

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

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**

**87-0699977**

(State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization)

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

(Address of principal executive offices)

**480-385-3800**

(Issuer's telephone number)

**Not Applicable**

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

There were 88,311,327 shares of common stock, \$0.001 par value, outstanding at May 12, 2010.

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

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(Inapplicable items have been omitted)

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

	March 31, 2010 <u>(Unaudited)</u>	December 31, 2009 <u></u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 211,353	\$ -
Inventories	19,997	4,197
Prepaid Expenses	48,942	90,607
Total Current Assets	<u>280,292</u>	<u>94,804</u>
<b>PROPERTY AND EQUIPMENT, NET</b>		
	<u>173,511</u>	<u>177,190</u>
<b>OTHER ASSETS:</b>		
Definite-life intangible Assets, net	8,893	9,134
Deposits	120,667	120,667
Total Other Assets	<u>129,560</u>	<u>129,801</u>
	<u>\$ 583,363</u>	<u>\$ 401,795</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Cash Overdraft	\$ -	\$ 9,517
Accounts Payable	507,305	541,857
Loan Payable, other	43,927	58,117
Obligation to issue common stock and warrants	627,104	636,262
Convertible Debenture Payable, less Discount of \$46,417 and \$15,229 at March 31, 2010 and December 31, 2009	163,583	84,771
Derivative Liability	8,503,833	2,229,044
Current portion, long term debt	3,178	5,585
Accrued Payroll	20,930	39,262
Accrued Payroll Taxes	88,888	144,130
Accrued Liabilities	42,406	26,324
Total Current Liabilities	<u>10,001,154</u>	<u>3,774,869</u>
<b>LONG TERM LIABILITIES:</b>		
Notes payable, less current portion	2,240	3,168
Convertible Debenture Payable, less Discount of \$143,182 and \$114,831 at March 31, 2010 and December 31, 2009	97,918	251,269
Deferred rent	165,525	158,091
Total Long term Liabilities	<u>265,683</u>	<u>412,528</u>
<b>TOTAL LIABILITIES</b>	<u>10,266,837</u>	<u>4,187,397</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT:</b>		
Common stock, \$.001 par value, 100,000,000 shares authorized 86,086,327 and 78,636,332 issued and outstanding at March 31, 2010 and December 31, 2009	86,086	78,636
Additional Paid-In Capital	15,135,203	15,543,488
Accumulated deficit	<u>(24,904,763)</u>	<u>(19,407,726)</u>
Total Stockholders' Deficit	<u>(9,683,474)</u>	<u>(3,785,602)</u>
	<u>\$ 583,363</u>	<u>\$ 401,795</u>

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

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

	<u>For the three Months ended March 31, 2010</u>	<u>For the three Months ended March 31, 2009</u>
NET SALES	\$ 14,043	\$ 23,130
COST OF SALES	<u>3,620</u>	<u>16,322</u>
GROSS PROFIT	<u>10,423</u>	<u>6,808</u>
OPERATING EXPENSES		
Selling	26,237	108,930
General and Administrative	844,133	318,756
Research and Development	102,989	108,090
	<u>973,359</u>	<u>535,776</u>
LOSS FROM OPERATIONS	<u>(962,936)</u>	<u>(528,968)</u>
OTHER INCOME (EXPENSE):		
Other income - rent	-	6,300
Fair Value Adjustment of Derivative Liability	(4,464,607)	-
Amortization of Bond Discount	(62,745)	(157,054)
Interest expense	<u>(6,749)</u>	<u>(1,446)</u>
Total Other Income (Expense)	<u>(4,534,101)</u>	<u>(152,200)</u>
NET LOSS	<u>\$ (5,497,037)</u>	<u>\$ (681,168)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.07)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	<u>79,224,793</u>	<u>62,346,277</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

	<u>For the Three Months Ended March 31, 2010</u>	<u>For the Three Months Ended March 31, 2009</u>
<b>Cash Flows for Operating Activities:</b>		
Net Loss	\$ (5,497,037)	\$ (681,168)
Adjustments to reconcile net loss to net cash used by operating activities:		
Non-cash - stock issued for services rendered	102,000	197,070
Stock issued to employees for services	-	106,083
Amortization of prepaid consulting fees	39,662	
Amortization of bond discount	62,745	157,054
Amortization of intangibles	241	242
Depreciation expense	5,831	7,164
Fair value adjustment of Derivative Liability	4,464,607	
Increase in deferred rent	7,435	11,420
Changes in assets and liabilities:	-	-
(Increase) decrease in accounts receivable	-	49,333
(Increase) decrease in inventories	(15,800)	1,620
(Increase) Decrease in prepaid expenses	2,003	12,215
Increase(Decrease) in accounts payable	(29,552)	9,865
Increase (decrease) in payroll and payroll taxes	(73,453)	24,329
Increase in obligation to issue common stock and warrants	477,554	-
Increase (Decrease) in accrued liabilities	16,082	(2,400)
Net Cash (Used) by Operating Activities	<u>(437,682)</u>	<u>(107,173)</u>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	<u>(2,152)</u>	<u>-</u>
Net Cash (Used) by Investing Activities	<u>(2,152)</u>	<u>-</u>
<b>Cash Flow from Financing Activities:</b>		
Repayment of bank overdraft	(9,517)	-
Proceeds from obligations to issue common stock		38,010
Repayment of Loans Payable, Other	(7,690)	
Payments of other borrowings	(3,335)	(1,622)
Proceeds from issuance of convertible debentures	-	47,500
Proceeds from exercise of common stock warrants	671,729	
Proceeds from sale of common stock and exercise of warrants		<u>25,300</u>
Net Cash Provided by Financing Activities	<u>651,187</u>	<u>109,188</u>
<b>Increase in Cash</b>	<u>211,353</u>	<u>2,015</u>
<b>Cash at Beginning of Period</b>	<u>-</u>	<u>-</u>
<b>Cash at End of Period</b>	<u>\$ 211,353</u>	<u>\$ 2,015</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	<u>\$ 1,759</u>	<u>\$ 1,477</u>
Income Taxes	<u>\$ -</u>	<u>\$ -</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 *[Continued]*

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

**Three Months Ended March 31, 2010:**

During the quarter ended March 31, 2010, \$15,000 of convertible debentures and \$121 in accrued interest were converted into 302,425 shares of common stock. The Company issued 750,000 shares of stock in satisfaction of an obligation to issue common stock in the amount of \$352,500. The Company paid off a loan due a related party of \$6,500 upon exercise of warrants to purchase common stock. In addition, the Company issued 50,000 shares upon exercise of warrants at \$.10 per share. The consideration was a reduction of indebtedness in the form of accounts payable. The Company recorded an obligation to issue 65,000 shares of common stock in payment of finder's fees and valued these shares at \$36,400. The Company also issued 30,000 shares of common stock valued at \$14,035 in payment of finder's fees. In addition, an obligation to issue 160,000 shares of common stock was recorded in payment of finder's fees. This stock was valued at \$129,050. The Company also issued 500,000 shares of common stock valued at \$160,000 in satisfaction of an obligation to issue common stock.

**Three Months Ended March 31, 2009:**

During the quarter ended March 31, 2009, \$50,000 of convertible debentures and \$807 in accrued interest were converted into 203,227 shares of common stock. The Company issued convertible debentures for \$47,500 principal and recorded a discount on the debentures of \$39,500. In addition, the Company issued 557,500 shares of common stock to employees for payment of accrued salaries valued at \$55,750. The Company also issued 66,667 shares of common stock for payment of accounts payable in the amount of \$6,000 and 810,000 shares of common stock in payment of common stock subscribed totaling \$40,500. The Company recorded a debt discount of \$110,539 in connection with restructured convertible debt.

The accompanying notes are an integral part of these 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. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s December 31, 2009 consolidated audited financial statements and supplementary data included in the Annual Report on Form 10-K filed with the SEC on April 15, 2010.

The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2010, or any other period.

The Company incurred net losses of \$5,497,037 and \$681,168 for the three months ended March 31, 2010 and 2009, respectively. In addition, the Company had a working capital deficiency of \$9,720,862 and a stockholders’ deficit of \$9,683,474 at March 31, 2010. 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. During the first three months of 2010, the Company raised approximately \$672,000 in net proceeds from the 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.

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

The Company does not currently have available for issuance any authorized shares of common stock which have not been issued or reserved for (i.e., reserved for issuance in connection with rights to acquire common stock (e.g. warrants, convertible notes, etc.)). That is, the Company’s authorized common stock has been exhausted. Although the company can still raise capital through the sale of debt securities, the absence of authorized shares of common stock prevents it from raising additional capital through the sale of common stock (other than upon exercise of outstanding common stock purchase warrants). Thus, the absence of authorized shares of common stock makes it more difficult for the Company to raise capital. The capital the Company recently raised was from exercise of outstanding warrants to purchase common stock. Thus, the absence of authorized shares was not an impediment, as these shares were previously reserved for issuance upon exercise of the warrants. The Company is in the process of taking the steps necessary to increase the number of our authorized shares of common stock.

**NOTE 2 – INVENTORIES**

Inventories at March 31, 2010 and December 31, 2009 consist of the following:

	March 31, 2010 <u>(Unaudited)</u>	December 31, 2009 <u></u>
Raw materials	\$ 17,807	\$ 4,197
Finished goods	<u>2,190</u>	<u>-</u>
	<u>\$ 19,997</u>	<u>\$ 4,197</u>



**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment at March 31, 2010 and December 31, 2009 consists of the following:

	March 31, 2010	December 31, 2009
	<u>(Unaudited)</u>	
Furniture and fixtures	\$ 51,617	\$ 49,466
Equipment	85,402	85,402
Leasehold improvements	<u>143,639</u>	<u>143,639</u>
	280,658	278,507
Less accumulated depreciation and amortization	<u>(107,147)</u>	<u>(101,317)</u>
	<u>\$ 173,511</u>	<u>\$ 177,190</u>

Depreciation and amortization was \$5,830 and \$7,164 for the three months ended March 31, 2010 and 2009 respectively.

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

Definite-life intangible assets at March 31, 2010 and December 31, 2009 consist of the following:

	March 31, 2010	December 31, 2009
	<u>(Unaudited)</u>	
Patent applications pending	\$ 14,500	\$ 14,500
Less: Accumulated amortization	<u>(5,607)</u>	<u>(5,366)</u>
	<u>\$ 8,893</u>	<u>\$ 9,134</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 three months ended March 31, 2010 and 2009 was \$241 and \$242, respectively. The Company estimates that amortization expense for existing assets for each of the next five years will be approximately \$1,000 per year.

**NOTE 5 – LOAN PAYABLE – OTHER**

Included in loans payable, other at March 31, 2010 is \$43,927, payable to our former CEO Peter Vitulli. This represents compensation and expense reimbursements due him, of which \$16,617 was for payroll. The loan is due on demand, and the Company is making monthly payments of \$5,000, and carries interest at the rate of 7% per annum.

**NOTE 6 – LONG TERM DEBT:**

Long term debt consists of the following:

	March 31, 2010	December 31, 2009
	<u>(Unaudited)</u>	
Installment note, bearing interest at 8.8% per annum and due November 2011. The loan is secured by certain of the Company's equipment	\$ 5,418	\$ 8,753
	3,178	5,585
Less current portion	<u>\$ 2,240</u>	<u>\$ 3,168</u>

Maturities of the long-term debt are as follows:

March 31, 2011	\$ 3,178
2012	<u>2,240</u>
	<u>\$ 5,418</u>

## **NOTE 7 – CONVERTIBLE DEBT**

During the quarter ended March 31, 2010, \$15,000 of convertible debentures and \$121 in accrued interest was converted into 302,425 shares of common stock. In connection with the conversion, the Company wrote off unamortized discount of \$10,625.

Amortization of the debt discount on the remaining notes was \$52,120 for the three months ended March 31, 2010.

## **NOTE 8 - DERIVATIVE LIABILITY**

The Company has reclassified certain outstanding warrants and options as derivative liabilities, which are marked to fair value periodically pursuant to Emerging Issues Task Force guidance EITF 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company’s Own Stock” (“EITF 00-19”). We valued these options and warrants utilizing the Black-Scholes method of valuation using the following assumptions: volatility from 128.47% to 138.84%, annual rate of dividends 0% and a risk free interest rate of 3.1%. The valuation resulted in a reclassification from stockholders’ equity in the quarter ended March 31, 2010 of \$1,810,182. For the three months ended March 31, 2010, we recognized \$4,464,607 in expense for financial statement purposes based on the change in fair value of these liabilities during the periods.

Pursuant to ASC guidance, if a company has more than one contract subject to this issue, and partial reclassification is required, there may be different methods that could be used to determine which contracts, or portions of contracts, should be reclassified. The Company’s method for reclassification of such contracts is reclassification of contracts with the latest inception or maturity date first.

## **NOTE 9 – OBLIGATION TO ISSUE COMMON STOCK**

At March 31, 2010, the Company is committed to issue, in the aggregate, 210,000 shares of common stock and warrants to purchase 750,000 shares to stock to advisors and investors. However the issuance of such shares is subject to the condition that the Company increases the number of its authorized common shares to at least 125,000,000. We have recorded a liability for the issuance of such shares at fair value as of March 31, 2010.

## **NOTE 10 - RELATED PARTY TRANSACTIONS**

### **Investment in Private Placements:**

During the quarter ended March 31, 2010, we received in the aggregate \$128,267 in proceeds from and satisfied \$6,500 of a liability owing to Chris Maggiore, a more than 5% shareholder, in connection with the exercise of warrants, and we issued Mr. Maggiore 1,347,666 shares of our common stock.

### **Office Space**

We are leasing office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer, pursuant to an Amended and Restated Sublease expires on February 9, 2020, subject to our unilateral right to terminate the Lease on March 31, 2013. Under the original terms of the Amended and Restated Sublease, the annual base rent for the 15,000 square foot facility was approximately \$237,000, payable in equal monthly installments of approximately \$20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year’s base rent and the percentage increase in the Consumer Price Index. We paid an additional security deposit of approximately \$110,000. The Amended and Restated Sublease is a “net lease”, which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

In October, 2009, we and Mr. Baer agreed in principle to (i) reduce from 15,000 to 11,000 the square footage of the space we are occupying and (ii) to reduce the base rent from \$20,000 to \$16,720 monthly (not including real estate taxes (currently \$1,480 per month)). In addition, the lessor has assumed the responsibility for maintenance and repairs for the building and we are obligated to reimburse the lessor for 70% of such expenses. We incurred approximately \$50,000 in rent expense during the first quarter of 2010.

### **Accounts Payable**

The Company owes Mr. Baer approximately \$55,000 at March 31, 2010, which is reflected in accounts payable. This money represents rent and reimbursements due Mr. Baer for expenses he paid on the Company’s behalf during 2009 and 2010.

## Marketing Consultant/Distributorship Agreement

In 2008, we entered into an agreement with Mr. Baer, a significant shareholder, to provide marketing services to us, in consideration for which we would pay commissions at the rate of \$.50 per bottle for every bottle sold under this agreement. We paid no commissions under this Agreement. In April of 2009, we amended this agreement to grant to Changing Times Vitamins, Inc. (“CTV”), a company controlled by Mr. Baer, worldwide distribution and marketing rights to our product. This agreement called for minimum monthly sales levels and a term of two years. We recognized \$54,000 in minimum distribution fees in 2009. This contract was terminated by mutual agreement in October of 2009. In exchange for the termination of this contract, CTV received cash payments of \$300,000. Under the Agreement, CTV was, subject to the increase in our authorized shares, be issued 750,000 shares of common stock, which were valued for financial reporting purposes at \$352,500. During the quarter ended March 31, 2010, prior to consummation of the increase in our authorized shares, the Company issued CTV the 750,000 shares owing to CTV in connection with the termination agreement. In connection with this transaction, Mr. Baer waived his right to exercise warrants to purchase 750,000 shares of the Company’s common stock until the number of its authorized shares is increased to at least 125,000,000.

## NOTE 11 - STOCKHOLDERS’ DEFICIT

During the quarter ended March 31, 2010, the Company issued 5,587,416 shares of common stock and received proceeds of \$671,729 upon the exercise of warrants. Convertible debentures were converted during the quarter ended March 31, 2010, and the Company issued 302,425 shares of common stock and retired \$15,000 of debt and \$121 in accrued interest. The Company issued 215,154 shares of common stock for services, valued at \$102,000. The Company also issued 95,000 shares of common stock, valued at \$50,500, for finders’ fees. The Company also issued 500,000 shares of common stock, valued at \$160,000 in satisfaction of an obligation to issue common stock. As noted above in Note 10, the Company issued CTV 750,000 shares owing to CTV in connection with a termination agreement. In connection with this transaction, Mr. Baer waived his right to exercise warrants to purchase 750,000 shares of the Company’s common stock until the number of its authorized shares is increased to at least 125,000,000.

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

Warrants outstanding and exercisable by price range as of March 31, 2010 and 2009 were as follows:

	March 31, 2010		March 31, 2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	22,723,401	0.47	20,107,373	0.27
Issued	130,000	0.22	-	-
Exercised	(5,587,416)	0.10	-	-
Expired	-	-	(150,000)	0.10
Outstanding, end of period	17,265,985	0.59	19,957,373	0.27

Range of	Outstanding Warrants			Exercisable Warrants	
	Number	Average Weighted Remaining Contractual Life in Years	Exercise Price	Number	Weighted Average Exercise Price
0.10	9,957,652	1.22	0.10	9,957,652	0.10
0.15	233,333	2.71	0.15	233,333	0.15
0.25	5,190,000	2.55	0.25	5,190,000	0.25
0.50	1,885,000	0.74	0.50	1,885,000	0.50
	17,265,985	0.78		17,265,985	0.11

## NOTE 12- COMMITMENTS AND CONTINGENCIES

**Product Liability Insurance** - We have only limited product liability insurance. If a product claim were successfully made against us, there could be a material adverse effect on our financial condition given our liquidity and cash limitations.

**Lease Commitment** -- We are leasing office and production space located in Scottsdale, Arizona from a significant shareholder, Howard Baer, pursuant to an Amended and Restated Sublease which expires on February 9, 2020, subject to our unilateral right to terminate the Lease on March 31, 2013. Under the original terms of the Amended and Restated Sublease, the annual base rent for the 15,000 square foot facility was approximately \$237,000, payable in equal monthly installments of approximately \$20,000. The annual base rent is subject to increase annually in an amount equal to the greater of 2.5% of the prior year's base rent and the percentage increase in the Consumer Price Index. The Company previously paid an additional security deposit of approximately \$110,000. The Amended and Restated Sublease is a "net lease", which means that we are responsible for the real estate taxes, maintenance, insurance and repairs related to the premises we are leasing.

In October, 2009, we and Mr. Baer agreed in principle to (i) reduce from 15,000 to 11,000 the square footage of the space we are occupying and (ii) to reduce the base rent from \$20,000 to \$16,720 monthly (not including real estate taxes (currently \$1,480 per month)). In addition, the lessor has assumed the responsibility for maintenance and repairs for the building and we are obligated to reimburse the lessor for 70% of such expenses. We incurred approximately \$50,000 in rent expense during the first quarter of 2010.

The Company is leasing, on a month to month basis, a warehousing and bottling facility. The lease calls for monthly rentals of \$2,700, plus annual common area maintenance fees. Rent expense under this lease for the quarter ended March 31, 2010 was approximately \$8,100.

The future minimum lease payments related to the Amended and Restated Sublease, as revised in October 2009, are as follows:

Year Ending December 31,	
2010	\$ 189,000
2011	194,000
2012	199,000
2013	203,000
2014	208,000
Thereafter	<u>1,125,000</u>
	<u>\$ 2,118,000</u>

### **Business Services Agreement**

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

The Company entered into the Agreement to continue the pursuit of its strategic product and business development objectives. GNRP was issued 500,000 shares of the Company's Common Stock in connection with the Agreement, in full payment of any and all amounts owing under the February Agreement (approximately \$142,000 per GNRP) and in recognition of GNRP's contribution to the achievement of recent product testing results. In addition, GNRP will be compensated based on hours expended, sales and other payments (licensing payments, etc.) received by the Company, and the achievement of specified milestones. All equity based compensation under the Agreement is subject to the Company increasing to 125,000,000 the number of its authorized common shares. As a result of reaching a specified milestone, the Company is obligated to issue warrants to purchase an additional 500,000 shares of common stock upon the effective date of the increase in our authorized shares. Accordingly, the Company has recorded an obligation of \$477,554 and an expense in the current period for this milestone. An additional warrant for 500,000 shares shall be issued to GNRP with an exercise price of \$.25 per share upon the Company entering into a significant agreement and receiving at least \$500,000 in payments from the contracting party pursuant to such agreement, subject to the Company increasing the number of its authorized shares of common stock to at least 125,000,000.

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

#### **NOTE 13 – 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 – 6,922,000 shares and warrants – 17,265,985 at March 31, 2010 and convertible debt – 5,270,000 and warrants – 19,957,373 at March 31, 2009) are anti-dilutive.

#### **NOTE 14 - SUBSEQUENT EVENTS**

On April 24, 2010, the Company and Chris Maggiore, a more than 5% beneficial owner, entered into a Line of Credit agreement, under which Mr. Maggiore agreed unconditionally to advance to the Company up to \$675,000, upon written request of the Company. The Company may draw down funds under the Line of Credit for a period of one year. Amounts advanced under the Line of Credit are unsecured, bear interest at the rate of 7.0% per annum, and must be repaid by April 24, 2012.

In April and May of 2010, we received cash proceeds of \$222,500 upon exercise of outstanding warrants to purchase 2,225,000 shares of our common stock, at an average exercise price of \$.10.

In April and May 2010, we paid an aggregate of \$76,258.26 to the United States Treasury in payment of past due accrued but unpaid payroll taxes.

On May 11, 2010, the Company entered into an agreement with Howard Baer, a significant shareholder, under which it agreed to compensate Mr. Baer for (a) previously guaranteeing the Company's obligations under certain equipment leases (in the original aggregate amount of approximately \$54,000) and (b) damage to his financial credit resulting from the Company's failure to fulfill obligations Mr. Baer guaranteed. The Company further agreed to indemnify Mr. Baer for any liability incurred by him as a result of the Company's failure to fulfill any obligations guaranteed by Mr. Baer, including the Company's obligations under a certain real property lease (Mr. Baer guaranteed an aggregate of \$70,000 in rent payments under this lease (twenty eight months at \$2,500 per month)). As compensation to Mr. Baer for having guaranteed these obligations and for damages sustained as a result of the Company's default with respect to certain obligations guaranteed by Mr. Baer, the Company has granted Mr. Baer a warrant to purchase 500,000 shares of common stock at an exercise price of \$.15 per share (with a cashless exercise), for a term of three years. The exercise of this warrant is subject to the Company increasing to at least 125,000,000 the number of its authorized common shares.

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

### 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 assets 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 are 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.

### Stock Based Compensation

The Company follows the provisions of Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R), which revised SFAS 123, Accounting for Stock-Based Compensation and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). SFAS 123R requires that new, modified and unvested share-based payment transactions with employees, such as stock options and restricted stock, be recognized in the financial statements based on their estimated fair value and recognized as compensation expense over the requisite service period. The Company adopted SFAS 123R effective January 1, 2006.

### Results of Operations for the three months ended March 31, 2010 and 2009.

**Net Sales.** Net sales for the three months ended March 31, 2010 were \$14,043 as compared to \$23,130 for the comparable prior period. These sales reflect principally revenues from the ProAlgaZyme® product. We currently market our product primarily over the Internet and by telephone. The decrease in our revenue for 2010 is due to our expanded focus on outside research, which has directed operating funds to research rather than to marketing.

Throughout 2009 and 2010, we have been adversely impacted by a shortage of funds which has severely impeded our ability to market and test our ProAlgaZyme® product, contributing to a low level of net sales. Although the ProAlgaZyme® product is available for sale and we are exploring various potential marketing opportunities, we 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 further evidence of its efficacy, as well as advertising. The testing necessary to further characterize the product, identify its method of action and further substantiate its effectiveness is ongoing, and we expect completion of this testing and complete identification by the second quarter of 2010.

**Cost of Sales.** Cost of Sales was \$3,620 for the three months ended March 31, 2010, as compared to \$16,322 for the comparable prior period. Cost of Sales represents primarily costs related to raw materials, labor and the laboratory and controlled production environment necessary for the growing of the algae cultures that constitute the source of the biological activity of the ProAlgaZyme® product, and for conducting the necessary harvesting and production operations in preparing the product for sale. The decrease in cost of sales for 2010 is due to a decrease in overall production, combined with more efficient use of labor.

**Research and Development Expenses.** For the three months ended March 31, 2010, we incurred \$102,989 on research and development expenses, as compared to \$108,090 for the comparable period in 2009. These expenses are mainly comprised of costs associated with external research. Our research and development costs remain relatively stable as we work to complete the research begun in the first quarter of 2009. This research was initiated to further explore ProAlgaZyme®'s potential efficacy on the management of cholesterol levels. We have identified several potential bioactive compounds, but further research is expected to be completed during the second quarter that will isolate the compound further.

Although we recently secured a \$675,000 line of credit from a significant shareholder, we have had difficulty in the past raising substantial funds from external sources. Therefore we may not be able to raise the additional funding that we need to complete necessary 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 there would be a material adverse affect on our business.

**Selling and Marketing Expenses.** Selling and marketing expenses were \$26,237 for the three months ended March 31, 2010, as compared to \$108,930 for the comparable prior period. The decrease in 2010 was due to our increased focus on research, leaving less resources in the short term for marketing. We intend to continue to direct our in house selling efforts to existing ProAlgaZyme® users during 2010. We anticipate an increase in our marketing efforts once our research has been completed.

**General and Administrative Expenses.** General and administrative expense was \$844,133 for the three months ended March 31, 2010, as compared to \$318,756 for the comparable prior period. The increase in general and administrative expense during 2010 is due primarily to an approximate \$525,000 increase in fees paid to consultants for product and business development, of which approximately \$500,000 was in the form of stock based compensation, a non-cash expense. We expect to continue to incur this level of compensation to consultants through the remainder of the year.

**Fair Value Adjustment of Derivative Liability.** We reclassified certain outstanding warrants and options as derivative liabilities, which are marked to fair value periodically pursuant to Emerging Issues Task Force guidance EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company's Own Stock" ("EITF 00-19"). We valued these options and warrants utilizing the Black-Scholes method of valuation using the following assumptions: volatility from 128.47% to 138.84 %, annual rate of dividends 0% and a risk free interest rate of 3.1%. We used the date of the Stock Warrant agreements as the calculation date, resulting in a reclassification from stockholders' equity of \$6,274,789. For the three months ended March 31, 2010, we recognized \$4,464,607 in expense for financial statement purposes based on the change in fair value of these liabilities during the periods.

Pursuant to EITF Issue 00-19, if a company has more than one contract subject to this issue, and partial reclassification is required, there may be different methods that could be used to determine which contracts, or portions of contracts, should be reclassified. The Company's method for reclassification of such contracts is reclassification of contracts with the latest inception or maturity date first.

## **Liquidity and Capital Resources**

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

We have had limited revenue (\$14,043 for the three months ended March 31, 2010) and have incurred significant net losses since inception, including a net loss of \$5,497,037 during the three months ended March 31, 2010. We expect only limited sales revenue for the foreseeable future. Further, we have incurred recurring negative cash flow from operations.

As of May 11, 2010, we had a cash balance of approximately \$75,000. We had a working capital deficiency of \$9,720,862 and a stockholders' deficit of \$9,683,474 as of March 31, 2010. Our working capital deficiency increased \$6,040,797, from \$3,680,065 at December 31, 2009 to \$9,720,862 at March 31, 2010. This increase was due primarily to an approximate \$6,200,000 increase in derivative liability (non-cash) related to issuance of warrants in the absence of authorized shares. Although we recently raised a limited amount of capital and have secured a \$675,000 line of credit, on which we have not yet drawn, we have in the past had difficulty in raising capital from external sources. These factors raise substantial doubt about our ability to continue as a going concern.

During the three months ended March 31, 2010, our operating activities used \$437,682 in cash, an increase of \$330,509 from the comparable prior period. The approximate \$330,000 increase in cash used by operating activities was primarily attributable to an approximate \$4.8 million increase in net loss, an approximate \$200,000 decrease in stock based compensation, an approximate \$54,000 decrease in amortization ( bond discount and prepaid consulting fees), and an approximate \$137,000 change (decrease) in accounts payable and accrued payroll and payroll taxes, partially offset by an approximate \$4.5 million increase in “fair value adjustment of derivative liability” (a non cash item of expense) and an approximate \$478,000 increase in obligation to issue common stock (also a non cash item of expense) .

Our financing activities generated \$651,187, a \$542,000 increase from the comparable prior period. The increase in cash provided by financing activities was due primarily to a \$560,000 increase in proceeds from sales of securities.

We estimate that we will require approximately \$1,250,000 in cash over the next 12 months in order to fund basic operations. An additional \$2,000,000 is needed to complete our animal and human clinical research in the areas of both cholesterol and inflammation. Based on these cash requirements, 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. Currently, we do not have any authorized shares of common stock available for issuance in connection with capital raising transactions. We have recently raised capital from exercise of outstanding warrants and sale of convertible notes, under which the note cannot be converted until the number of authorized common shares is increased. Investors may be unwilling to continue to invest in the Company in the absence of an increase in our authorized shares. We are in the process of taking the steps necessary to increase our authorized shares. If we are not able to raise additional funds in the immediate future it is unlikely that 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.

In addition, we have only limited product liability insurance. If a product claim were successfully made against us, there could be a material adverse effect on our financial condition given our liquidity and cash limitations.

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

Except as set forth below, we do not expect to experience any significant elements of income or loss other than those arising from our continuing operation. For the three months ended March 31, 2010, we recognized \$4,464,607 in expense for financial statement purposes based on the change in fair value of derivative liabilities as of March 31, 2010. We may incur income or expense in future periods arising out of changes in the fair value of derivative liabilities. See the section above captioned *Fair Value Adjustment of Derivative Liability* for further information.

#### **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 4T. Controls and Procedures**

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



As of March 31, 2010, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive/principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our principal executive/principal financial officer concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

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

## PART II – OTHER INFORMATION

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

During the quarter ended March 31, 2010, we issued 5,587,416 shares of common stock and received proceeds of \$671,729 upon the exercise of outstanding warrants, with exercise prices ranging from \$.10 to \$.25 and a average exercise price of \$.12 per share. Convertible debentures and interest in the amount of \$15,121 were converted into 302,425 shares of common stock during the quarter ended March 31, 2010. We also issued 215,154 shares of common stock for services (these shares were valued at \$102,000). The Company also issued 95,000 shares of common stock, valued at \$50,500, for finders' fees. The Company also issued 500,000 shares of common stock valued at \$160,000 in satisfaction of an obligation to issue common stock.

We believe that the foregoing transactions were exempt from the registration requirements under Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended ("the Act") or Section 4(2) under the Act, based on the following facts: there was no general solicitation, there was a limited number of investors, each of whom was an "accredited investor" (within the meaning of Regulation D under the "1933 Act", as amended) and was (either alone or with his/her purchaser representative) sophisticated about business and financial matters, each such investor had the opportunity to ask questions of our management and to review our filings with the Securities and Exchange Commission, and all shares issued were subject to restrictions on transfer, so as to take reasonable steps to assure that the purchasers were not underwriters within the meaning of Section 2(11) under the 1933 Act.

### Item 5. Other Information

NONE.

### Item 6. Exhibits

Exhibit Number	Description	
3.1	Articles of Incorporation of Health Enhancement Products, Inc., as amended	(1)
3.2	Amended and Restated By-laws of the Company	
10.1	Indemnity Agreement between the Registrant and Howard R. Baer, dated May 11, 2010	
10.2	Warrant Agreement issued to Howard R. Baer, pursuant to Indemnity Agreement	
31.1*	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
31.2*	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

(1) Filed as Exhibit 3.1 to the Registrants Form 10K filed with the Commission on April 14, 2010 and incorporated herein by this reference.

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

## SIGNATURES

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

HEALTH ENHANCEMENT PRODUCTS, INC.

Date: May 17, 2010

By: /s/Janet L Crance  
Chief Administrative Officer

Date: May 17, 2010

By: /s/Janet L Crance  
Principal Accounting Officer

## LIST OF EXHIBITS

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(1) Filed as Exhibit 3.1 to the Registrants Form 10K filed with the Commission on April 14, 2010 and incorporated herein by this reference.

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

**EXHIBIT 3.2**  
**AMENDED AND RESTATED**  
**BYLAWS**  
**of**  
**HEALTH ENHANCEMENT PRODUCTS, INC.**  
**A Nevada Corporation**

Adopted: As of May 1, 2010  
Date

John Gorman  
Secretary

HEALTH ENHANCEMENT PRODUCTS, INC.  
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**BYLAWS  
OF  
HEALTH ENHANCEMENT PRODUCTS, INC.**  
(A Nevada Corporation)

**ARTICLE I  
STOCKHOLDERS**

Section 1.1      Annual Meeting. The annual meeting of the stockholders of the corporation shall be held on such date as shall be fixed by the Board of Directors, at such time and place within or without the State of Nevada as may be designated in the notice of meeting. If the day fixed for the annual meeting shall fall on a legal holiday, the meeting shall be held on the next succeeding day not a legal holiday. If the annual meeting is omitted on the day herein provided, a special meeting may be held in place thereof, and any business transacted at such special meeting in lieu of annual meeting shall have the same effect as if transacted or held at the annual meeting. At the discretion of the Board of Directors, the meeting may be conducted by remote communication to the extent permitted by law.

Section 1.2      Special Meetings. Special meetings of the stockholders may be called at any time by the president or by the board of directors. Special meetings of the stockholders shall be held at such time, date and place within or outside of the State of Nevada as may be designated in the notice of such meeting. At the discretion of the Board of Directors, the meeting may be conducted by remote communication to the extent permitted by law.

Section 1.3      Notice of Meeting.

(a) A written notice stating the place, if any, date, and hour of each meeting of the stockholders, and, in the case of a special meeting, the purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting, and to each stockholder who, under the Certificate of Incorporation or these Bylaws, is entitled to such notice, by delivering such notice to such person or leaving it at their residence or usual place of business, or by mailing it to such stockholder at his address as it appears upon the books of the corporation at least ten days and not more than 60 days before the meeting. Such notice shall be given by the secretary, an assistant secretary, or any other officer or person designated either by the secretary or by the person or persons calling the meeting.

(b) The requirement of notice to any stockholder may be waived (i) by a written waiver of notice, executed before or after the meeting by the stockholder or his attorney thereunto duly authorized, and filed with the records of the meeting, (ii) if communication with such stockholder is unlawful, (iii) by attendance at the meeting without protesting prior thereto or at its commencement the lack of notice, or (iv) as otherwise excepted by law. A waiver of notice of any regular or special meeting of the stockholders need not specify the purposes of the meeting.

(c) If a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place, if any, are announced at the meeting at which the adjournment is taken, except that if the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 1.4      Quorum. The holders of a majority in interest of all stock issued, outstanding and entitled to vote at a meeting shall constitute a quorum. Any meeting may be adjourned from time to time by a majority of the votes properly cast upon the question, whether or not a quorum is present.

Section 1.5      Voting and Proxies. Stockholders shall have one vote for each share of stock entitled to vote owned by them of record according to the books of the corporation, unless otherwise provided by law or by the Certificate of Incorporation. Stockholders may vote either in person or by written proxy, but no proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. Proxies shall be filed with the secretary of the meeting, or of any adjournment thereof. Except as otherwise limited therein, proxies shall entitle the persons authorized thereby to vote at any adjournment of such meeting. A proxy purporting to be executed by or on behalf of a stockholder shall be deemed valid unless challenged at or prior to its exercise and the burden of proving invalidity shall rest on the challenger. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by one of them unless at or prior to exercise of the proxy the corporation receives a specific written notice to the contrary from any one of them.

Section 1.6      Action at Meeting. When a quorum is present at any meeting, a plurality of the votes properly cast for election to any office shall elect to such office, and a majority of the votes properly cast upon any question other than election to an office shall decide such question, except where a larger vote is required by law, the Certificate of Incorporation or these Bylaws. No ballot shall be required for any election unless requested by a stockholder present or represented at the meeting and entitled to vote in the election.

Section 1.7      Action Without Meeting. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of the minimum number of votes necessary to authorize or take such action at a meeting at which shares entitled to vote thereon were present and voted and copies are delivered to the corporation in the manner prescribed by law.

Section 1.8      Voting of Shares of Certain Holders.

(a) Shares of stock of the corporation standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent, or proxy as the Bylaws of such corporation may prescribe, or, in the absence of such provision, as the board of directors of such corporation may determine.

(b) Shares of stock of the corporation standing in the name of a deceased person, a minor ward or an incompetent person, may be voted by his administrator, executor, court-appointed guardian or conservator without a transfer of such shares into the name of such administrator, executor, court appointed guardian or conservator. Shares of capital stock of the corporation standing in the name of a trustee or fiduciary may be voted by such trustee or fiduciary.

(c) Shares of stock of the corporation standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority so to do be contained in an appropriate order of the court by which such receiver was appointed.

(d) A stockholder whose shares are pledged shall be entitled to vote such shares unless in the transfer by the pledgor on the books of the corporation he expressly empowered the pledgee to vote thereon, in which case only the pledgee or its proxy shall be entitled to vote the shares so transferred.

(e) Shares of its own stock belonging to this corporation shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding shares at any given time, but shares of its own stock held by the corporation in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding shares.

Section 1.9      Stockholder Lists. The secretary (or the corporation's transfer agent or other person authorized by these Bylaws or by law) shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at (i) the corporation's principal place of business, (ii) at the place where the meeting is to be held, or (iii) by making it available on an electronic network. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

**ARTICLE II**  
**BOARD OF DIRECTORS**

Section 2.1      Powers. Except as reserved to the stockholders by law, by the Certificate of Incorporation or by these Bylaws, the business of the corporation shall be managed under the direction of the board of directors, who shall have and may exercise all of the powers of the corporation. In particular, and without limiting the foregoing, the board of directors shall have the power to issue or reserve for issuance from time to time the whole or any part of the capital stock of the corporation which may be authorized from time to time to such person, for such consideration and upon such terms and conditions as they shall determine, including the granting of options, warrants or conversion or other rights to stock.



Section 2.2      Number of Directors; Qualifications. The board of directors shall consist of such number of directors, not less than one nor more than nine, as shall be fixed initially by the incorporator(s) and thereafter by the board of directors. No director need be a stockholder.

Section 2.3      Nomination of Directors.

(a) Nominations for the election of directors may be made by the board of directors or by any stockholder entitled to vote for the election of directors. Subject to compliance with applicable United States Securities Laws and the Rules and Regulations of the SEC, nominations by stockholders shall be made by notice in writing to the secretary of the corporation not less than 14 days nor more than 60 days prior to any meeting of the stockholders called for the election of directors; provided, however, that if less than 21 written days' notice of the meeting is given to stockholders, such notice of nomination by a stockholder shall be given to the secretary of the corporation not later than the close of the fifth day following the day on which notice of the meeting was mailed to stockholders.

(b) Each notice under subsection (a) shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee, and (iii) the number of shares of stock of the corporation which are beneficially owned by each such nominee.

(c) The chairman of the meeting of stockholders shall determine whether or not a nomination was made in accordance with the procedures of this Section, and if he shall determine that it was not, he shall so declare to the meeting and the defective nomination shall be disregarded.

Section 2.4      Election of Directors. The initial board of directors shall be designated in the certificate of incorporation, or if not so designated, elected by the incorporator(s) at the first meeting thereof. Thereafter, directors shall be elected by the stockholders at their annual meeting or at any special meeting the notice of which specifies the election of directors as an item of business for such meeting.

Section 2.5      Vacancies; Reduction of the Board. Any vacancy in the board of directors, however occurring, including a vacancy resulting from the enlargement of the board of directors, may be filled by the stockholders or by the directors then in office or by a sole remaining director. In lieu of filling any such vacancy the stockholders or board of directors may reduce the number of directors, but not to a number less than one. When one or more directors shall resign from the board of directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective.

Section 2.6.      Enlargement of the Board. The board of directors may be enlarged by the stockholders at any meeting or by vote of a majority of the directors then in office.

Section 2.7      Tenure and Resignation. Except as otherwise provided by law, by the Certificate of Incorporation or by these Bylaws, directors shall hold office until the next annual meeting of stockholders and thereafter until their successors are chosen and qualified. Any director may resign by delivering or mailing postage prepaid a written resignation to the corporation at its principal office or to the president, secretary or assistant secretary, if any. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

Section 2.8      Removal. A director, whether elected by the stockholders or directors, may be removed from office with or without cause at any annual or special meeting of stockholders by vote of a majority of the stockholders entitled to vote in the election of such directors, or for cause by a vote of a majority of the directors then in office; provided, however, that a director may be removed for cause only after reasonable notice and opportunity to be heard before the body proposing to remove him.

Section 2.9 Meetings. Regular meetings of the board of directors may be held without call or notice at such times and such places within or without the State of Nevada as the board may, from time to time, determine, provided that notice of the first regular meeting following any such determination shall be given to directors absent from such determination. A regular meeting of the board of directors shall be held without notice immediately after, and at the same place as, the annual meeting of the stockholders or the special meeting of the stockholders held in place of such annual meeting, unless a quorum of the directors is not then present. Special meetings of the board of directors may be held at any time and at any place designated in the call of the meeting when called by the president, treasurer, or one or more directors. Members of the board of directors or any committee elected thereby may participate in a meeting of such board or committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time, and participation by such means shall constitute presence in person at the meeting.

Section 2.10 Notice of Meeting. It shall be sufficient notice to a director to send notice (i) by mail at least 72 hours before the meeting addressed to such person at his usual or last known business or residence address, or (ii) in person, by telephone, facsimile transmission or electronic transmission to the extent provided in Article VIII, at least 24 hours before the meeting. Notice shall be given by the secretary, or in his absence or unavailability, may be given by an assistant secretary, if any, or by the officer or directors calling the meeting. The requirement of notice to any director may be waived by a written waiver of notice, executed by such person before or after the meeting or meetings, and filed with the records of the meeting, or by attendance at the meeting without protesting prior thereto or at its commencement the lack of notice. A notice or waiver of notice of a directors' meeting need not specify the purposes of the meeting.

Section 2.11 Agenda. Any lawful business may be transacted at a meeting of the board of directors, notwithstanding the fact that the nature of the business may not have been specified in the notice or waiver of notice of the meeting.

Section 2.12 Quorum. At any meeting of the board of directors, a majority of the directors then in office shall constitute a quorum for the transaction of business. Any meeting may be adjourned by a majority of the votes cast upon the question, whether or not a quorum is present, and the meeting may be held as adjourned without further notice.

Section 2.13 Action at Meeting. Any motion adopted by vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors, except where a different vote is required by law, by the Certificate of Incorporation or by these Bylaws. The assent in writing of any director to any vote or action of the directors taken at any meeting, whether or not a quorum was present and whether or not the director had or waived notice of the meeting, shall have the same effect as if the director so assenting was present at such meeting and voted in favor of such vote or action.

Section 2.14 Action Without Meeting. Any action by the directors may be taken without a meeting if all of the directors consent to the action in writing and the consents are filed with the records of the directors' meetings. Such consent shall be treated for all purposes as a vote of the directors at a meeting.

Section 2.15 Committees. The board of directors may, by the affirmative vote of a majority of the directors then in office, appoint an executive committee or other committees consisting of one or more directors and may by vote delegate to any such committee some or all of their powers except those which by law, the Certificate of Incorporation or these Bylaws they may not delegate. In the absence or disqualification of a member of a committee, the members of the committee present and not disqualified, whether or not they constitute a quorum, may by unanimous vote appoint another member of the board of directors to act at the meeting in place of the absence or disqualified member. Unless the board of directors shall otherwise provide, any such committee may make rules for the conduct of its business, but unless otherwise provided by the board of directors or such rules, its meetings shall be called, notice given or waived, its business conducted or its action taken as nearly as may be in the same manner as is provided in these Bylaws with respect to meetings or for the conduct of business or the taking of actions by the board of directors. The board of directors shall have power at any time to fill vacancies in, change the membership of, or discharge any such committee at any time. The board of directors shall have power to rescind any action of any committee, but no such rescission shall have retroactive effect.

### **ARTICLE III OFFICERS**

Section 3.1      Enumeration. The officers shall consist of a president, a treasurer, a secretary and such other officers and agents (including one or more vice-presidents, assistant treasurers and assistant secretaries), as the board of directors may, in their discretion, determine.

Section 3.2      Election. The president, treasurer and secretary shall be elected annually by the directors at their first meeting following the annual meeting of the stockholders or any special meeting held in lieu of the annual meeting. Other officers may be chosen by the directors at such meeting or at any other meeting.

Section 3.3      Qualification. An officer may, but need not, be a director or stockholder. Any two or more offices may be held by the same person. Any officer may be required by the directors to give bond for the faithful performance of his duties to the corporation in such amount and with such sureties as the directors may determine. The premiums for such bonds may be paid by the corporation.

Section 3.4      Tenure. Except as otherwise provided by the Certificate of Incorporation or these Bylaws, the term of office of each officer shall be for one year or until his successor is elected and qualified or until his earlier resignation or removal.

Section 3.5      Removal. Any officer may be removed from office, with or without cause, by the affirmative vote of a majority of the directors then in office; provided, however, that an officer may be removed for cause only after reasonable notice and opportunity to be heard by the board of directors prior to action thereon.

Section 3.6      Resignation. Any officer may resign by delivering or mailing postage prepaid a written resignation to the corporation at its principal office or to the president, secretary, or assistant secretary, if any, and such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some event.

Section 3.7      Vacancies. A vacancy in any office arising from any cause may be filled for the unexpired portion of the term by the board of directors.

Section 3.8      President. The president shall be the chief executive officer of the corporation. Except as otherwise voted by the board of directors, the president shall preside at all meetings of the stockholders and of the board of directors at which present. The president shall have such duties and powers as are commonly incident to the office and such duties and powers as the board of directors shall from time to time designate.

Section 3.9      Vice-President(s). The vice-president(s), if any, shall have such powers and perform such duties as the board of directors may from time to time determine.

Section 3.10      Treasurer and Assistant Treasurers. The treasurer, subject to the direction and under the supervision and control of the board of directors, shall have general charge of the financial affairs of the corporation. The treasurer shall have custody of all funds, securities and valuable papers of the corporation, except as the board of directors may otherwise provide. The treasurer shall keep or cause to be kept full and accurate records of account which shall be the property of the corporation, and which shall be always open to the inspection of each elected officer and director of the corporation. The treasurer shall deposit or cause to be deposited all funds of the corporation in such depository or depositories as may be authorized by the board of directors. The treasurer shall have the power to endorse for deposit or collection all notes, checks, drafts, and other negotiable instruments payable to the corporation. The treasurer shall perform such other duties as are incidental to the office, and such other duties as may be assigned by the board of directors.

Assistant treasurers, if any, shall have such powers and perform such duties as the board of directors may from time to time determine.

Section 3.11 Secretary and Assistant Secretaries. The secretary shall record, or cause to be recorded, all proceedings of the meetings of the stockholders and directors (including committees thereof) in the book of records of this corporation. The record books shall be open at reasonable times to the inspection of any stockholder, director, or officer. The secretary shall notify the stockholders and directors, when required by law or by these Bylaws, of their respective meetings, and shall perform such other duties as the directors and stockholders may from time to time prescribe. The secretary shall have the custody and charge of the corporate seal, and shall affix the seal of the corporation to all instruments requiring such seal, and shall certify under the corporate seal the proceedings of the directors and of the stockholders, when required. In the absence of the secretary at any such meeting, a temporary secretary shall be chosen who shall record the proceedings of the meeting in the aforesaid books.

Assistant secretaries, if any, shall have such powers and perform such duties as the board of directors may from time to time designate.

Section 3.12 Other Powers and Duties. Subject to these Bylaws and to such limitations as the board of directors may from time to time prescribe, the officers of the corporation shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as from time to time may be conferred by the board of directors.

## **ARTICLE IV CAPITAL STOCK**

### Section 4.1 Stock Certificates.

(a) Each stockholder shall be entitled to a certificate representing the number of shares of the capital stock of the corporation owned by such person in such form as shall, in conformity to law, be prescribed from time to time by the board of directors. Each certificate shall be signed by the president or vice-president and treasurer or assistant treasurer or such other officers designated by the board of directors from time to time as permitted by law, shall bear the seal of the corporation, and shall express on its face its number, date of issue, class, the number of shares for which, and the name of the person to whom, it is issued. The corporate seal and any or all of the signatures of corporation officers may be facsimile if the stock certificate is manually countersigned by an authorized person on behalf of a transfer agent or registrar other than the corporation or its employee.

(b) If an officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed on, a certificate shall have ceased to be such before the certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the time of its issue.

Section 4.2 Transfer of Shares. Title to a certificate of stock and to the shares represented thereby shall be transferred only on the books of the corporation by delivery to the corporation or its transfer agent of the certificate properly endorsed, or by delivery of the certificate accompanied by a written assignment of the same, or a properly executed written power of attorney to sell, assign or transfer the same or the shares represented thereby. Upon surrender of a certificate for the shares being transferred, a new certificate or certificates shall be issued according to the interests of the parties.

Section 4.3 Record Holders. Except as otherwise may be required by law, by the Certificate of Incorporation or by these Bylaws, the corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect thereto, regardless of any transfer, pledge or other disposition of such stock, until the shares have been transferred on the books of the corporation in accordance with the requirements of these Bylaws. It shall be the duty of each stockholder to notify the corporation of his post office address.

### Section 4.4 Record Date.

(a) In order that the corporation may determine the stockholders entitled to receive notice of or to vote at any meeting of stockholders or any adjournments thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty days prior to any other action. In such case only stockholders of record on such record date shall be so entitled notwithstanding any transfer of stock on the books of the corporation after the record date.

(b) If no record date is fixed: (i) the record date for determining stockholders entitled to receive notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (ii) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the board of directors is necessary, shall be the day on which the first written consent is expressed; and (iii) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

Section 4.5      Transfer Agent and Registrar for Shares of Corporation. The board of directors may appoint a transfer agent and a registrar of the certificates of stock of the corporation. Any transfer agent so appointed shall maintain, among other records, a stockholders' ledger, setting forth the names and addresses of the holders of all issued shares of stock of the corporation, the number of shares held by each, the certificate numbers representing such shares, and the date of issue of the certificates representing such shares. Any registrar so appointed shall maintain, among other records, a share register, setting forth the total number of shares of each class of shares which the corporation is authorized to issue and the total number of shares actually issued. The stockholders' ledger and the share register are hereby identified as the stock transfer books of the corporation; but as between the stockholders' ledger and the share register, the names and addresses of stockholders, as they appear on the stockholders' ledger maintained by the transfer agent shall be the official list of stockholders of record of the corporation. The name and address of each stockholder of record, as they appear upon the stockholders' ledger, shall be conclusive evidence of who are the stockholders entitled to receive notice of the meetings of stockholders, to vote at such meetings, to examine a complete list of the stockholders entitled to vote at meetings, and to own, enjoy and exercise any other property or rights deriving from such shares against the corporation. Stockholders, but not the corporation, its directors, officers, agents or attorneys, shall be responsible for notifying the transfer agent, in writing, of any changes in their names or addresses from time to time, and failure to do so will relieve the corporation, its other stockholders, directors, officers, agents and attorneys, and its transfer agent and registrar, of liability for failure to direct notices or other documents, or pay over or transfer dividends or other property or rights, to a name or address other than the name and address appearing in the stockholders' ledger maintained by the transfer agent.

Section 4.6      Loss of Certificates. In case of the loss, destruction or mutilation of a certificate of stock, a replacement certificate may be issued in place thereof upon such terms as the board of directors may prescribe, including, in the discretion of the board of directors, a requirement of bond and indemnity to the corporation.

Section 4.7      Restrictions on Transfer. Every certificate for shares of stock which are subject to any restriction on transfer, whether pursuant to the Certificate of Incorporation, the Bylaws or any agreement to which the corporation is a party, shall have the fact of the restriction noted conspicuously on the certificate and shall also set forth on the face or back either the full text of the restriction or a statement that the corporation will furnish a copy to the holder of such certificate upon written request and without charge.

Section 4.8      Multiple Classes or Series of Stock. The amount and classes of the capital stock and the par value, if any, of the shares, shall be as fixed in the Certificate of Incorporation. At all times when there are two or more classes or series of stock, the several classes or series of stock shall conform to the description and the terms and have the respective preferences, voting powers, restrictions and qualifications set forth in the Certificate of Incorporation and these Bylaws. Every certificate issued when the corporation is authorized to issue more than one class or series of stock shall set forth on its face or back either (i) the full text of the preferences, voting powers, qualifications and special and relative rights of the shares of each class and series authorized to be issued, or (ii) a statement of the existence of such preferences, powers, qualifications and rights, and a statement that the corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge.

## **ARTICLE V DIVIDENDS**

Section 5.1      Declaration of Dividends. Except as otherwise required by law or by the Certificate of Incorporation, the board of directors may, in its discretion, declare what, if any, dividends shall be paid from the surplus or from the net profits of the corporation for the current or preceding fiscal year, or as otherwise permitted by law. Dividends may be paid in cash, in property, in shares of the corporation's stock, or in any combination thereof. Dividends shall be payable upon such dates as the board of directors may designate.

Section 5.2 Reserves. Before the payment of any dividend and before making any distribution of profits, the board of directors, from time to time and in its absolute discretion, shall have power to set aside out of the surplus or net profits of the corporation such sum or sums as the board of directors deems proper and sufficient as a reserve fund to meet contingencies or for such other purpose as the board of directors shall deem to be in the best interests of the corporation, and the board of directors may modify or abolish any such reserve.

**ARTICLE VI  
POWERS OF OFFICERS TO CONTRACT  
WITH THE CORPORATION**

Any and all of the directors and officers of the corporation, notwithstanding their official relations to it, may enter into and perform any contract or agreement of any nature between the corporation and themselves, or any and all of the individuals from time to time constituting the board of directors of the corporation, or any firm or corporation in which any such director may be interested, directly or indirectly, whether such individual, firm or corporation thus contracting with the corporation shall thereby derive personal or corporate profits or benefits or otherwise; provided, that (i) the material facts of such interest are disclosed or are known to the board of directors or committee thereof which authorizes such contract or agreement; (ii) if the material facts as to such person's relationship or interest are disclosed or are known to the stockholders entitled to vote thereon, and the contract is specifically approved in good faith by a vote of the stockholders; or (iii) the contract or agreement is fair as to the corporation as of the time it is authorized, approved or ratified by the board of directors, a committee thereof, or the stockholders. Any director of the corporation who is interested in any transaction as aforesaid may nevertheless be counted in determining the existence of a quorum at any meeting of the board of directors which shall authorize or ratify any such transaction. This Article shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common or statutory law applicable thereto.

**ARTICLE VII  
INDEMNIFICATION**

Section 7.1 Definitions. For purposes of this Article VII the following terms shall have the meanings indicated:

"Corporate Status" describes the status of a person who is or was a director, officer, employee, agent, trustee or fiduciary of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the express written request of the corporation.

"Court" means the appropriate Court in the State of Nevada, or any other court in which a Proceeding in respect of indemnification may properly be brought.

"Covered Person" means any person who has a Corporate Status who the corporation, pursuant to the provisions of Section 7.9 hereof, determines is entitled to indemnification as provided herein. It shall in each case include such person's legal representatives, heirs, executors and administrators.

"Disinterested" describes any individual, whether or not that individual is a director, officer, employee or agent of the corporation who is not and was not and is not threatened to be made a party to the Proceeding in respect of which indemnification, advancement of expenses or other action, is sought by a Covered Person.

"Expenses" shall include, without limitation, all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating or being or preparing to be a witness in a Proceeding.

"Good Faith" shall mean a Covered Person having acted in good faith and in a manner such Covered Person reasonably believed to be in or not opposed to the best interests of the corporation or, in the case of an employee benefit plan, the best interests of the participants or beneficiaries of said plan, as the case may be, and, with respect to any Proceeding which is criminal in nature, having had no reasonable cause to believe such Covered Person's conduct was unlawful.

“Independent Counsel” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and may include law firms or members thereof that are regularly retained by the corporation but not by any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the standards of professional conduct then prevailing and applicable to such counsel, would have a conflict of interest in representing either the corporation or the Covered Person in an action to determine the Covered Person’s rights under this Article.

“Proceeding” includes any actual, threatened or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation (including any internal corporate investigation), administrative hearing or any other proceeding, whether civil, criminal, administrative or investigative, other than one initiated by the Covered Person, but including one initiated by a Covered Person for the purpose of enforcing such Covered Person’s rights under this Article to the extent provided in Section 7.14 of this Article. “Proceeding” shall not include any counterclaim brought by any Covered Person other than one arising out of the same transaction or occurrence that is the subject matter of the underlying claim.

Section 7.2 Right to Indemnification in General. The corporation may indemnify, and advance Expenses to, each Covered Person who is, was or is threatened to be made a party or is otherwise involved in any Proceeding, as provided in this Article and to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may hereafter from time to time permit.

Section 7.3 Proceedings Other Than Proceedings in the Right of the Corporation. Each Covered Person may indemnified if, by reason of such Covered Person’s Corporate Status, such Covered Person is or is threatened to be made a party to or is otherwise involved in any Proceeding, other than a Proceeding by or in the right of the corporation. Such Covered Person may be indemnified against Expenses, judgments, penalties, fines and amounts paid in settlements, actually and reasonably incurred by such Covered Person or on such Covered Person’s behalf in connection with such Proceeding or any claim, issue or matter therein, if such Covered Person acted in Good Faith.

Section 7.4 Proceedings by or in the Right of the Corporation. Each Covered Person may indemnified if, by reason of such Covered Person’s Corporate Status, such Covered Person is, or is threatened to be made, a party to or is otherwise involved in any Proceeding brought by or in the right of the corporation to procure a judgment in its favor. Such Covered Person may be indemnified against Expenses, judgments, penalties, and amounts paid in settlement, actually and reasonably incurred by such Covered Person or on such Covered Person’s behalf in connection with such Proceeding if such Covered Person acted in Good Faith. Notwithstanding the foregoing, no such indemnification shall be made in respect of any claim, issue or matter in such Proceeding as to which such Covered Person shall have been adjudged to be liable to the corporation if applicable law prohibits such indemnification; provided, however, that, if applicable law so permits, indemnification shall nevertheless be made by the corporation in such event if and only to the extent that the Court which is considering the matter shall so determine.

Section 7.5 Indemnification of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Article, to the extent that a present or former director or officer or any other person who has a Corporate Status is, by reason of such Corporate Status, a party to or is otherwise involved in and is successful, on the merits or otherwise, in any Proceeding, such person shall be indemnified to the maximum extent permitted by law, against all Expenses, judgments, penalties, fines, and amounts paid in settlement, actually and reasonably incurred by such person or on such person’s behalf in connection therewith. If such person is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the corporation shall indemnify such person to the maximum extent permitted by law, against all Expenses, judgments, penalties, fines, and amounts paid in settlement, actually and reasonably incurred by such person or on such person’s behalf in connection with each successfully resolved claim, issue or matter. The termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 7.6 Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Article, to the extent that a Covered Person is, by reason of such Covered Person’s Corporate Status, a witness in any Proceeding, such Covered Person shall be indemnified against all Expenses actually and reasonably incurred by such Covered Person or on such Covered Person’s behalf in connection therewith.

Section 7.7      Advancement of Expenses.

(a) Notwithstanding any provision to the contrary in this Article, the corporation may advance all reasonable Expenses which were incurred by or on behalf of a present director or officer by reason of such person's Corporate Status, in connection with any Proceeding, within 20 days after the receipt by the corporation of a statement or statements from such person requesting such advance or advances, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by the person and shall include or be preceded or accompanied by an undertaking by or on behalf of the person to repay any Expenses if such person shall be adjudged to be not entitled to be indemnified against such Expenses. Any advance and undertakings to repay made pursuant to this paragraph shall be unsecured and interest-free. Advancement of Expenses pursuant to this paragraph shall not require approval of the board of directors or the stockholders of the corporation, or of any other person or body. The secretary of the corporation shall promptly advise the Board in writing of the request for advancement of Expenses, of the amount and other details of the advance and of the undertaking to make repayment provided pursuant to this paragraph.

(b) Advancement of expenses to any other Covered Person shall be upon such terms and conditions as the board of directors may determine appropriate.

Section 7.8      Notification and Defense of Claim.

(a) Promptly after receipt by any person who has a Corporate Status of a notice of the commencement of any Proceeding, such person shall, if a claim is to be made against the corporation under this Article, notify the corporation of the commencement of the Proceeding. The omission of such notice will not relieve the corporation from any liability which it may have to such person otherwise than under this Article. With respect to any such Proceedings as to which the corporation determines to provide indemnification:

(i) The corporation will be entitled to participate in the defense at its own expense.

(ii) Except as otherwise provided below, the corporation (jointly with any other indemnifying party similarly notified) will be entitled to assume the defense with counsel reasonably satisfactory to the Covered Person. After notice from the corporation to the Covered Person of its election to assume the defense of a suit, the corporation will not be liable to the Covered Person under this Article for any legal or other expenses subsequently incurred by the Covered Person in connection with the defense of the Proceeding other than reasonable costs of investigation or as otherwise provided below.

(b) The Covered Person shall have the right to employ his own counsel in such Proceeding but the fees and expenses of such counsel incurred after notice from the corporation of its assumption of the defense shall be at the expense of the Covered Person except as follows. The fees and expenses of counsel shall be at the expense of the corporation if (i) the employment of counsel by the Covered Person has been authorized by the corporation, (ii) the Covered Person shall have concluded reasonably that there may be a conflict of interest between the corporation and the Covered Person in the conduct of the defense of such action and such conclusion is confirmed in writing by the corporation's outside counsel regularly employed by it in connection with corporate matters, or (iii) the corporation shall not in fact have employed counsel to assume the defense of such Proceeding. The corporation shall be entitled to participate in, but shall not be entitled to assume the defense of, any Proceeding brought by or in the right of the corporation or as to which the Covered Person shall have made the conclusion provided for in (ii) above and such conclusion shall have been so confirmed by the corporation's said outside counsel.

(c) Notwithstanding any provision of this Article to the contrary, the corporation shall not be liable to indemnify the Covered Person under this Article for any amounts paid in settlement of any Proceeding effected without its written consent. The corporation shall not settle any Proceeding or claim in any manner which would impose any penalty, limitation or disqualification of the Covered Person for any purpose without such Covered Person's written consent. Neither the corporation nor the Covered Person will unreasonably withhold their consent to any proposed settlement.

(d) If it is determined that the Covered Person is entitled to indemnification other than as afforded under subparagraph (b) above, payment to the Covered Person of the additional amounts for which he is to be indemnified shall be made within 10 days after such determination.



Section 7.9      Procedures.

(a) Method of Determination For Present Officers and Directors. A determination (as provided for by this Article or if required by applicable law in the specific case) with respect to entitlement to indemnification by a person who at the date of determination is a director or officer shall be made either (i) by a majority vote of Disinterested directors, even though less than a quorum, or (ii) a committee of Disinterested directors designated by a majority of disinterested Directors, even though less than a quorum, or (iii) if there are no such Disinterested directors, or if the Disinterested directors so direct, by Independent Counsel in a written determination to the board of directors, a copy of which shall be delivered to the Covered Person seeking indemnification, or (iv) by the vote of the holders of a majority of the corporation's capital stock outstanding at the time entitled to vote thereon.

(b) Method of Determination For Others. A determination (as provided for in this Article or if required by applicable law in the specific case) with respect to indemnification of any person other than a present director or officer may be made by the board of directors in such manner as it may determine appropriate.

(c) Initiating Request. A person who seeks indemnification under this Article shall submit a request for indemnification, including such documentation and information as is reasonably available to such person and is reasonably necessary to determine whether and to what extent such person is entitled to indemnification.

(d) Effect of Other Proceedings. The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of guilty or of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Article) of itself adversely affect the right of a Covered Person to indemnification or create a presumption that a Covered Person did not act in Good Faith.

Section 7.10      Action by the Corporation. Any action, payment, advance determination (other than a determination made pursuant to Section 7.9 above), authorization, requirement, grant of indemnification or other action taken by the corporation pursuant to this Article shall be effected exclusively through any Disinterested person so authorized by the board of directors of the corporation, including the president or any vice president of the corporation.

Section 7.11      Non-Exclusivity. The rights to indemnification and to receive advancement of Expenses as provided by this Article shall not be deemed exclusive of any other rights to which a person may at any time be entitled under applicable law, the Certificate of Incorporation, these Bylaws, any agreement, a vote of stockholders, a resolution of the board of directors, or otherwise.

Section 7.12      Insurance. The corporation may maintain, at its expense, an insurance policy or policies to protect itself and any director, officer, employee or agent of the corporation or another enterprise against liability arising out of this Article or otherwise, whether or not the corporation would have the power to indemnify any such person against such liability under the Nevada Corporation Law.

Section 7.13      No Duplicative Payment. The corporation shall not be liable under this Article to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that a Covered Person has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 7.14      Expenses of Adjudication. In the event that any Covered Person seeks a judicial adjudication, or an award in arbitration, to enforce such Covered Person's rights under, or to recover damages for breach of, this Article, the Covered Person shall be entitled to recover from the corporation, and shall be indemnified by the corporation against, any and all Expenses actually and reasonably incurred by such Covered Person in seeking such adjudication or arbitration, but only if such Covered Person prevails therein. If it shall be determined in such adjudication or arbitration that the Covered Person is entitled to receive part but not all of the indemnification of expenses sought, the expenses incurred by such Covered Person in connection with such adjudication or arbitration shall be appropriately prorated.

Section 7.15      Severability. If any provision or provisions of this Article shall be held to be invalid, illegal or unenforceable for any reason whatsoever:

(a) the validity, legality and enforceability of the remaining provisions of this Article (including without limitation, each portion of any Section of this Article containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and

(b) to the fullest extent possible, the provisions of this Article (including, without limitation, each portion of any Section of this Article containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 7.16 No Retroactive Amendment. No amendment or repeal of this Article or any provision hereof shall affect any right of any person to be indemnified hereunder with respect to any actions, omissions or state of facts existing prior to the date of such amendment or repeal.

## **ARTICLE VIII MISCELLANEOUS PROVISIONS**

Section 8.1 Certificate of Incorporation. All references in these Bylaws to the Certificate of Incorporation shall be deemed to refer to the Certificate of Incorporation of the corporation, as amended and in effect from time to time.

Section 8.2 Fiscal Year. Except as from time to time otherwise provided by the board of directors, the fiscal year of the corporation shall end on December 31<sup>st</sup> of each year.

Section 8.3 Corporate Seal. The board of directors shall have the power to adopt and alter the seal of the corporation.

Section 8.4 Execution of Instruments. All deeds, leases, transfers, contracts, bonds, notes, and other obligations authorized to be executed by an officer of the corporation on its behalf shall be signed by the president or the treasurer except as the board of directors may generally or in particular cases otherwise determine.

Section 8.5 Voting of Securities. Unless the board of directors otherwise provides, the president or the treasurer may waive notice of and act on behalf of this corporation, or appoint another person or persons to act as proxy or attorney in fact for this corporation with or without discretionary power and/or power of substitution, at any meeting of stockholders or shareholders of any other corporation or organization, any of whose securities are held by this corporation.

Section 8.6 Evidence of Authority. A certificate by the secretary or any assistant secretary as to any action taken by the stockholders, directors or any officer or representative of the corporation shall, as to all persons who rely thereon in good faith, be conclusive evidence of such action. The exercise of any power which by law, by the Certificate of Incorporation, or by these Bylaws, or under any vote of the stockholders or the board of directors, may be exercised by an officer of the corporation only in the event of absence of another officer or any other contingency shall bind the corporation in favor of anyone relying thereon in good faith, whether or not such absence or contingency existed.

Section 8.7 Corporate Records. The original, or attested copies, of the Certificate of Incorporation, Bylaws, records of all meetings of the incorporators and stockholders, and the stock transfer books (which shall contain the names of all stockholders and the record address and the amount of stock held by each) shall be kept in Nevada at the principal office of the corporation, or at an office of the corporation, or at an office of its transfer agent or of the secretary or of the assistant secretary, if any. Said copies and records need not all be kept in the same office. They shall be available at all reasonable times to inspection of any stockholder for any purpose but not to secure a list of stockholders for the purpose of selling said list or copies thereof or for using the same for a purpose other than in the interest of the applicant, as a stockholder, relative to the affairs of the corporation.

Section 8.8 Communication of Notices. Any notices required to be given under these Bylaws may be given (i) by delivery in person, (ii) by mailing it, postage prepaid, first class, (iii) by mailing it by nationally or internationally recognized second day or faster courier service, (iv) by facsimile transmission, or (v) by electronic transmission, in each case, to the addressee; provided, however that facsimile transmission or electronic transmission may only be used if the addressee has consented to such means.

Section 8.9 Electronic Transmissions. Notwithstanding any reference in these Bylaws to written instruments, all notices, meetings, consents and other communications contemplated by these Bylaws may be conducted by means of an electronic transmission, to the extent permitted by law, if specifically authorized by the board of directors of the corporation.

Section 8.10 Charitable Contributions. The board of directors from time to time may authorize contributions to be made by the corporation in such amounts as it may determine to be reasonable to corporations, trusts, funds or foundations organized and operated exclusively for charitable, scientific or educational purposes, no part of the net earning of which inures to the private benefit of any stockholder or individual.

## **ARTICLE IX AMENDMENTS**

Section 9.1 Amendment by Stockholders. Prior to the issuance of stock, these Bylaws may be amended, altered or repealed by the incorporator(s) by majority vote. After stock has been issued, these Bylaws may be amended altered or repealed by the stockholders at any annual or special meeting by vote or a majority of all shares outstanding and entitled to vote, except that where the effect of the amendment would be to reduce any voting requirement otherwise required by law, the Certificate of Incorporation or these Bylaws, such amendment shall require the vote that would have been required by such other provision. Notice and a copy of any proposal to amend these Bylaws must be included in the notice of meeting of stockholders at which action is taken upon such amendment.

Section 9.2 Amendment by Board of Directors.

(a) These Bylaws may be amended or altered by the board of directors at a meeting duly called for the purpose by majority vote of the directors then in office, except that directors shall not amend the Bylaws in a manner which:

(i) changes the stockholder voting requirements for any action;

(ii) alters or abolishes any preferential right or right of redemption applicable to a class or series of stock with shares already outstanding;

(iii) alters the provisions of Article IX hereof; or

(iv) permits the board of directors to take any action which under law, the Certificate of Incorporation, or these Bylaws is required to be taken by the stockholders.

(b) Any amendment of these Bylaws by the board of directors may be altered or repealed by the stockholders at any annual or special meeting of stockholders.

**EXHIBIT 10.1**

**Health Enhancement Products, Inc.  
7740 E. Evans Rd. St A101  
Scottsdale, AZ 85260**

May 11, 2010

Howard R. Baer  
7740 E. Evans Rd. St A101  
Scottsdale, AZ 85260

RE: Letter of Indemnity

Dear Mr. Baer:

You have guaranteed the following obligations of Health Enhancement Products, Inc. ("we" or "HEPI"):

- Obligations under that certain real property lease of HEPI with respect to premises at Gelding Road (dated around October, 2007) (approximately \$2,500 per month for 28 months); and
- Obligations under the following equipment leases:
  - o Lease of water bottling system (dated February, 2004 in the aggregate amount of \$11,993)
  - o Lease of water filtration system (dated November, 2006 in the aggregate amount of \$14,490)
  - o Lease of phone system (dated around February, 2006 in the aggregate amount of \$13,970)
  - o Lease of forklift (Toyota Motor, dated December, 2006 in the aggregate amount of \$13,500)

The foregoing obligations of HEPI are collectively referred to herein as the "guaranteed obligations". HEPI has previously failed to fulfill certain of the guaranteed obligations, and, as a result, your financial credit has been damaged.

In consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, (i) HEPI hereby agrees to indemnify you against any liability you incur (including reasonable attorney's fees and costs) as a result of any claim asserted against you due to HEPI's failure to fulfill any of its financial obligations under the aforementioned leases and (ii) HEPI agrees to promptly issue to you pursuant to a subscription agreement of even date a common stock purchase warrant for 500,000 shares of common stock at an exercise price of \$.15 per share, with a cashless exercise provision and a term of three years.

If we are unable to make timely payment of any amount due under a guaranteed obligation, we will notify you in writing ten (10) days in advance of the payment due date with respect to the payment we are unable to make.

HEPI shall make any indemnity payment due to you hereunder within 10 (ten) business days of your incurring a liability which HEPI is obligated hereunder to indemnify you against. If HEPI fails to make payment to you as required hereby, then HEPI shall be obligated to pay you interest on the unpaid amount at the rate of 1.5% per month, but not to exceed the highest rate permitted by applicable law.

If you agree with the foregoing terms, please so indicate by countersigning this letter agreement below where indicated, whereupon this letter agreement shall be binding upon us. This agreement supersedes any prior agreement between us in any way related to your guarantee of any of our obligations, and you hereby release us from any liability or obligation under any such prior agreement.

**Executed as an instrument under seal as of the date set forth above.**

Health Enhancement Products, Inc.

Accepted and Agreed:

/S/ John Gorman  
John Gorman, Director

/S/ Howard R. Baer  
Howard R. Baer

May 11, 2010

EXHIBIT 10.2

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: 500,000

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

THIS CERTIFIES that, for value received, Howard R. Baer (together with any subsequent transferees of all or any portion of this Warrant, the "Holder"), is entitled, upon the terms and subject to the conditions hereinafter set forth, to subscribe for and purchase from HEALTH ENHANCEMENT PRODUCTS, INC., a Nevada Corporation (hereinafter called the "Company"), at the price hereinafter set forth in Section 2, up to **FIVE HUNDRED THOUSAND (500,000)** fully paid and non-assessable shares (the "Shares") of the Company's Common Stock, \$.001 par value per share (the "Common Stock").

- 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.
- Purchase Rights. The purchase rights represented by this Warrant shall be exercisable by the Holder in whole or in part at any time, but not prior to the date that the number of authorized shares of common stock of the Company is increased to at least one hundred twenty five million (125,000,000) shares. For purposes hereof, the number of authorized shares of common stock of the Company shall be determined by reference to the Company's certificate of incorporation, as amended and filed with the Secretary of State of the State of Nevada. The purchase rights represented by this Warrant shall expire on May 11, 2013. This Warrant may be exercised for Shares at a price of fifteen cents (\$.15) per share, subject to adjustment as provided in Section 6 (the "Warrant Purchase Price").
- 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, the duly executed Notice of Exercise (the form of which is attached as Exhibit A), and a form of subscription letter acceptable to the Company, at the principal office of the company and, except in the case of a "cashless exercise," by 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.

At the election of the Holder, this warrant may be exercised for the nearest whole number, rounding upwards, of shares of Common Stock determined in accordance with the following formula (a "cashless exercise"):

$$\text{Number of Shares of Common Stock Issuable upon Exercise} = S - \left( S \times \frac{P}{M} \right)$$

Where: S the number of shares of Common Stock to be purchased upon exercise of the Warrant;  
M represents the average of the last reported sale prices of the Common Stock for the five (5) trading days immediately preceding the date of exercise; and  
P represents the Warrant Purchase Price in effect on the business day next preceding the date of exercise

Upon exercise, the Holder shall be entitled to receive, within a reasonable time, a certificate or certificates, issued in the Holders' 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.

- 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 the 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 the 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 therefore 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.

[INTENTIONALLY LEFT BLANK]

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

ORIGINAL ISSUANCE AS OF: May 11, 2010

HEALTH ENHANCEMENT PRODUCTS, INC.

/s/ John Gorman

By: John Gorman, Director

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

EXHIBIT A

NOTICE OF EXERCISE

To: HEALTH ENHANCEMENT PRODUCTS, INC.,

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

\_\_\_\_\_  
Name

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Address

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date



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

I, Janet Crance, certify that:

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

Date: May 17, 2010

/s/ Janet Crance  
Janet 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, certify that:

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

Date: May 17, 2010

/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 on Form 10-Q for the period ending March 31, 2010 of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), as filed with the Securities and Exchange Commission (the "Report"), I, Janet 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, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 17, 2010

/s/ Janet Crance  
Janet 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 on Form 10-Q for the period ending March 31, 2010 of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), 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: May 17, 2010

/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.