

Sovereign Exploration Associates International, Inc.  
Form 10QSB  
May 14, 2007

**U.S. SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-QSB**

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Commission file number 333-229903

**SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.**

(Name of small business issuer in its charter)

Utah	30-0123229
(State or other jurisdiction of incorporation )	(IRS Employer Identification No.)

503 Washington Ave, Suite 2d, Newtown PA 18940  
(Address and Zip Code of Principal Executive Offices)

Registrant's Telephone Number: (781) 246-7512

(Former Name, Former Address if changed since last report) Securities registered under Section 12(b) of the  
Exchange Act: N/A

Securities registered under Section 12(g) of the Exchange Act: Common Stock, \$0.001 par value per share (Title of  
Class)

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

Indicate by check mark whether the registrant is an accelerated filer (see defined Rule 12b-2 of the Exchange  
Act). Yes ☐ No ☒

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange  
act). Yes ☐ No ☒

The number of shares of the issuer's common stock, \$0.001 par value, outstanding as of May 11, 2007 was 29,122,017

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12,

13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

---

## PART I - FINANCIAL INFORMATION:

## Item 1. Financial Statements

## SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

(F/K/A - CALI Holdings, Inc.)

## CONSOLIDATED BALANCE SHEETS

MARCH 31, 2007 AND JUNE 30, 2006

	03/31/2007 UNAUDITED	06/30/2006 RESTATED
<b>Assets</b>		
Cash and cash equivalents	\$ 6,771	\$ 570
<b>Total current assets</b>	<b>6,771</b>	<b>570</b>
<b>Other assets</b>		
Investments, net of allowance of \$173,868	-	-
Notes receivable, net of allowance of \$832,849	-	-
Capitalized costs and permits	3,354,867	2,365,870
<b>Total other assets</b>	<b>3,354,867</b>	<b>2,365,870</b>
<b>Total assets</b>	<b>\$ 3,361,638</b>	<b>\$ 2,366,440</b>
<b>Liabilities and Shareholders' Equity (Deficit)</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 480,651	\$ 336,801
Due to related parties	1,253,131	955,062
Notes payable	96,833	121,840
<b>Total current liabilities</b>	<b>1,830,615</b>	<b>1,413,703</b>
<b>Long-term liabilities</b>		
Related party note payables	3,062,059	2,126,665
Notes payable, convertible debt	-	800,000
<b>Total long-term liabilities</b>	<b>3,062,059</b>	<b>2,926,665</b>
<b>Total liabilities</b>	<b>4,892,674</b>	<b>4,340,368</b>
Commitments and contingencies	-	-
<b>Shareholders' equity (deficit)</b>		
Common stock, \$.001 par value, 250,000,000 shares authorized and 29,122,017 issued and outstanding as of March 31, 2007; 26,203,166 issued and outstanding as of June 30, 2006	29,122	26,203
Additional paid-in capital	19,594,746	17,876,659
Minority interest	(803,530)	(803,530)
Accumulated deficit	20,351,374	(19,073,260)
<b>Total shareholders' equity (deficit)</b>	<b>(1,531,036)</b>	<b>(1,973,928)</b>
<b>Total liabilities and shareholders' equity (deficit)</b>	<b>\$ 3,361,638</b>	<b>\$ 2,366,440</b>

See accompanying notes



SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

(F/K/A - CALI Holdings, Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED MARCH 31, 2007

UNAUDITED

Revenue	\$	-
<u>Operating expenses:</u>		
Stock issued for services		363,000
Salaries and wages		127,965
General and administrative		44,166
Legal and professional fees		257,847
Total operating expenses		792,978
<u>Other income (expenses):</u>		
Stock issued in conjunction with settlement agreement		(364,000)
Interest expense		(121,136)
Total other income (expense)		(485,136)
Operating loss before income taxes		(1,278,114)
Provision for income taxes		-
Net loss	\$	(1,278,114)
<u>Net operating loss per common shares</u>		
Basic	\$	(0.0468)
Diluted	\$	(0.0468)
<u>Net loss per common share</u>		
Basic	\$	(0.0468)
Diluted	\$	(0.0468)
<u>Weighted average shares of common outstanding</u>		
Basic		27,333,778
Diluted		27,334,904
Dividends declared per common share	\$	-

See accompanying notes

**SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.**

(F/K/A - CALI Holdings, Inc.)

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)**
**FOR THE NINE MONTHS ENDED MARCH 31, 2007**
**UNAUDITED**

	Common Stock Shares	Par Value	Additional paid-in capital (1)	Minority Interest	Accumulated Deficit (2)	Total
Balance, June 30, 2006, restated	26,203,166	\$ 26,203	\$ 17,876,659	\$ (803,530)	\$ (19,073,260)	\$ (1,973,928)
Issuance of common shares						
settlement agreement	910,000	910	363,090	-	-	364,000
Conversion of convertible debt to common shares	848,000	848	847,152	-	-	848,000
Conversion of convertible debt to common shares	95,851	96	34,410	-	-	34,506
Issuance of common stock pursuant to Rule 506 under Regulation D	300,000	300	74,700	-	-	75,000
Issuance of common stock pursuant to Rule 144	350,000	50	150,150	-	-	150,500
Issuance of common stock under Regulation S	415,000	415	248,585	-	-	249,000
Net loss	-	-	-	-	(1,278,114)	(1,278,114)
Balance, March 31, 2007	29,122,017	\$ 29,122	\$ 19,594,746	\$ (803,530)	\$ (20,351,374)	\$ (1,531,036)

(1) - Capital in excess of par value as of June 30, 2006 and includes the Company and subsidiaries

(2) - Accumulated undistributed net income (loss) as of June 30, 2006

See accompanying  
notes

4

---

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.  
(F/K/A - CALI Holdings, Inc.)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED MARCH 31, 2007  
**UNAUDITED**

	03/31/2007
Operating activities:	
Net loss	\$ (1,278,114)
Adjustments to reconcile net loss from operations to net cash (used in) operating activities:	
(Increase) decrease in:	
Capitalized costs and permits	(988,997)
Increase (decrease) in:	
Accounts payable and accrued expenses	143,850
Due to related parties	298,069
Net cash (used in) operating activities	(1,825,192)
Financing activities:	
Issuance of common stock	895,999
Proceeds from related party notes payable	1,092,377
Payments on related party notes payable	(156,983)
Net cash provided by financing activities	1,831,393
Net increase in cash and cash equivalents	6,201
Cash and cash equivalents, beginning of period	570
Cash and cash equivalents, end of period	\$ 6,771
Supplemental disclosure of cash flow information:	
Interest paid	\$ 263
Taxes paid	-

See accompanying notes



SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

F/K/A - CALI Holdings, Inc.)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

UNAUDITED

NOTE A - NATURE OF ORGANIZATION

Sovereign Exploration Associates International, Inc. (the "Company") was incorporated in the state of Utah in 1980. The company was formerly known as CALI Holdings, Inc. On October 26, 2005 the Company changed its name from CALI Holdings, Inc. to Sovereign Exploration Associates International, Inc.

On January 13, 2004 the Company filed form N-54A with the United States Securities and Exchange Commission ("SEC") to become a Business Development Company ("BDC") pursuant to Section 54 of the Investment Company Act of 1940 (the "1940 Act"). As a result, the Company operated as an investment holding company and acquired investments designed to build an investment portfolio to enhance the Company's shareholder value. As a BDC, the Company was, in effect, a publicly traded private equity fund, where stockholders provided public capital in a regulated environment for private investment in smaller companies. Congressional intent behind the creation of BDCs was to encourage the flow of public capital to private and smaller public companies.

On September 22, 2006 at a duly called special meeting, the Company's shareholders approved a proposal to withdraw the Company's election to be a business development company under the Investment Company Act of 1940 by filing Form N-54C with the SEC.

On September 22, 2006, the Company filed a notification of withdrawal of business development company election on Form N-54C notifying the SEC that, pursuant to the provisions of Section 54(c) of the Investment Company Act of 1940 ("Investment Company Act" or "1940 Act"), the Company withdrew its election to be subject to Sections 55 through 65 of the 1940 Act. Accordingly, the Company is no longer subject to the Investment Company Act but will continue as an operating reporting public company subject to the Securities Exchange Act of 1934.

The net effect, as of June 30, 2006, of the Company's election to withdrawal our business development company status pursuant to the Investment Company Act of 1940 was as follows:

Additional paid in capital	\$ (550,705)
Deficit	(425,068)
Unrealized depreciation on investments	1,015,273
Net adjustments	\$ 39,500

As a result of the change in accounting principle because of the Company's election to withdrawal its business development company election, the Company restated its June 30, 2006 Balance Sheet which is included in these consolidated financial statements.

NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the SEC. The accompanying financial statements for the interim periods are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the quarterly period presented. These financial statements should be read in conjunction with the Company's financial statements for the years ended June 30, 2006 and 2005 and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended June 30, 2006 as filed with the SEC. See discussion of change in accounting principle below.

Certain account balances as of June 30, 2006 have been reclassified to reflect current account classifications as of March 31, 2007.

The results of operations for the nine months ended March 31, 2007 are not necessarily indicative of the results of operations to be achieved for the full fiscal year ending June 30, 2007. The election to withdraw the Company as a BDC under the Investment Company Act effective September 21, 2006 has resulted in a significant change in the Company's required method of accounting. BDC financial statement presentation and accounting utilizes the fair value method of accounting used by investment companies, which allows BDCs to recognize income and value their investments at market value as opposed to historical cost.

In addition, majority-owned subsidiaries BDCs are not consolidated and instead, investments in those subsidiaries are reflected on the balance sheet as an investment in and advances to affiliates, at fair value. As an operating company, the required financial statement presentation and accounting for securities held by the Company utilize either fair value or historical cost methods of accounting, depending on the classification of the investment and the Company's intent with respect to the period of time it intends to hold the investment, and the Company and its subsidiaries are reflected for financial accounting purposes as a consolidated entity. The change in accounting due to the conversion to an operating company from a BDC is considered a change in accounting principle.

As an operating company, the Company consolidates its financial statements with subsidiaries, thus eliminating the investment in and advances to affiliates account that was reflected on the Company's balance sheet as of June 30, 2006 and 2005, respectively.

Management has determined that with the lack of information available from prior management of the Company, and because the Company no longer owns any of the portfolio companies that were divested as a result of the Exchange Agreement effective October 17, 2005 except for Gulf Coast Records, LLC, it is impractical to comply with the retroactive application of prior periods being presented on an operating and consolidated basis in accordance with Statement of Financial Accounting Standards No. 154, Accounting for Changes and Error Corrections ("FAS #154").

Pursuant to paragraph 11 of FAS #154: The Company has deemed it impracticable to apply the effects of a change in accounting principle retroactively because the following conditions apply as of March 31, 2007:

1. The Company has made every reasonable effort to apply the requirement; however, we are unable to do so.
2. Retrospective application of the change in accounting principle requires assumptions about prior management's intent in prior periods that can not now be independently substantiated.

3. Retrospective application of the accounting principle requires significant estimates of amounts that at this time, it is impossible to distinguish objectively information about those estimates that: (a) provides evidence of circumstances that existed on the date(s) at which those amounts would be recognized, measured, or disclosed under retrospective application, and (b) would have been available when the financial statements for that prior period were issued.

See Note Q for explanation of the prior period financial statement presentation.

As of March 31, 2007, the Company's subsidiaries were development stage enterprises, except for Gulf Coast Records, LLC, which is accounted for on the equity method of accounting as described in Investments under Note B.

The Company's subsidiaries are development stage enterprises engaged in ocean explorations and archaeologically sensitive recoveries of artifacts, treasure trove and/or cargo from shipwrecks under various licenses.

Statement of Financial Accounting Standards No. 7, Accounting and Reporting by Development Stage Enterprises, defines a development stage enterprise as one that is devoting substantially all of its efforts to establishing a new business and either planned principal operations have not commenced or planned principal operations have commenced but there has been no significant revenue. Several artifacts have been recovered, but for the nine month period ended March 31, 2007, there was no revenue.

The accompanying financial statements have been prepared on a going-concern basis, which contemplates the continuation of operations, realization of assets and liquidation of liabilities in the ordinary course of business. The Company's subsidiaries have capitalized all of their ocean explorations and archaeologically sensitive recoveries of artifacts, treasure trove and/or cargo from shipwrecks costs to-date. The Company plans to obtain additional financing through the sale of publicly traded stock, limited liability company member units of its subsidiaries and/or debt financing. There is no assurance these efforts will be successful. The financial statements do not include any adjustments relating to the recoverability and classifications of reported asset amounts or the amounts of liabilities that might result from the outcome of that uncertainty.

#### Principles of Consolidation

The accompanying consolidated financial statements, as presented herein, are prepared on the accrual basis of accounting under the principles of consolidation consisting of the accounts of the Company and its subsidiaries.

As of March 31, 2007, the Company's subsidiaries and the related equity ownership are as follows:

#### Historic Discoveries, Inc.

Historic Discoveries is the Company's primary subsidiary and is wholly-owned by the Company. Historic Discoveries has two wholly-owned subsidiaries, Artifact Recovery & Conservation, Inc. ("ARC") and Sea Research, Inc. ("SRI").

#### Artifact Recovery & Conservation, Inc.

ARC is the managing member of Fantome Cove Treasure Trove 150, LLC, of which it owns a 97.05% equity interest. ARC is also the managing member of Interspace Exploration, LLC, of which ARC owns a 74% equity interest.

As of March 31, 2007, the minority interest in Fantome Cove Treasure Trove 150, LLC and Interspace Exploration, LLC is \$803,530.

Sovereign Exploration Associates International of Spain, Inc.

The Company owns a 100% equity interest in Sovereign Exploration Associates International of Spain, Inc.

Investments

The Company accounts for investments, where the Company holds from 20% up to 50%, in the common stock of an entity, using the equity method. The investment is initially recorded at cost and the carrying amount is adjusted to recognize the Company's proportionate share of the earnings or losses of the investee after the date of acquisition. The amount of the adjustment is included in the determination of net income or loss of the Company in the period of the adjustment. Any dividends received from the investee reduce the carrying value of the investment.

As of March 31, 2007, the Company's 49% equity investment in Gulf Coast Records, LLC was valued at zero. As of the fiscal year ended June 30, 2006, the Company had provided for a write-down of the investment in and advances to this company of \$1,015,273 to zero.

Revenue Recognition

The Company recognizes revenue using the accrual method of accounting wherein revenue is recognized when earned and expenses and costs are recognized when incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Consolidated Statement of Cash Flows

For the purpose of the Consolidated Statement of Cash Flows, the Company considers cash equivalents to be all highly liquid securities with an original maturity date of three months or less.

Segments

The Company operates as one segment as defined by the Statement of Financial Accounting Standards No. 131 Disclosures about Segments of an Enterprise and Related Information.

Foreign Currency Translation

The accompanying financial statements are stated in United States Dollars (USD).

#### New Accounting Pronouncement

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 ("FAS 157"), Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements. Prior to FAS 157, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. Moreover, that guidance was dispersed among the many accounting pronouncements that require fair Value measurements. Differences in that guidance created inconsistencies that added to the complexity in applying GAAP. The changes to current practice resulting from the application of FAS 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect the adoption of FAS 157 to have an effect on its financial statements.

#### NOTE C - FIXED ASSETS

Fixed assets are stated at cost. The cost of equipment is charged against income over their estimated useful lives, using the straight-line method of depreciation. Repairs and maintenance which are considered betterments and do not extend the useful life of equipment are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the asset and accumulated depreciation is removed from the accounts and the resulting profit and loss are reflected in income.

#### NOTE D - CAPITALIZED COSTS

As of March 31, 2007, the Company accounted for its ocean exploration and archaeologically sensitive recoveries of artifacts, treasure trove and/or cargo from shipwrecks costs incurred to-date as capitalized costs.

#### NOTE E - STOCK ISSUED FOR SERVICES

During the nine months ended March 31, 2007, the Company issued 415,000 shares of common stock for services. Stock issued for services for the nine months ended March 31, 2007 was \$363,000.

During the year ended June 30, 2006, the Company did not issue any stock for services.

#### NOTE F- INCOME TAXES

Pursuant to the Exchange Agreement dated October 17, 2005, substantial ownership of the Company was transferred and according to provisions of the Internal Revenue Code, this transaction eliminated all of the loss carryforwards for federal income tax purposes starting with fiscal year that ended June 30, 2006.

#### NOTE G - LEASE ARRANGEMENTS

The Company maintains shared office space in Pennsylvania and Massachusetts with unrelated companies controlled by certain officers of the Company. These companies sublet space to the Company on a month-to-month basis with monthly rent of approximately \$2,000, with no formal subleases. Rent expense for the nine months ended March 31, 2007 was \$16,970.

NOTE H - NOTES PAYABLE

5.25% convertible debenture to a company dated June 29, 2005 with an initial principal balance of \$40,000 due no later than June 29, 2008; outstanding principal and interest. This convertible debenture is currently in dispute.	\$	96,833
Total notes payable, current	\$	96,833

For the nine months ended March 31, 2007, the Company incurred interest expense on this convertible debenture of \$5,621. This convertible debenture continues to be in dispute because of issues related to the conversion rates. There is no additional information from prior management at this time.

During the nine months ended March 31, 2007, the Company issued 95,851 shares of common stock in the settlement of the convertible notes payable with a balance including principal and accrued interest of \$34,506.

NOTE I - AGREEMENTS

Prior to the Exchange Agreement of October 17, 2005, there is a Revenue Agreement as outlined in Exhibit B of the Exchange Agreement, that requires 20% revenue participation payable to the original owners of the permits from the net recovery of the shipwrecks for the permits that have been assigned to the subsidiaries of one of the Company's subsidiaries, Historic Discoveries, Inc. The 20% revenue participation allows Historic Discoveries, Inc. to defer permit transfer fees and align site permit cost with revenue generation, eliminating the exposure associated with sites that do not produce a material number of artifacts.

Historic Discoveries, Inc. is only required to pay the 20% revenue participation when sites produce net revenue. The 20% revenue participation also provides Historic Discoveries, Inc. the right of first refusal on future sites, creating a mechanism for Historic Discoveries, Inc. and its operating companies to build site inventory while deferring the associated cost and reducing financial risk.

The Revenue Agreement with the original owners was executed prior to October 17, 2005. The original owners of these permits are the beneficial owners of the controlling interest in the stock received in the Exchange Agreement. Additionally, officers and directors of the Company hold certain executive positions in Historic Discoveries, Inc. and its subsidiaries.

The Fantome project (Fantome Cove Treasure Trove License 150, LLC, a subsidiary of ARC) sold a 2.06% equity interest for a capital investment of \$411,530, and the LeChateau project (Interspace Explorations, LLC, a subsidiary of ARC) sold a 26.0% ownership interest and 40% profit participation interest for \$392,000.

Management intends to assess the Company's liability under these agreements on a periodic basis. No liability has been recorded for these agreements as of March 31, 2007.

In March 2007, the Company's board of directors authorized the issuance of 10,000,000 shares of Series A Convertible Preferred Stock. Upon issuance of these shares, the 20% revenue participation payable to the original owners of the permits will be exchanged for 10,000,000 shares of Series A Convertible Preferred Stock. The holders of the this Series of Convertible Preferred Stock will have conversion rights of 4 to 1 to common stock of the Company.

NOTE J - SETTLEMENT AGREEMENT AND GENERAL RELEASE

Effective June 30, 2006, the Company entered into a Settlement Agreement and General Release (the "Settlement Agreement") with Former Management, KMA Capital Partners, Inc., and CF Holdings, LLC (collectively, the "Settlement Agreement Parties") in order to reach a comprehensive resolution of their disputes. The Settlement Agreement provides that the Settlement Agreement Parties release all claims that they may have against the Company, its parents, subsidiaries, affiliates, predecessors, successors, assigns, partners, agents, representatives, and attorneys (collectively, "affiliated parties") and that the Company releases all claims it may have against the Settlement Agreement Parties and their respective affiliated parties. On December 26, 2006, 910,000 common shares were issued pursuant to the Settlement Agreement effective June 30, 2006. These 910,000 common shares are subject to a Leak-Out Agreement and are restricted under Rule 144.

NOTE K - SHAREHOLDERS' EQUITY

As of March 31, 2007, the authorized capital of the Company was 250,000,000 shares of common stock (with voting rights), par value \$.001.

During the three months ended March 31, 2007, the Company raised \$75,000 through the issuance of 300,000 shares of common stock plus warrants were issued to purchase 60,000 shares of common stock for \$.32 per share. The warrants must be exercised within 1 year from the date the Shares are purchased.

NOTE L - ISSUANCE OF STOCK

During the nine months ended March 31, 2007, the Company issued 2,918,851 shares of common stock as follows:

- 1) 910,000 common shares were issued pursuant to the Settlement Agreement effective June 30, 2006. These 910,000 common shares are subject to a Leak-Out Agreement and are restricted under Rule 144.
- 2) 848,000 common shares were issued for the conversion of the convertible debt of \$848,000 including accrued interest of \$48,000. These common shares are restricted under Rule 144.
- 3) 95,851 common shares were issued pursuant to the settlement agreement. Note H.
- 4) 300,000 common shares were issued pursuant to Rule 506 under Regulation D in exchange for \$75,000 cash proceeds. These shareholders also own a warrant to purchase 60,000 shares of common stock of the Company. Note K.
- 5) 350,000 common shares were issued in exchange for services provided. These common shares are restricted under Rule 144.
- 6) 415,000 common shares were issued pursuant to Regulation S in exchange for services provided. Note E.

#### NOTE M - CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist principally of cash. As of March 31, 2007, the Company maintains its cash accounts with financial institutions located in Pennsylvania and Canada. The Federal Deposit Insurance Corporation (FDIC) guarantees the Company's deposits in US-based financial institutions up to \$100,000.

The Company's deposits with financial institutions that exceeded federally insured guarantees amounted to \$0 as of March 31, 2007. Historically, the Company has not experienced any losses on its deposits in excess of federally insured guarantees.

As of March 31, 2007, the Company accounts for its investment in Gulf Coast Records, LLC on the equity method of accounting. The amount of \$832,849 was offset by an allowance to reduce the market value of this note and investment to zero from Gulf Coast Records as of June 30, 2006. Current management is reviewing its options regarding this company and whether it wants to maintain its position or divest its holdings in the future, while actively negotiating with the management of Gulf Coast Records, LLC regarding the recovery of the Company's investment. Prior to June 30, 2006, the Company received information from the management of Gulf Coast Records, LLC that has caused the Company to reduce the fair market value to zero.

#### NOTE N - RELATED PARTY TRANSACTIONS

##### ACCRUED PAYROLL AND EXPENSES; DUE TO RELATED PARTIES

As of March 31, 2007, \$1,253,131 was owed to certain officers of the Company for accrued payroll and unreimbursed expenses.

As of March 31, 2007, these officers have agreed to reduce the amount of unreimbursed expenses by \$204,637 in addition to the 50% reduction in accrued payroll since July 2006.

##### RELATED PARTY NOTE PAYABLE

Effective July 10, 2006, the President of the Company advanced \$500,000 to the Company for working capital purposes. The loan is due on demand and the interest requirements and stated rate are a direct pass-through from Nova Savings Bank.

Effective November 15, 2006, the Chairman of the Company advanced the Company \$160,000 under a note agreement that requires an interest rate of the lesser of 0.9% or the legal rate under Texas law and is due, in full, with principal and interest on November 15, 2007.

Effective November 15, 2006, the \$600,000 note due to Sea Hunt, Inc. and Venture Planning, Inc., related parties to the Chairman of the Company, was renegotiated with a new due date of November 15, 2007 along with an interest rate of the lesser of 0.9% or the legal rate under Texas law and is due, in full, with principal and interest on November 15, 2007.

#### OFFICERS AND DIRECTORS OF THE COMPANY

Certain officers and directors of the Company hold certain executive positions in Historic Discoveries, Inc., Sea Hunt, Inc. and their respective subsidiaries.



NOTE O: LEGAL PROCEEDINGS

On December 1, 2006, the Company was named in a lawsuit in Orange County, Florida; *Estate of Mulligan vs. Cali Holdings, Inc., Sovereign Exploration Associates International, Inc., TSB Holdings, Inc., James Jenkins, and Charles Gianetto, et al.* The Plaintiff had invested funds into one of the portfolio companies of prior management and has named all parties including successor corporations in the suit. Management has the signed representations from prior management that no other potential lawsuits existed as of the settlement with them on June 30, 2006, the documentation clearly states otherwise and they were aware of this suit at that time.

On February 9, 2007 the Company filed suit in The Province of Nova Scotia seeking an application for judicial review to in effect ask the province to order the Nova Scotia Museum to issue the proper permits to the Company. The Company believes the Nova Scotia Museum acted improperly in not issuing the necessary permits in 2006 and should not have recognized the claims made by the United Kingdom. The Company believes its rights are protected under the Special Places Protection Act, The Treasure Act and many other acts and considerations of established law governing these types of permits.

NOTE P: SUBSEQUENT EVENTS

In May 2007, Martin Thorp, Chief Financial Officer of the Company was appointed to the Board of Directors.

**NOTE Q - PRIOR PERIOD FINANCIAL STATEMENT PRESENTATION**

As stated in Note B: pursuant to paragraph 11 of FAS#154: The Company has deemed it impracticable to apply the effects of a change in accounting principle retroactively because certain conditions apply as of March 31, 2007.

Since the Company does not possess the information necessary to restate the comparative financial statements as of March 31, 2006 as an operating company; the following are the financial statements and corresponding footnotes for the Company, presented as on the basis of accounting utilized by business development companies (as amended: October 25, 2006):

**SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.**  
**(F/K/A - Cali Holdings, Inc.)**  
**BALANCE SHEETS**

	March 31, 2006 (unaudited)	June 30, 2005
<b>Assets</b>		
Investments in and advances to affiliates	\$ 2,707,070	\$ 1,777,765
Cash and cash equivalents	14,376	31,034
Accounts receivable	90,000	3,692
Prepaid expenses	1,803	-
Fixed assets, net of accumulated depreciation	-	9,658
Notes receivable	-	439,732
Other assets	-	254,207
Goodwill	-	489,000
Security deposit	5,572	5,572
Total assets	\$ 2,818,821	\$ 3,010,660
<b>Liabilities and Shareholders' Equity</b>		
Accounts payable and accrued expenses	\$ 610,977	\$ 77,989
Related party note payables	792,155	-
Notes payable	119,435	499,900
Total liabilities	1,522,567	577,889
<b>Commitments and contingencies</b>		
<b>Shareholders' equity</b>		
Class A - Preferred stock, no par value, 10,000 shares authorized, none issued and outstanding	-	-
Class B - Preferred stock, no par value, 10,000 shares authorized, none issued and outstanding	-	-
Class C - Convertible Preferred stock, \$.001 par value, 10,000 shares issued and outstanding	10,000	10,000
Class D - Preferred stock, no par value, 10,000 shares authorized, none issued and outstanding	-	-
Common stock, \$.001 par value, 250,000,000,000 shares authorized and 26,203,040 issued as of March 31, 2006 2,000,000,000 shares authorized; 53,430 outstanding as of June 30, 2005	26,203	53
Capital in excess of par value	20,322,917	17,316,340
Stock subscription receivable	-	(4,760)
Accumulated undistributed net income (loss)	(18,056,149)	(14,231,534)
Net unrealized depreciation of investments	(1,006,717)	(657,328)
Total shareholders' equity	1,296,254	2,432,771

Edgar Filing: Sovereign Exploration Associates International, Inc. - Form 10QSB

Total liabilities and shareholders' equity	\$	2,818,821	\$	3,010,660
Net asset value per share	\$	0.0495	\$	45.53

See accompanying notes

15

---

## SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

(F/K/A - Cali Holdings, Inc.)

## Statements of Operations

(unaudited)

	Three Months ended March 31,		Nine Months ended March 31,	
	2006	2005	2006	2005
<b>OPERATING INCOME:</b>				
Interest and dividend income:				
Control investments	\$ -	19,835	\$ 40,283	\$ 51,142
Total interest and dividend income	-	19,835	40,283	51,142
Fee and other income:				
Control investments	45,000	57,861	470,000	147,861
Other	-	-	52,602	-
Total fee and other income	45,000	57,861	522,602	147,861
Total operating income	45,000	77,696	562,885	199,003
<b>COST OF GOODS SOLD</b>	-	10,000	-	31,152
<b>OPERATING EXPENSES</b>				
Depreciation and amortization	-	746	615	2,165
Salaries and wages	170,862	197,508	473,554	560,133
General and administrative	97,367	66,245	407,096	174,208
Interest	22,580	13,958	3,599	52,747
Professional fees	93,714	112,431	165,870	286,020
Other	-	-	-	9,218
Total operating expenses	384,523	390,888	1,050,734	1,084,491
<b>OPERATING (LOSS) BEFORE</b>				
<b>INCOME TAXES</b>	(339,523)	(323,192)	(487,849)	(916,640)
Provision for income taxes	-	(181,900)	-	(227,164)
<b>NET OPERATING (LOSS)</b>	\$ (339,523)	\$ (505,092)	\$ (487,849)	\$ (1,143,804)

See accompanying notes

## SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

(F/K/A - Cali Holdings, Inc.)

Statements of Operations, continued  
(unaudited)

	Three Months ended March 31,		Nine Months ended March 31,	
	2006	2005	2006	2005
Net realized gain (loss) on investments				
Control investments	-	-	(2,620,117)	-
Total net realized gain (loss) on investments	-	-	(2,620,117)	-
Net unrealized (depreciation) on investments				
Portfolio company investments	-	(527,928)	(716,649)	(535,000)
Total net unrealized (depreciation) on investments	-	(527,928)	(716,649)	(535,000)
Total net loss on investments	-	(527,928)	(3,336,766)	(535,000)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ (339,523)	\$ (1,033,020)	\$ (3,824,615)	\$ (1,678,804)
NET OPERATING LOSS PER COMMON SHARE:				
Basic	\$ (0.0146)	\$ (128.42)	\$ (0.0307)	\$ (579.19)
Diluted	\$ (0.0146)	\$ (128.42)	\$ (0.0307)	\$ (579.19)
NET LOSS PER COMMON SHARE				
Basic	\$ (0.0146)	\$ (262.64)	\$ (0.2406)	\$ (850.09)
Diluted	\$ (0.0146)	\$ (262.64)	\$ (0.2406)	\$ (850.09)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic	23,203,040	3,933	15,898,969	1,975
Diluted	23,203,040	3,933	15,898,969	1,975
DIVIDENDS DECLARED PER COMMON SHARE	\$ -	\$ -	\$ -	\$ -

See accompanying notes

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.  
(F/K/A - Cali Holdings, Inc.)  
SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES  
March 31, 2006  
(unaudited)

Company	Industry	Investment	Cost	Fair Value
Historic Discoveries, Inc.	Marine Exploration	Common Stock - 100%	\$ 1,873,010	\$ 1,873,010
Sovereign Exploration Associates International of Spain, Inc.	Marine Exploration	Common Stock - 100%	834,060	834,060
Gulf Coast Records, LLC	Recording Label	Member Interest - 49%	173,868	-
Gulf Coast Records, LLC	Recording Label	Note Receivable 8% Interest; no repayment terms	832,849	-
Total investments in and advances to affiliates			\$ 3,713,787	\$ 2,707,070

See accompanying notes

18

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.  
(F/K/A - Cali Holdings, Inc.)  
STATEMENTS OF CHANGES IN NET ASSETS  
(unaudited)

	Nine Months Ended March 31,	
	2006	2005
Operations:		
Net operating (loss)	\$ (487,849)	\$ (916,640)
Provision for income taxes	-	(227,164)
Net realized gain (loss) on investments	(2,620,117)	-
Net unrealized (depreciation) of investments	(716,649)	(535,000)
Net decrease in net assets resulting from operations	(3,824,615)	(1,678,804)
Shareholder distributions:		
Common stock dividends	-	-
Net decrease in net assets resulting from shareholder distributions	-	-
Capital share transactions:		
Issuance of common stock, net	2,654,665	1,096,242
Issuance of preferred stock	-	-
Other	33,433	-
Net increase in net assets resulting from capital share transactions	2,688,098	1,096,242
Total increase (decrease) in net assets	(1,136,517)	(582,562)
Net assets beginning of period	2,432,771	2,443,945
Net assets end of period	\$ 1,296,254	\$ 1,861,383
Net asset value per common share	\$ 0.0495	\$ 191.53
Common shares outstanding at end of period, (post reverse split)	26,203,040	9,719

See accompanying notes

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.  
(F/K/A - Cali Holdings, Inc.)  
STATEMENTS OF CASH FLOWS  
(unaudited)

	Nine Months Ended March 31, 2006	Nine Months Ended March 31, 2005
Operating activities:		
Net (decrease) in net assets resulting from operations	\$ (3,824,615)	\$ (1,678,804)
Adjustments to reconcile net (decrease) in net assets resulting from operations to net cash providing by operating activities:		
Net unrealized appreciation (depreciation) on investments, net	1,278,694	535,000
Net realized gain (loss) on investments	(2,620,117)	-
Deferred income tax	-	227,164
Depreciation and amortization	615	2,165
Bad debt expense	-	5,643
(Increase) decrease in:		
Prepaid expenses	(1,803)	-
Accounts receivable	(86,308)	(10,552)
Stock subscription receivable	-	(5,769)
Other assets	254,207	-
Deposits	-	4,428
Goodwill	489,000	-
Other	62,729	-
Increase (decrease) in accounts payable and accrued expenses	535,345	(152,507)
Net cash (used in) operating activities	(3,912,253)	(1,073,232)
Investing activities:		
Decrease in notes receivable	439,732	(636,697)
Loss on disposition of assets	9,043	3,055
Purchase of property and equipment	-	(9,933)
Purchase of investments, portfolio companies	-	(158,171)
Net cash provided by (used in) investing activities	448,775	(801,746)
Financing activities:		
Proceeds from notes payable to related parties	792,155	856,000
Payment of notes payable to related parties	-	(65,000)
Payment of notes payable	-	(394,641)
Issuance of common stock, net	2,654,665	1,086,241
Issuance of preferred stock	-	10,000
Net cash provided by financing activities	3,446,820	1,492,600
Net (decrease) in cash and cash equivalents	(16,658)	(382,378)
Cash, beginning of period	31,034	431,355
Cash, end of period	\$ 14,376	\$ 48,977



See accompanying notes

20

---

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.  
(F/K/A - Cali Holdings, Inc.)

NOTES TO FINANCIAL STATEMENTS

Unaudited

March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Company Activities

Sovereign Exploration Associates International, Inc. (the "Company") was incorporated in the state of Utah in 1980. The company was formerly known as CALI Holdings, Inc. On October 26, 2005 the Company changed its name from CALI Holdings, Inc. to Sovereign Exploration Associates International, Inc.

On January 5, 2004 the Company's shareholders consented to the proposal to allow the Company to adopt business development company ("BDC") status under the Investment Company Act of 1940 ("1940 Act"). A BDC is a specialized type of Investment Company under the 1940 Act. A BDC may primarily be engaged in the business of furnishing capital and managerial expertise to companies that do not have ready access to capital through conventional financial channels; such companies are termed "eligible portfolio companies". The Company as a BDC, may invest in other securities, however such investments may not exceed 30% of the Company's total asset value at the time of such investment. The Company filed its BDC election with the SEC (Form N-54A) on January 13, 2004. The Company provides equity and long-term debt financing to small and medium-sized private companies. The Company's investment objective is to achieve long-term capital appreciation in the value of its investments and to provide current income primarily from interest, dividends and fees paid by its portfolio companies.

Basis of Presentation

Different accounting principles are used in the preparation of financial statements of a business development company under the Investment Company Act of 1940 and therefore, the financial statements is presented using the guidelines outlined under the 1940 Act. By becoming a BDC, the Company has effected a change in accounting principle and no longer consolidates its investments in portfolio companies in accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and Securities Act of 1934 in which a BDC does not consolidate portfolio company investments, including those in which it has a controlling interest. Certain reclassifications have been made to the March 31, 2005 and June 30, 2005 amounts to make them consistent with the March 31, 2006 classifications.

Revenue Recognition

The Company recognizes revenue using the accrual method of accounting. The accrual method provides for a better matching of revenues and expenses. The Company also accrues interest income on loans made to various portfolio companies. The Company accrues the interest on such loans until the portfolio company has the necessary cash flow to repay such interest. If the Company's analysis of the portfolio company's performance indicates that the portfolio company may not have the ability to pay the interest and principal on a loan, the Company will make an allowance provision on that entity and in effect cease recognizing interest income on that loan until all principal has been paid. However, the Company will make exceptions to this policy if the investment is well secured and in the process of collection.



For certain investment companies, the Company provides management services and recognizes an agreed upon fixed monthly fee ("Fee Income") and expenses. Fee Income includes fees for services rendered by the Company to portfolio companies and other third parties such as diligence, structuring, transaction services, management services, and other advisory services. Diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Management and other advisory services fees are generally recognized as income as the services are rendered.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### Net (Loss) Per Common Share

Net (Loss) per common share is computed using the weighted average of shares outstanding during the periods presented in accordance with *Statement of Financial Accounting Standards No. 128, Earnings Per Share*. As discussed further in Notes N and O, any references to amounts per share or weighted average common shares have been restated to reflect reverse splits.

#### Cash and Cash Equivalents

Cash and cash equivalents include time deposits with original maturities of three months or less.

#### Fixed Assets

Fixed assets are stated at cost. The cost of equipment is charged against income over their estimated useful lives, using the straight-line method of depreciation. Repairs and maintenance which are considered betterments and do not extend the useful life of equipment are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the asset and accumulated depreciation is removed from the accounts and the resulting profit and loss are reflected in income.

#### Goodwill and Other Intangibles

The Company records Goodwill in accordance with *Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets*. Intangible assets such as goodwill are not amortized; instead the Company will review the goodwill not less frequently than annually to see if it has been impaired. If impairment occurs, it will be recorded as an expense in that period. During the nine months ending March 31, 2006, goodwill was adjusted to zero pursuant to the calculation of the divestiture of the assets in Note J.

## NOTE B - INVESTMENTS

### Valuation of Investments

The most significant estimate inherent in the preparation of the Company's financial statements is the valuation of its investments and the related unrealized appreciation or depreciation. The Company has engaged independent business valuation experts to value selected portfolio companies, which will have significant activity in the Company's first year operating under the new registrant. The Board of Directors states all other portfolio companies and investments at fair market value, which approximates cost, as determined under a good faith standard. The Company analyzes the investments on a regular basis and records unrealized gains or losses if and when an investment significantly gains or loses market value as determined by a good faith standard.

The Company has investments in three (3) controlled portfolio companies as of March 31, 2006.

- Historic Discoveries, Inc.
- Sovereign Exploration Associates International of Spain, Inc. (SEAI - SPAIN)
- Gulf Coast Records, LLC

The portfolio companies consist of Historic Discoveries, Inc. Artifact Recovery & Conservation, Inc. and Sea Research, Inc. (SR) are wholly owned subsidiaries of Historic Discoveries, Inc.

#### Artifact Recovery & Conservation, Inc. (ARC)

Artifact Recovery & Conservation, Inc. (ARC) has secured the rights to five (5) sites; several of the sites have revealed multiple ships with historic and intrinsic value. Currently ARC operates recovery operations on two of the five sites. ARC manages its own dive teams and oversees operations for contracted recovery teams. Management is in the process of preparing time lines and operating plans for the other sites.

#### Sea Research, Inc. (SR)

Sea Research, Inc. (SR) has secured the rights to seven (7) sites; several of the sites have revealed multiple ships with historic and intrinsic value. Currently SR is preparing to initiate recovery operations on one of the seven sites and developing timelines for the remainder of the portfolio.

#### Sovereign Exploration Associates International of Spain, Inc. (SEAI - SPAIN)

Sovereign Exploration Associates International of Spain, Inc. (SEAI-SPAIN) has secured the finder's rights to four (4) shipwrecks in Spain with potential historic and intrinsic value, thereby expanding SR's current holdings.

#### Gulf Coast Records, LLC

Gulf Coast Records, LLC is an independent record label. In 2005, Gulf Coast was developing record artist Glenn Cummings. There has been no activity in the development or promotion of this artist since September 2005. Current management is reviewing its options regarding this portfolio company and whether it wants to maintain its position or divest its holdings in the future.

Current management does not possess adequate information to determine the proper fair market value of this portfolio company, at this time, and has reduced the value of the investment and note receivable to zero. Once management receives the necessary information, it will update the fair market value of these assets. Current management is actively negotiating with the management of Gulf Coast Records, LLC regarding the recovery of the Company's investment.

#### NOTE C - FIXED ASSETS

Prior to the effective execution of the Exchange Agreement on October 17, 2005, the fixed assets of the Company consisting of computer and office equipment were sold pursuant to a warranty bill of sale for \$10 to KMA Capital Partners Ltd. Inc of Texas.

Depreciation expense for the nine months ended March 31, 2006 and 2005 was \$615 and \$2,165, respectively.

Current management has requested the appropriate documentation from the management of KMA Capital, Ltd., in an effort to determine the effect these transactions had on shareholders and to assess any subsequent actions that may be required by current management.

#### NOTE D - STOCK ISSUED FOR SERVICES

During the nine months ended March 31, 2006, the Company did not issue any stock for services.

During the nine months ended March 31, 2005, prior management issued 10,000,000 shares of the Company's common stock for various professional consulting services. The value assigned to the above shares (\$88,947) is based on the stocks' traded market price on or about the date the shares were issued and are included in professional fees.

#### NOTE E - UNREALIZED GAINS (LOSSES) ON INVESTMENTS

For the nine months ended March 31, 2006 and 2005, the Company recognized an unrealized appreciation (depreciation) on the investments of the Company in the amount of \$(716,649) and \$(535,000) respectively.

#### NOTE F- INCOME TAXES

At June 30, 2005, the Company had approximately \$6,414,480 of tax net operating loss carryforwards.

Pursuant to the Exchange Agreement dated October 17, 2005, substantial ownership of the Company was transferred and according to Internal Revenue Service Regulations, this is a transaction that will eliminate all of the loss carryforwards for federal income tax purposes starting with fiscal year ending June 30, 2006.

#### NOTE G - COMMITMENTS

The Company leased office and operating facilities under short-term operating leases located in Orlando, Florida. Pursuant to the Exchange Agreement, the Company terminated its lease agreement for this office space. Subsequent to the Exchange Agreement, the Company maintains shared office space in Pennsylvania and Massachusetts with unrelated companies controlled by certain officers of the Company. There are no formal lease arrangements, however, the Company shares in the cost for these offices on a monthly basis.

Rent expense for the nine months ended March 31, 2006 and 2005 was \$48,750 and \$91,532, respectively.

NOTE H - NOTES PAYABLE

The following are convertible debentures as of March 31, 2006 were not converted as part of the Exchange Agreement dated October 17, 2005:

8% convertible debenture to an individual dated May 27, 2005 with an initial principal balance of \$21,000 due no later than May 27, 2006; outstanding principal and interest.	\$	22,580
5.25% convertible debenture to Golden Gate Investors dated June 29, 2005 with an initial principal balance of \$40,000 due no later than June 29, 2008; outstanding principal and interest. (this convertible debenture is currently in dispute)	\$	89,412
8% convertible debenture to an individual dated May 18, 2005 with an initial principal balance of \$35,000 due no later than May 18, 2006; outstanding principal and interest.	\$	7,444
Total notes payable, current	\$	119,435

NOTE I - RELATED PARTY NOTES PAYABLE

As of March 31, 2006, \$192,155 was owed to certain officers of the Company. These funds were advanced to the Company for cash flow purposes in the form of demand notes bearing no interest.

As of March 31, 2006, \$600,000 was owed to Sea Hunt, Inc., a related party to the Company. \$300,000 of these funds were advanced to the Company for the payment made on October 17, 2005 pursuant to the terms of the Exchange Agreement, and \$300,000 of these funds were to be paid to the prior management and consulting firm on March 31, 2006 for the obligations under the Exchange Agreement dated October 17, 2005. However, the Company is currently in litigation with prior management and the consulting firm regarding their breach of the obligations under the Exchange Agreement dated October 17, 2005.

NOTE J - DIVESTITURE OF ALL PORTOLIO COMPANIES AND OTHER ASSETS

Prior to the effective execution of the Exchange Agreement on October 17, 2005, the Company was required to divest of all of its assets including the investment in all portfolio companies, notes receivable, and all remaining assets except for its investment in, and its note receivable due from Gulf Coast Records, LLC and other assets consisting of prepaid legal fees and security deposits of \$7,375. As of March 31, 2006, the investment in and the note receivable due from Gulf Coast has been reduced to zero. Current management is actively negotiating with the management of Gulf Coast Records, LLC regarding the recovery of the Company's investment.

Prior to the effective date of the Exchange Agreement dated October 17, 2005, two separate bills of sales required the following lists of assets of the Company to be sold to KMA Capital, Ltd. of Texas for total consideration of \$10 and Kairos Holdings, Inc. for a total consideration of \$10:

Sold to KMA Capital Ltd. of Texas

- Sports Nation, Inc.
- Buehler Earth & Waterworks, LLC
- Brokerage account of CALI at NevWest
  - TS&B Financial Services, Inc.
  - Wellstone Acquisition Corporation
- TS&B Gaming & Entertainment Corp.
  - TSB Ventures, Inc.
- Three (3) Dell notebook computers
  - Furniture and fixtures
- Office and computer equipment

Sold to Kairos Holdings, Inc.

- Interest in and to investment in KMA Capital Partners Ltd - Nine (9) Limited Partnership Units

KMA Capital, Ltd. is owned in part by Kairos Holdings, Inc.

Prior to the execution of the Exchange Agreement on October 17, 2005, total realized loss on the divestiture of these assets of the Company was \$2,525,274. This amount was recorded as net realized loss on investments: control investments. The Company does not have any information regarding the valuation of these companies. Prior management owns a controlling interest in the divested companies.

NEX2U, Inc. is listed as a portfolio company investment as of September 30, 2005; however, it was not included in either of the above referenced bills of sale included in the Exchange Agreement dated October 17, 2005. As of September 30, 2005, this portfolio company had a cost basis of \$16,000. The Company has requested documentation from prior management regarding the transfer of NEX2U, Inc. to Kairos Holdings, Inc., and the consideration for such transfer.

On September 21, 2005, prior management sold the Company's 51% interest in Buehler Earth and Waterworks, LLC for \$110,000 to Buehler's managing member.

Current management has requested the appropriate documentation from the management of KMA Capital, Ltd. and Kairos Holdings, Inc. in an effort to determine the effect these transactions had on shareholders.

NOTE K - EXCHANGE AGREEMENT

At closing of the Exchange Agreement on October 17, 2005, the Company agreed to pay to Charles Giannetto, James E, Jenkins and KMA Capital, in total the sum of Six Hundred Thousand and no/100 dollars (\$600,000) in complete termination and release of the Executive Management contracts from Cali to Giannetto and Jenkins and the consulting contract of Cali to KMA. Three Hundred Thousand (\$300,000) was paid at closing and the balance of \$300,000 was to be paid on or before March 31, 2006. Additionally, two of the former officers of the Company, and a management consulting firm (KMA Capital Partners, Ltd.) were to receive an aggregate 5% of the outstanding shares of the Company, post reverse split.



Pursuant to the Exchange Agreement, the Company received in exchange for total consideration under the Exchange Agreement an interest in one controlled portfolio company: Historic Discoveries, Inc; See Note B for a description of this portfolio company. The consideration for the acquisition of this portfolio company was \$1,861,410 in the form of obligations as outlined in Exhibit G of the Exchange Agreement.

Under the requirements of a BDC, management is required to recognize the fair market value of its ownership interest in its portfolio companies. As of March 31, 2006, management's good faith estimate of fair market value of its investment in Historic Discoveries, Inc. equals its cost of \$1,873,010 including advances of \$11,600 subsequent to the acquisition.

Prior management received consent for the transaction by the holders of 51% of the outstanding shares as of the date of the Exchange Agreement. Current management is reviewing the consent transaction to determine if all filing requirements were completed by prior management as they relate to the shareholder approval of this transaction.

#### Senior Security Instruments

Prior to the Exchange Agreement, there is a Revenue Agreement as outlined in Exhibit B of the Exchange Agreement, that requires 20% revenue participation payable to the original owners of the permits from the net recovery of the shipwrecks for the permits that have been assigned to the subsidiaries of the Company's portfolio company, Historic Discoveries, Inc. The 20% revenue participation allows Historic Discoveries, Inc. to defer permit transfer fees and align site permit cost with revenue generation, eliminating the exposure associated with sites that do not produce a material number of artifacts. Historic Discoveries, Inc. is only required to pay the 20% revenue participation when sites produce net revenue. The 20% revenue participation also provides Historic Discoveries, Inc. the right of first refusal on future sites, creating a mechanism for Historic Discoveries, Inc. and its operating companies to build site inventory while deferring the associated cost and reducing financial risk. The Revenue Agreement with the original owners was executed prior to October 17, 2005. The original owners of these permits are the beneficial owners of the controlling interest in the stock received in the Exchange Agreement. Additionally, officers and directors of the Company hold certain executive positions in Historic Discoveries, Inc. and its subsidiaries.

The Fantome project (Fantome Cove Treasure Trove License 150, LLC, a subsidiary of ARC) sold a 2.06% equity interest for a capital investment of \$412,000, and the LeChameau project (Interspace Explorations, LLC, a subsidiary of ARC) sold a 26.0% ownership interest and 40% profit participation interest for \$390,000.

Management intends to assess the Company's liability under these agreements on a periodic basis. No liability has been recorded for these agreements as of March 31, 2006.

#### NOTE L - STOCKHOLDERS' EQUITY

As of March 31, 2006, the authorized capital of the Company is 250,000,000,000 shares of common stock (with voting rights); par value \$.001.

The Company has authorized 10,000 shares of Class A, no par, preferred stock and has issued and outstanding 10,000 shares as of March 31, 2006 and 3,725,000 shares as of March 31, 2005, as discussed further in Note O. The Class A preferred stock has conversion rights to the Company's common stock (with voting rights) of 4-1.

As of March 31, 2006, the Company has authorized and issued 10,000 shares of convertible Class C, .001 per share, preferred stock. The Class C preferred stock has conversion rights to the Company's common voting stock of 1-1. If at any time or time to time, there is a capital reorganization of the common stock (reverse split, forward split, etc.) the number of Class C preferred stock authorized, issued and outstanding, and the number of shares of common stock into which such Class C preferred shall not be entitled to vote such shares (except as otherwise expressly provided herein or as required by law, voting together with the common stock as a single class), but shall be entitled to notice of any stockholders' meeting in accordance with the Company's bylaws. In lieu of voting rights, the holders of Class C preferred, voting as a class shall be entitled to elect two of the Board of Directors at each meeting.

The investment in Historic Discoveries, Inc. and the investment in Sovereign Exploration Associates of Spain Inc., individually and in total of the two investments, exceed 25% of the total investments, at fair value, reflected in the financial statements presented herein.

As of March 31, 2006, the Company has authorized but not issued 10,000 shares of Class D, no par, preferred stock. As of the date of this report no preferred shares have been converted to common stock.

### ISSUANCE OF STOCK

On October 5, 2005, the prior management issued 800,000 shares of restricted common stock (with voting rights) to KMA Capital Partners, Ltd. The Company is in dispute with prior management and related consulting firm, over the subsequent sale of 400,000 shares of this restricted stock. The Company does not possess any documentation, nor does it have any knowledge regarding the consideration for which these shares were issued to KMA Capital Partners, Ltd. The Company has requested documentation for the issuance of these shares and this matter is part of the ongoing litigation with the prior management.

On October 14, 2005, the prior management issued the 556,166,667 common shares (556,166 common shares post reverse split of January 17, 2006) referred to in Note H of the September 30, 2005 Form 10-Q to Sequoia International, Inc. and therefore, has satisfied the Escrow Agreement with Sequoia International, Inc. *"Escrow Agreement with Sequoia International, Inc. in which the Company has received \$166,850 and will in turn disburse 556,166,667 shares into an escrow account at the discretion of Sequoia."*

On October 14, 2005, the prior management issued the 191,700,000 common shares (191,700 common shares post reverse split of January 17, 2006) referred to in Note H of the September 30, 2005 Form 10-Q to an individual and therefore, has satisfied the Escrow Agreement with that individual. *"Escrow Agreement with an individual in which the Company has received \$95,850 and will in turn disburse 191,700,000 shares into an escrow account at the discretion of the individual"*

On December 26, 2005, the Company issued 100,000 shares of common stock for 100% ownership of the stock of Sea Quest, Inc. Sea Quest, Inc. is a wholly owned subsidiary of Sea Research, Inc. Sea Quest, Inc. was owned 50% by a private unrelated individual and 50% owned by Sea Hunt Holding, LLC, which is owned by the Chairman of the Company.

On January 17, 2006, the Board of Directors authorized a 1,000 to 1 reverse stock split of the Company's \$.001 par value common stock. As a result of the reverse split, 2,535,359,053 shares were returned to the Company and additional paid in capital was increased by \$2,535,359.

Pursuant to the Exchange Agreement, the owners of the stock of Historic Discoveries, Inc. and Sea Hunt, Inc. collectively were to receive 90% of the outstanding shares of the Company, post reverse split.

Two of the former officers of the Company, and a management consulting firm (KMA Capital Partners, Ltd.) collectively were to receive an aggregate 5% of the outstanding shares of the Company, post reverse split.

Due to the activities and transactions of prior management and the consulting firm, the Company did not issue additional shares to prior management and the consulting firm pursuant to the Exchange Agreement, and as a result, the public shareholders now own 8.47% of the outstanding shares. The Company reduced the amount of the shares due to the former officers and the consulting firm, from 5% to 1.53%, taking into account their unauthorized sale of restricted stock and other alleged improper activities which are the subject of the ongoing litigation previously mentioned.

On January 17, 2006, the Board of Directors cancelled the 10,000 shares of Series A Convertible Preferred Stock, no par value, and the 9,990 shares of Series C Convertible Preferred Stock, no par value. The Series A Preferred shares were partially owned by the prior management (3,750 shares) and indirectly owned by the Company through its portfolio company Historic Discoveries, Inc. (6,250 shares). Pursuant to the Exchange Agreement, the Company had the authority to cancel and retire the shares of prior management. The Company determined that it was in the best interests of the Company's shareholders to cancel and retire all issued and outstanding shares of Series A Convertible Preferred Stock.

All references in the accompanying financial statements to the number of common shares and per share amounts for 2006 and 2005 have been restated to reflect the reverse stock split.

#### NOTE M - CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist principally of cash, investments in portfolio companies, and notes receivable.

As of March 31, 2006, the Company maintains its cash accounts with financial institutions located in Pennsylvania. Federal Deposit Insurance Corporation (FDIC) guarantees the Company's deposits in financial institutions up to \$100,000 per account.

The Company's deposits with financial institutions that exceeded federally insured guarantees amounted to \$0 as of March 31, 2006. Historically, the Company has not experienced any losses on its deposits in excess of federally insured guarantees.

As of March 31, 2006, the fair value of the investment in Historic Discoveries, Inc. or \$1,873,010 is approximately 69.19% of the total investments, at fair value, of \$2,707,070.

The investment in Historic Discoveries, Inc. and the investment in Sovereign Exploration Associates of Spain Inc., individually and in total of the two investments, exceed 25% of the total investments, at fair value which approximates cost, reflected in the financial statements presented herein.

As of March 31, 2006, a note receivable in the amount of \$832,849 (offset by an allowance to reduce the market value of this note and investment to zero from Gulf Coast Records) is included in Investments in and advances to affiliates in the accompanying balance sheet. Current management is reviewing its options regarding this portfolio company and whether it wants to maintain its position or divest its holdings in the future, while actively negotiating with the management of Gulf Coast Records, LLC regarding the recovery of the Company's investment. The Company has recently received information from the management of Gulf Coast Records, LLC that has caused the Company to

reduce the fair market value to zero at this time.

**NOTE N - REVERSE STOCK SPLITS**

On January 17, 2006, the Board of Directors authorized a 1,000 to 1 reverse stock split of the Company's \$.001 par value common stock. As a result of the reverse split, 2,535,359,053 shares were returned to the Company and additional paid in capital was increased by \$2,535,359. All references to the accompanying financial statements to the number of common shares and per share amounts for 2005 and 2004 have been restated to reflect the reverse stock split.

On April 4, 2005, the Board of Directors authorized a 100 to 1 reverse stock split of the Company's \$.001 par value common stock. As a result of the reverse split, 962,151,879 shares were returned to the Company and additional paid in capital was increased by \$962,152.

On August 13, 2004, the Board of Directors authorized a 40 to 1 reverse stock split of the Company's \$.001 par value common stock. As a result of the reverse split, 473,185,733 shares were returned to the Company and additional paid in capital was increased by \$473,186. All references in the accompanying financial statements to the number of common shares and per share amounts for 2005 and 2004 have been restated to reflect the reverse stock split.

**NOTE O: RELATED PARTY TRANSACTIONS**

As of March 31, 2006, the following is a listing of all related party transactions and/or relationships of the Company:

**OFFICERS LOANS**

As of March 31, 2006, \$192,155 was owed to certain officers of the Company. These funds were advanced to the Company for cash flow purposes in the form of demand notes bearing no interest.

**RELATED PARTY NOTE PAYABLE TO SEA HUNT, INC.**

As of March 31, 2006, \$600,000 was owed to Sea Hunt, Inc., a related party of the Company. \$300,000 of these funds were advanced to the Company for the payment made on October 17, 2005 pursuant to the terms of the Exchange Agreement, and \$300,000 of these funds were to be paid to the prior management and consulting firm on March 31, 2006 for the obligations under the Exchange Agreement dated October 17, 2005. However, the Company is currently in litigation with prior management and the consulting firm regarding their breach of the obligations under the Exchange Agreement dated October 17, 2005.

**SENIOR SECURITY INSTRUMENT - HISTORIC DISCOVERIES, INC.**

Prior to the Exchange Agreement, there is a Revenue Agreement as outlined in Exhibit B of the Exchange Agreement, that requires 20% revenue participation payable to the original owners of the permits from the net recovery of the shipwrecks for the permits that have been assigned to the subsidiaries of the Company's portfolio company, Historic Discoveries, Inc. The 20% revenue participation allows Historic Discoveries, Inc. to defer permit transfer fees and align site permit cost with revenue generation, eliminating the exposure associated with sites that do not produce a material number of artifacts. Historic Discoveries, Inc. is only required to pay the 20% revenue participation when sites produce net revenue. The 20% revenue participation also provides Historic Discoveries, Inc. the right of first refusal on future sites, creating a mechanism for Historic Discoveries, Inc. and its operating companies to build site inventory while deferring the associated cost and reducing financial risk. The Revenue Agreement with the original owners was executed prior to October 17, 2005.

#### RELATED PARTY OWNERSHIP OF PERMITS

The original owners of the permits, as discussed in Senior Security Instrument - Historic Discoveries, Inc., are the beneficial owners of the controlling interest in the stock of the Company received in the Exchange Agreement dated October 17, 2005.

#### OFFICERS AND DIRECTORS OF THE COMPANY

Certain officers and directors of the Company hold certain executive positions in Historic Discoveries, Inc. and Sea Hunt, Inc. and their respective subsidiaries.

#### ACQUISITION OF SEA QUEST, INC.

On December 26, 2005, the Company issued 100,000 shares of common stock for 100% ownership of the stock of Sea Quest, Inc. Sea Quest, Inc. is a wholly owned subsidiary of Sea Research, Inc. Sea Quest, Inc. was owned 50% by a private unrelated individual and 50% owned by Sea Hunt Holding, LLC, which is owned by the Chairman of the Company.

#### STOCK ACQUISITION - EXCHANGE AGREEMENT

Pursuant to the Exchange Agreement dated October 17, 2005, Sovereign Marine Explorations, Inc (owner of Artifact Recovery & Conservation, Inc.) and Sea Hunt, Inc. (owner of Sea Research, Inc.) collectively own 90% of the Company's outstanding common stock and 100% of the Company's Class C, Convertible Preferred Stock.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLANS OF OPERATIONS**

The following discussion should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this report.

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:**

This Form 10-QSB for the quarter ended March 31, 2007 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may be identified by the use of forward-looking terminology, such as "may", "shall", "could", "expect", "estimate", "anticipate", "predict", "probable", "possible", "should", "continue", or similar terms, variations of those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and are considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.

The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.

The reader of this discussion, the related financial statements and notes thereto, and other recent Company filings should understand that the Portfolio companies, the Senior Management team, the Board of Directors, and the Company's method of accounting upon its withdrawal of its election to be treated as a business development company under the Investment Company Act of 1940, have all materially changed.

### **RECENT DEVELOPMENTS:**

#### **REASONS FOR CEASING TO BE A BUSINESS DEVELOPMENT COMPANY**

Following the change in control of Sovereign Exploration Associates International, Inc. (the "Company") on October 17, 2005, we determined that many of the regulatory, financial reporting and other requirements imposed by the 1940 Act were too restrictive and prevented the Company from operating in the manner in which it desires. Among these restrictions are the following:

- A BDC is an investment company and is engaged in the business of investing, reinvesting, owning, holding, or trading in securities. We instead intend to carry on our marine recovery and explorations business through subsidiaries and controlled companies.
- In carrying on our business, from time to time we expect to enter into joint venture and other transactions with affiliates, subject to the oversight and approval of the Board of Directors. BDCs generally are unable to enter into such transactions without the approval of the Securities and Exchange Commission (the "SEC"), and such approvals generally cannot be obtained without undue time and expense.

- BDCs are subject to restrictions in the 1940 Act on the type and amount of securities, other than Common Stock, that they can issue. We believe that the Company would be better served by greater flexibility in our capital structure. The closely regulated nature of BDCs causes them to be subject to greater legal and accounting expenses.
- Because of restrictions on the Company's ability to issue stock, we were unable to comply with the Settlement Agreement effective June 30, 2006, while the Company was a BDC. We believe that the comprehensive settlement embodied in the Settlement Agreement is in the Company's best interests.

The Company's Board of Directors agreed with our assessment and determined that it was no longer feasible for the Company to operate as a BDC. The appropriate course of action was to withdraw the Company's election to be regulated as a BDC by filing a Form N-54C with the SEC. Following the withdrawal of the election, the Company will continue to be a reporting company under the Exchange Act, but will be managed so that it will not be subject to the provisions of the 1940 Act.

#### EFFECT ON SHAREHOLDERS

Upon the Company's withdrawal of its election to be treated as a BDC effective September 21, 2006, the Company is not subject to regulation under the 1940 Act, which is designed to protect the interests of investors in investment companies. Specifically, our shareholders will no longer have the following protections of the 1940 Act:

- We are not subject to the requirement in Section 61 of the 1940 Act that we maintain a ratio of assets to senior securities (such as senior debt or preferred stock) of at least 200%. We will no longer be prohibited from protecting any director or officer against any liability to the Company or our shareholders arising from willful malfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of that person's office.
- We are no longer required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the Company against larceny and embezzlement.
- We are not required to ensure that a majority of our directors are persons who are not "interested persons," as that term is defined in section 56 of the Investment Company Act, and certain persons that would be prevented from serving on our board if we were a BDC (such as investment bankers) would be able to serve on our board.
- We are not subject to provisions of the 1940 Act regulating transactions between BDCs and certain affiliates.
- We are not subject to provisions of the 1940 Act restricting our ability to issue shares, warrants and options.
- We will be able to change the nature of our business and fundamental investment policies without having to obtain the approval of our shareholders.

#### EFFECT ON FINANCIAL STATEMENTS AND TAX STATUS

The election to withdraw the Company as a BDC under the 1940 Act effective September 21, 2006, resulted in a significant change in the Company's required method of accounting. BDC financial statement presentation and accounting utilizes the value method of accounting used by investment companies, which allows BDCs to recognize income and value their investments at market value as opposed to historical cost.





Operating companies use either the fair-value or historical-cost methods of accounting for financial statement presentation and accounting for securities held, depending on how the investment is classified and how long the company intends to hold the investment. Because of an absence of reliable market data as to the value of its assets, the Company has used historical cost as a proxy for fair value, mitigating the immediate impact of the change from fair-value to historical-cost accounting. In the future, however, changing our method of accounting could reduce the market value of our investments in privately held companies by eliminating our ability to report an increase in value of our holdings as they occur. Also, as an operating company, we will have to consolidate our financial statements with subsidiaries, thus eliminating the portfolio company reporting benefits available to BDCs.

We do not believe that the withdrawal of the Company's election to be treated as a BDC will have any impact on its federal income tax status, since we never elected to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code. (Electing treatment as a regulated investment company under Subchapter M generally allows a qualified investment company to avoid paying corporate level federal income tax on income it distributes to its shareholders.) Instead, we have always been subject to corporate level federal income tax on our income (without regard to any distributions we make to our shareholders) as a "regular" corporation under Subchapter C of the Code.

#### CHANGE IN ACCOUNTING PRINCIPLE

The Company's financial statements for the quarter ended March 31, 2006, as presented herein, were prepared using the method of accounting applicable to investment companies, while our financial statements, as presented herein, for the nine months ended March 31, 2007, are prepared using the method of accounting applicable to operating companies. Our financial statements for these periods are not comparable. We have determined it is impractical to comply with the retroactive application of prior periods being presented on an operating and consolidated basis in accordance with Statement of Financial Accounting Standards No. 154, Accounting for Changes and Error Corrections ("FAS #154").

Pursuant to paragraph 11 of FAS #154, we have deemed it impracticable to apply the effects of a change in accounting principle retroactively because the following conditions apply as of March 31, 2007:

1. We have made every reasonable effort to apply the requirement, but are unable to do.
2. Retrospective application of the change in accounting principle requires assumptions about prior management's intent in prior periods that cannot now be independently substantiated.
3. Retrospective application of the change in accounting principle requires significant estimates of amounts, and at this time it is impossible to distinguish objectively information about those estimates that: (a) provides evidence of circumstances that existed on the date(s) at which those amounts would be recognized, measured, or disclosed under retrospective application, and (b) would have been available when the financial statements for that prior period were issued.

#### COMPARATIVE ANALYSIS

Since the Company does not possess the information necessary to restate the financial statements as of March 31, 2006, as an operating company, the following analysis only provides for the current year information.

#### REVENUES

Revenue for the nine months ended March 31, 2007 was \$0.

### OPERATING AND OTHER EXPENSES

Operating expenses for the nine months ended March 31, 2007 was \$792,978 consisting of stock issued for services, salaries and wages, general and administrative expenses and professional fees. All of our employees, including officers, have agreed to a 50% reduction in their respective salaries and wages effective July 01, 2006.

As of March 31, 2007, officers of the Company have agreed to reduce the amount of unreimbursed expenses owed to them by \$204,637.

### CAPITALIZED COSTS

The Company's subsidiaries are development stage enterprises engaged in ocean explorations and archaeologically sensitive recoveries of artifacts, treasure trove and/or cargo from shipwrecks under various licenses. FAS #7 defines a development stage enterprise as one that is devoting substantially all of its efforts to establishing a new business and either planned principal operations have not commenced or planned principal operations have commenced but there has been no significant revenue.

As of March 31, 2007, the Company accounted for \$3,364,867 of its ocean exploration and archaeologically sensitive recoveries of artifacts, treasure trove and/or cargo from shipwrecks costs incurred to-date as capitalized costs.

### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2007, we had an accumulated deficit of \$20,351,374.

Each year diving operations for ocean explorations and archaeologically sensitive recoveries of artifacts, treasure trove and/or cargo from shipwrecks must be funded. In order to fund the 2006 diving operations which ran from July through October 2006, in July 2006 the President of the Company advanced the Company \$500,000 of which \$265,000 was directly used for diving operations in Nova Scotia. The remaining funds of approximately \$235,000 were used for working capital purposes of the Company primarily for legal and professional fees related to being an SEC registrant.

The net affect, as of June 30, 2006, of the Company's election to withdrawal our business development company status pursuant to the Investment Company Act of 1940 was as follows:

Additional paid in capital	\$ (550,705)
Deficit	(425,068)
Unrealized depreciation on investments	1,015,273
Net adjustments	\$ 39,500

As a result of the change in accounting principle because of the Company's election to withdrawal its business development company election, the Company restated its June 30, 2006 Balance Sheet which is included in the accompanying financial statements.

Effective November 15, 2006, the Chairman of the Company advanced the Company \$160,000 under a note agreement that requires an interest rate of the lesser of 0.9% or the legal rate under Texas law and is due, in full, with principal and interest on November 15, 2007.

Effective November 15, 2006, the \$600,000 note due to Sea Hunt, Inc. and Venture Planning, Inc., related parties to the Chairman of the Company, was renegotiated with a new due date of November 15, 2007 along with an interest rate of the lesser of 0.9% or the legal rate under Texas law and is due, in full, with principal and interest on November 15, 2007.

#### NOTES PAYABLE

The convertible debenture as outlined in Note H of the accompanying financial statements continues to be in dispute. We have no additional information regarding the resolution to this disputed convertible debenture which was entered into by prior management before October 17, 2005. This convertible debenture continues to be in dispute because of issues related to the conversion rates. There is no additional information available from prior management at this time.

During the nine months ended March 31, 2007, the Company issued 95,851 shares of common stock in the settlement of the convertible notes payable with a balance including principal and accrued interest of \$34,506.

#### COMMITMENTS AND CONTINGENCIES:

Pursuant to a Revenue Agreement as outlined in Exhibit B of the Exchange Agreement, it requires 20% revenue participation payable to the original owners of the permits from the net recovery of the shipwrecks for the permits that have been assigned to the subsidiaries of the Company's portfolio company, Historic Discoveries, Inc. The 20% revenue participation allows Historic Discoveries, Inc. to defer permit transfer fees and align site permit cost with revenue generation, eliminating the exposure associated with sites that do not produce a material number of artifacts. Historic Discoveries, Inc. is only required to pay the 20% revenue participation when sites produce net revenue. The 20% revenue participation also provides Historic Discoveries, Inc. the right of first refusal on future sites, creating a mechanism for Historic Discoveries, Inc. and its operating companies to build site inventory while deferring the associated cost and reducing financial risk. The Revenue Agreement with the original owners was executed prior to October 17, 2005.

In March 2007, the Company's board of directors authorized the issuance of 10,000,000 shares of Series A Convertible Preferred Stock. Upon issuance of these shares, the 20% revenue participation payable to the original owners of the permits will be exchanged for 10,000,000 shares of Series A Convertible Preferred Stock. The holders of the this Series of Convertible Preferred Stock will have conversion rights of 4 to 1 to common stock of the Company.

#### Item 4. Controls and Procedures

##### a) Evaluation of Disclosure Controls and Procedures

As of March 31, 2007, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in our periodic reports is recorded, processed, summarized and reported, within the time periods specified for each report and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls.

There was no change in our internal controls over financial reporting that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting during the quarter covered by this Report.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On February 9, 2007 the Company filed suit in The Province of Nova Scotia seeking an application for judicial review to in effect ask the province to order the Nova Scotia Museum to issue the proper permits to the Company. The Company believes the Nova Scotia Museum acted improperly in not issuing the necessary permits in 2006 and should not have recognized the claims made by the United Kingdom. The Company believes its rights are protected under the Special Places Protection Act, The Treasure Act and many other acts and considerations of established law governing this type of permits.

On December 1, 2006, the Company was named in a lawsuit in Orange County, Florida; *Estate of Mulligan vs. Cali Holdings, Inc., Sovereign Exploration Associates International, Inc., TSB Holdings, Inc., James Jenkins, and Charles Gianetto, et al.* The Plaintiff had invested funds into one of the portfolio companies of prior management and has named all parties including successor corporations in the suit. Management also has the signed representations from prior management that no other potential lawsuits existed as of the settlement with them on June 30, 2006. The documentation clearly states otherwise and they were aware of this suit at that time. Management feels comfortable they will prevail in this suit based on the documentation already provided.

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

None

Item 3. Defaults upon Senior Securities

None

37

---

Item 4. Submission of Matters to a Vote of Security Holders

The Company held a special meeting of its shareholders on September 20, 2006, to consider a proposal for the company to withdraw its election to be a business development company under the 1940 Act. The withdrawal was approved by a vote of 91.33% of the company's outstanding common stock, with 23,931,879 shares voted in favor, 20,665 shares voted against, and 252 abstentions.

Item 5. Other Information

In April 2007, Martin Thorp was appointed Chief Financial Officer of the Company.

In May 2007, Martin Thorp was appointed to the Board of Directors of the Company.

None.

Item 6. EXHIBITS

1. Articles of Incorporation are incorporated by reference to Exhibit 3(i) of Form 10-K as filed electronically with the SEC on October 13, 2006.
2. By-Laws are incorporated by reference to Exhibit 3(ii) of Form 10-K as filed electronically with the SEC on October 13, 2006.
3. Exchange Agreement is incorporated by reference to Exhibit 10.1 of Form 10-K as filed electronically with the SEC on October 13, 2006.
4. Settlement Agreement is incorporated by reference to Exhibit 10.2 of Form 10-K as filed electronically with the SEC on October 13, 2006.
5. Section 302 CEO and CFO Certification is filed herewith as EX-31
6. Section 906 CEO and CFO Certification is filed herewith as EX-32

SIGNATURE

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

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL,  
INC.

Date: May 11, 2007

By:

/ s / R o b e r t D .  
Baca  
Robert D. Baca  
Chief Executive Officer, President, and Director