

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

(Mark One)

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011
- 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)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation ST (Sec. 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12-b2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 98,598,621 shares of common stock, \$0.001 par value, outstanding at November 17, 2011.

FORM 10-Q
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 and
- 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.

Item 1. Consolidated Financial Statements

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash	\$ 60,132	\$ 15,603
Inventories	15,710	10,554
Prepaid Expenses	16,538	10,855
Total Current Assets	<u>92,380</u>	<u>37,012</u>
PROPERTY AND EQUIPMENT, NET	<u>124,788</u>	<u>170,259</u>
OTHER ASSETS:		
Definite-life intangible Assets, net	7,443	8,168
Deferred Finance Costs, net	16,323	-
Deposits	125,117	124,482
Total Other Assets	<u>148,883</u>	<u>132,650</u>
	<u>\$ 366,051</u>	<u>\$ 339,921</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts Payable	\$ 609,423	\$ 455,589
Customer deposits	27,837	25,194
Loan Payable, related party	83,106	12,000
Convertible Note payable	100,863	-
Obligation to issue common stock and warrants	-	50,000
Deferred revenue	15,000	15,000
Convertible Debenture Payable, less Discount of \$7,089 and \$18,936 at September 30, 2011 and December 31, 2010	78,011	157,064
Current portion, long term debt	595	3,516
Accrued Payroll	46,109	32,892
Accrued Payroll Taxes	23,902	5,305
Accrued Liabilities	24,576	23,980
Total Current Liabilities	<u>1,009,422</u>	<u>780,540</u>
LONG TERM LIABILITIES:		
Convertible Debenture Payable, less Discount of \$119,413 and \$71,037 at September 30, 2011 and December 31, 2010	281,087	104,063
Deferred revenue, noncurrent	223,750	235,000
Deferred rent expense	149,004	171,995
Total Long Term Liabilities	<u>653,841</u>	<u>511,058</u>
COMMITMENTS AND CONTINGENCIES		
TOTAL LIABILITIES	<u>1,663,263</u>	<u>1,291,598</u>
STOCKHOLDERS' DEFICIT:		
Common stock, \$.001 par value, 150,000,000 shares authorized 97,761,358 and 92,705,351 issued and outstanding at September 30, 2011 and December 31, 2010	97,761	92,705
Additional Paid-In Capital	26,458,041	25,485,816
Accumulated deficit	(27,853,016)	(26,530,198)
Total Stockholders' Deficit	<u>(1,297,214)</u>	<u>(951,677)</u>
	<u>\$ 366,051</u>	<u>\$ 339,921</u>

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

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

	For the three Months ended September 30, 2011	For the three Months ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months ended September 30, 2010
REVENUES:				
Net Sales	\$ 31,898	\$ 19,291	\$ 88,587	\$ 52,451
Licensing Fee	3,750	-	11,250	-
Total Revenues	<u>35,648</u>	<u>19,291</u>	<u>99,837</u>	<u>52,451</u>
COSTS AND EXPENSES:				
Cost of Sales	25,433	15,433	99,060	35,343
Selling	3,297	29,295	11,823	95,190
General and Administrative	150,179	249,316	333,021	960,625
Professional and Consulting	74,799	183,533	386,355	2,000,489
Research and Development	66,717	94,529	246,000	294,053
Total Expenses	<u>320,425</u>	<u>572,106</u>	<u>1,076,259</u>	<u>3,385,700</u>
LOSS FROM OPERATIONS	<u>(284,777)</u>	<u>(552,815)</u>	<u>(976,422)</u>	<u>(3,333,249)</u>
OTHER INCOME (EXPENSE):				
Fair Value Adjustment of Derivative Liability	-	-	-	(2,223,991)
Amortization of Bond Discount	(30,062)	(32,483)	(93,892)	(132,063)
Amortization of Deferred Finance Costs	(19,018)	-	(41,383)	-
Finance costs paid in warrants, related party	(203,069)	-	(203,069)	(405,925)
Interest expense - related party	(906)	-	(1,365)	-
Interest expense	(4,521)	(3,780)	(6,684)	(12,553)
Total Other Income (Expense)	<u>(257,576)</u>	<u>(36,263)</u>	<u>(346,393)</u>	<u>(2,774,532)</u>
NET (LOSS)	<u>\$ (542,353)</u>	<u>\$ (589,078)</u>	<u>\$ (1,322,815)</u>	<u>\$ (6,107,781)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.07)</u>
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	<u>97,549,401</u>	<u>89,607,271</u>	<u>95,732,703</u>	<u>89,243,185</u>

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

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

	For the Nine Months Ended September 30, 2011 (Unaudited)	For the Nine Months Ended September 30, 2010 (Unaudited)
Cash Flows for Operating Activities:		
Net (Loss)	\$ (1,322,815)	\$ (6,107,781)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock and warrants issued for services rendered	33,584	1,608,792
Finance costs paid in warrants, related party	203,069	405,925
Amortization of prepaid consulting fees	-	73,325
Amortization of deferred finance costs	41,383	-
Amortization of bond discount	93,892	132,063
Amortization of intangibles	725	725
Vendor settlement	-	(4,117)
Depreciation expense	50,192	25,187
Fair value adjustment of Derivative Liability	-	2,223,991
(Decrease) in deferred rent	(22,991)	11,747
Changes in assets and liabilities:		
(Increase) in inventories	(5,156)	(9,996)
(Increase) in prepaid expenses	(5,683)	(363)
(Increase) in security deposits	(635)	(3,815)
Increase (decrease) in accounts payable	153,831	(49,825)
Increase in customer deposits	2,643	-
Increase (decrease) in payroll and payroll taxes	31,814	(151,573)
Increase in obligation to issue common stock	-	552,555
(Decrease) in sales tax payable	(1,275)	-
(Decrease) in deferred revenue	(11,250)	-
(Decrease) in accrued liabilities	(11,770)	(800)
Net Cash (Used) by Operating Activities	(770,442)	(1,293,960)
Cash Flows from Investing Activities:		
Capital expenditures	(4,721)	(2,152)
Net Cash (Used) by Investing Activities	(4,721)	(2,152)
Cash Flow from Financing Activities:		
Proceeds of Loan Payable, related party	85,105	166,824
Repayment of Loan Payable, related party	(14,000)	-
Proceeds from other borrowings	125,169	-
Cash overdraft	-	(7,106)
Repayment of Loans Payable, Other	-	(36,571)
Payments of other borrowings	(13,582)	(4,765)
Proceeds from issuance of convertible debentures	134,500	-
Proceeds from sale of common stock and exercise of warrants	502,500	1,177,730
Net Cash Provided by Financing Activities	819,692	1,296,112
Increase (Decrease) in Cash	44,529	-
Cash at Beginning of Period	15,603	-
Cash at End of Period	\$ 60,132	\$ -
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 3,455	\$ 3,780
Income Taxes	\$ 50	\$ -

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

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

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

Nine Months Ended September 30, 2011:

During the quarter ended March 31, 2011, The Company issued convertible debentures for \$62,500 in principal and recorded a discount on the debentures of \$62,500. As an inducement to further invest in the Company, warrants were repriced from \$.25 to \$.15, resulting in deferred finance costs of \$57,706.

During the quarter ended June 30, 2011, the Company issued convertible debentures in the principal amount of \$52,000 and recorded a discount on the debentures of \$52,000. In addition, the Company issued 333,334 shares of common stock in satisfaction of an obligation to issue common stock valued at \$50,000.

During the quarter ended June 30, 2011, several three year 1% convertible notes in the aggregate principal amount of \$196,000, with various maturity dates during 2011 were extended for an additional three years at the request of the noteholder. The Company incurred no additional cost as a result of these extensions.

During the quarter ended September 30, 2011, the Company issued convertible debentures in the principal amount of \$20,000 and recorded a discount on the debentures of \$15,921.

Nine Months Ended September 30, 2010:

During the quarter ended March 31, 2010, \$15,000 of convertible debentures and \$121 in accrued interest were converted into 302,425 shares of common stock. The Company issued 750,000 shares of stock in satisfaction of an obligation to issue common stock. The Company satisfied a \$6,500 loan due to a related party by offsetting it against proceeds due from the related party upon exercise of warrants to purchase common stock. In addition, the Company issued 50,000 shares upon exercise of warrants at \$.10 per share. The consideration given for the exercise price was a reduction of indebtedness in the form of accounts payable. The Company recorded an obligation to issue 65,000 shares of common stock in payment of finder's fees and valued these shares at \$36,400. The Company also issued 30,000 shares of common stock valued at \$14,035 in payment of finder's fees. In addition, an obligation to issue 160,000 shares of common stock was recorded in payment of finder's fees. This stock was valued at \$129,050. The Company also issued 500,000 shares of common stock valued at \$160,000 in satisfaction of an obligation to issue common stock.

During the quarter ended June 30, 2010, the Company issued 180,000 shares of common stock valued at \$149,550 in satisfaction of obligations to issue common stock.

During the six months ended June 30, 2010, the Company recognized an additional derivative liability valued at \$3,048,306 warrants issued in excess of its authorized shares.

During the quarter ended September 30, 2010, \$100,000 of convertible debentures and \$3,016 in accrued interest were converted into 206,033 shares of common stock.

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

HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES
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 subsidiaries, Health Enhancement Corporation and HEPI Pharmaceuticals, Inc. (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. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s December 31, 2010 consolidated audited financial statements and supplementary data included in the Annual Report on Form 10-K filed with the SEC on April 15, 2011.

The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2011, or any other period.

The Company incurred a net loss of \$1,322,815 for the nine months ended September 30, 2011, and had net loss of \$6,107,781 (net loss of \$3,883,790 excluding the effect of the Fair Value Adjustment of Derivative Liability) for the nine months ended September 30, 2010. In addition, the Company had a working capital deficiency of \$917,042 and a stockholders’ deficit of \$1,297,214 at September 30, 2011. These factors continue to raise substantial doubt about the Company’s ability to continue as a going concern. During the first nine months of 2011, the Company raised \$502,500 in net proceeds from the sale of common stock and exercise of common stock warrants, and \$134,500 from the issuance of convertible debentures. There can be no assurance that the Company will be able to continue to raise additional capital.

Although the Company recently signed an exclusive worldwide distribution agreement, it has not yet realized the revenue it was expecting from such distribution arrangement. 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.

Certain reclassifications have been made to prior-year and prior period comparative financial statements to conform to the current year and period presentation. These reclassifications had no effect on previously reported results of operations or financial position.

NOTE 2 – INVENTORIES

Inventories at September 30, 2011 and December 31, 2010 consist of the following:

	September 30, 2011 (Unaudited)	December 31, 2010
Raw materials	\$ 12,458	\$ 5,650
Work in process	3,179	-
Finished goods	73	4,904
	<u>\$ 15,710</u>	<u>\$ 10,554</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2011 and December 31, 2010 consists of the following:

	September 30, 2011 (Unaudited)	December 31, 2010
Furniture and fixtures	\$ 51,617	\$ 51,617
Equipment	112,879	112,879
Leasehold improvements	148,359	143,639
	<u>312,856</u>	<u>308,135</u>
Less accumulated depreciation and amortization	<u>(188,068)</u>	<u>(137,876)</u>
	<u>\$ 124,788</u>	<u>\$ 170,259</u>

Depreciation and amortization was \$50,192 and \$25,187 for the nine months ended September 30, 2011 and 2010 respectively.

NOTE 4 - DEFINITE-LIFE INTANGIBLE ASSETS

Definite-life intangible assets at September 30, 2011 and December 31, 2010 consist of the following:

	<u>September 30, 2011</u> (Unaudited)	<u>December 31, 2010</u>
Patent applications pending	\$ 14,500	\$ 14,500
Less: Accumulated amortization	<u>(7,057)</u>	<u>(6,332)</u>
	<u>\$ 7,443</u>	<u>\$ 8,168</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 was \$725 for each of the nine months ended September 30, 2011 and 2010.

NOTE 5 – LOAN PAYABLE – RELATED PARTY

In April of 2010 the Company entered into a line of credit agreement with a significant shareholder. Under the terms of this line of credit agreement, the shareholder agreed to advance, upon request, a maximum of \$675,000 as needed. The company's ability to draw from this line of credit expired April 24, 2011, and advances are to be repaid on or before April 24, 2012 with interest accrued at the rate of 7% annually.

During 2010 the Company received advances totaling \$299,700, and accrued interest totaling \$4,209. During the quarter ended December 31, 2010, the Company issued an aggregate of 1,940,000 shares of common stock to the shareholder as follows: (i) 838,986 shares were issued upon exercise of outstanding warrants at an average exercise price of \$.23 per share (the shareholder paid the exercise price by forgiving \$188,898 in indebtedness owing to the shareholder), and 1,101,014 shares (valued at \$374,344) were issued in full satisfaction of the approximately \$110,000 in remaining principal amount plus accrued interest owing to this related party in connection with advances made to the Company. In connection with this loan repayment, the Company incurred finance charges of \$259,293.

The balance due under this line of credit agreement as of April 24, 2011 was \$26,716. Since the expiration of the line of credit, the Company has received an additional \$69,241 in loans from this significant shareholder, accrued additional interest of \$1,149 and repaid \$14,000. The balance owing this shareholder as of September 30, 2011 is \$81,741 in principal and \$1,365 in accrued interest. Of this principal balance, \$26,716 is due and payable on April 24, 2012, and the remaining principal balance of \$55,025 represents additional advances after the expiration of the loan agreement, and is due and payable upon demand.

NOTE 6 – CONVERTIBLE NOTE PAYABLE

On September 8, 2011, the Company issued a Senior Secured Convertible Demand Promissory Note in the principal amount of \$100,000 to HEP Investments, LLC, a Michigan limited liability company, in connection with the advance to the Company of \$100,000. The Note bears interest at 15% per annum and is payable on demand, and is convertible at the rate of \$.12 per share into the Company's common stock. The note is secured by all of the Company assets. As of September 30, 2011, the Company had recorded accrued interest of \$863.

NOTE 7 – LONG TERM DEBT:

Long term debt consists of the following:

	<u>September 30, 2011</u> (Unaudited)	<u>December 31, 2010</u>
Installment note, bearing interest at 8.8% per annum and due November 2011. The loan is secured by certain of the Company's equipment	\$ 595	\$ 3,517
Less current portion	<u>595</u>	<u>3,517</u>
	<u>\$ -</u>	<u>\$ -</u>

NOTE 8 – CONVERTIBLE DEBT

During the first quarter of 2011, the Company sold for aggregate consideration of \$62,500, five 1% convertible notes of \$12,500 each (Notes), and warrants to purchase 750,000 shares of common stock, at an exercise price of \$.125 (Warrants) for a term of three years. The Convertible Notes accrue interest at the rate of 1% per annum, are non-amortizing, have a term of 3 years, subject to the Company's right to extend the term for an additional three years, cannot be prepaid, and are convertible, at any time prior to the maturity date, as the same may be extended, upon 75 days written notice of the holder, into shares of common stock, at a rate equal to \$.125 per share. Accrued interest will be paid on the maturity date in shares of common Stock, valued at \$.125 per share, and, unless the Convertible Note is converted prior to its maturity date, the principal amount of the Note may be repaid in cash or converted into common stock at a rate equal to \$.125 per share, at the Company's discretion.

During the second quarter of 2011, the Company sold for aggregate consideration of \$52,000, 1% convertible notes and warrants to purchase 624,000 shares of common stock, at an exercise price of \$.125 for a term of three years. The Convertible Notes accrue interest at the rate of 1% per annum, are non-amortizing, have a term of 3 years, subject to the Company's right to extend the term for an additional three years, cannot be prepaid, and are convertible, at any time prior to the maturity date, as the same may be extended, upon 75 days written notice of the holder, into shares of common stock, at a rate equal to \$.125 per share. Accrued interest will be paid on the maturity date in shares of common Stock, valued at \$.125 per share, and, unless the Convertible Note is converted prior to its maturity date, the principal amount of the Note may be repaid in cash or converted into common stock at a rate equal to \$.125 per share, at the Company's discretion.

During the third quarter of 2011, the Company sold for aggregate consideration of \$20,000, 1% convertible notes and warrants to purchase 240,000 shares of common stock, at an exercise price of \$.125 for a term of three years. The Convertible Notes accrue interest at the rate of 1% per annum, are non-amortizing, have a term of 3 years, subject to the Company's right to extend the term for an additional three years, cannot be prepaid, and are convertible, at any time prior to the maturity date, as the same may be extended, upon 75 days written notice of the holder, into shares of common stock, at a rate equal to \$.125 per share. Accrued interest will be paid on the maturity date in shares of common Stock, valued at \$.125 per share, and, unless the Convertible Note is converted prior to its maturity date, the principal amount of the Note may be repaid in cash or converted into common stock at a rate equal to \$.125 per share, at the Company's discretion.

The Company recorded a deferred debt discount in the amount of \$130,421, to reflect the beneficial conversion feature of the convertible debt and fair value of the warrants pursuant to Emerging Issues Task Force ("EITF") 00-27: Application of EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features on Contingently Adjustable Conversion Rates", to certain convertible instruments. In accordance with EITF 00-27, the Company valued the beneficial conversion feature and recorded the amount of \$47,283 as a reduction to the carrying amount of the convertible debt and as an addition to paid-in capital. Additionally, the relative fair value of the warrants (\$83,138) was calculated and recorded as a further reduction to the carrying amount of the convertible debt and an addition to additional paid-in capital. The Company is amortizing the debt discount over the term of the debt. Amortization of discounts was \$93,892 for the nine months ended September 30, 2011.

In addition, as an inducement to make this investment, the Company agreed to reprice 1,240,000 warrants, reducing the exercise price from \$.25 to \$.15. The Company incurred deferred finance costs of \$57,707. These costs will be amortized over the remaining life of the warrants. For the nine months ended September 30, 2011, the Company recognized \$41,383 in deferred finance cost. The balance of the finance costs (\$16,323) is recorded in other assets.

Convertible debt consists of the following:

	<u>September 30, 2011</u> (Unaudited)	<u>December 31, 2010</u>
Convertible notes payable, net of unamortized discount of \$126,502 and \$89,973 respectively	\$ 359,098	\$ 261,127
Less: Current portion	<u>78,011</u>	<u>157,064</u>
Long term portion	<u>\$ 281,087</u>	<u>\$ 104,063</u>

During the quarter ended June 30, 2011, several three year 1% convertible notes in the aggregate principal amount of \$196,000, with various maturity dates during 2011 were extended for an additional three years at the request of the noteholder. The Company incurred no additional cost as a result of these extensions.

NOTE 9 – DEFERRED REVENUE

The Company received a license fee of \$255,000 during the fourth quarter of 2010. This license fee is being amortized over the term of the license agreement's term of 17 years. The Company recognized \$5,000 in revenue during the year ended December 31, 2010, and has recognized \$11,250 in revenue for the nine months ended September 30, 2011.

NOTE 10 - RELATED PARTY TRANSACTIONS

Line of Credit

In April of 2010 the Company entered into a line of credit agreement with Chris Maggiore, a significant shareholder. Under the terms of this line of credit agreement, the shareholder agreed to advance, upon request, a maximum of \$675,000 as needed. The company's ability to draw from this line of credit expired April 24, 2011, and advances are to be repaid on or before April 24, 2012 with interest accrued at the rate of 7% annually. During 2010 the Company received advances totaling \$299,700, and accrued interest totaling \$4,209. During the quarter ended December 31, 2010, the Company issued an aggregate of 1,940,000 shares of common stock to the shareholder as follows: (i) 838,986 shares were issued upon exercise of outstanding warrants at an average exercise price of \$.23 per share (the shareholder paid the exercise price by forgiving \$188,898 in indebtedness owing to the shareholder), and 1,101,014 shares (valued at \$374,344) were issued in full satisfaction of the approximately \$110,000 in remaining principal amount plus accrued interest owing to this related party in connection with advances made to the Company. In connection with this loan repayment, the Company incurred finance charges of \$259,293. As of June 30, 2011, there is a principal balance due of \$29,500, and accrued interest totaling \$459.

The balance due under this line of credit agreement as of April 24, 2011 was \$26,716. Since the expiration of the line of credit, the Company has received an additional \$69,241 in loans from this significant shareholder, accrued additional interest of \$1,149 and repaid \$14,000. The balance owing this shareholder as of September 30, 2011 is \$81,741 in principal and \$1,365 in accrued interest. Of this principal balance, \$26,716 is due and payable on April 24, 2012, and the remaining principal balance of \$55,025 represents additional advances after the expiration of the loan agreement, and is due and payable upon demand.

In July, 2011, the Company issued Mr. Maggiore warrants to purchase 3,000,000 shares at an exercise price of \$.25 per share for a term of three years. These warrants were issued to Mr. Maggiore in consideration Mr. Maggiore providing financing to the Company which prevented him from being able to avail himself of a company offer to certain warrant holders to exercise their warrants on a reduced exercise price basis. The Company recognized finance costs of \$203,069 in connection with the grant.

License Agreement

On September 2, 2010, the Company entered into a multi-year exclusive worldwide License Agreement ("Agreement") for its ProAlgaZyme[®] product ("Product") with a distributor of health and nutritional products, Zus Health, LLC ("Zus") (this agreement was assigned by Zus to Ceptazyme, LLC (Zus' successor). Chris Maggiore, a significant shareholder of the Company, has an equity interest in Ceptazyme, LLC. See Note 11, License Agreement,

Office Space

We are leasing office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer, pursuant to an Amended and Restated Sublease that expires on February 9, 2020, subject to our unilateral right to terminate the Lease on March 31, 2013. Under the original terms of the Amended and Restated Sublease, the annual base rent for the 15,000 square foot facility was approximately \$237,000, 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 paid an additional security deposit of approximately \$110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

In October, 2009, we and Mr. Baer agreed in principle to (i) reduce from 15,000 to 11,000 the square footage of the space we are occupying and (ii) to reduce the base rent from \$20,000 to \$16,720 monthly (not including real estate taxes (currently \$1,480 per month)). In addition, the lessor has assumed the responsibility for maintenance and repairs for the building and we are obligated to reimburse the lessor for 70% of such expenses. We incurred approximately \$55,000 in rent expense during the first quarter of 2011.

In May of 2011 we and Mr. Baer agreed to (i) further reduce from 11,000 to 5,600 the square footage we are occupying, and (ii) reduce our rent to \$12,320 (not including real estate taxes of \$1,480 per month). We incurred approximately \$78,000 in rent expense during the second and third quarters of 2011.

In April of 2011 the Company signed a lease for new office and warehouse facilities. This lease calls for deferred rent payments until September 1, 2011, to allow us time to finish tenant improvements. Monthly rental is approximately \$5,400 per month, and is for a term of 42 months. The Company has not yet completed the tenant improvements necessary to occupy the space due to a shortage of funds. We anticipate moving in late in the fourth quarter of 2011. In connection with this lease, we incurred approximately \$5,400 in rent expense during the third quarter of 2011.

NOTE 11 – LICENSE AGREEMENT

On September 2, 2010, the Company entered into a multi-year exclusive worldwide License Agreement (“Agreement”) for its ProAlgaZyme® product (“Product”) with a distributor of health and nutritional products, Zus Health, LLC (“Zus”) (this agreement was assigned by Zus to Ceptazyme, LLC (Zus’ successor). As disclosed in Note 10, Related Party Transactions, Chris Maggiore, a significant shareholder of the Company, has an equity interest in Ceptazyme, LLC. Under the terms of the Agreement, Ceptazyme, LLC has the exclusive right to distribute the Product to customers and distributors worldwide, excluding pharmaceutical applications and food, supplement and medicinal ingredient applications outside of multi-level, network or affiliate marketing (“MLM”). The Company reserved the right to market and sell isolates and natural and synthetic derivatives of the Product in pharmaceutical applications, as well as ingredient applications outside of MLM. The Agreement prohibits the Company from selling ProAlgaZyme for the benefit of customers and distributors worldwide, other than for pharmaceutical and ingredient applications. The Company is also prohibited from selling any product in the MLM market. In November, 2010, the Company received a payment of \$255,000, as provided in the Agreement, for the exclusive distribution rights. \$242,500 of this payment has been recorded as deferred revenue, and is being amortized over seventeen years. Our receipt of minimum payments under the Ceptazyme, LLC Agreement is subject to among other conditions our product meeting the FDA’s GRAS standard, which we are currently working on. The Agreement remains in effect until the expiration of the last patent with respect to the Product, subject to earlier termination as provided in the Agreement. The minimum payment provisions under the Agreement have not been operative as we do not yet meet the GRAS standard. We anticipate GRAS compliance by the end of the second quarter, 2012, at which time we expect to begin shipments under the contract.

NOTE 12 - STOCKHOLDERS’ DEFICIT

During the quarter ended March 31, 2011, the Company issued 1,866,667 shares of common stock and received proceeds of \$180,000 for the exercise of warrants. In addition, the Company issued 400,000 shares of common stock and received proceeds of \$50,000 from investors. Pursuant to a private placement, convertible debentures were issued during the quarter ended March 31, 2011, for which a discount of \$62,500 was recorded, and warrants to purchase 1,240,000 shares of common stock were repriced, resulting in deferred finance costs of \$57,706. Finally, the Company issued 100,000 shares of common stock for services, valued at \$25,000.

During the quarter ended June 30, 2011, the Company issued 740,000 shares of common stock and received \$92,500 in proceeds from investors. The Company issued 500,000 shares of common stock and received \$50,000 in proceeds upon the exercise of warrants. Pursuant to a private placement, convertible debentures were issued during the quarter ended June 30, 2011, for which a discount of \$52,000 was recorded. The Company issued warrants to purchase 75,000 shares of common stock valued at \$8,584 for services, and issued 333,334 shares of common stock in satisfaction of an obligation to issue common stock valued at \$50,000.

During the quarter ended September 30, 2011, the Company issued 1,100,000 shares of common stock and received \$130,000 in proceeds from investors. The Company issued 16,000 shares of common stock upon the cashless exercise of 24,000 common stock warrants. Pursuant to a private placement, convertible debentures were issued during the quarter ended September 30, 2011, for which a discount of \$15,921 was recorded. In addition, in July, 2011, the Company issued a significant shareholder, Chris. Maggiore, warrants to purchase 3,000,000 shares at an exercise price of \$.25 per share for a term of three years. These warrants were issued to Mr. Maggiore in consideration Mr. Maggiore providing financing to the Company which prevented him from being able to avail himself of a company offer to certain warrant holders to exercise their warrants on a reduced exercise price basis. The Company recognized finance costs of \$203,069 in connection with the grant.

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

	September 30, 2011		December 31, 2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	15,856,999	\$ 0.17	22,723,401	\$ 0.50
Issued	7,799,000	0.17	3,880,000	0.21
Exercised	(2,740,000)	0.10	(9,951,402)	0.13
Repriced \$.15 warrants	1,240,000	0.15		
Repriced \$.25 warrants	(1,240,000)	(0.25)		
Expired	(3,258,666)	0.09	(795,000)	0.50
Outstanding, end of period	17,657,333	\$ 0.20	15,856,999	\$ 0.17

Warrants outstanding and exercisable by price range as of September 30, 2011 were as follows:

Outstanding Warrants			Exercisable Warrants		
Range of	Number	Average Weighted Remaining Contractual Life in Years	Exercise Price	Number	Weighted Average Exercise Price
0.10	1,170,000	.79	0.10	1,170,000	\$ 0.10
0.125	4,724,000	2.61	0.125	4,724,000	0.125
0.15	3,323,333	1.29	0.15	3,223,333	0.15
0.225	600,000	2.32	0.225	600,000	0.225
0.25	6,825,000	1.59	0.25	6,825,000	0.25
0.50	1,015,000	1.24	0.50	1,015,000	0.50
	<u>17,657,333</u>	<u>1.76</u>		<u>17,657,333</u>	<u>\$ 0.12</u>

NOTE 13- COMMITMENTS AND CONTINGENCIES

Product Liability Insurance - 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 given our liquidity and cash limitations.

Office Lease - We are leasing office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer, pursuant to an Amended and Restated Sublease that expires on February 9, 2020, subject to our unilateral right to terminate the Lease on March 31, 2013. Under the original terms of the Amended and Restated Sublease, the annual base rent for the 15,000 square foot facility was approximately \$237,000, 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 paid an additional security deposit of approximately \$110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

In October, 2009, we and Mr. Baer agreed in principle to (i) reduce from 15,000 to 11,000 the square footage of the space we are occupying and (ii) reduce the base rent from \$20,000 to \$16,720 monthly (not including real estate taxes (currently \$1,480 per month)). In addition, the lessor has assumed the responsibility for maintenance and repairs for the building and we are obligated to reimburse the lessor for 70% of such expenses. We incurred approximately \$55,000 in rent expense during the first quarter of 2011.

In May of 2011 we and Mr. Baer agreed to (i) further reduce from 11,000 to 5,600 the square footage we are occupying, and (ii) reduce our rent to \$12,320 (not including real estate taxes of \$1,480 per month). We incurred approximately \$78,000 in rent expense during the second and third quarters of 2011.

The Company was leasing, on a month to month basis, a warehousing and bottling facility. The lease called for monthly rentals of \$2,700, plus annual common area maintenance fees. Rent expense under this lease for the quarter ended March 31, 2011 was approximately \$9,550. This building was vacated on April 1, 2011.

In April of 2011 the Company signed a lease for new office and warehouse facilities. This lease calls for deferred rent payments until September 1, 2011, to allow us time to finish tenant improvements. Monthly rental is approximately \$5,400 per month, and is for a term of 42 months. The Company has not yet completed the tenant improvements necessary to occupy the space due to a shortage of funds. We anticipate moving in late in the fourth quarter of 2011. In connection with this lease, we incurred approximately \$5,400 in rent expense during the third quarter of 2011.

The Company's future minimum lease payments are as follows:

Year Ending December 31,	
2011	\$ 53,242
2012	216,925
2013	95,121
2014	<u>48,156</u>
	<u>\$ 413,444</u>

Business Services Agreement

On October 19, 2009, the Registrant and Great Northern Reserve Partners, LLC (“GNRP”) entered into a Business Services Agreement (“Agreement”), which supersedes the prior agreement between them entered into in February, 2009 (“February Agreement”).

The Registrant entered into the Agreement to continue the pursuit of its strategic product and business development objectives. GNRP was issued 500,000 shares of the Registrant’s Common Stock in connection with the execution of the Agreement, in full payment of any and all amounts owing under the February Agreement (approximately \$142,000 per GNRP) and in recognition of GNRP’s contribution to the achievement of recent product testing results. In addition, GNRP will be compensated based on hours expended, sales and other payments (licensing payments, etc.) received by the Registrant, and the achievement of specified milestones.

On August 17, 2011, the Company received notice from GNRP (see Note 12) claiming that the Company owes it \$220,000 for services rendered from October, 2009 to August 2011, although the Company has never received a bill detailing any services rendered. Once the Company receives detailed billing records, it will determine the amount if any owed to GNRP.

Workers’ Compensation – The Company does not carry workers’ compensation insurance, which covers on the job injury.

Guarantees – In May, 2010, we entered into an indemnity agreement under which we indemnified a significant stockholder, Howard Baer, for any liability incurred by him in connection with guarantying company obligations. We also issued Mr. Baer warrants to purchase 500,000 shares of common stock as compensation for prior loan guarantees he made with respect to company indebtedness. These warrants have an exercise price of \$.15 (cashless) and a term of 3 years. The warrants were valued at \$405,925 using the Black Scholes pricing model with the following assumptions: volatility 137.66%; annual rate of dividends 0%; discount rate 3.1%.

NOTE 14 – LOSS PER SHARE

Loss per common share is based upon the weighted average number of common shares outstanding during the period. Diluted loss per common share is the same as basic loss per share, as the effect of potentially dilutive securities (Convertible debt – 5,512,956 shares and 6,622,000 shares at September 30, 2011 and 2010, respectively; and warrants – 17,657,333 shares and 16,840,985 shares at September 30, 2011 and 2010, respectively) is anti-dilutive.

NOTE 15 - SUBSEQUENT EVENTS

The Company issued 37,594 shares of common stock to a consultant, valued at \$7,519. The Company issued 800,000 shares of common stock and received proceeds of \$100,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission ("SEC") encourages companies to disclose forward-looking information so that investors can better understand future prospects and make informed investment decisions. This report contains these types of statements. Words such as "may," "will," "expect," "believe," "anticipate," "estimate," "project," or "continue" or comparable terminology used in connection with any discussion of future operating results or financial performance identify forward-looking statements. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. All forward-looking statements reflect our present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

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.

Results of Operations for the nine months ended September 30, 2011 and 2010.

Net Sales. Net sales for the nine months ended September 30, 2011 were \$88,587 as compared to \$52,451 for the comparable prior period. These sales reflect principally revenues from the distribution of our ProAlgaZyme® product. The increase in our revenue for 2011 is due to our exclusive distributorship agreement with Ceptazyme, LLC to distribute our product. In the fourth quarter of 2010 we received an initial licensing fee payment of \$255,000 under the terms of this exclusive distributorship agreement. We recognized \$11,250 in revenue from this licensing fee during the first nine months of 2011.

Although we anticipate the realization of increasing revenues from our exclusive distributorship agreement with Ceptazyme, LLC, our ability to realize any such increased revenue is dependent upon the satisfaction of certain conditions, including our product's meeting the FDA's GRAS standard or receiving New Diet Ingredient ("NDI") status from the FDA, which we have not satisfied as of this date, though we are working on meeting the GRAS standard. The minimum payment provisions under the distributorship agreement have not been operative because we do not yet meet the GRAS standard. We anticipate GRAS compliance by the end of the second quarter, 2012, at which time we expect to begin shipments under the contract. If we are unable to meet the GRAS standard (or NDI status), there will be a material adverse effect on our business, financial condition and results of operations.

Throughout 2010 and 2011, we were adversely impacted by a shortage of funds which has severely impeded our ability to market, test and expand the production of our ProAlgaZyme® product. Although we signed an exclusive distribution agreement in September of 2010, we intend to explore additional potential marketing opportunities, consistent with the limitations placed upon us by our exclusive distribution agreement with Ceptazyme, LLC. 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 further evidence of its efficacy, as well as advertising. The testing necessary to further characterize the product, identify its method of action and further substantiate its effectiveness is ongoing.

Cost of Sales. Cost of Sales was \$99,060 for the nine months ended September 30, 2011, as compared to \$35,343 for the comparable prior period. 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 2011 is due to an increase in overall production, combined with additional costs incurred in bottling our product offsite until the improvements to our new warehouse facility are completed.

Research and Development Expenses. For the nine months ended September 30, 2011, we incurred \$246,000 on research and development expenses, as compared to \$294,053 for the comparable period in 2010. These expenses are mainly comprised of costs associated with external research. Our research and development costs declined due to our limited cash resources. This research was initiated to further explore ProAlgaZyme®'s potential efficacy on the management of cholesterol levels. We have identified several potential bioactive compounds, but additional research aimed at isolating the compound further is expected to be completed during the fourth quarter of 2011.

Selling and Marketing Expenses. Selling and marketing expenses were \$11,823 for the nine months ended September 30, 2011, as compared to \$95,190 for the comparable prior period. The decrease in 2011 was due to the reclassification of wages paid to our Executive Vice President, combined with shifting available resources to research, resulting in our de-emphasizing marketing.

In the past we were only accustomed to nominal sales of our sole product, ProAlgaZyme. In September of 2010, we signed an exclusive distribution agreement to sell our product. This exclusive distribution agreement called for an initial licensing fee of \$255,000 (received in October of 2010) and monthly orders which increase as our ability to produce product increases, subject to satisfaction of certain conditions, including satisfaction of the GRAS standard (or NDI status); we are still working on meeting GRAS. An initial order of \$51,100 was received in December of 2010. Due to several delays in the design of new packaging, this order was shipped in full during the month of April, 2011. During the second quarter of 2011 we received orders for 15,000 bottles, and shipped approximately 6,600 bottles. The balance of this order is pending payment from the distributor. During the third quarter of 2011 we received orders for 4,354 bottles, and shipped approximately 4,400 bottles. We anticipate further orders in the near term, subject to the ability of Ceptazyme to remit payment as required under the terms of the contract. However, we do not expect the distributor to begin purchasing the minimums until we satisfy the FDA's GRAS standard (Note 11).

We intend to explore additional third party distribution channels for our product, consistent with the limitations placed upon us by our exclusive distribution agreement with Ceptazyme, LLC. The limit on our ability thus far to advertise our product (due in part to the need for additional testing) has had and, until we are able to advertise our product based upon the results of "class of compound" testing and identification of the bioactive ingredient, 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 2011, subject to availability of sufficient funding, which we do not currently have.

General and Administrative Expenses. General and administrative expense was \$333,021 for the nine months ended September 30, 2011, as compared to \$960,625 for the comparable prior period. The decrease in general and administrative expense during 2011 is due primarily to an approximate \$530,000 decrease in administrative salaries, of which approximately \$500,000 was in the form of stock based compensation, a non-cash expense, combined with a decrease of \$45,000 in costs associated with our 2010 stockholders meeting, and a \$50,000 decrease in our rent expense.

Professional and Consulting Expenses. Professional and consulting expense was \$386,355 for the nine months ended September 30, 2011, as compared to \$2,000,489 for the comparable prior period. The decrease in professional and consulting expense during 2011 is due primarily to a decrease in stock based compensation of approximately \$1,500,000, and a decrease in legal fees of approximately \$180,000, offset by an increase in accounting fees of approximately \$49,000.

Liquidity and Capital Resources

Historically, we have not generated any material revenues from operations and have been in a precarious financial condition. Our unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We have had recurring losses from operations. Our primary source of funds during the nine months ended September 30, 2011 was from the sale and issuance of equity securities as well as proceeds from the issuance of convertible debentures. We anticipate that our operations and costs through the 4th quarter of 2011 will be funded from the proceeds from private placements and warrant exercises as well as the issuance of new debentures. We have an immediate and urgent need for additional capital. If we are unable to raise the capital necessary to fund our continuing operations, we will not be able to continue as a going concern and you will suffer a total loss of your investment.

As of November 18, 2011, we had a cash balance of approximately \$40,000. We have had only limited revenue (\$88,587 for the nine months ended September 30, 2011) and have incurred significant net losses since inception, including a net loss of \$1,322,815 for the nine months ended September 30, 2011. Subject to our product's meeting the FDA's GRAS standard or receiving New Diet Ingredient ("NDI") status from the FDA (neither of which standards do we currently meet), the revenue guaranteed to us under the exclusive distribution agreement is expected to contribute significantly to funding our normal operations. However, we have, since inception, consistently incurred negative cash flow from operations. During the nine months ended September 30, 2011, we incurred negative cash flows from operations of \$770,442. As of September 30, 2011, we had a working capital deficiency of \$917,042 and a stockholders' deficiency of \$1,297,214. Although we recently raised a limited amount of capital, we have an immediate and urgent need for additional capital.

During the nine months ended September 30, 2011, our operating activities used \$770,442 in cash, a decrease of \$523,518 from the comparable prior period. The approximate \$520,000 decrease in cash used by operating activities was primarily attributable to the following (all of which are approximated): a \$4.8 million decrease in net loss, a \$388,000 increase in accrued payroll taxes expenses and accounts payable, partially offset by a \$2.2 million decrease fair value adjustment of derivative liability (a noncash expense), a \$1.6 million decrease in stocks and warrants issued for services (a noncash expense), a \$203,000 decrease in finance costs paid with warrants, and a \$550,000 decrease in obligations to issue common stock.

During the nine months ended September 30, 2011, our financing activities generated \$819,692, a \$476,420 decrease from the comparable prior period. The decrease in cash provided by financing activities was due primarily to a decrease in proceeds from sales of securities and convertible debt.

Although we raised a limited amount of capital during the first nine months of 2011, we continue to experience a severe shortage of capital, which is materially and adversely affecting our ability to run our business. As noted above, we have been largely dependent upon external sources for funding. We have in the past had great difficulty in raising capital from external sources. Subject to our ability to meet the FDA's GRAS standard, which we do not yet meet, our exclusive distribution agreement should generate revenue to help cover at least a portion of our normal operating expenses; however we will still be reliant upon external financing for the continuation of our research program. With the leasing of our new manufacturing and office facilities, we anticipate being able to increase our production as necessary to meet the minimum requirements called for in our distribution agreement, subject to having sufficient capital, which we do not currently have.

In September 2011, we issued a Senior Secured Note in the principal amount of \$100,000. This Note is secured by all our assets and is payable within ten days of the lender's written demand. We currently do not have the funds to repay this loan. If the lender demands payment and we are unable to raise the funds needed to repay the loan, the lender could foreclose on our assets, in which case you would suffer a total loss of your investment.

We estimate that we will require approximately \$1,500,000 in cash over the next 12 months in order to fund our normal operations. In addition, we will require additional funding in the range of \$500,000 to \$1,000,000 to fund our research initiatives. Based on this cash requirement, we have an immediate and urgent need for additional funding. Historically, we have had great difficulty raising funds from external sources; however, we recently were able to raise a limited amount of capital from outside sources.

In addition, 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 given our liquidity and cash limitations.

Significant elements of income or loss not arising from our continuing operations

Except as set forth below, we do not expect to experience any significant elements of income or loss other than those arising from our continuing operation. For the nine months ended September 30, 2010, we recognized \$2,223,991 of expenses for financial statement purposes based on the change in fair value of derivative liabilities.

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 4 T. Controls and Procedures

Management's Report on Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and we necessarily were required to apply our judgment in evaluating the cost-benefit relationship of possible changes or additions to our controls and procedures.

As of September 30, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive/principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our principal executive/principal financial officer concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

Changes in Internal control Over Financial Reporting. There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended March 31, 2011, the Company issued 1,866,667 shares of common stock and received proceeds of \$180,000 upon the exercise of warrants. In addition, the Company issued 400,000 shares of common stock and received proceeds of \$50,000 from investors. During the quarter ended March 31, 2011, the Company issued (i) Convertible debentures in the principal amount of \$62,500 (convertible into common stock at \$.125 per share), and (ii) warrants to purchase 750,000 shares of common stock (at an exercise price of \$.125 per share), all for gross proceeds of \$62,500. In addition, the company re-priced 1,240,000 warrants from \$.25 to \$.15 per share to induce the convertible note investment. Finally, the Company issued 100,000 shares of common stock for services, valued at \$25,000.

During the quarter ended June 30, 2011, The Company issued 740,000 shares of common stock and received \$92,500 in proceeds from investors. The Company issued 500,000 shares of common stock and received \$50,000 in proceeds upon the exercise of warrants. Pursuant to a private placement, convertible debentures were issued during the quarter ended June 30, 2011, for which a discount of \$52,000 was recorded. The Company issued warrants valued at \$8,584 for services, and issued 333,334 shares of common stock in satisfaction of an obligation to issue common stock.

During the quarter ended September 30, 2011, the Company issued 1,100,000 shares of common stock and received \$130,000 in proceeds from investors. The Company issued 16,000 shares of common stock upon the cashless exercise of 24,000 common stock warrants. Pursuant to a private placement, convertible debentures were issued during the quarter ended September 30, 2011, for which a discount of \$15,921 was recorded. In addition, in July, 2011, the Company issued a significant shareholder warrants to purchase 3,000,000 shares at an exercise price of \$.25 per share for a term of three years. These warrants were issued to the shareholder in consideration of his providing financing to the Company which prevented him from being able to avail himself of a company offer to certain warrant holders to exercise their warrants on a reduced exercise price basis.

We believe 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”) or Section 4(2) under the Act, based on the following facts: there was no general solicitation, there was a limited number of investors, each of whom was an “accredited investor” (within the meaning of Regulation D under the “1933 Act”, as amended) and was (either alone or with his/her purchaser representative) sophisticated about business and financial matters, each such investor had the opportunity to ask questions of our management and to review our filings with the Securities and Exchange Commission, and all shares issued were subject to restrictions on transfer, so as to take reasonable steps to assure that the purchasers were not underwriters within the meaning of Section 2(11) under the 1933 Act.

Item 5. Other Information

Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended (1)
3.2	Amended and Restated By-laws of the Company (2)
10.1	Security Agreement related to Senior Secured Promissory Note
10.2	Senior Secured Promissory Note Dated September 8, 2011
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 3.1 to the Registrant’s Form 10Q, for the quarter ended June 30, 2011, filed with the Commission on August 22, 2011 and incorporated by this reference.

(2) Filed as Exhibit 3.2 to the Registrant’s Form 10Q, for the quarter ended March 31, 2010, filed with the Commission on May 17, 2010 and incorporated by this reference

*furnished herewith (all other exhibits are deemed filed).

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEALTH ENHANCEMENT PRODUCTS, INC.

Date: November 18, 2011

By: /s/ John Gorman
Executive Vice President

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

Signature	Title	Date
By: <u>/s/ John Gorman</u> (John Gorman)	Executive Vice President	November 18, 2011

LIST OF EXHIBITS

Exhibit Number	Description
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended (1)
3.2	Amended and Restated By-laws of the Company (2)
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*furnished herewith (all other exhibits are deemed filed)

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement") is made and entered into effective as of September 8, 2011, by and among HEP INVESTMENTS LLC, a Michigan limited liability company ("Secured Party") and HEALTH ENHANCEMENT PRODUCTS, INC., a Nevada corporation ("Borrower").

RECITALS:

A. Borrower is indebted to Secured Party pursuant to that certain Senior Secured Convertible Demand Promissory Note, dated as of the date of this Agreement, in the original principal amount of One Hundred Thousand Dollars (\$100,000.00) (as amended, restated or otherwise modified from time to time, the "Note").

B. As security for the payment and performance of the indebtedness, and all other obligations of Borrower, under the Note (collectively, the "Obligations"), the Secured Party has required that Borrower execute and deliver this Agreement.

C. Borrower has agreed to secure the Obligations by granting Secured Party a security interest in the Collateral (as defined below).

AGREEMENTS:

NOW, THEREFORE, the parties agree as follows:

1. Security Interest. To secure payment of the Obligations, Borrower hereby grants to Secured Party a continuing security interest in and to all of Borrower's rights, title and interest in and to all of its property of any kind or description, tangible and intangible personal property, assets and rights, wherever located, whether now existing or owned or hereafter arising or acquired and the proceeds and products therefrom, including, without limitation, the following (collectively, the "Collateral"):

(a) All Accounts, including, without limitation, accounts receivable, insurance receivables and prepaid premiums, if any, and all Goods whose sale, lease or other disposition has given rise to Accounts and have been returned to, or repossessed or stopped in transit by, Borrower, or rejected or refused by an Account Debtor;

(b) All Chattel Paper, including, without limitation, Electronic Chattel Paper and liens and lien rights on customer property; Documents; Instruments, including, without limitation, Promissory Notes; Letter of Credit Rights and proceeds of letters of credit; Supporting Obligations; Liabilities secured by real estate; Commercial Tort Claims and General Intangibles, including, without limitation, Payment Intangibles and Software;

(c) All Inventory, including, without limitation, raw materials, work in process, materials and finished goods leased by Borrower as lessor or held for sale or lease or furnished or to be furnished under contracts of service or used or consumed in a business;

(d) All Goods and all Equipment;

(e) All Securities, Investment Property and Deposit Accounts;

(f) all patents, patent applications and inventions and all issued patents in the United States of America or elsewhere and any future patents, including any reissue, continuation, division or other extension in whole or part of any such patent;

(g) All products of, additions and accessions to, and substitutions, betterments and replacements for the foregoing property;

(h) All sums at any time credited by or due from Secured Party to Borrower;

(i) All property in which Borrower has an interest now or at any time hereafter coming into the possession or under the control of Secured Party or in transit by mail or carrier to or from Secured Party or in possession of or under the control of any third party acting on Secured Party's behalf without regard to whether Secured Party received the same in pledge, for safekeeping, as agent for collection or transmission or otherwise or whether Secured Party has conditionally released the same (excluding, nevertheless, any of the foregoing property of Borrower which now or any time hereafter is in possession or control of Secured Party under any written trust agreement wherein Secured Party is trustee and Borrower is trustor); and

(j) All Proceeds (whether Cash Proceeds or Noncash Proceeds) of the foregoing property, including, without limitation, proceeds of insurance payable by reason of loss or damage to the foregoing property and of eminent domain or condemnation awards.

Terms used and not otherwise defined in this Agreement shall have the meaning given such terms in the Michigan Uniform Commercial Code (the “UCC”). In the event the meaning of any term defined in the UCC is amended after the date of this Agreement, the meaning of such term as used in this Agreement shall be that of the more encompassing of: (i) the definition contained in the UCC prior to the amendment, and (ii) the definition contained in the UCC after the amendment.

2. Perfection of Security Interest. Borrower hereby irrevocably authorizes Secured Party to file financing statement(s) and notices describing the Collateral in all public offices deemed necessary by Secured Party (including the United States Patent and Trademark Office), and to take any and all actions, including, without limitation, filing all financing statements, continuation financing statements and all other documents that Secured Party may reasonably determine to be necessary to perfect and maintain the security interests in the Collateral. Borrower shall have possession of the Collateral. Where Collateral is in the possession of a third party, Borrower will join with Secured Party in notifying the third party of the security interest and obtaining an acknowledgement from the third party that it is holding the Collateral for the benefit of Secured Party. Borrower agrees to promptly execute and deliver to Secured Party all financing statements, continuation financing statements, assignments and all other documents that Secured Party may reasonably request in form satisfactory to Secured Party to perfect and maintain Secured Party’s security interests in the Collateral. In order to fully consummate all of the transactions contemplated under this Agreement, Borrower shall make appropriate entries on its books and records disclosing Secured Party’s security interests in the Collateral.

3. Warranties and Representations. Borrower represents and warrants that: (a) Borrower has rights in or the power to transfer the Collateral; (b) the Collateral, wherever located, is covered by this Agreement; (c) there are no actions or proceedings which are threatened or pending against Borrower which could reasonably be expected to result in any material adverse change in Borrower’s financial condition or which could reasonably be expected to materially affect any of the Collateral; (d) Borrower has duly filed all federal, state, and other governmental tax returns which Borrower is required by law to file, and will continue to file same during such time as any of the Obligations remain owing to Secured Party, and all such taxes required to be paid have been paid, in full; and (e) Borrower is or will become the owner of the Collateral free from any liens, encumbrances or security interests, except for this security interest and existing liens disclosed to and accepted by the Secured Party in writing, and will defend the Collateral against all claims and demands of all persons at any time claiming any interest in it.

4. Covenants. Borrower covenants and agrees that while any of the Obligations remain unperformed and unpaid it will: (a) preserve its legal existence and not, in one transaction or a series of related transactions, merge into or consolidate with any other entity, or sell all or substantially all of its assets; (b) not change the state in which it is organized; (c) neither change its name, form of business entity nor address of its chief executive office without giving written notice to Secured Party at least thirty (30) days prior to the effective date of such change, and Borrower agrees that all documents, instruments, and agreements demanded by Secured Party in response to such change shall be prepared, filed, and recorded at Borrower’s expense prior to the effective date of such change; (d) not use the Collateral, nor permit the Collateral to be used, for any unlawful purpose; (e) maintain the Collateral in working condition and repair; and (f) indemnify and hold Secured Party harmless against claims of any persons or entities not a party to this Agreement concerning disputes arising over the Collateral.

5. Insurance, Taxes, Etc. Borrower has the risk of loss of the Collateral. Borrower shall: (a) pay promptly all taxes, levies, assessments, judgments, and charges of any kind upon or relating to the Collateral, to Borrower’s business, and to Borrower’s ownership or use of any of its assets, income, or gross receipts, except to the extent contested in good faith; and (b) at its own expense, keep and maintain all of the Collateral fully insured against loss or damage by fire, theft, explosion and other risks, and shall furnish Secured Party with such policies and evidence of payment of premiums upon request. If Borrower fails to obtain or maintain any of the policies required above or pay any premium in whole or in part, or shall fail to pay any such tax, assessment, levy, or charge or to discharge any such lien, claim, or encumbrance, then Secured Party, without waiving or releasing any obligation or default of Borrower hereunder, may at any time thereafter (but shall be under no obligation to do so) make such payment or obtain such discharge or obtain and maintain such policies of insurance and pay such premiums, and take such action as Secured Party deems reasonably advisable. All sums so disbursed by Secured Party, including reasonable attorney fees, court costs, expenses, and other charges, shall be part of the Obligations, covered by this Agreement, and payable upon demand together with interest at the highest rate payable in connection with any of the Obligations from the date when advanced until paid.

6. Information. Borrower shall permit Secured Party or its agents, upon reasonable request, to have access to, and to inspect, all the Collateral.

7. Events of Default. The Borrower, without notice or demand of any kind, shall be in default under this Agreement upon the occurrence and during the continuance of any “Event of Default” as defined in the Note (an “Event of Default”).

8. Remedies Upon Default.

(a) Upon the occurrence of any Event of Default, Secured Party may exercise from time to time any rights and remedies including the right to immediate possession of the Collateral available to it under applicable law. Secured Party may directly contact third parties and enforce against them all rights which arise with respect to the Collateral and to which Borrower or Secured Party would be entitled.



(b) Borrower waives any right it may have to require Secured Party to pursue any third person for any of the Obligations. Borrower agrees, upon the occurrence of an Event of Default, to assemble at its expense all the Collateral and make it available to Secured Party at a convenient place acceptable to Secured Party. Borrower agrees to pay all costs of Secured Party of collection of the Obligations, and enforcement of rights under this Agreement, including reasonable attorney fees and legal expenses, including participation in Secured bankruptcy proceedings, and expense of locating the Collateral and expenses of any repairs to any realty or other property to which any of the Collateral may be affixed or be a part. If any notification of intended disposition of any of the Collateral is required by law, such notification, if mailed, shall be deemed reasonably and properly given if sent at least ten (10) days before such disposition, postage pre-paid, addressed to the Borrower at the address of the Borrower appearing on the Notes or records of Secured Party.

(c) Any sale shall conform to commercially reasonable standards as provided in the UCC. Borrower acknowledges that Secured Party may be unable to effect a public sale of all or any portion of the Collateral because of certain legal and/or practical restrictions and provisions which may be applicable to the Collateral and, therefore, may be compelled to resort to one or more private sales to a restricted group of offerees and purchasers. Secured Party shall have no obligation to clean up or otherwise prepare the Collateral for sale. Secured Party may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral. Secured Party may specifically disclaim any warranties as to the Collateral. If the Secured Party resorts to one or more private sales, Secured Party shall give Borrower notice and the right to match bids. If Secured Party sells any of the Collateral upon credit, Borrower will be credited only with payments actually made by the purchaser, received by Secured Party and applied to the indebtedness of the purchaser. In the event the purchaser fails to pay for the Collateral, Secured Party may resell the Collateral and the Borrower shall be credited with the proceeds of sale. Secured Party shall have no obligation to marshal any assets in favor of the Borrower. Borrower waives the right to jury trial in any proceeding instituted with respect to the Collateral. Out of the net proceeds from sale or disposition of the Collateral, Secured Party shall retain all the Obligations then owing to it and the actual cost of collection (including reasonable attorney fees) and shall tender any excess to Borrower or its successors or assigns. If the Collateral shall be insufficient to pay the entire Obligations, Borrower shall pay to Secured Party the resulting deficiency upon demand.

(d) Except as otherwise provided in this Agreement, Borrower expressly waives any and all claims of any nature, kind or description which it has or may have against Secured Party or its representatives, by reason of taking, selling or collecting any portion of the Collateral. Borrower consents to releases of the Collateral at any time (including prior to default) and to sales of the Collateral in groups, parcels or portions, or as an entirety, as Secured Party shall deem appropriate. Borrower expressly absolves Secured Party from any loss or decline in market value of any Collateral by reason of delay in the enforcement or assertion or nonenforcement of any rights or remedies under this Agreement. Borrower agrees that Secured Party shall, upon the occurrence of an Event of Default, have the right to peacefully retake any of the Collateral. Borrower waives any right it may have in such instance to a judicial hearing prior to such retaking.

(e) Secured Party may exercise all rights and remedies provided by the UCC as it exists on the date of this Agreement or as it may be amended.

(f) Notwithstanding anything in this Agreement to the contrary, Secured Party hereby agrees that upon the occurrence of an Event of Default, it will not exercise any of its rights and remedies under this Agreement unless or until: (i) Borrower files a voluntary petition in bankruptcy; (ii) Borrower makes a general assignment for the benefit of its creditors or Borrower's creditors file against Borrower any involuntary petition under any bankruptcy or insolvency law; (iii) any court appoints a receiver to take possession of substantially all of Borrower's assets; (iv) Borrower consummates a debt or equity financing; or (v) six months after the date of the Note.

9. General.

(a) Time shall be deemed of the very essence of this Agreement.

(b) Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if it takes such action for that purpose as Borrower requests in writing, but failure of Secured Party to comply with any such request shall not of itself be deemed a failure to exercise reasonable care, and failure of Secured Party to preserve or protect any rights with respect to such Collateral against any prior parties or to do any act with respect to the preservation of such Collateral not so requested by Borrower shall not be deemed a failure to exercise reasonable care in the custody and preservation of such Collateral.

(c) This Agreement has been delivered in Michigan and shall be construed in accordance with the laws of the State of Michigan.

(d) Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.



(e) The rights and privileges of Secured Party under this Agreement shall inure to the benefit of its successors and assigns, and this Agreement shall be binding on all assigns and successors of Borrower and all persons who become bound as a debtor to this Agreement.

(f) Borrower hereby expressly authorizes and appoints Secured Party to act as its attorney-in-fact for the sole purpose of executing any and all financing statements or other documents deemed necessary to perfect the security interest herein contemplated.

(g) Any delay on the part of Secured Party in exercising any power, privilege or right under this Agreement shall not operate as a waiver, and no single or partial exercise, or the exercise of any other power, privilege or right shall preclude other or further exercise, or the exercise of any other power, privilege or right. The waiver of Secured Party of any default by Borrower shall not constitute a waiver of any subsequent defaults, but shall be restricted to the specific default waived. All rights, remedies and powers of Secured Party under this Agreement are irrevocable and cumulative, and not alternative or exclusive, and shall be in addition to all rights, remedies, and powers given under this Agreement or in or by any other instruments, or by the UCC or any laws.

(h) This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument. Facsimile or photostatic copies of signatures to this Agreement shall be deemed to be originals and may be relied on to the same extent as the originals.

[Signatures on the following page]

IN WITNESS WHEREOF, the parties have caused this Security Agreement to be fully executed as of the day and year first written above.

BORROWER:

HEALTH ENHANCEMENT PRODUCTS, INC.

S/John Gorman _____

By: John Gorman, EVP, Operations

SECURED PARTY:

HEP INVESTMENTS LLC

By: _____

Print Name: _____

Its: _____

[Signature Page to Security Agreement]

SENIOR SECURED CONVERTIBLE DEMAND PROMISSORY NOTE**\$100,000.00****Keego Harbor, Michigan
September 8, 2011**

FOR VALUE RECEIVED, **HEALTH ENHANCEMENT PRODUCTS, INC.**, a Nevada corporation ("Borrower"), whose address is 7740 E. Evans Rd., Suite A100, Scottsdale, AZ 85260, promises to pay to the order of **HEP INVESTMENTS LLC**, a Michigan limited liability company ("Lender") at 2804 Orchard Lake Road, Suite 205, Keego Harbor, Michigan 48320, or at such other place as Lender may designate in writing, in lawful money of the United States of America, the principal sum of One Hundred Thousand Dollars (\$100,000.00), together with interest as provided herein, in accordance with the terms of this Senior Secured Convertible Demand Promissory Note (this "Note").

1. Payment. The unpaid principal balance of this Note shall bear interest computed upon the basis of a year of 360 days for the actual number of days elapsed in a month at a rate of fifteen percent (15%) per annum (the "Effective Rate"). Upon the occurrence and during the continuance of an Event of Default (as defined below), the unpaid principal balance of this Note shall bear interest, computed upon the basis of a year of 360 days for the actual number of days elapsed in a month, at a rate of the lesser of five percent (5%) over the Effective Rate or the highest rate allowed by applicable law. The indebtedness represented by this Note shall be repaid to Lender upon demand, with ten (10) days' advance written notice (the date of such demand, the "Due Date"), upon which date the entire unpaid principal balance of this Note, together with all accrued and unpaid interest, shall be immediately due and payable in full. Absent the occurrence of an Event of Default, Lender agrees not to demand payment until at least thirty (30) days after the date of this Note.

2. Use of Proceeds. The funds advanced pursuant to this Note shall be used by Borrower as set forth on Exhibit A.

3. Conversion Right.

(a) At Lender's option, at any time after the date of this Note, but prior to the repayment in full of this Note, the outstanding indebtedness of this Note (including all accrued and unpaid interest) may be converted into shares of common stock of the Borrower ("Shares") at a conversion ratio of \$0.12 per share (the "Conversion Price"). No fractional Shares shall be issued upon any conversion of this Note, and if the conversion of this Note results in a fractional Share, in lieu of such fractional Share, the Borrower shall pay cash equal to such fraction multiplied by the Conversion Price.

(b) Upon conversion of this Note as provided herein, (i) this Note shall be deemed cancelled and shall be converted into such Shares as specified above; (ii) Lender, by acceptance of this Note, agrees to deliver the executed original of this Note to Borrower within ten (10) days of such conversion and to execute all governing documents of Borrower and such other agreements as are necessary to document the issuance of the Shares and to comply with applicable securities laws; and (iii) as soon as practicable after Borrower's receipt of the documents referenced above, Borrower shall issue and deliver to Lender stock certificates evidencing the Shares.

4. Default. Each of the following constitutes an "Event of Default" under this Note:

(a) Borrower breaches of any of the terms and conditions of this Note or the Security Agreement (defined below);

(b) Borrower files a voluntary petition in bankruptcy;

(c) Borrower makes a general assignment for the benefit of its creditors or Borrower's creditors file against Borrower any involuntary petition under any bankruptcy or insolvency law that is not dismissed within ninety (90) days after it is filed; or

(d) Any court appoints a receiver to take possession of substantially all of Borrower's assets and such receivership is not terminated within ninety (90) days after its appointment.

5. Security. This Note is secured by all of the assets of the Borrower pursuant to that certain Security Agreement, dated as of the date of this Note (the "Security Agreement").

6. Miscellaneous.

(a) All modifications, consents, amendments or waivers of any provision of any this Note shall be effective only if in writing and signed by Lender and then shall be effective only in the specific instance and for the limited purpose for which given.

(b) All communications provided in this Note shall be personally delivered or mailed, postage prepaid, by registered or certified mail, return receipt requested, to the addresses set forth at the beginning of this Note or such other addresses as Borrower or Lender may indicate by written notice.

(c) The headings used in this Note are for convenience of reference only and shall not in any way affect the meaning or interpretation of this Note.

(d) This Note shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns; provided, however, that neither party may, without the prior written consent of the other party, assign any rights, powers, duties or obligations under this Note.

(e) This Note shall be construed and enforced in accordance with the laws of the State of Michigan. All actions arising out of or relating to this Note shall be heard and determined exclusively by any state or federal court with jurisdiction in the Eastern District of the State of Michigan. Consistent with the preceding sentence, the parties hereto hereby irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Note or the transactions contemplated by this Note may not be enforced in or by any of the above-named courts.

(f) This Note may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument. Facsimile or photostatic copies of signatures to this Note shall be deemed to be originals and may be relied on to the same extent as the originals.

[Signatures on the following page]

IN WITNESS WHEREOF, the undersigned have duly executed this Note as of the day and year first written above.

BORROWER:

HEALTH ENHANCEMENT PRODUCTS, INC.

S/John Gorman _____

John Gorman, EVP Operations

LENDER:

HEP INVESTMENTS LLC

By: _____

Print Name: _____

Its: _____

[Signature Page to Note]

EXHIBIT A
Use of Proceeds

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

I, John Gorman, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Health Enhancement Products, Inc. (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 Registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the 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 the material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly through 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 evaluations, and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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):
 - 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: November 18, 2011

/s/ John Gorman
John Gorman, Executive Vice President

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

I, John Gorman, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Health Enhancement Products, Inc. (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 Registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the 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 the material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly through 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 evaluations, and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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):
 - 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: November 18, 2011

/s/ John Gorman
John Gorman, Executive Vice President

**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 on Form 10-Q for the period ending September 30, 2011 of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), as filed with the Securities and Exchange Commission (the "Report"), I, John Gorman, Executive Vice President 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, as amended; 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: November 18, 2011

/s/ John Gorman
John Gorman
Executive Vice President

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-Q for the period ended September 30, 2011 as filed with the Securities and Exchange Commission (the "Report"), I, John Gorman, Executive Vice President 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: November 18, 2011

/s/ John Gorman
John Gorman
Executive Vice President

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.