

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

(Mark One)

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

For the quarterly period ended June 30, 2005

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

Commission file number: **000-30415**

**Health Enhancement Products, Inc.**

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

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**87-0699977**

(IRS Employer Identification No.)

**7740 East Evans Road, Scottsdale, Arizona 85260**

(Address of principal executive offices)

**480-385-3800**

(Issuer's telephone number)

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 22,994,253 shares of common stock, \$0.001 par value, outstanding at August 12, 2005.

Transitional Small Business Disclosure Format (Check one):

Yes  No

**FORM 10-QSB**  
**HEALTH ENHANCEMENT PRODUCTS, INC.**

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(Inapplicable items have been omitted)

### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

**PART I – FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements**

**HEALTH ENHANCEMENT PRODUCTS, INC. AND SUBSIDIARY**  
**[A Development Stage Company]**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET**  
**June 30, 2005**  
**ASSETS**

**CURRENT ASSETS:**

Cash	\$ 117,959
Inventories	3,614
Prepaid Expenses	10,565
 Total Current Assets	 122,138

**OTHER ASSETS:**

Definite-life intangible Assets, net	13,606
Deposits	8,865
 Total Other Assets	 22,471

\$ 154,609

**LIABILITIES AND STOCKHOLDERS' DEFICIT**

**CURRENT LIABILITIES:**

Accounts Payable	\$ 34,679
Note Payable, Shareholder	1,244,744
Loans Payable, Other	21,650
Accrued Payroll and Payroll Taxes	236,048
Accrued Liabilities	114,519
 Total Current Liabilities	 1,651,640

**COMMITMENTS AND CONTINGENCIES**

**STOCKHOLDERS' DEFICIT:**

Common stock, \$.001 par value, 100,000,000 shares authorized	
 14,994,253 issued and outstanding	 14,994
Additional Paid-In Capital	3,588,319
Deficit accumulated during the development stage	(5,100,344)
 Total Stockholders' Deficit	 (1,497,031)

\$ 154,609

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

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

	For the Three Months Ended June 30, 2004	For the Three Months Ended June 30, 2005	For the Six Months Ended June 30, 2004	For the Six Months Ended June 30, 2005	From Inception on October 9, 2003 through June 30, 2005
NET SALES	\$ 8,135	\$ 5,031	\$ 17,657	\$ 13,329	\$ 62,675
COST OF SALES	25,793	32,409	39,542	47,641	124,653
GROSS (LOSS)	(17,658)	(27,378)	(21,885)	(34,312)	(61,978)
OPERATING EXPENSES:					
Selling	59,024	17,090	105,790	40,428	299,591
General and Administrative	287,995	290,327	1,756,079	547,325	3,685,072
Research and Development	49,426	5,917	143,468	32,150	280,223
Impairment Loss	325,000	-	325,000	-	730,000
Finance Costs	-	-	-	30,000	45,000
Vendor Settlements	-	(48,800)	-	(48,800)	(48,800)
Inventory Write-downs	-	-	-	-	8,966
Total Operating Expense	721,445	264,534	2,330,337	601,103	5,000,052
LOSS FROM OPERATIONS	(739,103)	(291,912)	(2,352,222)	(635,415)	(5,062,030)
OTHER (EXPENSE)					
Interest Expense	-	(882)	-	(1,797)	(3,102)
Interest Expense - Related Party	-	(25,094)	-	(35,212)	(35,212)
Total Other (Expense)	-	(25,094)	-	(37,009)	(38,314)
NET LOSS	<u>\$ (739,103)</u>	<u>\$ (317,006)</u>	<u>\$ (2,352,222)</u>	<u>\$ (672,424)</u>	<u>\$ (5,100,344)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>(\$0.07)</u>	<u>(\$0.03)</u>	<u>(\$0.21)</u>	<u>(\$0.04)</u>	
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	<u>11,311,719</u>	<u>12,642,682</u>	<u>10,982,933</u>	<u>18,626,149</u>	

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

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

	For the Six Months Ended June 30, 2005	For the Six Months Ended June 3, 2004	October 9, 2003 Through June 30, 2005
<b>Cash Flows for Operating Activities:</b>			
Net Loss	\$ (672,424)	\$ (2,352,222)	\$ (5,100,344)
Adjustments to reconcile net loss to net cash used by operating activities:			
Non-cash - stock issued for services rendered	-	1,065,252	1,561,921
Non-cash - warrants granted for services rendered	-	260,000	260,000
Impairment loss	-	325,000	730,000
Amortization of intangibles	360	171	894
Amortization of deferred financing costs	30,000		45,000
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	-	(785)	-
(Increase) decrease in inventories	(1,051)	(1,885)	1,599
(Increase) decrease in prepaid expenses	57	(27,895)	(10,565)
Increase in accounts payable	(372,173)	61,173	56,934
Increase in payroll and payroll taxes	121,919	-	237,085
Increase (decrease) in accrued liabilities	65,118	118,510	91,228
Increase (decrease) in customer deposits	-	182	-
Net Cash (Used) by Operating Activities	(828,194)	(552,499)	(2,126,248)
<b>Cash Flows from Investing Activities:</b>			
Payments for definite-life intangible assets	-	(14,500)	(14,500)
Payments for deposits	-	-	(8,865)
Net Cash (Used) by Investing Activities	-	(14,500)	(23,365)
<b>Cash Flow from Financing Activities:</b>			
Proceeds from shareholder advances	829,385	411,974	1,531,085
Payment of shareholder advances	-	-	(286,341)
Proceeds from other borrowings	1,650	20,000	171,650
Payments of other borrowings	(150,000)	-	(150,000)
Payment of fees in connection with sale of common stock and warrants	-	(296,117)	(296,117)
Proceeds from sale of common stock and warrants	248,000	1,039,295	1,297,295
Net Cash Provided by Financing Activities	929,035	1,175,152	2,267,572
<b>Increase (Decreased) in Cash</b>	<b>100,841</b>	<b>608,153</b>	<b>117,959</b>
<b>Cash at Beginning of Period</b>	<b>17,118</b>	<b>895</b>	<b>-</b>
<b>Cash at End of Period</b>	<b>\$ 117,959</b>	<b>\$ 609,048</b>	<b>\$ 117,959</b>

**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the period for:

Interest	\$ -	\$ -	\$ -
Income Taxes	\$ -	\$ -	\$ -

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

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

**[CONTINUED]**

**Supplemental Schedule of Non-cash Investing and Financing Activities:**

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

Health Enhancement Corporation (“Subsidiary”) was organized under the laws of the State of Nevada on October 9, 2003. On November 21, 2003, Health Enhancement Products, Inc. (the “Company”) acquired Subsidiary pursuant to an Agreement and Plan of Reorganization signed October 30, 2003. The agreement called for the Company to issue 9,000,000 shares of its common stock to the shareholders of Subsidiary for 100% of the outstanding shares of Subsidiary’s common stock, as a result of which Subsidiary became a wholly-owned subsidiary of the Company [*See Note 5???*]. The Company’s acquisition of Subsidiary has been accounted for as a recapitalization of Subsidiary in a manner similar to a reverse purchase. Accordingly, the equity transactions have been restated to reflect the recapitalization of Subsidiary, and the operations of the Company prior to the date of acquisition have been eliminated. The financial statements reflect the operations of Subsidiary from its inception

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

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

For the year ended December 31, 2004:

The Company issued 200,000 shares of its previously-authorized but unissued shares of common stock for the acquisition of Indefinite-Life Intangible Assets. The shares were valued at \$730,000, or \$3.65 per share, based on the market price as of January 8, 2004.

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

The Company issued 94,500 of its previously-authorized but unissued shares of common stock, valued at \$74,182, as private placement penalty shares. The Company was required to issue these shares because a registration statement covering the shares has not been declared effective under the Securities Act of 1933, as amended, as required by the subscription documents. The value of these shares was charged to additional paid-in capital as a cost of raising capital.

For the six months ended June 30, 2005:

The Company issued 283,500 shares of common stock valued at \$222,549 as private placement penalty shares. The Company was required to issue these shares because a registration statement covering the shares has not been declared effective under the Securities Act of 1933, as amended, as required by the subscription documents. The value of those shares was charged to additional paid-in capital as a cost of raising capital.

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

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

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



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

**NOTE 1 – BASIS OF PRESENTATION**

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

The results of operations for the six months ended June 30, 2005 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2005, or any other period.

The Company incurred net losses of \$672,424 for the six months ended June 30, 2005. In addition, the Company had a working capital deficiency of \$1,519,502 and a stockholders’ deficit of \$1,497,031 at June 30, 2005. These factors continue to raise substantial doubt about the Company's ability to continue as a going concern.

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

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

During the six months ended June 30, 2005, the Company relied heavily for financing on its majority shareholder/CEO, Mr. Howard R. Baer, receiving an aggregate total of \$829,385 in advances from him.

**NOTE 2 - INVENTORIES**

Inventories at June 30, 2005 consist of the following:

Finished goods	\$3,372
Raw Materials	242
	<u>\$3,614</u>

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

**NOTE 3 - DEFINITE-LIFE INTANGIBLE ASSETS**

Definite-life intangible assets at June 30, 2005 consist of the following:

Patent applications in process	\$14,500
Less: Accumulated amortization	894
	<u>\$13,606</u>

The Company's definite-life intangible assets are amortized, upon being placed in service, over the 20 year estimated useful lives of the assets, with no residual value. Amortization expense for the three months ended June 30, 2005 was \$180. The Company estimates that their amortization expense for each of the next five years will be approximately \$720 per year.

**NOTE 4 - INDEFINITE-LIFE INTANGIBLE ASSETS**

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

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

In accordance with SFAS No. 144, an impairment analysis was performed at the end of August, 2004 on the Company's intangible assets. The fair value of the intangible assets was determined by calculating the present value of estimated future operating cash flows. This testing resulted in the determination that the carrying amount of the Company's intangible assets at June 30, 2004 exceeded its fair value. Accordingly, the Company recorded impairment charges of \$325,000 on its indefinite-life intangible assets in the quarter ended June 30, 2004. A further review during the quarter ended September 30, 2004 indicated that the fair value of the intangible assets was impaired. Accordingly, a further impairment charge of \$405,000 was recorded on the Company's indefinite-life intangible assets in the quarter ended September 30, 2004, reducing the carrying value of the Company's indefinite-life intangible assets to \$0.

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

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

The indefinite-life intangible assets at June 30, 2005 were as follows:

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

**NOTE 5 – STOCKHOLDERS’ DEFICIT**

**Common Stock**

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

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

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

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

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

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

**NOTE 5 – STOCKHOLDERS’ DEFICIT [Continued]**

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

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

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

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

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

- on November 19, 2004, 47,250 shares of common stock valued at \$47,723 (or \$1.01 per share, based on the quoted price of the Company’s common stock at the date of issuance);
- on December 19, 2004, 47,250 shares of common stock valued at \$26,460 (or \$0.56 per share, based on the quoted price of the Company’s common stock at the date of issuance).

During the six months ended June 30, 2005, the Company issued to the investors in the Private Placement the following:

- on January 18, 2005, 47,250 shares of common stock valued at \$18,900 (or \$0.40 per share, based on the quoted price of the Company’s common stock at the date of issuance);
- on February 17, 2005, 47,250 shares of common stock valued at \$47,723 (or \$1.01 per share, based on the quoted price of the Company’s common stock at the date of issuance).
- on March 15, 2005, 47,250 shares of common stock valued at \$59,063 (or \$1.25 per share, based on quoted price of the Company’s common stock at the date of issuance).
- on April 19, 2005, 47,250 shares of common stock valued at \$42,525 (or \$0.90 per share, based on the quoted price of the Company’s common stock at the date of issuance);
- on May 17, 2005, 47,250 shares of common stock valued at \$33,075 (or \$.70 per share, based on the quoted price of the Company’s common stock at the date of issuance).
- on June 19, 2005, 47,250 shares of common stock valued at \$21,263 (or \$.45 per share, based on quoted price of the Company’s common stock at the date of issuance).

In November 2004, the Company entered into two Promissory Notes for an aggregate total of \$150,000, under which it issued 75,000 shares of its previously-authorized but unissued common stock. The Notes were secured by a lien and security interest on certain property of the Company's majority shareholder/CEO, Mr. Howard R. Baer, and were payable on or before February 26, 2005. These shares were valued at \$45,000.00 (or \$0.60 per share), based on the quoted price of the Company's common stock on the date of issuance. The Promissory Notes were fully repaid on February 15, 2005.

In June, 2005, the Company sold 2,480,000 shares of its common stock, \$.001 par value ("common stock"), and warrants to purchase 3,100,000 shares of common stock ("warrant"), for an aggregate purchase price of \$248,000. The warrants are immediately exercisable, have an exercise price of \$.10 per share and a term of three years. In connection with this Private Placement, the Company incurred a cash finder's fee of \$4,800 and has issued, as a finder's fee, a warrant to purchase 1,000,000 shares of common stock, at a price of \$.10 per share, for a term of one year. Such warrants have a value of \$265,000, using the Black-Scholes pricing model.

**Capital Contribution** - In November 2003, the Company's majority shareholder/CEO contributed inventory with a carryover basis of \$5,213 to the Company.

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

**Warrants** - On February 20, 2004, the Company issued 50,000 warrants for the purchase of the Company's common stock, at an exercise price of \$3.75 per share for services rendered. These warrants were valued at \$260,000. The warrants vested immediately and are exercisable for three years. At March 31, 2005, none of these warrants had been exercised, forfeited or cancelled.

In June and July, 2004, as part of the above-described private placement, the Company issued warrants for the purchase of an aggregate of 445,000 shares of the Company's common stock, at an exercise price of \$3.00 per share. The warrants vest immediately and expire on June 30, 2006. At June 30, 2005, none of these warrants had been exercised, forfeited or cancelled.

In June, 2005, as described above, the Company issued warrants to purchase 3,100,000 shares of the Company's Common Stock, at an exercise price of \$.10 per share. The Warrants are immediately exercisable and have a term of 3 years. At June 30, 2005, none of these Warrants had been exercised, forfeited or cancelled. In addition, as described above, in connection with this Private Placement, the Company issued, as a finder's fee, a warrant to purchase 1,000,000 shares of common stock, at a price of \$.10 per share, for a term of one year (in addition to a \$4,800 cash finder's fee).

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

**NOTE 5 – STOCKHOLDERS’ DEFICIT *[Continued]***

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

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding – January 1, 2004	-	\$ -
Granted (Services)	50,000	3.75
Granted (Private Placement)	445,000	3.00
Outstanding at December 31, 2004	495,000	\$ 3.04
Granted (Private Placement)	3,100,000	.10
Granted (Finder’s Fee)	1,000,000	.10
Outstanding at June 30, 2005	<u>4,595,000</u>	<u>\$ .42</u>

The fair value of each warrant granted for services is estimated on the date granted using the Black-Scholes option pricing model, with the following assumptions for grants on February 20, 2004 and June 27, 2005: risk-free interest rate of 2.25% and 2.50%, expected dividend yield of zero, expected lives of three years and one year, and expected volatility of 633% and 139%, respectively.

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

**NOTE 6 - RELATED PARTY TRANSACTIONS**

**Accounts Payable** - At June 30, 2005, the Company owed \$1,650 to the majority shareholder/CEO of the Company or to entities owned by majority shareholder/CEO.

**Accrued Liabilities** - Included in Accrued Liabilities at June 30, 2005 is \$35,212 in accrued interest related to a note payable to the Company's CEO.

**Shareholder Advances and Notes Payable** - During the period from inception to December 31, 2004, the Company's majority shareholder/CEO advanced \$701,700 to the Company. During the same period, the Company repaid him a total of \$275,000 and there net adjustments to his advance account of negative \$11,341, leaving an outstanding balance of \$415,359 due to the majority shareholder/CEO at December 31, 2004. During the quarter ended March 31, 2005, the majority shareholder/CEO advanced the Company an additional \$516,385. During the quarter ended June 30, 2005, the majority shareholder/CEO advanced an additional \$313,000, resulting in a principal balance owing of \$1,244,744. There have been no advances since June 30, 2005. As described below, the majority shareholder/CEO converted, on July 8, 2005, \$538,000 of indebtedness into common stock and warrants to purchase common stock.

On February 15, 2005, the Company entered into a Promissory Note ("Note"), a Security Agreement and a Patent Security Agreement with Mr. Baer (such documents are collectively hereinafter referred to as the "Loan Documents") in connection with Mr. Baer advancing to the Company \$364,000, for its benefit and that of its wholly-owned subsidiary, Health Enhancement Corporation ("HEC"). Immediately prior to entering into the Loan Documents, the Company was indebted to Mr. Baer in the aggregate amount of \$483,359, in connection with prior advances he made to us, for the benefit of us and HEC. Following Mr. Baer's advance of \$364,000 on February 15, 2005, the Company was indebted to Mr. Baer in the aggregate amount of \$847,359.

From February 15, 2005 to June 30, 2005, Mr. Baer has advanced the Company an additional \$397,385 for its benefit and that of HEC. On March 25, 2005, the Company, Mr. Baer and HEC executed and delivered a Joinder Agreement and First Amendment, which had the effect of making HEC a party to the Loan Documents, including as a co-maker of the Note. As a result of entering into the Joinder Agreement and First Amendment, in addition to being a co-maker under the Note, HEC granted Mr. Baer a security interest in all of its assets related to the ProAlgaZyme product. Accordingly, at July 8, 2005, the Note was in the principal amount of \$1,244,744. On July 8, 2005, Mr. Baer agreed to convert an aggregate of \$538,000 of indebtedness (consisting of \$500,000 in principal and \$38,000 of interest) we owed him into 5,000,000 shares of our common stock and warrants to purchase 6,250,000 shares of our common stock, at an exercise price of \$.15 per share. After giving effect to the conversion, we owed Mr. Baer approximately \$745,000 in principal amount. The Note bears interest at the rate of 10% per annum. Commencing thirty (30) days after written demand by Mr. Baer, the principal amount and accrued interest under the Note will be payable in twelve (12) equal monthly installments. Under the Security Agreements, in order to secure the Company's obligations under the Note, the Company granted Mr. Baer a security interest in all its assets that are related to the Company's ProAlgaZyme product. The principal amount under the Note may be increased from time to time by the amount of any further advances to the Company by Mr. Baer; however, Mr. Baer is in no way obligated to make further advances to the Company.

**Management Compensation** - During the six months ended June 30, 2005, the Company recorded the following management compensation for services rendered: approximately \$100,000 to the majority shareholder/CEO;

## NOTE 7 - COMMITMENTS AND CONTINGENCIES

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

During the six months ended June 30, 2005, the Company incurred an aggregate of \$54,000 for lease payments for this new facility, and currently owes rent for the months of May and June, 2005. A total of \$17,730 for this rent is included in accounts payable.

The future minimum lease payments related to the lease as of June 30, 2005, are as follows:

2005	\$	54,000
2006	\$	108,000
2007	\$	108,000
2008	\$	108,000
2009	\$	108,000

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

## NOTE 8 - SUBSEQUENT EVENTS

**Conversion of Debt to Equity** – on July 8, 2005, the Company’s CEO/majority shareholder agreed to convert an aggregate of approximately \$538,000 of indebtedness owing to him by the Company into 5,000,000 shares of common stock and warrants to purchase 6,250,000 shares of common stock, at a per share exercise price of \$.15, for a term of three years. As a result of this transaction, the Company’s indebtedness to Mr. Baer was reduced from \$1,283,000 to \$745,000. On July 11, 2005, the Company filed a Form 8-K Current Report reporting this transaction. The Company expects that it will incur non-cash charges in connection with this conversion.

In July, 2005, the Company sold 2,950,000 shares of common stock and warrants to purchase 3,687,500 shares of common stock, for aggregate consideration, of \$295,000. The warrants are immediately exercisable, have a term of three years and an exercise price of \$.10 per share.



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

### **Results of Operations for the three and six months ended June 30, 2005 and June 30, 2004.**

**Net Sales.** Net sales for the three and six months ended June 30, 2005 were \$5,031 and \$13,329, respectively, as compared to \$8,135 and \$17,657 for the comparable periods in 2004. These sales reflect principally revenues from the ProAlgaZyme product. The ProAlgaZyme product has also been marketed under the name "AlphaSystem Replenisher" ("ASR").

Throughout 2004 and most of the six months ended June 30, 2005, we have been adversely impacted by a shortage of funds which has severely impeded our ability to market and test our ProAlgaZyme product, contributing to a low level of net sales. Although the ProAlgaZyme product is available for sale and we are exploring various potential marketing opportunities, we are not currently advertising the product and expect only limited sales revenue until at least 2006. We believe that our ability to generate sales of the ProAlgaZyme product will depend upon, among other things, further characterization of the product, identification of its method of action and advertising. We are currently in the process of pursuing testing necessary to characterizing the product and identifying its method of action.

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

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

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

**Cost of Sales.** Total Cost of Sales was \$32,409 and \$47,641 for the three and six months ended June 30, 2005, respectively, as compared to \$25,793 and \$39,542 for the comparable periods in 2004. Cost of Sales represents primarily costs related to raw materials, labor and the laboratory and controlled production environment necessary for the growing of the algae cultures that constitute the source of the proteolytic enzyme within the ProAlgaZyme product, and for conducting the necessary harvesting and production operations in preparing the product for sale.

**Gross Profit.** Total Gross Profit was a negative \$27,378 and negative \$34,312 for the three and six months ended June 30, 2005, respectively, as compared to negative \$17,658 and negative \$21,885 for the comparable periods in 2004. The negative gross profit for the reported periods is due to limited sales, leading to cost of sales – much of which reflects relatively fixed production expenses for the ProAlgaZyme product - exceeding sales revenues. If we are able to realize a significant increase in sales, it is expected that Gross Profit will become positive. However, we cannot assure you that we will achieve an increase in sales.

**Research and Development Expenses.** For the three and six months ended June 30, 2005, we incurred \$5,917 and \$32,150 on research and development expenses, respectively, as compared to \$49,426 and \$143,468 for the comparable periods in 2004. These expenses are comprised of costs associated with internal and external research. The significant curtailment of research and development spending was due primarily to a lack of available funds.

As previously disclosed, the two major external clinical studies that we had undertaken were terminated.

We recently commissioned an external study to determine whether ProAlgaZyme is effective in reducing the level of CRP. The cost of this study is expected to be approximately \$29,000, of which \$10,000 has been paid. This \$10,000 is reflected in prepaid expenses.

In addition, we have recently engaged several third parties to conduct testing directed toward characterization of the product and determining its method of action. Subject to the availability of sufficient funding, we plan to continue these research and development activities during the balance of 2005. Historically, we have been funded by our majority shareholder/CEO and through external sources. We have in the past had difficulty raising funds from external sources; however, we recently raised a limited amount of capital. Mr. Baer is not currently in a position to make further advances to us. We may not be able to raise the funding that we need to continue our research and development activities. In the event that we are not able to secure sufficient funding to meet our research needs, we will be unable to pursue necessary research activities, in which case our ability to market ProAlgaZyme with objective clinical support for its efficacy will be impeded, thereby severely hindering our sales effectiveness and impacting negatively the achievement of our business plan.

***Selling and Marketing Expenses.*** Selling and marketing expenses were \$17,090 and \$40,428 for the three and six months ended June 30, 2005, respectively, as compared to \$59,024 and \$105,790 for the comparable periods in 2004. The decrease in selling and marketing expenses is due primarily to a decrease in advertising due to a lack of available funds.

Due to a lack of funding, we have been forced to terminate all advertising related activities. However, we intend to direct our selling efforts to existing ProAlgaZyme users. The termination of advertising related activities has had and will continue to have a material adverse effect on future sales revenue and operating income.

***General and Administrative Expenses.*** General and administrative expense was \$290,327 and \$547,325 for the three and six months ended June 30, 2005, respectively, as compared to \$287,995 and \$1,756,079 for the comparable periods in 2004. The decrease in general and administrative expenses for the six months ended June 30, 2005, compared to the comparable 2004 period, was due primarily to the absence of any significant stock award to the CEO. During the six months ended June 30, 2004, the CEO received 150,000 shares of stock valued at \$810,000.

In connection with Mr. Baer's conversion of debt to equity in July, 2005, we expect to incur non-cash charges. See "Liquidity and Capital Resources".

***Financing Costs.*** We incurred \$35,212 in interest expense on the note payable to our majority shareholder/CEO.

### **Liquidity and Capital Resources**

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

We have had virtually no revenue (approximately \$5,000 for the three months ended June 30, 2005) and have incurred significant net losses since inception, including a net loss of \$317,006 during the three months ended June 30, 2005 and an aggregate net loss of \$5,100,344 since inception. We expect only limited sales revenue until at least 2006. Further, since inception, we have incurred negative cash flow from operations. During the six months ended June 30, 2005, we incurred negative cash flows from operations of \$828,000. As of August 1, 2005, we had a cash balance of \$267,000. We had a working capital deficiency of \$1,519,502 and a stockholders' deficit of \$1,497,031 as of June 30, 2005. After giving effect to the conversion by our majority shareholder/CEO of \$538,000 into common stock and warrants on July 8, 2005, the working capital deficiency would be reduced by \$538,000. Although we have recently raised a limited amount of capital, we continue to experience a shortage of capital, which is materially and adversely affecting our ability to run our business. We have been largely dependent upon Howard R. Baer, our majority shareholder/CEO, and external sources for funding. Mr. Baer does not presently have the ability to provide us with further advances and, although we recently raised a limited amount of capital, we have in the past had great difficulty in raising capital from external sources. These factors raise substantial doubt about our ability to continue as a going concern. If we are not able to obtain additional funding in the near term, we will probably be unable to continue as a going concern, in which case, you would suffer a total loss of your investment in our company.

During the six months ended June 30, 2005, our operating activities used approximately \$828,000 in cash, and we received \$829,000 in new funding from our majority shareholder/CEO, Mr. Howard R. Baer. In addition, we received gross proceeds from equity sales of \$248,000 during the three months ended June 30, 2005. During July, 2005, we received an additional \$295,000 from equity sales. From inception to June 30, 2005, we received approximately \$1,530,000 in advances from our majority shareholder/CEO, Mr. Howard R. Baer, and approximately \$1,000,000 in net proceeds from private sales of our equity securities. In addition, we received loans in the aggregate amount of \$150,000 during November and December, 2004; these loans were secured by a lien and security interest on certain real property owned by Mr. Baer, and were payable on or before February 26, 2005. On February 15, 2005, these loans were repaid in full. Mr. Baer advanced us the funds to repay the loans.

As noted above, Mr. Baer has advanced us an aggregate of approximately \$1,530,000 from inception to July 21, 2005, including an aggregate of \$829,000 since the commencement of 2005. Since inception, we have repaid Mr. Baer a total of \$280,000, resulting in our being indebted to Mr. Baer in the aggregate amount of \$1,244,744 as of July 8, 2005. On February 15, 2005, we entered into a Promissory Note ("Note"), a Security Agreement and a Patent Security Agreement with Mr. Baer (such documents are collectively hereinafter referred to as the "Loan Documents"), in connection with Mr. Baer advancing to us \$364,000, for our benefit and that of our wholly-owned subsidiary, Health Enhancement Corporation ("HEC"). Immediately prior to entering into the Loan Documents, we were indebted to Mr. Baer in the aggregate amount of \$483,359, in connection with prior advances. Following Mr. Baer's advance of \$364,000 on February 15, 2005, we were indebted to Mr. Baer in the aggregate amount of \$847,359. From February 15, 2005 to June 30, 2005, Mr. Baer has advanced us an additional \$397,385 for our benefit and that of HEC. On March 25, 2005, we, Mr. Baer and HEC executed and delivered a Joinder Agreement and First Amendment, which had the effect of making HEC a party to the Loan Documents, including as a co-maker of the Note. As a result of entering into the Joinder Agreement and First Amendment, in addition to being a co-maker under the Note, HEC granted Mr. Baer a security interest in all of its assets related to the ProAlgaZyme product.

Accordingly, at July 8, 2005, the Note was in the principal amount of \$1,244,744. On July 8, 2005, Mr. Baer converted an aggregate of \$538,000 of indebtedness (consisting of \$500,000 in principal and \$38,000 of interest) we owed him into 5,000,000 shares of our common stock and warrants to purchase 6,250,000 shares of our common stock, at an exercise price of \$.15 per share. After giving effect to the conversion, we owed Mr. Baer approximately \$745,000 in principal. We expect to incur non-cash charges in connection with this conversion. The Note bears interest at the rate of 10% per annum. Commencing thirty (30) days after written demand by Mr. Baer, the principal amount and accrued interest under the Note will be payable in twelve (12) equal monthly installments. Under the Security Agreements, we, in order to secure our obligations under the Note, granted Mr. Baer a security interest in all our assets that are related to the ProAlgaZyme product. The principal amount under the Note may be increased from time to time by the amount of any further advances to us by Mr. Baer; however, Mr. Baer is in no way obligated to make further advances to us.

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

We estimate that we will require approximately 750,000 in cash over the next twelve months in order to fund our operations, not including legal fees in connection with the investigation by the Securities and Exchange Commission (see below). Based on this cash requirement, we have a near term need for additional funding. For the foreseeable future, we do not expect that sales revenues will be sufficient to fund our cash requirements. Historically, we have had great difficulty raising funds from external sources; however, we recently were able to raise a limited amount of capital from outside sources. In addition to external sources, we have been dependent for our funding on advances from our majority shareholder/CEO, Mr. Howard R. Baer. Mr. Baer is not in a position to provide us with additional funds. We cannot assure you that Mr. Baer will, in the future, be able or willing to advance us additional funds. Nor can we assure you that we will be able to obtain from external sources the funds that we need to continue our operations. If we are not able to raise additional funds in the near term, we may be unable to continue as a going concern, in which case you will suffer a total loss of your investment in our company.

As described in Part I, Item 3 of this Report, we are subject to an ongoing formal investigation by the Securities and Exchange Commission. The cost of legal representation in connection with this investigation has been, and will continue to be, substantial, until the matter is resolved. As of June 30, 2005, the Company had incurred legal fees and costs of approximately \$489,000 in connection with this matter. We expect that we will continue to incur significant legal fees in connection with the investigation. The cash that will be required to pay these fees is in addition to the cash requirements described in the preceding paragraph.

If we do not raise additional capital or generate positive cash flows from operations in the near term, we may not be able to continue our operations. Given the difficulty we have had raising substantial capital from external sources, and Mr. Baer's present inability to advance further funds to us, there is substantial doubt about our ability to continue as a going concern.

## **Plan of Operation**

All of our operational planning is currently subject to the limitations resulting from our limited availability of capital (see "Liquidity and Capital Resources"). The following plans assume that we will be able to generate – either from cash flows or equity or debt financing - a level of liquidity sufficient to support our planned activities. As disclosed herein, we have had difficulty raising substantial amounts of capital.

## **Research**

Our primary emphasis throughout 2004 was on refinement of the ProAlgaZyme product and on bio-chemical analyses and internal and external clinical studies associated with the product. We have spent an aggregate amount of \$280,222 since our inception on research and development. Of this amount, \$116,948 has been spent on internal research, mainly involved in the conduct of in-house testing and development of the ProAlgaZyme product and in conducting both 'in vitro' and 'in vivo' testing of ProAlgaZyme. Since inception, \$163,274 has been expended on external, clinically-based testing of ProAlgaZyme, conducted on both humans and animals. To date, all of these amounts have been directly expensed as they have been incurred.

We recently terminated two major external studies. The study being conducted by Marshall-Blum was terminated because Marshall-Blum was not able to recruit the specified number of participants (60). The studies being conducted by MLA Industries were terminated due to our lack of funding. We still owe approximately \$11,000 in connection with the two studies that have been terminated. The Company recently commissioned an external study to determine whether ProAlgaZyme is effective in reducing the level of CRP. The cost of this study is expected to be approximately \$29,000, of which \$10,000 has been paid.

In addition, we have recently engaged several third parties to conduct testing directed toward characterization of the product and determining its method of action. Subject to the availability of sufficient funding, we plan to continue these research and development activities during the balance of 2005. Historically, we have been funded by our majority shareholder/CEO and through external sources. We have in the past had difficulty raising funds from external sources; although we recently raised a limited amount of capital from outside sources. Mr. Baer is not currently in a position to make further advances to us. We may not be able to raise the funding that we need to continue our research and development activities. In the event that we are not able to secure sufficient funding to meet our research needs, we will be unable to pursue necessary research activities, in which case our ability to market ProAlgaZyme with objective clinical support for its efficacy will be impeded, thereby severely hindering our sales effectiveness and impacting negatively the achievement of our business plan.

Subject to the availability of sufficient funding, we expect to make additional expenditures over the next 12 months for research and development in the amount of \$150,000. These expenditures will also need to be met from external funding sources. As disclosed above, we have had difficulty raising funds from external sources, and Mr. Baer is not currently in a position to make further advances to us. Thus, we may not be able to raise the funding that we need to continue our research and development activities. In the event that these sources are not available or adequate to meet our research needs, we will be unable to pursue our external research activities, in which case, our ability to market ProAlgaZyme with objective clinical support for its efficacy, will continue to be impeded, thereby severely hindering our sales effectiveness and impacting negatively the achievement of our business plan.

## Sales and Marketing

Although we are pursuing various potential opportunities with respect to the distribution of ProAlgaZyme, due to a lack of available funding, we have been forced to terminate all advertising related activities. However, we intend to direct our selling efforts to existing users of ProAlgaZyme. The termination of advertising related activities has had and will continue to have a material adverse effect on future sales revenue and operating income.

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

We have no current plans to make material capital expenditures for equipment over the next twelve months. However, we expect that there will be some expenses involved in the provision of additional and replacement equipment to make efficient use of the expanded facilities in our new location. Our current production capacity is limited. If demand for our ProAlgaZyme product were to rise significantly and rapidly, in order to expand our production capacity to meet such demand, we would need to expend approximately \$250,000 in capital expenditures, which we would need to obtain from external sources. Accordingly, if we experience a significant and rapid increase in demand for our ProAlgaZyme product, we will be required to make material capital expenditures to be able to meet such demand. As discussed above, we may not be able to obtain additional funding on favorable terms or at all. If we are unable to obtain the funds we need to expand our production capacity, our ability to significantly increase our revenues will be materially and adversely affected.

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

Although we presently have a limited amount of cash, our lack of any substantial capital has had and will continue to have a material adverse effect on our ability to implement our business plan and continue as a going concern. There is a significant risk that we will not be able to continue as a going concern and that you will lose your entire investment in our company.

**Significant elements of income or loss not arising from our continuing operations** We do not expect to experience any significant elements of income or loss other than those arising from our continuing operation.

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

**Staffing:** We have conducted all of our activities since inception with a minimum level of qualified staff. We currently do not expect a significant increase in staff. We recently hired a new president and a new chief accounting officer, in each case on a part-time basis.

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

### **Item 3. Controls and Procedures**

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

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

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

## Item 5. Other Information

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

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

The lease of our production facility expired in June, 2004, and we obtained an extension of such lease in order to enable us to locate suitable new space. On December 9, 2004, we entered into a lease, dated as of November 1, 2004, with Evans Road, LLC (a company owned by Mr. Baer), under which we lease approximately 5,000 sq. ft. for a new corporate headquarters and production facility. We relocated to the new facility in the first quarter of 2005, as we required additional space for our laboratory, testing and growing facilities. Evans Road, LLC expended approximately \$106,000 on building improvements in order to meet our requirements for this facility. The lease has a term of 15 years, subject to the right of either party to terminate the lease after 7.5 years, and provides for base monthly rent in the amount of \$8,700 plus monthly taxes in the amount of \$165 (annual base rent and taxes are approximately \$106,000). In February, 2005, Evans Road, LLC sold the building which was leased to us, and leased such building back from the buyer under a master lease. Evans Road, LLC continues to lease the building, as master lessor, to us, under the terms and conditions described above. During 2004, we paid Evans Road, LLC approximately \$17,731 in rent and \$8,865 as a security deposit. During the second quarter of 2005, we paid \$8,865 in rent to Evans Road, LLC, and we currently owe \$17,730 in unpaid rent, as reflected in accounts payable.

We lease certain equipment from an entity owned by Mr. Baer. During 2004, we made total lease payments of \$9,114 to such entity. The lease payments equal Mr. Baer's debt service on the equipment. Mr. Baer has stated that he intends to cause the equipment to be transferred to us, for no consideration, once the note is paid in full. During the first six months ended June 30, 2005, we paid \$1,538 in lease payments for this equipment.

We also lease a delivery van from Mr. Baer. The lease payments equal Mr. Baer's debt service on the vehicle. Mr. Baer has stated that he intends to transfer the vehicle to us, for no consideration, once the note is paid in full. As of December 31, 2004, there were no lease payments on this van payable to Mr. Baer. During the six months ended June 30, 2005, we paid \$7705 in lease payments to Mr. Baer for this vehicle.

We pay for advertising space on [www.politics.com](http://www.politics.com), an Internet site owned by Politics.com, Inc., an entity of which Mr. Baer is the Chairman and majority shareholder. During 2004, we paid \$13,750 to the entity for advertising space. At December 31, 2004, there were no advertising fees payable to Politics.com. No advertising fees were paid during the six months ended June 30, 2005.

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



On February 15, 2005, Mr. Baer advanced us \$364,000, for our benefit and that of our wholly-owned subsidiary, Health Enhancement Corporation (“HEC”), and, in connection therewith, we entered into a Promissory Note (“Note”), a Security Agreement and a Patent Security Agreement with Mr. Baer (such documents are collectively hereinafter referred to as the “Loan Documents”). Immediately prior to entering into the Loan Documents, we were indebted to Mr. Baer in the aggregate amount of \$483,359, in connection with prior advances he made to us, for the benefit of us and HEC. Following Mr. Baer’s advance of \$364,000 on February 15, we were indebted to Mr. Baer in the aggregate amount of \$847,359. From February 15, 2005 to July 8, 2005, Mr. Baer has advanced the Company an additional \$397,385 for our benefit and that of HEC. On March 25, 2005, we, Mr. Baer and HEC executed and delivered a Joinder Agreement and First Amendment, which had the effect of making HEC a party to the Loan Documents, including as a co-maker of the Note. As a result of entering into the Joinder Agreement and First Amendment, in addition to being a co-maker under the Note, HEC granted Mr. Baer a security interest in all of its assets related to the ProAlgaZyme product. Accordingly, at July 8, 2005, the Note was in the principal amount of \$1,244,744. On July 8, 2005, Mr. Baer converted an aggregate of \$538,000 of indebtedness (consisting of \$500,000 in principal and \$38,000 of interest) we owed him into 5,000,000 shares of our common stock and warrants to purchase 6,250,000 shares of our common stock, at an exercise price of \$.15 per share. After giving effect to the conversion, we owed Mr. Baer approximately \$745,000 in principal. The Note bears interest at the rate of 10% per annum. Commencing thirty (30) days after written demand by Mr. Baer, the principal amount and accrued interest under the Note will be payable in twelve (12) equal monthly installments. Under the Security Agreements, in order to secure our obligations under the Note, we granted Mr. Baer a security interest in all our assets that are related to our ProAlgaZyme product. The principal amount under the Note may be increased from time to time by the amount of any further advances to us by Mr. Baer; however, Mr. Baer is in no way obligated to make further advances to us.

## Item 6. Exhibits

Exhibit Number	Description	
2.1	Agreement and Plan of Reorganization	(1)
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	(2)
3.2	By-laws of the Company	(3)
10.04	Promissory Note, dated February 15, 2005, made by the Company in favor of Howard R. Baer	(4)
10.05	Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	(4)
10.06	Patent Security Agreement, dated February 15, 2005, between the Company and Howard R. Baer	(4)
10.07	Joinder Agreement and First Amendment, dated March 25, 2005, between the Company, Health Enhancement Corporation and Howard R. Baer	(4)
10.08	Subscription Agreement, dated July 29, 2005, between the Company and William J. Rogers, II	
10.09	Common Stock Purchase Warrant of the Company issued to William J. Rogers, II and dated July 29, 2005	
10.10	Subscription Agreement, dated July 8, 2005, between the Company and Howard R. Baer	
10.11	Common Stock Purchase Warrant of the Company issued to Howard R. Baer and dated July 8, 2005	
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	

- 32.1 Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- (1) Filed as Exhibit 2.1 to our current Report on Form 8-K, Filed with the Commission on December 9, 2003 and incorporated by this reference.
- (2) Filed as Exhibit 3.1 to our Form 10-QSB, filed with the Commission on August 30, 2004 and incorporated by this reference.
- (3) Filed as Exhibit 3.2 to our Form 10SB, filed with the Commission on April 20, 2000 and incorporated by this reference.
- (4) Filed as the same Exhibit number to our Form 10-KSB, filed with the Commission on May 16, 2005, and incorporated by this reference.

## SIGNATURES

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

HEALTH ENHANCEMENT PRODUCTS, INC.

Date: August 15, 2005

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

Date: August 15, 2005

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

Exhibit Number	Description	
2.1	Agreement and Plan of Reorganization	(1)
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	(2)
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31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

32.2 Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- (1) Filed as Exhibit 2.1 to our current Report on Form 8-K, Filed with the Commission on December 9, 2003 and incorporated by this reference.
- (2) Filed as Exhibit 3.1 to our Form 10-QSB, filed with the Commission on August 30, 2004 and incorporated by this reference.
- (3) Filed as Exhibit 3.2 to our Form 10SB, filed with the Commission on April 20, 2000 and incorporated by this reference.
- (4) Filed as the same Exhibit number to our Form 10-KSB, filed with the Commission on May 16, 2005, and incorporated by this reference.

Exhibit 10.08

July 4, 2005

Health Enhancement Products, Inc.  
7740 E. Evans Road  
Scottsdale, AZ 85260

Attn: Howard R. Baer, Chief Executive Officer

Ladies and Gentlemen:

The undersigned hereby subscribes to the immediate acquisition of Warrants to purchase 1,000,000 (one million) shares of common stock, \$.001 par value ("Common Stock"), of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), at \$.10 (ten cents) per share exercise price, for a term of two years. Such Warrants are referred to herein as the "Securities." The Securities are being issued to the undersigned, in consideration for, and in full and complete satisfaction of all amounts owing to the undersigned for having introduced John Gantt to the Company, who has invested \$200,000 into the Company.

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

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

2. The undersigned has such knowledge and experience in financial and business matters that he/she/it is capable of evaluating the merits and risks of this investment. The undersigned has consulted with his/her/its own professional representatives as he/she/it has considered appropriate to assist in evaluating the merits and risks of this investment. The undersigned has carefully reviewed all of the Company's filings with the Securities and Exchange Commission, including, but not limited to, its Form 10KSB for the year ended December 31, 2004 and Form 10QSB for the quarter ended March 31, 2005. The undersigned has had access to and an opportunity to question the officers of the Company, or persons acting on their behalf, with respect to publicly available material information about the Company, including with respect to the ongoing inquiry into the Company by the Securities and Exchange Commission, and, in connection with the evaluation of this investment, has, to the best of his/her/its knowledge, received all information and data with respect to the Company that the undersigned has requested and which is necessary to enable the undersigned to make an informed decision regarding the purchase of the Securities. The undersigned is acquiring the Securities based solely upon his/her/its independent examination and judgment as to the prospects of the Company.

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

4. The undersigned acknowledges that an investment in the Securities is speculative and involves a high degree of risk and the undersigned may have to continue to bear the economic risk of the investment in the Securities for an indefinite period. An investment in the Company involves a high degree of risk because, among other reasons, the Company (i) is in the development stage and has no revenue; (ii) is experiencing significant negative cash flow and operating losses; (iii) has a substantial working capital deficiency; and (iv) has an immediate and urgent need for additional capital. The undersigned acknowledges that the foregoing factors raise substantial doubt about the Company's ability to continue as a going concern as disclosed in the Company's Form 10KSB for the year ended December 31, 2004. The undersigned acknowledges that, as a result of all of the foregoing, among other reasons, there is a significant risk that the undersigned could sustain a total loss of its investment in the Company.

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

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

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

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

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

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

11. The undersigned agrees to indemnify and hold harmless the Company and its officers, directors, employees and agents from and against any and all costs, liabilities and expenses (including attorneys' fees) arising out of or related in any way to any breach of any representation or warranty contained herein.



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

**ACCEPTANCE OF SUBSCRIPTION**

**SUBSCRIBER**

Health Enhancement Products, Inc.

/s/ William J. Rogers, II  
Name: William J. Rogers, II

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

Address:  
21 Ocean Ridge Blvd. S  
Palm Coast, FL 32137

Dated: July 29, 2005

## APPENDIX A

An "Accredited Investor" within the meaning of Regulation D under the Securities Act of 1933 includes the following:

### Organizations

(1) A bank as defined in section 3(a)(2) of the Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act, whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; insurance company as defined in section 2(13) of the Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that act; a Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors.

(2) A private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940.

(3) A trust (i) with total assets in excess of \$5,000,000, (ii) not formed for the specific purpose of acquiring the Securities, (iii) whose purchase is directed by a person who, either alone or with his purchaser representative, has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the proposed investment.

(4) A corporation, business trust, partnership, or an organization described in section 501(c)(3) of the Internal Revenue Code, which was not formed for the specific purpose of acquiring the Securities, and which has total assets in excess of \$5,000,000.

### Individuals

(5) Individuals with income from all sources for each of the last two full calendar years whose reasonably expected income for this calendar year exceeds either of:

- (i) \$200,000 individual income; or
- (ii) \$300,000 joint income with spouse.

**NOTE:** Your "income" for a particular year may be calculated by adding to your adjusted gross income as calculated for Federal income tax purposes any deduction for long term capital gains, any deduction for depletion allowance, any exclusion for tax exempt interest and any losses of a partnership allocated to you as a partner.

(6) Individuals with net worth as of the date hereof (individually or jointly with your spouse), including the value of home, furnishings, and automobiles, in excess of \$1,000,000.

(7) Directors, executive officers or general partners of the Issuer.

**NEITHER THIS WARRANT NOR THE SHARES OF STOCK ISSUABLE UPON EXERCISE HEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR STATE SECURITIES LAWS. NO SALE, TRANSFER OR OTHER DISPOSITION OF THIS WARRANT OR SAID SHARES MAY BE EFFECTED WITHOUT (i) AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS, OR (ii) AN EXEMPTION FROM REGISTRATION UNDER SUCH LAWS IS AVAILABLE.**

**Warrant No. AA-102      STOCK PURCHASE WARRANT      No. of Shares : 1,000,000**

To Subscribe for and Purchase Common Stock of  
HEALTH ENHANCEMENT PRODUCTS, INC.

THIS CERTIFIES that, for value received, William J. Rogers, II (together with any subsequent transferees of all or any portion of this Warrant, the "Holder"), is entitled, upon the terms and subject to the conditions hereinafter set forth, to subscribe for and purchase from HEALTH ENHANCEMENT PRODUCTS, INC., a Nevada corporation (hereinafter called the "Company"), at the price hereinafter set forth in Section 2, up to 1,000,000 (one million) fully paid and non-assessable shares (the "Shares") of the Company's Common Stock, \$.001 par value per share (the "Common Stock").

1. Definitions. As used herein the following term shall have the following meaning:

"Act" means the Securities Act of 1933, as amended, or a successor statute thereto and the rules and regulations of the Securities and Exchange Commission issued under that Act, as they each may, from time to time, be in effect.

2. Purchase Rights. The purchase rights represented by this Warrant shall be exercisable by the Holder in whole or in part commencing on the date hereof. The purchase rights represented by this Warrant shall expire on July 29, 2007. This Warrant may be exercised for Shares at a price of ten cents (\$.10) per share, subject to adjustment as provided in Section 6 (the "Warrant Purchase Price").

3. Exercise of Warrant. Subject to Section 2 above, the purchase rights represented by this Warrant may be exercised, in whole or in part and from time to time, by the surrender of this Warrant and the duly executed Notice of Exercise (the form of which is attached as Exhibit A) at the principal office of the Company and by the payment to the Company, by check, of an amount equal to the then applicable Warrant Purchase Price per share multiplied by the number of Shares then being purchased. Upon exercise, the Holder shall be entitled to receive, within a reasonable time, a certificate or certificates, issued in the Holder's name or in such name or names as the Holder may direct, for the number of Shares so purchased. The Shares so purchased shall be deemed to be issued as of the close of business on the date on which this Warrant shall have been exercised.

4. Shares to be Issued; Reservation of Shares. The Company covenants that the Shares that may be issued upon the exercise of the purchase rights represented by this Warrant will, upon issuance in accordance herewith, be fully paid and non-assessable, and free from all liens and charges with respect to the issue thereof. During the period within which the purchase rights represented by the Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issuance upon exercise of the purchase rights represented by this Warrant, a sufficient number of shares of its Common Stock to provide for the exercise of the right represented by this Warrant.

5. No Fractional Shares. No fractional shares shall be issued upon the exercise of this Warrant. In lieu thereof, a cash payment shall be made equal to such fraction multiplied by the fair market value of such shares of Common Stock, as determined in good faith by the Company's Board of Directors.

6. Adjustments of Warrant Purchase Price and Number of Shares. If there shall be any change in the Common Stock of the Company through merger, consolidation, reorganization, recapitalization, stock dividend, stock split or other change in the corporate structure of the Company, appropriate adjustments shall be made by the Board of Directors of the Company (or if the Company is not the surviving corporation in any such transaction, the Board of Directors of the surviving corporation) in the aggregate number and kind of shares subject to this Warrant, and the number and kind of shares and the price per share then applicable to shares covered by the unexercised portion of this Warrant.

7. No Rights as Shareholders. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to exercise of this Warrant and the payment for the Shares so purchased. Notwithstanding the foregoing, the Company agrees to transmit to the Holder such information, documents and reports as are generally distributed to holders of the capital stock of the Company concurrently with the distribution thereof to the shareholders. Upon valid exercise of this Warrant and payment for the Shares so purchased in accordance with the terms of the Warrant, the Holder or the Holder's designee, as the case may be, shall be deemed a shareholder of the Company.

8. Sale or Transfer of the Warrant and the Shares; Legend. The Warrant and the Shares shall not be sold or transferred unless either (i) they first shall have been registered under applicable Federal and State Securities laws, or (ii) such sale or transfer is exempt from the registration requirements of such laws. Each certificate representing any Warrant shall bear the legend set out on page 1 hereof. Each certificate representing any Shares shall bear a legend substantially in the following form, as appropriate:

THE SHARES EVIDENCED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS.

The Warrant and Shares may be subject to additional restrictions on transfer imposed under applicable state and federal securities law.

9. Modifications and Waivers. This Warrant may not be changed, waived, discharged or terminated except by an instrument in writing signed by the party against which enforcement of the same is sought.

10. Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder or the Company shall be delivered, or shall be sent by certified or registered mail, postage prepaid, to the Holder at its address shown on the books of the Company or in the case of the Company, at the address indicated therefor on the signature page of this Warrant, or, if different, at the principal office of the Company.

11. Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants with the Holder that upon its receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant or any stock certificate and, in the case of any such loss, theft or destruction, of an indemnity or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant or stock certificate.

12. Binding Effect on Successors. This Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company relating to the Shares issuable upon exercise of this Warrant shall survive the exercise and termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the Holder.

13. Governing Law. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of Nevada, without regard to the conflicts of law provisions thereof.

IN WITNESS WHEREOF, HEALTH ENHANCEMENT PRODUCTS, INC. has caused this Warrant to be executed by its officer thereunto duly authorized.

ORIGINAL ISSUANCE AS OF: July 29, 2005

HEALTH ENHANCEMENT PRODUCTS, INC.

/s/ Howard R. Baer

By: Howard R. Baer, Chief Executive Officer

Address: HEALTH ENHANCEMENT PRODUCTS, INC.  
Health Enhancement Products, Inc.  
7740 E. Evans Road, Suite A101  
Scottsdale, AZ 85260

EXHIBIT A

NOTICE OF EXERCISE

To: HEALTH ENHANCEMENT PRODUCTS, INC.

1. The undersigned hereby elects to purchase \_\_\_\_\_ shares of Common Stock of HEALTH ENHANCEMENT PRODUCTS, INC. pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of such shares in full.

2. Please issue a certificate or certificates representing said shares in the name of the undersigned or in such other name or names as are specified below.

3. The undersigned represents that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares. The undersigned further represents that such shares shall not be sold or transferred unless either (1) they first shall have been registered under applicable federal and state securities laws or (ii) or an exemption from applicable federal and state registration requirements is available.

4. In the event of partial exercise, please re-issue an appropriate Warrant exercisable into the remaining shares.

\_\_\_\_\_  
Name:

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Date)

Exhibit 10.10

July 8, 2005

Health Enhancement Products, Inc.  
7740 E. Evans Road  
Scottsdale, AZ 85260

Ladies and Gentlemen:

The undersigned hereby subscribes to the immediate acquisition of (i) 5,000,000 (Five Million) shares of common stock, \$.001 par value ("Common Stock"), of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), and (ii) Warrants to purchase an additional 6,250,000 (Six Million Two Hundred Fifty Thousand) shares of Common Stock, at \$.10 (ten cents) per share, for a term of three years. Such shares of Common Stock and such Warrants are referred to herein as the "Securities." The Securities are being issued to the undersigned in full and complete satisfaction of \$537,951.38 owing by the Company to the undersigned, pursuant to that certain promissory note dated February 15, 2005, consisting of \$500,000 in principal and \$37,951.38 in accrued and unpaid interest.

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

1. The undersigned is acquiring the Securities for investment for his/her/its own account and without the intention of participating, directly or indirectly, in a distribution of the Securities, and not with a view to resale or any distribution of the Securities, or any portion thereof.
2. The undersigned is an Executive Officer and Director of the Company and has such knowledge and experience in financial and business matters that he/she/it is capable of evaluating the merits and risks of this investment. The undersigned has consulted with his/her/its own professional representatives as he/she/it has considered appropriate to assist in evaluating the merits and risks of this investment.
3. The Securities were not offered to the undersigned by means of publicly disseminated advertisements or sales literature.
4. The undersigned acknowledges that an investment in the Securities is speculative and involves a high degree of risk and the undersigned may have to continue to bear the economic risk of the investment in the Securities for an indefinite period.
5. The undersigned acknowledges that the Securities are being sold to the undersigned without registration under any state or federal law requiring the registration of securities for sale, and accordingly will constitute "restricted securities" as defined in Rule 144 of the U.S. Securities and Exchange Commission. Consequently, the transferability of the Securities is restricted by applicable United States Federal and state securities laws. The undersigned understands that the Company's common stock is currently quoted on the OTC Bulletin Board (in the "over-the-counter" market), and is highly illiquid.

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

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

8. The state of residency of the undersigned is as set forth below.

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

10. The undersigned agrees to indemnify and hold harmless the Company and its officers, directors, employees and agents from and against any and all costs, liabilities and expenses (including attorneys' fees) arising out of or related in any way to any breach of any representation or warranty contained herein.

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

**ACCEPTANCE OF SUBSCRIPTION**

**SUBSCRIBER**

Health Enhancement Products, Inc.

/s/ Howard R. Baer

Name: Howard R. Baer

By: /s/ Michael S. Tempesta

Address:

Michael S. Tempesta, President

7740 E. Evans Road, Suite A101  
Scottsdale, AZ 85260

Dated: July 8, 2005



## APPENDIX A

An "Accredited Investor" within the meaning of Regulation D under the Securities Act of 1933 includes the following:

### Organizations

(1) A bank as defined in section 3(a)(2) of the Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act, whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; insurance company as defined in section 2(13) of the Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that act; a Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors.

(2) A private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940.

(3) A trust (i) with total assets in excess of \$5,000,000, (ii) not formed for the specific purpose of acquiring the Securities, (iii) whose purchase is directed by a person who, either alone or with his purchaser representative, has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the proposed investment.

(4) A corporation, business trust, partnership, or an organization described in section 501(c)(3) of the Internal Revenue Code, which was not formed for the specific purpose of acquiring the Securities, and which has total assets in excess of \$5,000,000.

### Individuals

(5) Individuals with income from all sources for each of the last two full calendar years whose reasonably expected income for this calendar year exceeds either of:

- (i) \$200,000 individual income; or
- (ii) \$300,000 joint income with spouse.

**NOTE:** Your "income" for a particular year may be calculated by adding to your adjusted gross income as calculated for Federal income tax purposes any deduction for long term capital gains, any deduction for depletion allowance, any exclusion for tax exempt interest and any losses of a partnership allocated to you as a partner.

(6) Individuals with net worth as of the date hereof (individually or jointly with your spouse), including the value of home, furnishings, and automobiles, in excess of \$1,000,000.

(7) Directors, executive officers or general partners of the Issuer.

**NEITHER THIS WARRANT NOR THE SHARES OF STOCK ISSUABLE UPON EXERCISE HEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR STATE SECURITIES LAWS. NO SALE, TRANSFER OR OTHER DISPOSITION OF THIS WARRANT OR SAID SHARES MAY BE EFFECTED WITHOUT (i) AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS, OR (ii) AN EXEMPTION FROM REGISTRATION UNDER SUCH LAWS IS AVAILABLE.**

**Warrant No. AA-                      STOCK PURCHASE WARRANT                      No. of Shares : 6,250,000**

To Subscribe for and Purchase Common Stock of  
HEALTH ENHANCEMENT PRODUCTS, INC.

THIS CERTIFIES that, for value received, Howard R. Baer (together with any subsequent transferees of all or any portion of this Warrant, the "Holder"), is entitled, upon the terms and subject to the conditions hereinafter set forth, to subscribe for and purchase from HEALTH ENHANCEMENT PRODUCTS, INC., a Nevada corporation (hereinafter called the "Company"), at the price hereinafter set forth in Section 2, up to 6,250,000 (Six Million Two Hundred Fifty Thousand) fully paid and non-assessable shares (the "Shares") of the Company's Common Stock, \$.001 par value per share (the "Common Stock").

1.        Definitions. As used herein the following term shall have the following meaning:

"Act" means the Securities Act of 1933, as amended, or a successor statute thereto and the rules and regulations of the Securities and Exchange Commission issued under that Act, as they each may, from time to time, be in effect.

2.        Purchase Rights. The purchase rights represented by this Warrant shall be exercisable by the Holder in whole or in part commencing on the date hereof. The purchase rights represented by this Warrant shall expire on July 8, 2008. This Warrant may be exercised for Shares at a price of fifteen cents (\$.15) per share, subject to adjustment as provided in Section 6 (the "Warrant Purchase Price").

3.        Exercise of Warrant. Subject to Section 2 above, the purchase rights represented by this Warrant may be exercised, in whole or in part and from time to time, by the surrender of this Warrant and the duly executed Notice of Exercise (the form of which is attached as Exhibit A) at the principal office of the Company and by the payment to the Company of an amount equal to the then applicable Warrant Purchase Price per share multiplied by the number of Shares then being purchased. Payment may, at the option of the Holder, be made in cash, or with shares of Common Stock issuable upon exercise of this Warrant, which shares of Common Stock shall be valued at the Fair Market Value (defined below) of the Common Stock on the date of exercise (a "cashless exercise").

In the event of a cashless exercise, the number of shares of Common Stock issuable to the Holder shall be determined using the following formula:

$$X = Y ((A-B)/A)$$

WHERE: X = the number of shares to be issued to the Holder  
Y = the number of shares purchasable under the Warrant (or portion of the Warrant) surrendered  
A = the Fair Market Value of the Common Stock on the date of exercise; and  
B = the then current exercise price of the Warrant.

For purposes hereof, the "Fair Market Value" of the Common Stock shall mean the last reported sale price per share of Common Stock, as reported on the OTC Bulletin Board, or in the event the Common Stock is listed on a national securities exchange, or on the Nasdaq Stock Market (or any successor stock market), the closing price of the Common Stock on such exchange or stock market, for the day on which the notice of exercise is sent or delivered or, in the event sales of the Common Stock are not reported on the OTC Bulletin Board and the Common Stock is not listed on a national securities exchange or on the Nasdaq Stock Market (or any successor stock market), the Fair Market Value per share as determined by the Board of Directors of the Company in good faith. As soon as practical after receipt of this notice and payment, the Company shall deliver a certificate or certificates representing the purchased shares registered in the name of the person or persons exercising this Warrant. In the event this Warrant is exercised by any person other than the Holder, the notice shall be accompanied by appropriate proof of the right of such person to exercise this Warrant. All shares purchased upon the exercise of this Warrant and payment of the full Warrant Purchase Price will be fully paid and nonassessable.

4. Shares to be Issued; Reservation of Shares. The Company covenants that the Shares that may be issued upon the exercise of the purchase rights represented by this Warrant will, upon issuance in accordance herewith, be fully paid and non-assessable, and free from all liens and charges with respect to the issue thereof. During the period within which the purchase rights represented by the Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issuance upon exercise of the purchase rights represented by this Warrant, a sufficient number of shares of its Common Stock to provide for the exercise of the right represented by this Warrant.

5. No Fractional Shares. No fractional shares shall be issued upon the exercise of this Warrant. In lieu thereof, a cash payment shall be made equal to such fraction multiplied by the fair market value of such shares of Common Stock, as determined in good faith by the Company's Board of Directors.

6. Adjustments of Warrant Purchase Price and Number of Shares. If there shall be any change in the Common Stock of the Company through merger, consolidation, reorganization, recapitalization, stock dividend, stock split or other change in the corporate structure of the Company, appropriate adjustments shall be made by the Board of Directors of the Company (or if the Company is not the surviving corporation in any such transaction, the Board of Directors of the surviving corporation) in the aggregate number and kind of shares subject to this Warrant, and the number and kind of shares and the price per share then applicable to shares covered by the unexercised portion of this Warrant.

7. No Rights as Shareholders. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to exercise of this Warrant and the payment for the Shares so purchased. Notwithstanding the foregoing, the Company agrees to transmit to the Holder such information, documents and reports as are generally distributed to holders of the capital stock of the Company concurrently with the distribution thereof to the shareholders. Upon valid exercise of this Warrant and payment for the Shares so purchased in accordance with the terms of the Warrant, the Holder or the Holder's designee, as the case may be, shall be deemed a shareholder of the Company.

8. Sale or Transfer of the Warrant and the Shares; Legend. The Warrant and the Shares shall not be sold or transferred unless either (i) they first shall have been registered under applicable Federal and State Securities laws, or (ii) such sale or transfer is exempt from the registration requirements of such laws. Each certificate representing any Warrant shall bear the legend set out on page 1 hereof. Each certificate representing any Shares shall bear a legend substantially in the following form, as appropriate:

THE SHARES EVIDENCED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS.

The Warrant and Shares may be subject to additional restrictions on transfer imposed under applicable state and federal securities law.

9. Modifications and Waivers. This Warrant may not be changed, waived, discharged or terminated except by an instrument in writing signed by the party against which enforcement of the same is sought.

10. Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder or the Company shall be delivered, or shall be sent by certified or registered mail, postage prepaid, to the Holder at its address shown on the books of the Company or in the case of the Company, at the address indicated therefor on the signature page of this Warrant, or, if different, at the principal office of the Company.

11. Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants with the Holder that upon its receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant or any stock certificate and, in the case of any such loss, theft or destruction, of an indemnity or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant or stock certificate.

12. Binding Effect on Successors. This Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company relating to the Shares issuable upon exercise of this Warrant shall survive the exercise and termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the Holder.

13. Governing Law. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of Nevada, without regard to the conflicts of law provisions thereof.

IN WITNESS WHEREOF, HEALTH ENHANCEMENT PRODUCTS, INC. has caused this Warrant to be executed by its officer thereunto duly authorized.

ORIGINAL ISSUANCE AS OF: July 8, 2005

HEALTH ENHANCEMENT PRODUCTS, INC.

/s/ Michael S. Tempesta

By: Michael S. Tempesta, President

Address: HEALTH ENHANCEMENT PRODUCTS, INC.  
Health Enhancement Products, Inc.  
7740 E. Evans Road, Suite A101  
Scottsdale, AZ 85260

EXHIBIT A

NOTICE OF EXERCISE

To: HEALTH ENHANCEMENT PRODUCTS, INC.

1. The undersigned hereby elects to purchase \_\_\_\_\_ shares of Common Stock of HEALTH ENHANCEMENT PRODUCTS, INC. pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of such shares in full.
2. Please issue a certificate or certificates representing said shares in the name of the undersigned or in such other name or names as are specified below.
3. The undersigned represents that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares. The undersigned further represents that such shares shall not be sold or transferred unless either (1) they first shall have been registered under applicable federal and state securities laws or (ii) or an exemption from applicable federal and state registration requirements is available.
4. In the event of partial exercise, please re-issue an appropriate Warrant exercisable into the remaining shares.

\_\_\_\_\_  
Name:

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Date)

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

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

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

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

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2005

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



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

I, Janet L. Crance, Chief Accounting Officer of Health Enhancement Products, Inc. (the "Company"), certify that:

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

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

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2005

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

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

In connection with the Quarterly Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-QSB for the period ending June 30, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, Howard R. Baer, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

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

Date: August 15, 2005

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

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

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

In connection with the Quarterly Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-QSB for the period ending June 30, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, Janet L. Crance, Chief Accounting Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

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

Date: August 15, 2005

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

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