

U.S. Securities and Exchange Commission
Washington, D.C. 20549
Form 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission file number: **000-30415**

Health Enhancement Products, Inc.

(Exact name of small business issuer as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

87-0699977

(IRS Employer Identification No.)

7740 East Evans Road, Scottsdale, Arizona 85260

(Address of principal executive offices)

480-385-3800

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING
THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 12,372,503 shares of common stock, \$0.001 par value, outstanding at May 1, 2005.

Transitional Small Business Disclosure Format (Check one):

Yes No

FORM 10-QSB
HEALTH ENHANCEMENT PRODUCTS, INC.
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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 - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[A Development Stage Company]
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 31, 2005

ASSETS

CURRENT ASSETS:

Cash	\$ 215
Inventories	947
Prepaid Expenses	4,856

Total Current Assets 6,018

OTHER ASSETS:

Definite-life Intangible Assets, net	13,788
Deposits	8,865

Total Other Assets 22,653

\$ 28,671

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts Payable	\$ 307,608
Note Payable - Shareholder	931,744
Loans Payable - Other	20,000
Accrued Payroll and Payroll Taxes	154,283
Accrued Liabilities	43,060

Total Current Liabilities 1,456,695

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' DEFICIT:

Common stock, \$.001 par value, 100,000,000 shares authorized, 12,372,503 issued and outstanding	12,372
Additional Paid-In Capital	3,342,941
Deficit accumulated during the development stage	(4,783,337)

Total Stockholders' Deficit (1,428,024)

\$ 28,671

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[A Development Stage Company]
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004	From Inception on October 9, 2003 Through March 31, 2005
NET SALES	\$ 8,299	\$ 9,522	\$ 57,645
COST OF SALES	15,232	10,896	92,244
GROSS (LOSS)	(6,933)	(1,374)	(34,599)
OPERATING EXPENSES:			
Selling	23,339	46,765	282,502
General and Administrative	256,998	1,470,934	3,394,745
Research and Development	26,232	94,042	274,305
Impairment Loss	-	-	730,000
Finance Costs	30,000	-	45,000
Inventory Write-downs	-	-	8,966
Total Operating Expenses	336,569	1,611,741	4,735,518
LOSS FROM OPERATIONS	(343,502)	(1,613,115)	(4,770,117)
OTHER (EXPENSE)			
Interest Expense	(915)	-	(2,220)
Interest Expense – Related Party	(11,000)	-	(11,000)
Total Other (Expense)	(11,915)	-	(13,220)
NET LOSS	<u>\$ (355,417)</u>	<u>\$ (1,613,115)</u>	<u>\$ (4,783,337)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.03)</u>	<u>\$ (0.15)</u>	
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	<u>12,294,278</u>	<u>10,426,583</u>	

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[A Development Stage Company]
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Quarter Ended March 31, 2005	For the Quarter Ended March 31, 2004	From Inception October 9, 2003 Through March 31, 2005
Cash Flows from Operating Activities:			
Net loss	\$ (355,417)	\$ (1,613,115)	\$ (4,783,337)
Adjustments to reconcile net loss to net cash used by operating activities:			
Non-cash – stock issued for services rendered	0	1,065,252	1,561,921
Non-cash – warrants granted for services rendered	0	260,000	260,000
Impairment loss	0	0	730,000
Amortization of intangibles	178	0	712
Amortization of deferred financing costs	30,000	0	45,000
Changes in assets and liabilities:			
(Increase) decrease in inventories	1,616	770	4,266
(Increase) in prepaid expenses	5,766	(4,311)	(4,856)
Increase in accounts payable	(99,244)	17,132	307,608
Increase in accrued payroll and payroll taxes	40,154	55,764	154,283
Increase in accrued liabilities	(6,341)	0	43,061
Increase (decrease) in customer deposits	0	2,330	0
Net Cash (Used) by Operating Activities	(383,288)	(216,178)	(1,681,342)
Cash Flows from Investing Activities:			
Payments for definite-life intangible assets	0	(13,802)	(14,500)
Payments for deposits	0	0	(8,865)
Net Cash (Used) by Investing Activities	0	(13,802)	(23,365)
Cash Flow from Financing Activities:			
Proceeds from shareholder advances	516,385	231,697	1,218,085
Payment of shareholder advances	0	0	(286,341)
Proceeds from other borrowings	0	0	170,000
Payments of other borrowings	(150,000)	0	(150,000)
Proceeds from sale of common stock and warrants	0	0	1,049,295
Payment of fees in connection with sale of common Stock and warrants	0	0	(296,117)
Net Cash Provided by Financing Activities	366,385	231,697	1,704,922
Increase (Decrease) in Cash	(16,903)	1,717	215
Cash at Beginning of Period	17,118	895	0
Cash at End of Period	\$ 215	\$ 2,612	\$ 215
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for:			
Interest	\$ 0	\$ 0	\$ 0
Income Taxes	\$ 0	\$ 0	\$ 0

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[A Development Stage Company]
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[CONTINUED]

Supplemental Schedule of Non-cash Investing and Financing Activities:

For the period October 9, 2003 (inception) through December 31, 2003:

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. (“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 shareholders of Subsidiary for 100% of the outstanding shares of Subsidiary’s common stock, as a result of which 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 inception

The Company issued 9,000,000 shares as part of its Plan of Reorganization, and issued an additional 153,334 shares of common stock for services valued at \$499,669.

The majority shareholder/CEO of the Company contributed inventory with a carryover basis of \$5,213.

For the year ended December 31, 2004:

The Company issued 200,000 shares of its previously-authorized but unissued shares of common stock for the acquisition of Indefinite-Life Intangible Assets. The shares were valued at \$730,000, or \$3.65 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 consideration of a loan in the principal amount 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 \$74,182 as private placement penalty shares. The value of these shares was charged to Additional Paid-in Capital as a cost of raising capital

For the quarter ended March 31, 2005:

The Company issued 141,750 shares of common stock valued at \$125,686 as private placement penalty shares. The Company was required to issue these shares because a registration statement covering the shares has not been declared effective under the Securities Act of 1933, as amended, as required by the subscription documents. The value of those shares was charged to additional paid-in capital as a cost of raising capital.

The Company issued a promissory note to the Company’s majority stockholder/CEO in the amount of \$847,359, thereby recharacterizing the amounts payable from advances payable to note payable.

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[A Development Stage Company]
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Health Enhancement Products, Inc. and its wholly-owned subsidiary (collectively, “the Company”). All significant inter-company accounts and transactions have been eliminated in consolidation. In the opinion of the Company’s management, the financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. These consolidated financial statements are condensed, and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The condensed consolidated financial statements should be read in conjunction with the Company’s December 31, 2004 consolidated audited financial statements and supplementary data included in the Annual Report on Form 10-KSB as at that date.

The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2005, or any other period.

The Company incurred net losses of \$355,417 for the quarter ended March 31, 2005. In addition, the Company had a working capital deficiency of \$1,450,677 and a stockholders’ deficit of \$1,428,024 at March 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 such 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 condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

During the quarter ended March 31, 2005, the Company relied heavily for financing on its majority shareholder/CEO, Mr. Howard R. Baer, receiving an aggregate total of \$516,385 in advances from him. In addition, Mr. Baer has contributed an additional \$23,500 in advances after March 31, 2005 to the date of this report.

NOTE 2 - INVENTORIES

Inventories at March 31, 2005 consist of the following:

Finished goods	\$ 186
Raw Materials	761
	<u>\$ 947</u>

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[A Development Stage Company]
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - DEFINITE-LIFE INTANGIBLE ASSETS

Definite-life intangible assets at March 31, 2005 consist of the following:

Patent applications in process	\$ 14,500
Less: Accumulated amortization	713
	<u>\$ 13,787</u>

The Company's definite-life intangible assets are 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 three months ended March 31, 2005 was \$179. The Company estimates that their amortization expense for each of the next five years will be approximately \$700 per year.

NOTE 4 - 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 \$325,000 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.

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[A Development Stage Company]
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - INDEFINITE-LIFE INTANGIBLE ASSETS *[Continued]*

The indefinite-life intangible assets at March 31, 2005 were as follows:

Trademarks and formulas for Zodiac Herbal Vitamins	\$ 365,000
Trademarks and formulas for Zodiac Herbal Teas	365,000
	730,000
Less: Impairment Losses	730,000
	<u>\$ 0</u>

NOTE 5 – STOCKHOLDERS’ DEFICIT

Common Stock

On 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 the date of issuance.

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 the date of issuance.

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[A Development Stage Company]
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – STOCKHOLDERS’ DEFICIT *[Continued]*

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 one share 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.

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. As of the date of this Report, the required registration statement has not become effective. As a result, during the fiscal year ending December 31, 2004, the Company 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).

During the period ended March 31, 2005, the Company issued to the investors in the Private Placement the following:

- 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 \$59,063 (or \$1.25 per share, based on quoted price of the Company’s common stock at the date of issuance).

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[A Development Stage Company]
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – STOCKHOLDERS’ DEFICIT [Continued]

In addition, the Company was obligated, as of April 18, 2005, to issue an additional aggregate of 47,250 shares of common stock.

In November 2004, the Company entered into two Promissory Notes for an aggregate total of \$150,000, under which it issued 75,000 shares of its previously-authorized but unissued common stock. The Notes were secured by a lien and security interest on certain property of the Company’s majority shareholder/CEO, Mr. Howard R. Baer, 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 2003, the Company’s majority shareholder/CEO contributed inventory with a carryover basis of \$5,213 to the Company.

Stock Split - On November 11, 2003, Parent effected a 2-for-1 forward stock split. The financial statements for all periods presented have been restated to reflect this stock split.

Warrants - On February 20, 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 \$260,000. The warrants vested immediately and are exercisable for three years. At March 31, 2005, 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 March 31, 2005, 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 Three Months Ended March 31, 2005	
	Shares	Weighted Average Exercise Price
Outstanding – January 1, 2004	-	\$ -
Granted (Services)	50,000	3.75
Granted (Private Placement)	445,000	3.00
Outstanding at March 31, 2005	495,000	\$ 3.04

The fair value of each warrant granted for services is estimated on the date granted using the Black-Scholes option pricing model, with the following assumptions for grants on February 20, 2004: risk-free interest rate of 2.25%, expected dividend yield of zero, expected lives of three years and expected volatility of 633%.

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY
[A Development Stage Company]
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - RELATED PARTY TRANSACTIONS

Accounts Payable - At March 31, 2005, the Company owed \$10,115 to the majority shareholder/CEO of the Company or to entities owned by majority shareholder/CEO.

Accrued Liabilities – Included in Accrued Liabilities at March 31, 2005 is \$11,000 in accrued interest related to a note payable to the Company's CEO.

Shareholder Advances and Notes Payable - During the period from inception to December 31, 2004, the Company's majority shareholder/CEO advanced \$701,700 to the Company. During the same period, he was repaid a total of \$275,000 and there were positive and negative adjustments to his advance account to an aggregate total of negative \$11,341, leaving an outstanding net balance of \$415,359 due to the majority shareholder/CEO at December 31, 2004. During the period ended March 31, 2005, the majority shareholder/CEO advanced an additional \$516,385, resulting in a total amount outstanding to the majority shareholder/CEO of \$931,744 at March 31, 2005. Since March 31, 2005, the majority shareholder/CEO has advanced an additional \$23,500 to the Company, resulting in an aggregate amount of \$955,244 due to him as at May 7, 2005.

On February 15, 2005, Mr. Baer advanced the Company \$364,000, for its benefit 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 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, the Company was 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, 2005, the Company was 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 its 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 the Company's obligations under the Note, the Company granted Mr. Baer a security interest in all its assets that are related to the Company's ProAlgaZyme 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. Baer; however, Mr. Baer is in no way obligated to make further advances to the Company.

On March 25, 2005, the Company, 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.

Management Compensation - During the three months ended March 31, 2005, the Company paid the following management compensation for services rendered:

- \$24,750 to the majority shareholder/CEO;
- \$19,792 to an officer of the Company who is a relative of the majority shareholder/CEO;
- \$15,252 to an officer of the Company.

Equipment – During the period ended March 31, 2005, the Company used and, in consideration of such use, made lease and rent payments for, equipment that was leased by an entity owned by the majority shareholder/CEO, Mr. Howard R. Baer. For the three months ended March 31, 2005, equipment lease and rent expense to the entity amounted to \$828. The lease and rent payments equal the debt service on the equipment.

Vehicle - The Company uses and, in consideration of such use, makes lease payments for, a delivery van that is leased by the majority shareholder/CEO, Mr. Howard Baer. For the three months ended March 31, 2005, vehicle rent expense paid on behalf of Mr. Baer amounted to \$1,155. The lease payments equal the debt service on the vehicle. Mr. Baer has stated that he intends to transfer the vehicle to the Company, for no consideration, once the note is paid in full.

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. For the three months ended March 31, 2005, advertising expense to the entity amounted to \$2,500.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Lease Commitments – Related Party – During part of the period ended March 31, 2005, the Company used and, in consideration of such use, made lease payments for, office space that was leased by the Company’s majority shareholder/CEO. During the period ended March 31, 2005, the Company paid an aggregate of \$4,646 for such lease payments.

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 approximately 5,000 square feet 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. Evans Road, LLC continues to lease the above-mentioned space to the Company as a master lessor. The annual minimum base rent for this property is approximately \$104,400, representing an annual increase in base rent expense of approximately \$76,500.

The Company paid \$17,731 in rental for this property during the 2004 fiscal year, 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. During the period ended March 31, 2005, the Company paid an aggregate of \$26,596 for lease payments for this new facility.

The future minimum lease payments related to the lease as of March 31, 2005, are as follows:

2005	\$108,000
2006	\$108,000
2007	\$108,000
2008	\$108,000
2009	\$108,000
Thereafter	\$225,000

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 8 - SUBSEQUENT EVENTS

Shareholder Loans - From April 1, 2005 through May 7, 2005, Howard R. Baer advanced an aggregate of \$23,500 to the Company, resulting in the Company being indebted to Mr. Baer in the aggregate amount of \$955,244 as of May 7, 2005. [See Note 6]

Resignation of Officer – Mr. Jeffery R. 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 Current Report reporting termination of a Principal Officer, pursuant to Item 5.02.

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

Item 2. Management's Discussion and Analysis or Plan of Operation

Results of Operations for the three months ended March 31, 2005 and March 31, 2004.

Net Sales. Net sales were \$8,299 and \$9,522 in the three months ended March 31, 2005 and 2004, respectively. These sales reflect exclusively revenues from the ProAlgaZyme product. The ProAlgaZyme product has also been marketed under the name "AlphaSystem Replenisher" ("ASR").

Throughout 2004 and the quarter ended March 31, 2005, 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. Subsequently, we 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. Total Cost of Sales was \$15,232 and \$10,896 for the three months ended March 31, 2005 and 2004, respectively.

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.

Gross Profit. Total Gross Profit was a negative \$6,933 and negative \$1,374 for the three months ended March 31, 2005 and 2004, respectively. The negative gross profit for the reported periods is due to limited sales, leading to cost of sales – much of which reflects relatively fixed production expenses for the ProAlgaZyme product - exceeding sales revenues. If we are able to realize a significant increase in sales, it is expected that Gross Profit will become positive. However, we cannot assure you that we will achieve an increased in sales.

Research and Development Expenses. For the three months ended March 31, 2005 and 2004, we spent \$26,232 and \$94,042 on research and development expenses, respectively. These expenses are comprised of costs associated with internal and external research. We spent \$230 and \$28,572 on internal clinical studies (and related research) during the quarter ended March 31, 2005 and 2004, respectively. In addition, we spent \$26,002 and \$65,290 on external clinical studies during the quarters ended March 31, 2005 and 2004, respectively. This decline in research and development spending is due primarily to a lack of available funds.

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. This study was terminated because Marshall-Blum was unable to recruit the specified number of participants (60). We have just received certain results from Marshall-Blum, which we are in the process of reviewing; 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 inflammation, response to HIV symptoms, and other appropriate areas of analysis in animals using ProAlgaZyme. These studies were terminated due to our lack of funding.

The Company recently commissioned an external study to determine whether ProAlgaZyme is effective in reducing the level of CRP. The 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 currently do not have, we plan to make additional expenditures for research and development during 2005. In addition to the CRP study, initially, any research and development will be directed toward characterization of the 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 \$23,339 and \$46,765 for the three months ended March 31, 2005 and 2004, respectively. The decrease in selling and marketing expenses is due primarily to a decrease in advertising from \$39,000 during the first quarter of 2004 to \$5,000 during the current quarter. This decrease in advertising expenditures was due to a lack of available funds.

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 expense was \$256,998 and \$1,470,934 for the three months ended March 31, 2005 and 2004, respectively. For the three months ended March 31, 2005 and 2004, we incurred salaries of \$107,686 and \$959,663, respectively. Salary expense for the period ended March 31, 2004 includes non-cash charges of \$885,000 for 175,000 shares of the Company's common stock issued to the majority shareholder/CEO of the Company. Other major expense items include legal costs (\$80,711 and \$8,440, respectively, for the three months ended March 31, 2005 and 2004), professional fees expense, employee health insurance, investor relations fees, expenses associated with statutory filing and reporting, rental expense of our manufacturing and production center, and associated equipment costs. We also incurred consultant's fees of \$6,000 and \$427,750 for the three months ended March 31, 2005 and 2004, respectively. Consultant's fees for the three months ended March 31, 2004 include non-cash charges of \$400,250 for warrants and shares of our common stock issued for services rendered. The overall decrease in general and administrative expense is due primarily to a decrease in non-cash salary expense and non-cash consultants' fees, partially offset by increased legal fees related in part to the ongoing SEC Investigation described in Part II, Item 1 of this Report.

Financing Costs. During the three months ended March 31, 2005, we recognized a finance cost of \$30,000, related to the issuance of two Promissory Notes on November 26, 2004 in the aggregate principal amount of \$150,000, which were repaid February 15, 2005. We issued a total of 75,000 shares of our common stock in connection with this financing, and valued the stock at \$45,000, based on a price of our stock of \$0.60 on the date of issue. The finance costs were amortized over three months (the period of the borrowing), with two of the monthly \$15,000 charges falling within this three-month period. In addition, we incurred \$11,000 in interest expense on the note payable to our majority shareholder/CEO.

Liquidity and Capital Resources

The condensed 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 \$8,300 for the three months ended March 31, 2005) and have incurred significant net losses since inception, including a net loss of \$355,417 during the three months ended March 31, 2005 and an aggregate net loss of \$4,783,337 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 the three months ended March 31, 2005, we incurred negative cash flows from operations of \$343,502. As of May 6, 2005, we had a cash balance of \$1,346. We had a working capital deficiency of \$1,450,677 and a stockholders' deficit of \$1,428,024 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.

During the three months ended March 31, 2005, our operating activities used approximately \$383,288 in cash, and we received a further \$516,385 in new funding from our majority shareholder/CEO, Mr. Howard R. Baer. Mr. Baer has provided an additional \$23,500 in advances since March 31, 2005, bringing the aggregate amount advanced since January 1, 2005 to \$539,885. We did not receive any funding from external sources during the three months ended March 31, 2005. From inception to March 31, 2005, we received approximately \$1,200,000 in advances from our majority shareholder/CEO, Mr. Howard R. 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.

Accordingly, 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 \$931,744 as of March 31, 2005 and of \$955,244 at May 7, 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 that we owe to third parties. Mr. Baer has granted a lien of \$275,000 in certain real estate he owns to secure his obligation 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 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 March 31, 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 below, 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

Our primary emphasis throughout 2004 was on 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 \$274,305 since our inception on research and development. Of this amount, \$112,615 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, \$161,690 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 two major external studies. The study being conducted by Marshall-Blum was terminated because Marshall-Blum was not able to recruit the specified number of participants (60). The studies being conducted by MLA Industries were terminated due to our lack of funding. The Company recently commissioned an external study to determine whether ProAlgaZyme is effective in reducing the level of CRP. The cost of this study is expected to be approximately \$29,000, of which \$10,000 has been paid.

Subject to the availability of funding, which we currently do not have, we intend to pursue additional external clinical studies during 2005. In addition to the CRP study, we intend to focus initially on testing designed 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.

As part of our preparation for the conduct of clinical studies by independent third-party research entities, we have, as noted above, 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, 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 external 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.

Sales and Marketing

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.

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.

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 those arising from our continuing operation.

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

Staffing: We have conducted all of our activities since inception with a minimum level of qualified staff. We currently do not expect a significant increase in staff.

Off-Balance Sheet arrangements: We have no off-Balance Sheet arrangements that would create contingent or other forms of liability.

Item 3. 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 quarterly 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 II – OTHER INFORMATION

Item 1. Legal Proceedings

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 2. Unregistered Sales of Equity Securities

There were no unregistered sales of the Company's equity securities during the three months ended March 31, 2005.

Item 5. Other Information

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 March 31, 2005, 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. During the first quarter of 2005, we paid \$26,596 in rent to Evans Road, LLC.

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. During the first quarter of 2005, we paid \$828 in lease payments for this equipment.

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. During the first quarter of 2005, we paid \$1,155 in lease payments for this vehicle.

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. During the first quarter of 2005, we paid \$2,500 to the entity for advertising.

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 6. Exhibits and Reports on Form 8-K.

Exhibit Number	Description	
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)
10.04	Promissory Note, dated February 15, 2005, made by the Company in favor of Howard R. Baer	(4)
10.05	Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	(4)
10.06	Patent Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	(4)
10.07	Joinder Agreement and First Amendment, dated March 25, 2005, between the Company, Health Enhancement Corporation and Howard R. Baer	(4)
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 the same Exhibit number to our Form 10-KSB, filed with the Commission on May 16, 2005, and incorporated by this reference.

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

Date May 13, 2005

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

Exhibit Number	Description	
2.1	Agreement and Plan of Reorganization	(1)
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	(2)
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- (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 the same Exhibit number to our Form 10-KSB, filed with the Commission on May 16, 2005, and incorporated by this reference.

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 quarterly report on Form 10-QSB 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) for the registrant 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 registrant, 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 registrant'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 registrant'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 registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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 registrant'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 registrant'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 quarterly report on Form 10-QSB 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) for the registrant 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 registrant, 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 registrant'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 registrant'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 registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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 registrant'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 registrant'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 Quarterly Report of Health Enhancement Products, Inc., a Nevada corporation (the “Company”), on Form 10-QSB for the period ending March 31, 2005 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 Quarterly Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-QSB for the period ending March 31, 2005 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.