

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 March 31, 2013

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.)

**7 West Square Lake Rd., Bloomfield Hills, MI 48302**

(Address of principal executive offices)

**(248) 452 9866**

(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 105,670,927 shares of common stock, \$0.001 par value, outstanding at April 25, 2013.

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**FORM 10-Q**  
**HEALTH ENHANCEMENT PRODUCTS, INC.**  
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(Inapplicable items have been omitted)

**PART I – FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET**

	March 31, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 25,856	\$ 47,147
Prepaid Expenses	36,660	8,701
Deferred Finance Costs	34,957	34,957
Total Current Assets	<u>97,473</u>	<u>90,805</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>0</u>	<u>13,203</u>
<b>OTHER ASSETS:</b>		
Definite-life intangible Assets, net	0	6,234
Deposits	123,762	123,762
Total Other Assets	<u>123,762</u>	<u>129,996</u>
	<u>\$ 221,235</u>	<u>\$ 234,004</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 915,048	\$ 938,640
Loan Payable – Related Party	362	15,362
Loan Payable – Other	293,592	243,592
Customer deposits	27,837	27,837
Obligation to issue common stock and warrants	365,630	337,478
Convertible Debenture Payable, less discount of \$921,238 and \$517,542 at March 31, 2013 and December 31, 2012	1,130,762	482,458
Derivative Liability	1,541,965	1,026,128
Deferred Rent	0	19,110
Accrued Liabilities	345,222	270,682
Total Current Liabilities	<u>4,620,418</u>	<u>3,361,287</u>
<b>LONG TERM LIABILITIES:</b>		
Convertible Debenture Payable, less discount of \$22,526 and \$223,692 at March 31, 2013 and December 31, 2012	243,074	593,908
Deferred revenue, noncurrent	235,000	235,000
Total Long term Liabilities	<u>478,074</u>	<u>828,908</u>
	<u>5,098,492</u>	<u>4,190,195</u>
<b>TOTAL LIABILITIES</b>		
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT:</b>		
Common stock, \$.001 par value, 200,000,000 shares authorized 105,338,927 and 105,317,816 issued and outstanding at March 31, 2013 and December 31, 2012	105,339	105,318
Additional Paid-In Capital	28,454,722	28,448,705
Accumulated deficit	<u>(33,437,318)</u>	<u>(32,510,214)</u>
Total Stockholders' Deficit	<u>(4,877,257)</u>	<u>(3,956,191)</u>
	<u>\$ 221,235</u>	<u>\$ 234,004</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

	<u>For the three Months ended March 31, 2013</u>	<u>For the three Months ended March 31, 2012</u>
REVENUES:	\$ 0	\$ 0
COSTS AND EXPENSES:		
General and Administrative	264,413	225,485
Professional fees and Consulting expense	141,476	179,684
Research and Development	<u>129,448</u>	<u>102,050</u>
Total Costs and Expenses	<u>535,337</u>	<u>507,219</u>
LOSS FROM OPERATIONS	(535,337)	(507,219)
OTHER INCOME (EXPENSE):		
Fair Value Adjustment of		
Derivative Liability	(138,749)	(113,555)
Amortization of Bond Discount	(174,559)	(110,628)
Amortization of Deferred Finance Costs	0	(4,284)
Finance costs paid in stock	(28,152)	(298,382)
Interest expense	<u>(50,307)</u>	<u>(24,653)</u>
Total Other Income (Expense)	<u>(391,767)</u>	<u>(551,502)</u>
NET LOSS	<u>\$ (927,104)</u>	<u>\$ (1,058,721)</u>
BASIC AND DILUTED LOSS		
PER SHARE	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE		
BASIC AND DILUTED		
SHARES OUTSTANDING	<u>105,336,818</u>	<u>100,036,350</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 Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012
<b>Cash Flows for Operating Activities:</b>		
Net Loss	\$ (927,104)	\$ (1,058,721)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock and warrants issued for services rendered	6,037	10,722
Finance costs paid in stock and warrants	0	298,382
Amortization of deferred finance costs	28,152	4,284
Amortization of bond discount	174,558	110,628
Amortization of intangibles	6,234	242
Depreciation expense	13,203	17,933
Fair value adjustment of Derivative Liability	138,749	113,555
(Decrease) in deferred rent	(19,110)	(42,684)
Changes in assets and liabilities:		
(Increase) in prepaid expenses	(27,959)	(28,440)
(Increase) in security deposits	0	(845)
(Decrease) in accounts payable	(23,591)	(5,187)
Increase in accrued liabilities	74,540	45,922
Net Cash (Used) by Operating Activities	(556,291)	(534,209)
<b>Cash Flows from Investing Activities:</b>		
Net Cash (Used) by Investing Activities		
<b>Cash Flow from Financing Activities:</b>		
Proceeds of loan payable, other	35,000	57,000
Payments of other borrowings	0	(7,682)
Payment of deferred finance costs	0	(40,358)
Proceeds from issuance of convertible debentures	500,000	432,000
Net Cash Provided by Financing Activities	535,000	440,961
<b>(Decrease) in Cash</b>	(21,291)	(93,249)
<b>Cash at Beginning of Period</b>	47,147	225,696
<b>Cash at End of Period</b>	\$ 25,856	\$ 132,447
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$ -	\$ -
Income Taxes	\$ -	\$ -

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

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

**Three Months Ended March 31, 2013:**

During the quarter ended March 31, 2013, the Company issued convertible debentures totaling \$500,000 and recorded \$377,088 in discounts on debentures.

**Three Months Ended March 31, 2012:**

During the quarter ended March 31, 2012, the Company issued convertible debentures totaling \$432,000 and recorded \$332,000 in discounts on debentures.

**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 (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, 2012 consolidated audited financial statements and supplementary data included in the Annual Report on Form 10-K filed with the SEC on March 25, 2013.

The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2013, or any other period.

The Company incurred net losses of \$927,104 and \$1,058,721 for the three months ended March 31, 2013 and 2012, respectively. In addition, the Company had a working capital deficiency of \$4,522,945 and a stockholders’ deficit of \$4,877,257 at March 31, 2013. These factors continue to raise substantial doubt about the Company's ability to continue as a going concern. During the first three months of 2013, the Company raised \$500,000 in net proceeds from the issuance of convertible debentures and \$35,000 from loans payable - other. There can be no assurance that the Company will be able to raise additional capital.

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 material effect on previously reported results of operations or financial position.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The consolidated financial statements include the accounts of Health Enhancement Products, Inc. and its wholly-owned Subsidiaries, Health Enhancement Corporation and HEPI Pharmaceuticals, Inc. All significant intercompany transactions and accounts have been eliminated in consolidation.

**Accounting Estimates**

The Company’s consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management uses its best judgment in valuing these estimates and may, as warranted, solicit external professional advice and other assumptions believed to be reasonable.

**Cash and Cash Equivalents**

For the purpose of the statements of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased. At March 31, 2013, the Company did not have any cash equivalents.

### **Property and Equipment**

Property and equipment consists of furniture, office equipment, and leasehold improvements, and are carried at cost less allowances for depreciation and amortization. Depreciation and amortization is determined by using the straight-line method over the estimated useful lives of the related assets, generally five to seven years. Repair and maintenance costs that do not improve service potential or extend the economic life of an existing fixed asset are expended as incurred.

### **Fair Value Measurements**

The authoritative guidance for fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact. The guidance describes a fair value hierarchy based on the levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or corroborated by observable market data or substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the value of the assets or liabilities.

The Company's financial instruments include cash and cash equivalents, accounts payable, loans payable, obligations to issue common stock, accrued expenses and customer deposits. All of these items were determined to be Level 1 fair value measurements.

The carrying amounts of cash and equivalents, accounts payable, loans payable, obligation to issue common stock and customer deposits all approximate fair value because of the short maturity of these instruments.

### **Deferred Financing Costs**

The Company follows authoritative guidance for accounting for financing costs as it relates to convertible debt issuance cost. These costs are deferred and amortized over the term of the debt period or until redemption of the convertible debentures. Amortization of deferred financing costs amounted to \$0- and \$4,284 for the three months ended March 31, 2013 and 2012, respectively.

### **Impairment of Long-Lived Assets**

We review our long-lived assets for impairment whenever events and circumstances indicate that the carrying value of an asset might not be recoverable. An impairment loss, measured as the amount by which the carrying value exceeds the fair value, is recognized if the carrying amount exceeds estimated undiscounted future cash flows.

The Company believes its current assumptions and estimates are reasonable and appropriate; however, unanticipated events and changes in market conditions could affect such estimates, resulting in the need for an impairment charge in future periods. During the three months ended March 31, 2013, the Company decided that the remainder of the cost of the patents related to its former product ProAlgaZyme should be written off in the amount of \$6,234. The decision was based on the lack of revenue generated by this product over the course of the prior year or for the foreseeable future.

## **Revenue Recognition**

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB No. 104"), which superseded Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company ceased the sales of its sole product in the fourth quarter of 2011, and therefore recognized no provision for the three months ended March 31, 2013 or March 31, 2012.

## **Shipping and Handling Costs**

Shipping and handling costs are expensed as incurred. For the three months ended March 31, 2013 and 2012, no shipping and handling costs were incurred.

## **Research and Development**

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

- Research Expenses, consisting of salaries and equipment and related expenses incurred for product research studies conducted primarily within the Company and by Company personnel. Research expenses were approximately \$25,000 and \$25,000 for the quarters ended March 31, 2013 and 2012, respectively;
- Clinical Studies Expenses, consisting of fees, charges, and related expenses incurred in the conduct of clinical studies conducted with Company products by independent external entities. External clinical studies expenses were approximately \$104,000 and \$77,000 for the quarters ended March 31, 2013 and 2012, respectively.

## **Stock Based Compensation**

We account for stock-based compensation in accordance with FASB ASC 718, *Compensation – Stock Compensation*. Under the provisions of FASB ASC 718, stock-based compensation cost is estimated at the grant date based on the award's fair value and is recognized as expense over the requisite service period. The company generally issues grants to its employees, consultants and board members. At the date of grant, the company determines the fair value of the stock option award and recognizes compensation expense over the requisite service period. The fair value of the stock option or warrant award is calculated using the Black Scholes option pricing model.

During the three months ended March 31, 2013 and 2012, warrants were granted to employees, directors and consultants of the Company. As a result of these grants, the Company recorded compensation expense of \$6,037 and \$10,722 for these periods, respectively.

The fair value of warrants was estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	Three Months Ended March 31,	
	2013	2012
Expected volatility	114.66% to 131.97%	125.11%
Expected dividends	0%	0%
Expected term	3 years	3 years
Risk free rate	.25% to .27%	.333%

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee warrants have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models may not necessarily provide a reliable single measure of the fair value of its employee options.



### **Loss Per Share**

Basic loss per share is computed by dividing the Company's net loss by the weighted average number of common shares outstanding during the period presented. Diluted loss per share is based on the treasury stock method and includes the effect from potential issuance of common stock such as shares issuable pursuant to the exercise of warrants and conversions of debentures.

Potentially dilutive securities as of March 31, 2013, consisted of 22,864,667 common shares from convertible debentures and 15,280,209 common shares from outstanding warrants. Potentially dilutive securities as of March 31, 2012, consisted of 13,142,445 common shares from convertible debentures and 20,463,430 common shares from outstanding warrants. Diluted and basic weighted average shares are the same, as potentially dilutive shares are anti-dilutive.

### **Advertising / Public Relations Costs**

Advertising/Public Relations costs are charged to operations when incurred. These expenses were \$7,461 and \$9,496 for the three months ended March 31, 2013 and 2012, respectively.

### **Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company maintains cash balances at financial institutions which exceed the current Federal Deposit Insurance Corporation ("FDIC") limit of \$250,000 at times during the year.

### **NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment at March 31, 2013 and December 31, 2012 consists of the following:

	<u>March 31, 2013</u> (Unaudited)	<u>December 31, 2012</u>
Furniture and fixtures	\$ 3,017	\$ 51,617
Equipment	14,573	112,879
Leasehold improvements	<u>0</u>	<u>151,859</u>
	17,590	316,355
Less accumulated depreciation and amortization	<u>(17,590)</u>	<u>(303,152)</u>
	<u>\$ 0</u>	<u>\$ 13,203</u>

Depreciation and amortization was \$13,203 and \$17,933 for the three months ended March 31, 2013 and 2012 respectively. On March 31, 2013, the lease expired for the office and production space located in Scottsdale, Arizona. The Company closed this operation and subcontracted its research production. Fully depreciated fixed assets of \$298,765 were written off as a result of the lease expiration.

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

Definite-life intangible assets at March 31, 2013 and December 31, 2012 consist of the following:

	<u>March 31, 2013</u> (Unaudited)	<u>December 31, 2012</u>
Patent applications pending	\$ 14,501	\$ 14,501
Less: Accumulated amortization	<u>(14,501)</u>	<u>(8,267)</u>
	<u>\$ 0</u>	<u>\$ 6,234</u>

The Company's definite-life intangible assets are amortized, upon being placed in service, over the estimated useful lives of the assets, with no residual value. Amortization expense for the three months ended March 31, 2013 and 2012 were \$ - 0 - and \$242, respectively. As of March 31, 2013, the Company's management decided to take an impairment charge of \$6,234 representing the unamortized basis of the patents related to, the creation and production of its product, ProAlgaZyme which is no longer producing revenue. The writeoff of the impairment loss has been included in General and Administrative Expenses on the Statement of Operations for the three months ended March 31, 2013.

#### **NOTE 5 – LOAN PAYABLE**

##### **Related Party**

During 2012, Christopher Maggiore, a significant shareholder, advanced the Company \$15,000. As of December 31, 2012 this amount was still unpaid. During the three months ended March 31, 2013, Mr. Maggiore advanced the Company an additional \$462,000. As discussed in Note 6, this amount was reclassified as a loan payable to HEP Investments, LLC. As of March 31, 2013, there was no balance due to Mr. Maggiore.

The balance of \$362 as of March 31, 2013, represented working capital advances by the officers of the Company.

##### **Others**

During 2012, the Venture Group loaned the Company \$57,000. This money was related to the overall financing of \$500,000 as further discussed in Note 6. As of March 31, 2013, there was still a balance due to the Venture Group of \$57,000.

During 2012, HEP Investments loaned the Company \$186,592, as part of its overall funding commitment of \$2,000,000 as discussed in Note 6. During the three months ended March 31, 2013, HEP Investments, LLC loaned the Company an additional \$550,000, as discussed in Note 6. Pursuant to the terms of our agreement with HEP, \$500,000 of these loans were converted to Convertible Secured Promissory Notes, leaving a remaining balance of \$236,592 in loans payable – others as of March 31, 2013.

#### **NOTE 6 – CONVERTIBLE DEBT**

##### **HEP Investments, LLC**

On December 2, 2011, the Company and HEP Investments, LLC, a Michigan limited liability company ("Lender"), entered into the following documents, effective as of December 1, 2011: (i) a Loan Agreement under which the Lender has agreed to advance up to \$2,000,000 to the Company, subject to certain conditions, (ii) a Convertible Secured Promissory Note in the initial principal amount of \$600,000 ("Note") and (iii) (a) a Security Agreement, under which the Company granted the Lender a security interest in all of its assets and (b) an IP security agreement under which the Company and its subsidiaries granted the Lender a security interest in all their respective intellectual properties, including patents, in each case order to secure their respective obligations to the Lender under the Note and related documents. In addition, the Company's subsidiaries have guaranteed the Company's obligations under the Note.

As of December 5, 2011, the Lender had advanced the Company \$600,000, consisting of \$500,000 in cash and \$100,000 previously advanced by the Lender in connection with a transaction previously disclosed in a Current Report on Form 8-K dated September 12, 2011. The Lender has agreed to advance the remaining \$1,400,000 in \$250,000 increments (final increment of \$150,000) upon request of the Company's CEO, subject to satisfaction of certain conditions. In addition, the Company has agreed to (i) issue the Lender warrants to purchase 1,666,667 shares of common stock at an exercise price of \$.12 per share (including a cashless exercise provision), expiring September 30, 2016 and (ii) issue the lender 600,000 shares of its common stock and (iii) enter into a Registration Rights Agreement with respect to all the shares of common stock issuable to the Lender in connection with the Loan transaction, in each case subject to completion of funding of the full \$2,000,000 called for by the Loan Agreement.

Amounts advanced under the Note are (i) secured by all the Company's assets, (ii) convertible into the Company's restricted common stock at the lesser of \$.12 per share or a 25% discount off of the ten day trailing quoted price of the common stock in the over the counter (OTC) market, (iii) bear interest at the rate of 11% per annum and (iv) must be repaid as follows: accrued interest must be paid on the first and second anniversary of the Note and unpaid principal not previously converted into common stock must be repaid on the second anniversary of the Note December 1, 2013. The Company has also agreed to a specified use of proceeds. The Note may be prepaid upon sixty days written notice, provided that the Company shall be required to pay a prepayment premium equal to 5% of the amount repaid.

The Company has made certain agreements with the Lender which shall remain in effect as long as any amount is outstanding under the Loan. These agreements include an agreement not to make any change in the Company's senior management, without the prior written consent of the Lender. Two representatives of the Lender will have the right to attend Board of Director meetings as non-voting observers.

The Company recorded a debt discount of \$500,000 against this transaction. In addition, the Company recorded a derivative liability of \$552,988. This represents the future value of the stock to be issued under the terms of the convertible debt. We valued this stock utilizing the Black-Scholes method of valuation using the following assumptions: volatility 151.45%, annual rate of dividends 0% and a risk free interest rate of .27%. In addition, the Company has recognized other income of \$24,422 representing the change in fair value of this derivative liability. We marked this derivative liability to fair value at December 31, 2011 utilizing the Black-Scholes method of valuation using the following assumptions: volatility 151.49%, annual rate of dividends 0%, and a risk free rate of .25%.

During 2012, HEP Investments advanced the Company an additional \$582,592 pursuant to its previously disclosed agreement to invest up to \$2,000,000 in convertible notes.

The Company recorded a debt discount in the amount of \$500,000 on \$500,000 principal, to reflect the beneficial conversion feature of the convertible debt and fair value of the warrants in accordance with ASC standards (the debt discount calculation was inclusive of investments made in the fourth quarter of 2011 and the first quarter of 2012). The Company valued the beneficial conversion feature and recorded the amount of \$445,147 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 (\$54,853) was calculated and recorded as a further reduction to the carrying amount of the convertible debt and an addition to additional paid-in capital. These transactions were valued utilizing the Black-Scholes method of valuation relying on the following assumptions: volatility of 140.93%-143.36%, annual rate of dividends 0% and a risk free interest rate of .25%. In connection with the \$500,000 in convertible notes, the Company recorded non-cash finance charges of \$16,575 during 2012.

On March 18, 2013, the Company was advised of a Participation Agreement between HEP Investments and Christopher Maggiore, a significant shareholder of the Company, whereby Mr. Maggiore has become a member of HEP Investments, LLC. Accordingly, loans made by Mr. Maggiore to the Company aggregating \$462,000 (\$15,000 at December 31, 2012 and \$447,000 during the period January 1, 2013 through March 5, 2013) have been reclassified as loans payable to HEP Investments pursuant to its previously disclosed agreement entered into on December 2, 2011 to invest up to \$2,000,000 in convertible notes. Upon this reclassification, HEP Investments has reached a \$500,000 threshold and these advances will become convertible debt. The Company recorded a deferred debt discount in the amount of \$377,088 to reflect the beneficial conversion feature of the convertible debt in accordance with ASC standards (the debt discount calculation was inclusive of investments made in the fourth quarter of 2012). The Company valued the beneficial conversion feature and recorded the amount of \$377,088 as a reduction to the carrying amount of the convertible debt and as an addition to paid-in capital. This transaction was valued utilizing the Black-Scholes method of valuation relying on the following assumptions: volatility of 160.96%, annual rate of dividends 0% and a risk free interest rate of .25%.

According to the terms of the agreement, a threshold of \$250,000 must be reached. Until this threshold is reached, the differential as of March 31, 2013 of \$236,592 is classified as Loan Payable – Other (Note 5).

Subsequent to the Balance Sheet date, the lender entered into an "Amended and Restated Senior Secured Convertible Promissory Note" which amended and extended the original Note, and the lender completed the \$2,000,000 financing required to trigger the issuance of the contingent 600,000 common stock shares and the 1,666,667 common stock warrants (See Note 12 – Subsequent Events).

## The Venture Group, LLC

On January 27, 2012, the Company and The Venture Group, LLC, a Maryland limited liability company (“Venture Group”), entered into the following agreements, effective as of January 26, 2012: (i) a Subscription Agreement under which the Lender has agreed to advance \$500,000 to the Company, as follows: \$332,000 on January 26, 2012, which advance has been made, and \$168,000 by February 3, 2012, (ii) a Subordinated Convertible Promissory Note in the principal amount of \$500,000 (“Note”); (iii) (a) a Security Agreement, under which the Company granted the Lender a subordinated security interest in all of its assets and (b) an IP security agreement under which the Company granted the Lender a subordinated security interest in all its intellectual properties, including patents, to secure its obligations to the Lender under the Note and related documents; and (iv) a Termination and Mutual Release Agreement under which the Company and Venture Group terminated their prior agreements and released each other from any liability, including liabilities related to the financing agreements they previously executed (See Form 8-K Current Report dated December 2, 2011). In addition, the Company and Oxford Holdings LLC entered into a Termination and Release Agreement under which the Company and Oxford Holdings, LLC terminated their prior agreement and Oxford Holdings released the Company from any liability, including liabilities related to the agreement they previously executed. The Company also acknowledged an intercreditor agreement between Venture Group and HEP Investments, LLC, the Company senior secured lender. As of March 31, 2013, Venture Group has advanced an aggregate of \$389,000 to the Company. \$332,000 has been classified as a convertible debenture payable and the remainder \$57,000 has been classified as Loan Payable – Other (Note 5).

Convertible debt consists of the following:

	<u>March 31, 2013</u> (Unaudited)	<u>December 31, 2012</u>
1% Convertible notes payable, net of unamortized discount of \$34,431 and \$45,300 respectively, due at various dates ranging from January 2014 to September 2014	\$ 451,168	\$ 440,300
11% Convertible note payable, net of unamortized discount of \$909,333 and \$695,935, respectively, due at various dates ranging from December 2013 to January 2014	<u>922,668</u>	<u>636,066</u>
	1,373,836	1,076,366
Less: Current portion	<u>1,130,762</u>	<u>482,458</u>
Long term portion	<u>\$ 243,074</u>	<u>\$ 593,908</u>

Amortization of the debt discount on the remaining notes was \$174,558 and \$110,628 for the three months ended March 31, 2013 and 2012, respectively.

### NOTE 7 - DERIVATIVE LIABILITY

As part of the funding agreement signed December 1, 2011 with HEP Investments, LLC, the Company recorded a derivative liability of \$552,988. This represents the future value of the stock to be issued under the terms of the convertible debt. This derivative liability was valued utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.17, expected volatility of 151.45% over the two year contractual life of the note, an annual rate of dividends 0% and a risk free interest rate of .27%. In addition, the Company has recognized other income of \$24,422 representing the change in fair value of this derivative liability. We marked this derivative liability to fair value at December 31, 2011 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.25, a volatility of 151.49% over the remaining 1.92 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .25%.

On April 4, 2012, as part of the HEP Investments agreement, as a result of reaching certain funding thresholds, the Company was required to record an additional derivative liability of \$496,375 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.29, an expected volatility of 143.36% over the remaining 1.66 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .25%.

On May 8, 2012, as part of the HEP Investments agreement, as a result of reaching certain funding thresholds, the Company was required to record an additional derivative liability of \$507,916 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.29, an expected volatility of 140.93% over the remaining 1.57 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .25%.

On December 31, 2012, the Company valued the derivative liability at \$1,026,128 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.19, an expected volatility of 151.75% over the remaining 0.92 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .26%. The fair value of the derivative decreased by \$506,729 which has been recorded in the statement of operations for the year ended December 31, 2012.

On March 18, 2013, as part of the HEP Investments agreement, as a result of reaching certain funding thresholds, the Company was required to record an additional derivative liability of \$377,088 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.22, an expected volatility of 160.96% over the remaining 0.71 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .25%.

On March 31, 2013, the Company valued the derivative liability at \$1,541,965 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.31, an expected volatility of 162.39% over the remaining 0.67 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .25%. The fair value of the derivative increased by \$ 138,749 which has been recorded in the statement of operations for the year ended March 31, 2013.

#### **NOTE 8 – OBLIGATION TO ISSUE COMMON STOCK**

As of December 31, 2012, the Company was obligated to issue an aggregate of 1,740,698 shares of common stock valued at \$337,478 to certain investors and Great Northern Reserve Partners, LLC, a former consultant (Andrew Dahl, CEO of the Company, was principal partner of Great Northern and Reserve Partners).

During the quarter ended March 31, 2013, the Company became obligated to issue an additional 165,600 shares valued at \$28,152 to certain investors.

As of March 31, 2013, the total amount of shares of common stock to be issued was 1,906,298 at a total value of \$365,630.

#### **NOTE 9 – 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”). Under the terms of the Agreement, Zus had 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”). On January 9, 2012, we notified the sole known representative of the exclusive distributor that it has been determined that there have been multiple material breaches by Zus Health, LLC (as well as its purported assignee, Ceptazyme, LLC) of its License Agreement with the Company dated September 2, 2010, and that they immediately cease any and all activities with respect to the sale or distribution of HEPI products. The Company had received a payment of \$255,000, as provided in the Agreement, for the exclusive distribution rights. The Company filed a lawsuit in Michigan against Zus Health and Ceptazyme on January 9, 2012, alleging breach of contract. Subsequently, Ceptazyme filed suit in Utah against the Company on January 24, 2012, also alleging breach of contract. Until this matter is resolved, the Company has classified the remaining \$235,000 as Deferred Revenue, noncurrent. The Michigan action was dismissed. The matter is now in litigation in Utah and a trial date has been set in October 2013.

#### **NOTE 10 - STOCKHOLDERS’ DEFICIT**

##### **Board of Directors fees**

As compensation for joining the board of directors in January of 2012, the Company granted warrants to purchase 200,000 shares of common stock to Philip M. Rice (CFO and a Director) in January, 2012, at an exercise price of \$.12 per share. The warrants have a term of three years and vest as follows: 50,000 were vested on the grant date with the remainder vesting throughout 2012 on a quarterly basis. The warrants vested during the quarter ended March 31, 2012, and each subsequent quarter, were valued at \$10,721 using the Black Scholes pricing model with the following assumptions: closing stock price of \$.24, an expected volatility of 125.11%; annual rate of dividends 0%; and a risk free rate of 0.33%.

As compensation for joining the board of directors in June of 2012, the Company granted warrants to purchase 50,000 shares of common stock to Brian Young. The warrants were granted with an exercise price of \$.12 per share, have a term of three years and vested as follows: 12,500 vested on the grant date, 12,500 vested on September 30, 2012, 12,500 vested on December 31, 2012 and 12,500 vested on March 31, 2013. The warrants were valued at \$8,921 using the Black Scholes pricing model relying on the following assumptions: volatility 114.66%; annual rate of dividends 0%; discount rate 0.25%. In addition, Mr. Young will receive \$10,000 for each annual term served, paid quarterly.

As compensation for serving as a member of the board of directors, the Company granted warrants to purchase 50,000 shares of common stock to John Gorman (EVP and a Director) in November, 2012, at an exercise price of \$.12 per share. The warrants have a term of three years and vested or will vest as follows: 12,500 vested on the grant date, 12,500 vested on March 31, 2013 and the remaining 25,000 shall vest on quarterly (12,500 per quarter). The warrants were valued at \$4,848 using the Black Scholes pricing model relying on the following assumptions: volatility 128.51%; annual rate of dividends 0%; discount rate 0.27%. In addition, Mr. Gorman will receive \$10,000 for each annual term served, paid quarterly.

During 2012, the Company issued 5,270,000 shares of common stock and 492,000 warrants to purchase shares of common stock for \$650,000. Also, an investor received 11,797 shares as part of a cashless exercise of 233,333 common stock warrants that had an exercise price of \$.15.

As compensation for serving as a member of the board of directors, the Company granted warrants to purchase 50,000 shares of common stock to Philip M. Rice (CFO and a Director) in January, 2013, at an exercise price of \$.12 per share. The warrants have a term of three years and vested or will vest as follows: 12,500 vested on the grant date and the remaining 37,500 shall vest quarterly (12,500 per quarter). The warrants were valued at \$10,381 using the Black Scholes pricing model relying on the following assumptions: volatility 131.97%; annual rate of dividends 0%; discount rate 0.27%. In addition, Mr. Rice will receive \$10,000 for each annual term served, paid quarterly.

For the three months ended March 21, 2013, an investor received 21,111 shares as part of a cashless exercise of 35,000 common stock warrants that had an exercise price of \$.10.

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

	March 31, 2013		December 31, 2012	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	16,365,209	\$ 0.17	20,413,430	\$ 0.19
Issued	50,000	0.12	1,425,112	0.12
Exercised	35,000	0.10	(583,333)	0.15
Expired	(1,100,000)	0.25	(4,890,000)	0.23
Outstanding, end of period	<u>15,280,209</u>	<u>\$ 0.17</u>	<u>16,365,209</u>	<u>\$ 0.17</u>

Warrants outstanding and exercisable by price range as of March 31, 2012 were as follows:

Outstanding Warrants				Exercisable Warrants	
Range of	Number	Average Weighted Remaining Contractual Life in Years	Exercise Price	Number	Weighted Average Exercise Price
\$ 0.12	890,612	1.99	\$ 0.12	828,112	\$.12
0.125	7,464,597	1.59	0.125	7,464,597	0.125
0.15	2,850,000	.94	0.15	2,850,000	0.15
0.225	600,000	.61	0.225	600,000	0.225
0.25	3,075,000	.85	0.25	3,075,000	0.25
0.50	400,000	.24	0.50	400,000	0.50
	<u>15,280,209</u>	<u>1.46</u>		<u>15,252,709</u>	<u>\$ 0.17</u>

## NOTE 11- COMMITMENTS AND CONTINGENCIES

### Employment Agreement

Under the terms of Mr. Dahl's employment agreement, he will be CEO for one year, subject to automatic renewal for successive one year terms, unless either party terminates the Agreement on sixty days' notice prior to the expiration of the term of the agreement. Mr. Dahl will be compensated as follows: he will receive an annual base salary of \$240,000. In addition, Mr. Dahl is entitled to monthly bonus compensation equal to 2% of the Company's revenue, but only to the extent that such bonus amount exceeds his base salary for the month in question. In addition, Mr. Dahl will be entitled to warrants having an exercise price of \$.25 per share, upon the attainment of specified milestones as follows: 1) Warrants for 500,000 shares upon identification of bio-active agents in the Company's product and filing of a patent with respect thereto, 2) Warrants for 500,000 shares upon entering into a business contract under which the Company receives at least \$500,000 in cash payments, 3) Warrants for 1,000,000 shares upon the Company entering into a co-development agreement with a research company to develop medicinal or pharmaceutical applications (where the partner provides at least \$2 million in cash or in-kind outlays), 4) Warrants for 1,000,000 shares upon the Company entering into a co-development agreement for nutraceutical or dietary supplement applications (where the partner provides at least \$2 million in cash or in-kind outlays), 5) Warrants for 1,000,000 shares upon the Company entering into a pharmaceutical development agreement. As of March 31, 2013, none of the milestones referred to had been achieved.

## NOTE 12 - SUBSEQUENT EVENTS

### HEP Investments

On April 15, 2013, the Company and HEP Investments, LLC, a Michigan limited liability company ("Lender"), entered into the following documents, effective as of April 15, 2013: (i) First Amendment to Loan Agreement under which the Lender has agreed to advance up to a total of \$3,750,000 to the Company, subject to certain conditions, and (ii) an Amended and Restated Senior Secured Convertible Promissory Note. These agreements amend agreements the Company entered into with HEP Investments on December 1, 2011 as previously disclosed.

As of April 25, 2013, the Lender has advanced the Company a total of \$2,199,592. Amounts advanced under the Note are (i) secured by all the Company's assets, (ii) convertible into the Registrant's restricted common stock at the lesser of \$.12 per share or a 25% discount off of the ten day trailing quoted price of the common stock in the over the counter (OTC) market, and (iii) bear interest at the rate of 11% per annum.

Upon completing the \$2,000,000 financing (per December 31, 2011 agreement – see Note 6 – Convertible Debt – HEP Investments, LLC) the issuance of the contingent 600,000 common stock shares and the 1,666,667 common stock warrants was triggered.

The Lender has the following time lines to commit to the remaining funding:

The tranche between \$2 million and \$3 million must be funded within 20 days of the execution of the Note (April 15, 2013) in order for the Tranche to be convertible into the Company's restricted common stock at the lesser of \$.12 per share or a 25% discount off of the ten day trailing quoted price of the common stock in the over the counter (OTC) market. If any amount less than \$3 million is unfunded within the 20 day period, then the Tranche in excess of \$2 million is convertible into the Company's restricted common stock at the lesser of \$.22 per share or a 25% discount off of the ten day trailing quoted price of the common stock in the over the counter (OTC) market.

The tranche between \$3 million and \$3.75 million must be funded within 90 days of the execution of the Note and is convertible into the Company's restricted common stock at the lesser of \$.22 per share or a 25% discount off of the ten day trailing quoted price of the common stock in the over the counter (OTC) market.

The term of the Note is tranching at \$250,000 levels and each tranche has a 24 month term.

Amounts advanced under the Note are (i) secured by all the Company's assets, (ii) bear interest at the rate of 11% per annum and (iii) must be repaid as follows: accrued interest must be paid on the first and second anniversary of the \$250,000 tranche and unpaid principal not previously converted into common stock must be repaid on the second anniversary of the Tranche.

The Note may be prepaid upon sixty days written notice, provided that the Company shall be required to pay a prepayment premium equal to 5% of the amount prepaid.

## **Venture Group**

From April 1, 2013 through April 25, 2013: 1) we received \$25,000 from the Venture Group towards their total funding commitment of \$500,000 (\$414,000 of gross proceeds have been received to date).

## **Essex Angel Capital**

On April 15, 2013, the Company and Essex Angel Capital Inc. (TSXV: EXC) (“Essex”) entered into an Asset Purchase Agreement. Essex holds senior secured convertible debentures and secured convertible debentures in Wellness Indicators, Inc. (“Wellness”), an Illinois based company. Essex is in the process of foreclosing on certain assets, consisting principally of intellectual property (the “Assets”), that secure Wellness’ obligation under the debentures. Upon the foreclosure and acquisition of all right, title and interest in and to the Assets pursuant to its 1st perfected security interest in the Assets, the Registrant will purchase the Assets from Essex for \$1,100,000, to be paid in the common stock of the Registrant with each such share being issued at the lesser of (i) \$0.31 per share; or (ii) a price equal to the weighted average price of said shares on the OTCBB for 20 consecutive trading days ending on the date of Closing (date of such closing being the “Closing Date”) plus a 20% premium amount.

The closing transaction is conditional upon Essex acquiring all right, title and interest to the Assets and the receipt by Essex of all necessary regulatory approvals.

## **Other Investment**

As of April 25, 2013, the Company received \$41,500 from the sale of common stock through the exercise of a warrant,

## **Executive Compensation**

The Board of Directors, on April 30, 2013 approved the following compensation package for Philip M. Rice, Chief Financial Officer of the Company: 1) For past services rendered from April 1, 2012 to March 31, 2013, the Company will pay Mr. Rice \$84,000 in cash (payable in quarterly installments), which had previously been accrued and which is included in accrued liabilities on the Company’s balance sheet as of March 31, 2013; 2) issue 557,000 warrants to purchase common stock at an exercise price of \$0.25 as a bonus incentive and; 3) as of April 1, 2013, Mr. Rice will receive a monthly salary of \$17,000 and a quarterly issuance warrants to purchase 50,000 shares of common stock at the prevailing market price with a term of 5 years, provided that the preceding quarterly and annual filings were submitted in a timely and complaint manner, at which time such warrants would vest.



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

### 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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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;
- market acceptance of our product and derivatives thereof;
- the results of current and future testing of our product;
- the anticipated performance and benefits of our product;
- the ability to generate licensing fees; 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.

#### 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 three months ended March 31, 2013 and 2012.

##### *Net Sales.*

We had no sales during the three months ended March 31, 2013 and 2012. We implemented a new business model starting in 2012, and expect to derive future income from licensing and sale of natural bioactive ingredients derived from algae cultures to much larger, better-financed animal, food, dietary supplement and medical food manufacturers. The anticipated income streams are to be generated from a) royalties and advances for licensed natural bioactive ingredients, and b) bulk sales of such ingredients. These bulk ingredients will be made by contracted ingredient manufacturers and then sold by us to food, dietary supplement and medical food processors and/or name-brand marketers. We do not believe it likely that we will have significant sales in 2013.

##### *Cost of Sales.*

We had no cost of sales during the three months ended March 31, 2013 and 2012.

### ***Research and Development Expenses.***

For the three months ended March 31, 2013, we incurred \$129,448 on research and development expenses, as compared to \$102,050 for the comparable period in 2012. These expenses are mainly comprised of costs associated with external research. Our research and development costs will grow as we work to complete the research in the development of natural bioactive compounds for use as dietary supplements and food ingredients, as well as biologics for medicinal and pharmaceutical applications in humans and animals. The Company's scientific efforts are focused on the metabolic aspects of oxidation and inflammation, with a parallel program to validate and license products for healthy cholesterol balance.

### ***Selling and Marketing Expenses.***

We had no selling and marketing expenses during the three months ended March 31, 2013 and 2012.

### ***General and Administrative Expenses.***

General and administrative expenses were \$264,413 for the three months ended March 31, 2013, as compared to \$225,485 for the comparable prior period. The increase in general and administrative expense during 2013 is due primarily to increased business activity.

### ***Professional and Consulting Expenses.***

Professional and consulting expenses were \$141,476 for the three months ended March 31, 2013, as compared to \$179,684 for the comparable prior period. The decrease in professional and consulting expense during 2013 is due primarily to a reduction in of \$85,000 in legal fees and an increase in the use of outside business consultants.

## **Liquidity and Capital Resources**

The unaudited condensed consolidated financial statements contained in this Quarterly Report have been prepared on a "going concern" basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have a near term need for additional capital. For the reasons discussed herein, there is a significant risk that we will be unable to continue as a going concern, in which case, you would suffer a total loss of your investment in our company.

As of April 28, 2013, we had a cash balance of approximately \$275,000. We have incurred significant net losses since inception, including a net loss of \$927,104 for the quarter ended March 31, 2013. We have, since inception, consistently incurred negative cash flow from operations. During the quarter ended March 31, 2013, we incurred negative cash flows from operations of \$556,291. As of March 31, 2013, we had a working capital deficiency of \$4,522,945 and a stockholders' deficiency of \$4,877,257. Although we recently raised a limited amount of capital, we have a near term need for additional capital.

During the three months ended March 31, 2013, our operating activities used \$556,291 in cash, an increase of \$22,082 from the comparable prior period. The approximate \$22,000 increase in cash used by operating activities was primarily attributable to the following (all of which are approximated): a \$153,000 decrease in net loss, offset by \$167,000 in non-cash expenses and a \$18,000 change (decrease) in accounts payable, offset by a \$10,000 change (increase) in accrued liabilities.

Our financing activities generated \$535,000, a \$94,000 increase from the comparable prior period. The increase in cash provided by financing activities was due primarily to a \$68,000 increase in proceeds from the issuance of convertible debentures, a decrease of \$48,000 in payment of deferred finance costs and other borrowings offset by a decrease of \$22,000 decrease in loans payable – other.

Although we raised a limited amount of capital during 2012 and the first quarter of 2013, we continue to experience a 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. We will still be reliant upon external financing for the continuation of our research program.

We estimate that we will require approximately \$2,500,000 in cash over the next 12 months in order to fund our normal operations and research and development activities. HEP Investments, LLC, our senior secured lender has committed an aggregate of \$3,750,000, \$2,199,592 of which we have already drawn down, leaving \$1,550,408 which is available to be drawn down (See Note 12 – Subsequent Events). Based on this cash requirement and availability from our senior secured lender, we have a near term need for substantial additional funding. Historically, we have had great difficulty raising funds from external sources; however, we recently were able to raise capital from outside sources. If we are unable to raise the required funding, we will have to curtail our research and development and other activities, in which case, there could be a material adverse effect on our business.

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

We do not expect to experience any significant elements of income or loss other than those arising from our continuing operation. For the three months ended March 31, 2013, we recognized \$138,749 in expense for financial statement purposes, due to the change in fair value of derivative liabilities as of March 31, 2013. We may incur income or expense in future periods arising out of changes in the fair value of derivative liabilities.

#### **Seasonality**

Based on our business model implemented at the beginning of 2013, anticipated income streams are to be generated from a) royalties and advances for licensed natural bioactive ingredients, and b) bulk sales of such ingredients. We do not anticipate that these will be affected by seasonality.

#### **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 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 March 31, 2013, 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, 2013, the Company issued Convertible debentures in the principal amount of \$500,000 (convertible into common stock at \$.125 per share), for gross proceeds of \$500,000.

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

From April 1, 2013 through April 25, 2013: 1) we received \$25,000 from the Venture Group towards their total funding commitment of \$500,000 (\$414,000 of gross proceeds have been received to date), 2) received \$41,500 from the sale of common stock through the exercise of a warrant, 3) received \$408,813 from HEP Investments, for a total of \$2,199,592 relating to their additional funding relating of the First Amendment to Loan Agreement under which the Lender has agreed to advance up to a total of \$3,750,000.

### Item 6. Exhibits

Exhibit Number	Description
10.24	Amended and Restated Senior Secured Convertible Promissory Note and the First Amendment to Loan Agreement * with HEP Investments, LLC dated April 15, 2013
10.25	Asset Purchase Agreement with Essex Angel Capital Inc. dated April 15, 2013 *
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

\*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: May 6, 2013

By: /s/Andrew Dahl  
Andrew Dahl  
Chief Executive Officer

## List of Exhibits

<b>Exhibit Number</b>	<b>Description</b>
10.24	Amended and Restated Senior Secured Convertible Promissory Note and the First Amendment to Loan Agreement * with HEP Investments, LLC dated April 15, 2013
10.25	Asset Purchase Agreement with Essex Angel Capital Inc. dated April 15, 2013 *
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

\*Furnished herewith (all other exhibits are deemed filed)

**AMENDED AND RESTATED  
SENIOR SECURED CONVERTIBLE PROMISSORY NOTE**

**\$3,750,000**

**Keego Harbor, Michigan  
April 15, 2013**

FOR VALUE RECEIVED, **HEALTH ENHANCEMENT PRODUCTS, INC.**, a Nevada corporation ("Borrower"), whose address is 7 West Square Lake Road, Bloomfield Hills, MI 49302, promises to pay to the order of **HEP INVESTMENTS LLC**, a Michigan limited liability company ("Lender"), whose address is 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 up to Three Million Seven Hundred Fifty Thousand Dollars (\$3,750,000.00), or such lesser sum as shall have been advanced by Lender to Borrower under the loan agreement hereinafter described, together with interest as provided herein, in accordance with the terms of this Amended and Restated Senior Secured Convertible Promissory Note (this "Note").

In accordance with the terms of that certain Loan Agreement, dated December 1, 2011, by and between Lender and Borrower (as amended, the "Loan Agreement"), Lender has loaned Borrower Two Million Dollars (\$2,000,000.00) and may loan additional amounts to Borrower. All advances made hereunder shall be charged to a loan account in Borrower's name on Lender's books, and Lender shall debit to such account the amount of each advance made to, and credit to such account the amount of each repayment made by Borrower. From time to time but not less than quarterly, Lender shall furnish Borrower a statement of Borrower's loan account, which statement shall be deemed to be correct, accepted by, and binding upon Borrower, unless Lender receives a written statement of exceptions from Borrower within ten (10) days after such statement has been furnished. Terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Loan Agreement.

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 eleven percent (11%) 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 equal to 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 paid to Lender in an installment of interest only on the first anniversary of the date of this Note, and, if not sooner converted in accordance with the terms of this Note, the entire unpaid principal balance of this Note, together with all accrued and unpaid interest, shall be immediately due and payable in full with respect to each tranche of \$250,000 (a "Tranche") listed in Exhibit 1 within 24 months of the full funding of such Tranche (with respect to each Tranche, a "Due Date").

2. Pre-payment Premium. Borrower may prepay the principal balance of this Note, in whole or in part, plus all accrued interest then outstanding upon sixty (60) days prior written notice to Lender; provided, however, there shall be a pre-payment premium of five (5%) percent of each amount prepaid at any time during the term of this Note.

3. Use of Proceeds. The funds advanced pursuant to this Note shall be used by Borrower for working capital purposes in accordance with the operating budget of Borrower attached to the Loan Agreement as Exhibit B.

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4. Conversion Right and Funding Provisions.

(a) At Lender's option, at any time prior to the repayment in full of this Note, increments of Two Hundred Fifty Thousand Dollars (\$250,000.00) of the outstanding indebtedness of this Note (including all accrued and unpaid interest) may be converted into shares of common stock of Borrower ("Shares") at the lesser of \$0.12 per share or a 25% discount to the then current ten day average trading price of Shares on the Over the Counter Securities Market (the "Conversion Price"); provided, however, that the Conversion Price and funding shall be as follows:

- (i) The remainder of the \$2,000,000.00 (the original Loan amount prior to this Amended and Restated Note) must be funded within seven (7) days of the execution of this Note
- (ii) The \$1,000,000.00 tranche (tranche between the first \$2,000,000.00 and the \$3,000,000.00), must be funded within thirty (30) days of the execution of this Note,
- (iii) The final \$750,000.00 tranche (tranche between the first \$3,000,000.00 and the \$3,750,000.00), (plus accrued and unpaid interest) of this \$3.75 million Note, must be funded within ninety (90) days of the execution of this Note at a Conversion Price of \$0.22 per share.
- (iv) To the extent that the remainder of the \$2,000,000.00 (the original Loan amount prior to this Amended and Restated Note) is not funded within seven (7) days of the execution of this Note is not funded (as detailed in 4.(a)(i)) then the difference in the funding amount shall be added to the amount detailed in 4.(a)(iii) at a Conversion Price of \$.22 per share.
- (v) To the extent that the \$1,000,000.00 tranche (as detailed in 4.(a)(ii)) is not funded within twenty (20) days of the execution of this Note, the difference in the funding amount shall be added to the amount detailed in 4.(a)(iii) at a Conversion Price of \$.22 per share
- (vi) The Conversion Price of the funding levels detailed in 4.(a)(iii), taking into consideration 4.(a)(iv) and 4.(a)(v), shall be the lesser of \$0.22 per share or a 25% discount to the then-current ten day average trading price of Shares on the Over the Counter Securities Market. 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, Borrower shall pay cash equal to such fraction multiplied by the Conversion Price.
- (vii) The Conversion Price of the funding levels detailed in 4.(a)(iii), taking into consideration 4.(a)(iv) and 4.(a)(v), after the ninety (90) day period as detailed in 4.(a)(iii), shall be the 25% discount to the then current ten day average trading price of Shares on the Over the Counter Securities Market. 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, Borrower shall pay cash equal to such fraction multiplied by the Conversion Price.

(b) Upon conversion of this Note as provided herein, (i) the portion of this Note so converted shall be deemed cancelled and shall be converted into the 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 the conversion of the entire outstanding indebtedness of this Note 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.

5. Default. Each of the following constitutes an “Event of Default” under this Note:

(a) Borrower’s failure to pay the outstanding indebtedness of this Note within ten (10) days of the date on which such payment is due hereunder, whether at maturity or otherwise;

(b) Borrower’s breach of or failure to perform or observe any covenant, condition or agreement contained in this Note, the Loan Agreement or the Security Agreement (defined below), which breach or failure continues unremedied for a period of thirty (30) calendar days after receipt by Borrower of written notice specifying the nature of the default. Notwithstanding the foregoing, Borrower shall not be in default under this subsection (b) with respect to any non-monetary breach that can be cured by the performance of affirmative acts if Borrower promptly commences the performance of said affirmative acts and diligently prosecutes the same to completion within a period of forty-five (45) calendar days after receipt by Borrower of written notice specifying the nature of the default;

(c) Borrower files a voluntary petition in bankruptcy;

(d) 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

(e) 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.

Upon the occurrence and during the continuance of an Event of Default, at the election of Lender, the entire unpaid principal balance of this Note, together with all accrued and unpaid interest, shall be immediately due and payable in full.

6. Security. This Note is secured by all of the assets of Borrower pursuant to that certain Security Agreement, dated as of December 1, 2011 (the “Security Agreement”).

7. Waivers. Borrower and all endorsees, sureties and guarantors hereof hereby jointly and severally waive presentment for payment, demand, notice of non-payment, notice of protest or protest of this Note, and Lender diligence in collection or bringing suit, and do hereby consent to any and all extensions of time, renewals, waivers or modifications as may be granted by Lender with respect to payment or any other provisions of this Note. The liability of Borrower under this Note shall be absolute and unconditional, without regard to the liability of any other party.

8. Usury. Notwithstanding anything herein to the contrary, in no event shall Borrower be required to pay a rate of interest in excess of the Maximum Rate. The term “Maximum Rate” shall mean the maximum non-usurious rate of interest that Lender is allowed to contract for, charge, take, reserve or receive under the applicable laws of any applicable state or of the United States of America (whichever from time to time permits the highest rate for the use, forbearance or detention of money) after taking into account, to the extent required by applicable law, any and all relevant payments or charges hereunder, or under any other document or instrument executed and delivered in connection therewith and the indebtedness evidenced hereby.

In the event Lender ever receives, as interest, any amount in excess of the Maximum Rate, such amount as would be excessive interest shall be deemed a partial prepayment of principal, and, if the principal hereof is paid in full, any remaining excess shall be returned to Borrower. In determining whether or not the interest paid or payable, under any specified contingency, exceeds the Maximum Rate, Borrower and Lender shall, to the maximum extent permitted by law, (a) characterize any non-principal payment as an expense, fee, or premium rather than as interest; (b) exclude voluntary prepayments and the effects thereof; and (c) amortize, prorate, allocate and spread the total amount of interest through the entire contemplated term of such indebtedness until payment in full of the principal (including the period of any extension or renewal thereof) so that the interest on account of such indebtedness shall not exceed the Maximum Rate.



9. 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 is intended to amend and restate, and is not intended to be in substitution for or a novation of, that certain Senior Secured Convertible Promissory Note, dated December 1, 2011, executed and delivered by Borrower in favor of Lender in the original principal amount of \$2,000,000.00 (the "Original Note"). This Note shall continue to be secured by the security instruments and UCC statements executed and filed with the Original Note, and otherwise as set forth in the loan documentation executed in connection with the Original Note.

*[Signature on the following page]*

IN WITNESS WHEREOF, the undersigned has duly executed this Amended and Restated Senior Secured Convertible Promissory Note as of the day and year first written above.

**BORROWER:**

HEALTH ENHANCEMENT PRODUCTS, INC.

By: /s/ Andrew Dahl

Print Name: Andrew Dahl

Its: President

EXHIBIT 1

<u>Date Invested</u>	<u>Tranche #</u>	<u>Amount</u>	<u>24 Month Due Date</u>
December 2, 2011	1	\$ 250,000.00	December 2, 2013
December 2, 2011	2	250,000.00	December 2, 2013
December 2, 2011		100,000.00	
March 12, 2012		100,000.00	
April 4, 2012		<u>50,000.00</u>	
	3	250,000.00	April 4, 2014
April 4, 2012		25,000.00	
May 3, 2012		70,000.00	
May 8, 2012		<u>155,000.00</u>	
	4	250,000.00	May 8, 2014
May 8, 2012		25,000.00	
August 13, 2012		25,000.00	
August 20, 2012		7,000.00	
August 29, 2012		9,000.00	
October 15, 2012		20,592.00	
October 30, 2012		100,000.00	
March 18, 2013		<u>63,408.00</u>	
	5	250,000.00	March 18, 2015
March 18, 2013	6	<u>250,000.00</u>	March 18, 2015
March 18, 2013		146,592.00	
March 25, 2013		88,000.00	
April 5, 2013		6,187.50	
April 10, 2013		<u>9,220.50</u>	
	7	<u>250,000.00</u>	April 10, 2015
April 10, 2013		<u>42,779.50</u>	
Total Invested as of April 12, 2013:		<u>\$1,792,779.50</u>	

## FIRST AMENDMENT TO LOAN AGREEMENT

This First Amendment to Loan Agreement (“Amendment”) is made and entered into as of April 15, 2013 by and between HEP INVESTMENTS LLC, a Michigan limited liability company (“Lender”), and HEALTH ENHANCEMENT PRODUCTS, INC., a Nevada corporation (“Borrower”).

### R E C I T A L S

A. Borrower and Lender entered into a Loan Agreement, dated as of December 1, 2011 (as the same may be amended, modified or restated from time to time, the “Loan Agreement”) whereby Lender made a loan to Borrower evidenced by a Senior Secured Convertible Promissory Note, dated as of December 1, 2011, made by Borrower in favor of Lender (the “Note”).

B. Borrower and Lender desire to make certain changes to the Loan Agreement upon the terms and conditions hereinafter set forth, including the consent of the Guarantors to such amendment endorsed hereon.

NOW THEREFORE, in consideration of the covenants and agreements of the parties, Borrower and Lender, with the consent and agreement of the Guarantors, agree as follows:

1. **Capitalized Terms.** Capitalized terms used but not otherwise defined in this Amendment shall have the meanings given to such terms in the Loan Agreement.

2. **Continued Effect.** Except as specifically modified or amended by the terms of this Amendment, all other terms and provisions of the Loan Agreement, the Note and all other Loan Documents (as defined in the Loan Agreement) shall continue in full force and effect. By execution of this Amendment, Borrower and each undersigned Guarantor (collectively, the “Guarantors”) hereby reaffirms, assumes and binds itself to all of the obligations, duties, rights, covenants, terms and conditions that are contained in the Loan Agreement, the Note and the other Loan Documents. The execution, delivery and performance by Borrower and each Guarantor of this Amendment are within such party’s powers and have been duly authorized by all necessary corporate action.

3. **Amendments.** Sections 1 and 2 of the Loan Agreement are hereby deleted in their entirety and replaced with the following:

“1. **Loan.** Lender agrees to make a loan to Borrower in the amount of up to \$3,750,000 (the “Loan”) in accordance with the terms of that certain Amended and Restated Senior Secured Convertible Promissory Note attached hereto as Exhibit A (the “Note”).

2. **Funding Timing.** Lender hereby agrees to fund the proceeds of the Note as follows:

(a) Lender will fund the remainder of the \$2,000,000.00 (the original Loan amount prior to this Amendment) of the Loan within seven (7) days of the execution and delivery of this Amendment and the Note. After giving effect to such additional advance, Lender will have funded \$2 million under the Loan.

(b) In the event that Borrower requires additional financing, Borrower shall so notify Lender and advise Lender of the intended use of proceeds of such financing. Lender shall have the right, but not the obligation, to advance such amount under the Loan (but in no event more than an additional \$1.75 million in the aggregate) within twenty (20) days after request therefor. If Lender refuses to fund such amount or fails to do so within such 20-day period, Borrower shall have the right to seek such financing from a third-party on terms and conditions no more favorable to the lender than those set forth in the Loan and Lender will be deemed to have waived the covenants set forth in Section 9(c) and (d) of the Loan Agreement with respect to such financing.”

4. **Confirmation of Warrant.** Borrower acknowledges and agrees that: (a) after giving effect to the transactions contemplated by this Amendment, Lender will have advanced \$2 million under the Note; (b) that certain Warrant to Purchase Common Shares, dated December 1, 2011, made by Borrower in favor of Lender (the “Warrant”) required that Lender advance \$2 million under the Note in order for the Warrant to be exercisable; and (c) the Warrant is immediately exercisable by Lender and shall remain exercisable until the Expiration Date (as defined in the Warrant).

5. **Guarantors Consent.** The Guarantors hereby consent to this Amendment and acknowledge and agree that their Guaranties remain in full force and effect in accordance with their respective terms and that the Guarantors have no defenses, setoff of counterclaims with respect thereto.

6. **Counterparts.** This Amendment may be executed in one or more counterparts, each of which shall constitute an original, and all of which together shall constitute one and the same instrument. Copies (whether photostatic, facsimile or otherwise) of this Amendment may be made and relied upon to the same extent as an original.

[Signatures on next page]

IN WITNESS WHEREOF, Lender, Borrower and Guarantors have executed this First Amendment to Loan Agreement as of the date first written above.

**BORROWER:**

HEALTH ENHANCEMENT PRODUCTS, INC., a Nevada corporation

By: /s/ Andrew Dahl  
Name: Andrew Dahl  
Title: President

**LENDER:**

HEP INVESTMENTS LLC, a Michigan limited liability company

By: /s/ Laith Yaldao  
Laith Yaldao, Manager

**ACKNOWLEDGED AND AGREED BY THE UNDERSIGNED GUARANTORS:**

HEALTH ENHANCEMENT CORPORATION, a Nevada corporation

By: /s/ Philip M. Rice II  
Name: Philip M. Rice II  
Title: Chief Financial Officer

HEPI PHARMACEUTICALS, INC., a Delaware corporation

By: /s/ Andrew Dahl  
Name: Andrew Dahl  
Title: President

**ASSET PURCHASE AGREEMENT**

*THIS AGREEMENT* is made and entered into this 15th day of April, 2013 by and between Health Enhancement Products, Inc. a Nevada corporation ("Purchaser"), and Essex Angel Capital, Inc., a corporation governed by the *Canada Business Corporations Act* ("Seller").

**RECITALS**

*WHEREAS*, on February 22, 2013, Seller and Purchaser executed a term sheet ("Term Sheet") pursuant to which Seller agreed to use its commercially reasonable efforts to foreclose upon and acquire all right, title and interest in and to the Assets (as defined below) from Wellness Indicators, Inc., a Michigan corporation ("Wellness"), pursuant to its 1<sup>st</sup> perfected security interest in the Assets (the "security interest");

*WHEREAS*, the Term Sheet contemplated upon Seller obtaining title to the Assets, Seller would (subject to certain inter-creditor agreement) sell the Assets to Purchaser as set forth herein;

*WHEREAS*, the Term Sheet further provided the parties would enter into a definitive Asset Purchase Agreement which definitive agreement is set forth herein (the "Agreement");

*NOW, THEREFORE*, in consideration of the mutual covenants and agreements contained herein, and in reliance upon the representations and warranties contained herein, the parties hereto agree as follows:

**ARTICLE I - ASSETS**

"Assets" means all right, title and interest in and to the Wellness Trademarks, Copyrights and Patents, together with (i) all registrations of and applications therefor, as applicable; (ii) all reissues, divisions, continuations, continuations in part, substitutes, renewals, and extensions thereof, all improvements and developments thereon and all other rights of any kind whatsoever accruing thereunder or pertaining thereto; (iii) the goodwill of the business symbolized by and associated with such items and the registrations; (iv) all mask works and all applications, registration and renewals in connection therewith; (v) all prototypes, prototype inventories, software source codes, software executable codes, forms, chemistries, notebooks copies and tangible embodiments thereof (in whatever form or medium) of the foregoing items; and (vi) the right to sue and recover for, and the right to profits or damages due or accrued arising out of or in connection with, any and all past, present or future infringements or dilution of or damage or injury to the Trademarks, Copyrights, Patents or the registrations thereof or such associated goodwill that Seller may obtain, using its commercially reasonable efforts, after its foreclosure upon such assets pursuant to its 1<sup>st</sup> perfected security interest in such assets.

**ARTICLE II - ACQUISITION OF THE ASSETS**

2.1 *Subscription for Shares.* Within five (5) days after Seller's execution of this Agreement, the Seller shall receive, by wire transfer or certified cheque, \$150,000.00CAN, from certain investors, to acquire units of the Seller (the "Units") at a price of \$0.05CAN per Unit or such other price as may be permissible under the policies of the TSX Venture Exchange. Each Unit shall consist of one common share in the capital of the Seller and one common share purchase warrant. The sale of the Units by the Seller is subject to receipt by Seller of all necessary regulatory approvals, including the approval of the TSX Venture Exchange. The Seller shall use the funds from the sale of the Units, in a commercially reasonable manner, to finance the foreclosure process with respect to the Assets as outlined herein inclusive of the discharge of all liens that are or may be asserted against the Assets. The closing of the sale of the Units shall be a condition precedent to the closing of the transactions contemplated hereby.

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2.2 Obtaining Title to Assets. Seller agrees to use its commercially reasonable efforts to, as expeditiously as possible in accordance with the procedures permitted under applicable law, foreclose upon and acquire all right, title and interest in and to the Assets from Wellness pursuant to its 1<sup>st</sup> perfected security interest in the Assets. Seller further agrees to use its commercially reasonable efforts to insure that pursuant to certain inter-creditor agreement and other similar agreements to which Seller is a party, that the Assets acquisition shall be completed in a manner so as to allocate to Seller the maximum right, title and interest in the Assets.

2.3 Purchase & Delivery of Assets. In the event that the Seller obtains all right, title and interest in the Assets, Seller shall notify Purchaser that the Assets have been obtained by Seller pursuant to the foreclosure process free and clear of all claims by Wellness and other creditors who may have had an interest in the Assets. Within 10 days thereafter, upon election of Purchaser to purchase the Assets, a Closing (as hereinafter defined) shall be conducted whereby Seller shall endorse and deliver to Purchaser such assignments, bills of sale and other documents as may reasonably be required by Purchaser to transfer all right, title and interest in and to the Assets to Purchaser. Each of the Seller and the Purchaser agrees to execute such instruments, documents, certificates or assignments as may be necessary to effectuate the transfer of all right, title and interest in the individual patents, trademarks, copyrights and all applications thereof and other intellectual property comprising the Assets with the appropriate governmental authorities. Upon receipt of such documents, Purchaser shall become the beneficial and record holder of the Assets and entitled to all of the rights, benefits and privileges with respect thereto. The documents representing the Assets shall be delivered by Seller to Purchaser at the Closing and will be free of all encumbrances, liens, security interests or other claims.

At the Closing, the Assets which will be transferred to Purchaser in exchange for the Consideration Shares (as hereinafter defined). Seller and Purchaser covenant that they shall not take a position on any income tax return or before any governmental agency or in any judicial proceeding that is inconsistent in any way with this paragraph.

2.4 Purchase Price for Assets. The aggregate purchase price for the Assets shall be One Million One Hundred Thousand and 00/100 Dollars (\$1,100,000.00US) paid in the common stock of the Purchaser (the "Consideration Shares") with each such share being issued at the lesser of (i) \$0.31 per share; or (ii) a price equal to the weighted average price of said shares on the OTCBB (as hereinafter defined) for 20 consecutive trading days ending on the date of Closing (date of such closing being the "Closing Date") plus a 20% premium amount.

2.5 Best Offer. Notwithstanding anything set forth in this Agreement, in the event that the Seller receives an offer from a third-party to purchase the Assets, for a total consideration greater than \$1,100,000US (the "Best Offer Consideration"), the Seller shall have the right to sell the Assets to such third-party (the "Best Offer Sale"). Forthwith after the closing of the transactions resulting in the Best Offer Sale, the Seller shall pay to the Purchaser 20% of the Best Offer Consideration received by the Seller, net of: (i) the Seller's transaction expenses; and (ii) such portion of the Best Offer Consideration as shall be required to be paid to other creditors of Wellness.

2.6 No Assumption of Liabilities. The Purchaser does not and shall not assume, pay, perform or discharge any liability of Seller or Wellness. Seller shall file all documents required by all applicable governmental entities to release all security interests and/or liens against the Assets prior to Closing and tender the Assets to the Purchaser free and clear of liens and encumbrances and will provide Purchaser at Closing with all recorded termination statements and releases to evidence such discharges as may be reasonably necessary.

### **ARTICLE III - REPRESENTATIONS AND WARRANTIES OF SELLER**

Contingent upon the Seller successfully foreclosing upon and obtaining all right, title and interest in the Assets (without any other similarly situated secured creditors of Wellness having any interest therein) and Purchaser agreeing to purchase the Assets to which Seller has obtained all right title and interest, Seller represents and warrants to Purchaser, and acknowledges that Seller is relying upon such representations and warranties in connection with the matters contemplated by this Agreement, that:



3.1 Organization and Qualification of Seller. Seller is duly organized, validly existing and in good standing under the laws of Canada and is duly qualified and is in good standing in each jurisdiction, if any, in which the nature of the business conducted by it or the properties owned, leased or operated by it makes such qualification necessary or, if not, then such lack of authorization will not materially adversely affect the Purchaser's purchase and use of the Assets. The Seller has all requisite power and authority to own and sell the Assets. The requisite certified copies of the documents evidencing said fact shall be complete and correct and delivered to Purchaser at Closing. The Seller's obligation herein shall not create a default under or in violation of any provision of its governing documents or laws.

3.2 Authorization. This Agreement has been duly and validly executed and delivered by Seller and the agreements, representations and warranties contained herein constitute valid and binding obligations, representations and warranties of Seller enforceable in accordance with their terms. Seller is authorized to enter into the transactions contemplated herein by its governing board or other authority. This Agreement constitutes, and all other agreements contemplated hereby to be executed and delivered by the Seller will when executed and delivered constitute, the legal, valid and binding obligations of, and be enforceable in accordance with their respective terms against Seller.

3.3 No Conflicting Agreements. The execution and delivery of this Agreement by Seller does not, and consummation by Seller of the transactions contemplated hereby will not, (a) violate any existing term or provision of any law, regulation, order, writ, judgment, injunction or decree applicable to Seller or the Assets, (b) conflict with or result in a breach of any of the terms, conditions or provisions of the governing documents of Seller or of any agreement or instrument to which Seller is a party, or (c) result in the creation or imposition of any lien, charge, security interest, encumbrance, restriction or claim upon the Assets.

3.4 Compliance with Applicable Law. Seller has not received any notice or information of any violation, probable violation or default by Seller under any applicable law, regulation or order of any governmental department, commission, board or agency or instrumentality, domestic or foreign, having jurisdiction over Seller's operations which could materially adversely affect the Assets, or Seller's ability to consummate the transaction contemplated herein.

3.5 Material Misstatements or Omissions. Neither this Agreement nor any other document, certificate or statement furnished to Purchaser by or on behalf of Seller in connection with this Agreement contains any untrue statement of a material fact, or omits any material fact necessary to make the statements contained herein or therein not misleading in light of the context in which they were made.

3.6 No Known Adverse Effects. There is no fact known to Seller, or to its knowledge its officers, directors or employees, which materially adversely affects or will materially adversely affect the Assets which has not been set forth in writing in this Agreement or disclosed in the other documents, certificates or written statements furnished to Purchaser by or on behalf of Seller in connection herewith.

3.7 Consents and Approvals. The execution and delivery by Seller of this Agreement, and the performance by Seller of its obligations hereunder, does not require Seller to obtain any consent, approval, agreement, or action of, or make any filing with or give any notice to, any corporation, person, entity, or firm or any public, governmental or judicial authority except (i) such as have been duly obtained or made, as the case may be, and or will be duly obtained and made and in full force and effect as of the Closing, (ii) those as to which the failure to obtain would have no material adverse effect on the Assets or the transactions contemplated hereby, (iii) approval of the Seller's governing authority, which shall be obtained prior to the execution hereof; and (iv) the approval of the TSX Venture Exchange.

3.8 Violations. There are no actions, proceedings or investigations pending or threatened against Seller or the Assets before any court or administrative agency which could result in any material adverse change in Seller transferring valid right, title and interest in the Assets to Purchaser.

3.9 Brokers. All negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by Seller directly with representatives of Purchaser, without the intervention of any person in such manner as to give rise to any valid claim by any person against Purchaser for a finder's fee, brokerage commission, or similar payment. All rights of indemnity hereunder shall apply to any claim relating to a Loss (hereinafter defined) arising out of this Agreement for any fee, commission or similar payment.

3.10 Taxes. Seller shall pay all taxes arising out of the transfer of the Assets and shall be responsible for all personal property taxes for the Assets through the time of the Closing. Purchaser shall not be responsible for any business, occupation, withholding or similar tax, or any taxes of any kind related to the Assets for any period prior to the Closing Date.

3.11 Ownership. Seller shall be as of the time of Closing the legal owner, beneficially and of record, of the Assets free and clear of all liens, encumbrances, security agreements, equities, options, claims, charges and restrictions.

3.12 Restricted Securities. Seller acknowledges that the Consideration Shares have not been registered under the United States Securities Act of 1933, as amended (the U.S. Securities Act"), or any state securities laws and are being sold pursuant to an exception from such registration requirements under Rule 903 of Regulation S of the U.S. Securities Act ("Regulation S"). The Consideration Shares are deemed "restricted securities" as that term is defined in Rule 144 of the U.S. Securities Act and will contain a restrictive legend (the "Restrictive Legend") as required under Regulation S.

#### **ARTICLE IV - REPRESENTATIONS, WARRANTIES AND COVENANTS OF PURCHASER**

Contingent upon the Seller successfully foreclosing upon and obtaining all right, title and interest in the Assets (without any other similarly situated secured creditors of Wellness having any interest therein) and Purchaser agreeing to purchase the Assets to which Seller has obtained all right title and interest, Purchaser represents and warrants to Seller, and acknowledges that Seller is relying upon such representations, warranties and covenants in connection with the matters contemplated by this Agreement, that:

4.1 Organization and Qualification of Purchaser. Each of the Purchaser and the Subsidiaries (as hereinafter defined) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it was incorporated, amalgamated or continued, as the case may be, and no steps or proceedings have been taken by any person, voluntary or otherwise, requiring or authorizing the dissolution or winding up of the Purchaser or the Subsidiaries and each of the Purchaser and the Subsidiaries has the full corporate power and authority to own and operate its respective properties and to carry on its respective business. The Purchaser and the Subsidiaries are each presently qualified to do business as a foreign corporation and are in good standing in each jurisdiction where the failure to be so qualified could reasonably be expected to have a material adverse effect on the Purchaser's and the Subsidiaries' financial condition, results of operations, assets (including intangible assets), liabilities, capitalization, ownership, prospects or business as currently conducted or currently proposed to be conducted, taken as a whole (a "Material Adverse Effect").

4.2 Subsidiaries. The Purchaser has no subsidiaries or affiliated companies and does not otherwise own or control, directly or indirectly, any equity interest in any corporation, association, partnership, limited liability company or other business entity, other than HEPI Pharmaceuticals, Inc. and Health Enhancements Corporation (collectively, the "Subsidiaries"). The Purchaser owns all of the issued and outstanding shares of each of the Subsidiaries, all of the issued and outstanding shares of the Subsidiaries are issued as fully paid and non-assessable shares, free and clear of all liens whatsoever, and no person, firm or corporation has any agreement, option, right or privilege (whether pre-emptive or contractual) capable of becoming an agreement, for the purchase from the Purchaser or the Subsidiaries of any interest in any of the shares in the capital of the Subsidiaries.

4.3 Authorization. This Agreement has been duly and validly executed by Purchaser and the agreements, representations, and warranties contained herein constitute valid and binding obligations, representations, and warranties of Purchaser enforceable in accordance with their terms.

4.3 No Conflicting Agreements. The execution and delivery of this Agreement by Purchaser does not, and consummation by Purchaser of the transactions contemplated hereunder will not, (a) violate any existing term or provision of any law, regulation, order, writ, judgment, injunction or decree applicable to Purchaser, (b) conflict with or result in a breach of any of the terms, conditions or provisions of the Articles of Incorporation or Bylaws of Purchaser or of any agreement or instrument to which Purchaser or each of the Subsidiaries is a party, or (c) result in the creation or imposition of any lien, charge, security interest, encumbrance, restriction or claim upon Purchaser, the Subsidiaries or any of their assets.

4.4 Compliance with Applicable Law. Purchaser has not received any notice or information of any violation, probable violation or default by Purchaser under any applicable law, regulation or order of any governmental department, commission, board or agency or instrumentality, domestic or foreign, having jurisdiction over Purchaser's operations which could materially adversely affect Purchaser's ability to consummate the transaction contemplated herein.

4.5 Material Misstatements or Omissions. Neither this Agreement nor any other document, certificate or statement furnished to Seller by Purchaser in connection with this Agreement contains any untrue statement of a material fact, or omits any material fact necessary to make the statements contained herein and therein not misleading in light of the context in which they were made.

4.6 Consents' and Approvals. The execution and delivery by Purchaser of this Agreement, and the performance by Purchaser of its obligations hereunder, do not require Purchaser to obtain any consent, approval or action of, or make any filing with or give any notice to, any corporation, person or firm or any public, governmental or judicial authority except (i) such as have been duly obtained or made, as the case may be, and are in full force and effect on the date hereof and will continue to be in full force and effect on the Closing, and (ii) those which the failure to obtain would have no Material Adverse Effect on the transactions contemplated herein or the Purchaser.

4.7 Licenses. The Purchaser and each of the Subsidiaries hold all material requisite licences, registrations, qualifications, permits and consents necessary or appropriate for carrying on their respective business and all such licences, registrations, qualifications, permits and consents are valid and subsisting and in good standing;

4.8 Title to Property and Assets. The Purchaser and each of the Subsidiaries is the absolute legal and beneficial owners of, and has good and marketable title to, all of the material property or assets thereof and no other property or assets are necessary for the conduct of the business of the Corporation or each of the Subsidiaries as currently conducted, (ii) none of the Corporation or the Subsidiaries knows of any claim or the basis for any claim that might or could materially and adversely affect the right thereof to use, transfer or otherwise exploit such property or assets, and (iii) other than in the ordinary course of business, none of the Corporation or the Subsidiaries has any responsibility or obligation to pay any material commission, royalty, licence fee or similar payment to any person with respect to the property and assets thereof;

4.9 No Default. The Purchaser's shares of common stock (the "Common Shares") are quoted on the Over-the-Counter Bulletin Board (the "OTCBB"). The Purchaser is not in default of any requirement of any applicable securities laws. The Purchaser is in compliance in all material respects with its timely disclosure obligations under applicable securities laws and the rules and regulations of the OTCBB.

4.10 No Cease Trading. No order, ruling or determination having the effect of suspending the sale or ceasing the trading in any securities of the Purchaser has been issued by any regulatory authority and is continuing in effect and no proceedings for that purpose have been instituted or, to the knowledge of the Purchaser, are pending, contemplated or threatened by any regulatory authority.

4.11 No Legal Proceeding. There is no action, suit, judgment, proceeding or investigation outstanding or pending or threatened against or affecting the Purchaser or the Subsidiaries, or their respective directors or officers, by any foreign or domestic governmental authority, which is, or could reasonably be expected to, result in a Material Adverse Effect and to the knowledge of the Purchaser there is no reasonable basis therefor and none of the Purchaser or the Subsidiaries are subject to any judgment, order, writ, injunction, decree, award, rule, policy or regulation of any foreign or domestic governmental authority which, either separately or in the aggregate, may have a Material Adverse Effect or would adversely affect the ability of the Purchaser to perform its obligations under this Agreement.

4.12 No Disposition of Assets. Neither the Purchaser nor either of the Subsidiaries has approved or has entered into any binding agreement in respect of:

- (i) the purchase of any material property or assets or any interest therein or the sale, transfer or other disposition of any material property or assets or any interest therein currently owned, directly or indirectly, by the Purchaser or the Subsidiaries, whether by asset sale, transfer of shares or otherwise, other than in the ordinary course of business;
- (ii) the change of control (by sale or transfer of shares or sale of all or substantially all of the property and assets of the Purchaser or the Subsidiaries or otherwise) of the Purchaser or the Subsidiaries; or
- (iii) a proposed or planned disposition of shares by any shareholder who owns, directly or indirectly, 5% or more of the outstanding shares of the Purchaser or the Subsidiaries;

4.13 Taxes. All taxes (including, where applicable, income tax, capital tax, payroll taxes, employer health tax, workers' compensation payments, property taxes, custom and land transfer taxes), duties, royalties, levies, imposts, assessments, deductions, charges or withholdings and all liabilities with respect thereto including any penalty and interest payable with respect thereto (collectively, "Taxes") due and payable by the Purchaser and the Subsidiaries have been paid, except where the failure to pay such Taxes would not have a Material Adverse Effect. All tax returns, declarations, remittances and filings required to be filed by the Purchaser and the Subsidiaries have been filed with all appropriate governmental authorities and all such returns, declarations, remittances and filings are complete and accurate and no material fact or facts have been omitted therefrom which would make any of them misleading, except where the failure to file such documents or any incompleteness, inaccuracies or omissions would have a Material Adverse Effect. The Purchaser is not aware that any examination of any tax return of the Purchaser or the Subsidiaries is currently in progress and the Purchaser is not aware of issues or disputes outstanding with any governmental authority regarding claims by any foreign or domestic governmental authority that additional Taxes may be payable, by the Purchaser or the Subsidiaries, in any case except where such examinations, issues or disputes would not have a Material Adverse Effect;

4.14 Intellectual Property. The Purchaser and each of the Subsidiaries owns or possesses sufficient legal rights in and to or has submitted an application for all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses (software or otherwise), information, processes, works of authorship, software code, inventions (whether or not patentable), improvements, technology, trade secrets, know-how and similar proprietary rights (collectively, "Intellectual Property") necessary to conduct the respective business of the Purchaser and the Subsidiaries as presently conducted and as proposed to be conducted without any conflict with, or infringement of, the rights of others. Without limiting the foregoing: (i) all Intellectual Property used in or necessary to the conduct of the business of each of the Purchaser and the Subsidiaries as presently conducted and as presently proposed to be conducted was (x) written, created, or reduced to practice solely by the employees or consultants of the Purchaser or the Subsidiaries acting within the scope of their employment or consulting duties who have entered into a confidentiality agreement and invention assignment agreement or by third parties who have validly and irrevocably assigned such Intellectual Property and all of their rights thereto and therein to the Purchaser or to either of the Subsidiaries pursuant to a confidentiality agreement and invention assignment agreement or (y) licensed from a third party pursuant to a valid written agreement; (ii) all of the issued patents in the Intellectual Property are currently in compliance with formal legal requirements (including payment of filing, examination and maintenance fees and proofs of working or use) and are valid and enforceable; (iii) no such patent has been or is now involved in any interference, reissue, re-examination, or opposition proceeding; (iv) to the knowledge of the Purchaser, there is no potentially interfering patent or patent application of any third party; (v) in all patents and patent applications in the Intellectual Property, all the relevant, material prior art known to the inventors and those involved in the prosecution has been brought to the attention of the relevant patent authorities; (vi) there are no options, licenses or agreements between the Purchaser or either of the Subsidiaries and any other person or entity with respect to Intellectual Property under which there is any dispute regarding the scope of such agreement, or performance under such agreement, including with respect to any payments to be made or received by the Purchaser thereunder; (vii) neither the Purchaser nor either of the Subsidiaries has infringed upon or has otherwise violated any Intellectual Property of any other person or entity, and neither the Purchaser nor either of the Subsidiaries has received any communication alleging that the Purchaser or either of the Subsidiaries has infringed upon or has otherwise violated any Intellectual Property of any other person or entity; (viii) none of the Intellectual Property of the Purchaser or the Subsidiaries has been or is being infringed or otherwise used or available for use, by any other person; (ix) the Purchaser or either of the Subsidiaries is not obligated to make any payments by way of royalties, fees or otherwise to any owner or licensor of or claimant to any Intellectual Property with respect to the use thereof in connection with the conduct of its business as presently conducted; (x) there are no agreements, understandings, instruments, contracts, judgments, orders or decrees to which the Purchaser or either of the Subsidiaries is a party or by which it is bound that involve indemnification by the Purchaser or either of the Subsidiaries with respect to infringements of Intellectual Property; and (xi) all material technical information developed by and/or belonging to the Corporation or to the Subsidiaries which has not been copyrighted or protected has been kept confidential

4.15 Agreements and Constatng Documents. Any and all of the agreements and other documents and instruments pursuant to which the Purchaser and the Subsidiaries hold the property and assets thereof (including any interest in, or right to earn an interest in, any Intellectual Property) are valid and subsisting agreements, documents or instruments in full force and effect, enforceable in accordance with terms thereof, neither the Purchaser or nor either of the Subsidiaries is in default of any of the material provisions of any such agreements, documents or instruments nor has any such default been alleged and such properties and assets are in good standing under the applicable statutes and regulations of the jurisdictions in which they are situated, all leases, licences and other agreements pursuant to which the Purchaser or either of the Subsidiaries derives the interests thereof in such property and assets are in good standing and there has been no material default under any such lease, licence or agreement. None of the material properties (or any interest in, or right to earn an interest in, any property) of the Purchaser or either of the Subsidiaries is subject to any right of first refusal or purchase or acquisition right. Neither the Purchaser nor either of the Subsidiaries is in violation of its constating documents or in default of the performance or observance of any material obligation, agreement, covenant or condition contained in any contract, indenture, trust deed, joint venture, mortgage, loan agreement, note, lease or other agreement or instrument to which it is a party or by which it or its property may be bound.

4.16 Securities. The Purchaser's authorized share capital consists of 200,000,000 Common Shares, \$0.001 par value, of which 105,670,927 Common Shares are issued and outstanding. No person, firm or corporation has any agreement or option, or right or privilege (whether pre-emptive or contractual) capable of becoming an agreement or option, for the purchase from the Corporation of any unissued Common Shares or securities of the Purchaser other than: (i) options to purchase -0- Common Shares; (ii) warrants to purchase 18,288,363 Common Shares; and (iii) \$2,649,159.00 principal amount of debentures convertible into Common Shares at a price of \$.12 per share, which debentures expire at various dates through November 19, 2014. There is no agreement to which the Purchaser is a party in force or effect which in any manner affects or will affect the voting or control of any of the securities of the Purchaser.

4.17 Bankruptcy. None of the Purchaser or the Subsidiaries, or to the Purchaser's knowledge any creditor of the Purchaser or the Subsidiaries or any other person has instituted any proceeding or taken any corporate action or executed any agreement in connection with the commencement of any proceeding seeking to adjudicate the Purchaser or either of the Subsidiaries as bankrupt or insolvent; seeking liquidation, dissolution, winding-up, reorganization, arrangement, protection, relief or composition of Purchaser or the Subsidiaries or any material part of their property or debt, or making a proposal with respect to the Purchaser or the Subsidiaries under any law relating to bankruptcy, insolvency, reorganization or compromise of debts or other similar laws; or seeking appointment of a receiver, trustee, agent, custodian or other similar official for the Purchaser or the Subsidiaries or for any material part of their properties and assets.

4.18 Consideration Shares. The Purchaser has allotted and reserved sufficient number of Common Shares to be issued as Consideration Shares and the Consideration Shares shall be issued as fully paid and non-assessable common stock of the Purchaser.

4.19 Loans. Other than in accordance with the ordinary course of its respective business, neither the Purchaser nor either of the Subsidiaries have made any material loans to or guaranteed the material obligations of any person.

4.20 Leased Premises. With respect to each premise of the Purchaser or either of the Subsidiaries and which the Purchaser or either of the Subsidiaries occupies as tenant (the "Leased Premises"), the Purchaser or either of the Subsidiaries occupies the Leased Premises and has the exclusive right to occupy and use the Leased Premises and each of the leases pursuant to which the Purchaser and/or either of the Subsidiaries occupies the Leased Premises is in good standing and in full force and effect.

4.21 Insurance. The assets of the Purchaser and the Subsidiaries and their respective business and operations are insured against loss or damage with responsible insurers with policies in such amounts and with such deductibles and covering such risks as are generally deemed adequate and customary for their business and such coverage is in full force and effect, and the Purchaser has not failed to promptly give any notice of any material claim thereunder to the Seller.

4.22 Minute Books. The minute books and records of the Purchaser and the Subsidiaries made available to the Seller's counsel in connection with its due diligence investigation of the Purchaser and the Subsidiaries are all of the minute books and records of Purchaser and the Subsidiaries and contain copies of all material proceedings (or certified copies thereof) of the shareholders, the board of directors and all standing committees of the board of directors of the Purchaser and the Subsidiaries and there have been no other meetings, resolutions or proceedings of the shareholders, board of directors or any committees of the boards of directors of the Purchaser and the Subsidiaries not reflected in such minute books and other records.

4.23 Environment Law. The Purchaser and the Subsidiaries are not in violation of, in connection with the ownership, use, maintenance or operation of its property and assets, including the Leased Premises, any applicable federal, provincial, state, municipal or local laws, by-laws, regulations, orders, policies, permits, licences, certificates or approvals having the force of law, domestic or foreign, relating to environmental, health or safety matters (collectively, the “Environmental Laws”) which could reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing the Purchaser does not have any knowledge of and has not received any notice of, any material claim, judicial or administrative proceeding, pending or threatened against, or which may affect, either the Purchaser or the Subsidiaries or any of the property, assets or operations thereof, relating to, or alleging any violation of any Environmental Laws, the Purchaser is not aware of any facts which could give rise to any such claim or judicial or administrative proceeding and none of the Purchaser or the Subsidiaries nor any of the property, assets or operations thereof is the subject of any investigation, evaluation, audit or review by any governmental authority to determine whether any violation of any Environmental Laws has occurred or is occurring or whether any remedial action is needed in connection with a release of any contaminant into the environment, in each case which could reasonably be expected to have a Material Adverse Effect.

4.24 Labour. There is not currently any labour disruption, grievance, arbitration proceeding or other conflict which could reasonably be expected to have a Material Adverse Effect and the Purchaser and the Subsidiaries are in compliance with all provisions of all federal, state, local and foreign laws and regulations respecting employment and employment practices, terms and conditions of employment and wages and hours, except where non-compliance with any such provisions would not have a Material Adverse Effect. The Purchaser is not aware of any existing or imminent labour disruption, grievance, arbitration proceedings or other conflict directly involving the employees of any of its principal suppliers, manufacturers or customers which could reasonably be expected to have a Material Adverse Effect. No union has been accredited or otherwise designated to represent any employees of the Purchaser or the Subsidiaries and, to the Purchaser’s knowledge, no accreditation request or other representation question is pending with respect to the employees of the Purchaser or the Subsidiaries and no collective agreement or collective bargaining agreement or modification thereof has expired or is in effect in any of the facilities of the Purchaser or the Subsidiaries and none is currently being negotiated by Purchaser or the Subsidiaries.

4.25 Accounting Controls. The Purchaser maintains a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management’s general or specific authorization, and (ii) transactions are recorded as necessary to permit the preparation of financial statements in conformity in all material respects with U.S. generally accepted accounting principles and to maintain accountability for assets.

4.26 Proposed Legislation. The Purchaser is not aware of any legislation, or proposed legislation (published by a legislative body), which it anticipates will have a Material Adverse Effect.

4.27 Brokers. All negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by representatives of Purchaser directly with Seller, without the intervention of any person on behalf of Purchaser in such manner as to give rise to any valid claim by any person against Seller for a finder’s fee, brokerage commission or similar payment. All rights of indemnity under Article X hereof shall apply to any claim relating to a Loss (hereinafter defined) arising out of this Agreement for any fee, commission or similar payment.

4.28 SEC Registration. The Purchaser has a class of securities registered under Section 12 of the United States Exchange Act of 1934, as amended (the “U.S. Exchange Act”), and has filed all reports required to be filed under Section 13 of the U.S. Exchange Act.

4.29 Shell Company Status. The Purchaser is not a “shell company” as such term is defined in Rule 405 under the U.S. Securities Act.

4.30 U.S. Exchange Act Reports. As long as the Seller is the beneficial owner of any Consideration Shares, the Purchaser shall use commercially reasonable efforts to timely file all reports required to be filed with the United States Securities and Exchange Commission (the "SEC") pursuant to Section 13 of the U.S. Exchange Act, and Purchaser shall not terminate its status as a reporting issuer required to file reports under the U.S. Exchange Act even if the U.S. Exchange Act or the rules and regulations thereunder would otherwise permit such termination.

4.31 Resale Registration Statement. The Purchaser shall use its commercially reasonable efforts to file a resale registration statement with the SEC for the Consideration Shares and each time that the Purchaser proposes for any reason to register any of its common stock or other securities under the U.S. Securities Act in connection with the proposed offer and sale of its common stock or other securities, for either its own account or on behalf of any other security holders (a "Proposed Registration"), the Purchaser shall promptly give written notice of such proposed registration to the Seller and shall offer the Seller the right to request inclusion of the Consideration Shares in the Proposed Registration.

4.32 Legal Opinion. At any time after six months following the Closing Date, upon request of the Seller, the Purchaser shall use commercially reasonable efforts to cause its legal counsel to provide the Seller with a legal opinion in order to remove the Restrictive Legend and to sell the Consideration Shares pursuant to Rule 144 of the U.S. Securities Act or any applicable available exemption.

4.33 Tax Consequences. The Purchaser acknowledges that there may be tax consequences as a result of the acquisition of the Assets and has been advised by independent legal, tax and other professional advisors.

#### **ARTICLE V - CONDITIONS PRECEDENT TO CLOSING**

5.1 Conditions Precedent to Closing. The obligations to consummate and effect this Agreement are subject to the satisfaction in all material respects, on or before Closing, of the following conditions (unless waived, in writing, in the manner provided in Section 5.1(d) hereof):

(a) Representations and Warranties of Purchaser. (i) The representations and warranties of the parties shall be accurate in all material respects on and as of the Closing as though made on and as of the Closing, except for any changes resulting from activities or transactions which may have taken place after the date hereof which are expressly permitted by this Agreement; and (ii) the parties shall have performed all obligations and complied with all covenants required to be performed or to be complied with by such party under this Agreement prior to or at the Closing including the delivery of all documents required at the Closing.

(b) Action. All action necessary to authorize the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby shall have been duly and validly taken by the parties.

(c) No Action or Proceeding. As of the Closing, no action or proceeding by any public authority or person shall be pending before any court or administrative body or overtly threatened to restrain, enjoin or otherwise prevent the consummation of this Agreement or the transactions contemplated herein. There shall not be threatened, instituted or pending any action or proceeding, before any court or governmental authority or agency, domestic or foreign, (i) challenging or seeking to make illegal, or to delay or otherwise directly or indirectly restrain or prohibit, the consummation of the transactions contemplated hereby or seeking to obtain material damages in connection with such transactions; (ii) seeking to prohibit direct or indirect ownership or operation by Purchaser of all or a material portion of the Assets as a result of the transactions contemplated hereby; (iii) seeking to require direct or indirect transfer or sale by Purchaser of any of the Assets; (iv) seeking to invalidate or render unenforceable any material provision of this Agreement or agreements otherwise contemplated hereby; or (v) otherwise relating to and materially adversely affecting the transactions contemplated hereby.



(d) Waiver of Conditions Precedent. Either party may waive any or all of the conditions precedent set forth herein, either prospectively or retroactively, by giving written notice of such waiver to the other party. No waiver of any condition precedent pursuant to this paragraph 5.1(d) shall, unless otherwise expressly stated in such written notice of waiver, extend to any covenant or agreement contained herein or to any other condition precedent.

(e) No Adverse Changes. There shall have been no event or change occurring between the execution of this Agreement and the Closing which in the aggregate may be deemed to have a material adverse effect on Seller's sale or Purchaser's purchase of all or substantially all of the Assets.

(f) Governmental Filings. All material governmental filings, authorizations and approvals, including the approval of the TSX Venture Exchange, that are required for the consummation of the transactions contemplated herein shall have been duly made and obtained by Seller (except filings required by Purchaser pursuant to applicable securities laws).

(g) Bring-Down Certificate. Each party shall deliver to the other, a certificate dated the Closing Date signed by the President and Chief Executive Officer of party or such other senior officer(s) of the party as may be acceptable to the other party, that

- (i) the party has complied with all the covenants and satisfied all the terms and conditions of this Agreement on its part to be complied with and satisfied at or prior to the time of Closing; and
- (ii) the representations and warranties of the party contained herein are true and correct as at the time of Closing, with the same force and effect as if made on and as at the time of Closing after giving effect to the transactions contemplated hereby.

5.2 Conditions Precedent to Closing. The obligations of the Seller to consummate and effect this Agreement is subject to:

- (a) The Seller's satisfaction with its due diligence investigation of the Purchaser.
- (b) The Seller receiving the items set forth in Section 9.3 hereof.

#### **ARTICLE VI - SURVIVAL OF REPRESENTATIONS AND WARRANTIES**

Except as otherwise stated below, the representations, warranties, covenants and agreements made by the respective parties in this Agreement or in a writing executed and delivered in connection with the transactions contemplated herein shall survive the Closing. All covenants, agreements, representations and warranties made herein or pursuant hereto shall be deemed to be material and to have been relied upon by the parties hereto, notwithstanding any investigation heretofore or hereinafter made by or on behalf of the parties prior to the Closing.

## ARTICLE VII - INDEMNIFICATION

7.1 Indemnification. Subject to the provisions of Article VII, each party agrees to indemnify and hold the other party harmless against, any and all damages, claims, deficiencies, losses, and expenses (collectively "Damages") resulting from (i) any misrepresentation, breach of warranty, or nonfulfillment or failure to perform any covenant or agreement made as a part of or contained in this Agreement or in any document executed and delivered pursuant to this Agreement or in connection with the transactions contemplated hereby, except for Damages resulting from: (i) any such misrepresentations, breach of warranty or nonfulfillment or failure to perform any such covenant or agreement known to each party and waived in writing as of the Closing; or (ii) fraud, negligence or willful misconduct on behalf of the Indemnified Party (as hereinafter define). .

The party claiming indemnification hereunder is hereinafter referred to as the "Indemnified Party" and the party against whom such claims are asserted hereunder is hereinafter referred to as the "Indemnifying Party". Damages for which a claim or action may be asserted hereunder are hereinafter referred to as a "Loss". All claims for indemnification by any Indemnified Party under this Article VII shall be asserted and resolved as follows:

(a) In the event that any claim or demand for which an Indemnifying Party would be liable to an Indemnified Party hereunder is asserted against or sought to be collected from such Indemnified Party by a third party, said Indemnified Party shall, within twenty (20) days of such claim or demand being made, notify the Indemnifying Party of such claim or demand, specifying the nature of and specific basis for such claim or demand and the amount or the estimated amount thereof to the extent then feasible (the "Claim Notice"). The estimate of Loss contained in the Claim Notice shall not limit the amount of the Indemnifying Party's ultimate liability under the claim. The Indemnifying Party shall not be obligated to indemnify the Indemnified Party with respect to any such claim or demand if the Indemnified Party fails to notify the Indemnifying Party thereof in accordance with the provisions of this Agreement within said twenty (20) day period. The Indemnifying Party shall have 10 days from the personal delivery or mailing of the Claim Notice (the "Notice Period") to notify the Indemnified Party (i) whether or not the liability of the Indemnifying Party to the Indemnified Party hereunder with respect to such claim or demand is disputed, and (ii) whether or not the Indemnifying Party desires, at the sole cost and expense of the Indemnifying Party, to defend the Indemnified Party against such claim or demand; provided, however, that any Indemnified Party is hereby authorized prior to and during the Notice Period to file any motion, answer or other pleading which it shall deem necessary or appropriate to protect its interest or those of the Indemnifying Party and not unreasonably prejudicial to the Indemnifying Party. In the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against such claim or demand, then, except as hereinafter provided, the Indemnifying Party shall have the right to defend by all appropriate proceedings, which proceedings shall be promptly settled or prosecuted by it to a final conclusion. If the Indemnified Party desires to participate in, but not control, any such defense or settlement it may do so at its sole cost and expense. If requested by the Indemnifying Party, the Indemnified Party agrees to cooperate with the Indemnifying Party and Its counsel in contesting any claim or demand which the Indemnifying Party elects to contest, or, if appropriate and related to the claim in question, in making any counterclaim against the person asserting the third party claim or demand, or any cross complaint against any person but in any such case at the sole cost and expense of the Indemnifying Party. No claim may be settled without the consent of the Indemnifying Party, unless such settlement includes the complete release of the Indemnifying Party.

(b) In the event any Indemnified Party should have a claim against any Indemnifying Party hereunder which does not involve a claim or demand being asserted against or sought to be collected from it by a third party, the Indemnified Party shall send a Claim Notice with respect to such claim to the Indemnifying Party. If the Indemnifying Party disputes such claim, as provided above, such dispute shall be resolved by arbitration as provided in Section 10.11.

7.2 Payment of Claim. Upon the determination of the liability of a party under this Article VII, after payment by the Indemnified Party of, or upon entry of final judgment or reaching of a settlement in respect of an Indemnifiable Claim, or determination of a Loss to the Indemnified Party, and notice thereof to the Indemnifying Party, the Indemnifying Party shall within ten (10) days after receipt of such notice pay to the Indemnified Party the amount of the payment, judgment, settlement or loss, as the case may be.

7.3 Other Rights and Remedies Not Affected. The indemnification rights of the parties under this Article VII are independent of and in addition to such rights and remedies as the parties may have at law or in equity or otherwise for any misrepresentation, breach of warranty or failure to fulfill any agreement or covenant hereunder on the part of any party hereto including without limitation the right to seek specific performance, rescission or restitution, none of which rights or remedies shall be affected or diminished hereby.

#### **ARTICLE VIII - TERMINATION AND BREACH**

8.1 Termination and Abandonment. This Agreement may be terminated and the transactions provided for by this Agreement may be abandoned without liability on the part of any party to any other party at any time before the Closing Date, by (i) mutual consent of Purchaser and Seller; or (ii) by Purchaser due to Seller's failure to obtain a sufficient number of the Assets in the foreclosure process and settlement of asset division with similarly situated creditors of Wellness.

8.2 Subscription for Units. This Agreement may be terminated and the transactions provided for by this Agreement may be abandoned without liability on the part of the Seller at any time before the Closing Date in the event that the Seller does not receive \$150,000 in connection with the sale of the Units within the timeline set forth in Section 2.1 hereof.

8.3 Subscription upon Termination. In the event that this Agreement is terminated, the Purchaser shall forthwith sell to the Seller up to 150,000 Common Shares at a price equal to a 20% discount to the weighted average price of said shares on the OTC for 45 consecutive trading days ending on the date of termination of this Agreement. The number of Common Shares to be purchased by the Seller, if any, shall be determined in the sole discretion of the Seller.

#### **ARTICLE IX - CLOSING**

9.1 Closing. The closing of the transaction resulting in the transfer of the Assets from the Seller to the Purchaser (the "Closing") shall be not later than ten (10) days after the date that the Seller obtains the Assets free and clear of any and all liens, claims, charges, taxes, encumbrances, pledges, security interests, options or other restrictions of any kind, unless a later date is mutually agreed upon by the parties.

9.2 Seller's Deliveries at Closing. At the Closing, Seller shall deliver the following documents to the Purchaser all of which shall be reasonably satisfactory in form and substance to the Purchaser and its counsel:

(a) Assignments/Bills of Sale. Assignments and/or Bills of Sale for the Assets together with such instruments, conveyances, certificates of title, assurances and other documents as may be required to sell, convey and transfer all right, title and interest to the Assets from Seller to the Purchaser free and clear of any and all liens, claims, charges, taxes, encumbrances, pledges, security interests, options or other restrictions of any kind.

(b) Consents and Approvals. All consents, approvals and authorizations, all notices and all registrations and filings required to be obtained, given or made under any law, statute, rule, regulation, judgment, order, injunction, contract, agreement or other instrument to which Seller is subject, bound or a party, or by which Seller or any of its properties is bound or subject, in each case which is required to permit the consummation of the transactions contemplated by the Agreement without contravention, violation or breach by the Seller of any of the terms thereof.

(c) Certificates. Certificate of good standing for each party as of a date reasonably prior to the Closing.

(d) Resolutions. Certified copy of resolutions of Seller authorizing, inter alia, the execution and delivery of this Agreement, the sale of the Assets and the other transactions contemplated under this Agreement.

(e) Other documents. Such other documents, instruments, certificates and agreements as Purchaser and its counsel may reasonably request.

9.3 Purchaser's Deliveries at Closing. At the Closing, Purchaser shall deliver the following documents to Seller all of which shall be in a form reasonably acceptable to Seller and their counsel:

(a) Stock Certificates. The stock certificates of Purchaser representing the purchase price for the Assets referred to in Section 2.4 duly endorsed and issued.

(b) Consents and Approval. All consents, approvals and authorizations, all notices and all registrations and filings required to be obtained, given or made under any law, statute, rule, regulation, judgment, order, injunction, contract, agreement or other instrument to which the Purchaser is a party, or by which it or any of its properties is bound or subject, in each case which is required to permit the consummation of the transactions contemplated by this Agreement without contravention, violation or breach by the Purchaser of any of the terms thereof.

(c) Resolutions. Certified copy of resolutions of the Board of Directors of the Purchaser authorizing, inter alia, the execution and delivery of this Agreement, the Stock Certificates, the purchase of the Assets and the other transactions contemplated hereby.

(d) Officer's Certificate. a certificate dated the Closing Date signed by the President and Chief Executive of the Purchaser or such other senior officer(s) of the Purchaser as may be acceptable to the Purchaser, in form and content satisfactory to the Seller, acting reasonably, with respect to:

- (i) the articles and by-laws of the Purchaser;
- (ii) the resolutions of the Purchaser's board of directors relevant the authorization of this Agreement and the transactions contemplated herein; and
- (iii) the incumbency and signatures of signing officers of the Purchaser.

(e) Other Documents. Such other documents, instruments, certificates and agreements including without limitation, if assumed, the assumption of the lease, as Seller and its counsel may reasonably request.

ARTICLE X - MISCELLANEOUS

10.1 Notice. All notices and communications required or permitted to be given hereunder shall be in writing, signed by the sender, and delivered by personal delivery overnight courier service or by registered or certified mail to:

If to Purchaser: Andrew Dahl  
7 W. Square Lake Road  
Bloomfield Hills, MI  
(248)339-9839  
adahl@health-enhancement-products.com

with a copy to: Gary R. Trzaskos, Esq.  
PO Box 113  
Walled Lake, MI 48390  
(248) 366-4011  
gtrzaskos@comcast.net

If to Seller: Richard Galdi  
720 Ouellette Avenue - Suite 516  
Windsor, Ontario  
N9A 1C2  
519-969-0129  
rgaldi@essexangelcapital.com

with a copy to: Joseph Ahern  
430 N. Old Woodward  
Second Floor  
Birmingham, Michigan 48009  
(248) 723-6102  
JAhern@ahernfleury.com

or such other address as shall have been furnished in writing. Receipt by, or filing with, the respective parties of any communications shall be deemed to have occurred for the purpose of this Agreement, when personally delivered or delivered by facsimile or e-mail transmission, or next business day if sent by overnight courier, or three days after deposit thereof, postage prepaid, properly addressed, in the United States mail.

10.2 Entire Agreement. This Agreement, including all Exhibits hereto constitute the entire agreement between the parties and as of Closing supersedes all agreements, representations, warranties, statements, promises and understandings, whether oral or written, with respect to the subject matter hereof. After Closing neither party shall be bound by or charged with any oral or written agreements, representations, warranties, statements, promises or understandings not specifically set forth in this Agreement or in the certificates or documents delivered in connection herewith.

10.3 Successors and Assigns. Except as otherwise provided in this Agreement, all covenants and agreements of the parties contained in this Agreement shall be binding upon and inure to the benefit of the respective successors and permitted assigns of the parties hereto and the heirs, personal representatives, executors and assigns of the Seller and the Purchaser. This Agreement may not be assigned by any party hereto without the prior express written consent of the other parties hereto.

10.4 Expenses. Whether or not the transactions contemplated hereby shall be consummated, each party shall be solely responsible for payment of all expenses incurred by it in connection with the consummation of this Agreement and the transactions contemplated hereunder except as otherwise provided herein.

10.5 Severability. Should any one or more of the provisions of this Agreement be determined to be illegal or unenforceable, all other provisions of this Agreement shall be given effect separately from the provision or provisions determined to be illegal or unenforceable and shall not be affected thereby.

10.6 Governing Law. This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of Michigan without regard to conflicts of laws principles.

10.7 Counterparts. This Agreement may be executed simultaneously in two or more counterparts and by PDF or other electronic means, each of which shall be an original, but all of which together shall constitute one and the same Agreement.

10.8 Amendments. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated orally, all such amendment must be in writing signed by the parties

10.9 No Third Party Beneficiary. The terms and provisions of this Agreement are intended solely for the benefit of the parties hereto, and it is not the intention of the parties to confer third-party beneficiary rights upon any other person or entity.

10.10 Headings. The headings in this Agreement are for purposes of convenience and easy reference only and shall not limit or otherwise affect the meaning hereof.

10.11 Arbitration. In the event of any dispute which arises between the parties and which relates to the subject matter of this Agreement, the parties acknowledge and agree that any such dispute shall be submitted for binding arbitration in Southfield, Michigan in accordance with the Arbitration Commercial Rules procedures established by the American Arbitration Association or, if such association is not then in existence, an independent association of arbitrators which may be designated by agreement of the parties. In the event the parties are unable to agree on an independent association of arbitrators from which arbitrators may be drawn, either party may apply to a court of competent jurisdiction for appointment of an arbitrator, however, such application will only be made in the event the American Arbitration Association is not then in existence.

The arbitrator(s) shall make detailed written findings to support their award. The prevailing party in any such arbitration proceeding shall be awarded such costs and expenses (including reasonable attorney's and expert witness' fees) as were incurred by the prevailing party as a result of the institution and prosecution of the arbitration proceeding including all costs and expenses (including reasonable attorney's and expert witness fees) to enter judgment upon or enforce any such award. Any award by arbitration pursuant to the terms of this Agreement, shall be final, non-appealable and binding upon the parties and may be entered as a judgment and enforced by any court of competent jurisdiction.

*IN WITNESS WHEREOF*, the parties hereto have executed this Agreement as of the day and year first above written.

***“Purchaser”***

Health Enhancement Products, Inc. a Nevada corporation

/s/ Debra Chase  
Debra Chase

By: /s/ Andrew Dahl  
Andrew Dahl

/s/ Jennifer M. Falor  
Jennifer M. Falor

Its: President

***“Seller”***

Essex Angel Capital, Inc., a Canadian investment issuer

/s/ Reni George  
Reni George

By: /s/ Richard Galdi  
Richard Galdi

/s/ Philip M. Rice II  
Philip M. Rice II

Its: Chairman and CEO

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

I, Andrew Dahl, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 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 that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function).
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2013

/s/Andrew Dahl  
Andrew Dahl,  
Chief Executive Officer



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

I, Philip M. Rice II, 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; and
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: May 6, 2013

/s/Philip M. Rice II  
Philip M. Rice II  
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q for the period ending March 31, 2013 of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), as filed with the Securities and Exchange Commission (the "Report"), I, Andrew Dahl, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, 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: May 6, 2013

/s/Andrew Dahl  
Andrew Dahl  
Chief Executive Officer

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

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

In connection with the Annual Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the period ended March 31, 2013 as filed with the Securities and Exchange Commission (the "Report"), I, Philip M. Rice II, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 6, 2013

/s/ Philip M. Rice II  
Philip M. Rice II  
Chief Financial Officer

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