe that the Zodiac Sellers complied with their agreements with us. As a result, we have determined to abandon these products.

To date we have not realized the revenues that we have been expecting. Currently, we do not have sufficient funding to implement any sales and marketing program. If we are unable to raise sufficient funds to finance sales and marketing activities, we will be unable to implement a sales and marketing program, including testing, publicity, and advertising. Our inability to implement essential sales and marketing-related activities has and will continue to have a material adverse effect on our business and operating results.

Competition

The dietary supplement industry in general is highly competitive, particularly in the area of undifferentiated products such as general-purpose multi-vitamins. The industry is also marked by the presence of often-unsubstantiated claims of product efficacy, by substantial discounting for the more common 'standard' commodity-type products, such as multi-vitamins, and by relatively-expensive products with distinct and supportable claims to improved health or effective testimonials. It is not our intention to compete in the undifferentiated market. We believe that ProAlgaZyme presents a product that is readily differentiated, and we intend to emphasize these differences in connection with any marketing of the product.

The ProAlgaZyme product is differentiated from other 'algae-based' products in the nutraceutical market, in that:

- ProAlgaZyme is not comprised of the algae itself; that is, the source material that generates the beneficial enzymes is not processed or marketed in any way, either as a nutrient or as a food;

- the proteolytic enzyme that is generated by ProAlgaZyme's source material is produced and marketed without additives, preservatives, or change. As such, it is a truly 'natural' product, and does not undergo change in its nature or effectiveness as it is prepared for consumption;

- the product has been subjected to internal laboratory testing and to external studies on animals, with results that we believe support the product's effectiveness.

We have identified several potentially-competitive products to the ReplenTish multi-vitamin. However, most of these other products are formulated and marketed as either cures for smoking or as aids in quitting smoking. We have identified only one other product which is specifically intended to replace the vitamins and minerals lost through either active or passive smoking – which makes it a directly competitive product. We anticipate that there will be a continuing presence of the alternative product in the market, and that there will be other products which may be created to meet growing demand in the market that ReplenTish is intended to address. We intend to move ahead with marketing the ReplenTish product in the domestic market, if and when sufficient funds are available, and also to expand at the earliest opportunity to the international market, primarily through the creation of distribution agreements with well-established marketing and distribution entities in selected countries.

Raw Materials

We own the algae from which ProAlgaZyme's enzymatic content is derived, and these source materials are held in growing environments at our facility. Other raw materials used in the proprietary production process of ProAlgaZyme are readily available commercially, and we do not believe that there is any risk of interruption or shortage of supply of these materials.

Our ReplenTish product has been manufactured to our specifications by third-party suppliers using raw materials which are readily available commercially. We believe that there is a large range of alternative suppliers capable of manufacturing the ReplenTish product to our specific standards of quality and purity on short notice, and therefore we do not consider that there is a material risk of interruption of supply through either a shortage of raw materials or the unavailability of a single supplier.

We have also assessed our ability to respond to any substantial increase in demand for our ProAlgaZyme product. In the case of ProAlgaZyme, we believe that we would be able to expand our operations with only minimal delays for algae replication and growth, and that this would not constitute a limiting factor on future overall revenue growth.

Dependence on Customers

We are not dependent on any one customer or group of customers for our sales revenues.

Manufacturing

We manufacture our ProAlgaZyme product directly, using dedicated laboratory facilities on our own premises, and qualified technical staff. After production, ProAlgaZyme is bottled in a third-party facility under our supervision to ensure product safety and integrity.

Management is confident that, subject to the availability of cash resources, acquisition of the necessary raw materials and manufacture of our products will be able to be scaled quickly and efficiently to meet any planned or unanticipated increases in product demand.

Backlog

As of the date of this Report, we had no backlog of orders.

Patents and Proprietary Rights

In April, 2004, we filed with the U.S. Patent and Trademark Office a provisional patent application regarding the ProAlgaZyme product. The patent filing relates generally to a method of preparation of a phyto-percolate, and is also intended to protect the use of phyto-percolate in the treatment of a variety of diseases including cancer, cardiovascular disease, and diseases related to immune system deficient disorders. The phyto-percolate is a proteolytic enzyme complex derived from a specific combination of fresh water algae that expresses plasmin-like activity.

The above patent application was described as being “for a method of treating or preventing a disease or disorder in a human by ingesting a phyto-percolate derived from mixtures including freshwater algae, in this case being ProAlgaZyme. There are several aspects of this patent application, including methods of treating immune system deficiency, type I and II diabetes, diseases related to the heart, Cancer, Arthritis, and most other diseases related to a deficient immune system.”

We have prepared and filed a PCT application (PCT/US05/13375 filed on April 20, 2005) that claims priority to the April 2004 provisional application concerning the ProAlgaZyme product. This PCT filing enables eventual patent rights in the ProAlgaZyme product and methods of use in those areas of the world that we believe are appropriate. During 2004, we filed to register certain trademarks with the United States Patent and Trademark Office (USPTO), including the following:

- ReplenTish
- ProAlgaZyme.

Our majority shareholder/CEO, Mr. Howard R. Baer, has registered the following Internet domain names:

- www.heponline.com
- www.proalgazyme.com
- www.replentish.com

Mr. Baer allows us to the use of the foregoing Internet domain names at no charge. Mr. Baer has agreed that he will not terminate our right to use these domain names as long as we are selling the ProAlgaZyme product.

Regulation

We do not believe that the products that we manufacture and market are subject to regulation by the Food and Drug Administration ("FDA"). Rather, we believe that these products are properly designated as 'dietary supplements' within the category of vitamins, minerals, dietary supplements, and herbal products covered within the U.S. by the Dietary Supplement Health and Education Act of 1994 - commonly referred to as "DSHEA". As such, the products fall under the Federal Trade Commission ("FTC"), and do not require FDA approval for release.

We also believe, based on recent actions by the FDA and other governmental agencies, that public and legislative pressures upon the FDA will cause the FDA to extend its purview over the 'nutraceutical' industry progressively over time, and that, as a result, we – along with the nutraceutical industry - will be subject to regulation as to product quality and manufacture, and product related claims. We will monitor carefully all such trends with the goal of ensuring that all necessary and appropriate governmental regulations relating to the safety and efficacy of our products will be observed as they are introduced and applied.

If we move into international sales, our product may also be subject to approval by certain foreign regulatory and safety agencies. As a result, the export of our product to some countries may be limited or prohibited. Our manufacturing processes and facilities may also be subject to review by Federal, State, or local health agencies or their representatives before export approval is granted. Adverse findings from such reviews could result in various actions against us, including restriction of trading privileges, withdrawal of approvals, and product recall. We cannot assure you that domestic or foreign regulatory agencies will give us the requisite approvals or clearances for any products under development on a timely basis, if at all. Moreover, after clearance is given, these agencies can later withdraw the clearance or require us to change the product or its manufacturing process or labeling, to supply proof of its safety and effectiveness, or to recall, replace or refund the cost of the product, if it is shown to be hazardous or defective. The process of obtaining clearance to market a product is costly and time-consuming and can delay the marketing and sale of such product.

Research and Development

Our research and development efforts have been focused on enhancing our ProAlgaZyme product. Our primary emphasis throughout 2004 was on the continued refinement of the ProAlgaZyme product and on bio-chemical analyses and internal and external clinical studies associated with the product. We have spent an aggregate amount of $248,073 since our inception on research and development. Of this amount, $112,384 has been spent on internal research, mainly involved in the conduct of in-house testing and development of the ProAlgaZyme product and in conducting both 'in vitro' and 'in vivo' testing of ProAlgaZyme. Since inception, $135,689 has been expended on external, clinically-based testing of ProAlgaZyme, conducted on both humans and animals. To date, all of these amounts have been directly expensed as they have been incurred.

We recently terminated the two major external clinical studies we had commissioned. The study being conducted by the Marshall-Blum Herbal Research Clinic was terminated due to the inability of the firm to recruit the specified number of participants (60). The studies being conducted by MLA Industries were terminated due to our lack of funding. See Item 6 under the caption "Research and Development Expenses". We have just received certain results from the Marshall-Blum Clinic which we are in the process of reviewing. We have recently commissioned an external study to determine whether ProAlgaZyme is effective in reducing the level of C-reactive protein ("CRP"). The total cost of this study is expected to be approximately $29,000, of which $10,000 has been paid.

Subject to the availability of sufficient funding, which we do not currently have, we intend to pursue additional external clinical studies during 2005. In addition to the CRP study, we intend to focus initially on testing to identify ProAlgaZyme's composition and method of action. In the event that we are unable to raise sufficient funds to meet our research needs, we will be unable to pursue our planned research activities, in which case our ability to market ProAlgaZyme with objective clinical support for its efficacy will continue to be impeded, thereby severely hindering our sales effectiveness and impacting negatively the achievement of our business plan

We have engaged a Consultant on a month to month basis to oversee our Research and Development activities. If and when funds become available, we may hire a full-time professional with appropriate qualifications and suitable experience to administer this area. If this step is taken, this person would be involved in the preparation and management of in-house clinical studies, in the establishment of protocols for independent external studies, and in monitoring, interpretation, and submission of data as required to third parties conducting studies.

Compliance with Environmental Laws

We believe that we are, in all material respects, in compliance with local, State, and Federal environmental laws applicable to our manufacturing, waste disposal, and bottling operations, and we have prepared appropriate and required documentation as to our current operational procedures, standards, and guidelines to ensure that the required environmental laws are observed. The cost of this compliance activity to date has not been material, and has been absorbed within our general operations overhead.

Employees

As of May 6, 2005, we had 5 full-time employees, positioned as follows: one employee in manufacturing and research and development, two employees in business development, marketing, sales and support services, and two employees in finance and administration. We believe that our employee relations are harmonious. No employee is represented by a union.

Item 2. Description of Property

We do not own any real property. During 2004, we rented a 3,600 square foot production facility in Tempe, Arizona, at a rental of $2,323 per month, from our majority shareholder/CEO, Mr. Howard R. Baer, who was the lessee of the property. This facility, while enabling some expansion of production, was not considered suitable for our anticipated long-term needs. In addition, during part of 2004, we rented office space for our corporate headquarters from Mr. Howard R. Baer. We made rental payments of $14,608 to Mr. Baer for rental of our corporate office. We vacated our corporate headquarters in February, 2005.

The lease of our production facility expired in June, 2004, and we obtained an extension of such lease in order to enable us to locate suitable new space. On December 9, 2004, we entered into a lease, dated as of November 1, 2004, with Evans Road, LLC (a company owned by Mr. Baer), under which we lease approximately 5,000 sq. ft. for a new corporate headquarters and production facility. We relocated to the new facility in the first quarter of 2005, as we required additional space for our laboratory, testing and growing facilities. In addition, we desired to consolidate our corporate headquarters and production facility. Evans Road, LLC expended approximately $106,000 on building improvements in order to meet our requirements for this facility. The lease has a term of 15 years, subject to the right of either party to terminate the lease after 7.5 years, and provides for base monthly rent in the amount of $8,700 plus monthly taxes in the amount of $165 (annual base rent and taxes are approximately $106,000). In February, 2005, Evans Road, LLC sold the building which was leased to us, and leased such building back from the buyer under a master lease. Evans Road, LLC continues to lease the building, as master lessor, to us, under the terms and conditions described above. During 2004, we paid Evans Road, LLC approximately $26,596, representing $17,730 in rent and a security deposit of $8,865.

Item 3. Legal Proceedings

In or around April, 2004, the Company learned that the staff of the Securities and Exchange Commission ("SEC") was conducting an informal inquiry into the accuracy of certain of the Company's press releases and other public disclosures, and the trading in the Company's securities. The Company cooperated fully with the SEC staff's informal inquiry by producing documents and having certain of its officers appear for testimony at the SEC's offices. On or about July 14, 2004, the SEC issued an Order Directing Private Investigation and Designating Officers to Take Testimony. The Company understands that the factual basis underlying the Order of Investigation are questions as to (i) whether there were any false or misleading statements or material omissions in reports the Company filed with the SEC or in other public documents or disclosures, including statements about the efficacy of the Company's primary product, ProAlgaZyme; or (ii) whether there was improper trading or other activity in the Company's securities. The Company is continuing to cooperate fully in the SEC's investigation, including producing additional documents, and making the Company's officers and directors available for testimony before the SEC. The Company understands that the SEC investigation is ongoing. The SEC has not advised the Company of any specific action that it intends to take against the Company or any of its officers or directors or others, as a result of its investigation, which is still ongoing. The Company is presently in discussions with the SEC concerning a possible consensual resolution of the investigation. The Company can give no assurance as to the terms and conditions of any such resolution or whether it will be able to reach any consensual resolution of the investigation. At the conclusion of the SEC's investigation, if the SEC takes action against the Company or its officers and directors, such action will have a material adverse effect on the Company.

Item 4. Submission of Matters to a Vote of Securities Holders

There were no items submitted to a vote of security holders during 2004.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Market Information. Our common stock is quoted on the NASD's Over-the-Counter Bulletin Board under the symbol "HEPI.OB". The following table sets forth, for the periods indicated, the high and low closing bids for our common stock as quoted on the OTC Bulletin Board (bids reflect inter-dealer quotations, without retail mark-ups, mark-downs or commissions, and may not necessarily represent actual transactions).

	HIGH	LOW
Year ended December 31, 2003		
First Quarter	0.03	0.03
Second Quarter	0.03	0.03
Third Quarter	0.03	0.03
Fourth Quarter to November 11	3.20	0.03
November 12 – December 31 (after a 2-for-1 split)	3.20	1.55
Year ended December 31, 2004		
First Quarter	7.70	1.60
Second Quarter	3.00	1.05
Third Quarter	2.75	0.76
Fourth Quarter	1.55	0.51
Year ended December 31, 2005		
First Quarter	1.25	0.40

Stockholders. As of December 31, 2004, there were approximately 134 shareholders of record holding 12,230,753 shares of common stock.

The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Holders of the common stock have no preemptive rights and no right to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock.

Of the issued and outstanding common stock as of December 31, 2004, 1,095,000 were free-trading and the balance of 11,135,753 constituted "restricted securities" as that phrase is defined in Rule 144 under the Securities Act of 1933, as amended ("1933 Act"), and may be sold pursuant to Rule 144.

Dividends. We have neither paid nor declared any dividends since our inception, and do not intend to declare any such dividends in the foreseeable future. Our ability to pay dividends is subject to limitations imposed by Nevada law. Under Nevada law, dividends may be paid to the extent that a corporation's assets exceed its liabilities and it is able to pay its debts as they become due in the usual course of business.

Securities authorized for issuance under equity compensation plans. The Company has no securities authorized for issuance under equity compensation plans.

Recent Sales of Unregistered Securities. On November 26, 2004, we raised gross proceeds of $150,000 from the sale of two promissory notes in the principal amount of $150,000 and 75,000 shares of our common stock. The securities were sold to institutional investors who were "accredited investors", within the meaning of Rule 501 of Regulation D under the 1933 Act. We did not pay any finder's fee or commission in connection with this transaction. Due to our failure to register under the 1933 Act shares we previously issued in a private placement, on December 22, 2004, we issued an aggregate of 94,500 shares, as a penalty payment, to the investors in the private placement.

We believe that the foregoing transactions were exempt from the registration requirements under the 1933 Act, based on the following facts: there was no general solicitation, there was a limited number of investors, each of whom was an "accredited investor" (within the meaning of Regulation D under the Securities Act of 1933, as amended) and/or was (either alone or with his/her purchaser representative) sophisticated about business and financial matters, each such investor had the opportunity to ask questions of our management and to review our filings with the Securities and Exchange Commission, and all shares issued were subject to restriction on transfer, so as to take reasonable steps to assure that the purchasers were not underwriters within the meaning of Section 2(11) under the Act.

Item 6. Management's Discussion and Analysis or Plan of Operation

Overview.

During November, 2003, we acquired Health Enhancement Corporation, and changed our name from Western Glory Hole, Inc. to Health Enhancement Products, Inc. Accordingly, no meaningful comparison of revenues and expenses for 2003 and 2004 can be made. Western Glory Hole, Inc. was a development stage company and had no effective operations during the year ended December 31, 2002 or during the year ended December 31, 2003, until its acquisition of Health Enhancement Corporation in November, 2003.

We are in the development stage and are working on the development of our sole product, ProAlgaZyme. We have minimal revenue (approximately $49,000 in 2004) and do not expect revenue until at least 2006. We have been incurring significant operating losses and negative cash flow. We are also experiencing a severe ongoing working capital deficiency, and we have virtually no cash on hand. We have had great difficulty raising capital from independent third parties. We are largely dependent upon our majority shareholder/CEO for our continued funding. Our majority shareholder/CEO does not presently have the ability to continue to provide us sufficient funds to finance our business operations. These factors raise substantial doubt about our ability to continue as a going concern. If we are unable to obtain additional funding almost immediately, we will probably be unable to continue as a going concern, in which case you would suffer a total loss of your investment in our company.

Results of Operations for Years Ended December 31, 2004 and 2003

Net Sales. Net sales were $49,058 in the year ended December 31, 2004. These revenues reflect primarily sales of the ProAlgaZyme product (net sales of $47,965), which currently is our sole product. The ProAlgaZyme product has also been marketed under the name "AlphaSystem Replenisher" ("ASR").

Throughout 2004, we have been adversely impacted by a shortage of funds which has severely impeded our ability to market and test our ProAlgaZyme product, contributing to a low level of net sales. Although the ProAlgaZyme product is available for sale, we are not currently marketing the product and do not expect any sales revenue until at least 2006. We believe that our ability to generate sales of the ProAlgaZyme product will depend upon further characterization of the product and identification of its method of action. We currently do not have the funds necessary to pursue this further testing.

While we released the ReplenTish product during the first quarter of 2004, our continuing lack of funds has also substantially hindered our ability during 2004 to implement an effective advertising and marketing campaign for ReplenTish. To date, there have been only minimal sales of the ReplenTish product. We have suspended sales and marketing of the ReplenTish product. Thus, we expect no revenue from our ReplenTish product for the foreseeable future.

In addition, we announced in September, 2004 that we were unable to proceed at that time with our earlier plans for the 2004 release of our Zodiac Herbal Vitamins products. We have since abandoned the Zodiac product line.

Unless and until we are able to raise sufficient capital to fund the necessary marketing, advertising and testing, we do not expect to have any meaningful sales revenue. Even if we are able to fund an advertising, marketing and testing program, we cannot be sure that such a program will lead to an increase in our sales revenue.

Cost of Sales. Cost of Sales represents primarily costs related to raw materials, labor and the laboratory and controlled production environment necessary for the growing of the algae cultures that constitute the source of the proteolytic enzyme within the ProAlgaZyme product, and for conducting the necessary harvesting and production operations in preparing the product for sale. Total cost of goods sold for the year ended December 31, 2004 was $75,284.

Gross Profit. Total Gross Profit was a negative $26,226 for the year ended December 31, 2004. The negative gross profit for the reported periods is due to limited sales for the year, leading to cost of sales – much of which reflects relatively fixed on-going production costs for the ProAlgaZyme product - exceeding net sales. If we are able to realize a significant increase in sales, we expect that Gross Profit will become positive. However, we cannot assure you that we will achieve an increase in sales.

Research and Development Expenses. We spent $192,366 on research and development expenses during the year ended December 31, 2004. Of this amount:

- - $57,667 was spent on the conduct of internal clinical studies and related 'in vitro' academic chemical analysis and research on the ProAlgaZyme product;

- $134,699 was expended on external clinical testing and studies. The two major external clinical studies that we had undertaken have been terminated. The studies that have terminated are:

- an independent clinical study of ProAlgaZyme, that was being conducted by the Marshall-Blum Herbal Research Clinic of Bangor, Maine, on 60 Diabetes II patients. The total cost of this study was $126,250, of which a total of $95,688 (or approximately 76%) was expended during 2004. This study was terminated because Marshall-Blum was unable to recruit the specified number of participants (60); and

- a series of independent clinical studies of ProAlgaZyme, that were being conducted on animals by MLA Industries of Glenwood, NJ. These studies were concentrating on issues of longevity, response to HIV symptoms, and other appropriate areas of analysis in animals using ProAlgaZyme. Total cost for these studies was estimated at approximately $54,000; expenses in the amount of $25,350 were incurred during 2004. These studies were terminated due to our lack of funding.

We have recently commissioned an external study to determine whether ProAlgaZyme is effective in reducing the level of CRP. The total cost of this study is expected to be approximately $29,000, of which $10,000 has been paid. As noted above, we have incurred significant expenditures on the conduct of clinical studies by independent third-party research entities. Subject to the availability of sufficient funding, which we do not currently have, we plan to make additional expenditures for research and development during 2005. In addition to the CRP study, we intend to focus initially on characterization of the ProAlgaZyme product and determining its method of action. These planned expenditures will need to be met from funds advanced by our majority shareholder/CEO, Mr. Howard R. Baer, or from external financing. We are having difficulty raising funds from external sources, and Mr. Baer is not currently in a position to make further advances to us. Thus, we may not be able to raise the funding that we need to finance these expenditures. In the event that these sources are not available or adequate to meet our research needs, we will be unable to pursue our planned research activities, in which case our ability to market ProAlgaZyme with objective clinical support for its efficacy will continue to be impeded, thereby severely hindering our sales effectiveness and impacting negatively the achievement of our business plan.

Selling and Marketing Expenses. Selling and marketing expenses were $256,224 for the year ended December 31, 2004. During 2004, we implemented a new marketing approach involving the direct sale of the ProAlgaZyme product (using the name "AlphaSystem Replenisher") to distributors. Selling and marketing expenses consist primarily of consulting fees related to the development and implementation of this direct selling model and related personnel costs. We have since abandoned this approach, as it was not effective.

Of the above amount, $58,739 was expended for advertising, primarily related to initial test-marketing of the ReplenTish product, following its launch during the period to June 30, 2004, and general product advertising.

Due to a lack of available funding, we have been forced to terminate all selling, marketing and advertising related activities. The termination of selling, marketing and advertising related activities has had and will continue to have a material adverse effect on future sales revenue and operating income.

General and Administrative Expenses. General and administrative expenses were $2,628,919 for the year ended December 31, 2004. The major items of this expense were:

- salaries and payroll expenses of $1,252,552. Salaries for the period included non-cash charges of $885,000 for 175,000 shares of our common stock issued to our majority shareholder/CEO, and $42,910 for related payroll costs on these issuances;
- consultants' fees of $410,955. These fees included non-cash charges of $397,250 for warrants and shares of our common stock issued for services rendered;
- legal fees of $604,281. These fees included approximately $447,651 of charges directly related to the formal investigation by the SEC outlined in Part I, Item 3 of this Report.

In addition to the above, we incurred expenses related to other professional fees, employee health insurance, investor relations fees, expenses associated with being a public company, rental expense of our manufacturing and production center, and associated equipment costs.

Impairment Loss. During the year ended December 31, 2004, we acquired the trademarks and formulas relating to Zodiac Herbal Vitamins and Zodiac Herbal Teas - at an original cost of $730,000, based on the market value of the 200,000 shares of our common stock exchanged for these assets at their acquisition. During the year ended December 31, 2004, we reviewed the carrying value of these assets to assess whether such value exceeded the present value of their future operating cash flows. In each case, we determined that the assets' carrying values were impaired. As a result, we recognized impairment losses in the aggregate amount of $730,000, effectively reducing the carrying value of these assets to $0 at December 31, 2004. As disclosed herein, we have abandoned the Zodiac product line.

Finance Costs. During the year ended December 31, 2004, we incurred Finance Costs of $15,000. This was due to our November 2004 issuance of two Promissory Notes of three months duration for an aggregate total financing of $150,000. Under these Notes, we issued 75,000 shares of our common stock. These shares were valued at $45,000.00 (or $0.60 per share), based on the quoted price of our common stock on the date of issuance. Deferred offering costs of $45,000 related to the value of these issued shares are being amortized at the rate of $15,000 per month over three months, the lives of the related debts.

Interest Income. We had no interest income for the year ended December 31, 2004.

Interest/Other Expense. We incurred interest expense of $1,305 for the year ended December 31, 2004. This expense is entirely due to amounts charged on corporate credit cards used by certain staff members.

Provision (Benefit) for Income Taxes. We had net deferred tax assets of approximately $976,000 at December 31, 2004, related to net operating loss carry-forwards of approximately $2,710,000. This compares to an amount of approximately $129,000 at December 31, 2003, related to net operating loss carry-forwards of approximately $360,000. Due to the uncertainty of realization of the net operating loss carry-forwards, we have established a valuation allowance equal to the gross amount of the tax assets.

Liquidity and Capital Resources

The consolidated financial statements contained in this Report have been prepared on a 'going concern' basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the reasons discussed herein, there is a high degree of risk that we will be unable to continue as a going concern, in which case, you would suffer a total loss of your investment in our company.

We have virtually no revenue (approximately $49,000 for the year ended December 31, 2004) and have incurred significant net losses since inception, including a net loss of $3,859,006 during 2004 and an aggregate net loss of $4,427,920 since inception. We do not expect any meaningful revenue until at least 2006. Further, since inception, we have incurred negative cash flow from operations. During 2004, we incurred negative cash flows from operations of approximately $1,280,659. As of May 6, 2005, we had a cash balance of $1,346. We had an estimated working capital deficiency of approximately $1,459,626 as of March 31, 2005. We are experiencing a severe shortage of capital, which is materially and adversely affecting our ability to run our business. We are largely dependent upon Howard R. Baer, our majority shareholder/CEO, and external sources for funding. Mr. Baer does not presently have the ability to provide us with further advances and we have had great difficulty in raising capital from external sources. These factors raise substantial doubt about our ability to continue as a going concern. If we are not able to obtain additional funding almost immediately, we will probably be unable to continue as a going concern, in which case, you would suffer a total loss of your investment in our company.

From inception to December 31, 2004, our operating activities used approximately $1,298,054 in cash, and we received an aggregate of approximately $1,711,000 in new funding (net of fees and commissions). From January 1, 2005 to May 7, 2005, we received a further $539,885 in new funding from our majority shareholder/CEO, Mr. Howard R. Baer. From inception to December 31, 2004, we received approximately $690,000 in advances from Mr. Baer, and approximately $753,000 from external sources. Funds from external sources included loans in the aggregate amount of $150,000 received during November and December, 2004; these loans were secured by a lien and security interest on certain real property owned by Mr. Baer, and were payable on or before February 26, 2005. On February 15, 2005, these loans were repaid in full. Mr. Baer advanced us the funds to repay the loans.

Mr. Baer has advanced us an aggregate of approximately $1,230,244 from inception to May 7, 2005, including an aggregate of $539,885 since the commencement of 2005. Since inception, we have repaid Mr. Baer a total of $275,000, resulting in our being indebted to Mr. Baer in the aggregate amount of approximately $931,744 as of March 31, 2005 (after giving effect to miscellaneous adjustments resulting in an $11,000 reduction in the amount we owe Mr. Baer). On February 15, 2005, Mr. Baer advanced us $364,000, for our benefit and that of our wholly-owned subsidiary, Health Enhancement Corporation ("HEC"), and, in connection therewith, we entered into a Promissory Note ("Note"), a Security Agreement and a Patent Security Agreement with Mr. Baer (such documents are collectively hereinafter referred to as the "Loan Documents"). Immediately prior to entering into the Loan Documents, we were indebted to Mr. Baer in the aggregate amount of $483,359, in connection with prior advances he made to us, for our benefit and that of HEC. Following Mr. Baer's advance of $364,000 on February 15, we were indebted to Mr. Baer in the aggregate amount of $847,359. From February 15, 2005 to May 7, 2005, Mr. Baer has advanced the Company an additional $107,885, for our benefit and that of HEC. Accordingly, at May 7, 2005, the Note is in the principal amount of $955,244. The Note bears interest at the rate of 10% per annum. Commencing thirty (30) days after written demand by Mr. Baer, the principal amount and accrued interest under the Note will be payable in twelve (12) equal monthly installments. Under the Security Agreements, we, in order to secure our obligations under the Note, granted Mr. Baer a security interest in all our assets that are related to the ProAlgaZyme product. The principal amount under the Note may be increased from time to time by the amount of any further advances to us by Mr. Baer; however, Mr. Baer is in no way obligated to make further advances to us.

On March 25, 2005, we, Mr. Baer and our wholly-owned subsidiary, HEC, executed and delivered a Joinder Agreement and First Amendment, which had the effect of making our subsidiary (HEC) a party to the Loan Documents, including as a co-maker of the Note. As a result of entering into the Joinder Agreement and First Amendment, our subsidiary has become a co-maker under the Note, and has granted Mr. Baer a security interest in all of its assets related to the ProAlgaZyme product.

If Mr. Baer demands repayment of the Note, we may not have the ability to make the payments required by the Loan Documents, in which case there would be an "event of default" under the Loan Documents and Mr. Baer would be able to foreclose on all of our (and HEC's) assets related to our ProAlgaZyme product. If Mr. Baer were to demand repayment of the Note now, we would not be able to make the required payments and there would be an "event of default" under the Loan Documents.

In addition, Mr. Baer has guaranteed our obligation to pay in excess of $300,000 we owe to third parties. Mr. Baer has granted a lien of $275,000 in certain real estate he owns to secure his obligations under one of these guarantees.

We estimate that we will require approximately $600,000 in cash over the next twelve months in order to fund our operations, not including legal fees in connection with the investigation by the Securities and Exchange Commission (see below). Based on this cash requirement, we have an immediate and urgent need for additional funding. For the foreseeable future, we do not expect that sales revenues will be sufficient to fund our cash requirements. We are having great difficulty raising additional funds from external sources. Accordingly, we are, at this time, heavily dependent for our funding on advances from our majority shareholder/CEO, Mr. Howard R. Baer. This dependence on Mr. Baer is expected to continue, at least until we are able to raise substantial funds from external sources or to generate sufficient cash flow from operations so as to become self-sustaining. At this time, Mr. Baer is not in a position to provide us with additional funds. We cannot assure you that Mr. Baer will, in the future, be able or willing to advance us additional funds. Nor can we assure you that we will be able to obtain from external sources the funds that we need to continue our operations. Given our immediate and urgent need for capital, if we are not able to raise additional funds from external sources almost immediately, it is probable that we will be unable to continue as a going concern, in which case you will suffer a total loss of your investment in our company.

As described in Part I, Item 3 of this Report, we are subject to an ongoing formal investigation by the Securities and Exchange Commission. The cost of legal representation in connection with this investigation has been, and will continue to be, substantial, until the matter is resolved. As of April 30, 2005, the Company had incurred legal fees and costs of approximately $485,000 in connection with this matter, of which approximately $85,000 is still owing to the law firm. We expect that we will continue to incur significant legal fees in connection with the investigation. The cash that will be required to pay these fees is in addition to the cash requirements described in the preceding paragraph.

If our lack of cash is not rectified almost immediately, there is a high probability that we will not be able to continue our operations. Given the difficulty we are having raising capital from external sources, and Mr. Baer's present inability to advance further funds to us, there is substantial doubt about our ability to continue as a going concern.

Plan of Operation

All of our operational planning is currently subject to the limitations resulting from our severe cash shortage (see above under "Liquidity and Capital Resources"). The following plans assume that we will be able to generate – either from cash flows or equity or debt financing - a level of liquidity sufficient to support our planned activities. As disclosed herein, there is substantial doubt about our ability to raise additional capital.

Research. We are conscious of the need to provide the most thorough and accurate statements of the characterization, method of action, effectiveness and health benefits of our ProAlgaZyme product, and we committed significant capital during 2004 to product testing and associated research. As part of this research, we had engaged the services of the Marshall-Blum Herbal Research Clinic, in Bangor, Maine, for the conduct of a clinical study of the ProAlgaZyme product, on 60 patients suffering from Type II Diabetes. The study, which was a single-center, prospective, randomized, triple-masked, placebo-controlled, parallel-group-design clinical study, had been approved by the Institutional Review Board, and was being conducted by Marshall-Blum. The study has been terminated due to Marshall-Blum being unable to recruit the specified number of participants (60).

In August 2004, we commenced a series of further independent clinical studies of ProAlgaZyme. The studies, which were being conducted by MLA Industries of Glenwood, NJ, were being conducted on animals, and were concentrating on issues of longevity, response to HIV symptoms in animals using ProAlgaZyme. This study has been terminated due to lack of funding.

We have recently commissioned an external study to determine whether ProAlgaZyme is effective in reducing the level of CRP. The total cost of this study is expected to be approximately $29,000, of which $10,000 has been paid. Subject to the availability of sufficient funding, which we currently do not have, we intend to pursue additional external clinical studies in 2005. In the event that we are unable to raise sufficient funds to meet our research needs, we will be unable to pursue our planned research activities, in which case our ability to market ProAlgaZyme with objective clinical support for its efficacy will continue to be impeded, thereby severely hindering our sales effectiveness and impacting negatively the achievement of our business plan.

We are conducting continuing in-house studies into the growing and effectiveness of the algae, and into its efficient cultivation, protection, and reproduction. These studies have also allowed us to clarify the nature of certain of the active agents within ProAlgaZyme as a complex of proteolytic enzymes. From this conclusion, we are able to assess more accurately the possible affect of ProAlgaZyme on a very large range of illnesses, injuries, and chronic diseases, and to prepare for appropriate clinical studies.

We have also completed a series of ‘in vivo’ in-house clinical studies into the effectiveness of a ProAlgaZyme regimen on a range of patients with several illnesses; these research studies were conducted to a strictly-defined protocol under the direction of our former Director of Medical Research, Dr. DeWall J. Hildreth. Among the illnesses studied under this program were Type II Diabetes, Chronic Fatigue Syndrome, Fibromyalgia, HIV/AIDS, cardio-vascular and immune-system conditions, and a variety of cancerous conditions. The results of these informal studies have assisted us in our decisions as to what external studies we should undertake.

As part of our preparation for the conduct of clinical studies by independent third-party research entities, we have incurred significant expenditures, and we still owe approximately $15,000 in connection with the two studies that have been terminated. Subject to the availability of sufficient funding, which we currently do not have, we plan to make additional expenditures for research and development in the amount of $100,000. These planned expenditures will also need to be met from funds advanced by our majority shareholder/CEO, Mr. Howard R. Baer, or from external financing. As disclosed above, we are having difficulty raising funds from external sources, and Mr. Baer is not currently in a position to make further advances to us. Thus, we may not be able to raise the funding that we need to finance these expenditures. In the event that these sources are not available or adequate to meet our research needs, we will be unable to pursue our planned research activities, in which case, our ability to market ProAlgaZyme with objective clinical support for its efficacy, will continue to be impeded, thereby severely hindering our sales effectiveness and impacting negatively the achievement of our business plan.

Planned Expenditure on Plant and Equipment. During 2004, our majority shareholder/CEO, Mr. Howard R. Baer, purchased a building in Scottsdale, Arizona, that was suitable for an expanded corporate headquarters and production facility for us. On December 9, 2004, we entered into a lease dated November 1, 2004 for approximately 5,000 square feet of the building from Evans Road, LLC, an entity owned by Mr. Baer. In February, 2005, Evans Road, LLC sold the building which contains the Company’s leased space, and then leased the building back from the buyer under a master lease. Evans Road, LLC continues to lease the above-mentioned space to us as a master lessor. The annual minimum base rent for this property is approximately $104,400, representing an annual increase in our base rent expense of approximately $76,500. We paid $17,731 in rental for this property during 2004, and a security deposit of $8,865. We transferred all of our corporate operations to the new facility in the first quarter of 2005.

We have no current plans to make material capital expenditures for equipment over the next twelve months. However, we expect that there will be some expenses involved in the provision of additional and replacement equipment to make efficient use of the expanded facilities in our new location.

As we have had virtually no revenue, we have been heavily reliant on Howard R. Baer and external sources to provide the funds necessary for our continued operation. As disclosed above, Mr. Baer is not presently in a position to make further advances to us and we have had great difficulty in raising capital from external sources. Unless and until sales revenues increase to a level where we are self-sustaining, this dependence upon Mr. Baer and upon external funding sources will continue, making our ability to fulfill our business plans highly problematical, at best.

Our chronic lack of cash has had and will continue to have a material adverse affect on our ability to implement our business plan and continue as a going concern. There is a high degree of risk that we will not be able to continue as a going concern and that you will loose your entire investment in our company.

Any significant elements of income or loss not arising from our continuing operations: We do not expect to experience any significant elements of income or loss other than from our continuing operations.

Seasonality: Our product is directed to the improvement of the health of our consumers, and we do not expect that our operating results will be affected materially by seasonal factors. In addition, ProAlgaZyme is cultivated in a climate-controlled laboratory environment, and thus is not subject to seasonal growing influences.

Staffing: We have conducted all of our activities since inception with a minimum level of qualified staff. We do not anticipate that there will be significant growth in personnel during 2005.

Off-balance sheet arrangement;. We have no off-balance sheet arrangements that would create contingent or other forms of liability.

Item 7. Financial Statements

The financial statements of the Company appear at Page F-1 of this Report.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

Please see our Form 8-K Current Report filed with the Securities and Exchange Commission July 12, 2004.

Item 8A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's "disclosure, controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(3) and 15-d-15(3) as of the end of the period covered by this annual report (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure, controls and procedures are effective, providing them with material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b) Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal controls over financial reporting, known to the Chief Executive Officer or the Chief Financial Officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.

Directors and Executive Officers.

The following table sets forth the name, age and position of each of our executive officers or directors

Name	Age	Positions	Since
Howard R. Baer	62	Chairman and Chief Executive Officer, Secretary, and Treasurer	2003
Kevin C. Baer	37	Executive Vice President	2003
Jeffery R. Richards (1)	64	Chief Financial Officer	2003

(1) Mr. Richards resigned his position as our full-time CFO effective March 31, 2005

Mr. Howard R. Baer was appointed our Chairman and CEO on November 21, 2003, and is our sole director. He attended Burdette College in Boston, MA from 1959 to 1960 where he studied business law and accounting. He also attended the New York Institute of Finance. Mr. Baer has been in the investment banking business for approximately 40 years. From 1989 to 2003, he was President of Carriage House Capital, Inc., a management consulting firm. Mr. Baer is also Chairman of Politics.com, Inc., a privately held internet company. Mr. Baer is also President of The Suggestion Box, Inc., also a privately held internet company.

Mr. Kevin C. Baer, who is Howard Baer's son, was appointed Executive Vice President in November, 2003. He attended NSCC in Beverly, MA from 1987-1990, where he earned an AA in Marketing. From 1991 to present, he has been employed by Carriage House Capital, Inc. From 1997 until 2003, he was Executive Vice President of Carriage House. His primary responsibility at Carriage House involved consulting with potential clients on capital structure, business plans and mergers and acquisitions. From 1999 – 2001, he was Secretary, Treasurer, and Director of Politics.Com, Inc., now a privately held internet company.

Mr. Jeffery R. Richards was appointed Chief Financial Officer in November, 2003. He is a graduate in Economics from Monash University (Melbourne, Australia), and is an Australian CPA. He has more than 25 years experience in the software industry and in managing start-up companies, including managing his own management company specializing in business planning, financial documentation, and reporting. From 1990 to 1998, he served as EVP of ConSyGen, Inc., then as EVP of Today.com, Inc. until 2000. From September 2002 until June 2003, he served as CFO of 944 Media, Inc., a start-up publishing company.

See Item 3, Legal Proceedings, for a description of a pending formal SEC investigation.

All officers hold their positions at the will of the Board of Directors. All directors hold their positions for one year or until their successors are elected and qualified.

Family Relationships.

Our Chairman and CEO, Mr. Howard R. Baer, is the father of our Executive Vice President, Mr. Kevin C. Baer.

Audit Committee Financial Expert

We do not have an audit committee financial expert, because we do not have an audit committee. We are not currently required to have an audit committee.

Code of Ethics

We have adopted a Code of Ethics and Business Conduct which defines the standard of conduct expected of our officers, directors and employees. The Code is filed as an exhibit to this Report**.**

Section 16(a) Beneficial Ownership Reporting Compliance.

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors, and beneficial owners of more than ten percent of a registered class of our equity securities ("Reporting Persons") to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Reporting Persons are required by regulation to furnish us with copies of all Section 16(a) forms they file. Based upon a review of Forms 3, 4 and 5 reviewed by the registrant with respect to the year ended December 31, 2004 and other information known to the registrant, the registrant is aware that the following Reporting Persons failed to file required reports and/or made late filings, as indicated, during the most recent year: Jeffrey R. Richards filed a Form 3 late, did not file a Form 5 for the years ended December 31, 2003 or 2004, and filed a late Form 4, in which four transactions were reported late; Howard R. Baer did not file a Form 5 for the years ended December 31, 2003 or 2004, filed 2 Form 4s late, in which an aggregate of four transactions were reported late, and did not file a Form 4 with respect to a disposition of shares; and Kevin C. Baer did not file a Form 3 and did not file Form 5s for the years ended December 31, 2003 or 2004.

Item 10. Executive Compensation

There was no cash or other compensation paid to any of our directors or executive officers during the year ended December 31, 2002. We commenced business operations in the fourth quarter of 2003, following our acquisition of Health Enhancement Corporation.

Summary Compensation Table

		Annual Compensation			Long Term Compensation Awards		Payouts	
Name and Principal Position	Year Ended	Salary ($)	Bonus($)	Other Annual Compen-sation ($)	Restricted Stock Awards ($)	Securities Underlying Options/ SARs (#)	LTIP Payouts ($)	All Other Compen-sation ($)
Howard R. Baer	12/31/04	192,250(1)	-0-	9,000(2)	-0-	-0-	-0-	$810,000(3)
Chairman & CEO, Treasurer	12/31/03	100,000(4)	-0-	-0-	-0-	-0-	-0-	$10,000
& Secretary	12/31/02	N/A	N/A	N/A	N/A	N/A	N/A	N/A
John Neubauer, President	12/31/04	41,600	-0-	-0-	-0-	-0-	-0-	-0-
	12/31/03	-0-	-0-	-0-	-0-	-0-	-0-	-0-
	12/31/02	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Paul Piccanti, Vice President	12/31/04	56,000	-0-	-0-	-0-	-0-	-0-	-0-
	12/31/03	-0-	-0-	-0-	-0-	-0-	-0-	-0-
	12/31/02	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) Includes 25,000 shares of restricted common stock issued to Mr. Baer as part of his base salary. These issues were valued at $3.00 per share, based on the quoted price of our common stock on March 19, 2004.
(2) Mr. Howard Baer received $9,000 during 2004 in the form of an auto allowance
(3) In February, 2004, Mr. Howard Baer was issued 150,000 shares of common stock for services rendered. Shares were registered under Registration Statement on Form S-8, filed with the Commission on February 12, 2004. Valuation was at $5.40 per share, based on the quoted price of our common stock on February 10, 2004.
(4) Includes 31,250 shares of restricted common stock issued to Mr. Baer as part of his base salary. The shares were valued at $3.20 per share, based on the quoted price of our common stock on December 15, 2003.

Compensation of Directors

Our sole Director does not receive any remuneration for his service on the Board.

Employment Agreements. On February 10, 2004, we entered into an employment agreement with our majority shareholder/CEO, Mr. Howard R. Baer, whereby we agreed to issue 150,000 shares of the Company's common stock as compensation for past services. This agreement was filed as an Exhibit to our Registration Statement on Form S-8, filed with the Securities and Exchange Commission on February 12, 2004, and incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth, as of March 31, 2005, certain information regarding each person who is known to us to beneficially own more than 5% of our issued and outstanding shares of common stock, and the number of shares of our common stock beneficially owned by each of our directors and named executive officers, each director and all officers and directors as a group. Except as otherwise indicated, the persons named in the table have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable.

Security Ownership of Certain Beneficial Owners:

Name and Address	Title of Class	Number of Shares Beneficially Owned	% of Shares
William J. Rogers, II (1) 21 Ocean Ridge Boulevard South Palm Coast, FL 32137	Common	1,063,767	8.46%

Security Ownership of Management:

Name and Address	Title of Class	Number of Shares Beneficially Owned	% of Shares
Mr. Howard R. Baer (2) 7740 E. Evans Rd. Scottsdale, AZ 85260	Common	5,183,450	42.05%
Mr. Kevin C. Baer (3) 7740 E. Evans Rd. Scottsdale, AZ 85260	Common	638,276	5.18%
Mr. Jeffery R. Richards (4) 4236 N. Parkway Ave. Scottsdale, AZ 85251	Common	79,375	*
Officers and Directors as a group (Three People)	Common	5,901,101	47.88%

* Less than 1%

(1) Includes warrants to purchase 250,000 shares of our common stock

(2) The shares are beneficially owned by Mr. Howard R. Baer as follows: 2,166,200 shares in the name of Howard R. Baer, individually; 3,017,250 shares in the name of Carriage House Capital, an entity owned and controlled by Mr. Baer; and 200 shares in the name of the Baer Charitable Remainder Trust. Does not include shares of common stock owned of record by Kae C. Park, Howard Baer's wife, of which Mr. Baer disclaims beneficial ownership.

(3) The shares are beneficially owned by Mr. Kevin C. Baer as follows: 9,684 shares in the name of Kevin C. Baer, individually; 627,592 shares in the name Kevin C. Baer TTE FBO KC Baer Separate Property Trust DTD 10/25/01; 1,000 shares in the name Kevin C. Baer and Tammi Baer.

(4) The shares are beneficially owned by Mr. Jeffery R. Richards and are owned of record by the Richards Family Charitable Remainder Trust DTD 04/01/94.

Item 12. Certain Relationships and Related Transactions.

We have entered into several transactions with Mr. Howard R. Baer, our majority shareholder/CEO.

From November 2003 until February 2005, we rented corporate office space from Mr. Baer. During 2004, we paid $14,608 to Mr. Baer for this office space. As of December 31, 2004, there were no lease amounts payable to Mr. Baer or to the entity owned by him in connection with this space.

The lease of our production facility expired in June, 2004, and we obtained an extension of such lease in order to enable us to locate suitable new space. On December 9, 2004, we entered into a lease, dated as of November 1, 2004, with Evans Road, LLC (a company owned by Mr. Baer), under which we lease approximately 5,000 sq. ft. for a new corporate headquarters and production facility. We relocated to the new facility in the first quarter of 2005, as we required additional space for our laboratory, testing and growing facilities. Evans Road, LLC expended approximately $106,000 on building improvements in order to meet our requirements for this facility. The lease has a term of 15 years, subject to the right of either party to terminate the lease after 7.5 years, and provides for base monthly rent in the amount of $8,700 plus monthly taxes in the amount of $165 (annual base rent and taxes are approximately $106,000). In February, 2005, Evans Road, LLC sold the building which was leased to us, and leased such building back from the buyer under a master lease. Evans Road, LLC continues to lease the building, as master lessor, to us, under the terms and conditions described above. During 2004, we paid Evans Road, LLC approximately $17,731 in rent and $8,865 as a security deposit.

We lease certain equipment from an entity owned by Mr. Baer. During 2004, we made total lease payments of $9,114 to such entity. The lease payments equal Mr. Baer's debt service on the equipment. Mr. Baer has stated that he intends to cause the equipment to be transferred to us, for no consideration, once the note is paid in full. As of December 31, 2004, we owed $1,935 to Mr. Baer for equipment rental and other services.

We also lease a delivery van from Mr. Baer. During 2004, vehicle lease expense paid to Mr. Baer amounted to $4,621. The lease payments equal Mr. Baer's debt service on the vehicle. Mr. Baer has stated that he intends to transfer the vehicle to us, for no consideration, once the note is paid in full. As of December 31, 2004, there were no lease payments on this van payable to Mr. Baer.

We pay for advertising space on www.politics.com, an Internet site owned by Politics.com, Inc., an entity of which Mr. Baer is the Chairman and majority shareholder. During 2004, we paid $13,750 to the entity for advertising space. At December 31, 2004, there were no advertising fees payable to Politics.com.

As disclosed above, during the period from inception to December 31, 2004, Mr. Baer advanced $701,700 to us. During the same period, he was repaid a total of $275,000 and there were adjustments to his advance account amounting to $11,341, leaving an outstanding balance of $415,359 due to Mr. Baer as of December 31, 2004.

On February 15, 2005, Mr. Baer advanced us $364,000, for our benefit and that of our wholly-owned subsidiary, Health Enhancement Corporation ("HEC"), and, in connection therewith, we entered into a Promissory Note ("Note"), a Security Agreement and a Patent Security Agreement with Mr. Baer (such documents are collectively hereinafter referred to as the "Loan Documents"). Immediately prior to entering into the Loan Documents, we were indebted to Mr. Baer in the aggregate amount of $483,359, in connection with prior advances he made to us, for the benefit of us and HEC. Following Mr. Baer's advance of $364,000 on February 15, we were indebted to Mr. Baer in the aggregate amount of $847,359. From February 15, 2005 to May 7, 2005, Mr. Baer has advanced the Company an additional $107,885 for our benefit and that of HEC. Accordingly, at May 7, 2005, the Note is in the principal amount of $955,244. The Note bears interest at the rate of 10% per annum. Commencing thirty (30) days after written demand by Mr. Baer, the principal amount and accrued interest under the Note will be payable in twelve (12) equal monthly installments. Under the Security Agreements, in order to secure our obligations under the Note, we granted Mr. Baer a security interest in all our assets that are related to our ProAlgaZyme product. The principal amount under the Note may be increased from time to time by the amount of any further advances to us by Mr. Baer; however, Mr. Baer is in no way obligated to make further advances to us.

On March 25, 2005, we, Mr. Baer and HEC executed and delivered a Joinder Agreement and First Amendment, which had the effect of making HEC a party to the Loan Documents, including as a co-maker of the Note. As a result of entering into the Joinder Agreement and First Amendment, in addition to being a co-maker under the Note, HEC granted Mr. Baer a security interest in all of its assets related to the ProAlgaZyme product.

Item 13: Exhibits and Form 8-K

Exhibits:

Exhibit Number	Title	
2.1	Agreement and Plan of Reorganization	(1)
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	(2)
3.2	By-laws of the Company	(3)
10.01	Employment Agreement between Mr. Howard R. Baer and the Company, dated February 10, 2004	(4)
10.02	Office Lease between Evans Road**,** LLC and the Company, dated November 1, 2004	
10.03	Office Lease between Howard R. Baer and the Company, dated January 1, 2004	
10.04	Promissory Note, dated February 15, 2005, made by the Company in favor of Howard R. Baer	
10.05	Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	
10.06	Patent Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	
10.07	Joinder Agreement and First Amendment, dated March 25, 2005, between the Company, Health Enhancement Corporation and Howard R. Baer	
10.08	Subscription Agreement, dated June 21, 2004, between William J. Rogers, II and the Company	
14.1	Code of Ethics	(5)
21	Subsidiaries of the Registrant	
23.2	Auditor's Consent, dated May 13, 2005, to incorporation of auditor's report into Registration Statement on Form S-8	
23.3	Auditor's Consent, dated May 13, 2005, to incorporation of auditor's report into Registration Statement on Form S-8	
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

(1) Filed as Exhibit 2.1 to our current Report on Form 8-K, Filed with the Commission on December 9, 2003 and incorporated by this reference.
(2) Filed as Exhibit 3.1 to our Form 10-QSB, filed with the Commission on August 30, 2004 and incorporated by this reference.
(3) Filed as Exhibit 3.2 to our Form 10SB, filed with the Commission on April 20, 2000 and incorporated by this reference.
(4) Filed as Exhibit 4.1 to our Registration Statement on Form S-8, filed with the Commission on February 12, 2004, and incorporated by reference.
(5) Filed as Exhibit 99 to our Form 10-KSB, filed with the Commission on April 1, 2004, and incorporated by this reference.

Reports on Form 8-K:

On October 12, 2004, we filed a Form 8-K Current Report reporting termination of a Principal Officer, pursuant to Item 5.02.

Item 14. Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed for each of the last two years for professional services rendered by our principal accountant for the audit of our annual financial statements and review of financial statements included in our Form 10-QSB reports and services normally provided by the accountant in connection with statutory and regulatory filings or engagements were $2,690 and $56,200 for 2003 and 2004, respectively.

Audit-Related Fees

There were no fees for assurance and related services for 2003 or 2004.

Tax Fees

We paid $150 for tax compliance, tax advice and tax planning for 2003. During 2004, we made a provision of $5,000 for expenses associated with the preparation and filing of our 2003 and 2004 tax returns.

All Other Fees

There were no fees billed in either of the last two years for products and services provided by the principal accountant, other than the services reported above.

We do not currently have an audit committee. Our board of directors will evaluate and approve in advance the scope and cost of the engagement of our auditor before the auditor renders audit and non-audit services.

SIGNATURES

In accordance with the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEALTH ENHANCEMENT PRODUCTS, INC.

Date: May 13, 2005

By: /s/ Howard R. Baer
Howard R. Baer
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: May 13, 2005

By: /s/ Howard R. Baer
Howard R. Baer
Principal Executive Officer
Sole Director

Date: May 13, 2005

By: /s/ Jeffery R. Richards
Jeffery R. Richards
Principal Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY

We have audited the accompanying consolidated balance sheet of Health Enhancement Products, Inc. and Subsidiary (a Development Stage Company) (the "Company") as of December 31, 2004 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the year ended December 31, 2004 and for the period October 9, 2003 (inception) to December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements for the period October 9, 2003 (inception) through December 31, 2003 were audited by other auditors whose report dated March 22, 2004 expressed an unqualified opinion on those consolidated financial statements, with an explanatory paragraph regarding the Company's ability to continue as a going concern. The consolidated financial statements for the period October 9, 2003 (inception) through December 31, 2003 include total operating expenses and a net loss of $567,474 and $568,914, respectively. Our opinion on the consolidated statements of operations, stockholders' deficit and cash flows for the period October 9, 2003 (inception) through December 31, 2004 insofar as it relates to amounts for prior periods through December 31, 2003, is based solely on the report of 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Also, 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Health Enhancement Products, Inc. and Subsidiary at December 31, 2004, and the results of their operations and their cash flows for the year ended December 31, 2004 and for the period October 9, 2003 (inception) to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred significant operating losses for the years ended December 31, 2004 and 2003 and, as of December 31, 2004, has a significant working capital and stockholders' deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York
May 10, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
(Formerly Western Glory Hole, Inc.)
Tempe, Arizona

We have audited the accompanying consolidated statements of operations, stockholders' equity (deficit) and cash flows of Health Enhancement Products, Inc. and Subsidiary (formerly Western Glory Hole, Inc.) [*a development stage company*] for the period from inception on October 9, 2003 through December 31, 2003. 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the results of operations and cash flows of Health Enhancement Products, Inc. and Subsidiary (formerly Western Glory Hole, Inc.) [*a development stage company*] for the period from inception on October 9, 2003 through December 31, 2003, in conformity with generally accepted accounting principles in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company was only recently formed and has not yet been successful in establishing profitable operations. Further, the Company has current liabilities in excess of current assets. These factors raise substantial doubt about the ability of the Company to continue as a going concern. Management’s plans in regards to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

PRITCHETT, SILER & HARDY, P.C.

Salt Lake City, Utah
March 22, 2004

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[*A Development Stage Company*]
CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 2004
CURRENT ASSETS:	
Cash	$ 17,118
Inventories	2,563
Prepaid Expenses	10,622
Total Current Assets	30,303
OTHER ASSETS:	
Definite-life Intangible Assets, net	13,966
Deposits	8,865
Total Other Assets	22,831
	$ 53,134

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:	
Accounts Payable	$ 406,852
Loans Payable - Shareholder	415,359
Loans Payable - Other	20,000
Notes Payable	150,000
Accrued Payroll Taxes	114,129
Accrued Liabilities	49,401
Total Current Liabilities	1,155,741
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT:	
Common stock, $.001 par value, 100,000,000 shares authorized, 12,230,753 issued and outstanding	12,230
Additional Paid-In Capital	3,343,083
Deferred Finance Costs	(30,000)
Deficit accumulated during the development stage	(4,427,920)
Total Stockholders' Deficit	(1,102,607)
	$ 53,134

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[*A Development Stage Company*]
CONSOLIDATED STATEMENT OF OPERATIONS

	For the Year Ended December 31, 2004	For the Period October 9, 2003 (Inception) To December 31, 2003	For the Period October 9, 2003 (Inception) to December 31, 2004
NET SALES	**$** 49,058	$ 288	$ 49,346
COST OF SALES	75,284	1,728	77,012
GROSS PROFIT (LOSS)	(26,226)	(1,440)	(27,666)
OPERATING EXPENSES:			
Selling	256,224	2,939	259,163
General and Administrative	2,628,919	508,828	3,137,747
Research and Development	192,366	55,707	248,073
Impairment Loss	730,000	-	730,000
Amortization of Deferred Finance Costs	15,000	-	15,000
Write-Down of Inventories	8,966	-	8,966
Total Operating Expenses	3,831,475	567,474	4,398,949
LOSS FROM OPERATIONS	(3,857,701)	(568,914)	(4,426,615)
OTHER INCOME (EXPENSE)			
Interest Expense	(1,305)	-	(1,305)
NET LOSS	**$** (3,859,006)	$ (568,914)	$ (4,427,920)
BASIC AND DILUTED LOSS PER SHARE	$ (0.34)	$ (0.06)	
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	11,384,663	9,627,348	

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY

[*A Development Stage Company*]

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE PERIOD OCTOBER 9, 2003 (INCEPTION) TO DECEMBER 31, 2004

	Common Stock		Additional	Deficit Accumulated During the	Deferred	
	Shares	Amount	Paid In Capital	Development Stage	Finance Costs	Total
BALANCE, October 9, 2003	-	$ -	$ -	$ -	$ -	$ -
Common stock issued for research and development services						
valued at $9,000, or $.001 per share, October 2003	9,000,000	9,000	-	-	-	9,000
Capital contribution of inventory valued at $5,213, November 2003	-	-	5,213	-	-	5,213
Effect of recapitalization accounted for as a reverse						
purchase with Western Glory Hole, Inc., November 2003	1,235,000	1,235	(1,235)	-	-	-
Common stock issued for services valued at $490,669,						
or $3.20 per share, December 2003	153,334	153	490,516	-	-	490,669
Net loss for the period ended December 31, 2003	-	-	-	(568,914)	-	(568,914)
BALANCE, December 31, 2003	10,388,334	10,388	494,494	(568,914)	-	(64,032)
Common stock issued for trademarks, valued at $730,000,						
or $3.65 per share, January 2004	200,000	200	729,800	-	-	730,000
Common stock issued for services valued at $810,000.00,						
or $5.40 per share, February 2004	150,000	150	809,850	-	-	810,000
Granted 50,000 3-year warrants to purchase common stock at $3.75 per						
share for services valued at $260,000, or $5.20 per warrant	-	-	260,000	-	-	260,000
Common stock issued for employee and consulting services, valued at						
$3.00 per share, March 2004	85,084	85	255,167	-	-	255,252
Common stock issued for Regulation S raise, May to July 2004. Net						
proceeds of $126,679, or $0.6387 per share.	198,335	198	126,481	-	-	126,679
Common stock issued for Private Placement, June-July 2004. Net						
proceeds of $626,500, or $0.661 per share.	945,000	945	625,555	-	-	626,500

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY

[A Development Stage Company]

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE PERIOD OCTOBER 9, 2003 (INCEPTION) TO DECEMBER 31, 2004

[Continued]

	Common Stock		Additional Paid In Capital	Deficit Accumulated During the Development Stage	Deferred Finance Costs	Total
	Shares	Amount				
Common stock issued for Private Placement fees valued at $162,150, at $1.70 per share, August 2004	95,500	$ 96	$ (96)	$ -	$ -	$ -
Common stock returned, valued at $2,000 or $2.00 per share, November 2004.	(1,000)	(1)	(1,999)	-	-	(3,000)
Common stock issued as Private Placement penalty shares, December 2004, valued at $27,725, or $1.01 per share.	427,204	427	(427)	-	-	-
Common stock issued as Private Placement penalty shares, December 2004, valued at $26,600, or $0.56 per share	427,204	427	(427)	-	-	-
Common stock issued for loan funds received, December 2004, valued at $45,000, or $0.60 per share	75,000	75	44,925	-	(45,000)	-
Amortization of deferred finance costs	-	-	-	-	15,000	15,000
Net loss for the period ended December 31, 2004	-	-	-	(5,499,046)		(5,499,046)
BALANCE, December 31, 2004	12,256,755	$ 12,256	$ 7,345,465	$ (6,427,930)	$ (90,000)	$(1,160,207)

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY

[*A Development Stage Company*]

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended December 31, 2004	From Inception October 9, 2003 Through December 31, 2003	From Inception October 9, 2003 Through December 31, 2004
Cash Flows from Operating Activities:			
Net loss	$(3,859,006)	$(568,914)	$(4,427,920)
Adjustments to reconcile net loss to net cash used			
by operating activities:			
Non-cash – stock issued for services rendered	1,062,252	499,669	1,561,921
Non-cash – warrants granted for services rendered	260,000	0	260,000
Impairment loss	730,000	0	730,000
Amortization of intangibles	534	0	534
Amortization of deferred financing costs	15,000	0	15,000
Changes in assets and liabilities:			
(Increase) decrease in inventories	4,661	(2,011)	2,650
(Increase) in prepaid expenses	(9,316)	(1,306)	(10,622)
Increase in accounts payable	379,736	27,116	406,852
Increase in accrued payroll and payroll taxes	86,914	27,215	114,129
Increase in accrued liabilities	49,402	0	49,402
Increase (decrease) in customer deposits	(836)	836	0
Net Cash (Used) by Operating Activities	(1,280,659)	(17,395)	(1,298,054)
Cash Flows from Investing Activities:			
Payments for definite-life intangible assets	(14,500)	0	(14,500)
Payments for deposits	(8,865)	0	(8,865)
Net Cash (Used) by Investing Activities	(23,365)	0	(23,365)
Cash Flow from Financing Activities:			
Proceeds from shareholder advances	683,410	18,290	701,700
Payment of shareholder advances	(286,341)	0	(286,341)
Proceeds from other borrowings	170,000	0	170,000
Proceeds from sale of common stock and warrants	1,049,295	0	1,049,295
Payment of fees in connection with sale of common			
Stock and warrants	(296,117)	0	(296,117)
Net Cash Provided by Financing Activities	1,320,247	18,290	1,338,537
Increase in Cash	16,223	895	17,118
Cash at Beginning of Period	895	0	0
Cash at End of Period	$ 17,118	$ 895	$ 17,118
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for:	$ 0	$ 0	$ 0
Interest	$ 0	$ 0	$ 0
Income Taxes			

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY

[A Development Stage Company]

CONSOLIDATED STATEMENT OF CASH FLOWS

[Continued]

Supplemental Schedule of Non-cash Investing and Financing Activities:

For the period from inception on October 9, 2003 through December 31, 2005:

Health Enhancement Corporation ("Subsidiary") was organized under the laws of the State of Nevada on October 9, 2003. On November 21, 2003, Health Enhancement Products, Inc. acquired Health Enhancement Corporation pursuant to an Agreement and Plan of Reorganization (closed October 30, 2003. The agreement called for Parent to issue 9,000,000 shares of its common stock to the shareholders of Subsidiary for 100% of the outstanding shares of Subsidiary's common stock, as a result of which Subsidiary becomes a wholly-owned subsidiary of Parent.

for Year 1[ ]. Parent's acquisition of Subsidiary has been accounted for as a recapitalization of Subsidiary, in a manner similar to a reverse purchase. Accordingly, the equity transactions have been restated to reflect the recapitalization of Subsidiary and the operations of Parent prior to the date of acquisition has

the operations of Subsidiary from its inception.

The Company issued 9,000,000 shares as part of its Plan of Reorganization, and issued an additional 125, 514 shares of common stock for services valued at $699,669.

An officer/shareholder of the Company contributed inventory with a carryover basis of $2,213.

For the year ended December 31, 2004:

The Company issued 350,000 shares of its previously authorized but unissued shares of common stock for the acquisition of Indefinite-Life Intangible Assets. The shares were valued at $70,000, or $2.45 per share, based on the market price as of January 8, 2004.

The Company issued 75,000 of its previously authorized but unissued common stock in compensation for loan funds of $150,000.00. The shares were valued at $45,000.00, or $0.60 per share, based on the market price as of their issue date of December 22, 2004.

The Company issued 94,500 of its previously authorized but unissued common stock valued at $78, 812 as private placement penalty shares. The value of these shares was charged to Additional Paid-in Capital as costs of raising capital.

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY

[*A Development Stage Company*]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Health Enhancement Products, Inc. ("Parent") was organized under the laws of the State of Nevada on March 28, 1983 as L. Peck Enterprises, Inc. In May 1999, Parent changed its name to Western Glory Hole, Inc. In December 2003, Parent changed its name to Health Enhancement Products, Inc.

Health Enhancement Corporation ("Subsidiary") was organized under the laws of the State of Nevada on October 9, 2003. On November 21, 2003, Parent acquired Subsidiary pursuant to an Agreement and Plan of Reorganization signed October 30, 2003. The agreement called for Parent to issue 9,000,000 shares of its common stock to the former shareholders of Subsidiary for 100% of the outstanding shares of Subsidiary's common stock wherein Subsidiary became a wholly-owned subsidiary of Parent [*See Note 3*]. Parent's acquisition of Subsidiary has been accounted for as a recapitalization of Subsidiary in a manner similar to a reverse purchase. Accordingly, the equity transactions have been restated to reflect the recapitalization of Subsidiary and the operations of Parent prior to the date of acquisition have been eliminated. The financial statements reflect the operations of Subsidiary from its

Health Enhancement Products, Inc. and Subsidiary ("the Company") produces and markets health products. The Company has not yet generated significant revenues from planned principal operations and is considered a development stage company as defined in Statement of Financial Accounting Standards No. 7.

Consolidation - The consolidated financial statements include the accounts of Parent and its wholly-owned Subsidiary. All significant inter-company transactions and accounts have been eliminated in consolidation.

Cash and Cash Equivalents - The Company considers all highly-liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts and Loans Receivable - The Company records accounts and loans receivable at the lower of cost or fair value. The Company determines the lower of cost or fair value of non-mortgage loans on an individual asset basis. The Company recognizes interest income on an account receivable based on the stated interest rate for past-due accounts over the period that the account is past due. The Company recognizes interest income on a loan receivable based on the stated interest rate over the term of the loan. The Company accumulates and defers fees and costs associated with establishing a receivable to be amortized over the estimated life of the related receivable. The Company estimates allowances for doubtful accounts and loan losses based on the aged receivable balances and historical losses. The Company records interest income on delinquent accounts and loans receivable only when payment is received. The Company first applies payments received on delinquent accounts and loans receivable to eliminate the outstanding principal. The Company charges off uncollectible accounts and loans receivable when management estimates no possibility of collecting the related receivable. The Company considers accounts and loans receivable to be past due or delinquent based on contractual terms.

Inventories – Finished Goods Inventory from external manufacturers is stated at the lower of materials cost or market price. Finished Goods Inventory from the Company's internal production process (ProAlgaZyme) is stated at the lower of market price or average materials cost, where materials cost is the cost of the component raw materials and applied manufacturing overhead costs. Raw Materials Inventory is stated at the lower of market price or average materials cost [*See Note 4*]. At December 31, 2004, the Company reviewed the valuation of its ReplenTish product (then valued at $4,632) and its inventory of Celebration For Life documentation (then valued at $4,334), and determined that these inventory valuations should be written down to $0 in each case [*See Note 4*].

Fair Value of Financial Instruments – The carrying amounts of cash, accounts payable, accrued liabilities and other current liabilities, and notes and loans payable approximates fair value because of the immediate or short-term maturity of these financial instruments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [*Continued*]

Revenue Recognition . The Company's revenue is generated from the sale of health products. The Company recognizes revenue when rights and risk of ownership have passed to the customer, there is persuasive evidence of a sales arrangement, product has been shipped or delivered to the customer, the price and terms are finalized and collection of the resulting receivable is reasonably assured. The Company offers a 30-day or 90-day return period policy from the date of the sale. The Company plans to base its estimates for returns on historical return rates. Until the Company has sufficient operating history to estimate return rates, the Company debits a portion of sales as an estimated return allowance until the return period has ended.

Advertising Costs . Advertising costs are charged to operations when incurred. The Company incurred advertising costs of $38,759 and $2,910 for the years ended December 31, 2004 and December 31, 2005, respectively. [*See Note 8*]

Research and Development . Research and development costs are expensed as incurred. The Company accounts for research and development expenses under two main categories:

- Research Expenses, consisting of salaries and equipment and related expenses incurred for product research studies conducted primarily within the Company and by Company personnel. During the 2004 fiscal year, the Company incurred $37,467 in cash research expenses;

- Clinical Studies Expenses, consisting of fees, charges, and related expenses incurred in the conduct of clinical studies conducted with Company products by independent external entities. During the 2004 fiscal year, the Company incurred $334,699 in expenses related to external clinical studies.

Income Taxes . The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes." [*See Note 9*]. During the 2004 fiscal year, the Company did not incur any expenses for Income Taxes.

Loss Per Share . The computation of loss per share is based on the weighted average number of common shares outstanding during the period presented in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" [*See Note 10*]

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

Restatement . The financial statements have been restated for all periods presented to reflect the reorganization of Subsidiary [*See Note 3*] and to reflect a 3-for-2 forward stock split that Parent effected on November 11, 2005 [*See Note 7*]

Deferred Finance Costs . In November 2004, the Company issued two Promissory Notes in the aggregate principal amount of $150,000 and having a three month term, in connection with which it issued 75,000 shares of its common stock [*See Note 7*]. These shares were valued at $45,000 ($0.60 per share), based on the quoted price of the Company's common stock on the date of issuance. Deferred financing costs of $45,000 related to the value of these issued shares are being amortized at the rate of $15,000 per month over three months; the lives of the related debts. The notes were due and repaid in February, 2005.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]

Recently-Enacted Accounting Standards - Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", SFAS No. 147, "Acquisitions of Certain Financial Institutions - an Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9", SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123", SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", and SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", were recently issued. SFAS No. 146, 147, 148, 149 and 150 have no current applicability to the Company or their effect on the financial statements would not have been significant.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123R ("SFAS 123R") "Share Based Payment,", a revision of Statement No. 123, "Accounting for Stock-Based Compensation". This standard requires the Company to measure the cost of employee services received in exchange for equity awards based on grant date fair value of the awards. The Company is required to adopt SFAS 123R effective January 1, 2006. The standard provides for a prospective application. Under this method, the Company will begin recognizing compensation cost for equity based compensation for all new or modified grants after the dates of adoption. In addition, the Company will recognize the unvested portion of the grant date fair value of awards issued prior to the adoption based on the fair values previously calculated for disclosure purposes. At December 31, 2006, the Company had no unvested options.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," ("SFAS 153"). SFAS 153 amends Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Nonmonetary Transactions," to require exchanges of nonmonetary assets be accounted for at fair value, rather than carryover basis. Nonmonetary exchanges that lack commercial substance are exempt from this requirement. SFAS 153 is effective for nonmonetary exchanges entered into in fiscal years beginning after June 15, 2005. The Company does not routinely enter into exchanges that could be considered nonmonetary, accordingly the Company does not expect adoption of SFAS 153 to have a material impact on the Company's financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin No. 51" ("FIN No. 46"). This interpretation provides guidance related to identifying variable interest entities (previously known generally as special purpose entities or SPEs) and determining whether such entities should be consolidated. Certain disclosures are required when FIN No. 46 becomes effective if it is reasonably possible that a company will consolidate or disclose information about a variable interest entity when it initially applies FIN No. 46. This interpretation must be applied immediately to variable interest entities created or obtained after January 31, 2003. For those variable interest entities created or obtained on or before January 31, 2003, the Company must apply the provisions of FIN No. 46 for the year ended December 31, 2003. FIN No. 46 did not have a significant impact on the Company's consolidated financial position or results of operations.

On May 15, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which establishes standards for how financial instruments that have characteristics of both liabilities and equity instruments should be classified on the balance sheet. The requirements of SFAS No. 150 generally outline those financial instruments that give the issuer a choice of settling an obligation with a variable number of securities or settling an obligation with a transfer of assets or any mandatory redeemable security should be classified as a liability on the balance sheet. At December 31, 2006, the Company does not have any instruments that are within the scope of SFAS No. 150.

NOTE 2 - GOING CONCERN

The Company incurred net losses of $3,699,046 and $568,916 during the years ended December 31, 2004 and 2005, respectively. In addition, the Company had a working capital deficiency of $1,337,458 at December 31, 2004 and $66,852 at December 31, 2005. Furthermore, the Company had a stockholders' deficiency of $1,140,487 at December 31, 2004 and $6,652 at December 31, 2005. These factors continue to raise substantial doubt about the Company's ability to continue as a going concern.

There can be no assurance that sufficient funds required during the next year or thereafter will be generated from operations or that funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. Furthermore, there can be no assurance that any cash required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on the Company's existing stockholders.

The accompanying consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

During the year ended December 31, 2004, the Company relied heavily for its financing needs on its majority shareholder/CEO, Mr. Howard B. Barr. In addition, the Company successfully obtained external financing through private placements and other short-term borrowings.

During the year ended December 31, 2004, the Company:

- Generated approximately $49,000 in net sales of its products;
- Received approximately $672,000 in advances from its majority shareholder/CEO, of which $271,000 was repaid in July 2004;
- Raised an aggregate total amount of $695,000 through a Private Placement of the Company's common stock in June and July 2004. The Company paid a finder's fee of $68,500 and received net proceeds of $626,500;
- Raised an aggregate of $516,294 through a Regulation S offering. Of this amount, the Company paid expenses of $227,617, resulting in a net amount raised of $324,679;
- Borrowed an aggregate amount of $150,000 in November 2004. The promissory notes were repaid in February, 2005.

The Company is attempting to address its lack of liquidity by raising additional funds, either in the form of debt or equity or some combination thereof. As noted above, the Company has had great difficulty raising funds from external sources and has been largely dependent for funding on its majority shareholder/CEO, who, at this time, is not in a position to make further advances to the Company.

There can be no assurances that the Company will be able to raise the additional funds it requires.

NOTE 3 – AGREEMENT AND PLAN OF REORGANIZATION

On October 31, 2003, Parent and Subsidiary entered into an Agreement and Plan of Reorganization whereby Parent agreed to acquire 100% of Subsidiary in a stock for stock exchange (Note 7). The agreement called for Parent to issue 9,000,000 shares of common stock to the shareholders of Subsidiary for 100% of the outstanding shares of Subsidiary's common stock. The agreement also called for Parent to effect a 2-for-1 forward stock split. The agreement also provided that 125,000 shares of Parent's common stock would be cancelled. The acquisition closed November 21, 2003 and the Company has accounted for the acquisition as a recapitalization of Subsidiary in a manner similar to a reverse purchase. Accordingly, the equity transactions have been restated to reflect the recapitalization of Subsidiary and the operations of Parent prior to the date of acquisition have been eliminated. The financial statements reflect the operations of Subsidiary from its inception.

NOTE 4 – INVENTORIES

Inventories at December 31, 2004 consist of the following:

Finished goods	$ 1,373
Raw materials	1,190
	$2,563

During the year ended December 31, 2004, the Company wrote down the value of its Finished Goods Inventory by $8,964. The Company has determined that no allowance for slow-moving or obsolete inventory was necessary at December 31, 2004.

NOTE 5 – DEFINITE-LIFE INTANGIBLE ASSETS

Definite-life intangible assets at December 31, 2004 consist of the following:

Patent applications in process	$ 14,500
Less: accumulated amortization	534
	13,966

The Company's definite-life intangible assets are being amortized, upon being placed in service, over the estimated useful lives of the assets of 20 years, with no residual value. Amortization expense for the year ended December 31, 2004 was $534. The Company estimates that their amortization expense for each of the next five years will be approximately $740 per year.

NOTE 6 – INDEFINITE-LIFE INTANGIBLE ASSETS

The Company accounts for its intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 establishes three classifications for intangible assets, including definite-life intangible assets, indefinite-life intangible assets, and goodwill, and requires different accounting treatment and disclosures for each classification. In accordance with SFAS No. 142, the Company periodically reviews their intangible assets for impairment.

In accordance with SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets", the Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. An impairment loss is recognized when expected cash flows are less than the assets' carrying value. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of such assets in relation to the operating performance and future cash flows of the underlying business. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the asset may not be recoverable.

In accordance with SFAS No. 144, an impairment analysis was performed at the end of August, 2004 on the Company's intangible assets. The fair value of the intangible assets was determined by calculating the present value of estimated future operating cash flows. This testing resulted in the determination that the carrying amount of the Company's intangible assets at June 30, 2004 exceeded its fair value. Accordingly, the Company recorded impairment charges of $730,000 on its indefinite-life intangible assets in the quarter ended June 30, 2004. A further review during the quarter ended September 30, 2004 determined that the fair value of the intangible assets was impaired. Accordingly, a further impairment charge of $405,000 was recorded on the Company's indefinite-life intangible assets in the quarter ended September 30, 2004, reducing the carrying value of the Company's indefinite-life intangible assets to $0.

The indefinite-life intangible assets at December 31, 2004 were as follows:

Trademarks and formulas for:

Zodiac Herbal Vitamins	$	365,000
Zodiac Herbal Teas		365,000
		730,000
Less: Impairment Losses		730,000
	$	0

NOTE 7 - CAPITAL STOCK

Common Stock – In October 2003, in connection with its organization, Health Enhancement Corporation issued 9,000,000 shares of its previously-authorized but unissued common stock (6,418,950 of which were issued to the majority shareholder/CEO of the Company) for research and development valued at $9,000 (or $0.001 per share).

In November 2003, the Company acquired Health Enhancement Corporation (“HEC”), its wholly-owned subsidiary (“Subsidiary”), pursuant to an Agreement and Plan of Reorganization which has been accounted for as a recapitalization of Subsidiary in a manner similar to a reverse purchase. Prior to the recapitalization of Subsidiary, the Company had 1,235,000 shares of common stock outstanding. An additional 9,000,000 shares of common stock were issued by the Company in the acquisition. At the time of the acquisition, the Company had no assets and no liabilities.

In December 2003, the Company issued a total of 153,334 shares of its previously-authorized but unissued common stock for services rendered as follows: 31,250 to the majority shareholder/CEO of the Company, 19,792 to an officer of the Company who is a relative of the majority shareholder/CEO of the Company, 23,125 to an officer of the Company, and 79,167 shares to several unrelated third parties. These shares were valued at $490,669 (or $3.20 per share), based on the quoted price of the Company’s common stock on the date of issuance.

On January 8, 2004, the Company issued 200,000 shares of its previously-authorized but unissued common stock for the trademarks and formulas for Zodiac Herbal Vitamins and Zodiac Herbal Teas. These shares were valued at $730,000 (or $3.65 per share), based on the quoted price of the Company’s common stock on that date.

On February 10, 2004, under a Form S-8 Registration Statement, the Company issued 150,000 shares of its previously-authorized but unissued common stock to the majority shareholder/CEO of the Company for services rendered. These shares were valued at $810,000 (or $5.40 per share), based on the quoted price of the Company’s common stock on that date.

In March 2004, the Company issued 85,084 shares of its previously-authorized but unissued common stock for services rendered as follows: 25,000 to the Company’s majority shareholder/CEO, 9,584 to an officer of the Company who is a relative of the Company’s majority shareholder/CEO, 6,250 to an officer of the Company, and 44,250 shares to several unrelated third parties. These shares were valued at $255,252 (or $3.00 per share), based on the quoted price of the Company’s common stock on the date of issuance.

In June 2004, the company issued an aggregate of 198,335 shares of its previously-authorized but unissued common stock as part of a Regulation S offering for net proceeds of $126,679, after expenses of $227,617.

In June and July, 2004, the Company completed a private placement for an aggregate amount of $695,000, under which the Company issued 945,000 shares of its previously-authorized but unissued common stock and 445,000 warrants to purchase common stock at an exercise price of $3.00. In connection with this Private Placement, the Company paid $68,500 in cash as finder’s fees in July, 2004, and issued 95,500 shares of common stock as additional finder’s fees.

In November 2004, the Company cancelled 1,000 shares of common stock which had been previously issued in March 2004 for services rendered. These returned shares were valued at $3,000 (or $3.00 per share), based on the quoted price of the Company’s common stock on the date of original issuance.

NOTE 7 - CAPITAL STOCK [Continued]

In connection with the above-mentioned Private Placement, if the Company did not cause a registration statement for the 945,000 issued shares to become effective under the Securities Act of 1933, as amended, within 120 days of existing $500,000 (that is, on or about October 20, 2004), the Company would be obligated to issue penalty shares in the amount of 5% of the shares committed under the Private Placement (i.e., 47,250 shares) per 30-day period thereafter, up to a maximum of eight 30-day periods. As of the date of this Report, the required registration statement has not become effective. As a result, during the year ended December 31, 2004, the Company has issued to the investors in the Private Placement the following:

- on November 19, 2004, 47,250 shares of common stock valued at $47,722.50 (or $1.01 per share, based on the quoted price of the Company's common stock at the date of issuance);
- on December 19, 2004, 47,250 shares of common stock valued at $26,460.00 (or $0.56 per share, based on the quoted price of the Company's common stock at the date of issuance).

Subsequent issuances of the Company's common stock under this Private Placement are set out in Note 12, below.

In November 2004, the Company issued two Promissory Notes in the aggregate principal amount of $150,000, in connection with which it issued 75,000 shares of its common stock. The Notes were secured by a lien and security interest on certain property of the Company's majority shareholder CEO, Mr. Howard B. Hunt, and were payable on or before February 26, 2005. These shares were valued at $45,000.00 (or $0.60 per share), based on the quoted price of the Company's common stock on the date of issuance. The Promissory Notes were fully repaid on February 15, 2005.

Capital Contribution – In November 2005, the Company's majority shareholder/CEO contributed inventory with a carrying cost basis of $7,213 to the Company.

Stock Split – On November 11, 2005, Parent effected a 2.do.1 forward stock split. The financial statements for all periods presented have been restated to reflect this stock split.

Warrants – On February 26, 2004, the Company issued 50,000 warrants for the purchase of the Company's common stock, at an exercise price of $3.75 per share for services rendered. These warrants were valued at $244,000. The warrants vested immediately and are exercisable for three years. At December 31, 2004, none of these warrants had been exercised, forfeited or cancelled.

In June and July, 2004, as part of the above-described Private Placement, the Company committed to issue warrants for the purchase of an aggregate of 445,000 shares of the Company's common stock, at an exercise price of $3.00 per share. The warrants vest immediately and expire on June 30, 2006. At December 31, 2004, none of these warrants had been exercised, forfeited or cancelled.

A summary of the status of the Company's warrants is presented below:

	For the Year Ended December 31, 2004	
	Shares	Weighted Average Exercise Price
Outstanding – January 1, 2004	0	$ 0
Granted (Services)	50,000	3.75
Granted (Private Placement)	445,000	3.00
Outstanding at December 31, 2004	495,000	$ 3.04

NOTE 7 - CAPITAL STOCK *[Continued]*

The fair value of each warrant granted for services is estimated at the date granted using the Black-Scholes option pricing model, with the following assumptions for grants on February 28, 2004: risk-free interest rate of 2.25%, expected dividend yield of zero, expected lives of three years and expected volatility of 433%.

NOTE 8 - RELATED PARTY TRANSACTIONS

Accounts Payable - At December 31, 2004, the Company owed $28,310 to entities owned by the majority shareholder/CEO of the Company.

Shareholder Advances - During the period from inception to December 31, 2004, the Company's majority shareholder/CEO advanced $781,700 to the Company. These advances were non-interest bearing and payable on demand. During the same period, he was repaid a total of $271,800 and there were positive and negative adjustments to his loan account aggregating $11,341, leaving an outstanding net balance of $491,559 due to the majority shareholder/CEO at December 31, 2004. Since December 31, 2004, the majority shareholder/CEO has advanced an additional $559,845 to the Company, resulting in an aggregate amount of $995,244 due to him as of May 7, 2005.

Management Compensation - During the period from inception on October 9, 2003 through December 31, 2003, the Company issued 31,250 shares of common stock to an officer/shareholder of the Company for services rendered.[*See Note 7*] During the 2004 fiscal year, the Company paid an aggregate of $64,500 and issued 9,556 shares of common stock to this officer for services rendered.

During the period from inception on October 9, 2003 through December 31, 2003, the Company issued 19,792 shares of common stock to a relative of an officer/shareholder of the Company for services rendered.[*See Note 7*]

During the period from inception on October 9, 2003 through December 31, 2003, the Company paid $3,500 and issued 21,125 shares of common stock to an officer of the Company for services rendered.[*See Note 7*] During the 2004 fiscal year, the Company paid and aggregate of $61,260 and issued 6,250 shares of common stock to this officer for services rendered.

On February 10, 2004, under a Form S-8 Registration Statement, the Company issued 150,000 shares of its previously authorized but unissued common stock to the majority shareholder/CEO of the Company for services rendered. These shares were valued at $300,000 (or $1.60 per share), based on the quoted price of the Company's common stock on that date.

In March 2004, the Company issued 65,666 shares of its previously authorized but unissued common stock for services rendered as follows: 25,000 to the Company's majority shareholder/CEO, 9,250 to an officer of the Company, who is a relative of the Company's majority shareholder/CEO, 6,250 to an officer of the Company, and 44,250 shares to several unrelated third parties. These shares were valued at $255,242 (or $3.89 per share), based on the quoted price of the Company's common stock on the date of issuance.

Office Space - The Company uses and, in consideration of such use, makes lease payments for, office space that is leased by the Company's majority shareholder/CEO. During 2004 and 2005, the Company paid $27,000 and $5,483, respectively for such lease payments. During part of the 2004 fiscal year, the Company also paid the majority shareholder/CEO an aggregate of $14,600 for office space. At December 31, 2004, there were no lease amounts payable to the majority shareholder/CEO for these properties.

Equipment - The Company uses and, in consideration of such use, makes lease and rent payments for, equipment that is leased by, an entity owned by the Company's majority shareholder/CEO. During 2004 and 2005, equipment rental and lease expense paid to the entity amounted to $9,114 and $1,852, respectively. The lease and rental payments equal the debt service on the equipment. The majority shareholder/CEO intends to transfer the equipment to the Company, for no consideration, once the note is paid in full. At December 31, 2004, the Company owed $11,955 to Mr. Bast for equipment rental and other services.

Vehicle - The Company uses and, in consideration of such use, makes lease payments for, a delivery van that is leased by, the Company's majority shareholder/CEO. During 2004 and 2005, the Company paid an aggregate of $4,421 and $597, respectively for such lease payments. The lease payments equal the debt service on the vehicle. The majority shareholder/CEO has stated that he intends to transfer the vehicle to the Company, for no consideration, once the note is paid in full. At December 31, 2004, there were no payments due and payable on this leased van.

Advertising - The Company pays for advertising space on www.politics.com, an Internet site owned by Politics.com, an entity of which the majority shareholder CEO is the Chairman and majority shareholder. During the 2004 fiscal year, advertising expenses to the entity amounted to $15,750. At December 31, 2004, there were no advertising expenses due and payable to Politics.com.

NOTE 9 - INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". SFAS No. 109 requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carry forwards. At December 31, 2004, the Company has an available unused operating loss carry forward of approximately $2,174,000, which may be applied against future taxable income, if any, thru 2024. Certain significant changes in ownership of the Company may restrict the future utilization of these tax loss carry forwards.

At December 31, 2004, the total of all deferred tax assets was approximately $979,000 and the total of all deferred tax liabilities was approximately $0. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the loss carry forwards, the Company has established a valuation allowance of approximately $979,000. The net increase in the valuation allowance was approximately $847,800 during the 2004 fiscal year.

The temporary differences gave rise to the following deferred tax asset (liability):

	December 31, 2004	December 31, 2003
Excess of tax over financial accounting depreciation	$ 0	$ 140
Deferred compensation	0	53,455
Accrued expenses - related party	0	305
Net deferred sales		147
Impairment loss	153,300	0
Stock base compensation	163,800	0
Net operating loss carryover	569,100	75,383

NOTE 9 - INCOME TAXES *(Continued)*

The components of federal income tax expense from continuing operations consisted of the following:

		Year Ended December 31, 2004	From Inception on October 9, 2003 Through December 31, 2003
Current income tax expense:	Federal	$ 0	$ 0
	State	0	0
Net current tax expense		$ 0	$ 0
Deferred tax expense (benefit) resulted from:			
Excess of tax over financial accounting Depreciation		$ 0	$(140)
Deferred compensation		0	(53,455)
Accrued expenses - related party		0	(305)
Net deferred sales		0	(147)
Net operating loss carryover		(569,100)	(75,383)
Impairment loss		(153,300)	0
Stock base compensation		(163,800)	0
Valuation allowance		886,200	129,430
Net deferred tax expense		$ 0	$ 0

Deferred income tax expense results primarily from the reversal of temporary timing differences between tax and financial statement income.

The reconciliation of income tax from continuing operations computed at the U.S. federal statutory tax rate to the Company's effective rate is as follows:

	Year Ended December 31, 2004	From Inception on October 9, 2003 Through December 31, 2003
Computed tax at the expected federal statutory rate	15.00%	15.00%
State income taxes, net of federal benefit	5.92	5.92
Other	1.83	1.83
Valuation allowance	(22.75)	(22.75)
Effective income tax rate	0.00%	0.00%

NOTE 10 - LOSS PER SHARE

The following data shows the amounts used in computing loss per share:

	Year ended December 31, 2004	From Inception on October 9, 2003 through December 31, 2003
Loss from operations available to common shareholders (numerator)	$ (3,859,006)	$ (568,914)
Weighted average number of common shares outstanding used in loss per share for the period (denominator)	11,384,683	9,647,348

Dilutive loss per share was not presented, as the Company had no common stock equivalent shares for all periods presented that would affect the computation of diluted loss per share.

NOTE 11 - CONCENTRATIONS

Customers - The Company has no significant dependence on a limited range of suppliers or purchasers. Revenues are generated primarily by distributors, none of whom constitute a concentration the loss of which could have a material impact on the operations of the Company.

Location - The Company is located in Scottsdale, Arizona. During the 2004 fiscal year, all activities of the Company were located in the Tempe, Arizona area. Consequent upon the recent acquisition by the majority shareholder/CEO of a building in Scottsdale, Arizona, and on the Company's entering into a lease for a part of that building, the Company's activities were transferred to the Scottsdale building during early 2005.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Lease Commitments - Related Party - During the 2004 fiscal year, the Company's majority shareholder/CEO purchased a building in Scottsdale, Arizona, that is suitable for an expanded corporate headquarters and an enlarged production facility for the Company. On December 9, 2004, the Company entered into a lease dated November 1, 2004 for office and production facilities of the building from Evans Road, LLC, an entity owned by the Company's majority shareholder/CEO. In February, 2005, Evans Road, LLC sold the building which contains the Company's leased space, and then leased the building back from the buyer under a master lease. The Company's lease expires April 30, 2012. Evans Road, LLC continues to lease the above-mentioned space to the Company as a master lessee. The annual minimum base rent for this property is approximately $160,000. The Company paid $17,731 in rental for this property during 2004 and a security deposit of $8,865. The Company transferred all of its corporate operations to the new facility in the first quarter of 2005.

The future minimum lease payments related to the lease as of December 31, 2004, are as follows:

2005	$108,000
2006	$108,000
2007	$108,000
2008	$108,000
2009	$108,000
Thereafter	$252,000

Legal Proceedings - In or around April, 2004, the Company learned that the staff of the Securities and Exchange Commission ("SEC") was conducting an informal inquiry into the accuracy of certain of the Company's press releases and other public disclosures, and the trading in the Company's securities. The Company cooperated fully with the SEC staff's informal inquiry by producing documents and having certain of its officers appear for testimony at the SEC's offices. On or about July 14, 2004, the SEC issued an Order Directing Private Investigation and Designating Officers to Take Testimony. The Company understands that the factual basis underlying the Order of Investigation are questions as to (i) whether there were any false or misleading statements or material omissions in reports the Company filed with the SEC or in other public documents or disclosures, including statements about the efficacy of the Company's primary product, ProAlgaZyme; or (ii) whether there was improper trading or other activity in the Company's securities. The Company is continuing to cooperate fully in the SEC's investigation, including producing additional documents, and making the Company's officers and directors available for testimony before the SEC. The Company understands that the SEC investigation is ongoing. The SEC has not advised the Company of any specific action that it intends to take against the Company or any of its officers or directors or others, as a result of its investigation, which is still ongoing. The Company is presently in discussions with the SEC concerning a possible consensual resolution of the investigation. The Company can give no assurance as to the terms and conditions of any such resolution or whether it will be able to reach any consensual resolution of the investigation. At the conclusion of the SEC's investigation, if the SEC takes action against the Company or its officers and directors, such action will have a material adverse effect on the Company.

The Company's subsidiary, HEC, is not currently in good standing with the Secretary of State of Nevada. HEC intends to rectify this problem as soon as practicable.

NOTE 13 - SUBSEQUENT EVENTS

Common Stock Issuances - In connection with the above-mentioned Private Placement, if the Company did not cause a registration statement for the 945,000 issued shares to become effective under the Securities Act of 1933, as amended, within 120 days of raising $500,000 (that is, on or about October 20, 2004), the Company would be obligated to issue penalty shares in the amount of 5% of the shares committed under the Private Placement (i.e., 47,250 shares) per 30-day period thereafter, up to a maximum of eight 30-day periods [*See Note 6*]. As of the date of this Report, the required registration statement has not become effective. As a result, the Company issued to the investors in the Private Placement the following shares subsequent to December 31, 2004:

- on January 18, 2005, 47,250 shares of common stock valued at $18,900.00 (or $0.40 per share, based on the quoted price of the Company's common stock at the date of issuance);
- on February 17, 2005, 47,250 shares of common stock valued at $47,722.50 (or $1.01 per share, based on the quoted price of the Company's common stock at the date of issuance);
- on March 15, 2005, 47,250 shares of common stock valued at $59,375.00 (or $1.25 per share, based on the quoted price of the Company's common stock at the date of issuance).

In addition, the Company was obligated, as of April 18, 2005, to issue an additional aggregate of 47,250 shares of common stock. These shares have not yet been issued.

Advances – Since the commencement of the 2005 fiscal year, the Company's majority shareholder CEO, Mr. Howard B. Barr, has made additional advances to the Company of approximately $139,644, resulting in an aggregate amount of $995,244 due to Mr. Barr as at May 7, 2005

[*See Note 4*]

On February 15, 2005, Mr. Barr advanced the Company $760,000, for the benefit of the Company and that of its wholly owned subsidiary, Health Enhancement Corporation ("HEC"), and, in connection therewith, the Company entered into a Promissory Note ("Note"), a Security Agreement and a Parent Security Agreement with Mr. Barr (each documents are collectively hereinafter referred to as the "Loan Documents"). Immediately prior to entering into the Loan Documents, the Company was indebted to Mr. Barr in the aggregate amount of $40,339, in connection with prior advances he made to the Company, for its benefit a

HEC. Following Mr. Barr's advance of $760,000 on February 15, 2005, the Company was indebted to Mr. Barr in the aggregate amount of $847,359. From February 15, 2005 to May 7, 2005, Mr. Barr has advanced the Company an additional $147,885, for its benefit and that of HEC. Accordingly, at May 7, 2005, the Note is in the principal amount of $995,244. The Note bears interest at the rate of 10% per annum. Commencing thirty (30) days after written demand by Mr. Barr, the principal amount and accrued interest under the Note will be payable in twelve (12) equal monthly installments. Under the Security Agreements, the Company, in order to secure its obligations under the Note, granted Mr. Barr a security interest in all its assets that are related to the ProAlgoZone product. The principal amount under the Note may be increased from time to time by the amount of any further advances to the Company by Mr. Barr.

however, Mr. Barr is in no way obligated to make further advances to the Company.

On March 25, 2005, the Company, HEC and Mr. Barr, executed and delivered a Joinder Agreement and First Amendment, which had the effect of making the Company's subsidiary (HEC) a party to the Loan Documents, including as a co-maker of the Note. As a result of entering into the Joinder Agreement and First Amendment, our subsidiary has become a co-maker under the Note, and has granted Mr. Barr a security interest in all of its assets related to the ProAlgoZone product.

Resignation of Officer – Mr. Jeffrey B. Richards, the Company's Chief Financial Officer, resigned from the Company as full-time Chief Financial Officer effective March 31, 2005. On April 1, 2005, the Company filed a Form 8-K/A Current Report reporting item 502, Departure of a Principal Officer.

Company Standing – The Company is not currently in good standing with the Secretary of State of Nevada. The Company intends to rectify this problem as soon as practicable.

Exhibits

Exhibit Number	Title	
2.1	Agreement and Plan of Reorganization	(1)
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	(2)
3.2	By-laws of the Company	(3)
10.01	Employment Agreement between Mr. Howard R. Baer and the Company, dated February 10, 2004	(4)
10.02	Office Lease between Evans Road, LLC and the Company, dated November 1, 2004	
10.03	Office Lease between Howard R. Baer and the Company, dated January 1, 2004	
10.04	Promissory Note, dated February 15, 2005, made by the Company in favor of Howard R. Baer	
10.05	Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	
10.06	Patent Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	
10.07	Joinder Agreement and First Amendment, dated March 25, 2005, between the Company, Health Enhancement Corporation and Howard R. Baer	
10.08	Subscription Agreement, dated June 21, 2004, between William J. Rogers, II and the Company	
14.1	Code of Ethics	(5)
21	Subsidiaries of the Registrant	
23.2	Auditor's Consent, dated May 13, 2005, to incorporation of auditor's report into Registration Statement on Form S-8	
23.3	Auditor's Consent, dated May 13, 2005, to incorporation of auditor's report into Registration Statement on Form S-8	
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

(1) Filed as Exhibit 2.1 to our current Report on Form 8-K, Filed with the Commission on December 9, 2003 and incorporated by this reference

(3) Filed as Exhibit 3.1 to our Form 10-QSB, filed with the Commission on August 14, 2006 and incorporated by this reference

(5) Filed as Exhibit 3.2 to our Form 10SB, filed with the Commission on April 28, 2000 and incorporated by this reference

(4) Filed as Exhibit 4.1 to our Registration Statement on Form S-8, filed with the Commission on February 17, 2006, and incorporated by reference

(5) Filed as Exhibit 99 to our Form 10-KSB, filed with the Commission on April 1, 2004, and incorporated by this reference

Exhibit 10.02

OFFICE LEASE

This Lease Agreement entered into on the 1 st day of November, 2004, between The Baer Building North "Landlord" hereby leases the Suite A101 at described Property to Health Enhancement Products Inc. "Tenant". The Tenant hereby leases and accepts from Landlord, the Leased Premises, upon the terms and conditions set forth in this Lease and any modifications, supplements or addenda hereto (the "Lease"), including the Basic Provisions.

IN CONSIDERATION of their mutual promises made herein, and intending to be legally bound hereby, the parties hereby agree as follows:

1. DEFINITIONS. The following words and phrases shall have the following meaning wherever used in this Lease.

LANDLORD:	Evans Road, LLC, d/b/a The Baer Building North, The Baer Building South, 2530 South Rural Road, Tempe, AZ 85282	
TENANT:	Health Enhancement Products Inc. 2530 South Rural Road, Tempe, AZ 85282	
PREMISES:	Suite number: A 101 With or without additional secretarial space: N/A	
TERM:	Two (2) – 90 months Totaling 180 Months	
	Commencement date:	November 1, 2004
	Expiration Date:	April 30, 2012
RENT:	Monthly Suite Rent:	$ 8,700 + tax
	Monthly Secretarial Space Rent:	$ N/A
	Total Monthly Rental:	$ 8,700+ tax
	Advance Rent due from Tenant upon signing Lease:	$ 8,865.30
	Suite security deposit:	$ 1st Months Rent
	Telephone security deposit:	$ N/A

2. **RENTAL PAYMENTS**. Tenant agrees to pay to Landlord monthly rent installments for every month during the term of this Lease, by the 1st day of each month, in the amounts set forth above. If advance rent due from Tenant upon signing Lease in the amount set forth above is due and payable, said payment shall take place within 7 days upon signing of the Lease. If a monthly Lease, in the amount set forth above, is due and payable said payment shall take place upon signing of the Lease. If a monthly secretarial space rent is also indicated above, that payment will also be due on the first days of each month in the amount set forth above. If Tenant fails to pay any sum to be paid by Tenant, Landlord may impose a late charge in the amount of 10% of the sum due. This is not a grace period; any payment not received when due is in default. Payment shall be made at Landlord's address set forth above or as shall be later designated by landlord in writing.

3. **Rent Tax**. In addition to the Annual Rent and Additional Rent, Tenant shall pay to Landlord, together with the monthly installments of Annual Rent State Tax. Current state rental tax is .5% and current city rental tax is 1.4% for a total of 1.9% rental tax on base rent per month.

4. **OPTION TO EXTEND**. This office Lease and the terms contained therein will continue beyond the expiration date for a like period of time as originally agreed upon unless affirmative action is taken by either party in the form of written notification to the other party indicating that they choose not to exercise the option to continue. This written notification must be received by the recipient thirty (30) days prior to the expiration date.

5. **USE AND OCCUPANCY**. Tenant shall use and occupy the office suite as Offices and Manufacturing & Distribution of Natural Health Products.

6. **PROPERTY AND SERVICES PROVIDED BY LANDLORD**. Tenant shall be responsible for telephone and computer equipment and will remain property of the tenant. The telephone and computer wiring is considered to be a fixture and will remain with the office suite upon any future departure by the Tenant. The Tenant will bear individual responsibility for any costs incurred for phone services to include intra and interstate telephonic communication and billing statements for any facsimile services.

7. **CLEANING SERVICES**. The Landlord shall provide a janitorial service two (2) days a week.

8. **ASSIGNMENT OR SUB-LEASE**. Tenant shall not, without first obtaining the written consent of Landlord, assign, mortgage, pledge, or encumber this rental agreement, in whole or in part, or sub-let any part of the office premise.

9. **SALE OF LANDLORD'S INTEREST IN PROPERTY.** If Landlord sells its interest in the property, then Landlord shall have the right to terminate this Lease by giving ninety (90) days written notice to Tenant, and this Lease shall then expire on the date set forth in said notice, which shall not be sooner than the 90th day after the date the notice is sent. This right of termination may be exercised anytime after execution of a binding contract for sale of Landlord's interest in the property. This right shall automatically pass to Landlord's successor in interest to the properly.

10. **GOVERNING AND LAW**. Governing Law. This Lease and all the terms and conditions thereof shall be governed by and construed in accordance with the laws of the Stare of Arizona. The venue for any dispute arising under this Lease shall be a court of competent jurisdiction in Maricopa Comity, Arizona.

LANDLORD:

/s/ Howard R. Baer
(Signature)

HOWARD R. BAER
(Print Name)

TENANT:

/s/ Jeffery Richards
(Signature)

JEFFERY RICHARDS
(Print Name)

Exhibit 10.03

OFFICE LEASE

Lease Agreement entered into on the 1 st day of January 2004, between HOWARD R. BAER and the Tenant named below.

IN CONSIDERATION of their mutual promises made herein, and intending to be legally bound hereby, the parties hereby agree as follows:

1. DEFINITIONS. The following words and phrases shall have the following meaning wherever used in this Lease;

LANDLORD:	HOWARD R. BAER 2530 South Rural Road, Tempe, AZ 85282
TENANT:	HEALTH ENHANCEMENT PRODUCTS INC. 2530 South Rural Road, Tempe, AZ 85282
BILLING ADDRESS:	2006 East 5th Street, Tempe, AZ 85281
PREMISES:	Suite number: 8, 9, Small Office & 2 nd Conference Room With or without additional secretarial space: With
	TERM: Twelve (12) months Commencement date: 1-1-04 Expiration Date: 1-1-05
RENT:	Monthly Suite Rent: $ 2050.00 + taxes Total Monthly Rental: $ 2050.00 + taxes
	Advance Rent due from Tenant upon signing Lease: $ .00 Suite security deposit: $ .00 Telephone security deposit: $ .00

2. **RENTAL PAYMENTS**. Tenant agrees to pay to Landlord monthly rent installments for every month during the term of this Lease, by the 1st day of each month, in the amounts set forth above. If advance rent due from Tenant upon signing Lease in the amount set forth above is due and payable, said payment shall take place within 7 days upon signing of the Lease. If a monthly Lease, in the amount set forth above, is due and payable said payment shall take place upon signing of the Lease. If a monthly secretarial space rent is also indicated above, that payment will also be due on the first day of each month in the amount set forth above. If Tenant fails to pay any sum to be paid by Tenant, Landlord may impose a late charge in the amount of 10% of the sum due. This is not a grace period; any payment not received when due is in default. Payment shall be made at Landlord's address set forth above or as shall be later designated by Landlord in writing.

3. **OPTION TO EXTEND**. This office Lease and the terms contained therein will continue beyond the expiration date for a like period of time as originally agreed upon unless affirmative action is taken by either party in the form of written notification to the other party indicating that they choose not to exercise the option to continue. This written notification must be received by the recipient thirty (30) days prior to the expiration date.

4. **USE AND OCCUPANCY**. Tenant shall use and occupy the office suite as , and for no other purpose.

5. **PROPERTY AND SERVICES PROVIDED BY LANDLORD**. Tenant shall be allowed to use one (1) telephone which is the property of the Landlord. The telephone is considered to be a fixture and will remain with the office suite upon any future departure by the Tenant. The Tenant will bear individual responsibility for any costs incurred for phone services to include intra and interstate telephonic communication and billing statements for any facsimile services. The Tenant is entitled to use the photocopying equipment and will receive as part of his rental agreement 200 free copies. Tenant shall pay twelve (12) cents a copy for each copy in excess of the free allotment.

6. **CLEANING SERVICES**. The Landlord shall provide a janitorial service three (3) days a week.

7. **ASSIGNMENT OR SUB-LEASE**. Tenant shall not, without first obtaining the written consent of Landlord, assign, mortgage, pledge, or encumber this rental agreement, in whole or in part, or sub-let any part of the office premise.

8. **SALE OF LANDLORD'S INTEREST IN PROPERTY**. If Landlord sells its interest in the property, then Landlord shall have the right to terminate this Lease by giving ninety (90) days written notice to Tenant, and this Lease shall then expire on the date set forth in said notice, which shall not be sooner than the 90th day after the date the notice is sent. This right of termination may be exercised anytime after execution of a binding contract for sale of Landlord's interest in the property. This right shall automatically pass to Landlord's successor in interest to the property.

9. **GOVERNING AND LAW**. It is agreed that this rental agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Arizona.

LANDLORD:

/s/ Howard R. Baer
(Signature)

HOWARD R. BAER
(Print Name)

TENANT:

By /s/ Jeffery Richards
(Signature)

JEFFERY RICHARDS
(Print Name)

Exhibit 10.04

DEMAND PROMISSORY NOTE

Phoenix, Arizona
February 15, 2005

FOR VALUE RECEIVED, the undersigned, Health Enhancement Products, Inc., a Nevada corporation with a chief executive office at 2530 South Rural Road, Tempe, AZ and a principal place of business at 2006 E. 5th, Suite 101 Tempe, AZ 85281 ("Maker"), hereby promises to pay to the order of Howard R. Baer, an individual with a mailing address of 6451 East El Maro Circle, Paradise Valley, Arizona 85253 (" Holder"), the sum of all amounts advanced from time to time by the Holder to the Maker, as determined by Holder's financial books and records and as specified on Schedule A hereto, as amended from time to time, including the amount Maker is indebted to Holder as of the date hereof, provided that if there shall be any discrepancy between Schedule A and the Holder's financial books and records, with respect to amounts advanced by Holder to Maker, the Holder's financial books and records shall be controlling, absent manifest error. Maker hereby authorizes Holder to endorse Schedule A hereto to reflect any further advances made by Holder to Maker. Any failure by Holder to make an endorsement on Schedule A or any error in connection with the making of any endorsement to Schedule A shall in no way affect the Maker's obligation to repay the principal amount, together with interest thereon, of all advances made by the Holder to the Maker. As of the date hereof, Maker is indebted to Holder in the aggregate amount of EIGHT HUNDRED FORTY SEVEN THOUSAND THREE HUNDRED FIFTY EIGHT AND 56/100 ($847,358.56). Notwithstanding anything to the contrary contained herein, the amount of principal due under this Note shall be equal to the amount of advances actually made by the Holder to the Maker, as determined by Holder's financial books and records, including the amount owing as of the date hereof EIGHT HUNDRED FORTY SEVEN THOUSAND THREE HUNDRED FIFTY EIGHT AND 56/100 ($847,358.56). The Maker acknowledges and agrees that the Holder shall have no obligation to make further advances to the Maker, and that any further advances shall be at Holder's sole discretion. All outstanding principal sums shall be paid by Maker, together with interest on the unpaid principal amount from time to time outstanding, as set forth below.

The entire balance of outstanding principal and other fees and charges shall be due and payable on the earlier of an Event of Default (as defined below) or thirty (30) days after written demand by the Holder on the Maker (the "Maturity Date"). Commencing on the Maturity Date, the aggregate principal amount due hereunder, together with interest thereon, shall be paid in twelve (12) equal monthly installments. By way of illustration, if the Holder is owed an aggregate of $600,000 under this Note and on April 1 makes written demand on the Maker for payment, then such $600,000 in principal, together with interest thereon, shall be payable in 12 equal monthly installments of $50,000 (plus interest) commencing on the Maturity Date; i.e., May 1.

The unpaid principal balance from time to time outstanding under this note shall accrue and bear interest at a rate per annum equal to ten percent (10.0%), until fully paid.

Interest and fees shall be calculated on the basis of a 365/366-day year for the actual number of days elapsed. In no event shall interest payable hereunder exceed the highest rate permitted by applicable law. To the extent any interest received by Holder exceeds the maximum amount permitted, such payment shall be credited to principal, and any excess remaining after full payment of principal shall be refunded to Maker. The principal balance of this note may be prepaid in whole or in part, without premium or penalty, at any time.

Each of the following shall constitute an "Event of Default" hereunder: (i) Maker's default hereunder or failure to make any payment when due hereunder or to timely pay or perform any other obligation to Holder, whether now existing or hereafter arising; (ii) if any covenant, representation, warranty, statement or certificate made to Holder by Maker hereunder, under that certain Security Agreement dated the date hereof made by Maker in favor of Holder (the "Security Agreement"), under that certain Patent Security Agreement dated the date hereof made by Maker in favor of Holder (the "Patent Security Agreement"), or under any Loan Document (as defined in the Security Agreement) is breached or proves to have been or becomes untrue, except to the extent any of the foregoing items relate solely to an earlier date; (iii) the death or dissolution of Maker; (iv) with respect to Maker, the commencement of an action seeking reorganization, liquidation, dissolution or other relief under federal or state bankruptcy or insolvency statutes or similar laws, or seeking the appointment of a receiver, trustee or custodian for Maker or all or part of its assets, or the commencement of an involuntary proceeding against Maker under federal or state bankruptcy or insolvency statues or similar laws, which involuntary proceeding is not dismissed or stayed within thirty (30) days; or (v) if Maker makes an assignment for the benefit of creditors, or is unable to pay its debts as they mature. With respect to the Events of Default enumerated above as (i) through (v), inclusive, the obligations under this note shall become immediately due and payable without notice or demand.

As security for the payment and performance of Maker's obligations hereunder, now existing or hereafter arising, Maker has granted to Holder a lien and security interest in and to the Collateral (as defined under the Security Agreement) and the Patents (as defined in the Patent Security Agreement) pursuant to and in accordance with the Security Agreement and Patent Security Agreement, respectively. Upon the occurrence of an Event of Default, in addition to and not in limitation of any rights any remedies of Holder, hereunder or otherwise, all of such rights and remedies being cumulative, Holder may set off the Collateral and/or Patents and the proceeds thereof against any or all of the obligations of Maker to Holder, without notice or demand, and regardless of whether or not such obligations are secured by any other property or collateral, and regardless of the adequacy of any such other property or collateral.

Maker agrees to pay all costs and expenses, including, without limitation, reasonable attorneys' fees and expenses incurred, or which may be incurred, by Holder in connection with the enforcement and collection of this note and any other agreements, instruments and documents executed in connection herewith. Such costs and expenses shall be payable upon demand for the same and until so paid shall be added to the principal amount of the note and shall bear interest (calculated on the basis of a 365/366-day year for the actual days elapsed) from the date incurred until paid at the highest rate applicable under this note.

Maker hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this note, and assent to extensions of the time of payment or forbearance or other indulgence without notice. No delay or omission of Holder in exercising any right or remedy hereunder shall constitute a waiver of any such right or remedy. Acceptance by Holder of any payment after demand shall not be deemed a waiver of such demand. A waiver on one occasion shall not operate as a bar to or waiver of any such right or remedy on any future occasion.

This instrument, together with the Security Agreement and other Loan Documents (as defined in the Security Agreement) contains the entire agreement among Maker and Holder with respect to the transactions contemplated hereby, and supersedes all negotiations, presentations, warranties, commitments, offers, contracts and writings prior to the date hereof relating to the subject matter hereof. This instrument may be amended, modified, waived, discharged or terminated only by a writing signed by Maker and accepted in writing by Holder.

This instrument shall be governed by Arizona law, without regard to the conflict of laws provisions thereof. For purposes of any action or proceeding involving this note, Maker hereby expressly submits to the jurisdiction of all federal and state courts located in the State of Arizona and consents to any order, process, notice of motion or other application to or by any of said courts or a judge thereof being served within or without such court's jurisdiction by registered mail or by personal service, provided a reasonable time for appearance is allowed (but not less than the time otherwise afforded by any law or rule), and waives any right to contest the appropriateness of any action brought in any such court based upon lack of personal jurisdiction, improper venue or forum non conveniens.

This Note shall inure to the benefit of Holder's heirs, personal representatives, executors, successors and assigns.

Executed as an instrument under seal as of the date first above written.

MAKER:

WITNESS: HEALTH ENHANCEMENT PRODUCTS, INC.

/s/ Collette J. Hill
Witness

/s/ Jeffery R. Richards
By: Jeffery R. Richards, Chief Financial Officer

SCHEDULE A

Principal owing as of May 7, 2005 $955,243.61

ADVANCES FROM AND AFTER FEBRUARY 15, 2005

Date of Advance	Amount of Advance	Advance Acknowledged by Maker's CFO
February 18, 2005	$20,000.00	/s/ Jeffery R. Richards **Jeffery R. Richards** **Chief Financial Officer**
February 28, 2005	$44,000.00	/s/ Jeffery R. Richards **Jeffery R. Richards** **Chief Financial Officer**
March 9, 2005	$1,000.00	/s/ Jeffery R. Richards **Jeffery R. Richards** **Chief Financial Officer**
March 15, 2005	$385.05	/s/ Jeffery R. Richards **Jeffery R. Richards** **Chief Financial Officer**
March 15, 2005	$10,500.00	/s/ Jeffery R. Richards **Jeffery R. Richards** **Chief Financial Officer**
March 31, 2005	$8,500.00	/s/ Kevin C. Baer **Kevin C. Baer,** **Executive Vice President**
April 15, 2005	$16,000.00	/s/ Kevin C. Baer **Kevin C. Baer,** **Executive Vice President**
April 28, 2005	$7,500.00	/s/ Kevin C. Baer **Kevin C. Baer,** **Executive Vice President**

Exhibit 10.05

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement") dated as of February 15, 2005 is made by HEALTH ENHANCEMENT PRODUCTS, INC., a Nevada corporation with a chief executive office at 2530 South Rural Road, Tempe, AZ and a principal place of business at 2006 E. 5th, Suite 101 Tempe, AZ 85281 (the "Company"), in favor of HOWARD R. BAER, an individual with an address at 6451 East El Maro Circle, Paradise Valley, Arizona 85253 (the "Secured Party").

W I T N E S S E T H

WHEREAS, the Secured Party is the Chief Executive Officer and majority shareholder of the Company;

WHEREAS, the Secured Party has from time to time made loans to the Company, and the Company is, as of the date hereof, indebted to the Secured Party in the aggregate amount of FOUR HUNDRED EIGHTY THREE THOUSAND THREE HUNDRED FIFTY EIGHT AND 56/100 ($483,358.56) on account of such loans, and the Secured Party has agreed as of the date hereof to make a further advance to the Company in the amount of THREE HUNDRED SIXTY FOUR THOUSAND AND 00/100 ($364,000.00) (collectively, the "Execution Date Indebtedness"), provided that the Company enters into the Note (defined below) and this Security Agreement;

WHEREAS, the Secured Party, in its sole and absolute discretion, may make additional loans to the Company (collectively, the "Post Execution Date Indebtedness");

WHEREAS, the Company's obligation to repay the Execution Date Indebtedness and the Post Execution Date Indebtedness is evidenced by a promissory note made by Company in favor of Secured Party as of the date hereof ("Note");

WHEREAS, in connection with such loans heretofore or hereafter extended by Secured Party to Company, Secured Party has requested that Company execute this Security Agreement, together with the Patent Security Agreement and the other Loan Documents, and otherwise confirm and agree that all loans, credit or other financial accommodations previously or heretofore or hereafter extended by Secured Party to the Company, including, without limitation, the Execution Date Indebtedness and Post Execution Date Indebtedness and any other indebtedness or obligations evidenced by the Note, are and shall be secured by the Collateral (defined below), subject in all respects to the terms and conditions hereof;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and each intending to be bound hereby, the Secured Party and the Company hereby agree as follows:

1. Definitions; Amendments And Acknowledgement Of Secured Obligations.

1.1. Definitions.

As used in this Agreement, the following terms shall have the following definitions:

"Agreement" means this Security Agreement and any extensions, riders, supplements, notes, amendments, or modifications to or in connection with this Security Agreement.

"Bankruptcy Code" means the United States Bankruptcy Code (11 U.S.C. § 101 et seq.), as the same may be amended, supplemented and otherwise modified, and any successor statute.

"Collateral" means all tangible and intangible personal property of the Company related to the ProAlgaZyme Product, now existing or hereafter acquired, wherever located, including, without limitation: the Company's Books; the Equipment; the General Intangibles; the Inventory; any Farm Products (as defined under the UCC), Goods (as defined under the UCC), plants, enzymes, proteins, naturally-generated proteolytic enzymatic proteins derived from natural plant cultures grown by the Company under laboratory conditions in purified aqueous environment solutions with proprietary feeding, money, and other assets of the Company relating to the ProAlgaZyme Product (including, without limitation, any and all assets or property of the Company set forth on Exhibit 1 attached hereto and incorporated herein); and the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the Collateral, and any and all of Company's Books, Equipment, General Intangibles, Inventory, plants, enzymes, proteins, naturally-generated proteolytic enzymatic proteins derived from natural plant cultures grown by the Company under laboratory conditions in purified aqueous environment solutions with proprietary feeding, money, deposit accounts, supporting obligations, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Company" has the meaning set forth in the preamble to this Agreement.

"Company's Books" means the Company's now owned or hereafter acquired books and records (including all of its records indicating, summarizing, or evidencing the Collateral) or liabilities, in each case relating to the ProAlgaZyme Product.

"Equipment" means all of a Company's now owned or hereafter acquired right, title, and interest with respect to equipment, machinery, machine tools, motors, furniture, furnishings, fixtures, vehicles, tools, parts, goods (other than consumer goods, farm products, or Inventory), plants, enzymes, proteins and naturally-generated proteolytic enzymatic proteins derived from natural plant cultures grown by the Company under laboratory conditions in purified aqueous environment solutions with proprietary feeding, relating to the ProAlgaZyme Product, wherever located, including all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, including, without limitation, the equipment, assets and property set forth on Exhibit 1 attached hereto and incorporated herein.

"Event of Default" means the occurrence of any of the following: (i) the Company's default hereunder or failure to make any payment when due hereunder or to timely pay or perform any other obligation when due to the Secured Party under the Note or any other Loan Document, whether now existing or hereafter arising (including, without limitation, the Execution Date Indebtedness and the Post Execution Date Indebtedness; (ii) if any covenant, representation, warranty, statement or certificate made to the Secured Party by the Company is breached or proves to have been or becomes untrue, except to the extent any of the foregoing items relate solely to an earlier date; (iii) the death or dissolution of the Company; (iv) with respect to the Company, the commencement of an action seeking reorganization, liquidation, dissolution or other relief under federal or state bankruptcy or insolvency statutes or similar laws, or seeking the appointment of a receiver, trustee or custodian for the Company or all or part of its assets, or the commencement of an involuntary proceeding against the Company under federal or state bankruptcy or insolvency statues or similar laws, which involuntary proceeding is not dismissed or stayed within thirty (30) days; or (v) if the Company makes an assignment for the benefit of creditors, or is unable to pay its debts as they mature.

"General Intangibles" means all of the Company's now owned or hereafter acquired right, title, and interest with respect to general intangibles relating to the ProAlgaZyme Product (including payment intangibles, commercial tort claims, contract rights, rights to payment, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, intellectual property, patents, patent applications, servicemarks, servicemark applications, copyrights, copyright applications, all extensions, renewals, reissues, divisions, continuations, and continuations-in-part of any of the foregoing; all rights to sue for past, present and future infringement of any of the foregoing, inventions, trade secrets, formulae, processes, know-how, data, compounds, designs, surveys, reports, manuals, operating standards, technology, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, infringement claims, computer programs, information contained on computer disks or tapes, software, literature, reports, catalogs, money, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims), and any and all supporting obligations in respect thereof, and any other personal property relating to the ProAlgaZyme Product, including, without limitation, plants, enzymes, proteins, naturally-generated proteolytic enzymatic proteins derived from natural plant cultures grown under laboratory conditions in purified aqueous environment solutions with proprietary feeding of the Company, and the general intangibles, assets and property set forth on Exhibit 1 attached hereto and incorporated herein..

"Inventory" means all of the Company's now owned or hereafter acquired right, title, and interest with respect to inventory relating to the ProAlgaZyme Product, including goods held for sale or lease or to be furnished under a contract of service, goods that are leased by the Company as lessor, goods that are furnished by the Company under a contract of service, and plants, enzymes, proteins, naturally-generated proteolytic enzymatic proteins derived from natural plant cultures grown by the Company under laboratory conditions in purified aqueous environment solutions with proprietary, raw materials, work in process, or materials used or consumed in the Company's business, and including, without limitation, the inventory, assets and property set forth on Exhibit 1 attached hereto and incorporated herein.

"Loan Documents" means this Agreement, the Patent Security Agreement, the Note, any other note or notes executed by Company in favor of Secured Party, and all other documents, instruments, agreements, amendments, restatements, supplements and modifications executed in connection with any of the foregoing.

"Note" has the meaning set forth in the preambles to this Agreement.

"Patent Security Agreement" means that certain Patent Security Agreement dated the date hereof made by Company in favor of Secured Party (as the same may be amended, supplemented or modified from time to time).

"ProAlgaZyme Product" means that certain naturally-generated proteolytic enzymatic protein derived from a natural plant culture grown by the Company under laboratory conditions in a purified aqueous environment solution with proprietary feeding, and which is commonly referred to as ProAlgaZyme and/or AlphaSystem Replenisher.

"Secured Obligations" means all indebtedness, liabilities, obligations, or undertakings owing by the Company to Secured Party of any kind or description arising out of or outstanding under, advanced or issued pursuant to, or evidenced by this Agreement, the Note (including, without limitation, the Execution Date Indebtedness and the Post Execution Date Indebtedness) or the other Loan Documents, irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, voluntary or involuntary, whether now existing or hereafter arising, and including all interest (including interest that accrues after the filing of a case under the Bankruptcy Code) and any and all costs, fees (including attorneys' fees), and expenses which the Company is required to pay pursuant to any of the foregoing, by law, or otherwise.

"Secured Party" has the meaning set forth in the preamble to this Agreement.

"Secured Party's Liens" means the liens granted by the Company to the Secured Party under this Agreement and the other Loan Documents.

"UCC" means the Uniform Commercial Code as in effect from time to time in the State of Arizona or any other applicable jurisdiction.

1.2. RESERVED.

1.3. Acknowledgment of Secured Obligations. The Company hereby acknowledges that it is unconditionally liable to the Secured Party for the full payment and performance of each of the obligations set forth in the Note (including, without limitation, the Execution Date Indebtedness and the Post Execution Date Indebtedness) and incorporated herein by reference, plus any amounts that may be hereafter borrowed from the Secured Party, plus all interest, fees, charges and other amounts that may arise under the terms of the various documents executed or delivered by the Company evidencing or relating to such obligations, including, without limitation, the Note, plus all reasonable attorneys' fees and costs of collection incurred in connection with such obligations by the Secured Party, and that the Company has no defenses, counterclaims or set-offs with respect to the full payment and performance of any or all of the foregoing.

2. CREATION OF SECURITY INTEREST.

2.1. Grant of Security Interest.

The Company hereby grants to the Secured Party a continuing security interest in all of its right, title, and interest in all currently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all of the Secured Obligations in accordance with the terms and conditions of the Note, this Agreement, the Loan Documents or any other agreement executed between the Company and the Secured Party, and in order to secure prompt performance by the Company of the Company's covenants and duties under the Note. The Secured Party's Liens in and to the Collateral shall attach to all Collateral without further act on the part of the Secured Party or the Company. Anything contained in the Note, this Agreement, the Loan Documents or any other agreement executed between the Company and the Secured Party to the contrary notwithstanding, the Company does not have any authority, express or implied, to dispose of any item or portion of the Collateral other than in the ordinary course of business.

2.2. Collection of General Intangibles. At any time after the occurrence and during the continuation of an Event of Default, the Secured Party or the Secured Party's designee may collect and otherwise realize upon the General Intangibles. Any collection costs and expenses incurred by the Secured Party pursuant to this Section 2.2 shall be payable upon demand for the same and until paid in full in cash shall be added to the principal amount of the Secured Obligations and shall bear interest (calculated on the basis of a 365-day year) from the date incurred until paid in full in cash at the highest rate applicable under the Note.

2.3. Delivery of Additional Documentation Required. At any time upon the request of the Secured Party, the Company shall execute and deliver to the Secured Party, any and all financing statements, original financing statements in lieu of continuation statements, fixture filings, security agreements, pledges, assignments, endorsements of certificates of title, and all other documents (the "Additional Documents") that the Secured Party may reasonably request, in form and substance satisfactory to the Secured Party, to perfect and continue perfected or better perfect the Secured Party's Liens in the Collateral (whether now owned or hereafter arising or acquired), and in order to fully consummate all of the transactions contemplated hereby and under the Note. In addition, on such periodic basis as the Secured Party shall reasonably require, the Company shall (a) provide the Secured Party with a report of all new patentable or copyrightable materials, or intellectual property acquired or generated by the Company during the prior period to the extent that any of such items are related to the ProAlgaZyme Product, (b) cause all patents, copyrights, and intellectual property acquired or generated by the Company that are necessary in the conduct of the Company's business as it relates to the ProAlgaZyme Product and that are not already the subject of a registration with the appropriate filing office (or an application therefor diligently prosecuted) to be registered with such appropriate filing office in a manner sufficient to impart constructive notice of the Company's ownership thereof, unless the Company, with respect to patents and intellectual property, but not copyrights, in its commercially reasonable discretion, determined otherwise, and (c) cause to be prepared, executed, and delivered to the Secured Party supplemental schedules hereto to identify, among other things, such patents, copyrights, and intellectual property as being subject to the security interests created thereunder.

2.4. Power of Attorney.

The Company hereby irrevocably makes, constitutes, and appoints the Secured Party (and any agent designated by the Secured Party) as the Company's true and lawful attorney, with power to: (a) if the Company refuses to, or fails timely to execute and deliver any of the documents described in Section 2.3, sign the name of the Company on any of the documents described in Section 2.3; (b) send requests for verification of part or all of the Collateral; (c) at any time that an Event of Default has occurred and is continuing, make, settle, and adjust all claims under the Company's policies of insurance and make all determinations and decisions with respect to such policies of insurance; and (d) at any time that an Event of Default has occurred and is continuing, settle and adjust disputes and claims respecting the Collateral. The appointment of the Secured Party as the Company's attorney, and each and every one of the Secured Party's rights and powers, being coupled with an interest, is irrevocable until, and shall terminate when, all of the Secured Obligations have been fully and finally repaid and performed.

2.5. Right to Inspect.

The Secured Party (and any of its agents) shall have the right, from time to time hereafter to inspect the Company's Books and to check, test, and appraise the Collateral in order to verify the Company's financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral.

3. REPRESENTATIONS AND WARRANTIES.

The Company hereby represents and warrants to Secured Party as follows:

(a) except for the Secured Party's Liens, the Company is the sole owner of each item of the Collateral, having rights in or the power to transfer the Collateral and having good and marketable title thereto, free and clear of any and all liens, claims, or rights of others; and in this regard, no security agreement, financing statement, equivalent security or lien instrument or continuation statement covering all or any portion of the Collateral is on file or of record in any public office, except as may have been filed in favor of the Secured Party;

(b) the name of the Company and the type and state of organization set forth in the preamble to this Agreement is the Company's correct corporate name and type and state of organization, and the Company is not now doing business under any other name, except "Health Enhancement Products, Inc. of Nevada"; and

(c) as of the date hereof the Company's principal place of business and chief executive office are set forth in the preamble of this Agreement and said addresses are the only locations where Collateral is located or maintained; however, the Company hereby represents to Secured Party that the Company shall move each of its principal place of business and chief executive office to 7740 E. Evans Rd., Scottsdale, Arizona 85260_ (the "New Location") on or before March 31, 2005, and that following such move the New Location shall be the only location where Collateral is located or maintained, unless Company shall have provided to Secured Party thirty (30) days prior written notice of any alternative location where Collateral shall at any time be located or maintained and shall have delivered to Secured Party a Landlord Waiver Agreement (defined below) with respect to any such alternative location. In addition, Company hereby acknowledges and agrees that on or before March 31, 2005, Company shall have either (i) moved each of its principal place of business and chief executive office to the New Location and delivered to Secured Party a Landlord Waiver Agreement with respect to the New Location; or (ii) if such moves have not been completed, then Company shall have delivered to Secured Party a Landlord Waiver Agreement from the Company's existing landlords. Any failure to comply with the provisions of this Section 3(c) shall constitute an Event of Default hereunder and under the other Loan Documents. For purposes of this Section 3(c), the term "Landlord Waiver Agreement" shall mean a written agreement, in form and substance reasonably satisfactory to Secured Party, from any applicable landlord pursuant to which such landlord shall subordinate its liens and claims against the Company and authorize Secured Party to enter and remain on the applicable premises for a period of sixty (60) days following Secured Party's entry thereon in order to collect, remove, sell or otherwise dispose of the Collateral (at Company's expense) in connection with the exercise of Secured Party's rights and/or remedies hereunder or under any of the other Loan Documents.

4. AFFIRMATIVE COVENANTS. THE COMPANY COVENANTS AND AGREES THAT FROM AND AFTER THE DATE OF THIS SECURITY AGREEMENT AND UNTIL THE SECURED OBLIGATIONS ARE REPAID IN FULL IN CASH:

4.1. Notices Regarding Collateral. the Company will advise the Secured Party promptly, in reasonable detail, (i) of any lien or claim made or asserted against any of the Collateral, and it will defend the Collateral against and take such other action as is necessary to remove, any lien or claim in or to the Collateral; (ii) of any material change in the composition of the Collateral; and (iii) of the occurrence of any other event that would have a material adverse effect on the Collateral taken as a whole or the Secured Party's Liens.

4.2. Maintenance of Insurance. The Company will maintain insurance policies in amounts not less than that usually carried by one engaged in the same or similar business and with companies reasonably satisfactory to the Secured Party and covering such risks as are customary in the same or a similar business. After an Event of Default, all insurance proceeds received by Company shall be released to the Secured Party.

4.3. Organization. The Company will not change its type or state of organization or its legal name.

5. Secured Party's Rights And Remedies.

5.1. Rights and Remedies. Upon the occurrence of an Event of Default, the Secured Party shall have the following additional rights and remedies:

1. All of the rights and remedies of a secured party, under the UCC or any other applicable law or at equity, all of which rights and remedies shall be cumulative and non-exclusive, to the extent permitted by law.

2. The right to (i) take possession of the Collateral, without resort to legal process and without prior notice to the Company, for which purpose the Company irrevocably appoints the Secured Party its attorney-in-fact to enter upon any premises on which the Collateral or any part thereof may be situated and remove the Collateral therefrom, or (ii) require the Company to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party. The Company shall make available all premises, locations and facilities necessary for the Secured Party's taking possession of the Collateral or for removing or putting the Collateral in saleable form.

3. The right to sell or otherwise dispose of all or any part of the Collateral by one or more public or private sales. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Secured Party will give the Company at least ten (10) days' prior written notice of the time and place of any public sale thereof or the time after which any private sale or other intended disposition (which may include, without limitation, or public sale or lease of all or part of the Collateral) is to be made. The Company agrees that ten (10) days is a reasonable time for such notice. The Secured Party, its employees, attorney and agents may bid and become purchasers at any such sale, if public, and may purchase at any private sale any of the Collateral that is of a type customarily sold on a recognized market or which is subject to widely distributed standard price quotations. If there is a deficiency after such sale and the application of the net proceeds from such sale, the Company shall be responsible for the same with interest.

5.2. Remedies Cumulative.

The Secured Party's rights and remedies under this Agreement, the Note, the other Loan Documents and all other agreements between the Secured Party and the Company shall be cumulative. The Secured Party shall have all other rights and remedies not inconsistent herewith as provided under the UCC, by law, or in equity. No exercise by the Secured Party of one right or remedy shall be deemed an election, and no waiver by the Secured Party of any Event of Default on the Company's part shall be deemed a continuing waiver. No delay by the Secured Party shall constitute a waiver, election, or acquiescence by it.

6. TAXES AND EXPENSES REGARDING THE COLLATERAL.

If the Company fails to pay any monies (whether taxes, rents, assessments, insurance premiums due to third persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement, then, the Secured Party, in its sole discretion and without prior notice to the Company, may do any or all of the following: (a) make payment of the same or any part thereof; (b) obtain and maintain insurance policies insuring the Company's ownership and use of the Collateral, and take any action with respect to such policies as the Secured Party deems prudent. Any amounts paid or deposited by the Secured Party shall be payable upon demand for the same and until paid in full in cash shall be added to the principal amount of the Secured Obligations and shall bear interest (calculated on the basis of a 365-day year) from the date incurred until paid in full in cash at the highest rate applicable under the Note. Any payments made by the Secured Party shall not constitute an agreement by the Secured Party to make similar payments in the future or a waiver by the Secured Party of any Event of Default under this Agreement. The Secured Party need not inquire as to, or contest the validity of, any such expense, tax, security interest, encumbrance, or lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

7. WAIVERS; INDEMNIFICATION.

7.1. Demand; Protest; etc.

Except as otherwise specifically and explicitly set forth in this Agreement and to the extent permitted by law, the Company waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by the Secured Party, on which the Company may in any way be liable.

7.2. No Liability for Collateral.

The Secured Party shall not have any obligation to protect, secure, perfect or insure any of the Collateral at any time held as security for the Secured Obligations. Beyond the custody thereof, in accordance with the same procedures it employs with regard to its own property, the Secured Party shall not have any duty as to any Collateral in its possession or control or in the possession or control of any of its agents or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. All risk of loss, damage, or destruction of the Collateral shall be borne by the Company.

7.3. Indemnification; Reimbursement of Expenses.

(a) The Company agrees to defend, indemnify, save, and hold the Secured Party (and its agents) (each an "Indemnified Person") harmless against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other person, and (b) all losses (including reasonable attorneys' fees and disbursements) in any way suffered, incurred, or paid by the Secured Party as a result of or in any way arising out of, following, or consequential to transactions with the Company, whether under this Agreement, the Note, the other Loan Documents or otherwise (all of the foregoing, collectively, the "Indemnified Liabilities"). Notwithstanding the foregoing, the Company shall not have any obligation under this Section 7.3 with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person. This provision shall survive the termination of this Agreement.

(b) All expenses incurred in connection with the performance of any of the agreements set forth herein shall be borne by Company. All fees, costs and expenses, of whatever kind or nature, including reasonable attorneys' fees and legal expenses, incurred by Secured Party in connection with the filing or recording of any documents (including all taxes in connection therewith) in public offices, the payment or discharge of any taxes, reasonable counsel fees, maintenance fees, encumbrances or otherwise in protecting, maintaining or preserving the Collateral or in defending or prosecuting any actions or proceedings arising out of or related to the Collateral (including, without limitation, based on the Company's failure to perform or comply with any provision contained herein) shall be borne by the Company and shall constitute Secured Obligations. All of such fees and expenses shall be payable upon demand for the same and until paid in full in cash shall be added to the principal amount of the Secured Obligations and shall bear interest (calculated on the basis of a 365-day year for the actual days elapsed) from and after the date incurred at the highest rate applicable to any of the Secured Obligations as set forth in the Note.

8. NOTICES.

Except as otherwise specified herein, all notices, requests, demands or other communications to or on the Company or the Secured Party shall be in writing and shall be given or made to the party to which such notice is required or permitted to be given or made at the address set forth on the signature pages hereto or at such other address as any party hereto may hereafter specify to the other in writing, and (unless otherwise specified herein) shall be deemed delivered on receipt if delivered by hand or sent by facsimile, or one (1) business day after sending if sent by nationally recognized courier service, if sent with instructions to deliver the next business day, or five (5) business days after mailing, and all mailed notices shall be by registered or certified mail, postage prepaid.

9. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

(a) This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Arizona, without regard to the conflict of laws provisions thereof. For purposes of any action or proceeding involving this Agreement or any other agreement or document referred to herein, the Company hereby expressly submits to the jurisdiction of all federal and state courts located in the State of Arizona and consents that any order, process, notice of motion or other application to or by any of said courts or a judge thereof may be served within or without such court's jurisdiction by registered mail or by personal service, provided a reasonable time for appearance is allowed, and hereby waives any right to contest the appropriateness of any action brought within such jurisdiction based upon lack of personal jurisdiction, improper venue or forum non conveniens.

(b) THE COMPANY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES (TO THE EXTENT PERMITTED BY APPLICABLE LAW) ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY OF ANY DISPUTE ARISING UNDER OR RELATING TO THIS AGREEMENT OR ANY OTHER DOCUMENT OR AGREEMENT REFERRED TO HEREIN, AND AGREES THAT ANY SUCH DISPUTE SHALL BE TRIED BEFORE A JUDGE SITTING WITHOUT A JURY.

10. GENERAL PROVISIONS.

10.1 Effectiveness.

This Agreement shall be binding and deemed effective when executed by the Company and accepted and executed by the Secured Party.

10.2 Successors and Assigns.

This Agreement shall bind and inure to the benefit of the respective successors, heirs and assigns of each of the parties; provided, however, that the Company may not assign this Agreement or any rights or duties hereunder without the Secured Party's prior written consent and any prohibited assignment shall be absolutely void. No consent to an assignment by the Secured Party shall release the Company from its Secured Obligations. The Secured Party may assign this Agreement and its rights and duties hereunder and no consent or approval by the Company is required in connection with any such assignment. The Secured Party reserves the right to sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in its rights and benefits hereunder. In connection therewith, the Secured Party may disclose all documents and information which the Secured Party now or hereafter may have relating to the Company or its business. To the extent that the Secured Party assigns its rights and obligations to a third person, the Secured Party thereafter shall be released from such assigned obligations to the Company.

10.3 Section Headings.

Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each section applies equally to this entire Agreement.

10.4 Interpretation.

Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against the Secured Party or the Company, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

10.5 Complete Agreement. This Agreement, together with the Loan Documents and any other document executed in connection therewith, contains the entire agreement among the parties with respect to the transactions contemplated hereby, and supersedes all negotiations, presentations, warranties, commitments, offers, contracts and writings prior to the date hereof relating to the subject matters hereof.

10.6 Severability of Provisions.

Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

10.7 Amendments in Writing.

This Agreement can only be amended by a writing signed by the Secured Party and the Company.

10.8 Counterparts; Telefacsimile Execution.

This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

10.9 Revival and Reinstatement of Obligations .

If the incurrence or payment of the Secured Obligations by the Company or the transfer by the Company to the Secured Party of any property of the Company should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, and other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if the Secured Party is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that the Secured Party is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys' fees of the Secured Party related thereto, the liability of the Company automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed under seal as of the date first above written.

HEALTH ENHANCEMENT PRODUCTS INC., as Company

By: /s/ Jeffery R. Richards
Name: Jeffery R. Richards
Title: Chief Financial Officer

ADDRESS:

2530 South Rural Road
Tempe, AZ 85281

ACCEPTED:

HOWARD R. BAER, as Secured Party

/s/ Howard R. Baer

ADDRESS:

6451 East El Maro Circle
Paradise Valley, Arizona 85253
Ph: (480) 368-8885
Fax: (480) 385-3901

EXHIBIT 1
(ADDITIONAL DESCRIPTION OF CERTAIN ITEMS OF THE COLLATERAL)

1.1 Cultures, primarily composed of fresh-water species, used for generation of compound(s) used in the generation of the ProAlgaZyme product.

1.2 Culture growing environment, composed of:

1.2.1 Culture containers. In addition to the above, there are approximately 600 unused containers available for use.

1.2.2 Purified water, in which the cultures are grown.

1.2.3 Storage racks for the culture containers.

1.2.4 Specialized lighting fixtures to assist growing.

1.2.5 Proprietary food for the cultures.

1.3 Production environment, composed of:

1.3.1 Sterilization and cleaning equipment (stainless steel sinks, ozone water washing unit).

1.3.2 Water purification equipment (R/O filtering, ozonation equipment).

1.3.3 Extraction ("harvesting") equipment for transfer of water from cultures to storage (pumps, carts, tubing).

1.3.4 Filtration equipment for processing waste and extraneous materials from harvested water prior to bottling (pumps, gauges, filter housings).

1.3.5 Water storage and transportation equipment, including tanks and portable containers.

1.3.6 Chemicals and production supplies (testing, cleaning, and expendable materials).

1.4 Research environment, composed of:

1.4.1 Research equipment (high-powered microscope, spectrophotometer, autoclave, incubator, water bath).

1.4.2 Research materials (testing equipment and materials).

1.5 Finished goods inventory, consisting of:

1.5.1 Bottled ProAlgaZyme awaiting sale.

1.5.2 Manufactured ReplenTish product awaiting sale.

1.6 Raw materials inventory, consisting of ProAlgaZyme bottles and caps for future production runs.

1.7 Special reserved stock of bottled ProAlgaZyme for use in clinical trials.

1.8 Furniture and fittings, consisting of:

1.8.1 Office furniture (desks, chairs, filing cabinets).

1.8.2 Office equipment (PCs, printers, software licenses, fax machine, copying machine).

1.8.3 Research equipment (high-powered microscope, spectrophotometer, autoclave, incubator, water bath).

1.8.4 Production equipment (stainless steel benches, storage cabinets, materials storage).

1.9 All rights to growth of the cultures for commercial activity.

1.10 All production processes and procedures, including, without limitation, :

1.10.1 Growing environment preparation, construction, and maintenance/cleaning.

1.10.2 Personnel training – production procedures, anti-contamination procedures, record-keeping, testing.

1.10.3 Culture maintenance – preservation and protection, feeding, growth management, environment management.

1.10.4 Culture testing – monitoring of compound production levels.

1.10.5 Culture replication – preparation of new growing environment, transfer of cultures, growth monitoring and testing.

1.10.6 Culture feeding – food preparation, feeding quantities and procedures, culture quality and health monitoring.

1.10.7 Harvesting – preparation of storage environment and harvesting equipment, harvesting procedure, replenishment and feeding procedures.

1.10.8 Storage of harvested material – cleaning and preparation of receiving containers, container closure and protection of material from contamination.

1.10.9 Production tracking and recording – maintenance of production records.

1.10.10 Filtration – cleaning and preparation of filtration environment, preparation of required parts and filtration line, preparation of receiving containers, execution of filtration run, storage and maintenance of receiving containers.

1.10.11 Quality and testing – sampling and testing procedures, lot tracking, acceptance and product recall policies.

1.10.12 Inventory management – identification and reporting of overhead, expendable items, and raw materials.

1.10.13 Production and research materials management – hazardous waste identification and tracking; usage statistics, storage conditions, access controls.

1.11 All rights to the “Celebration for Life” direct-selling organization, including, withoutlimitation:

1.11.1 Names and contact information for all distributors and personnel affiliated with the ProAlgaZyme Product.

1.11.2 Prepared literature and Policies and Procedures for the organization, including product brochures, marketing materials, and Distributor Kits.

1.11.3 Established Internet web-site, with software to support distributor registration, product purchases, and information.

1.12 All research information relating to the ProAlgaZyme Product, including, without limitation:

1.12.1 Consumer histories, files, and testimonials compiled during 2004 by Dr. DeWall Hildreth.

1.12.2 Results from laboratory testing conducted by Arizona State University during 2003-4 under ASU foundation grants.

1.12.3 Results from clinical trials conducted during 2004-5 by independent third-party organizations on both human volunteers and laboratory animals.

1.12.4 Information prepared by HEPI staff and independent third parties as to the composition and characteristics of the cultures and their generated compound(s).

1.12.5 Information derived from research projects by HEPI Production staff into theeffect and benefits on human illnesses of enzyme(s) and other compounds identified within the ProAlgaZyme Product.

1.13 Filing of patent on the ProAlgaZyme Product with U.S. Patent & Trademark Office.

1.13.1 Technical knowledge and skills developed within Company personnel during operations, including areas such as the control and growth of cultures, the analysis and application of information relating to the compound(s) derived from the cultures, marketing and advertising of the ProAlgaZyme Product.

Exhibit 10.06

PATENT SECURITY AGREEMENT

THIS PATENT SECURITY AGREEMENT (this " Agreement") dated as of February 15, 2005 is made by HEALTH ENHANCEMENT PRODUCTS, INC., a Nevada corporation with a chief executive office at 2530 South Rural Road, Tempe, AZ and a principal place of business at 2006 E. 5th, Suite 101 Tempe, AZ 85281 (the "Company"), in favor of HOWARD R. BAER, an individual with an address at 6451 East El Maro Circle, Paradise Valley, Arizona 85253 (the "Secured Party").

W I T N E S S E T H

WHEREAS, Secured Party has heretofore and may hereafter extend credit or other financial accommodations to Company.

WHEREAS, Company and Secured Party are parties to a certain Security Agreement of even date herewith (as amended, amended and restated or otherwise modified from time to time, the "Security Agreement") and other related documents of even date herewith (collectively, with the Security Agreement, and as each may be amended or otherwise modified from time to time, the "Loan Documents"), which Loan Documents provide for, among other things, the grant by Company to Secured Party of a security interest in certain of Company's assets, including, without limitation, its patents and patent applications to secure credit or other financial accommodations heretofore or hereafter made to Company by Secured Party;

NOW, THEREFORE, in consideration of the premises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Company and Secured Party hereby agree as follows:

1. Incorporation of Loan Documents . The Loan Documents and the terms and provisions thereof are hereby incorporated herein in their entirety by this reference thereto. All terms capitalized but not otherwise defined herein shall have the same meanings herein as in the Security Agreement.

2. Grant and Reaffirmation of Grant of Security Interests . To secure the complete and timely payment and satisfaction of the Secured Obligations, Company hereby grants to Secured Party, and hereby reaffirms its prior grant pursuant to the Loan Documents of, a continuing security interest in Company's entire right, title and interest in and to all of its now owned or existing and hereafter acquired or arising patents, patent applications and patent licenses relating to the ProAlgaZyme Product, including, without limitation, the inventions and improvements described and claimed therein, all patentable inventions and those patents, patent applications and patent licenses listed on Schedule A, attached hereto and made a part hereof, and all patents and the reissues, divisions, continuations, renewals, extensions and continuations-in-part of any of the foregoing as well as international patents corresponding to United States patents, and all proceeds, income, royalties, damages and payments now or hereafter due and/or payable under or with respect to any of the foregoing, including, without limitation, damages and payments for past, present and future infringements of any of the foregoing and the right to sue for past, present and future infringements of any of the foregoing (all of the foregoing are sometimes hereinafter individually and/or collectively referred to as the "Patents").

3. Warranties and Representations. Company warrants and represents to Secured Party that:

(i) no Patent has been adjudged invalid or unenforceable by a court of competent jurisdiction nor has any such Patent been cancelled, in whole or in part and each such Patent is presently subsisting;

(ii) Company is the sole and exclusive owner of the entire and unencumbered right, title and interest in and to each Patent, free and clear of any liens, charges and encumbrances, including without limitation, shop rights and covenants by Company not to sue third persons;

(iii) Company has no notice of any suits or actions commenced or threatened with reference to any Patent; and

(iv) Company has the unqualified right to execute and deliver this Patent Security Agreement and perform its terms.

4. Restrictions on Future Agreements . Company agrees that until all of the Secured Obligations have been satisfied in full and the Loan Documents have been terminated, Company shall not, without the prior written consent of Secured Party, sell or assign its interest in any Patent or enter into any other agreement with respect to any Patent which would affect the validity or enforcement of the rights transferred to Secured Party under this Patent Security Agreement.

5. New Patents. Company represents and warrants that, based on a diligent investigation by Company, the Patents listed on Schedule A constitute all of the Patents and Patent applications now owned by Company and relating to the ProAlgaZyme Product. If, before Company's Secured Obligations have been paid and/or satisfied in full, the Loan Documents have been terminated, and the security interest granted herein has been specifically terminated in writing by Secured Party, Company shall (i) become aware of any existing Patents relating to the ProAlgaZyme Product of which Company has not previously informed Secured Party, (ii) obtain rights to any new patentable inventions or Patents relating to the ProAlgaZyme Product, or (iii) become entitled to the benefit of any Patents relating to the ProAlgaZyme Product, which benefit is not in existence on the date hereof, the provisions of this Agreement shall automatically apply thereto and Company shall give to Secured Party prompt written notice thereof. Company hereby authorizes Secured Party (a) to modify this Agreement, without the necessity of the Company's further approval or signature, by amending Schedule A hereto to include any such Patents or any other Patents in which the Company now has or hereafter acquires any right, title or interest, in each case to the extent that they relate to the ProAlgaZyme Product, and (b) to take such further actions as may be necessary or appropriate to obtain and perfect the Secured Party's security interest in any such right, title or interest of the Company (including but not limited to recording such amended Schedule A, together with an amended copy of this Agreement with the United States Patent and Trademark Office).

6. Royalties; Terms. The term of this Agreement shall extend until the earlier of (i) the expiration of all of the Patents, and (ii) the date upon which the Secured Obligations have been paid and/or satisfied in full in cash, the Loan Documents have been terminated, and the security interest granted herein has been specifically terminated in writing by Secured Party. Company agrees that upon the occurrence of an Event of Default, the use by Secured Party of all Patents shall be without any liability for royalties or other related charges from Secured Party to Company.

7. Release of Security Interest . This Agreement is made for collateral purposes only. When all Secured Obligations have been paid and/or satisfied in full in cash, the Loan Documents have been terminated, and the security interest granted herein has been specifically terminated in writing by Secured Party, then Secured Party shall take such actions as may be necessary or proper to terminate the security interests created hereby and pursuant to the Loan Documents.

8. Expenses. All expenses incurred in connection with the performance of any of the agreements set forth herein shall be borne by Company. All fees, costs and expenses, of whatever kind or nature, including attorneys' fees and legal expenses, incurred by Secured Party in connection with the filing or recording of any documents (including all taxes in connection therewith) in public offices, the payment or discharge of any taxes, reasonable counsel fees, maintenance fees, encumbrances or otherwise in protecting, maintaining or preserving the Patents or in defending or prosecuting any actions or proceedings arising out of or related to the Patents shall be borne by the Company and shall constitute Secured Obligations. All of such fees and expenses shall be payable upon demand for the same and until paid in full in cash shall be added to the principal amount of the Secured Obligations and shall bear interest (calculated on the basis of a 365-day year) from and after the date incurred at the highest rate applicable under the Loan Documents.

9. Duties of Company. Company shall have the duty (i) to file and prosecute diligently any Patent applications pending as of the date hereof or hereafter until all Secured Obligations have been paid and/or satisfied in full, the Loan Documents have been terminated, and the security interest granted herein has been specifically terminated in writing by the Secured Party, (ii) to make application on unpatented but patentable inventions, as commercially reasonable, (iii) to preserve and maintain all rights in the Patents, as commercially reasonable and (iv) to ensure that the Patents are and remain enforceable, as commercially reasonable. Any expenses incurred in connection with Company's obligations under this Section 9 shall be borne by the Company and shall be payable upon demand for the same and until paid in full in cash shall constitute Secured Obligations. All of such fees and expenses shall be added to the principal amount of the Secured Obligations and shall bear interest (calculated on the basis of a 365-day year) from and after the date incurred until paid in full in cash at the highest rate applicable under the Loan Documents.

10. Secured Party's Right to Sue. After an Event of Default, Secured Party shall have the right, but shall in no way be obligated, to bring suit in its own name to enforce the Patents and, if Secured Party shall commence any such suit, Company shall, at the request of Secured Party, do any and all lawful acts and execute any and all proper documents required by Secured Party in aid of such enforcement and Company shall promptly, upon demand, reimburse and indemnify Secured Party for all costs and expenses incurred by Secured Party in the exercise of its rights under this Section 10. Any costs and expenses incurred in connection with Company's obligations under this Section 10 shall be borne by the Company and shall constitute Secured Obligations. All of such costs and expenses shall be payable upon demand for the same and until paid in full in cash shall be added to the principal amount of the Secured Obligations and shall bear interest (calculated on the basis of a 365-day year) from and after the date incurred at the highest rate applicable under the Loan Documents.

11. Waivers. No course of dealing between Company and Secured Party, nor any failure to exercise, nor any delay in exercising, on the part of Secured Party, any right, power or privilege hereunder or under the Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

12. Severability. The provisions of this Agreement are severable, and if any clause or provision shall be held invalid and unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Agreement in any jurisdiction.

13. Modification. This Agreement cannot be altered, amended or modified in any way, except as specifically provided in Section 5 hereof or by a writing signed by the parties hereto.

14. Cumulative Remedies; Power of Attorney; Effect on Loan Documents . All of Secured Party's rights and remedies with respect to the Patents, whether established hereby or by the Loan Documents, or by any other agreements or by law shall be cumulative and may be exercised singularly or concurrently. Company hereby authorizes Secured Party upon the occurrence of an Event of Default, to make, constitute and appoint Secured Party or its agent, as Company's true and lawful attorney-in-fact, with power to (i) endorse Company's name on all applications, documents, papers and instruments necessary or desirable for Secured Party in the use of the Patents or (ii) take any other actions with respect to the Patents as Secured Party deems to be in his best interest, or (iii) grant or issue any exclusive or non-exclusive license under the Patents to anyone, or (iv) assign, pledge, convey or otherwise transfer title in or dispose of the Patents to anyone. Company hereby ratifies all that such attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney shall be irrevocable until Company's Secured Obligations shall have been paid in full and the Loan Documents shall been terminated. Company acknowledges and agrees that this Agreement is not intended to limit or restrict in any way the rights and remedies of Secured Party under the Loan Documents but rather is intended to facilitate the exercise of such rights and remedies. Secured Party shall have, in addition to all other rights and remedies given it by the terms of this Agreement and the Loan Documents, all rights and remedies allowed by law and the rights and remedies of a secured party under the Uniform Commercial Code as enacted in the State or Arizona.

15. Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that the Company may not assign this Agreement or any rights or duties hereunder without the Secured Party's prior written consent and any prohibited assignment shall be absolutely void. No consent to an assignment by the Secured Party shall release the Company from its Secured Obligations. The Secured Party may assign this Agreement and its rights and duties hereunder and no consent or approval by the Company is required in connection with any such assignment. The Secured Party reserves the right to sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in its rights and benefits hereunder. In connection therewith, the Secured Party may disclose all documents and information which the Secured Party now or hereafter may have relating to the Company or its business. To the extent that the Secured Party assigns its rights and obligations to a third person, the Secured Party thereafter shall be released from such assigned obligations to the Company.

16. Choice Of Law And Venue; Jury Trial Waiver .

(a) This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Arizona, without regard to the conflict of laws provisions thereof. For purposes of any action or proceeding involving this Agreement or any other agreement or document referred to herein, the Company hereby expressly submits to the jurisdiction of all federal and state courts located in the State of Arizona and consents that any order, process, notice of motion or other application to or by any of said courts or a judge thereof may be served within or without such court's jurisdiction by registered mail or by personal service, provided a reasonable time for appearance is allowed, and hereby waives any right to contest the appropriateness of any action brought within such jurisdiction based upon lack of personal jurisdiction, improper venue or forum non conveniens.

(b) THE COMPANY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES (TO THE EXTENT PERMITTED BY APPLICABLE LAW) ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY OF ANY DISPUTE ARISING UNDER OR RELATING TO THIS AGREEMENT OR ANY OTHER DOCUMENT OR AGREEMENT REFERRED TO HEREIN, AND AGREES THAT ANY SUCH DISPUTE SHALL BE TRIED BEFORE A JUDGE SITTING WITHOUT A JURY.

17. Notices. Except as otherwise specified herein, all notices, requests, demands or other communications to or on the Company or the Secured Party shall be in writing and shall be given or made to the party to which such notice is required or permitted to be given or made at the address set forth on the signature pages hereto or at such other address as any party hereto may hereafter specify to the other in writing, and (unless otherwise specified herein) shall be deemed delivered on receipt if delivered by hand or sent by facsimile, or one (1) business day after sending if sent by nationally recognized courier service, if sent with instructions to deliver the next business day, or five (5) business days after mailing, and all mailed notices shall be by registered or certified mail, postage prepaid.

18. Counterparts; Telefacsimile Execution. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

19. Headings. Paragraph headings used herein are for convenience only and shall not modify the provisions which they precede.

20. Further Assurances. Company agrees to execute and deliver such further agreements, instruments and documents, and to perform such further acts, as Secured Party shall reasonably request from time to time in order to carry out the purpose of this Agreement and agreements set forth herein.

21. Survival of Representations. All representations and warranties of Company contained in this Agreement shall survive the execution and delivery of this Patent Security Agreement and shall be remade on the date of any subsequent extension of credit or other financial accommodations.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed under seal as of the date first above written.

HEALTH ENHANCEMENT PRODUCTS INC., as Company

By: /s/ Jeffery R. Richards
Name: Jeffery R. Richards
Title: Chief Financial Officer

ADDRESS:

2530 South Rural Road
Tempe, AZ 85281

ACCEPTED:

HOWARD R. BAER, as Secured Party

/s/ Howard R. Baer

ADDRESS:

6451 East El Maro Circle
Paradise Valley, Arizona 85253
Ph: (480) 368-8885
Fax: (480) 385-3901

SCHEDULE A

PATENTS

Patent Description	U.S. Patent No.	Issue Date	Status

PATENT APPLICATIONS

Patent Application Description	U.S. Patent Application No.	Date Applied	Status
Method of preparation and use of fibrinolytic enzymes in the treatment of disease.	60/565,011	04/23/2004	Provisional

LICENSES

License	Subject Patent	Date	Status

INFRINGEMENTS AND CLAIMS

Infringement and/or Claim	Subject Patent	Date	Status

Exhibit 10.07

JOINDER AGREEMENT AND FIRST AMENDMENT

This JOINDER AGREEMENT AND FIRST AMENDMENT (this "Agreement") is entered into as of March 25, 2005 by and among the following parties: (i) Howard R. Baer, an individual with a residence at 6451 East El Maro Circle, Paradise Valley, Arizona 85253, as holder ("Holder") under that certain Demand Promissory Note dated as of February 15, 2005 (the "Demand Promissory Note"), made by Health Enhancement Products, Inc., a Nevada corporation with a principal place of business at 7740 E. Evans Rd., Scottsdale, Arizona 85260 ("Maker") in favor of Holder; (ii) Maker; and (iii) Health Enhancement Corporation, a Nevada Corporation with a chief executive office and principal place of business at 7740 E. Evans Rd., Scottsdale, Arizona 85260 ("Additional Maker"), and is delivered in connection with each of the following:

1) Demand Promissory Note;

2) Security Agreement dated as of February 15, 2005 between made by Maker in favor of Holder (the "Security Agreement");

3) Patent Security Agreement dated as of February 15, 2005 made by Maker in favor of Holder; and

4) Any and all other Loan Documents.

All capitalized terms used but not defined herein shall have the meanings given such terms in the Security Agreement.

WHEREAS, the Maker executed and delivered all of the Loan Documents to the Holder and, in connection therewith, the Holder has extended and may in the future extend loans and other credit accommodations to the Maker (collectively, the "Loans");

WHEREAS, the Maker owns 100% of the issued and outstanding stock in the Additional Maker in consideration of which, together with the benefits accruing to the Additional Maker from the Maker, the Additional Maker has agreed, among other things, to assume liability under the Loan Documents for the repayment of the Loans, together with all interest, charges, and fees thereon, together with all other Secured Obligations of the Maker under the Loan Documents, jointly and severally and as co-maker with the Maker, and the Additional Maker has agreed to itself become a Maker under the Loan Documents;

WHEREAS, the Maker desires that that the Additional Maker assume the Secured Obligations under each of the Loan Documents as if it was party thereto, jointly and severally with the Maker;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Maker, the Additional Maker, and the Holder hereby agree as follows:

A. Joinder Provisions

1. The Additional Maker hereby assumes each of the Loan Documents as a "Maker", "Borrower" and "Company" thereunder, as applicable, and each and every Secured Obligation thereunder as a "Maker", "Company" and "Borrower" thereunder, jointly and severally with the Maker. The Maker hereby ratifies that it remains bound by the Loan Documents, jointly and severally with the Additional Maker.

2. The Additional Maker agrees to execute an endorsement to the Demand Promissory Note in the form attached hereto as Exhibit A.

3. The Additional Maker grants to Holder a continuing security interest in and to all of Additional Maker's right, interest and title in any and all of its assets or properties that constitute Collateral, whether now owned or hereafter acquired, and all products, proceeds, substitutions and accessions of or to any of the foregoing, pursuant to and as more completely defined in Section 2 of the Security Agreement. The Additional Maker hereby authorizes the filing of UCC-1 financing statements (at Additional Maker's expense) naming the Additional Maker as debtor and the Holder as secured party and all such other agreements, instruments, and documents as Holder may require so as to evidence the Additional Maker becoming a Maker, Company and Borrower.

4. Each of the representations and warranties of the Maker under the Loan Documents shall be deemed made by the Additional Maker. Each of the Additional Maker and the Maker confirm that the representations and warranties of the Maker set forth in the Loan Documents remain true and correct in all material respects as of the date of this Agreement after giving effect to the joinder of the Additional Maker as a "Maker", "Borrower" and "Company".

5. The execution, delivery and performance of this Agreement are within the power of the Maker and the Additional Maker; have been duly authorized by all necessary or proper action; are not in contravention of, do not result in a breach of, or constitute (with due notice or lapse or both) a default under, any material contractual obligation to which the Additional Maker or the Maker is/are a party or by which any property of the Additional Maker or the Maker is/are bound; do not and will not result in or require the creation or imposition of any material lien (other than the Holder's lien) upon any of the assets or properties of the Additional Maker or the Maker; are not in contravention of any provision of any law; and do not require the consent or approval of any governmental body, agency, authority or any other person that has not been obtained and a copy thereof furnished to Holder.

B. Appointment of Lead Maker

Each of the Additional Maker and the Maker hereby designates the Maker as that party's agent to obtain Loans and receive notices under the Loan Documents (in such agency capacity Maker is referred to herein as the "Lead Maker"). As the disclosed principal for its agent, each Maker (including, without limitation, the Additional Maker) shall be obligated to the Holder on account of the Loans and Secured Obligations as if made directly by the Holder to that Maker, notwithstanding the manner by which such Loans are recorded on the books and records of the Lead Maker and of any other Maker.

The proceeds of the Loans shall be deposited in the Lead Maker's account or as otherwise indicated by the Lead Maker. The Holder shall have no obligation as to the application of such proceeds.

C. Amendment to Security Agreement

Section 3(c) of the Security Agreement is hereby deleted and replaced with the following effective as of the date of this Agreement:

"(c) as of March 4, 2005 both the Company's principal place of business and chief executive office are located at 7740 E. Evans Rd., Scottsdale, Arizona 85260 (the "Main Location") and the Main Location is and shall be the only location where Collateral is located or maintained, unless Company shall have provided to Secured Party thirty (30) days prior written notice of any alternative location where Collateral shall at any time be located or maintained and shall have delivered to Secured Party a Landlord Waiver Agreement (defined below) with respect to any such alternative location. In addition, Company hereby acknowledges and agrees that Company shall deliver to Secured Party a Landlord Waiver Agreement with respect to the Main Location within thirty (30) days of Secured Party's written request for the same, which written request may be made by Secured Party at any time in Secured Party's sole discretion. Any failure to comply with the provisions of this Section 3(c) shall constitute an Event of Default hereunder and under the other Loan Documents. For purposes of this Section 3(c), the term "Landlord Waiver Agreement" shall mean a written agreement, in form and substance reasonably satisfactory to Secured Party, from any applicable landlord pursuant to which such landlord shall subordinate its liens and claims against the Company and authorize Secured Party to enter and remain on the applicable premises for a period of sixty (60) days following Secured Party's entry thereon in order to collect, remove, sell or otherwise dispose of the Collateral (at Company's expense) in connection with the exercise of Secured Party's rights and/or remedies hereunder or under any of the other Loan Documents."

D. Miscellaneous

1. This Agreement shall be binding and deemed effective when executed by the Additional Maker and Maker and accepted and executed by the Secured Party.

2. This Agreement shall bind and inure to the benefit of the respective successors, heirs and assigns of each of the parties; provided, however, that neither the Additional Maker nor the Maker may assign this Agreement or any of their rights or duties hereunder without the Holder's prior written consent and any prohibited assignment shall be absolutely void. The Secured Party may assign this Agreement and its rights and duties hereunder and no consent or approval by the Additional Maker or the Maker is required in connection with any such assignment.

3. Except as expressly provided to the contrary in this Agreement, all the terms, conditions, and provisions of the Loan Documents shall continue in full force and effect. If in this Agreement's description of an agreement between the parties, rights and remedies of Holder or obligations of any "Maker", "Company" or "Borrower" are described which also exist under the terms of the other Loan Documents, the fact that this Agreement may omit or contain a briefer description of any rights, remedies and obligations shall not be deemed to limit any of such rights, remedies and obligations contained in the other Loan Documents. This Agreement, together with the other Loan Documents and any other document executed in connection therewith, contains the entire agreement among the parties with respect to the transactions contemplated hereby, and supersedes all negotiations, presentations, warranties, commitments, offers, contracts and writings prior to the date hereof relating to the subject matters hereof. This Agreement shall constitute one of the Loan Documents.

4. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

5. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Arizona, without regard to the conflict of laws provisions thereof. For purposes of any action or proceeding involving this Agreement or any other agreement or document referred to herein, each of the Additional Maker and Maker hereby expressly submits to the jurisdiction of all federal and state courts located in the State of Arizona and consents that any order, process, notice of motion or other application to or by any of said courts or a judge thereof may be served within or without such court's jurisdiction by registered mail or by personal service, provided a reasonable time for appearance is allowed, and hereby waives any right to contest the appropriateness of any action brought within such jurisdiction based upon lack of personal jurisdiction, improper venue or forum non conveniens. EACH OF THE ADDITIONAL MAKER AND MAKER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES (TO THE EXTENT PERMITTED BY APPLICABLE LAW) ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY OF ANY DISPUTE ARISING UNDER OR RELATING TO THIS AGREEMENT OR ANY OTHER DOCUMENT OR AGREEMENT REFERRED TO HEREIN, AND AGREES THAT ANY SUCH DISPUTE SHALL BE TRIED BEFORE A JUDGE SITTING WITHOUT A JURY.

6. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement.

IN WITNESS WHEREOF, the parties hereto caused this Agreement to be duly executed as an instrument under seal under the laws of the State of Arizona as of the date set forth above.

WITNESS:

HEALTH ENHANCEMENT PRODUCTS, INC.,
as agent and Lead Maker for itself and
the other Makers

/s/ Collette J. Hill

By: /s/ Jeffery R. Richards
Jeffery R. Richards, Chief Financial Officer

WITNESS:

HEALTH ENHANCEMENT CORPORATION, as Additional Maker

/s/ Collette J. Hill

By: /s/ Jeffery R. Richards
Jeffery R. Richards, Vice President, Finance

WITNESS:

HOWARD R. BAER, as Holder

/s/ Collette J. Hill

/s/ Howard R. Baer
Howard R. Baer

[EXHIBIT A ATTACHED IS ON THE FOLLOWING PAGE]

ENDORSEMENT TO DEMAND PROMISSORY NOTE

For value received, the undersigned hereby endorses and joins as a Maker, jointly and severally with each other Maker, in the attached Demand Promissory Note dated as of February 15, 2005.

Dated: March 25, 2005

WITNESS:

HEALTH ENHANCEMENT CORPORATION

/s/ Collette J. Hill

By: /s/ Jeffery R. Richards
Jeffery R. Richards, Vice President, Finance

[Attach Signed Demand Promissory Note].

DEMAND PROMISSORY NOTE

Phoenix, Arizona
February 15, 2005

FOR VALUE RECEIVED, the undersigned, Health Enhancement Products, Inc., a Nevada corporation with a chief executive office at 2530 South Rural Road, Tempe, AZ and a principal place of business at 2006 E. 5th, Suite 101 Tempe, AZ 85281 ("Maker"), hereby promises to pay to the order of Howard R. Baer, an individual with a mailing address of 6451 East El Maro Circle, Paradise Valley, Arizona 85253 (" Holder"), the sum of all amounts advanced from time to time by the Holder to the Maker, as determined by Holder's financial books and records and as specified on Schedule A hereto, as amended from time to time, including the amount Maker is indebted to Holder as of the date hereof, provided that if there shall be any discrepancy between Schedule A and the Holder's financial books and records, with respect to amounts advanced by Holder to Maker, the Holder's financial books and records shall be controlling, absent manifest error. Maker hereby authorizes Holder to endorse Schedule A hereto to reflect any further advances made by Holder to Maker. Any failure by Holder to make an endorsement on Schedule A or any error in connection with the making of any endorsement to Schedule A shall in no way affect the Maker's obligation to repay the principal amount, together with interest thereon, of all advances made by the Holder to the Maker. As of the date hereof, Maker is indebted to Holder in the aggregate amount of EIGHT HUNDRED FORTY SEVEN THOUSAND THREE HUNDRED FIFTY EIGHT AND 56/100 ($847,358.56). Notwithstanding anything to the contrary contained herein, the amount of principal due under this Note shall be equal to the amount of advances actually made by the Holder to the Maker, as determined by Holder's financial books and records, including the amount owing as of the date hereof EIGHT HUNDRED FORTY SEVEN THOUSAND THREE HUNDRED FIFTY EIGHT AND 56/100 ($847,358.56). The Maker acknowledges and agrees that the Holder shall have no obligation to make further advances to the Maker, and that any further advances shall be at Holder's sole discretion. All outstanding principal sums shall be paid by Maker, together with interest on the unpaid principal amount from time to time outstanding, as set forth below.

The entire balance of outstanding principal and other fees and charges shall be due and payable on the earlier of an Event of Default (as defined below) or thirty (30) days after written demand by the Holder on the Maker (the "Maturity Date"). Commencing on the Maturity Date, the aggregate principal amount due hereunder, together with interest thereon, shall be paid in twelve (12) equal monthly installments. By way of illustration, if the Holder is owed an aggregate of $600,000 under this Note and on April 1 makes written demand on the Maker for payment, then such $600,000 in principal, together with interest thereon, shall be payable in 12 equal monthly installments of $50,000 (plus interest) commencing on the Maturity Date; i.e., May 1.

The unpaid principal balance from time to time outstanding under this note shall accrue and bear interest at a rate per annum equal to ten percent (10.0%), until fully paid.

Interest and fees shall be calculated on the basis of a 365/366-day year for the actual number of days elapsed. In no event shall interest payable hereunder exceed the highest rate permitted by applicable law. To the extent any interest received by Holder exceeds the maximum amount permitted, such payment shall be credited to principal, and any excess remaining after full payment of principal shall be refunded to Maker. The principal balance of this note may be prepaid in whole or in part, without premium or penalty, at any time.

Each of the following shall constitute an "Event of Default" hereunder: (i) Maker's default hereunder or failure to make any payment when due hereunder or to timely pay or perform any other obligation to Holder, whether now existing or hereafter arising; (ii) if any covenant, representation, warranty, statement or certificate made to Holder by Maker hereunder, under that certain Security Agreement dated the date hereof made by Maker in favor of Holder (the "Security Agreement"), under that certain Patent Security Agreement dated the date hereof made by Maker in favor of Holder (the "Patent Security Agreement"), or under any Loan Document (as defined in the Security Agreement) is breached or proves to have been or becomes untrue, except to the extent any of the foregoing items relate solely to an earlier date; (iii) the death or dissolution of Maker; (iv) with respect to Maker, the commencement of an action seeking reorganization, liquidation, dissolution or other relief under federal or state bankruptcy or insolvency statutes or similar laws, or seeking the appointment of a receiver, trustee or custodian for Maker or all or part of its assets, or the commencement of an involuntary proceeding against Maker under federal or state bankruptcy or insolvency statues or similar laws, which involuntary proceeding is not dismissed or stayed within thirty (30) days; or (v) if Maker makes an assignment for the benefit of creditors, or is unable to pay its debts as they mature. With respect to the Events of Default enumerated above as (i) through (v), inclusive, the obligations under this note shall become immediately due and payable without notice or demand.

As security for the payment and performance of Maker's obligations hereunder, now existing or hereafter arising, Maker has granted to Holder a lien and security interest in and to the Collateral (as defined under the Security Agreement) and the Patents (as defined in the Patent Security Agreement) pursuant to and in accordance with the Security Agreement and Patent Security Agreement, respectively. Upon the occurrence of an Event of Default, in addition to and not in limitation of any rights any remedies of Holder, hereunder or otherwise, all of such rights and remedies being cumulative, Holder may set off the Collateral and/or Patents and the proceeds thereof against any or all of the obligations of Maker to Holder, without notice or demand, and regardless of whether or not such obligations are secured by any other property or collateral, and regardless of the adequacy of any such other property or collateral.

Maker agrees to pay all costs and expenses, including, without limitation, reasonable attorneys' fees and expenses incurred, or which may be incurred, by Holder in connection with the enforcement and collection of this note and any other agreements, instruments and documents executed in connection herewith. Such costs and expenses shall be payable upon demand for the same and until so paid shall be added to the principal amount of the note and shall bear interest (calculated on the basis of a 365/366-day year for the actual days elapsed) from the date incurred until paid at the highest rate applicable under this note.

Maker hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this note, and assent to extensions of the time of payment or forbearance or other indulgence without notice. No delay or omission of Holder in exercising any right or remedy hereunder shall constitute a waiver of any such right or remedy. Acceptance by Holder of any payment after demand shall not be deemed a waiver of such demand. A waiver on one occasion shall not operate as a bar to or waiver of any such right or remedy on any future occasion.

This instrument, together with the Security Agreement and other Loan Documents (as defined in the Security Agreement) contains the entire agreement among Maker and Holder with respect to the transactions contemplated hereby, and supersedes all negotiations, presentations, warranties, commitments, offers, contracts and writings prior to the date hereof relating to the subject matter hereof. This instrument may be amended, modified, waived, discharged or terminated only by a writing signed by Maker and accepted in writing by Holder.

This instrument shall be governed by Arizona law, without regard to the conflict of laws provisions thereof. For purposes of any action or proceeding involving this note, Maker hereby expressly submits to the jurisdiction of all federal and state courts located in the State of Arizona and consents to any order, process, notice of motion or other application to or by any of said courts or a judge thereof being served within or without such court's jurisdiction by registered mail or by personal service, provided a reasonable time for appearance is allowed (but not less than the time otherwise afforded by any law or rule), and waives any right to contest the appropriateness of any action brought in any such court based upon lack of personal jurisdiction, improper venue or forum non conveniens.

This Note shall inure to the benefit of Holder's heirs, personal representatives, executors, successors and assigns.

Executed as an instrument under seal as of the date first above written.

MAKER:

WITNESS: HEALTH ENHANCEMENT PRODUCTS, INC.

/s/ Collette J. Hill
Witness

/s/ Jeffery R. Richards
By: Jeffery R. Richards, Chief Financial Officer

SCHEDULE A

Principal owing as of May 7, 2005 $955,243.61

ADVANCES FROM AND AFTER FEBRUARY 15, 2005

Date of Advance	Amount of Advance	Advance Acknowledged by Maker's CFO
February 18, 2005	$20,000.00	/s/ Jeffery R. Richards **Jeffery R. Richards** **Chief Financial Officer**
February 28, 2005	$44,000.00	/s/ Jeffery R. Richards **Jeffery R. Richards** **Chief Financial Officer**
March 9, 2005	$1,000.00	/s/ Jeffery R. Richards **Jeffery R. Richards** **Chief Financial Officer**
March 15, 2005	$385.05	/s/ Jeffery R. Richards **Jeffery R. Richards** **Chief Financial Officer**
March 15, 2005	$10,500.00	/s/ Jeffery R. Richards **Jeffery R. Richards** **Chief Financial Officer**
March 31, 2005	$8,500.00	/s/ Kevin C. Baer **Kevin C. Baer,** **Executive Vice President**
April 15, 2005	$16,000.00	/s/ Kevin C. Baer **Kevin C. Baer,** **Executive Vice President**
April 28, 2005	$7,500.00	/s/ Kevin C. Baer **Kevin C. Baer,** **Executive Vice President**

Exhibit 10.08

June 21, 2004

Health Enhancement Products, Inc.
2006 East 5th. St., Suite 101
Tempe, AZ 85281

Attn: Howard R. Baer, Chief Executive Officer

Ladies and Gentlemen:

The undersigned hereby subscribes to the immediate acquisition of 750,000 shares of common stock, $.001 par value ("Common Stock"), of Heath Enhancement Products, Inc., a Nevada corporation (the "Company"), and a warrant ("Warrant") to purchase 250,000 shares of Common Stock, at a per share price of $3.00. The aggregate purchase price of the Common Stock and the Warrant purchased hereunder is $500,000. Such shares of Common Stock and Warrant are collectively referred to herein as the "Securities."

In connection with the purchase of the Securities, the undersigned acknowledges, warrants and represents to and agrees with the Company as follows:

1. The undersigned is acquiring the Securities for investment for his/her/its own account and without the intention of participating, directly or indirectly, in a distribution of the Securities, and not with a view to resale or any distribution of the Securities, or any portion thereof.

2. The undersigned has knowledge and experience in financial and business matters and has consulted with his/her/its own professional representatives as he/she/it has considered appropriate to assist in evaluating the merits and risks of this investment. The undersigned has reviewed the Company's filings with the Securities and Exchange Commission. The undersigned has had access to and an opportunity to question the officers of the Company, or persons acting on their behalf, with respect to publicly available material information about the Company, and with respect to the ongoing inquiry into the Company by the Securities and Exchange Commission, and, in connection with the evaluation of this investment, has, to the best of his/her/its knowledge, received all information and data with respect to the Company that the undersigned has requested and which is necessary to enable the undersigned to make an informed decision regarding the purchase of the Securities. The undersigned is acquiring the Securities based solely upon his/her/its independent examination and judgment as to the prospects of the Company.

3. The Securities were not offered to the undersigned by means of publicly disseminated advertisements or sales literature.

4. The undersigned acknowledges that an investment in the Securities is speculative and involves a high degree of risk and the undersigned may have to continue to bear the economic risk of the investment in the Securities for an indefinite period. An investment in the Company involves a high degree of risk because, among other reasons, the Company (i) is in the development stage and has virtually no revenue; (ii) is experiencing significant negative cash flow and operating losses; and (iii) has a substantial working capital deficiency. The undersigned acknowledges that, as a result of the foregoing, among other reasons, there is a significant risk that the undersigned could sustain a total loss of its investment in the Company.

5. The undersigned acknowledges that the Securities are being sold to the undersigned without registration under any state or federal law requiring the registration of securities for sale, and accordingly will constitute "restricted securities" as defined in Rule 144 of the U.S. Securities and Exchange Commission. Consequently, the transferability of the Securities is restricted by applicable United States Federal and state securities laws. The undersigned understands that the Company's common stock is currently quoted on the OTC Bulletin Board (in the "over-the-counter" market), and is highly illiquid.

6. In consideration of the acceptance of this subscription, the undersigned agrees that the Securities will not be offered for sale, sold or transferred by the undersigned other than pursuant to (i) an effective registration under the Securities Act of 1933, as amended ("the Act"), an exemption available under the Act or a transaction that is otherwise in compliance with the Act; and (ii) an effective registration under the securities law of any state or other jurisdiction applicable to the transaction, an exemption available under such laws, or a transaction that is otherwise in compliance with such laws.

7. The undersigned understands that no U.S. federal or state agency has passed upon the offering of the securities or has made any of finding or determination as to the fairness of any investment in the Securities.

8. The undersigned agrees not to disclose or use any information provided to the undersigned by the Company or any of its agents in connection with the offering of the Securities, except for the purpose of evaluating investment in the Securities.

9. The residence address of the undersigned is as set forth below.

10. The undersigned represents and warrants to the Company that the undersigned is an "Accredited Investor", as such term is defined on Appendix A hereto.

11. The Company shall cause all shares of Common Stock issueable in connection herewith (including the shares of Common Stock issueable upon exercise of the Warrant), to be registered pursuant to the Securities Act of 1933, as amended ("Securities Act"), for resale by the undersigned. The Company shall cause such registration statement to be declared effective under the Securities Act within one hundred twenty (120) days of the date of issuance of the Securities. For each thirty (30) day period, after the expiration of such 120 day period, that such registration statement is not effective under the Securities Act, the Company shall issue to the undersigned that number of shares of Common Stock equal to five (5%) percent of the number of shares of Common Stock acquired hereunder (not including, however, the number of shares issueable upon exercise of the Warrant). Any resulting fractional share shall be rounded up. For example, based on the undersigned acquiring 750,000 shares of Common Stock, the undersigned would be entitled to 37,500 shares of Common Stock, for each thirty (30) day period after expiration of the relevant one hundred twenty (120) day period, that the registration statement was not effective under the Securities Act (five (5%) percent of the 750,000 shares of Common Stock issued in connection with the purchase hereunder (not including the shares of Common Stock issueable pursuant to the Warrant). Notwithstanding the foregoing, in no event shall the Company be obligated to issue additional share for more than eight (8) months after expiration of the relevant one hundred twenty (120) day period. Except as provided herein, the Company shall pay all of the costs and expenses associated with the registration required hereunder ("Registration Expenses"); provided that in no case shall the Company pay any expenses incurred by the undersigned in connection with this such registration, including, without limitation, selling commissions and any legal fees incurred by the undersigned. In no case shall the Company be responsible for any "blue sky" filings required in connection with resales of Common Stock by the undersigned.

In any event, if the shares of Common Stock issuable in connection herewith are not registered pursuant to the registration statement contemplated by this Paragraph 11, the Company shall include in any other registration statement filed after the date hereof (other than Form S-8 or S-4 or any successors thereto) all shares of Common Stock issuable in connection herewith (including any shares of Common Stock issuable upon exercise of the Warrant).

12. The undersigned agrees to indemnify and hold harmless the Company and its officers, directors, and employees and agents from and against any and all costs, liabilities and expenses (including attorney's fees) arising out of or related in any way to any breach of any representation or warranty by William J. Rogers II.

13. The Company has the right, in its sole discretion, to accept or reject this subscription.

ACCEPTANCE OF SUBSCRIPTION

Health Enhancement Products, Inc.

By: /s/ Howard R. Baer
_____
Howard R. Baer, Chief Executive Officer

Dated: 8/9, 2004

SUBSCRIBER

/s/ William J. Rogers II
_____
Name: WILLIAM J. ROGERS II

Address:

21 OCEAN RIDGE BLVD. S.
PALM COAST, FL 32137

Exhibit 21

Subsidiaries of the Registrant

Health Enhancement Corporation, a Nevada Corporation

Exhibit 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference into the Registration Statement on Form S-8 of Health Enhancement Products, Inc., filed with the Securities and Exchange Commission on February 12, 2004, of our report dated March 22, 2004, relating to the financial statements of Health Enhancement Products, Inc. as of December 31, 2003.

PRITCHETT, SILER & HARDY, P.C.

Salt Lake City, Utah
May 13, 2005

Exhibit 31.1

Certification Pursuant to pursuant to Rule 13a-14(a) or Rule 15d-14(a)
of the Securities Exchange Act of 1934, as amended

I, Howard R. Baer, Chief Executive Officer of Health Enhancement Products, Inc. ("The Company"), certify that:

1. I have reviewed this annual report on Form 10-KSB of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

Exhibit 31.1 (continued)

Certification Pursuant to pursuant to Rule 13a-14(a) or Rule 15d-14(a)
of the Securities Exchange Act of 1934, as amended

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: May 13, 2005

/s/ Howard R. Baer
Howard R. Baer
Chief Executive Officer

Exhibit 31.2

Certification Pursuant to pursuant to Rule 13a-14(a) or Rule 15d-14(a)
of the Securities Exchange Act of 1934, as amended

I, Jeffery R. Richards, Chief Financial Officer of Health Enhancement Products, Inc. ("The Company"), certify that:

1. I have reviewed this annual report on Form 10-KSB of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

Exhibit 31.2 (continued)

Certification Pursuant to pursuant to Rule 13a-14(a) or Rule 15d-14(a)
of the Securities Exchange Act of 1934, as amended

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: May 13, 2005

/s/ Jeffery R. Richards
Jeffery R. Richards
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(Subsections (a) and (b) of Section 1350,
Chapter 63 of Title 18, United States Code)

In connection with the Annual Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-KSB for the period ending December 31, 2004 as filed with the Securities and Exchange Commission (the "Report"), I, Howard R. Baer, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 13, 2005

/s/ Howard R. Baer
Howard R. Baer
Chief Executive Officer

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 HAS BEEN PROVIDED TO HEALTH ENHANCEMENT PRODUCTS, INC. AND WILL BE RETAINED BY HEALTH ENHANCEMENT PRODUCTS, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(Subsections (a) and (b) of Section 1350,
Chapter 63 of Title 18, United States Code)

In connection with the Annual Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-KSB for the period ending December 31, 2004 as filed with the Securities and Exchange Commission (the "Report"), I, Jeffery R. Richards, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 13, 2005

/s/ Jeffery R. Richards
Jeffery R. Richards
Chief Financial Officer

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 HAS BEEN PROVIDED TO HEALTH ENHANCEMENT PRODUCTS, INC. AND WILL BE RETAINED BY HEALTH ENHANCEMENT PRODUCTS, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

Exhibit 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference into the Registration Statement on Form S-8 of Health Enhancement Products, Inc., filed with the Securities and Exchange Commission on February 12, 2004, of our report dated May 10, 2005, relating to the consolidated financial statements of Health Enhancement Products, Inc. and Subsidiary as of December 31, 2004.

WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, NY
May 13, 2005