

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 September 30, 2007

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 43,646,307 shares of common stock, \$0.001 par value, outstanding at October 31, 2007.

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 ability 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 SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

September 30, 2007

ASSETS

CURRENT ASSETS:

Cash	\$	162,375
Accounts receivable		11,739
Inventories		36,157
Prepaid Expenses		<u>35,880</u>
Total Current Assets		<u>246,151</u>

PROPERTY AND EQUIPMENT, NET 115,024

OTHER ASSETS:

Definite-life intangible Assets, net		11,310
Deposits		<u>122,015</u>
Total Other Assets		<u>133,325</u>

\$ 494,500

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts Payable	\$	468,157
Note Payable, Other		20,000
Current portion, long term debt		5,992
Accrued Payroll and Payroll Taxes		29,825
Accrued Liabilities		<u>100,824</u>
Total Current Liabilities		<u>624,798</u>

LONG TERM LIABILITIES:

Notes payable, less current portion		18,080
Convertible Debenture Payable, net of unamortized discount of \$283,552		491,448
Deferred rent expense		<u>63,912</u>
Total Long term Liabilities		<u>573,440</u>

COMMITMENTS AND CONTINGENCIES

TOTAL LIABILITIES 1,198,238

STOCKHOLDERS' DEFICIT:

Common stock, \$.001 par value, 100,000,000 shares authorized 43,631,311 issued and outstanding		43,631
Additional Paid-In Capital		15,008,907
Deferred Consulting Fees		(67,298)
Accumulated deficit		<u>(15,688,979)</u>
Total Stockholders' Deficit		<u>(703,738)</u>

\$ 494,500

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

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

	For the three Months ended September 30, 2006	For the three Months ended September 30, 2007	For the nine Months ended September 30, 2006	For the nine Months Ended September 30, 2007
NET SALES	\$ 52,607	\$ 27,939	\$ 231,347	\$ 134,675
COST OF SALES	<u>64,039</u>	<u>11,204</u>	<u>203,921</u>	<u>96,006</u>
GROSS PROFIT (LOSS)	<u>(11,432)</u>	<u>16,735</u>	<u>27,426</u>	<u>38,669</u>
OPERATING EXPENSES:				
Selling	51,571	29,772	180,062	100,018
General and Administrative	771,104	604,544	2,690,997	1,464,931
Research and Development	107,338	74,533	237,899	271,798
	<u>930,013</u>	<u>708,849</u>	<u>3,108,958</u>	<u>1,836,747</u>
Total Operating Expenses				
LOSS FROM OPERATIONS	<u>(941,445)</u>	<u>(692,114)</u>	<u>(3,081,532)</u>	<u>(1,798,078)</u>
OTHER INCOME (EXPENSE):				
Other income - rent	23,292	19,047	44,055	66,692
Cancellation of contract	297,000		297,000	18,000
Amortization of Bond Discount	-	(16,680)	-	(16,680)
Interest income	5,805	1,817	5,805	3,067
Interest Expense	(1,901)	(2,098)	(4,642)	(5,184)
Interest Expense - Related Party	<u>(17,306)</u>	<u>(2,907)</u>	<u>(51,087)</u>	<u>(30,759)</u>
Total Other Income (Expense)	<u>306,890</u>	<u>(821)</u>	<u>291,131</u>	<u>35,136</u>
NET LOSS	<u>\$ (634,555)</u>	<u>\$ (692,935)</u>	<u>\$ (2,790,401)</u>	<u>\$ (1,762,942)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.08)</u>	<u>\$ (0.04)</u>
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	<u>36,161,229</u>	<u>43,262,496</u>	<u>33,528,792</u>	<u>41,938,608</u>

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

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

	For the Nine Months Ended September 30, 2006	For the Nine Months Ended September 30, 2007
Cash Flows for Operating Activities:		
Net Loss	\$ (2,790,401)	\$ (1,762,942)
Adjustments to reconcile net loss to net cash used by operating activities:		
Non-cash - stock issued for services rendered	640,845	33,850
Stock issued to employees for services		229,680
Warrants granted for services rendered	211,898	280,464
Non-cash - amortization of deferred consulting fees	586,167	
Non-cash - reversal of contract	(297,000)	(18,000)
Services donated by significant stockholder		37,913
Amortization of bond discount		16,680
Amortization of intangibles	725	725
Depreciation expense	5,378	20,515
Increase in deferred rent	24,724	30,503
Changes in assets and liabilities:		
Decrease in accounts receivable		991
(Increase) in inventories	(21,607)	(5,398)
(Increase) in prepaid expenses	(13,756)	(33,058)
(Increase) in deposits	(104,184)	-
(Decrease) in long term deposits		(6,089)
Increase (decrease) in accounts payable	83,025	(32,390)
Increase (decrease) in payroll and payroll taxes	(147,829)	14,826
Increase (decrease) in accrued liabilities	117,736	(3,803)
Net Cash (Used) by Operating Activities	(1,704,279)	(1,195,533)
Cash Flows from Investing Activities:		
Capital expenditures	(35,097)	(3,702)
Net Cash (Used) by Investing Activities	(35,097)	(3,702)
Cash Flow from Financing Activities:		
Proceeds from shareholder advances	55,000	180,500
Payment of shareholder advances	(57,655)	(626,678)
Payments of other borrowings		(4,536)
Payment of fees in connection with sale of common stock and warrants	(142,150)	(89,400)
Proceeds from issuance of convertible debentures		775,000
Proceeds from sale of common stock and warrants	1,659,976	1,117,000
Net Cash Provided by Financing Activities	1,515,171	1,351,886
Increase (Decrease) in Cash	(224,205)	152,651
Cash at Beginning of Period	603,908	9,724
Cash at End of Period	\$ 379,703	\$ 162,375
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 55,728	\$ 30,939
Income Taxes	\$ -	\$ -

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

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

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

Nine months ended September 30, 2007

The Company issued convertible debentures for \$775,000 principal and recorded a discount on the debentures of \$300,232.

The Company accrued cash finder's fees of \$4,500, and recorded the issuance of warrants to purchase 311,175 shares of common stock as finder's fees. These warrants were valued at \$187,959 using the Black-Scholes pricing model.

The Company recorded the issuance of a promissory note receivable for \$96,000 upon the exercise of warrants to purchase 240,000 shares of stock at \$.40 per share. This note was paid in full April 2, 2007.

The Company agreed to issue 60,000 common stock purchase warrants with an exercise price of \$.50 per share as a finder's fee. Such warrants were valued at \$19,304 using the Black-Scholes pricing model.

Nine months ended September 30, 2006

The Company issued 10,000 shares of common stock valued at \$36,500 to a consultant. This amount has been included in deferred consulting fees.

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

The Company issued 130,000 warrants valued at \$179,190 to four employees as bonus compensation, of which \$96,000 was applied against accrued payroll.

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

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

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

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Health Enhancement Products, Inc. and its wholly-owned Subsidiaries (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, 2006 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 nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2007, or any other period.

In February, 2007, we established HEPI Pharmaceuticals, Inc. as a wholly owned subsidiary of HEPI (“HEPI Pharma”). The purpose of the pharmaceutical subsidiary is to develop potential pharmaceutical applications for HEPI’s primary product, ProAlgaZyme (PAZ). In connection with the formation of HEPI Pharma, we entered into a Pharmaceutical Development Agreement with our new subsidiary. Under the Development Agreement, we granted the subsidiary the right to develop the potential pharmaceutical applications of PAZ and its derivatives. In exchange for these rights, we became the sole stockholder of the subsidiary and are entitled to certain payments based on the attainment of specified development milestones and sales revenues.

The Company incurred net losses of \$1,762,942 and \$2,790,401 for the nine months ended September 30, 2007 and 2006, respectively. In addition, the Company had a working capital deficiency of \$378,647 and a stockholders’ deficit of \$703,738 at September 30, 2007. At October 31, 2007, the Company had had only \$35,000 in cash (approximately 30 days of cash based on payment of critical operating expenses, such as payroll, utilities, etc.). These factors continue to raise substantial doubt about the Company’s ability to continue as a going concern. The Company is endeavoring to increase the likelihood that it will be able to continue as a going concern by seeking to increase its sales revenue, and by raising additional capital. From February through March, 2007, the Company raised approximately \$1 million in net proceeds from the private sale of its common stock and warrants. In July and August of 2007 the Company raised \$900,000 through the issuance of convertible debentures and exercise of warrants. There can be no assurance that the Company will be able to increase its sales or raise additional capital.

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

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

NOTE 2 - STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted SFAS 123(R), which requires all share-based payment transactions with employees, including grants of employee stock options, to be recognized as compensation expense over the requisite service period based on their relative fair values. Prior to the adoption of SFAS 123(R), stock-based compensation expense related to employee stock options was not recognized in the statement of operations if the exercise price was at least equal to the market value of the common stock on the grant date, in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Prior to January 1, 2006, the Company followed the disclosure-only provisions under SFAS 123.

The Company has elected to use the Modified Prospective Application ("MPA") method for implementing SFAS 123(R). Under the MPA method, prior periods are not restated and new awards are valued and accounted for prospectively upon adoption. As of January 1, 2007, all outstanding employee warrants were vested and therefore there would have been no impact on compensation cost for the Company during the 2007 period utilizing the fair value method set forth in SFAS 123(R).

NOTE 3 – INVENTORIES

Inventories at September 30, 2007 consist of the following:

Raw materials	\$	16,236
Work in process		10,662
Finished goods		<u>9,259</u>
	\$	<u>36,157</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2007 consists of the following:

Furniture and fixtures	\$	49,466
Equipment		54,721
Leasehold Improvements		<u>40,175</u>
		144,362
Less accumulated depreciation and amortization		<u>29,338</u>
		<u>\$115,024</u>

Depreciation and amortization was \$20,515 for the nine months ended September 30, 2007, and \$5,378 for the nine months ended September 30, 2006.

NOTE 5 - DEFINITE-LIFE INTANGIBLE ASSETS

Definite-life intangible assets at September 30, 2007 consist of the following:

Patent applications pending	\$14,500
Less: Accumulated amortization	<u>3,192</u>
	<u>\$11,308</u>

The Company's definite-life intangible assets are amortized, upon being placed in service, over the 15 year estimated useful lives of the assets, with no residual value. Amortization expense for the nine months ended September 30, 2007 and 2006 was \$725 and \$725, respectively. The Company estimates that amortization expense for existing assets for each of the next five years will be approximately \$1,000 per year.

NOTE 6 - NOTE PAYABLE - RELATED PARTY

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

During the nine months ended September 30, 2007, the Company paid the note holder \$446,177 in principal and \$29,272 in accrued interest. Interest expense was \$29,272 and \$51,087 for the nine months ended September 30, 2007 and 2006, respectively. This note was paid in full in July of 2007, and the security interest has been released.

NOTE 7 – ADVANCES FROM RELATED PARTY

Advances from related party bear interest at 10% per annum, payable on demand. During the nine months ended September 30, 2007, the Company received advances of \$180,500 and has repaid this advance in full. Interest in the amount of \$1,487 was accrued at June 30, 2007 and paid in July.

NOTE 8 – LONG TERM DEBT:

Long term debt at September 30, 2007 consists of the following:

Installment notes, bearing interest at 8.8% and 9.5% per annum and due November 2010 and March 2011. The loans are secured by certain of the Company's Equipment	\$ 24,072
Less current portion	<u>5,992</u>
	<u>\$ 18,080</u>

Maturities of the long-term debt are as follows:

September 30:		
	2008	\$ 5,992
	2009	5,965
	2010	7,195
	2011	4,714
	2012	<u>206</u>
		<u>\$ 24,072</u>

NOTE 9 – CONVERTIBLE DEBT

In July and August 2007, the Company sold for aggregate consideration of \$775,000 1% convertible notes in the aggregate principal amount of \$775,000 ("Notes") and warrants to purchase 1,550,000 shares of common stock, at an exercise price of \$.50 per share for a term of three years ("Warrants"). The Company issued warrants to purchase 60,000 shares of common stock at an exercise price of \$.50 per share for a term of three years as finder's fees. These warrants were valued at \$19,304 using the Black-Scholes pricing model with the following assumptions: expected volatility 106.55%; expected dividend 0; expected term 3 years; and risk free rate 3.1%.

The Convertible Notes accrue interest at the rate of 1% per annum, are non-amortizing, have a term of 3 years, subject to the Company's right to extend the term for an additional three years, cannot be prepaid, and are convertible, at any time prior to the maturity date, as the same may be extended, at the discretion of the holder, into shares of common stock, at a rate equal to the lesser of (i) \$.50 per share and (ii) the Market Price (as defined) (but not less than \$.25 per share). Accrued interest will be paid on the maturity date, as the same may be extended, in shares of Common Stock, valued at the Market Price (as defined), but not less than \$.25 per share, and, unless the Convertible Note is converted prior to its maturity date, as the same may be extended, at the Company's option, the principal amount of the Note may, on the maturity date, as extended, be repaid in cash or converted into common stock at a rate equal to the lesser of (i) \$.50 per share and (ii) the Market Price (but not less than \$.25 per share).

The Company recorded as a debt discount in the amount of \$300,232, to reflect the fair value of the warrants as a reduction to the carrying amount of the convertible debt and an addition to paid in capital pursuant to Emerging Issues Task Force ("EITF") 00-29: Application of EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features on Contingently Adjustable Conversion Rates", to certain convertible instruments. The Company is amortizing the debt discount over the term of the debt. Amortization of debt discount for the quarter ended September 30, 2007 was \$16,680.

NOTE 10 - STOCKHOLDERS' DEFICIT

On February 15, 2007, the Company's board of directors declared a distribution in the form of shares of the common stock of its new wholly-owned subsidiary, HEPI Pharmaceuticals, to all shareholders of record as of March 15, 2007. Each shareholder of record on the record date will receive 1 share of the new pharmaceutical company for every 10 shares of common stock of HEPI they own on the record date. The shares of the pharmaceutical subsidiary will be distributed promptly following compliance with applicable laws, including the Company delivering an information statement to its stockholders pursuant to the requirements of the Securities Exchange Act of 1934 ("Exchange Act") and the effectiveness of the pharmaceutical subsidiary's registration under the Exchange Act. The number of shares to be distributed will at the time of distribution represent 10% of the total outstanding shares of the new company. It is anticipated that the remaining 90% of the equity of the subsidiary will be owned by the Company.

During the quarter ended March 31, 2007, the Company issued to a consultant, for services rendered, 15,000 shares of common stock, valued at \$13,550. In addition, the Company issued 261,000 shares of common stock valued at \$229,680 to employees for services. From February through March of 2007, the Company privately sold 260,000 shares of common stock and 260,000 warrants (3 year term and \$.50 exercise price) for \$130,000. Also during February and March, the Company sold 190,000 shares of common stock in a private placement, received \$95,000 in proceeds, and incurred cash finder's fees of \$9,500. In addition, the Company issued 2,540,000 shares of common stock, and received proceeds of \$767,000 upon exercise of outstanding warrants, some of which were re-priced. The Company incurred cash finder's fees of \$79,900 in connection with the exercise of these warrants. In addition, the Company issued 311,375 warrants for finder's fees, valued at \$187,959 using the Black Scholes option-pricing model with the following assumptions: expected volatility 162.07% and 186.59%; expected dividends 0%; expected term 2 years; and risk free rate 3.1%.

During the quarter ended June 30, 2007 the Company issued to a consultant for services rendered, 5,000 shares of common stock, valued at \$3,750. The Company issued 50,000 warrants for Board of Director's fees, valued at \$20,000 using the Black Scholes option-pricing model with the following assumptions: expected volatility 150.3%; expected dividends 0%; expected term 2 years; and risk free rate 5.0%

During the quarter ended September 30, 2007, the Company issued 24,000 shares of its common stock, valued at \$10,800, to a consultant. In consideration of introducing investors to the Company, the Company extended the term of a previously issued warrant due to expire August 18, 2007. The new term expires August 18, 2010. This term extension was valued at \$98,199 using the Black Scholes option-pricing model with the following assumptions: expected volatility 151.92%; expected dividends 0; expected term 3 years and risk free rate 5.0%. As compensation for services rendered, including with respect to the convertible note financing discussed below, the Company repriced outstanding warrants to purchase 300,000 shares of common stock from an exercise price of \$2.00 per share to an exercise price of \$.50 per share. The Company has recorded compensation expense of \$19,262 using the Black Scholes option-pricing model with the following assumptions: expected volatility 249.35%; expected dividend 0; expected term 3 years; and risk free rate 5.0%. The Company issued 325,000 warrants to its former CEO valued at \$42,056 using the Black Scholes option-pricing model with the following assumptions: expected volatility 142%; expected dividends 0; expected term 3 years and risk free rate 5.0%.

In July, 2007, the Company issued 1,250,000 shares of common stock upon the exercise of warrants for gross proceeds of \$125,000. The Company issued 500,000 warrants to a consultant valued at \$168,245 using the Black Scholes pricing model with the following assumptions: expected volatility 86.17%; expected dividend 0%; expected term 3 years; and risk free rate 5%. These warrants vest as follows: 200,000 shares on July 9, 2007; 100,000 shares on September 9, 2007 and 200,000 shares on October 9, 2007. The Company has recorded consulting expense for \$100,947 and recorded deferred consulting fees of \$67,298.

In September of 2007, the Company recorded the value of consulting services contributed by a significant shareholder, valued at \$37,913 to contributed capital.

In conjunction with the issuance of convertible debt, the Company issued warrants to purchase 60,000 shares of common stock at an exercise price of \$.50 per share for a term of three years as finder's fees.

These warrants were valued at \$19,304 using the Black-Scholes pricing model with the following assumptions: expected volatility 106.55%; expected dividend 0; expected term 3 years; and risk free rate 3.1%.

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

	September 30, 2007		September 30, 2006	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	13,538,734	0.75	21,761,325	0.49
Issued	2,796,375	0.50	280,000	0.37
Exercised	(3,790,000)	0.30	(6,602,575)	0.15
Expired	(50,000)	3.75	-	-
Outstanding, end of period	<u>12,495,109</u>	<u>0.82</u>	<u>15,438,750</u>	<u>0.63</u>

Warrants outstanding and exercisable by price range as of September 30, 2007 were as follows:

Outstanding Warrants			Exercisable Warrants		
Range of	Number	Average Weighted Remaining Contractual Life in Years	Exercise Price	Number	Weighted Average Exercise Price
0.10	5,258,750	0.89	0.10	5,250,750	0.10
0.25	150,000	1.50	0.25	150,000	0.25
0.50	3,701,359	1.47	0.50	3,701,359	0.50
0.60	250,000	1.17	0.60	250,000	0.60
1.00	1,690,000	1.18	1.00	1,690,000	1.00
2.00	1,170,000	1.19	2.00	1,170,000	2.00
3.00	275,000	0.75	3.00	275,000	3.00
	12,495,109	1.14		12,495,109	0.65

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Lease Commitments - Related Party - On December 9, 2004, we entered into a lease dated November 1, 2004 with Evans Road, LLC (a company owned by our former CEO, Howard R. Baer), under which we leased approximately 5,000 sq. ft. for a new corporate headquarters and production facility located in Scottsdale, Arizona. The lease had a term of 15 years, subject to the right of either party to terminate the lease after 7.5 years, and provided for base monthly rental in the amount of \$8,700 plus monthly taxes. In February, 2005, Evans Road, LLC sold the building which was leased to us, and our former CEO, Howard Baer, leased such building back from the buyer under a master lease. Our former CEO continued to lease the building, as master lessor, to us, under the terms and conditions described above, until March 31, 2006. As of April 1, 2006, we entered into an Amended and Restated Sublease with Mr. Baer. During the nine months ended September 30, 2007, we paid Mr. Baer approximately \$138,000 in rent, and \$40,000 was accrued and unpaid at September 30, 2007.

Under the terms of the Amended and Restated Sublease, we are leasing an aggregate of approximately 15,000 square feet. We are subleasing approximately 5,000 square feet to a third party under a month to month tenancy at a rate of approximately \$6,900 per month, plus rental taxes and electricity. We can terminate this sublease upon thirty (30) days written notice to our subtenant. We believe that we may need additional space in the foreseeable future, and that this space would be suitable for an expansion of our production and office facilities.

The Amended and Restated Sublease expires on February 9, 2020, provided that we have the unilateral right to terminate the Lease approximately 6 years from now (March 31, 2013). The annual base rent for the 15,000 square foot facility is approximately \$237,000 and is payable in equal monthly installments of approximately \$20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. We agreed to pay an additional security deposit of approximately \$110,000, following which we will have paid an aggregate security deposit equal to six months base rent. This additional security deposit is payable in eighteen equal monthly installments of approximately \$6,000 (which commenced in August, 2006). As of September 30, 2007, of the \$110,000 in additional security, \$85,644 has been paid and \$24,356 is owing, which is in accrued liabilities. The Company currently owes approximately \$20,000 in rent for the month of September and is in arrears. This arrearage is included in accounts payable. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance and repairs related to the premises we are leasing from the former CEO.

Lease Commitments – Other

The Company has entered into a two year lease commencing September 1, 2006, for a warehousing and bottling facility. The lease calls for minimum annual rents of approximately \$25,000 and \$26,000 for each of the twelve month periods ending August 31, 2007 and August 31, 2008, respectively. Rent expense under this lease for the nine months ended September 30, 2007 was \$19,317.

The future minimum lease payments related to the Amended and Restated Sublease and the new 2 year lease, are as follows:

Year Ending December 31,	
2007	\$ 59,232
2008	276,000
2009	282,000
2010	289,000
Thereafter	2,711,000

NOTE 12 – LOSS PER SHARE

Loss per common share is based upon the weighted average number of common shares outstanding during the period. Diluted loss per common share is the same as basic loss per share, as the effect of potentially dilutive securities (convertible debt – 1,550,000 shares and warrants – 12,495,109 at September 30, 2007 and 15,408,750 at September 30, 2006) are anti-dilutive.

NOTE 13 – RELATED PARTY TRANSACTIONS

The Company recognized consulting fees of \$37,913 for services contributed by a significant shareholder. In connection with the contribution of these services, the Company recorded a capital contribution of \$37,913.

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

Critical Accounting Policies

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

Income taxes

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

We have provided a 100% valuation allowance for deferred tax assets, because the ultimate realization of those assets is uncertain. Utilization of net operating loss carry-forwards is subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code. The annual limitation may result in the expiration of net operating loss carry-forwards before utilization.

Share Based Payment

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123R ("SFAS 123R") "Share Based Payment", a revision of Statement No. 123, "Accounting for Stock Based Compensation." This standard requires the Company to measure the cost of employee services received in exchange for equity awards based on grant date fair value of the awards. The Company adopted SFAS 123R, effective January 1, 2006. The standard provides for a prospective application. Under this method, the Company will begin recognizing compensation cost for equity based compensation for all new or modified grants after the date of adoption.

Results of Operations for the three months and nine months ended September 30, 2007 and September 30, 2006.

Net Sales. Net sales for the three and nine months ended September 30, 2007 were \$27,939 and \$134,675 as compared to \$52,607 and \$231,347 for the three and nine months ended September 30, 2006. These sales reflect revenues from our ProAlgaZyme product.

We believe that the decrease in our sales was due to the absence during 2007 of national publicity about our product. We now believe that national publicity about our product had a temporary effect on our sales for the first half of 2006. We believe that regulatory limitations on our ability to promote our product, has contributed to a low level of net sales. Although our ProAlgaZyme product is available for sale and we are exploring various potential marketing opportunities, as well as advertising the product on a limited basis, we expect only limited sales revenue for the foreseeable future. We believe that our ability to generate sales of the ProAlgaZyme product will depend upon, among other things, further characterization of the product, identification of its method of action and obtaining further evidence of its efficacy, as well as additional advertising. The testing necessary to further characterizing the product, identifying its method of action and establishing its effectiveness has largely been suspended as we do not currently have the funds needed to continue such testing..

Unless and until we receive further positive test results regarding ProAlgaZyme's method of action and efficacy, we may not have meaningful sales revenue. Even if we receive positive test results, we cannot be sure that they will lead to an increase in our sales revenue, as our ability to promote our product is limited by applicable law.

Cost of Sales. Cost of Sales was \$11,204 and \$96,006 for the three and nine months ended September 30, 2007, as compared to \$64,039 and \$203,921 for the comparable periods in 2006. Cost of Sales represents primarily costs related to raw materials, labor and operation of the laboratory and controlled production environment necessary for the growing of the algae cultures that constitute the source of the biological activity of the ProAlgaZyme product, and for conducting the necessary harvesting and production operations in preparing the product for sale. The decrease in cost of sales for 2007 is a direct result of our decreased sales volume.

Gross Profit. Gross Profit was \$16,735 and \$38,669 for the three and nine months ended September 30, 2007, as compared to \$(11,432) and \$27,426 for the comparable periods in 2006. The increased gross profit for 2007 is due to streamlining the bottling process and the automation of the labeling process.

Research and Development Expenses. For the three and nine months ended September 30, 2007, we incurred \$74,533 and \$271,798 on research and development expenses, as compared to \$107,338 and \$237,899 for the comparable period in 2006. These expenses are comprised of costs associated with internal and external research. The overall increase in our research and development for the nine months ended September 30, 2007 is due primarily to the initiation and completion of external clinical trials concerning our ProAlgaZyme product.

We have completed several studies directed toward determining the product's method of action and efficacy. In May, 2006, we commenced two clinical trials in Cameroon, which were substantially completed in September, 2006. The total cost of these trials was \$144,000, of which \$50,000 is still owing. One trial explored the possible effects of ProAlgaZyme on HIV. In particular, the trial explored ProAlgaZyme's potential to reduce viral loads in patients with HIV. The second trial explored ProAlgaZyme's potential effects on C-Reactive Protein (CRP) levels and the inflammation process. A third trial was initiated in the first quarter of 2007 in Minnesota to explore ProAlgaZyme's potential effects on cholesterol levels, CRP levels and the inflammation process. This trial was suspended due to concerns raised by inconsistent results. The trial was terminated after review of preliminary data on ten early finishing subjects, due to concerns arising out of the lack of positive response with respect to either cholesterol or C-reactive protein levels, both key prospective markers of the study. The lack of positive response with respect to these key prospective markers, in light of positive results in the Cameroon trials and extensive anecdotal reports, raised concerns about the status of the ProAlgaZyme test agent, including potential problems associated with freezing and thawing. We initiated animal model tests to facilitate its inquiry into whether there was a problem with the ProAlgaZyme batch used in the Minnesota study. Some of the product used in the MN trial froze during shipment to the laboratory, which raised concerns as to whether the product may have been degraded as a result. Independent research indicates that, the original clinical product, which had not been frozen, showed the presence of active protein. However, in the same tests, all the returned clinical samples that had been frozen showed signs of loss of active protein. Further testing is needed, for which we do not currently have funding. Subject to the availability of sufficient funding, which we do not currently have, we plan to resume our research and development activities as soon as we are able. We may not be able to raise the funding that we need to undertake further research and development activities. In the event that we are not able to secure sufficient funding to meet our research needs, we will be unable to pursue necessary research activities, in which case our ability to market ProAlgaZyme with objective clinical support for its efficacy will be impeded, thereby hindering our ability to generate sales revenue and impacting negatively our operating results.

Selling and Marketing Expenses. Selling and marketing expenses were \$29,772 and \$100,018 for the three and nine months ended September 30, 2007, as compared to \$51,571 and \$180,062 for the comparable period in 2006. The decrease in 2007 was due to a decrease in the use of outside consultants who provided outside marketing support for our product. We intend to direct our in house selling efforts to existing ProAlgaZyme users during 2007. The Company recently engaged a sales and marketing consultant at a cost of \$6,000 per month to advise the Company about the promotion of its ProAlgaZyme product. We are currently engaged in limited advertising and marketing related activities. We intend to continue to direct selling efforts to existing ProAlgaZyme users. In addition, we are exploring the establishment of additional distribution channels for ProAlgaZyme. The limit on our ability thus far to advertise our product (due to the need for additional testing and regulatory constraints) has had and, until we are able to advertise our product based upon the results of clinical trials further demonstrating its efficacy, will continue to have, a material adverse effect on our ability to increase our sales revenue and improve our operating results. Subject to the availability of funding, which we do not currently have, we intend to continue to pursue clinical study of our product and, subject to the results of such testing, increase our advertising.

General and Administrative Expenses. General and administrative expense was \$604,544 and \$1,464,931 for the three and nine months ended September 30, 2007, as compared to \$771,104 and \$2,690,997 for the comparable period in 2006. The decrease in general and administrative expenses for the nine months ended September 30, 2007 is due primarily to a \$940,000 decrease in stock based compensation issued to consultants, and a \$150,000 decrease in legal fees.

Financing Costs. We incurred \$2,907 and \$30,759 in interest expense on our indebtedness to our former CEO for the three and nine months ended September 30, 2007, compared to \$17,306 and \$51,087 for the comparable period in 2006. This note was paid off in July, 2007.

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. While we raised an aggregate of approximately \$900,000 in July and August, 2007, we currently have an immediate and urgent need for additional capital. As noted below, at October 31, 2007, we had only \$35,000 in cash (approximately 30 days of cash based on payment of critical operating expenses, such as payroll, utilities, etc.) For the reasons discussed herein, there is a significant risk that we will be unable to continue as a going concern, in which case, you would suffer a total loss of your investment in our company.

We have had limited revenue (\$134,675 for the nine months ended September 30, 2007) and have incurred significant net losses since inception, including a net loss of \$1,762,942 during the nine months ended September 30, 2007 and an aggregate net loss of \$15,688,979 since inception. We expect only limited revenue for the foreseeable future. Further, since inception, we have incurred negative cash flow from operations. During the nine months ended September 30, 2007, we incurred negative cash flows from operations of \$1,195,533. As of October 31, 2007, we had a cash balance of approximately \$35,000.

As of September 30, 2007, we had a working capital deficiency of \$378,646 and a stockholders' deficit of \$703,738. We are largely dependent upon external sources for funding and, although we recently raised \$900,000, we have in the past had difficulty raising capital from external sources. If we are unable to raise additional funds within the next thirty days, it is highly unlikely we will be able to continue as a going concern. These factors raise substantial doubt about our ability to continue as a going concern.

During the nine months ended September 30, 2007 and 2006, our operating activities used \$1,195,533 and \$1,704,279 in cash, respectively. The decrease in cash used in our operating activities during the nine months ended September 30, 2007 was due largely to a decrease in executive compensation of approximately \$155,000, a decrease in stock based compensation of approximately \$140,000, and a decrease in legal fees of approximately \$200,000. Our financing activities generated \$1,351,886 and \$1,515,171 during the nine months ended September 30, 2007 and 2006, respectively. The approximate \$150,000 decrease in cash generated by our financing activities is primarily attributable to an increase in proceeds from the sale of securities, offset by net repayments to our former CEO. We received a short term advance of \$155,000 from our former CEO, Mr. Howard R. Baer, in February of 2007. This was repaid in April of 2007. During July and August of 2007, we raised an aggregate of \$900,000, \$775,000 of which was raised through the issuance of convertible debentures (in the principal amount of \$775,000) and warrants to purchase 1,550,000 shares of common stock, and \$125,000 of which was received in connection with the exercise of an outstanding warrant to purchase 1,250,000 shares of common stock at an exercise price of \$.10 per share.

On February 15, 2005, we entered into a Promissory Note (“Note”), a Security Agreement and a Patent Security Agreement with our former CEO, Mr. Baer (such documents are collectively hereinafter referred to as the “Loan Documents”), under which we were indebted to Mr. Baer in the aggregate amount of \$847,359. On March 25, 2005, we, Mr. Baer, and our wholly owned Subsidiary, Health Enhancement Corporation (“HEC”), executed and delivered a Joinder Agreement and First Amendment, which had the effect of making HEC a party to the Loan Documents, including as a co-maker of the note. As a result of entering into the Joinder Agreement and First Amendment, in addition to being a co-maker under the Note, HEC granted Mr. Baer a security interest in all of its assets related to the ProAlgaZyme product. As of June 30, 2007, the Note was in the principal amount of \$414,391. The Note bore interest at the rate of 10% per annum. As required by the terms of the convertible note offering described above, this note was paid in full on July 26, 2007, and the related liens on our assets have since been released.

We estimate that we will require approximately \$1,000,000 in cash over the next twelve months in order to fund our operations. Based on this cash requirement, we have an immediate and urgent need for additional funding. For the foreseeable future, we do not expect that sales revenues will be sufficient to fund our cash requirements. Historically, we have had difficulty raising funds from external sources; however, we recently were able to raise a limited amount of capital from outside sources. As noted above, if we are unable to raise additional funds within the next thirty days, it is highly unlikely we will be able to continue as a going concern, in which case you will suffer a total loss of your investment in our company.

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

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

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

Seasonality

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

Staffing

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

Off-Balance Sheet arrangements

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

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of the chief administrative officer (who functions effectively as a chief executive officer) and the chief accounting officer (the chief administrative officer is also 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 administrative 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 administrative 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. Unregistered Sales

On September 30, 2007, the Company issued 24,000 shares of its common stock, valued at \$10,800, to a consultant.

On September 9, 2007, the Company issued warrants to purchase 325,000 shares of its common stock at an exercise price of \$.50 per share for a term of three years to its former CEO for services rendered to the Company. These warrants were valued at \$42,056 using the Black Scholes option-pricing model with the following assumptions: expected volatility 142%; expected dividends 0; expected term 3 years and risk free rate 5.0%.

In July, 2007, the Company issued 1,250,000 shares of common stock upon the exercise of warrants for gross proceeds of \$125,000.

In July and August 2007, the Company sold for aggregate consideration of \$775,000 1% convertible notes in the aggregate principal amount of \$775,000 ("Notes") and warrants to purchase 1,550,000 shares of common stock, at an exercise price of \$.50 per share for a term of three years ("Warrants"). In connection with this transaction, the Company agreed to issue, as a finders' fee in connection with the convertible notes, warrants to purchase 60,000 shares, at an exercise price of \$.50 per share, for a term of three years. The Convertible Notes accrue interest at the rate of 1% per annum, are non-amortizing, have a term of 3 years, subject to the Company's right to extend the term for an additional three years, cannot be prepaid, and are convertible, at any time prior to the maturity date, as the same may be extended, at the discretion of the holder, into shares of common stock, at a rate equal to the lesser of (i) \$.50 per share and (ii) the Market Price (as defined) (but not less than \$.25 per share). Accrued interest will be paid on the maturity date, as the same may be extended, in shares of Common Stock, valued at the Market Price (as defined), but not less than \$.25 per share, and, unless the Convertible Note is converted prior to its maturity date, as the same may be extended, at the Company's option, the principal amount of the Note may, on the maturity date, as extended, be repaid in cash or converted into common stock at a rate equal to the lesser of (i) \$.50 per share and (ii) the Market Price (but not less than \$.25 per share).

On July 9, 2007, the Company issued warrants to purchase 500,000 shares of its common stock at an exercise price of \$.50 per share for a term of three years to a consultant for services to be rendered. These warrants were valued at \$168,245 using the Black Scholes pricing model with the following assumptions: expected volatility 86.17%; expected dividend 0%; expected term 3 years; and risk free rate 5%. These warrants vest as follows: 200,000 shares on July 9, 2007; 100,000 shares on September 9, 2007 and 200,000 shares on October 9, 2007. The Company has recorded consulting expense for \$100,947 and recorded deferred consulting fees of \$67,298.

The Company believes that the foregoing transactions were exempt from the registration requirements under Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended (“the Act”) or Section 4(2) under the Act, based on the following facts: there was no general solicitation, there was a limited number of purchasers, all of whom were “accredited investors” (within the meaning of Regulation D under the Securities Act of 1933, as amended) and all of whom were sophisticated about business and financial matters, and all shares issued were subject to restriction on transfer, so as to take reasonable steps to assure that the purchaser was not an underwriter within the meaning of Section 2(11) under the Act.

Item 6. Exhibits

Exhibit Number	Description	
2.1	Agreement and Plan of Reorganization	(1)
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	(2)
3.2	By-laws of the Company	(3)
4.1	Form of Convertible Note Subscription Agreement (dated July/August 2007)	
4.2	Form of Convertible Note (dated July/August 2007)	
4.3	Form of Warrant (Convertible Note offering)	
10.1	Consulting Agreement with Dr. Robert Cohen dated July 9 2007	
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

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

SIGNATURES

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

HEALTH ENHANCEMENT PRODUCTS, INC.

Date: November 14, 2007

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

Date: November 14, 2007

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

LIST OF EXHIBITS

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July __, 2007

Health Enhancement Products, Inc.
7740 E. Evans Road
Suite A101
Scottsdale, AZ 85260

Attn: Thomas D. Ingolia, Chief Executive Officer

Ladies and Gentlemen:

The undersigned hereby subscribes, for an aggregate purchase price of \$ _____ (“Purchase Price”) to the immediate acquisition from Health Enhancement Products, Inc. (the “Company”) of (a) a Convertible Note in the face amount of the Purchase Price, convertible into shares of Company common stock (“Common Stock”) at a rate equal to the lesser of (i) \$.50 per share and (ii) the Market Price (defined below) (but not less than \$.25 per share). , and (b) warrants to purchase two shares of common stock for each \$1.00 in face amount of Convertible Note, at an exercise price of \$.50 per share for a term of three years. The Convertible Note and the Warrants are hereinafter collectively referred to as the “Securities”.

NOTE: THIS INVESTMENT IS SUITABLE ONLY FOR “ACCREDITED INVESTORS” AS DEFINED IN APPENDIX A HERETO.

Summary of Additional Terms of Convertible Note. The Convertible Note accrues interest at the rate of 1% per annum, is non-amortizing, has a term of 3 years, subject to the Company’s right to extend the term for an additional three years, cannot be prepaid, and is convertible at any time prior to the maturity date, as the same may be extended, at the discretion of the holder. Accrued interest will be paid on the maturity date, as the same may be extended, in shares of Common Stock, valued at the Market Price, but not less than \$.25 per share, and, unless the Convertible Note is converted prior to its maturity date, as the same may be extended, at the Company’s option, the principal amount of the Note may, on the maturity date, as extended, , be repaid in cash or converted into common stock at a rate equal to the lesser of (i) \$.50 per share and (ii) the Market Price (but not less than \$.25 per share). The Company agrees that it will not voluntarily grant a security interest in any of its ProAlgaZyme related assets without the consent of a majority in principal amount of the outstanding convertible notes. For purposes hereof, “Market Price” means the average closing price of the Common Stock over the twenty (20) trading days preceding the conversion date or interest payment date, as applicable, as reported on the NASD’s OTC Bulletin Board, or such other exchange or quotation medium on which the Common Stock is then traded or quoted.

Use of Proceeds. The Company shall use the proceeds of the offering first to repay all amounts owing to Howard R. Baer pursuant to that certain secured Promissory Note dated February 15, 2005, and second for general corporate purposes and working capital.

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. 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, 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. The undersigned acknowledges that there is no maximum offering amount and that the minimum offering amount is \$500,000. Any investment by affiliates of the Company (including officers, directors and greater than 5% beneficial owners) may be counted in determining whether the minimum offering amount as been reached. Accordingly, the undersigned acknowledges that once the Company accepts subscriptions aggregating at least \$500,000, there will be a closing and the Company may use the funds representing the purchase price of the Securities for general corporate purposes. Until the minimum amount is received, funds will not be used by the Company. If the minimum amount is not raised, the Company will promptly return the funds received to the undersigned.

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) has only limited 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, 2006. The undersigned acknowledges that, as a result of all of the foregoing, among other reasons, and given that the Convertible Note is unsecured, 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 and the common stock into which they can be converted 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 and the common stock into which they can be converted 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 and the common stock into which they can be converted 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 is an "accredited investor" as defined in 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.

[INTENTIONALLY LEFT BLANK]

ACCEPTANCE OF SUBSCRIPTION

SUBSCRIBER

Health Enhancement Products, Inc.

Print Name: _____

By: _____

Address:

Thomas D. Ingolia, Chief Executive Officer

Dated: July __, 2007

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.

(5) An entity, all of whose equity owners are “accredited investors”, as defined herein.

Individuals

(6) 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.

(7) 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.

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

THE NOTE EVIDENCED HEREBY HAS 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.

CONVERTIBLE NOTE

Health Enhancement Products, Inc.

US \$[_____]

July __, 2007

FOR VALUE RECEIVED, the undersigned, Health Enhancement Products, Inc., a Nevada corporation, with its principal executive offices at 7740 East Evans Rd, Suite A100, Scottsdale Arizona, 85260 ("Maker"), hereby promises to pay, subject to Section 4 hereof, to the order of [_____] , whose address is [_____] ("Holder"), the sum of [_____ Dollars] (US \$[_____]) and any other fees and charges, on or prior to July 31, 2010, subject to extension, at the sole option of the Maker, until July 31, 2013 (the "Maturity Date"), provided, however, that to the extent that the Holder has not, prior to the Maturity Date, converted the principal amount of and interest due under this Note into shares of Maker's common stock, \$.001 par value ("Common Stock"), as permitted by Section 4 hereof, then, at the option of the Maker exercised by written notice to Holder, any remaining amount of principal, interest or fees/charges due hereunder may be paid in U.S. Dollars or converted on a mandatory basis into shares of Common Stock of Maker, in accordance with Section 4 of this Note.

This Note is being issued pursuant to that certain subscription agreement between the Maker and the Holder of even date.

1. Interest. The unpaid principal balance from time to time outstanding under this Note shall accrue and bear interest at a rate per annum equal to one percent (1.0%), until fully paid. Interest hereunder shall be payable on the Maturity Date as provided herein. Interest and fees shall be calculated on the basis of a 365/366-day year for the actual number of days elapsed. In no event shall interest payable hereunder exceed the highest rate permitted by applicable law. To the extent any interest received by Holder exceeds the maximum amount permitted, such payment shall be credited to principal, and any excess remaining after full payment of principal shall be refunded to Maker.

2. Prepayment. The principal balance of this Note may not be prepaid, either in whole or in part, prior to the Maturity Date.

3. Events of Default. The entire balance of unpaid principal shall, at the option of the Holder, become immediately due and payable if any of the following events shall occur and be continuing:

- (i) The Maker shall fail to make any payment herein provided when due; or
- (ii) There shall occur a default under any mortgage, indenture, loan agreement or other instrument evidencing indebtedness binding on the Maker or any of its subsidiaries which shall have resulted in the indebtedness evidenced thereby becoming or being declared due and payable prior to the date on which it would otherwise have been due and payable, without such indebtedness having been discharged or such acceleration having been rescinded or annulled; or
- (iii) The Maker or any of its subsidiaries shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Maker or any of its subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Maker or any of its subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (iii);

then, and in any such event, the Holder may, by notice to the Maker, declare the Note and all interest thereon to be forthwith due and payable, whereupon the Note and all such interest shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Maker; provided, however, that in the event of any actual or deemed entry of an order for relief with respect to the Maker under the U.S. Federal Bankruptcy Code, the Note and all such interest shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Maker.

All payments due hereunder shall be made at the address of the Holder as set forth in the Subscription Agreement, or at such other place as the Holder may designate from time to time in writing.

4. Convertibility of Note. At any time prior to the Maturity Date, the unpaid principal amount of this Note and the accrued but unpaid interest shall at the option of the Holder be convertible in whole or in part into shares of Common Stock at a rate equal to the lesser of (i) \$.50 per share and (ii) the Market Price (but not less than \$.25 per share). To the extent that the Holder has not, prior to the Maturity Date, converted the principal amount of and interest due under this Note into shares of Maker's Common Stock, as permitted by this Section 4, then, at the option of the Maker exercised by written notice to Holder, any remaining amount of principal, interest or fees/charges due hereunder may be paid in U.S. Dollars or converted on a mandatory basis into shares of Common Stock of Maker, in accordance with this Section 4. For purposes hereof, "Market Price" means the average closing price of the Common Stock over the twenty (20) trading days preceding the conversion date, as reported on the NASD's OTC Bulletin Board, or such other exchange or quotation medium on which the Common Stock is then traded or quoted. The issuance of the Common Stock upon conversion of this Note shall be subject to compliance with applicable securities laws. The Holder shall execute such documents as the Maker shall reasonably require to insure compliance with such laws.

5. Conversion of Note. Subject to Section 4, the conversion rights represented by this Note may be exercised in whole, or in part, by the surrender of this Note and the duly executed Notice of Conversion (the form of which is attached as Exhibit A) at the principal office of the Maker. Upon conversion, the Holder shall be entitled to receive, within a reasonable time, a certificate, issued in the Holder's name or in such name or names as the Holder may direct, which shall evidence the shares of Common Stock issuable upon conversion. The shares of common Stock so acquired shall be deemed to be issued as of the close of business on the date on which the Notice of Conversion is received by the Maker. In the event the Note is converted in part, a replacement Note of like tenor evidencing the remaining principal amount owed after the Conversion shall be issued to the Holder.

6. Adjustments of Conversion Price. In the event of a merger, consolidation, reorganization, recapitalization or other change in the organizational structure of the Maker, reasonable and appropriate adjustments shall be made by the Board of Directors of the Maker (or if the Maker is not the surviving corporation in any such transaction, the Directors, Board of Directors or its equivalent of the surviving corporation) with respect to the shares of Common Stock the Holder is eligible to receive upon conversion of and pursuant to the terms of the Note. Any such adjustments shall be conclusive and binding upon the Holder.

7. No Rights as Stockholders. This Note does not entitle the Holder to any voting rights or other rights as a Stockholder of the Maker prior to conversion and surrender of this Note. Notwithstanding the foregoing, the Maker agrees, upon the request of the Holder, to transmit to the Holder such information, documents and reports, if any, as are generally distributed to holders of the Common Stock. Upon valid conversion and surrender of this Note in accordance with the terms hereof, the Holder shall be deemed a Stockholder of Maker.

8. Sale or Transfer of the Note and the Underlying Shares of Common Stock; Legend. The Note and the underlying shares of Common Stock shall not be sold or transferred unless either (i) they first shall have been registered under the Securities Act of 1933, as amended (the “Act”) and applicable state securities laws, or (ii) such sale or transfer is exempt from the registration requirements of the Act and applicable state securities laws. Each certificate, if any, representing the shares of Common Stock issued upon conversion of this Note shall bear a legend substantially in the following form:

THE SHARES OF COMMON STOCK 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.

Prior to recognizing any transfer, the Company will be entitled to receive a written legal opinion of experienced securities counsel reasonably acceptable to the Company concerning compliance with federal and state securities laws; the expense of such legal opinion shall be paid by the transferor. Such shares of Common Stock may be subject to additional restrictions on transfer imposed under applicable foreign securities laws.

9. Modifications and Waivers. This Note 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. No Liens. Maker shall not, without the consent of Holders holding a majority in principal amount of the series of Convertible Notes, of which this Note is a part, voluntarily grant a security interest in all or substantially all of its ProAlgaZyme related assets.

11. Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder or the Maker shall be delivered, or shall be sent by certified or registered mail, postage prepaid, or recognized overnight courier (with signature required) to the Holder at its address shown on the books of the Maker or in the case of the Maker, at the address indicated above, or, if different, at the principal office of the Maker.

12. Loss, Theft, Destruction or Mutilation of Note or Certificate Representing Shares of Common Stock. The Maker covenants with the Holder that upon its receipt of evidence reasonably satisfactory to the Maker of the loss, theft, destruction or mutilation of this Note or any certificate evidencing any shares of Common Stock and the posting of a bond reasonably acceptable to Maker, and upon surrender and cancellation of this Note or certificate evidencing shares of Common Stock, if mutilated, the Maker will make and deliver a new Note or certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Note or certificate.

13. Binding Effect on Successors. This Note shall be binding upon any business association succeeding the Maker by merger, consolidation or acquisition of all or substantially all of the Maker's assets.

14. Governing Law. This Note 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 conflict of law principles thereof.

IN WITNESS WHEREOF, HEALTH ENHANCEMENT PRODUCTS, INC. has caused this Note to be executed by a representative thereunto duly authorized.

ORIGINAL ISSUANCE DATE: As of July __, 2007

WITNESS:

Health Enhancement Products, Inc.

Name:
Address:

By: _____
Thomas D. Ingolia, CEO,
duly authorized

EXHIBIT A

NOTICE OF CONVERSION

To: **Health Enhancement Products, Inc.**

1. The undersigned hereby elects to convert the attached Note into _____ shares of Common Stock of **Health Enhancement Products, Inc.** pursuant to the terms of the attached Note, and tenders herewith the Note for cancellation.
2. Please issue a certificate representing said shares of Common Stock in the name of the undersigned.
3. In the event that there remains unpaid principal after the conversion requested hereby, please issue a replacement Note for the remaining unpaid principal amount.
4. 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 securities. The undersigned hereby confirms all the representations and warranties it originally made in the Convertible Note Subscription Agreement, including but not limited to that it continues to be, as of the date hereof, an “accredited investor,” as defined in such Subscription Agreement. The undersigned further represents that such securities shall not be sold or transferred unless either (i) it first shall have been registered under applicable federal and state securities laws or (ii) or an exemption from such registration requirements is available.

(Name)

(Address)

(Signature)

(Date)

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. _____ **STOCK PURCHASE WARRANT** **No. of Shares :** _____

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

THIS CERTIFIES that, for value received, _____ (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 _____ (_____) 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 31, 2010. This Warrant may be exercised at a price of fifty cents (\$.50) 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 __, 2007

HEALTH ENHANCEMENT PRODUCTS, INC.

By: Thomas D. Ingolia, 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 hereby confirms all the representations and warranties it originally made in the Convertible Note Subscription Agreement under which the within warrant was acquired, including but not limited to that it continues to be, as of the date hereof, an "accredited investor," as defined in such Subscription Agreement. 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)

CONSULTING AGREEMENT

1. Parties

The parties to this Agreement are Health Enhancement Products, Inc. of 7440 Evans Rd, #A101, Scottsdale, AZ 85260 (hereinafter referred to as "COMPANY"), and Robert Cohen, M.D., and/or his nominee, 2660 Peachtree Road NW, Apt. 19H, Atlanta, GA 30305 (hereinafter referred to as "CONSULTANT").

2. Services

At times and places agreed upon by the parties during the term of this Agreement, CONSULTANT shall provide to COMPANY consulting and advisory services relative to clinical trials, animal models, assays, and characterization of activity of the COMPANY's products, and related COMPANY business functions, including fund-raising (hereinafter referred to as the "SUBJECT").

3. Compensation

A. Hourly/Daily Compensation. As consideration for the services provided by CONSULTANT under this Agreement, COMPANY shall pay CONSULTANT fees at the rate of \$125 dollars per hour (\$2,000 dollars per day) for each day of consulting over the term of this Agreement. The content and time for the consulting services will be agreed upon in advance by both parties. Further, CONSULTANT shall be reimbursed by COMPANY for all customary and standard traveling expenses incurred at the request of COMPANY during the term of this Agreement. Services rendered by CONSULTANT and the requisite payment of compensation have been approved under the terms and conditions of this contract.

B. Warrants. A retainer of 500,000 warrants to purchase stock in Health Enhancement Products, Inc., with a 5 year term and priced at \$0.50/share, will be awarded to Consultant under the following terms and conditions:

- i. 200,000 warrants vesting on the first day of the Agreement.
- ii. 100,000 warrants vesting on the earlier of 60 days after signing the Agreement or closing on \$0.5M of funds from investor(s) first introduced by Consultant, under terms acceptable to the Company.
- iii. 200,000 warrants vesting on the earlier of 120 days after signing of the Agreement or closing on \$3M of funds from investor(s) first introduced by Consultant, under terms acceptable to the Company.

C. Fees for raising funds.

- i. 5% of the money raised under terms acceptable to the Company from investor(s) first introduced to the Company by Consultant
- ii. Warrants to purchase stock in Health Enhancement Products, Inc. The number of warrants will be 5% of the number of shares sold to the investor(s) first introduced by Consultant. The warrants will have a 5 yr term, and be priced at a 50% discount to the average closing price of the common stock for the ten trading days preceding the date funds are received.

4. Confidentiality

A. Except as set forth below, all information disclosed by COMPANY to CONSULTANT relative to any and all information relating to the SUBJECT shall be treated as confidential and proprietary information of COMPANY and CONSULTANT shall only use such information for the benefit of COMPANY in the rendering of services for COMPANY and shall not otherwise use or disclose such information to others without express, written permission of an officer of COMPANY authorized to grant such permission. Upon termination of this Agreement, CONSULTANT shall immediately return to COMPANY all drawings, writings, recordings and records of every type (including all copies thereof) embodying in any form any confidential information of COMPANY. The foregoing limitations of confidentiality shall not apply to (i) information which, at the time of disclosure to CONSULTANT, was already in the public domain, (ii) information which, at the time of disclosure to CONSULTANT, was already known to CONSULTANT, (iii) information which, after disclosure to CONSULTANT, becomes part of the public domain through no fault of CONSULTANT, or (iv) information received by CONSULTANT from a third party not owing a duty of confidence to COMPANY.

B. CONSULTANT agrees that in rendering services to COMPANY, CONSULTANT shall disclose to COMPANY only information which CONSULTANT has the right to freely disclose without incurring legal liability to or violating rights of others.

5. Inventions, Works of Authorship

All ideas, inventions, developments, and improvements conceived and/or reduced to practice, alone or with others, in the course of providing services under this Agreement relating to SUBJECT shall be the exclusive property of COMPANY. CONSULTANT agrees to (i) promptly and fully disclose in writing to COMPANY all such ideas, inventions, developments, and improvements, (ii) assign all such ideas, inventions, developments, and improvements, (iii) assist COMPANY, at its expense, in obtaining patents on any such ideas, inventions, developments, and improvements, and (iv) execute all documents necessary to obtain such patents in the name of COMPANY. CONSULTANT and COMPANY agree that any works of authorship created by CONSULTANT relating to SUBJECT during the term of this Agreement shall be considered "work made for hire" for COMPANY as that term is defined in Section 101 of the 1976 Copyright Act (such works of authorship being hereinafter referred to as "WORKS"). To the extent that any WORKS are determined by a court of competent jurisdiction or the Register of Copyrights not a work made for hire, CONSULTANT agrees to execute any and all documents deemed to be necessary or appropriate by COMPANY to effect a complete transfer of ownership of all rights, including, but not limited to, copyright rights, to COMPANY throughout the world. CONSULTANT further agrees to maintain all information relative to such ideas, inventions, developments, and improvements and WORKS as confidential information of COMPANY subject to the obligations of confidentiality set forth in paragraph 4(A) hereof.

6. Relationship of Parties

In performing services pursuant to this Agreement, CONSULTANT shall act as an independent contractor having sole and exclusive control of his work and the manner in which it is performed. CONSULTANT shall be free to enter into other consulting agreements that are not in conflict with this Agreement. CONSULTANT shall not be considered an agent or employee of COMPANY or entitled to participate in any benefits that the COMPANY provides for its employees.

7. Assignment

Any assignment of this Agreement by CONSULTANT, except for the warrants referred to herein, without the written consent of COMPANY shall be void. COMPANY may assign this Agreement to any Successor to its business.

8. Governing Law

This Agreement shall be interpreted and governed by the laws of the State of Arizona.

9. Previous Agreements

A. This Agreement supersedes and replaces all previous agreements between the parties hereto and constitutes the entire Agreement and Understanding between the parties relative to the rendering of consulting services by CONSULTANT for COMPANY with respect to SUBJECT.

B. This Agreement will be considered fully executed when signed by the parties and transmitted either electronically, by facsimile transmission or original signature.

10. Term and Termination

A. This Agreement shall be effective July 9, 2007, and, unless sooner terminated as provided hereinafter, shall extend until July 8, 2009.

B. This Agreement may be terminated by either party upon thirty (30) days written notice given to the other by certified mail or personal delivery.

C. Notwithstanding the right of termination set forth in paragraph 10(B), and any termination pursuant to such rights, CONSULTANT agrees that the obligations of confidentiality set forth in paragraphs 4(A) and 5 hereof shall be continuing and shall not end with any termination of this Agreement.

COMPANY

By: /s/Thomas Ingolia
Thomas D. Ingolia, CEO

By: /s/Robert Cohen
Dr. Robert Cohen

[SSN]

Date: July 9, 2007

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, Janet L. Crance, Chief Administrative 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.
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Exhibit 31.1 (continued)

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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

Date: November 14, 2007

/s/ Janet L Crance
Janet L Crance
Chief Administrative 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.
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**Certification Pursuant to pursuant to Rule 13a-14(a) or Rule 15d-14(a)
of the Securities Exchange Act of 1934, as amended**

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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

Date: November 14, 2007

/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 September 30, 2007 as filed with the Securities and Exchange Commission (the "Report"), I, Janet L. Crance, Chief Administrative 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: November 14, 2007

/s/ Janet L Crance
Janet L Crance
Chief Administrative 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 September 30, 2007 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: November 14 2007

/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.