

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 June 30, 2006

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 36,478,827 shares of common stock, \$0.001 par value, outstanding at August 8, 2006.

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  
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET  
JUNE 30, 2006**

**ASSETS**

**CURRENT ASSETS:**

|                      |    |         |
|----------------------|----|---------|
| Cash                 | \$ | 294,441 |
| Inventories          |    | 4,558   |
| Prepaid Expenses     |    | 28,447  |
| Total Current Assets |    | 327,446 |

**PROPERTY AND EQUIPMENT, NET**

27,996

**OTHER ASSETS:**

|                                      |  |         |
|--------------------------------------|--|---------|
| Definite-life intangible Assets, net |  | 12,518  |
| Deposits                             |  | 119,856 |
| Total Other Assets                   |  | 132,374 |

\$ 487,816

**LIABILITIES AND STOCKHOLDERS' DEFICIT**

**CURRENT LIABILITIES:**

|                             |    |           |
|-----------------------------|----|-----------|
| Accounts Payable            | \$ | 209,152   |
| Note payable, Related Party |    | 707,351   |
| Loans Payable, Other        |    | 20,000    |
| Accrued Salaries            |    | 78,237    |
| Accrued Payroll Taxes       |    | 15,424    |
| Accrued Liabilities         |    | 135,125   |
| Total Current Liabilities   |    | 1,165,289 |

**LONG TERM LIABILITIES:**

|                            |  |           |
|----------------------------|--|-----------|
| Accrued long term deposits |  | 42,623    |
|                            |  | 1,207,912 |

**COMMITMENTS AND CONTINGENCIES**

**STOCKHOLDERS' DEFICIT:**

|   |  |              |
|---|--|--------------|
| Common stock, \$.001 par value, 100,000,000 shares authorized |  |              |
| 34,394,827 issued and outstanding                             |  | 34,395       |
| Additional Paid-In Capital                                    |  | 11,901,313   |
| Accumulated deficit   |  | (12,540,660) |
| Deferred consulting fees                                      |  | (115,144)    |
| Total Stockholders' Deficit                                   |  | (720,096)    |

\$ 487,816

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

**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | For the Three<br>Months Ended<br>June 30, 2005 | For the Three<br>Months Ended<br>June 30, 2006 | For the Six<br>Months Ended<br>June 30, 2005 | For the Six<br>Months Ended<br>June 30, 2006 |
|---|--|--|--|--|
| NET SALES   | \$ 5,031                                       | \$ 93,337                                      | \$ 13,329                                    | \$ 178,740                                   |
| COST OF SALES   | 32,409   | 76,398   | 47,641                                       | 139,882                                      |
| GROSS PROFIT (LOSS)   | (27,378)                                       | 16,939   | (34,312)                                     | 38,858                                       |
| OPERATING EXPENSES:   |  |  |  |  |
| Selling   | 17,090   | 76,968   | 40,428                                       | 128,491                                      |
| General and Administrative                                  | 290,327  | 1,011,587                                      | 547,325                                      | 1,919,893                                    |
| Research and Development                                    | 5,917  | 118,058  | 32,150                                       | 130,561                                      |
| Vendor settlements  | (48,800)                                       |  | (48,800)                                     | -  |
| Total Operating Expense                                     | 264,534  | 1,206,613                                      | 571,103                                      | 2,178,945                                    |
| LOSS FROM OPERATIONS  | (291,912)                                      | (1,189,674)                                    | (605,415)                                    | (2,140,087)                                  |
| OTHER INCOME (EXPENSE)                                      |  |  |  |  |
| Other Income -- Rent  | -  | 20,763   | -  | 20,763                                       |
| Amortization of deferred finance costs                      | -  | -  | (30,000)                                     | -  |
| Interest Expense  | (882)  | (2,027)  | (1,797)                                      | (2,741)                                      |
| Interest Expense - Related Party                            | (24,212)                                       | (17,174)                                       | (35,212)                                     | (33,781)                                     |
| Total Other Income (Expense)                                | (25,094)                                       | 1,562  | (67,009)                                     | (15,759)                                     |
| NET LOSS  | <u>\$ (317,006)</u>                            | <u>\$ (1,188,112)</u>                          | <u>\$ (672,424)</u>                          | <u>\$ (2,155,846)</u>                        |
| BASIC AND DILUTED LOSS<br>PER SHARE                         | <u>\$ (0.03)</u>                               | <u>\$ (0.04)</u>                               | <u>\$ (0.04)</u>                             | <u>\$ (0.07)</u>                             |
| WEIGHTED AVERAGE<br>BASIC AND DILUTED<br>SHARES OUTSTANDING | <u>12,642,682</u>                              | <u>33,157,827</u>                              | <u>18,626,149</u>                            | <u>32,230,885</u>                            |

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

**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

|  | For the six<br>Months Ended<br>June 30, 2005 | For the six<br>Months Ended<br>June 30, 2006 |
|--|--|--|
| <b>Cash Flows for Operating Activities:</b>                                    |  |  |
| Net Loss   | \$ (672,424)                                 | \$ (2,155,846)                               |
| Adjustments to reconcile net loss to net cash used<br>by operating activities: |  |  |
| Non-cash - stock issued for services rendered                                  | -  | 559,845                                      |
| Non-cash - amortization of deferred consulting fees                            | -  | 517,082                                      |
| Non-cash - warrants granted for services rendered                              | -  | 181,333                                      |
| Amortization of intangibles  | 360  | 484  |
| Depreciation expense   | -  | 2,668  |
| Amortization of deferred financing costs                                       | 30,000                                       | -  |
| Changes in assets and liabilities:   | -  | -  |
| (Increase) in inventories  | (1,051)                                      | (336)  |
| (Increase) decrease in prepaid expenses  | 57   | (15,207)                                     |
| (Increase) in deposits   | -  | (110,990)                                    |
| Increase (decrease) in accounts payable  | (372,173)                                    | 49,013                                       |
| Increase (decrease) in payroll and payroll taxes                               | 121,919                                      | (68,077)                                     |
| Increase in accrued liabilities  | 65,118                                       | 98,006                                       |
|  | -  | -  |
| Net Cash (Used) by Operating Activities  | (828,194)                                    | (942,025)                                    |
| <b>Cash Flows from Investing Activities:</b>                                   |  |  |
| Capital expenditures   | -  | (13,964)                                     |
| Net Cash (Used) by Investing Activities  | -  | (13,964)                                     |
| <b>Cash Flow from Financing Activities:</b>                                    |  |  |
| Proceeds from shareholder advances   | 829,385                                      | 55,000                                       |
| Payment of shareholder advances  | -  | (21,554)                                     |
| Proceeds from other borrowings   | 1,650  | -  |
| Payments of other borrowings   | (150,000)                                    | -  |
| Payment of fees in connection with sale of common stock<br>and warrants        | -  | (44,900)                                     |
| Proceeds from sale of common stock and warrants                                | 248,000                                      | 657,976                                      |
| Net Cash Provided by Financing Activities                                      | 929,035                                      | 646,522                                      |
| <b>Increase (Decrease) in Cash</b>   | <b>100,841</b>                               | <b>(309,467)</b>                             |
| <b>Cash at Beginning of Period</b>   | <b>17,118</b>                                | <b>603,908</b>                               |
| <b>Cash at End of Period</b>   | <b>\$ 117,959</b>                            | <b>\$ 294,441</b>                            |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                      |  |  |
| Cash paid during the period for:   |  |  |
| Interest   | \$ -   | \$ 41,442                                    |
| Income Taxes   | \$ -   | \$ -   |

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

**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS** *[Continued]*

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

Six months ended June 30, 2006

The Company issued 10,000 shares of common stock valued at \$9,700 to a consultant. This amount has been included in deferred consulting fees.

The Company issued an aggregate of 6,250,000 shares of its common stock, .001 par value ("common stock"), in connection with the exercise by the Company's CEO of an outstanding warrant to purchase 6,250,000 shares of common stock. The warrant had an exercise price of \$.15 per share. In connection with the exercise of the warrant, the holder, pursuant to the terms of the warrant, surrendered to the Company 288,462 shares of common stock valued at \$937,500 issuable upon exercise of the warrant, in payment of the aggregate exercise price.

The Company issued 120,000 warrants valued at \$148,625 to three employees as bonus compensation.

The Company reversed accrued finders' fees of \$58,500 previously recorded in error.

Six months ended June 30, 2005.

The Company issued 283,500 shares of common stock valued at \$222,549 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 agreement 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 CEO in the amount of \$847,359, thereby recharacterizing the amounts payable from advances payable to note payable.

The Company granted warrants to purchase 1,000,000 shares of common stock, at an exercise price of \$.10 per share for a term of one year, as finder's fees in connection with the sale of 2,000,000 shares of common stock for gross proceeds of \$200,000. The warrants were valued at \$265,000 using the Black Scholes pricing model.

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

**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY**  
**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, 2005 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 six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2006, or any other period.

The Company incurred net losses of \$2,155,846 and \$672,424 for the six months ended June 30, 2006 and 2005, respectively. In addition, the Company had a working capital deficiency of \$837,843 and a stockholders’ deficit of \$720,096 at June 30, 2006. These factors continue to raise substantial doubt about the Company’s ability to continue as a going concern. The Company is endeavoring to increase the likelihood that it will be able to continue as a going concern by seeking to increase its sales revenue, and by raising additional capital. From May through August, 2006, the Company raised approximately \$1.5 million in net proceeds from the private sale of its common stock. There can be no assurance that the Company will be able to increase its sales or raise additional capital.

There can be no assurance that sufficient funds will be generated during the next year or thereafter 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 could force the Company to 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.

**NOTE 2 – INVENTORIES**

Inventories at June 30, 2006 consist of the following:

|                |                |
|----------------|----------------|
| Finished goods | <u>\$4,558</u> |
|----------------|----------------|

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2006 consists of the following:

|   |                 |
|---|-----------------|
| Furniture and fixtures                            | \$9,546         |
| Equipment   | 10,268          |
| Leasehold improvements                            | <u>11,176</u>   |
|   | 30,990          |
| Less accumulated depreciation<br>and amortization | <u>2,994</u>    |
|   | <u>\$27,996</u> |

Depreciation and amortization was \$2,668 for the six months ended June 30, 2006.



**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - DEFINITE-LIFE INTANGIBLE ASSETS**

Definite-life intangible assets at June 30, 2006 consist of the following:

|                                |                 |
|--------------------------------|-----------------|
| Patent applications in process | \$14,500        |
| Less: Accumulated amortization | <u>1,982</u>    |
|                                | <u>\$12,518</u> |

The Company's definite-life intangible assets are amortized, upon being placed in service, over the 15 year estimated useful lives of the assets, with no residual value. Amortization expense for the six months ended June 30, 2006 and 2005 was \$484 and \$360, respectively. The Company estimates that amortization expense for existing assets for each of the next five years will be approximately \$1,000 per year.

**NOTE 5 - NOTE PAYABLE - RELATED PARTY**

Note payable to the Company's CEO bears interests at 10% per annum. Commencing 30 days after written demand by the CEO, the principal amount and any accrued interest will be payable in 12 equal monthly installments. The Company has granted Mr. Baer a security interest in all of the Company's assets related to the Company's ProAlgaZyme Product.

During the six months ended June 30, 2006, the Company paid Mr. Baer \$21,554 in principal and \$38,700 in accrued interest. During the six months ended June 30, 2006, Mr. Baer advanced the Company an additional \$55,000. Interest expense was \$33,781 and \$35,212 for the six months ended June 30, 2006 and 2005, respectively.

**NOTE 6 - STOCKHOLDERS' DEFICIT**

**Common Stock** - On January 18, 2006, the Company issued an aggregate of 6,250,000 shares of its common stock, .001 par value ("common stock"), in connection with the exercise by the Company's CEO of an outstanding warrant to purchase 6,250,000 shares of common stock. The warrant had an exercise price of \$.15 per share. In connection with the exercise of the warrant, the holder, pursuant to the terms of the warrant, surrendered to the Company 288,462 shares of common stock issuable upon exercise of the warrant, in payment of the aggregate exercise price, based upon a \$3.25 per share market price on January 18, 2006.

In February, 2006, the Company issued to a former employee 252,576 shares of common stock upon exercise of a warrant. The Company received proceeds of \$25,276 from such exercise. During the quarter ended March 31, 2006, the Company issued to consultants, for services rendered, 120,000 shares of common stock, valued at \$157,600, and warrants to purchase 150,000 shares of common stock, valued at \$128,708.

During the quarter ended June 30, 2006, the Company issued to consultants, for services rendered, 255,000 shares of common stock, valued at \$368,500. During the quarter ended June 30, 2006, the Company privately sold 1,265,400 shares of common stock for \$632,700. In connection with this issuance, the Company paid cash finder's fees of \$44,900, and issued 9,000 shares of common stock. In June, 2006, the Company issued 120,000 warrants to three employees as bonus compensation. These warrants were valued at \$148,625. Since the Company had previously accrued \$96,000 for these bonuses, the Company incurred a charge of \$52,625 in the three months ended June 30, 2006.

**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - STOCKHOLDERS' DEFICIT - continued**

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

|                                  | Shares      | Weighted Average<br>Exercise Price |
|----------------------------------|-------------|------------------------------------|
| Outstanding at December 31, 2005 | 21,761,325  | \$ 0.49                            |
| Exercised first quarter 2006     | (6,502,575) | 0.10                               |
| Issued first quarter 2006        | 150,000     | 0.25                               |
| Issued second quarter 2006       | 120,000     | 0.50                               |
| Balance, June 30, 2006           | 15,528,750  | \$ 0.65                            |

**NOTE 7 - RELATED PARTY TRANSACTIONS**

**Accrued Liabilities** - Included in accrued liabilities at June 30, 2006 is \$2,231 in accrued interest related to a note payable to the Company's CEO.

**Accrued Salaries** - Consists of \$78,237 owed to the CEO for unpaid salary.

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

**Lease Commitments - Related Party** - On December 9, 2004, we entered into a lease dated November 1, 2004 with Evans Road, LLC (a company owned by our CEO, Howard R. Baer), under which we leased approximately 5,000 sq. ft. for a new corporate headquarters and production facility located in Scottsdale, Arizona. The lease had a term of 15 years, subject to the right of either party to terminate the lease after 7.5 years, and provided for base monthly rental in the amount of \$8,700 plus monthly taxes. In February, 2005, Evans Road, LLC sold the building which was leased to us, and our CEO, Howard Baer, leased such building back from the buyer under a master lease. Our CEO continued to lease the building, as master lessor, to us, under the terms and conditions described above, until March 31, 2006. As of April 1, 2006, we entered into an Amended and Restated Sublease with Mr. Baer. During the six months ended June 30, 2006, we paid Mr. Baer approximately \$94,000 in rent.

Under the terms of the Amended and Restated Sublease, we are leasing an aggregate of approximately 15,000 square feet, of which we are occupying approximately 8,400 square feet, consisting of approximately 6,710 square feet of office space and 1,700 square feet of production space. We are subleasing the remaining 6,600 square feet to a third party under a month to month tenancy at a rate of approximately \$7,000 per month, plus rental taxes and electricity. We can terminate this sublease upon thirty (30) days written notice to our subtenant. We believe that we may need additional space in the foreseeable future, and that this space would be suitable for an expansion of our production and office facilities.

**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - COMMITMENTS AND CONTINGENCIES - continued**

The Amended and Restated Sublease expires on February 9, 2020, provided that we have the unilateral right to terminate the Lease approximately 7 years from now (March 31, 2013). The annual base rent for the 15,000 square foot facility is approximately \$237,000 and is payable in equal monthly installments of approximately \$20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. We are obligated to pay an additional security deposit of approximately \$110,000, following which we will have paid an aggregate security deposit equal to six months base rent. This additional security deposit will be paid in eighteen equal monthly installments of approximately \$6,000, commencing in August, 2006. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance and repairs related to the premises we are leasing from the CEO.

The future minimum lease payments related to the original lease (through March 31, 2006) and the Amended and Restated Sublease, are as follows:

|            |                |
|------------|----------------|
| 2006       | \$ 210,000     |
| 2007       | \$ 240,000     |
| 2008       | \$ 240,000     |
| 2009       | \$ 240,000     |
| Thereafter | \$ 840,000 (1) |

(1) Assumes the Company exercises its right to terminate the Amended and Restated Sublease effective March 31, 2013.

**Legal Proceedings** - In or around April, 2004, we 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. We 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. We understand 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. We are continuing to cooperate fully in the SEC's investigation, which we understand is ongoing. On January 18, 2006, the SEC enforcement staff sent a "Wells Notice" to us advising us that it intended to recommend to the SEC that it bring an enforcement action against us and certain of our present and former officers and directors, including our CEO. We are continuing our discussions with the SEC staff concerning a consensual resolution of the investigation. We understand that the SEC staff's recommendations have been submitted to the SEC, which has not yet acted on them. We do not know what the final terms and conditions of any consensual resolution will be or whether we will be able to reach any such resolution of the investigation. Any consensual resolution we reach with the SEC could impose financial and other burdens on us which could materially and adversely affect our financial condition and our ability to raise additional capital. In addition, our CEO may not be able to continue in such capacity. If we are unable to reach a consensual resolution, and if the SEC follows its staff's recommendation to take action against us or our officers and directors, such action would have a material adverse effect on us.

**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - COMMITMENTS AND CONTINGENCIES – continued**

**Consulting Contracts** - On November 30, 2005, the Company entered into a consulting agreement with an individual consultant, for a one year term. Under the agreement, the consultant will provide general business consulting services. In consideration for such services, the Company issued the consultant a warrant to purchase 250,000 shares of common stock, at an exercise price of \$.60 per share. Such warrant was valued at \$322,401, using the Black-Scholes pricing model, and such value is being amortized over the term of the agreement. Amortization expense amounted to \$138,172 during the six months ended June 30, 2006. Further, the Company agreed, subject to further discussions with the consultant (including with respect to the determination of specific milestones to be achieved), to issue the consultant a warrant to purchase 1 million shares of common stock, at an exercise price of \$.60 per share for a term of three years. Such warrant has not yet been issued, because such further discussions have not yet occurred. In June, 2006, the Company entered into a consulting agreement under which the consultant will provide investor and public relations services. The agreement provides for the issuance of 200,000 shares of common stock, which have been issued and valued at \$297,000. The agreement also provides for payment of \$20,000 per month.

**NOTE 9 - SUBSEQUENT EVENTS**

During July and August, 2006, the Company raised an aggregate of \$1,042,000 from the private sale of 2,084,000 shares of Common Stock, at a price of \$.50 per share. In connection with these stock sales, the Company incurred finders' fees of \$91,250.

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

### **Critical Accounting Policies**

The Accompanying discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We base our estimates and judgments on historical experience and all available information. However, future events are subject to change, and the best estimates and judgments routinely require adjustment. US GAAP requires us to make estimates and judgments in several areas, including those related to recording various accruals, income taxes, the useful lives of long-lived assets, such as property and equipment and intangible assets, and potential losses from contingencies and litigation. We believe the policies discussed below are the most critical to our financial statements because they are affected significantly by management's judgments, assumptions and estimates.

#### **Income taxes**

We account for income taxes using the asset and liability method described in SFAS No. 109, "Accounting For Income Taxes," the objective of which is to establish deferred tax asset and liabilities for the temporary differences between the financial reporting and the tax basis of assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance related to deferred tax assets is recorded when it is more likely than that some portion or all of the deferred tax assets will not be realized.

#### **Recent Accounting Pronouncements - Share Based Payment**

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 adopted 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 date of adoption.

#### **Results of Operations for the three and six months ended June 30, 2006 and June 30, 2005.**

**Net Sales.** Net sales for the three and six months ended June 30, 2006 were \$93,337 and \$178,740, respectively, as compared to \$5,031 and \$13,329 for the comparable periods in 2005. These sales reflect principally revenues from the ProAlgaZyme product. The ProAlgaZyme product has also been marketed under the name "AlphaSystem Replenisher" ("ASR").

We have experienced a limited increase in our sales, due, we believe, to increased public awareness of our product. We believe that our inability in 2005 to arrange for external trials regarding our ProAlgaZyme product, coupled with limitations on our ability to promote our product, has contributed to a low level of net sales. Although our ProAlgaZyme product is available for sale and we are exploring various potential marketing opportunities, as well as advertising the product on a limited basis, we expect only limited sales revenue until at least the fourth quarter of 2006. We believe that our ability to generate sales of the ProAlgaZyme product will depend upon, among other things, further characterization of the product, identification of its method of action and obtaining further evidence of its efficacy, as well as additional advertising. The testing necessary to further characterizing the product, identifying its method of action and establishing its effectiveness is ongoing.

On November 11, 2005, we entered into an Agreement with Suarez Corporation Industries, a diversified distribution company ("Suarez"). Under the terms of the Agreement, Suarez was to test market our ProAlgaZyme product for about six weeks. Suarez purchased ProAlgaZyme from us in connection with this Agreement. Under the Agreement, if Suarez determined that the test marketing was successful, we and Suarez were to negotiate an exclusive agreement under which Suarez would purchase the product from us and resell it as a weight-loss product. Though our Agreement has since expired, we are still exploring with Suarez the possibility of Suarez distributing our product. Suarez recently purchased an additional quantity of ProAlgaZyme. Although we are hopeful that we will be able to enter into an Agreement with Suarez that will ultimately lead to a meaningful increase in our sales revenue, we cannot be sure what the outcome of our discussions with Suarez will be.

Although our revenues have grown, until we receive further positive test results regarding ProAlgaZyme's method of action and efficacy, we may not have meaningful sales revenue. Even if we receive positive test results, we cannot be sure that they will lead to an increase in our sales revenue.

**Cost of Sales.** Total Cost of Sales was \$76,398 and \$139,882 for the three and six months ended June 30, 2006, respectively, as compared to \$32,409 and \$47,641 for the comparable periods in 2005. 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 biological activity of the ProAlgaZyme product, and for conducting the necessary harvesting and production operations in preparing the product for sale. The increase in cost of sales for 2006 is a direct result of our increased sales volume.

**Gross Profit.** Total Gross Profit was \$16,939 and \$38,858 for the three and six months ended June 30, 2006, respectively, as compared to \$(27,378) and \$(34,312) for the comparable periods in 2005. The negative gross profit for 2005 was due to limited sales, leading to cost of sales – much of which reflects relatively fixed production expenses for the ProAlgaZyme product - exceeding sales revenues. However, for the six months ended June 30, 2006 we have achieved positive gross profit, as a result of our increased sales.

**Research and Development Expenses.** For the three and six months ended June 30, 2006, we incurred \$118,058 and \$130,561 on research and development expenses, respectively, as compared to \$5,917 and \$32,150 for the comparable periods in 2005. These expenses are comprised of costs associated with internal and external research. The increase in our research and development is due primarily to the initiation of external clinical trials of our product.

We have recently engaged several third parties to conduct testing directed toward further characterization of the product and determining its method of action and efficacy. In May, 2006, we commenced two clinical trials in Cameroon, one of which will explore the possible effects of ProAlgaZyme on HIV. In particular, the trial will explore ProAlgaZyme's potential to reduce viral loads in patients with HIV. The second trial will explore ProAlgaZyme's potential effects on C-Reactive Protein (CRP) levels and the inflammation process. Subject to the availability of sufficient funding, we plan to continue these research and development activities during the balance of 2006. Historically, we have been funded by our CEO and through external sources. We have in the past had difficulty raising substantial funds from external sources; however, we recently raised a limited amount of capital. Mr. Baer, our CEO, may not in the future be in a position to make further advances to us. We may not be able to raise the funding that we need to continue our research and development activities. In the event that we are not able to secure sufficient funding to meet our research needs, we will be unable to pursue necessary research activities, in which case our ability to market ProAlgaZyme with objective clinical support for its efficacy will be impeded, thereby hindering our ability to generate sales revenue and impacting negatively our operating results.

**Selling and Marketing Expenses.** Selling and marketing expenses were \$76,968 and \$128,491 for the three and six months ended June 30, 2006, respectively, as compared to \$17,090 and \$40,428 for the comparable periods in 2005. The Company has contracted with several consultants to provide outside marketing support for our product, resulting in a substantial increase in sales and marketing expense for 2006. We intend to direct our in house selling efforts to existing ProAlgaZyme users. The consultants will provide us with exposure in the media through the use of radio and television segments.

We are not currently engaged in any significant advertising or marketing related activities. However, we intend to continue to direct selling efforts to existing ProAlgaZyme users. In addition, we are exploring the establishment of additional distribution channels for ProAlgaZyme. The limit on our ability thus far to advertise our product (due to the need for additional testing) has had and, until we are able to advertise our product based upon the results of clinical trials further demonstrating its efficacy, will continue to have, a material adverse effect on sales revenue and operating results. We intend to continue to pursue clinical study of our product and, subject to the results of such testing, increase advertising in 2006, subject to availability of sufficient funding.

**General and Administrative Expenses.** General and administrative expense was \$1,011,587 and \$1,919,893 for the three and six months ended June 30, 2006, respectively, as compared to \$290,327 and \$547,325 for the comparable periods in 2005. The increase in general and administrative expenses for the six months ended June 30, 2006, compared to the comparable 2005 period, was due primarily to non-cash stock-based compensation to consultants of approximately \$1.3 million.

**Financing Costs.** We incurred \$17,174 and \$33,781, in interest expense on the note payable to our CEO, for the three and six months ended June 30, 2006, respectively, as compared to \$24,212 and \$35,212 for comparable periods in 2005.

### **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 significant 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 had limited revenue (\$93,337 for the three months ended June 30, 2006) and have incurred significant net losses since inception, including a net loss of \$1,188,212 during the three months ended June 30, 2006 and an aggregate net loss of \$12,540,660 since inception. We expect only limited sales revenue until at least the fourth quarter 2006. Further, since inception, we have incurred negative cash flow from operations. During the six months ended June 30, 2006, we incurred negative cash flows from operations of \$942,025. As of July 31, 2006, we had a cash balance of approximately \$932,000. We had a working capital deficiency of \$837,843 and a stockholders' deficit of \$720,096 as of June 30, 2006.

From May through August 2006, we raised approximately \$1.5 million in net proceeds from the private sale of 3,349,400 shares of common stock. As a result, as of August 8, 2006, our working capital position had improved, compared to the deficiency that existed as of March 31, 2006. We are largely dependent upon Howard R. Baer, our CEO, and external sources for funding. Mr. Baer may not in the future be in a position to provide us with further advances and, although we recently raised a limited amount of capital, we have in the past had difficulty in raising capital from external sources. These factors raise substantial doubt about our ability to continue as a going concern.

During the six months ended June 30, 2006 and 2005, our operating activities used \$942,025 and \$828,194 in cash, respectively. Our financing activities generated \$646,522 and \$929,035 during the six months ended June 30, 2006 and 2005, respectively. The decrease in cash generated by financing activities during the six months ended 2006 was due primarily to a \$797,000 decrease in shareholder advances, partially offset by a \$150,000 decrease in repayments of indebtedness and a \$365,000 increase in net proceeds from stock sales. We received \$55,000 in new funding from our CEO, Mr. Howard R. Baer in May 2006. In addition, we received gross proceeds from equity sales of \$632,700 during the three months ended June 30, 2006. During July and August, 2006, we received an additional \$1,042,000 from equity sales.

Mr. Baer, our CEO, has advanced us an aggregate of \$1,642,375 from inception to July 31, 2006, including an aggregate of \$55,000 in May of 2006. Since inception, we have repaid Mr. Baer a total of \$435,385 in cash. On February 15, 2005, 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”), under which we were indebted to Mr. Baer in the aggregate amount of \$847,359. On March 25, 2005, we, Mr. Baer, and our wholly owned subsidiary, Health Enhancement Corporation (“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.

As of July 8, 2005, the Note was in the principal amount of \$1,244,744. On July 8, 2005, Mr. Baer converted an aggregate of \$538,000 of indebtedness (consisting of \$500,000 in principal and \$38,000 of interest) we owed him into 5,000,000 shares of our common stock and warrants to purchase 6,250,000 shares of our common stock, at an exercise price of \$.15 per share. After giving effect to the conversion, we owed Mr. Baer approximately \$745,000 in principal. We incurred non cash financing charges in the amount of \$2,758,000 in connection with this conversion. We have since made net repayments to Mr. Baer of approximately \$92,000, leaving a principal balance of approximately \$708,000 at July 31, 2006.

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.

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.

We estimate that we will require approximately \$1,250,000 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 a need for additional funding over the next twelve months. For the foreseeable future, we do not expect that sales revenues will be sufficient to fund our cash requirements. Historically, we have had difficulty raising funds from external sources; however, we recently were able to raise a limited amount of capital from outside sources. In addition to external sources, we have been dependent for our funding on advances from our CEO, Mr. Howard R. Baer. 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 meet our long term requirements. If we are not able to raise the funds necessary to meet our longer term requirements, we may 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 June 30, 2006, the Company had incurred legal fees and costs of approximately \$660,000 in connection with this matter. 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.

We have only limited product liability insurance. If a product claim were successfully made against us, there could be a material adverse effect on our financial condition.

On November 30, 2005, we entered into a consulting agreement with an individual consultant, for a one year term. Under the agreement, the consultant will provide general business consulting services. In consideration for such services, we issued the consultant a warrant to purchase 250,000 shares of common stock, at an exercise price of \$.60 per share. Such warrant was valued at \$322,401, using the Black-Scholes pricing model, and such value is being amortized over the term of the agreement. Amortization expense amounted to \$69,086 during 2005 and \$138,174 for the six months ended June 30, 2006. Further, we agreed, subject to further discussions with the consultant (including with respect to the determination of specific milestones to be achieved), to issue the consultant a warrant to purchase 1 million shares of common stock, at an exercise price of \$.60 per share for a term of three years. Such warrant has not yet been issued, because such further discussions have not yet occurred.

### **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. We recently hired a new president and a new chief accounting officer, in each case on a part-time basis.

### **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 accounting 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 accounting 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 accounting 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, we 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. We 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. We understand 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. We are continuing to cooperate fully in the SEC's investigation, which we understand is ongoing. On January 18, 2006, the SEC enforcement staff sent a "Wells Notice" to us advising us that it intended to recommend to the SEC that it bring an enforcement action against us and certain of our present and former officers and directors, including our CEO. We are continuing our discussions with the SEC staff concerning a consensual resolution of the investigation. We understand that the SEC staff's recommendations have been submitted to the SEC, which has not yet acted on them. We do not know what the final terms and conditions of any consensual resolution will be or whether we will be able to reach any such resolution of the investigation. Any consensual resolution we reach with the SEC could impose financial and other burdens on us which could materially and adversely affect our financial condition and our ability to raise additional capital. In addition, our CEO may not be able to continue in such capacity. If we are unable to reach a consensual resolution, and if the SEC follows its staff's recommendation to take action against us or our officers and directors, such action would have a material adverse effect on us.

### **Item 2. Unregistered Sales**

During the quarter ended June 30, 2006, the Company issued an aggregate of 255,000 shares of common stock to consultants for services.

The Company believes that the foregoing transactions were exempt from the registration requirements under Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended ("the Act"), based on the following facts: there was no general solicitation, there was a limited number of purchasers, all of whom were "accredited investors" (within the meaning of Regulation D under the Securities Act of 1933, as amended) and all of whom were sophisticated about business and financial matters, and all shares issued were subject to restriction on transfer, so as to take reasonable steps to assure that the purchaser was not an underwriter within the meaning of Section 2(11) under the Act.

## Item 6. Exhibits

| 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) |
| 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.

## 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: August 11, 2006

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

Date: August 11, 2006

By: /s/Janet L. Crance  
Janet L. Crance  
Chief Accounting Officer

## LIST OF EXHIBITS

| Exhibit Number | Description   |     |
|----------------|---|-----|
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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.

**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: August 11, 2006

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

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

I, Janet L. Crance, Chief Accounting 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: August 11, 2006

/s/ Janet L. Crance  
Janet L. Crance  
Chief Accounting Officer

**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 June 30, 2006 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: August 11, 2006

/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.

**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 June 30, 2006 as filed with the Securities and Exchange Commission (the "Report"), I, Janet L. Crance, Chief Accounting 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: August 11, 2006

/s/ Janet L. Crance  
Janet L. Crance  
Chief Accounting 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.