

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number: 000-30415

Health Enhancement Products, Inc.

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

Nevada

(State or other jurisdiction of
incorporation or organization)

87-0699977

(IRS Employer Identification No.)

2804 Orchard Lake Rd., Suite 202, Keego Harbor, MI 48320

(Address of principal executive offices)

(248) 452 9866

(Issuer's telephone number)

Not Applicable

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 127,280,427 shares of common stock, \$0.001 par value, outstanding at August 14, 2014.

FORM 10-Q
HEALTH ENHANCEMENT PRODUCTS, INC.
INDEX

PART I – FINANCIAL INFORMATION	3
Item 1. Condensed Consolidated Financial Statements	3
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 4T. Controls and Procedures	23
PART II – OTHER INFORMATION	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 5. Other information	24
Item 6. Exhibits	24

(Inapplicable items have been omitted)

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

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash	\$ 31,011	\$ 493,104
Prepaid Expenses	37,519	72,122
Miscellaneous Receivable	-	118,467
Deferred Finance Costs	-	4,834
Total Current Assets	<u>68,530</u>	<u>688,527</u>
PROPERTY AND EQUIPMENT, NET	<u>81,250</u>	<u>93,750</u>
OTHER ASSETS:		
Patent Applications Pending	1,391,281	1,391,281
Deposits	-	845
Total Other Assets	<u>1,391,281</u>	<u>1,392,126</u>
	<u>\$ 1,541,061</u>	<u>\$ 2,174,403</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts Payable	\$ 682,375	\$ 483,208
Loan Payable – Related Party	25,510	-
Convertible Debenture Payable, less discount of \$538,936 and \$111,280 at June 30, 2014 and December 31, 2013	2,201,064	1,619,319
Derivative Liability	2,079,118	8,036,239
Accrued Liabilities	924,216	738,686
Total Current Liabilities	<u>5,912,283</u>	<u>10,877,452</u>
LONG TERM LIABILITIES:		
Convertible Debenture Payable, less discount of \$913,910 and \$2,159,189 at June 30, 2014 and December 31, 2013	<u>636,090</u>	<u>890,811</u>
Total Long term Liabilities	<u>636,090</u>	<u>890,811</u>
TOTAL LIABILITIES	<u>6,548,373</u>	<u>11,768,263</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Common stock, \$.001 par value, 200,000,000 shares authorized 127,280,427 and 116,852,093 issued and outstanding at June 30, 2014 and December 31, 2013	127,281	116,852
Additional Paid-In Capital	34,176,717	32,895,380
Accumulated deficit	<u>(39,311,310)</u>	<u>(42,606,092)</u>
Total Stockholders' Deficit	<u>(5,007,312)</u>	<u>(9,593,860)</u>
	<u>\$ 1,541,061</u>	<u>\$ 2,174,403</u>

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

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

	For the three Months ended June 30, 2014	For the three Months ended June 30, 2013	For the six Months ended June 30, 2014	For the six Months ended June 30, 2013
REVENUES:	\$ -	\$ -	\$ -	\$ -
COSTS AND EXPENSES:				
General and Administrative	262,145	472,003	532,748	736,416
Professional fees and Consulting expense	132,775	99,480	249,909	240,956
Research and Development	405,790	310,917	796,811	440,365
Total Costs and Expenses	<u>800,710</u>	<u>882,400</u>	<u>1,579,468</u>	<u>1,417,737</u>
LOSS FROM OPERATIONS	(800,710)	(882,400)	(1,579,468)	(1,417,737)
OTHER INCOME (EXPENSE):				
Other Income	93,683	262,837	93,683	262,837
Other Expense	(118,467)	-	(118,467)	-
Fair Value Adjustment of				
Derivative Liability	592,410	(1,243,627)	5,957,121	(1,382,376)
Amortization of Debt Discount	(338,621)	(286,536)	(817,624)	(461,095)
Deferred Finance Costs	-	-	(4,835)	-
Finance Costs	-	(2,543,758)	-	(2,571,910)
Interest expense	(95,841)	(55,848)	(235,628)	(106,155)
Total Other Income (Expense)	<u>133,164</u>	<u>(3,866,932)</u>	<u>4,874,250</u>	<u>(4,258,699)</u>
NET INCOME (LOSS)	<u>\$ (667,546)</u>	<u>\$ (4,749,332)</u>	<u>\$ 3,294,782</u>	<u>\$ (5,676,436)</u>
BASIC INCOME (LOSS) PER SHARE	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ 0.03</u>	<u>\$ (0.05)</u>
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	<u>124,703,110</u>	<u>106,828,157</u>	<u>122,330,583</u>	<u>106,086,608</u>
FULLY DILUTED INCOME (LOSS) PER SHARE	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ 0.02</u>	<u>\$ (0.05)</u>
WEIGHTED AVERAGE FULLY DILUTED SHARES OUTSTANDING	<u>124,703,110</u>	<u>106,828,157</u>	<u>170,226,919</u>	<u>106,086,608</u>

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

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

	<u>For the Six Months Ended June 30, 2014</u>	<u>For the Six Months Ended June 30, 2013</u>
Cash Flows for Operating Activities:		
Net Income (Loss)	\$ 3,294,782	\$ (5,676,436)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Stock and warrants issued for services rendered	13,984	250,640
Warrants issued for Directors' Fees	29,683	13,385
Finance costs paid in stock and warrants	-	612,969
Amortization of deferred finance costs	4,835	-
Deferred finance costs	-	1,907,234
Amortization of bond discount	817,624	461,095
Amortization of intangibles	-	6,234
Depreciation expense	12,500	13,203
Fair value adjustment of Derivative Liability	(5,957,121)	1,382,376
(Decrease) in deferred rent	-	(19,110)
Changes in assets and liabilities:		
(Increase) Decrease in prepaid expenses	34,603	(78,627)
(Increase) Decrease in miscellaneous receivable	118,468	(118,468)
Decrease in security deposits	845	122,917
Increase (Decrease) in accounts payable	199,167	(136,139)
(Decrease) in deferred revenue	-	(235,000)
(Decrease) in customer deposits	-	(27,837)
Increase in accrued liabilities	207,529	113,383
Net Cash Used by Operating Activities	<u>(1,223,104)</u>	<u>(1,408,181)</u>
Cash Flows from Investing Activities:		
Capital expenditures	-	-
Net Cash Used by Investing Activities	<u>-</u>	<u>-</u>
Cash Flow from Financing Activities:		
Repayment of Loan Payable, related party	-	(362)
Proceeds of Loan Payable, related party	25,510	31,000
Proceeds from issuance of convertible debentures	-	1,500,000
Proceeds from sale of common stock and exercise of warrants	735,500	85,000
Net Cash Provided by Financing Activities	<u>761,010</u>	<u>1,615,638</u>
Increase (Decrease) in Cash	(462,093)	207,457
Cash at Beginning of Period	<u>493,104</u>	<u>47,147</u>
Cash at End of Period	<u>\$ 31,011</u>	<u>\$ 254,604</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ <u>-</u>	\$ <u>-</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 (cont'd)

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

Six Months Ended June 30, 2014:

During the quarter ended March 31, 2014, holders of 1% and 11% Convertible Debentures converted \$420,000 into 3,867,000 shares of the Company's common stock. In addition, as part of an exercise of common stock warrants, a convertible debenture holder applied \$22,000 of accrued interest to the purchase price of 300,000 shares of the Company's common stock.

During the quarter ended June 30, 2014, holders of 1% Convertible Debentures converted \$70,600 into 1,088,000 shares of the Company's common stock.

During the quarter ended June 30, 2014, the Company issued 416,667 shares of the Company's common stock in connection with a stock purchase consummated in December 2013.

Six Months Ended June 30, 2013:

During the quarter ended March 31, 2013, the Company issued 21,111 shares of its common stock in return for a cashless exercise of 35,000 common stock warrants.

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

During the quarter ended March 31, 2013, \$15,000 in Loans Payable – Related Party was transferred to Loans Payable – Other (HEP Investments, LLC) pursuant to a Participation Agreement entered into by the two parties on March 18, 2013 (See Note 5 – Convertible Debt).

During the quarter ended June 30, 2013, the Company issued 682,000 shares of its common stock in return for cashless exercises of 1,400,000 common stock warrants.

During the quarter ended June 30, 2013, the Company issued convertible debentures totaling \$1,000,000 and recorded \$1,000,000 in discounts on debentures.

During the quarter ended June 30, 2013, the Company reclassified \$277,064 of Obligation to Issue Common Stock to Accrued Liabilities.

During the quarter ended June 30, 2013, the Company reclassified issued 600,000 shares of its common stock valued at \$72,000 as consideration for payment of Obligations to Issue Common Stock.

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

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Health Enhancement Products, Inc. and its wholly-owned subsidiaries (collectively, the “Company”). All significant inter-company accounts and transactions have been eliminated in consolidation. In the opinion of the Company’s management, the financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. These consolidated financial statements are condensed, and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s December 31, 2013 consolidated audited financial statements and supplementary data included in the Annual Report on Form 10-K filed with the SEC on March 31, 2014.

The results of operations for the six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2014, or any other period.

The Company had a loss from operations of \$1,579,468 and \$1,417,737 for the six months ended June 30, 2014 and 2013, respectively. In addition, the Company had a working capital deficiency of \$5,843,752 and a stockholders’ deficit of \$5,007,312 at June 30, 2014. These factors continue to raise substantial doubt about the Company's ability to continue as a going concern. During the first six months of 2014, the Company raised \$735,500 in net proceeds from the issuance of common stock and the exercise of warrants into common stock and \$25,510 from a loan payable to a related party. There can be no assurance that the Company will be able to raise additional capital.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Accounting Estimates

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

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased. At June 30, 2014, the Company did not have any cash equivalents.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Property and Equipment

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

Fair Value Measurements

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

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

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

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

The Company's financial instruments include cash and cash equivalents, prepaid expenses, accounts payable, accrued expenses and loans payable - related party. All of these items were determined to be Level 1 fair value measurements.

The carrying amounts of cash and equivalents, prepaid expenses, accounts payable, accrued expenses and loans payable - related party all approximate fair value because of the short maturity of these instruments.

The Company considers derivative liabilities to be a Level 3 fair value measurement.

Deferred Financing Costs

The Company follows authoritative guidance for accounting for financing costs as it relates to convertible debt issuance cost. These costs are deferred and amortized over the term of the debt period or until redemption of the convertible debentures. Amortization of deferred financing costs amounted to \$4,835 and \$-0- for the six months ended June 30, 2014 and 2013, respectively.

Impairment of Long-Lived Assets

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

The Company believes its current assumptions and estimates are reasonable and appropriate; however, unanticipated events and changes in market conditions could affect such estimates, resulting in the need for an impairment charge in future periods. During the six months ended June 30, 2013, the Company decided that the remainder of the cost of the patents related to its former product ProAlgaZyme should be written off in the amount of \$6,234. The decision was based on the lack of revenue generated by this product over the course of the prior year or for the foreseeable future.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Revenue Recognition

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

Shipping and Handling Costs

Shipping and handling costs are expensed as incurred. For the six months ended June 30, 2014 and 2013, no shipping and handling costs were incurred.

Research and Development

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

- Research Expenses, consisting of salaries and equipment and related expenses incurred for product research studies conducted primarily within the Company and by Company personnel. Research expenses were approximately \$0 and \$66,000 for the six months ended June 30, 2014 and 2013, respectively;

- Clinical Studies Expenses, consisting of fees, charges, and related expenses incurred in the conduct of clinical studies conducted with Company products by independent external entities. External clinical studies expenses were approximately \$797,000 and \$374,000 for the six months ended June 30, 2014 and 2013, respectively.

Stock Based Compensation

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

During the six months ended June 30, 2014 and 2013, as a result of the vesting of warrants to directors and the issuances of warrants to certain employees, directors and consultants, the Company recorded stock based compensation expense of \$43,667 and \$264,024 for these periods, respectively.

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

	Six Months Ended June 30,	
	2014	2013
Expected volatility	121.23% to 138.05%	114.68% to 194.14%
Expected dividends	0%	0%
Expected term	3 – 5 years	3 - 5 years
Risk free rate	.41% to .47%	.25%

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Stock Based Compensation – (continued)

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

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the Company's net income (loss) by the weighted average number of common shares outstanding during the period presented. Diluted income (loss) per share is based on the treasury stock method and includes the effect from potential issuance of common stock such as shares issuable pursuant to the exercise of warrants and conversions of debentures. Potentially dilutive securities as of June 30, 2014, consisted of 35,958,735 common shares from convertible debentures and related accrued interest and 12,117,873 common shares from outstanding warrants. Potentially dilutive securities as of June 30, 2013, consisted of 31,198,000 common shares from convertible debentures and related accrued interest and 14,828,876 common shares from outstanding warrants. For the six months ended June 30, 2013 diluted and basic weighted average shares were the same, as potentially dilutive shares are anti-dilutive.

Advertising / Public Relations Costs

Advertising/Public Relations costs are charged to operations when incurred. These expenses were \$22,688 and \$12,341 for the six months ended June 30, 2014 and 2013, respectively.

Concentrations of Credit Risk

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

Reclassifications

Certain items in these consolidated financial statements have been reclassified to conform to the current period presentation.

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

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2014 and December 31, 2013 consist of the following:

	June 30, 2014 (Unaudited)	December 31, 2013
Furniture and fixtures	\$ 20,000	\$ 20,000
Equipment	80,000	80,000
	100,000	100,000
Less accumulated depreciation and amortization	(18,750)	(6,250)
	\$ 81,250	\$ 93,750

Depreciation and amortization was \$12,500 and \$13,385 for the six months ended June 30, 2014 and 2013 respectively.

NOTE 4 - DEFINITE-LIFE INTANGIBLE ASSETS

The Company's definite-life intangible assets are amortized, upon being placed in service, over the estimated useful lives of the assets, with no residual value. Amortization expense for the six months ended June 30, 2014 and 2013 were \$- 0 - and \$- 0 -, respectively. As of June 30, 2013, the Company's management decided to take an impairment charge of \$6,234 representing the unamortized basis of the patents related to the creation and production of its product, ProAlgaZyme which is no longer producing revenue. The write off of the impairment loss has been included in General and Administrative Expenses on the Statement of Operations for the six months ended June 30, 2013.

NOTE 5 – CONVERTIBLE DEBT

HEP Investments, LLC

The Company and HEP Investments, LLC, a Michigan limited liability company ("Lender"), entered into the following documents, effective as of December 1, 2011, as amended through April 15, 2014: (i) a Loan Agreement under which the Lender has agreed to advance up to \$4,050,000 to the Company, subject to certain conditions, (ii) a Convertible Secured Promissory Note in the principal amount of \$4,050,000 ("Note") and (iii) a Security Agreement, under which the Company granted the Lender a security interest in all of its assets and (iv) an IP security agreement under which the Company and its subsidiaries granted the Lender a security interest in all their respective intellectual properties, including patents, in each case order to secure their respective obligations to the Lender under the Note and related documents. In addition, the Company's subsidiaries have guaranteed the Company's obligations under the Note. The Company has also made certain agreements with the Lender which shall remain in effect as long as any amount is outstanding under the Loan. These agreements include an agreement not to make any change in the Company's senior management, without the prior written consent of the Lender. Two representatives of the Lender will have the right to attend Board of Director meetings as non-voting observers.

Amounts advanced under the Note(i) are convertible into the Company's restricted common stock according to the following schedule: (A) \$2,707,592 at the lesser of \$.12 per share or a 25% discount off of the ten day trailing quoted price of the common stock in the over the counter (OTC) market, (B) \$592,408 at the lesser of \$.22 per share or a 25% discount off of the ten day trailing quoted price of the common stock in the over the counter (OTC) market, and (C) \$750,000 at the lesser of \$.30 per share or a 25% discount off of the ten day trailing quoted price of the common stock in the over the counter (OTC) market, (ii) bear interest at the rate of 11% per annum and (iii) must be repaid as follows: accrued interest must be paid on the first and second anniversary of the Note and unpaid principal not previously converted into common stock must be repaid on the second anniversary of the Note, with the provision that the first Note of \$500,000 due on December 1, 2013 was initially extended to June 1, 2014. As of June 30, 2014, a total of \$1,000,000 in \$.12 convertible debt has become due. In July 2014, the Lender agreed to rolling 30 day extensions until notice is given to the Company to the contrary. The Lender has not converted any of the debt through the date of this report.

The Note may be prepaid upon sixty days written notice, provided that the Company shall be required to pay a prepayment premium equal to 5% of the amount repaid. The Company determined that the modification of these Notes was not a substantial modification in accordance with ASC 470-50, "Modifications and Extinguishments."

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

NOTE 5 – CONVERTIBLE DEBT – (continued)

The Venture Group, LLC

On January 27, 2012, the Company and The Venture Group, LLC, a Maryland limited liability company (“Venture Group”), entered into the following agreements, effective as of January 26, 2012: (i) a Subscription Agreement under which the Lender has agreed to advance \$500,000, (ii) a Subordinated Convertible Promissory Note in the principal amount of \$500,000 (“Note”); and (iii) (a) a Security Agreement, under which the Company granted the Lender a subordinated security interest in all of its assets and (b) an IP security agreement under which the Company granted the Lender a subordinated security interest in all its intellectual properties, including patents, to secure its obligations to the Lender under the Note and related documents. Amounts advanced under the Note are (i) secured on a subordinated basis by all the Company’s assets, (ii) convertible into the Company’s restricted common stock at \$.12 per share, (iii) bear interest at the rate of 11% per annum (payable on the first and second anniversary of the Note (unless earlier paid off), in cash or stock, at the Company’s option), and (iv) unpaid principal not previously converted into common stock must be repaid on the second anniversary of the Note (January 27, 2014).

On October 30, 2013, the Venture Group converted \$150,000 of the \$500,000 convertible debenture into 1,250,000 shares of the Company’s common stock.

On February 18, 2014, Venture Group converted the remaining \$350,000 of the convertible debenture into 2,917,000 shares of the Company’s common stock.

Other Debt

On February 7, 2014, the holders of \$70,000 of 1% convertible debentures converted their debentures into 950,000 shares of the Company’s common stock. On April 27, 2014, the holders of \$70,600 of 1% convertible debentures converted their debentures into 1,088,000 shares of the Company’s common stock.

During the six months ended June 30, 2014, the Company and the Note Holder and significant shareholder of the Company extended the remaining notes due for an additional six months. The Company determined that the modification of these Notes was not a substantial modification in accordance with ASC 470-50, “Modifications and Extinguishments.”

Convertible debt consists of the following:

	June 30, 2014 (Unaudited)	December 31, 2013
1% Convertible notes payable, net of unamortized discount of \$95 and \$5,546 respectively, due at various dates ranging from September 2014 to May 2015	\$ 239,905	\$ 375,054
11% Convertible note payable - HEP Investments, LLC, a related party, net of unamortized discount of \$1,452,751 and \$2,235,217, respectively, due at various dates ranging from July 2014 to December 2015	2,597,249	1,814,783
11% Convertible note payable - Venture Group, net of unamortized discount of \$29,707	-	320,293
	2,837,154	2,510,130
Less: Current portion	2,201,064	1,619,319
Long term portion	\$ 636,090	\$ 890,811

Amortization of the debt discount on the remaining notes was \$817,624 and \$461,095 for the six months ended June 30, 2014 and 2013, respectively.

NOTE 6 - DERIVATIVE LIABILITY

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

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

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

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

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

On April 10, 2013, in connection with the HEP Investments agreement, as a result of reaching certain funding thresholds which entitled HEP Investments to additional shares of common stock, the Company was required to record an additional derivative liability of \$616,040 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.35, an expected volatility of 151.37% over the remaining 2.00 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .24%.

On April 16, 2013, in connection with the HEP Investments agreement, as a result of reaching certain funding thresholds which entitled HEP Investments to additional shares of common stock, the Company was required to record an additional derivative liability of \$518,756 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.30, an expected volatility of 151.72% over the remaining 2.00 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .24%.

On April 29, 2013, in connection with the HEP Investments agreement, as a result of reaching certain funding thresholds which entitled HEP Investments to additional shares of common stock, the Company was required to record an additional derivative liability of \$856,410 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.47, an expected volatility of 153.70% over the remaining 2.00 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .20%.

On May 7, 2013, in connection with the HEP Investments agreement, as a result of reaching certain funding thresholds which entitled HEP Investments to additional shares of common stock, the Company was required to record an additional derivative liability of \$916,028 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.50 an expected volatility of 153.46% over the remaining 2.00 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .22%.

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

NOTE 6 - DERIVATIVE LIABILITY – (continued)

On July 15, 2013, in connection with the HEP Investments agreement, as a result of reaching certain funding thresholds which entitled HEP Investments to additional shares of common stock, the Company was required to record an additional derivative liability of \$504,699 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.32 an expected volatility of 146.56% over the remaining 2.00 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .34%.

On July 25, 2013, in connection with the HEP Investments agreement, as a result of reaching certain funding thresholds which entitled HEP Investments to additional shares of common stock, the Company was required to record an additional derivative liability of \$418,790 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.46 an expected volatility of 147.03% over the remaining 2.00 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .32%.

On September 30, 2013, in connection with the HEP Investments agreement, as a result of reaching certain funding thresholds which entitled HEP Investments to additional shares of common stock, the Company was required to record an additional derivative liability of \$479,502 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.45 an expected volatility of 139.26% over the remaining 2.00 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .33%.

On October 28, 2013, in connection with the HEP Investments agreement, as a result of reaching certain funding thresholds which entitled HEP Investments to additional shares of common stock, the Company was required to record an additional derivative liability of \$214,525 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.37 an expected volatility of 134.91% over the remaining 2.00 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .33%.

On December 18, 2013, in connection with the HEP Investments agreement, as a result of reaching certain funding thresholds which entitled HEP Investments to additional shares of common stock, the Company was required to record an additional derivative liability of \$185,438 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.33 an expected volatility of 134.11% over the remaining 2.00 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .34%.

On December 30, 2013, in connection with the HEP Investments agreement, as a result of reaching certain funding thresholds which entitled HEP Investments to additional shares of common stock, the Company was required to record an additional derivative liability of \$248,701 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.42 an expected volatility of 133.07% over the remaining 2.00 year contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .39%.

On December 31, 2013, the Company valued the derivative liability at \$8,036,239 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.39, an expected volatility of 133.09% over the remaining contractual lives of the note ranging from 0.90-1.93 years, an annual rate of dividends of 0%, and a risk free rate of .38%. The fair value of the derivative increased by \$1,674,135 which has been recorded in the statement of operations for the twelve months ended December 31, 2013.

On March 31, 2014, the Company valued the derivative liability at \$2,671,529 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.17, an expected volatility of 145.45% over the remaining 1.27 years contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .44%. The fair value of the derivative decreased by \$6,135,458 which has been recorded in the statement of operations for the three months ended March 31, 2014.

On June 30, 2014, the Company valued the derivative liability at \$2,079,118 utilizing the Black-Scholes method of valuation using the following assumptions: closing stock price of \$.16, an expected volatility of 135.6% over the remaining 1.04 years contractual life of the note, an annual rate of dividends of 0%, and a risk free rate of .47%. The fair value of the derivative decreased by \$5,957,121 which has been recorded in the statement of operations for the six months ended June 30, 2014.

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

NOTE 7 - FAIR VALUE

In accordance with FASB ASC 820, "Fair Value Measurements and Disclosures", the following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013:

	<u>Level 3</u>	<u>Total</u>
June 30, 2014		
Derivative Instruments	\$ 2,079,118	\$ 2,079,118
December 31, 2013		
Derivative Instruments	\$ 8,036,239	\$ 8,036,239

Level 3 financial instruments consist of certain embedded conversion features. The fair value of these imbedded conversion features are estimated using the Black-Scholes valuation model. The Company adopted the disclosure requirements of ASU 2011-04, "Fair Value Measurements" during the quarter ended March 31, 2012.

The following table summarizes the changes in fair value of the Company's Level 3 financial instruments for the six months ended June 30, 2014 and the year ended December 31, 2013.

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Beginning Balance	\$ 8,036,239	\$ 1,026,128
Initial recognition - Derivative liability of embedded conversion feature of the Convertible Notes	-	5,335,976
Change in fair value	(5,957,121)	1,674,135
Ending Balance	<u>\$ 2,079,118</u>	<u>\$ 8,036,239</u>

Changes in the unobservable input values would likely cause material changes in the fair value of the Company's Level 3 financial instruments. The significant unobservable input used in the fair value measurement is the estimation of the likelihood of the occurrence of a change to the conversion price based on the contractual terms of the financial instruments. A significant increase (decrease) in this likelihood would result in a higher (lower) fair value measurement.

NOTE 8 - STOCKHOLDERS' DEFICIT

Board of Directors fees

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

As compensation for serving as a member of the board of directors, the Company granted warrants to purchase 50,000 shares of common stock to Thomas K. Cox in June, 2013, at an exercise price of \$.40 per share. The warrants have a term of three years and vested or will vest as follows: 12,500 vested on the grant date and the remaining 37,500 shall vest quarterly (12,500 per quarter). The warrants were valued at \$15,873 using the Black Scholes pricing model relying on the following assumptions: volatility 145.67%; annual rate of dividends 0%; discount rate 0.25%. In addition, Mr. Cox will receive \$10,000 for each annual term served, paid quarterly.

As compensation for serving as a member of the board of directors, the Company granted warrants to purchase 50,000 shares of common stock to John B. Payne in July, 2013, at an exercise price of \$.38 per share. The warrants have a term of three years and vested or will vest as follows: 12,500 vested on the grant date and the remaining 37,500 shall vest quarterly (12,500 per quarter). The warrants were valued at \$17,187 using the Black Scholes pricing model relying on the following assumptions: volatility 143.37%; annual rate of dividends 0%; discount rate 0.25%. In addition, Mr. Payne will receive \$10,000 for each annual term served, paid quarterly.

NOTE 8 - STOCKHOLDERS' DEFICIT

Board of Directors fees – (continued)

As compensation for serving as a member of the board of directors, the Company granted warrants to purchase 50,000 shares of common stock to John Gorman in November, 2013, at an exercise price of \$.36 per share. The warrants have a term of three years and vested or will vest as follows: 12,500 vested on the grant date and the remaining 37,500 shall vest quarterly (12,500 per quarter). The warrants were valued at \$14,053 using the Black Scholes pricing model relying on the following assumptions: volatility 141.53%; annual rate of dividends 0%; discount rate 0.33%. In addition, Mr. Gorman will receive \$10,000 for each annual term served, paid quarterly.

As compensation for serving as a member of the board of directors, the Company granted warrants to purchase 50,000 shares of common stock to Philip M. Rice (CFO and a Director) in January, 2014, at an exercise price of \$.38 per share. The warrants have a term of three years and vested or will vest as follows: 12,500 vested on the grant date and the remaining 37,500 shall vest quarterly (12,500 per quarter). The warrants were valued at \$13,460 using the Black Scholes pricing model relying on the following assumptions: volatility 121.33%; annual rate of dividends 0%; discount rate 0.44%. In addition, Mr. Rice will receive \$10,000 for each annual term served, paid quarterly.

As compensation for serving as a member of the board of directors, the Company granted warrants to purchase 50,000 shares of common stock to Thomas K. Cox in June, 2014, at an exercise price of \$.19 per share. The warrants have a term of three years and vested or will vest as follows: 12,500 vested on the grant date and the remaining 37,500 shall vest quarterly (12,500 per quarter). The warrants were valued at \$7,311 using the Black Scholes pricing model relying on the following assumptions: volatility 138.05%; annual rate of dividends 0%; discount rate 0.41%. In addition, Mr. Cox will receive \$10,000 for each annual term served, paid quarterly.

The company recorded Directors Fees of \$29,683 during the six months ended June 30, 2014, representing the fees expensed and the value of the vested warrants described above.

Stock Issuances

During the six months ended June 30, 2014, the Company received proceeds of \$502,500 from the issuance of 3,433,334 shares of common stock and 1,308,333 common stock warrants and \$233,000 from the exercise of 2,040,000 common stock warrants. The Company also issued 4,955,000 shares of common stock upon conversion of \$490,600 of 1% and 11% convertible debentures during the six months ended June 30, 2014. The Company issued 416,667 shares of common stock to a non-related party shareholder relating to a stock purchase in December 2013.

Executive Compensation

As compensation for serving as Chief Financial Officer, the Company, quarterly, will issue warrants to purchase 50,000 shares of common stock to Philip M. Rice at the prevailing market price with a term of 5 years, provided that the preceding quarterly and annual filings were submitted in a timely and complaint manner, at which time such warrants would vest. On March 31, 2014 the Company issued warrants to purchase 50,000 shares of common stock at \$.17. The warrants were valued at \$13,460 using the Black Scholes pricing model relying on the following assumptions: volatility 128.35%; annual rate of dividends 0%; discount rate 0.44%. On May 14, 2014, the Company issued warrants to purchase 50,000 shares of common stock at \$.19. The warrants were valued at \$6,756 using the Black Scholes pricing model relying on the following assumptions: volatility 121.96%; annual rate of dividends 0%; discount rate 0.47%.

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

NOTE 8 - STOCKHOLDERS' DEFICIT – (continued)

Stock Issuances – (continued)

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

	June 30, 2014		December 31, 2013	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	16,900,539	\$ 0.17	16,365,209	\$ 0.17
Issued	1,508,333	0.17	4,820,330	0.18
Exercised	(1,940,000)	0.13	(2,785,000)	0.16
Cancelled	(100,000)	0.30	-	-
Expired	(4,251,000)	0.22	(1,500,000)	0.32
Outstanding, end of period	<u>12,117,873</u>	<u>\$ 0.15</u>	<u>16,900,539</u>	<u>\$ 0.17</u>

Warrants outstanding and exercisable by price range as of June 30, 2014 were as follows:

Outstanding Warrants				Exercisable Warrants	
Range of	Number	Average Weighted Remaining Contractual Life in Years	Exercise Price	Number	Weighted Average Exercise Price
\$ 0.12	3,439,439	1.32	\$ 0.12	3,439,439	\$ 0.12
0.125	4,036,097	0.88	0.125	4,036,097	0.125
0.15	2,358,333	1.69	0.15	2,358,333	0.15
0.17	50,000	4.75	0.17	50,000	0.17
0.19	100,000	3.91	0.19	72,500	0.19
0.20	250,000	2.84	0.20	250,000	0.20
0.22	477,004	2.12	0.22	477,004	0.22
0.25	707,000	4.02	0.25	707,000	0.25
0.30	250,000	4.02	0.30	250,000	0.30
0.33	250,000	4.01	0.33	250,000	0.33
0.36	50,000	1.34	0.36	37,500	0.36
0.38	100,000	2.29	0.38	75,000	0.38
0.40	50,000	2.44	0.40	50,000	0.40
	<u>12,117,873</u>	<u>1.99</u>		<u>12,045,373</u>	<u>\$ 0.15</u>

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

NOTE 9- OTHER INCOME (EXPENSE)

On June 12, 2013, the Company entered into a Settlement Agreement and Mutual Release of all Claims (the "Settlement Agreement") with Ceptazyme, LLC ("Ceptazyme") and Zus Health, LLC ("Zus Health") resolving claims the parties brought against one another in connection with a license agreement between the Company and Zus Health dated September 2, 2010 (the "License Agreement"). Under the terms of the Settlement Agreement, the parties agreed to terminate the License Agreement and that no party would have any further obligations thereunder. No monetary consideration was exchanged in connection with the Settlement Agreement. As a result of this settlement, the deferred revenue of \$235,000 and customer deposits of \$27,837 were recognized as other income.

On July 15, 2014, the Company settled a dispute with one of its vendors. The settlement agreement calls for the Company to make 10 payments of \$6,250. If the payments are not made timely, a total liability of \$97,463 out of the gross amount recorded on the Company's books of \$191,146 will be due. As a result of this settlement, the difference of \$93,683 is recognized as other income for the period ending June 30, 2014 (See Note 11).

On May 1, 2013, the Company, through its legal counsel, sent a notice to the landlord at 7740 E. Evans, Scottsdale, AZ that it expected a timely return of the \$118,466 security deposit. On June 14, 2013, the landlord filed a Complaint in the State Court of Arizona that the Company owed the landlord in excess of \$210,000 in damages in addition to the \$118,466 security deposit related to the property at 7740 E. Evans, Scottsdale, AZ. The security deposit has been classified as a Miscellaneous Receivable since the second quarter of 2013. On July 24, 2014, the Company settled the outstanding complaints and the \$118,466 Miscellaneous Receivable was written off as other expense for the period ending June 30, 2014 (See Note 11).

NOTE 10- COMMITMENTS AND CONTINGENCIES

Employment Agreement

The Company's Chief Executive Officer, Andrew Dahl, is serving under the terms of an employment agreement dated, December 16, 2011. Under the agreement Mr. Dahl serves as CEO for one year terms, subject to automatic renewal, unless either party terminates the Agreement on sixty days' notice prior to the expiration of the term of the agreement. Mr. Dahl will be compensated as follows: he will receive an annual base salary of \$240,000. In addition, Mr. Dahl is entitled to monthly bonus compensation equal to 2% of the Company's revenue, but only to the extent that such bonus amount exceeds his base salary for the month in question. In addition, Mr. Dahl will be entitled to warrants having an exercise price of \$.25 per share, upon the attainment of specified milestones as follows: 1) Warrants for 500,000 shares upon identification of bio-active agents in the Company's product and filing of a patent with respect thereto, 2) Warrants for 500,000 shares upon entering into a business contract under which the Company receives at least \$500,000 in cash payments, 3) Warrants for 1,000,000 shares upon the Company entering into a co-development agreement with a research company to develop medicinal or pharmaceutical applications (where the partner provides at least \$2 million in cash or in-kind outlays), 4) Warrants for 1,000,000 shares upon the Company entering into a co-development agreement for nutraceutical or dietary supplement applications (where the partner provides at least \$2 million in cash or in-kind outlays), 5) Warrants for 1,000,000 shares upon the Company entering into a pharmaceutical development agreement. As of June 30, 2014, none of the milestones referred to had been achieved and there has been no notice of contract termination.

NOTE 11 - SUBSEQUENT EVENTS

Board of Directors

On July 19, 2014 the Board of Directors reappointed John B. Payne as a director for a 1 year term. Mr. Payne received warrants to purchase 50,000 shares of common stock at an exercise price of \$.14 per share for a term of three years, vested at 12,500 per quarter. The terms of the appointment also includes a cash payment of \$10,000, paid quarterly.

HEP Investments

On July 13, 2014, the Company and HEP Investments, LLC, a Michigan limited liability company ("Lender"), entered into the following documents, effective as of July 1, 2014: (i) Third Amendment to Loan Agreement under which the Lender has agreed to advance up to a total of \$6,000,000 to the Company, subject to certain conditions, and (ii) a Fourth Amended and Restated Senior Secured Convertible Promissory Note. These agreements amend agreements the Company entered into with HEP Investments as previously disclosed.

During the period from July 1, 2014 through August 9, 2014, the Lender has funded an additional \$1,035,000 for a current total outstanding debt of \$5,085,000.

Change in control agreements

In August 2014, the Board of Directors approved a Change in Control Agreement (the "Agreement") which the Company entered into on August 11, 2014 with both of its executive officers. The Agreement with each of the executive officers provides that if a Change of Control (as defined in the Agreement) occurs and the participant is not offered substantially equivalent employment with the successor corporation or the participant's employment is terminated without Cause (as defined in the Agreement) during the three month period prior to the Change of Control or the 24 month period following the Change of Control, then 100% of such participant's unvested options will be fully vested and the restrictions on his restricted shares will lapse. The Agreement also provides for severance payments of 500% of base salary and target bonus in such event. The Agreement terminates on December 31, 2014 (with two 6 month extensions), with the provision that if a Change of Control occurs prior to the termination date, the obligations of the Agreement will remain in effect until they are satisfied or have expired.

The foregoing description of the Agreement is qualified in its entirety by reference to the copies of the Agreement, a form of which is attached hereto as Exhibit 10.30 and which are incorporated by reference herein.

Miscellaneous Receivable

On August 1, 2014, the Company and its former landlord agreed to dismiss a lawsuit with prejudice regarding the security deposit on premises formerly occupied by the Company. The stipulations were that both party dropped their respective lawsuits and that each would pay their own attorney's fees. Accordingly, the Company wrote off the receivable and recorded other expense of \$118,467 in the quarter ended June 30, 2014 (see Note 9).

Cancellation of Payable

On July 15, 2014, the Company came to an agreement with a vendor whereby the vendor agreed to reduce a payable by \$93,683. Accordingly, the Company has reduced Accounts Payable and recorded Other Income of \$93,683 in the quarter ended June 30, 2014 (see Note 9).

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

Results of Operations for the three months ended June 30, 2014 and 2013.

Net Sales.

We had no sales during the three months ended June 30, 2014 and 2013. We implemented a new business model starting in 2012, and expect to derive future income from the licensing and sale of natural bioactive ingredients derived from algae cultures to much larger, better-financed animal, food, dietary supplement and medical food manufacturers. The anticipated income streams are to be generated from a) royalties and advances for licensed natural bioactive ingredients, and b) bulk sales of such ingredients. These bulk ingredients will be made by contracted ingredient manufacturers and then sold by us to food, dietary supplement and medical food processors and/or name-brand marketers. Because we are engaged in a collaboration agreement with Zoetis to determine the market validity of our candidate products in addressing bovine mastitis, we expect that at the conclusion of our joint study period, the two parties will engage in discussions regarding options and licenses, whereupon revenues can be expected. We do not believe that these revenues will likely materialize in the last two quarters of 2014, as the option/collaboration agreement allows for up to six months for negotiations, which could carry over into 2015.

Further, our current canine joint health studies may likely culminate in another option/collaboration agreement with a larger animal health company, or we may elect to pursue a direct supply contract with an established canine dietary supplement maker/marketer. Should any revenue materialize in 2014 for this specific product category, it would consist of an option payment, license fee or marketing consideration.

With respect to our WellMetris, LLC subsidiary, potential revenue may be expected in the last quarter of 2014 should capital funding be secured to activate the manufacturing of analyzers and test cartridges to build inventory, as well as product launch expenses.

Cost of Sales.

We had no cost of sales during the three months ended June 30, 2014 and 2013.

Research and Development Expenses.

For the three months ended June 30, 2014, we incurred \$405,790 in research and development expenses, as compared to \$310,917 for the comparable period in 2013. Of these expenses, \$324,043 and \$310,917 for the three months ended June 30, 2014 and 2013, respectively, are mainly comprised of costs associated with external research. Our research and development costs will grow as we work to complete the research in the development of natural bioactive compounds for use as dietary supplements and food ingredients, as well as lead compounds for medicinal and pharmaceutical applications in humans and animals. The Company's scientific efforts are focused on the metabolic aspects of oxidation and inflammation, with a parallel program to validate and license products for healthy immune response.

With respect to our WellMetris, LLC subsidiary, we incurred \$81,747 in research and development expenses. There is no comparable period for 2013, as the new subsidiary was formed in August of 2013. However, the R&D effort which took place in the three months ended June 30, 2014 centered on optimizing dry chemistry and developing lower-cost alternatives for the proprietary analyzer device.

Selling and Marketing Expenses.

We had no selling and marketing expenses during the three months ended June 30, 2014 and 2013.

General and Administrative Expenses.

General and administrative expenses were \$262,145 for the three months ended June 30, 2014, as compared to \$472,003 for the comparable prior period. The decrease in general and administrative expense during 2014 is due primarily to a warrant granted to the Chief Financial Officer in April 2013 for 557,000 shares of common stock whereby the Company recorded a compensation expense (non-cash) of \$251,000. The remaining increase in 2014 of \$41,000 is due to increased business activity.

Professional and Consulting Expenses.

Professional and consulting expenses were \$132,775 for the three months ended June 30, 2014, as compared to \$99,480 for the comparable prior period. The increase in professional and consulting expense during 2014 is due to increased business activity and legal fees relating to a number of new patent applications for WellMetris.

Other Income (Expense)

For information relating to Other Income (Expense), please see Notes 9 and 11 of the Notes to Consolidated Financial Statements.

Results of Operations for the six months ended June 30, 2014 and 2013.

Net Sales.

We had no sales during the six months ended June 30, 2014 and 2013. We implemented a new business model starting in 2012, and expect to derive future income from the licensing and sale of natural bioactive ingredients derived from algae cultures to much larger, better-financed animal, food, dietary supplement and medical food manufacturers. The anticipated income streams are to be generated from a) royalties and advances for licensed natural bioactive ingredients, and b) bulk sales of such ingredients. These bulk ingredients will be made by contracted ingredient manufacturers and then sold by us to food, dietary supplement and medical food processors and/or name-brand marketers. Because we are engaged in a collaboration agreement with Zoetis to determine the market validity of our candidate products in addressing bovine mastitis, we expect that at the conclusion of our joint study period, the two parties will engage in discussions regarding options and licenses, whereupon revenues can be expected. We do not believe that these revenues will likely materialize in the last two quarters of 2014, as the option/collaboration agreement allows for up to six months for negotiations, which could carry over into 2015.

Further, our current canine joint health studies may culminate in another option/collaboration agreement with a larger animal health company, or we may elect to pursue a direct supply contract with an established canine dietary supplement maker/marketer. Should any revenue materialize in 2014 for this specific product category, it would consist of an option payment, license fee or marketing consideration.

With respect to our WellMetris, LLC subsidiary, potential revenue may be expected in the last quarter of 2014 should capital funding be secured to activate the manufacturing of analyzers and test cartridges to build inventory, as well as product launch expenses.

Cost of Sales.

We had no cost of sales during the six months ended June 30, 2014 and 2013.

Research and Development Expenses.

For the six months ended June 30, 2014, we incurred \$796,811 in research and development expenses, as compared to \$440,365 for the comparable period in 2013. Of these expenses, \$598,874 and \$440,365 for the six months ended June 30, 2014 and 2013, respectively, are mainly comprised of costs associated with external research. Our research and development costs will grow as we work to complete the research in the development of natural bioactive compounds for use as dietary supplements and food ingredients, as well as biologics for medicinal and pharmaceutical applications in humans and animals. The Company's scientific efforts are focused on the metabolic aspects of oxidation and inflammation, with a parallel program to validate and license products for healthy immune response.

With respect to our WellMetris, LLC subsidiary, we incurred \$197,937 in research and development expenses for the first six months of 2014, there is no comparable period in 2013, as the new subsidiary was formed in August of 2013. The R&D effort to date centered on optimizing dry chemistry, developing lower-cost alternatives for the proprietary analyzer device, negotiating and collaborating with offshore manufacturers and assembling the FDA pre-submission package for product classification and approval.

Selling and Marketing Expenses.

We had no selling and marketing expenses during the six months ended June 30, 2014 and 2013.

General and Administrative Expenses.

General and administrative expenses were \$532,748 for the six months ended June 30, 2014, as compared to \$736,416 for the comparable prior period. The decrease in general and administrative expense during 2014 is due primarily to is due primarily to a warrant granted to the Chief Financial Officer in April 2013 for 557,000 shares of common stock whereby the Company recorded a compensation expense (non-cash) of \$251,000. The remaining increase in 2014 of \$45,000 is due to increased business activity.

Professional and Consulting Expenses.

Professional and consulting expenses were \$249,909 for the six months ended June 30, 2014, as compared to \$240,956 for the comparable prior period. The increase in professional and consulting expense during 2014 is due to increased business activity and legal fees relating to a number of new patent applications for WellMetris.

Other Income (Expense)

For information relating to Other Income (Expense), please see Notes 9 and 11 of the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

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

As of August 8, 2014, we had a cash balance of approximately \$435,000. We have incurred significant net losses since inception, despite net income of \$3,962,328 for the period ended June 30, 2014, which is a result of an adjustment to the fair value of a derivative liability of approximately \$6,000,000. We have, since inception, consistently incurred negative cash flow from operations. During the period ended June 30, 2014, we incurred negative cash flows from operations of \$1,223,104. As of June 30, 2014, we had a working capital deficiency of \$5,843,753 and a stockholders’ deficiency of \$5,007,312. Although we recently raised a limited amount of capital, we have a near term need for additional capital.

During the six months ended June 30, 2014, our operating activities used \$1,223,104 in cash, a decrease of \$185,077 from the comparable prior period. The approximate \$185,000 decrease in cash used by operating activities was primarily attributable to the following (all of which are approximated): a \$8,971,000 increase in net income, offset by \$9,707,000 in non-cash expenses, \$228,000 of changes (decrease) in prepaid expenses, miscellaneous receivables, security deposits and \$692,000 of changes (increase) in accounts payable, accrued liabilities and the reduction of deferred revenue and customer deposits.

Our financing activities generated \$761,000, an \$855,000 decrease from the comparable prior period. The decrease in cash provided by financing activities was due to a \$1,500,000 reduction of proceeds from issuance of convertible debentures offset by an increase in proceeds of \$651,000 from the sale of common stock and the exercise of common stock warrants.

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

Although we raised a limited amount of capital during 2013 and the first six months of 2014, we continue to experience a shortage of capital, which is materially and adversely affecting our ability to run our business. As noted above, we have been largely dependent upon external sources for funding. We have in the past had great difficulty in raising capital from external sources. We will still be reliant upon external financing for the continuation of our research program.

We estimate that we will require approximately \$3 million in cash over the next 12 months in order to fund our normal operations and research and development activities and an additional \$4.8 million in new capital to launch the WellMetris technology. Based on this cash requirement, we have a near term need for substantial additional funding. Historically, we have had great difficulty raising funds from external sources; however, we recently were able to raise capital from outside sources. If we are unable to raise the required funding, we will have to curtail our research and development and other activities, in which case, there could be a material adverse effect on our business.

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

We do not expect to experience any significant elements of income or loss other than those arising from our continuing operations, other than those arising out of changes in the fair value of derivative liabilities. For the six months ended June 30, 2014, we recognized \$5,957,121 in income for financial statement purposes, due to the change in fair value of derivative liabilities as of June 30, 2014. We may incur income or expense in future periods arising out of changes in the fair value of derivative liabilities.

Seasonality

Anticipated income streams are to be generated from the following:

· For HEPI:

- a) royalties and advances for licensed natural bioactive ingredients, isolated natural compounds and synthetic variants thereof, and
- b) bulk sales of such ingredients;

· For WellMetris:

The selling of wellness tests and data services related to medical records management and analysis/compilation of data gathered on behalf of payers

We do not anticipate that these will be affected by seasonality.

Staffing

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

Off-Balance Sheet arrangements

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

Item 4 Controls and Procedures

Management's Report on Disclosure Controls and Procedures.

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

As of June 30, 2014, 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 six months ended June 30, 2014, the Company issued 5,473,334 shares of common stock for \$757,500.

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

Item 5. Other Information

Item 6. Exhibits

Exhibit Number	Description	
10.28	Third Amendment to Loan Agreement with HEP Investments, LLC dated July 1, 2014	*
10.29	Fourth Amended and Restated Senior Secured Convertible Promissory Note with HEP Investments, LLC dated July 1, 2014	*
10.30	Form of Change of Control Agreement dated August 11, 2014	*
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	*
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	*
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*

*Furnished herewith (all other exhibits are deemed filed)

SIGNATURES

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

HEALTH ENHANCEMENT PRODUCTS, INC.

Date: August 14, 2014

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

List of Exhibits

Exhibit Number	Description	
10.28	Third Amendment to Loan Agreement with HEP Investments, LLC dated July 1, 2014	*
10.29	Fourth Amended and Restated Senior Secured Convertible Promissory Note with HEP Investments, LLC dated July 1, 2014	*
10.30	Form of Change of Control Agreement dated August 11, 2014	*
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	*
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended	*
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*

*Furnished herewith (all other exhibits are deemed filed)

THIRD AMENDMENT TO LOAN AGREEMENT

This Third Amendment to Loan Agreement ("Third Amendment") is made and entered into as of July 1, 2014 by and between HEP INVESTMENTS LLC, a Michigan limited liability company ("Lender"), and HEALTH ENHANCEMENT PRODUCTS, INC., a Nevada corporation ("Borrower").

RECITALS

A. Borrower and Lender entered into a Second Amendment to Loan Agreement, dated as of December 16, 2013, and a First Amendment to Loan Agreement, dated as of April 15, 2013, which amended the Loan Agreement dated as of December 1, 2011 (as the same may be amended, modified or restated from time to time, the "Loan Agreement") whereby Lender made a loan to Borrower evidenced by an Amended and Restated Senior Secured Convertible Promissory Note, dated as of December 1, 2011, which has been amended pursuant to a Second Amended and Restated Senior Secured Convertible Promissory Note dated December 16, 2013 and a Third Amended and Restated Senior Secured Convertible Promissory Note dated March 17, 2014, made by Borrower in favor of Lender.

B. Borrower and Lender desire to make certain changes to the Loan Agreement upon the terms and conditions hereinafter set forth in connection with the execution of a Fourth Amended and Restated Senior Secured Convertible Promissory Note dated of even date herewith, including the consent of the Guarantors to such amendment endorsed hereon.

NOW THEREFORE, in consideration of the covenants and agreements of the parties, Borrower and Lender, with the consent and agreement of the undersigned Guarantors (each a "Guarantor" and collectively the "Guarantors"), agree as follows:

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

2. **Continued Effect.** Except as specifically modified or amended by the terms of this Third Amendment, all other terms and provisions of the Loan Agreement and all other Loan Documents (as defined in the Loan Agreement) shall continue in full force and effect. By execution of this Amendment, Borrower and each Guarantor hereby reaffirms, assumes and binds itself to all of the obligations, duties, rights, covenants, terms and conditions that are contained in the Loan Agreement, the Note and the other Loan Documents.

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

"1. **Loan.** Lender agrees to make a loan to Borrower in the amount of up to \$6,000,000 (the "Loan") in accordance with the terms of that certain Fourth Amended and Restated Senior Secured Convertible Promissory Note attached hereto as Exhibit A (the "Note").

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

(a) Lender will fund portions of the remainder of the \$6,000,000.00 (the Loan amount prior to this Third Amended Loan Agreement) of the Loan at such times as it determines in its discretion after the execution and delivery of this Third Amendment and the Note. After giving effect to such additional advance(s), Lender and Borrower shall document the total balance of the Loan.

(b) In the event that Borrower requires additional financing, Borrower shall so notify Lender and advise Lender of the intended use of proceeds of such financing. Lender shall have the right, but not the obligation, to advance such amount under the Loan (but in no event more than an additional \$250,000 in the aggregate) within twenty (20) days after request therefor. If Lender refuses to fund such amount or fails to do so within such 20-day period, Borrower shall have the right to seek such financing from a third-party on terms and conditions no more favorable to the lender than those set forth in the Loan and Lender will be deemed to have waived the covenants set forth in Section 9(c) and (d) of the Loan Agreement with respect to such financing."

4. **Amendment to Section 6.** Section 6 of the Loan Agreement is amended by adding the following at the end of the section:

“Further, Borrower shall issue Lender a warrant to purchase 1,333,333 shares of Borrower’s common stock pursuant to the terms of that certain warrant attached as Exhibit I (“Second Warrant” and together with the Exhibit G Warrant, collectively, the “Warrant”) and Borrower and Lender shall amend the registration rights agreement in the form attached as Exhibit J (Exhibit H, as amended by Exhibit J, the “Registration Rights Agreement”). Parties acknowledge and agree the fair market value of the Second Warrant is one hundred dollars (\$100).”

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

6. **Authority.** Each individual executing this Third Amendment on behalf of the respective parties hereto represents and warrants that he/she is duly authorized to execute and deliver this Third Amendment on behalf of the respective party hereto and that this Third Amendment is binding upon the respective party in accordance with its terms.

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

[Signatures on next page]

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

BORROWER:

HEALTH ENHANCEMENT PRODUCTS, INC., a Nevada corporation

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

LENDER:

HEP INVESTMENTS LLC, a Michigan limited liability company

By: /s/ LAITH YALDOO
Laith Yaldo, Manager

ACKNOWLEDGED AND AGREED BY THE UNDERSIGNED GUARANTORS:

HEALTH ENHANCEMENT CORPORATION, a Nevada corporation

By: /s/ PHILIP M. RICE II
Print Name: Philip M. Rice, II
Its: Chief Financial Officer

HEPI PHARMACEUTICALS, INC., a Delaware corporation

By: /s/ PHILIP M. RICE II
Print Name: Philip M. Rice, II
Its: Chief Financial Officer

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

\$6,000,000

**Keego Harbor, Michigan
July 1, 2014**

FOR VALUE RECEIVED, **HEALTH ENHANCEMENT PRODUCTS, INC.**, a Nevada corporation ("Borrower"), whose address is 2804 Orchard Lake Road, Suite 202, Keego Harbor, Michigan 48320, promises to pay to the order of **HEP INVESTMENTS LLC**, a Michigan limited liability company ("Lender"), whose address is 2804 Orchard Lake Road, Suite 205, Keego Harbor, Michigan 48320, or at such other place as Lender may designate in writing, in lawful money of the United States of America, the principal sum of up to Six Million Dollars (\$6,000,000.00), or such lesser sum as shall have been advanced by Lender to Borrower under the loan agreement hereinafter described, together with interest as provided herein, in accordance with the terms of this Fourth Amended and Restated Senior Secured Convertible Promissory Note (this "Note").

In accordance with the terms of that certain Loan Agreement, dated December 1, 2011, by and between Lender and Borrower, as amended in the First Amendment to Loan Agreement dated April 15, 2013, the Second Amendment to Loan Agreement dated December 13, 2013 and the Third Amendment to Loan Agreement dated of even date herewith (as amended, the "Loan Agreement"), Lender has loaned Borrower up to Six Million Dollars (\$6,000,000.00). All advances made hereunder shall be charged to a loan account in Borrower's name on Lender's books, and Lender shall debit to such account the amount of each advance made to, and credit to such account the amount of each repayment made by Borrower. From time to time but not less than quarterly, Lender shall furnish Borrower a statement of Borrower's loan account, which statement shall be deemed to be correct, accepted by, and binding upon Borrower, unless Lender receives a written statement of exceptions from Borrower within ten (10) days after such statement has been furnished. Terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Loan Agreement.

1. Payment. The unpaid principal balance of this Note shall bear interest computed upon the basis of a year of 360 days for the actual number of days elapsed in a month at a rate of eleven percent (11%) per annum (the "Effective Rate"). Upon the occurrence and during the continuance of an Event of Default (as defined below), the unpaid principal balance of this Note shall bear interest, computed upon the basis of a year of 360 days for the actual number of days elapsed in a month, at a rate equal to the lesser of five percent (5%) over the Effective Rate or the highest rate allowed by applicable law. The indebtedness represented by this Note shall be paid to Lender in an installment of interest only on the first anniversary of the date of each Tranche on Exhibit 1 to this Note (a "Tranche"), and, if not sooner converted in accordance with the terms of this Note, the entire unpaid principal balance of this Note, together with all accrued and unpaid interest, shall be immediately due and payable in full (a) with respect to each Tranche on the Due Date specified in Exhibit 1 and (b) with respect to any additional Tranche within 24 months of the full funding of such Tranche (with respect to each Tranche, a "Due Date").

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

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

4. Conversion Right and Funding Provisions.

(a) At Lender's option, at any time prior to the repayment in full of this Note, any or all Tranches of the outstanding indebtedness of this Note (including all accrued and unpaid interest) may be converted into shares of common stock of Borrower ("Shares") at the lesser of the conversion rate as listed in Exhibit 1 or a 25% discount to the then current ten day average trading price of Shares on the Over the Counter Securities Market (the "Conversion Price").

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

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

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

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

(c) Borrower files a voluntary petition in bankruptcy;

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

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

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

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

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

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

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

9. Miscellaneous.

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

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

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

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

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

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

[Signature on the following page]

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

BORROWER:

HEALTH ENHANCEMENT PRODUCTS, INC.

By: /s/ PHILIP M. RICE II

Print Name: Philip M. Rice, II

Its: Chief Financial Officer

EXHIBIT 1

<u>Date Invested</u>	<u>Tranche #</u>	<u>Amount</u>	<u>Due Date</u>	<u>Conversion Rate</u>	<u>Interest Rate</u>	<u>Warrant Coverage ("cashless")</u>
December 1, 2011	1	\$ 500,000	June 1, 2014	\$ 0.12	11%	10%
April 4, 2012	2	250,000	April 4, 2014	0.12	11%	10%
May 8, 2012	3	250,000	May 18, 2014	0.12	11%	10%
March 18, 2013	4	500,000	March 18, 2015	0.12	11%	10%
April 10, 2013	5	250,000	April 10, 2015	0.12	11%	10%
April 16, 2013	6	250,000	April 16, 2015	0.12	11%	10%
April 29, 2013	7	250,000	April 29, 2015	0.12	11%	10%
May 7, 2013	8	250,000	May 7, 2015	0.12	11%	10%
July 15, 2013	9A	207,592	July 15, 2015	0.12	11%	10%
July 15, 2013	9B	42,408	July 15, 2015	0.22	11%	10%
July 25, 2013	10	250,000	July 25, 2015	0.22	11%	10%
September 30, 2013	11	300,000	September 30, 2015	0.22	11%	10%
October 28, 2013	12	250,000	October 28, 2015	0.30	11%	10%
December 30, 2013	13	500,000	December 30, 2015	0.30	11%	10%
July 1, 2014	14	<u>1,950,000</u>	July 1, 2016	0.15	11%	10%
Total		<u>\$ 6,000,000</u>				

<u>Name</u>	<u>Title</u>
Andrew A. Dahl	President and Chief Executive Officer
Philip M. Rice II	Chief Financial Officer

CHANGE OF CONTROL AGREEMENT

THIS CHANGE OF CONTROL AGREEMENT (this "Agreement"), is made on this 11th day of August, 2014, by and between Health Enhancement Products, Inc. (the "Company") and (the "Employee").

WHEREAS, the Employee serves as an employee of the Company; and

WHEREAS, the Company desires to establish certain protections for the Employee in the event of the Employee's termination of employment under the circumstances described herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and promises contained herein, and intending to be bound hereby, the parties agree as follows:

SECTION 1 Definitions. As used herein:

1.1. "Base Salary" means, as of any given date, the annual base rate of salary payable to the Employee by the Company, as then in effect; *provided, however*, that in the case of a resignation by the Employee for the Good Reason described in Section 1.7.3, "Base Salary" will mean the annual base rate of salary payable to the Employee by the Company, as in effect immediately prior to the reduction giving rise to the Good Reason.

1.2. "Board" means the Board of Directors of the Company.

1.3. "Cause" means (i) Employee's conviction of a felony or other crime involving moral turpitude (but not automobile related matters); (ii) Employee's commission of any act or omission involving dishonesty, fraud, embezzlement, theft, substance abuse or sexual misconduct with respect to the Company, any subsidiary of the Company or any of their respective employees, vendors, suppliers or customers, the specific nature of which shall be set forth in a written notice by the Company to Employee; (iii)

Employee's substantial and continued neglect of or failure to perform his duties, or failure to follow a "reasonable directive of the Board," which after written notice from the Board of such neglect or failure, has not been cured within ten (10) days after he receives such notice. For purposes of this Agreement, "reasonable directive of the Board," shall mean a directive that is applied equitably among the management employees of the Company; (iv) Employee's gross negligence or willful misconduct in the performance of his duties; or (v) Employee's misappropriation of funds or assets of the Company or any subsidiary of the Company.

1.4. "Change of Control" means the happening of an event, which shall be deemed to have occurred upon the earliest to occur of the following events:

a. the dissolution or liquidation of the Company;

b. the sale or other disposition of all or substantially all of the assets of the Company;

c. the merger or consolidation the Company with or into another corporation, other than, in either case, a merger or consolidation of the Company in which holders of shares of the Company's voting capital stock immediately prior to the merger or consolidation will have more than 50% of the ownership of voting capital stock of the surviving corporation immediately after the merger or consolidation (on a fully diluted basis), which voting capital stock is to be held in the same proportion (on a fully diluted basis) as such holders ownership of voting capital stock of the Company immediately before the merger or consolidation;

d. the date any entity, Person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act), other than (i) the Company, or (ii) any of its Subsidiaries, or (iii) any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries, or (iv) any Affiliate (as such term is defined in Rule 405 promulgated under the Securities Act) of any of the foregoing, shall have acquired beneficial ownership of, or shall have acquired voting control over, 50% or more of the outstanding shares of the Company's voting capital stock (on a fully diluted basis), unless the transaction pursuant to which such Person, entity or group acquired such beneficial ownership or control resulted from the original issuance by the Company of shares of its voting capital stock and was approved by at least a majority of Directors who were either members of the Board on the date that this Plan was originally adopted by the Board or members of the Board for at least twelve (12) months before the date of such approval; or

e. the first day after the date of this Plan when Directors are elected such that there is a change in the composition of the Board such that a majority of Directors have been members of the Board for less than twelve (12) months, unless the nomination for election of each new Director who was not a Director at the beginning of such twelve (12) month period was approved by a vote of at least sixty percent (60%) of the Directors then still in office who were Directors at the beginning of such period.

Notwithstanding the foregoing, the Committee may provide for a different definition of a Change of Control in an Award Agreement if such Award is subject to the requirements of Code Section 409A and the Award will become payable on a Change of Control.

1.5. "Code" means Internal Revenue Code of 1986, as amended.

1.6. "Disability" means a condition entitling the Employee to benefits under the Company's long term disability plan, policy or arrangement; *provided, however*, that if no such plan, policy or arrangement is then maintained by the Company and applicable to the Employee, "Disability" will mean the Employee's inability, by reason of any physical or mental impairment, to substantially perform the Employee's regular duties to the Company, as determined by the Board in its sole discretion (after affording the Employee the opportunity to present the Employee's case), which inability is reasonably contemplated to continue for at least one year from its commencement and at least ninety (90) days from the date of such determination.

1.7. "Good Reason" means, without the Employee's prior written consent, any of the following:

1.7.1. a material diminution in the Employee's authorities, duties, titles or responsibilities;

1.7.2. the location of the facility at which the Employee is required to perform his or her duties is more than fifty (50) miles from the then current Company headquarters;

1.7.3. a reduction of the Employee's Base Salary or the amount of the Employee's Target Bonus of five percent (5%) or more;

1.7.4. the Company's failure to pay or make available any material payment or benefit due Employee under this Agreement or any other material breach by the Company of this Agreement. However, the foregoing events or conditions will constitute Good Reason only if (A) such event or condition occurs during the period beginning ninety (90) days immediately preceding a Change of Control and ending twenty-four (24) months thereafter and (B) the Employee provides the Company with written objection to the event or condition within sixty (60) days following the occurrence thereof, the Company does not reverse or otherwise cure the event or condition within thirty (30) days of receiving that written objection and the Employee resigns the Employee's employment within ninety (90) days following the expiration of that cure period.

1.8. "Release" means a release substantially identical to the one attached hereto as Exhibit A.

1.9. "Target Bonus" means, with respect to any year, 100% of the target amount of the Employee's annual bonus opportunity, expressed as a percentage of Base Salary, that would be payable to the Employee with respect to that year, whether under an employment or incentive agreement, under any bonus plan or policy of the Company or otherwise, assuming that all applicable performance goals are met and conditions to the payment of such bonus are satisfied.

1.10. "Warrant" means Warrants to purchase the Company's common stock at a specified price.

1.11. "Employee Warrants" means any outstanding and contingent Warrants to purchase the Company's common shares owned directly or beneficially by the Employee.

1.12. “Cashless Exercise” means if the fair market value of one Warrant Share is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant by payment of cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Notice of Exercise in which event the Company shall issue to the Holder a number of Warrant Shares computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where:

X = the number of Warrant Shares to be issued to the Holder

Y = the number of Warrant Shares purchasable under the Warrant or, if only a portion of the Warrant is being exercised, that portion of the Warrant being canceled (at the date of such calculation)

A = the fair market value of one Warrant Share (using the average of the last reported sale prices of the Common Stock for the five (5) trading days immediately preceding the date of the exercise)

B = Exercise Price (as adjusted to the date of such calculation)

SECTION 2 Certain Terminations Following a Change of Control.

2.1. Severance Events Following a Change of Control. If the Employee’s employment with the Company ceases within the twenty-four (24) month period following the date of a Change of Control as a result of a termination by the Company without Cause, a resignation by the Employee for Good Reason or due to the Employee’s death or Disability, then, subject to Section 3 and Section 5, the Employee will be entitled to the following:

2.1.1. (i) any Base Salary earned through the effective date of termination that remains unpaid, with any such amounts paid on the first regularly scheduled payroll date following the effective date of termination; (ii) any bonus payable with respect to any fiscal year which ended prior to the effective date of the Employee’s termination of employment, which remains unpaid, with such amount paid in the first regularly scheduled payroll date following the effective date of termination or, if later, at the same time the bonus would have otherwise been payable to the Employee; and (iii) any reimbursement or payment due to the Employee on or prior to the date of such termination which remains unpaid to the Employee, with any such payment being made promptly following the effective date of termination (collectively, the “Accrued Obligations”);

2.1.2. a lump sum cash payment equal to 500% of the Employee’s Base Salary as in effect on such date (without taking into effect any reduction described in Section 1.7.3 above);

2.1.3. a lump sum cash payment equal to five (5) times his annual Target Bonus as in effect on such date; and

2.1.4. provided that the Employee is eligible for, and timely elects, COBRA continuation coverage, for a period of eighteen (18) months commencing from the date of the Employee’s termination of employment, the Company will reimburse the Employee for the monthly COBRA cost of continued coverage for the Employee, and, where applicable, his spouse and eligible dependents, paid by the Employee under the Company’s group health plan pursuant to section 4980B of the Code, less the amount that the Employee would be required to contribute for such coverage if the Employee were an active employee of the Company. These payments will commence within 30 days following the termination date and will be paid on the first payroll date of each month.

2.1.5. all vested warrants and all contingent warrants share be converted immediately into vested Warrants, with terms as specified in the Warrant, but in no case longer than five (5) years. All such Warrants shall also be deemed to be treated as “cashless warrants”

2.2. Severance Events Preceding a Change of Control. If the Employee’s employment with the Company ceases during the ninety (90) days immediately preceding the date of a Change of Control as a result of a termination by the Company without Cause, a resignation by the Employee for Good Reason or due to the Employee’s death or Disability, then, subject to Section 3 and Section 5, the Employee will be entitled to the following:

2.2.1. the Accrued Obligations;

2.2.2. the Company will make a lump sum cash payment to the Employee equal to 500% of the Employee's Base Salary as in effect on such date (without taking into effect any reduction described in Section 1.7.3 above);

2.2.3. a lump sum cash payment equal to five (5) times his annual Target Bonus as in effect on such date; and

2.2.4. provided that the Employee is eligible for, and timely elects, COBRA continuation coverage, for a period of eighteen (18) months commencing from the date of the Employee's termination of employment, the Company will reimburse the Employee for the cost of the applicable monthly COBRA premium for the Employee, and, where applicable, his spouse and eligible dependents, paid by the Employee under the Company's group health plan pursuant to section 4980B of the Code, less the amount that the Employee would be required to contribute for such coverage if the Employee were an active employee of the Company. These payments will commence within thirty (30) days following the termination date and will be paid on the first payroll date of each month. If applicable, the Employee will be reimbursed for COBRA premiums paid out-of-pocket for the period following the Employee's termination date through the date of the Change of Control in an amount equal to the portion of the premium amount paid by the Company toward the applicable premium under its group health plan for active employees during the Employee's term of employment with the Company; *provided* that if the Employee or the Employee's spouse or eligible dependents, as applicable, have not elected (and is no longer eligible to elect) COBRA continuation coverage, no waiver or reimbursement will be made pursuant to this Section 2.2.3.

Notwithstanding the foregoing, if the Company's obligation to make the payments provided for in Sections 2.1.2, 2.1.3 or Section 2.2.2 and 2.2.3 arises due to the Employee's death or Disability, the cash payments described in Sections 2.1.2, 2.1.3, 2.2.2 and 2.2.3 will be reduced by the amount of benefits paid or payable to the Employee (or the Employee's representative(s), heirs, estate or beneficiaries) pursuant to the life insurance or disability plans, policies or arrangements of the Company by virtue of the Employee's death or Disability (including, for this purpose, only that portion of such life insurance or disability benefits funded solely by the Company or by premium payments made by the Company and not including the portion of such benefits paid for by the Employee). The payments and benefits described in this Section are in lieu of (and not in addition to) any other severance plan, fund, agreement or other arrangement maintained by the Company.

SECTION 3 Timing of Payments Following Termination.

Notwithstanding any provision of this Agreement, the payments and benefits described in Section 2 (other than any Accrued Obligations) are conditioned on the Employee's execution and delivery to the Company of the Release in a manner consistent with applicable law. The amounts described in Sections 2.1.2, 2.1.3 or Section 2.2.2 and 2.2.3 (as applicable) will be paid in a lump sum, within sixty (60) days following execution and nonrevocation of the Release. Notwithstanding any provision of this Agreement to the contrary, in no event shall the timing of the Employee's execution of the Release, directly or indirectly, result in the Employee designating the calendar year of payment, and if a payment that is subject to execution of the Release could be made in more than one taxable year, payment shall be made in the later taxable year.

SECTION 4 Parachute Payments.

4.1. The payments and benefits provided under Section 2 shall be made without regard to whether such payments and benefits, either alone or in conjunction with any other payments or benefits made available to the Employee by the Company and its affiliates, will result in the Employee being subject to an excise tax under Section 4999 of the Code (the "Excise Tax") or whether the deductibility of such payments and benefits would be limited or precluded by Section 280G of the Code; *provided, however*, that if the Total After-Tax Payments (as defined below) would be increased by limitation or elimination of payments or benefits provided under Section 2, then the amounts and benefits payable under Section 2 will be reduced to the minimum extent necessary to maximize the Total After-Tax Payments. For purposes of this Section 4, "Total After-Tax Payments" means the total of all "parachute payments" (as that term is defined in Section 280G(b)(2) of the Code) made to or for the benefit of the Employee (whether made under this Agreement or otherwise), after reduction for all applicable taxes (including, without limitation, the Excise Tax). If a reduction to the payments or benefits provided under Section 2 is required pursuant to this Section 4, such reduction shall occur to the payments and benefits in the order that results in the greatest economic present value of all payments and benefits actually made to the Employee.

4.2. All determinations to be made under this Section 4 shall be made by the Company's independent public accountant (the "Accounting Firm") immediately prior to the Change of Control. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Employee may appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Employee, except as described in the next Section.

4.3. As a result of the uncertainty in the application of Section 280G and Section 4999 of the Code at the time of the Change of Control, it is possible that payments and benefits which will not have been made or provided by the Company should have been made (“Underpayment”) or payments and benefits are made or provided by the Company which should not have been made (“Overpayment”), consistent with the calculations required to be made hereunder. In the event that there is a final determination by the Internal Revenue Service, or a final determination by a court of competent jurisdiction, that an Overpayment has been made, any such Overpayment shall be repaid to the Company by the Employee within thirty (30) days of such determination, with interest at the applicable Federal rate provided for in Section 7872(f)(2). In the event that there is a final determination by the Internal Revenue Service, or a final determination by a court of competent jurisdiction, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Employee together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code, within thirty (30) days of such determination.

4.4. The Employee shall take such action (other than waiving the Employee’s right to any payments or benefits) as the Company reasonably requests under the circumstances to mitigate or challenge any tax contemplated by this Section 4. If the Company reasonably requests that the Employee take action to mitigate or challenge, or to mitigate and challenge, any such tax or assessment and the Employee complies with such request, the Company shall provide the Employee with such information and such expert advice and assistance from the Company’s accountants, lawyers and other advisors as the Employee may reasonably request and shall pay for all expenses incurred in effecting such compliance and any related fines, penalties, interest and other assessments.

SECTION 5 Restrictive Covenants.

5.1. During the period of the Employee’s employment by the Company and, only if the Employee’s employment with the Company terminates pursuant to Section 2.1 or 2.2 and the Employee begins to receive the payments and benefits provided for under either such Section, for a period of one (1) year beginning on the later of (i) the Employee’s termination of employment and (ii) the date of a Change of Control (the “Restricted Period”), except with the written consent of the Board, the Employee will not (except in his capacity as an employee of the Company) do any of the following, directly or indirectly:

5.1.1. the Employee shall not directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, stockholder, consultant, investor or otherwise with, or use or permit his name to be used in connection with, any person, business or enterprise which directly or indirectly engages in the development, marketing or sale of products or compounds that are competitive with: (i) those products being marketed by the Company at the time of the Employee’s termination; (ii) those products, product candidates or compounds in clinical development or a clinical research program; or (iii) those products, product candidates or compounds that the Employee was aware were under pre-clinical development by the Company and expected to be in clinical development or in a clinical research program within six (6) months of the Employee’s termination (collectively, the “Company’s Business”).

5.1.2. solicit, entice or induce any customer to become a customer of any other person, firm or corporation with respect to the Company’s Business or to cease doing business with the Company or its subsidiaries or affiliates, and the Employee will not approach any such person, firm or corporation for such purpose or authorize or knowingly approve, encourage or assist the taking of such actions by any other person, firm or corporation; or

5.1.3. solicit, recruit or hire any part-time or full-time employee, representative or consultant of the Company or its subsidiaries or affiliates to work for a third party other than the Company or its subsidiaries or affiliates, or engage in any activity that would cause any employee, representative or consultant to violate any agreement with the Company or its subsidiaries or affiliates. The foregoing covenant shall not apply to any person after twelve (12) months have elapsed after the date on which such person’s employment by the Company has terminated.

5.2. The foregoing restrictions shall not be construed to prohibit the Employee’s ownership of less than five percent of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange Act of 1934, as amended, provided that such ownership represents a passive investment and that neither the Employee nor any group of persons including the Employee in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising the Employee’s rights as a stockholder, or seeks to do any of the foregoing.

5.3. The Employee acknowledges that the restrictions contained in this Section 5 are reasonable and necessary to protect the legitimate interests of the Company and its affiliates, that the Company would not have entered into this Agreement in the absence of such restrictions, and that any violation of any provision of this Section will result in irreparable injury to the Company. The Employee further represents and acknowledges that (i) he has been advised by the Company to consult his own legal counsel in respect of this Agreement, and (ii) that he has had full opportunity, prior to execution of this Agreement, to review thoroughly this Agreement with his counsel.

5.4. The Employee agrees that the Company shall be entitled to preliminary and permanent injunctive relief, without the necessity of proving actual damages, as well as an equitable accounting of all earnings, profits and other benefits arising from any violation of this Section 5, which rights shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled. In the event that any of the provisions of this Section 5 should ever be adjudicated to exceed the time, geographic, service, or other limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, service, or other limitations permitted by applicable law. The Employee agrees to disclose the existence and terms of this Section 5 to any employer that the Employee may work for during the Restricted Period. If the Employee breaches this Section 5 in any respect, the restrictions contained in herein will be extended for a period equal to the period that the Employee was in breach.

SECTION 6 Miscellaneous.

6.1. Section 409A. This Agreement shall be interpreted to avoid any penalty sanctions under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). If any payment or benefit cannot be provided or made at the time specified herein without incurring sanctions under Section 409A, then such benefit or payment shall be provided in full at the earliest time thereafter when such sanctions will not be imposed. All payments to be made upon a termination of employment under this Agreement will be made upon a "separation from service" under Section 409A of the Code. For purposes of Section 409A of the Code, each payment made under this Agreement shall be treated as a separate payment. In no event may the Employee, directly or indirectly, designate the calendar year of payment. To the maximum extent permitted under Section 409A of the Code and its corresponding regulations, the cash severance benefits payable under this Agreement are intended to meet the requirements of the short-term deferral exemption under Section 409A of the Code and the "separation pay exception" under Treas. Reg. §1.409A-1(b)(9)(iii). However, if such severance benefits do not qualify for such exemptions at the time of the Employee's termination of employment and therefore are deemed as deferred compensation subject to the requirements of Section 409A of the Code, then if the Employee is a "specified employee" under Section 409A of the Code on the date of the Employee's termination of employment, notwithstanding any other provision of this Agreement, payment of severance under this Agreement shall be delayed for a period of six (6) months from the date of the Employee's termination of employment if required by Section 409A of the Code. The accumulated postponed amount shall be paid in a lump sum payment within ten (10) days after the end of the six (6) month period. If the Employee dies during the postponement period prior to payment of the postponed amount, the amounts withheld on account of Section 409A of the Code shall be paid to the Employee's estate within sixty (60) days after the date of the Employee's death. All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code, including, where applicable, the requirement that (i) any reimbursement shall be for expenses incurred during the Employee's lifetime (or during a shorter period of time specified in this Agreement), (ii) the amount of expenses eligible for reimbursement, or in kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in kind benefits to be provided, in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred and (iv) the right to reimbursement or in kind benefits is not subject to liquidation or exchange for another benefit.

6.2. Term of Agreement. This Agreement shall terminate on December 31, 2014 (the "Agreement Termination Date"), subject to two six month extensions (to June 30, 2015 and December 31, 2015) to provide time for the Company to enter into new / revised employment agreements; *provided, however,* that if a Change of Control occurs prior to the Agreement Termination Date, this Agreement shall remain in effect until all of the obligations of the parties hereunder arising out of such Change of Control are satisfied or have expired.

6.3. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company and the Employee and their respective successors, executors, administrators, heirs and/or permitted assigns; *provided, however,* that neither the Employee nor the Company may make any assignments of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other party, except that, without such consent, the Company may assign this Agreement to any successor to all or substantially all of its assets and business by means of liquidation, dissolution, merger, consolidation, transfer of assets, or otherwise.

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

6.5. Enforcement. Any legal proceeding arising out of or relating to this Agreement will be instituted in the United States District Court for the Eastern District of Michigan, or if that court does not have or will not accept jurisdiction, in any court of general jurisdiction in the Michigan, and the Employee and the Company hereby consent to the personal and exclusive jurisdiction of such court(s) and hereby waive any objection(s) that they may have to personal jurisdiction, the laying of venue of any such proceeding and any claim or defense of inconvenient forum.

6.6. Waivers; Separability. The waiver by either party hereto of any right hereunder or any failure to perform or breach by the other party hereto shall not be deemed a waiver of any other right hereunder or any other failure or breach by the other party hereto, whether of the same or a similar nature or otherwise. No waiver shall be deemed to have occurred unless set forth in a writing executed by or on behalf of the waiving party. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or the effectiveness or validity of any provision in any other jurisdiction, and this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

6.7. Notices. All notices and communications that are required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when delivered personally or upon mailing by registered or certified mail, postage prepaid, return receipt requested, as follows:

[THIS SPACE INTENTIONALLY LEFT BLANK]

NOTICES SHALL BE MAILED OR OTHERWISE DELIVERED

If to the Company, to:

Health Enhancement Products, Inc.
2804 Orchard Lake Road
Suite 202
Keego Harbor, MI 48320
Attn: General Counsel
Fax: (610) 458-7830

If to the Employee, to the address on file with the Company, or to such other address as may be specified in a notice given by one party to the other party hereunder.

6.8. Entire Agreement; Amendments. This Agreement and the attached exhibit contain the entire agreement and understanding of the parties relating to the provision of severance benefits upon termination in connection with a Change of Control, and merges and is subordinate to current employment agreements in force.

6.9. Withholding. The Company will withhold from any payments due to the Employee hereunder, all taxes, FICA or other amounts required to be withheld pursuant to any applicable law.

6.10. Headings Descriptive. The headings of sections and paragraphs of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

6.11. Counterparts and Facsimiles. This Agreement may be executed, including execution by facsimile signature, in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

6.12. No Duty to Mitigate. The Employee shall not be required to mitigate damages or the amount of any payments provided for under this Agreement by seeking other employment or otherwise.

6.13. Recoupment Policy. The Employee agrees that the Employee will be subject to any compensation clawback or recoupment policies that may be applicable to the Employee as an executive of the Company, as in effect from time to time and as approved by the Board or a duly authorized committee thereof, whether or not approved before or after the effective date of this Amendment.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date and year first above written.

Health Enhancement Products, Inc.

/s/ ANDREW A. DAHL

By: Andrew A. Dahl

Title: President, Chief Executive Officer

EMPLOYEE

EXHIBIT A

RELEASE AND NON-DISPARAGEMENT AGREEMENT

THIS RELEASE AND NON-DISPARAGEMENT AGREEMENT (this "Release") is made as of the _____ day of _____, _____ by and between _____ (the "Employee") and Health Enhancement Products, Inc. (the "Company").

WHEREAS, the Employee's employment as an executive of the Company has terminated; and

WHEREAS, pursuant to Section 2 of the Change of Control Agreement by and between the Company and the Employee dated as of _____, _____ (the "Change of Control Agreement"), the Company has agreed to pay the Employee certain amounts and to provide Employee with certain rights and benefits, subject to the execution of this Release.

NOW THEREFORE, in consideration of these premises and the mutual promises contained herein, and intending to be legally bound hereby, the parties agree as follows:

SECTION 1 Consideration. The Employee acknowledges that: (a) the payments, rights and benefits set forth in Section 2 of the Change of Control Agreement constitute full settlement of all of Employee's rights under the Change of Control Agreement, (b) the Employee has no entitlement under any other severance or similar arrangement maintained by the Company, and (c) except as otherwise provided specifically in this Release, the Company does not and will not have any other liability or obligation to the Employee. The Employee further acknowledges that, in the absence of Employee's execution of this Release, the payments and benefits specified in Section 2 of the Change of Control Agreement would not otherwise be due to the Employee.

SECTION 2 Release and Covenant Not to Sue. The Employee hereby fully and forever releases and discharges the Company and its parents, affiliates and subsidiaries, including all predecessors and successors, assigns, officers, directors, trustees, employees, agents and attorneys, past and present (the Company and each such person or entity is referred to as a "Released Person"), from any and all claims, demands, liens, agreements, contracts, covenants, actions, suits, causes of action, obligations, controversies, debts, costs, expenses, damages, judgments, orders and liabilities, of whatever kind or nature, direct or indirect, in law, equity or otherwise, whether known or unknown, arising through the date of this Release, out of Employee's employment by the Company or the termination thereof, including, but not limited to, any claims for relief or causes of action under the Age Discrimination in Employment Act, 29 U.S.C. § 621 *et seq.*, or any other federal, state or local statute, ordinance or regulation regarding discrimination in employment and any claims, demands or actions based upon alleged wrongful or retaliatory discharge or breach of contract under any state or federal law. The Employee expressly represents that he has not filed a lawsuit or initiated any other administrative proceeding against a Released Person, and that he has not assigned any claim against a Released Person. The Employee further promises not to initiate a lawsuit or to bring any other claim against a Release Person arising out of or in any way related to Employee's employment by the Company or the termination of that employment. The forgoing will not be deemed to release the Company from (a) claims solely to enforce this Release, (b) claims solely to enforce Section 2 of the Change of Control Agreement, (c) claims for indemnification under the Company's By-Laws, under any indemnification agreement between the Company and the Employee or under any similar agreement or (d) claims solely to enforce the terms of any equity incentive award agreement between the Employee and the Company. This Release will not prevent the Employee from filing a charge with the Equal Employment Opportunity Commission (or similar state agency) or participating in any investigation conducted by the Equal Employment Opportunity Commission (or similar state agency); *provided, however*, that any claims by the Employee for personal relief in connection with such a charge or investigation (such as reinstatement or monetary damages) would be barred.

SECTION 3 Restrictive Covenants. The Employee acknowledges that restrictive covenants contained in Section 5 of the Change of Control Agreement will survive the termination of his employment. The Employee affirms that those restrictive covenants are reasonable and necessary to protect the legitimate interests of the Company, that he received adequate consideration in exchange for agreeing to those restrictions and that he will abide by those restrictions.

SECTION 4 Non-Disparagement. The Company (meaning, solely for this purpose, the Company's directors and executive officers and other individuals authorized to make official communications on the Company's behalf) will not disparage the Employee or the Employee's performance or otherwise take any action which could reasonably be expected to adversely affect the Employee's personal or professional reputation. Similarly, the Employee will not disparage the Company or any of its directors, officers, agents or employees or otherwise take any action which could reasonably be expected to adversely affect the reputation of the Company or the personal or professional reputation of any of the Company's directors, officers, agents or employees.

SECTION 5 Cooperation. The Employee further agrees that, subject to reimbursement of Employee's reasonable expenses, he will cooperate fully with the Company and its counsel with respect to any matter (including litigation, investigations, or governmental proceedings) which relates to matters with which the Employee was involved during Employee's employment with the Company. The Employee shall render such cooperation in a timely manner on reasonable notice from the Company.

SECTION 6 Rescission Right. The Employee expressly acknowledges and recites that he (a) has read and understands this Release in its entirety, (b) as entered into this Release knowingly and voluntarily, without any duress or coercion; (c) has been advised orally and is hereby advised in writing to consult with an attorney with respect to this Release before signing it; (d) was provided twenty-one (21) calendar days after receipt of the Release to consider its terms before signing it (or such longer period as is required for this Release to be effective under the Age Discrimination in Employment Act or any similar state law); and (e) is provided seven (7) calendar days from the date of signing to terminate and revoke this Release (or such longer period required by applicable state law), in which case this Release shall be unenforceable, null and void. The Employee may revoke this Release during those seven (7) days (or such longer period required by applicable state law) by providing written notice of revocation to the Company at the address specified in Section 6.7 of the Change of Control Agreement.

SECTION 7 Challenge. If the Employee violates or challenges the enforceability of Section 5 of the Change of Control Agreement or this Release, no further payments, rights or benefits under Section 2 of the Change of Control Agreement will be due to the Employee.

SECTION 8 Miscellaneous.

8.1. No Admission of Liability. This Release is not to be construed as an admission of any violation of any federal, state or local statute, ordinance or regulation or of any duty owed by the Company to the Employee. There have been no such violations, and the Company specifically denies any such violations.

8.2. No Reinstatement. The Employee agrees that he will not apply for reinstatement with the Company or seek in any way to be reinstated, re-employed or hired by the Company in the future.

8.3. Successors and Assigns. This Release shall inure to the benefit of and be binding upon the Company and the Employee and their respective successors, executors, administrators and heirs. The Employee may make any assignment of this Release or any interest herein, by operation of law or otherwise. The Company may assign this Release to any successor to all or substantially all of its assets and business by means of liquidation, dissolution, merger, consolidation, transfer of assets, or otherwise.

8.4. Severability. Whenever possible, each provision of this Release will be interpreted in such manner as to be effective and valid under applicable law. However, if any provision of this Release is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provision, and this Release will be reformed, construed and enforced as though the invalid, illegal or unenforceable provision had never been herein contained.

8.5. Entire Agreement; Amendments. Except as otherwise provided herein, this Release contains the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and merges and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature relating to the subject matter hereof. This Release may not be changed or modified, except by an Agreement in writing signed by each of the parties hereto.

8.6. Governing Law. This Release shall be governed by, and enforced in accordance with, the laws of the State of Michigan without regard to the application of the principles of conflicts of laws.

8.7. Counterparts and Facsimiles. This Release may be executed, including execution by facsimile signature, in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Release to be executed by its duly authorized officer, and the Employee has executed this Release, in each case as of the date first above written.

Health Enhancement Products, Inc.

By: Andrew A. Dahl
Title: President, Chief Executive Officer

EMPLOYEE

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

I, Andrew Dahl, certify that:

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

Date: August 14, 2014

/s/Andrew Dahl
Andrew Dahl,
Chief Executive Officer

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

I, Philip M. Rice II, certify that:

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

Date: August 14, 2014

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

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

In connection with the Quarterly Report on Form 10-Q for the period ending June 30, 2014 of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), as filed with the Securities and Exchange Commission (the "Report"), I, Andrew Dahl, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

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

Date: August 14, 2014

/s/Andrew Dahl
Andrew Dahl
Chief Executive Officer

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

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

In connection with the Annual Report of Health Enhancement Products, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the period ended June 30, 2014 as filed with the Securities and Exchange Commission (the "Report"), I, Philip M. Rice II, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350), that to the best of my knowledge and belief:

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

Date: August 14, 2014

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

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