

Sovereign Exploration Associates International, Inc.
Form 10-Q/A
May 23, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2005**

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)

	30-0123229
Utah	
(State or other jurisdiction of incorporation)	(I.R.S. 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:

None

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 19, 2006 was 26,203,040.

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 ☐

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q/A

FOR THE FISCAL QUARTER ENDED DECEMBER 31, 2005

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SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

BALANCE SHEETS

	December 31, 2005 (unaudited)	June 30, 2005
Assets		
Investments in and advances to affiliates	\$ 2,661,410	\$ 1,777,765
Cash and cash equivalents	25,130	31,034
Accounts receivable	45,000	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	\$ 2,738,915	\$ 3,010,660
Liabilities and Shareholders' Equity		
Accounts payable and accrued expenses	\$ 307,883	\$ 77,989
Related party note payables	645,100	-
Notes payable	117,078	499,900
Total liabilities	1,070,061	577,889
Commitments and contingencies		
Shareholders' equity		
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 December 31, 2005; 2,000,000,000 shares authorized; 53,430 outstanding as of June 30, 2005	26,203	53
Capital in excess of par value	20,072,488	17,316,340
Stock subscription receivable	-	(4,760)

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Accumulated undistributed net income (loss)	(17,433,120)	(14,231,534)
Net unrealized depreciation of investments	(1,006,717)	(657,328)
Total shareholders' equity	1,668,854	2,432,771
Total liabilities and shareholders' equity	\$ 2,738,915	\$ 3,010,660
Net asset value per share	\$ 0.0637	\$ 45.53

See accompanying notes

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SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

Statements of Operations

(unaudited)

	Three Months ended December 31,		Six Months ended December 31,	
	2005	2004	2005	2004
OPERATING INCOME:				
Interest and dividend income:				
Control investments	\$ 16,768	17,622	\$ 40,283	\$ 31,315
Total interest and dividend income	16,768	17,622	40,283	31,315
Fee and other income:				
Control investments	50,000	423,067	425,000	612,482
Other	7,121	-	52,602	-
Total fee and other income	57,121	423,067	477,602	612,482
Total operating income	73,889	440,689	517,885	643,797
COST OF GOODS SOLD	-	131,414	-	196,053
OPERATING EXPENSES				
Depreciation and amortization	-	17,354	615	33,819
Salaries and wages	156,506	214,426	302,692	362,625
General and administrative	254,407	187,760	355,389	545,931
Interest	311	43,202	1,242	87,526

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Professional fees	23,410	58,655	72,156	170,463
Other	-	-	-	15,089
Total operating expenses	434,634	521,397	732,094	1,215,453
OPERATING (LOSS) BEFORE INCOME TAXES	(360,745)	(212,122)	(214,209)	(767,709)
Provision for income taxes	-	(26,544)	-	(45,264)
NET OPERATING (LOSS)	(360,745)	(238,666)	(214,209)	(812,973)

See accompanying notes

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SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

Statements of Operations, continued

(unaudited)

	Three Months ended December 31,		Six Months ended December 31,	
	2005	2004	2005	2004
Net realized gain (loss) on investments				
Control investments	(2,525,274)	-	(2,620,117)	-
Total net realized gain (loss) on investments	(2,525,274)	-	(2,620,117)	-
Net unrealized (depreciation) on investments				
Portfolio company investments	(558,332)	(78,071)	(716,649)	(7,071)
Total net unrealized (depreciation) on investments	(558,332)	(78,071)	(716,649)	(7,071)
Total net loss on investments	(3,083,606)	(78,071)	(3,336,766)	(7,071)
NET INCOME (LOSS) BEFORE MINORITY INTEREST	(3,444,351)	(316,737)	(3,550,975)	(820,044)
Minority interest	-	(44,583)	-	(161,152)
Total minority interest	-	(44,583)	-	(161,152)
NET DECREASE IN NET ASSETS				

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RESULTING FROM OPERATIONS	\$ (3,444,351)	\$ (272,154)	\$ (3,550,975)	\$ (658,892)
NET OPERATING LOSS PER COMMON SHARE:				
Basic	\$ (0.0168)	\$ (268.16)	\$ (0.0197)	\$ (1,566.42)
Diluted	\$ (0.0168)	\$ (268.16)	\$ (0.0197)	\$ (1,566.42)
NET LOSS PER COMMON SHARE				
Basic	\$ (0.1608)	\$ (305.79)	\$ (0.3270)	\$ (1,269.54)
Diluted	\$ (0.1608)	\$ (305.79)	\$ (0.3270)	\$ (1,269.54)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic	21,416,875	890	10,858,934	519
Diluted	21,416,875	890	10,858,934	519
DIVIDENDS DECLARED PER COMMON SHARE	\$ -	\$ -	\$ -	\$ -

See accompanying notes

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SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES

December 31, 2005

(unaudited)

Company	Industry	Investment	Cost	Fair Value
Historic Discoveries, Inc.	Marine Exploration	Common Stock - 100%	\$ 1,861,410	\$ 1,861,410
Sovereign Exploration Associates International of Spain, Inc.	Marine Exploration	Common Stock - 100%	800,000	800,000
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 \$ 3,668,127 \$ 2,661,410

See accompanying notes

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

	Six Months Ended December 31,	
	2005	2004
Operations:		
Net operating (loss)	\$ (214,209)	\$ (812,973)
Net realized gain (loss) on investments	(2,620,117)	-
Net unrealized (depreciation) of investments	(716,649)	(7,071)
Net decrease in net assets resulting from operations	(3,550,975)	(820,044)
Shareholder distributions:		
Common stock dividends	-	-
Net decrease in net assets resulting from shareholder distributions	-	-
Capital share transactions:		
Issuance of common stock	2,799,067	1,025,895
Other	(12,009)	-

Net increase in net assets resulting from capital share transactions	2,787,058	1,025,895
Total increase (decrease) in net assets	(763,917)	205,851
Net assets beginning of period	2,432,771	2,585,093
Net assets end of period	\$ 1,668,854	\$ 2,790,944
Net asset value per common share	\$ 0.0637	\$ 1,358.98
Common shares outstanding at end of period	26,203,040	2,054

See accompanying notes

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

Unaudited	Six Months Ended December 31, 2005	Six Months Ended December 31, 2004
Operating activities:		
Net (decrease) in net assets resulting from operations	\$ (3,550,975)	\$ (658,892)
Adjustments to reconcile net (decrease) in net assets resulting from operations to net cash providing by operating activities:		
Net unrealized appreciation (depreciation) on investments	(716,649)	7,071
Net realized (gain) loss on investments	2,620,117	-
Deferred income tax	-	45,264
Stock issued for services	-	88,947

Minority interest	-	(161,152)
Depreciation and amortization	615	28,645
(Increase) decrease in:		
Prepaid expenses	(1,803)	-
Accounts receivable	(41,308)	(254,847)
Other assets	254,207	14,002
Goodwill	489,000	-
Increase in accounts payable and accrued expenses	229,893	59,809
Net cash (used in) operating activities	(716,903)	(831,153)
Investing activities:		
Decrease (increase) in notes receivable	(71,758)	(571,731)
Purchase of property and equipment	-	(26,438)
Purchase of investments, portfolio companies	(2,661,410)	(161,674)
Net cash (used in) investing activities	(2,733,168)	(759,843)
Financing activities:		
Proceeds from notes payable to related parties	645,100	845,150
Payment of notes payable to related parties	-	(65,000)
Payment of notes payable	-	(222,917)
Issuance of common stock	2,799,067	634,474
Issuance of preferred stock	-	10,000
Distributions	-	(1,296)
Net cash provided by financing activities	3,444,167	1,200,411
Net (decrease) in cash and cash equivalents	(5,904)	(390,585)
Cash, beginning of period	31,034	470,940
Cash, end of period	\$ 25,130	\$ 80,355

See accompanying notes

December 31, 2005

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 December 31, 2004 and June 30, 2005 amounts to make them consistent with the December 31, 2005 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.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

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 three months ending December 31, 2005, 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.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

Valuation of Investments, continued

The Company has investments in three (3) controlled portfolio companies as of December 31, 2005.

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.

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

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

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 six months ended December 31, 2005 and 2004 was \$615 and \$642, 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 six month ended December 31, 2005, the Company did not issue any stock for services.

During the six months ended December 31, 2004, prior management issued 12,250 shares of the Company's common stock for various professional consulting services. The value assigned to the above shares (\$52,250) 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 six months ended December 31, 2005 and 2004, the Company recognized an unrealized loss on the Company's investments in the amount of \$716,649 and \$7,071, 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 six months ended December 31, 2005 and 2004 was \$36,717 and \$69,778, respectively.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

NOTE H - NOTES PAYABLE

The following are convertible debentures as of December 31, 2005 that 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	\$ 22,134
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)	\$ 87,647
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	<u>\$ 7,297</u>

Total notes payable, current

\$117,078

NOTE I - RELATED PARTY NOTES PAYABLE

As of December 31, 2005, \$45,100 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 December 31, 2005, \$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 PORTFOLIO 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 December 31, 2005, 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:

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

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 et 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.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

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 December 31, 2005, management's good faith estimate of fair market value of its investment in Historic Discoveries, Inc. equals its cost of \$1,861,410 as fully disclosed in the Exchange Agreement.

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 LeChateau 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 its liability under these agreements on a periodic basis. No liability has been recorded for these agreements as of December 31, 2005.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

NOTE L -

STOCKHOLDERS' EQUITY

As of December 31, 2005, 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 December 31, 2005 and 3,725,000 shares as of December 31, 2004, 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 December 31, 2005, 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 which approximates cost, reflected in the financial statements presented herein.

As of December 31, 2005, 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.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

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.

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 December 31, 2005, 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 December 31, 2005. Historically, the Company has not experienced any losses on its deposits in excess of federally insured guarantees.

As of December 31, 2005, the fair value of the investment in Historic Discoveries, Inc. or \$1,861,400 is approximately 69.9% of the total investments, at fair value, of \$2,661,410.

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

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

As of December 31, 2005, a note receivable in the amount of \$832,849 (offset by an allowance to reduce the market value of this note and investment to \$0) 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 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. 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 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 - SUBSEQUENT EVENTS

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.

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

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

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 2005 and 2004 have been restated to reflect the reverse stock split.

NOTE P: RELATED PARTY TRANSACTIONS

As of December 31, 2005, the following is a listing of all related party transactions and/or relationships of the Company:

OFFICERS LOANS

As of December 31, 2005, \$45,100 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 December 31, 2005, \$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.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

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

NOTES TO FINANCIAL STATEMENTS

Unaudited

December 31, 2005

RELATED PARTY OWNERSHIP OF PERMITS

The original owners of the permits, as identified under 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., 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 OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion will assist in the understanding of the Company's financial position and results of operations. The information below should be read in conjunction with the financial statements and the notes thereto, and the other recent Company filings describing the October 17, 2005 definitive agreement with Sovereign Exploration Associates International, Inc. (SEAI).

Among other material items, the October 17, 2005 Exchange Agreement required CALI Holdings, Inc. to divest all its portfolio companies in existence at the time of the execution of the Exchange Agreement, with the sole exception of Gulf Coast Records. 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.

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, and the Board of Directors have all materially changed.

Overview

On January 5, 2004 the Company shareholders approved 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 is a financial services company providing financing and advisory services to small and medium-sized companies. Effective January 5, 2004 the Company shareholders approved the proposal to allow the Company to convert to a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act").

The Company invests either directly in the equity of a company through equity shares or through a debt instrument. The Company's debt instruments usually do not have a maturity of more than five years. Interest is either currently paid or deferred.

Investment opportunities are identified for the Company by the management team. Investment proposals may, however, come to the Company from many sources, and may include unsolicited proposals from the public and from referrals from banks, lawyers, accountants and other members of the financial community. The management team brings an extensive network of investment referral relationships.

On October 26, 2005 the Company changed its name from CALI Holdings, Inc. to Sovereign Exploration Associates International, Inc. ("the Company"). In conjunction with the Company's name change and the Exchange Agreement dated October 17, 2005, its principal offices were relocated to 503 Washington Avenue, Suite 2D, Newtown, Pennsylvania and 33 North Avenue, Suite 2B, Wakefield, MA. These offices are equipped with an integrated network of computers for word processing, financial analysis and accounting services. The Company believes its office space is suitable for its needs for the foreseeable future.

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.

Portfolio Investments

The Company has investments in three (3) controlled portfolio companies as of December 31, 2005.

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 team. 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.

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.

Dispositions of Investments

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 December 31, 2005, the investment in and the note receivable due from Gulf Coast was reduced to zero.

Management does not possess adequate information to determine the proper fair market value of this portfolio company, at this time. 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.

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.

Total loss on the divestiture of these assets of the Company was \$2,620,117; this amount was recorded as aet 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.

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.

Upon the Company's conversion to a business development company, the Company employed independent business valuation experts to value selected portfolio companies. The Board of Directors determined all other portfolio companies and investments at fair market value, which approximates cost, under a good faith standard. The Company analyzes and values each individual investment on a quarterly basis and records unrealized depreciation for an investment that it believes has become impaired, including where collection of a loan or realization of an equity security is doubtful. Conversely, the Company will record unrealized appreciation if it believes that the underlying portfolio company has appreciated in value.

Investments in Private Companies

The Company provides privately negotiated long-term debt and equity investment capital. The Company provides capital in the form of debt with or without equity features, such as warrants or options, often referred to as mezzanine financing. In certain situations the Company may choose to take a controlling equity position in a company. The Company's private financing is generally used to fund growth, buyouts and acquisitions and bridge financing.

As of the effective date of the Exchange Agreement dated October 17, 2005, the Company's private finance portfolio currently includes investments in a variety of industries including a record company and maritime exploration and excavation services.

The Company funds new investments using cash through the issuance of common stock. The Company intends to reinvest accrued interest, dividends and management fees into its various investments. When the Company acquires a controlling interest in a company, the Company may have the opportunity to acquire the company's equity with its common stock. The issuance of its stock as consideration may provide the Company with the benefit of raising equity without having to access the public markets in an underwritten offering, including the added benefit of the elimination of any underwriting commission.

As a business development company, the Company is required to make significant managerial assistance available to the companies in its investment portfolio. In addition to the interest and dividends received from the Company's private finance investments, the Company will often generate additional fee income for the structuring, due diligence, transaction and management services and guarantees provided to its portfolio companies.

Governmental Regulation

Business Development Company

A business development company is defined and regulated by the 1940 Act. Although the 1940 Act exempts a business development company from registration under the Act, it contains significant limitations on the operations of

a business development company.

A business development company must be organized in the United States for the purpose of investing in or lending to primarily private companies and making managerial assistance available to them. A business development company may use capital provided by public shareholders and from other sources to invest in long-term, private investments in businesses. A business development company provides shareholders the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits, if any, of investing in primarily privately owned companies. To qualify as a business development company, a company must:

- * Have registered a class of its equity securities or have filed a registration statement with the Securities and Exchange Commission pursuant to Section 12 of the Securities and Exchange Act of 1934;
- * Operate for the purpose of investing in securities of certain types of portfolio companies, namely emerging companies and businesses suffering or just recovering from financial distress;
- * Extend significant managerial assistance to such portfolio companies and;
- * Have a majority of "disinterested" directors (as defined in the 1940 Act).

Generally, a business development company must be primarily engaged in the business of furnishing capital and providing managerial expertise to companies that do not have ready access to capital through conventional financial channels. An eligible portfolio company is generally a domestic company that is not an investment company (other than a small business investment company wholly owned by a business development company), and that:

- * Does not have a class of securities registered on an exchange or included in the Federal Reserve Board's over-the-counter margin list; or
- * Is actively controlled by a business development company and has an affiliate of a business development company on its board of directors; or
- * Meets such other criteria as may be established by the Securities and Exchange Commission.

Control under the 1940 Act is presumed to exist where a business development Company beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

The 1940 Act prohibits or restricts companies subject to the 1940 Act from investing in certain types of companies such as brokerage firms, insurance companies, investment banking firms and investment companies.

As a business development company, the Company may not acquire any asset other than "qualifying assets" unless, at the time the Company makes the acquisition, the value of its qualifying assets represent at least 70% of the value of its total assets. The principal categories of qualifying assets relevant to our business are:

- * Securities purchased in transactions not involving any public offering, the issuer of which is an eligible portfolio company;
- * Securities received in exchange for or distributed with respect to securities described in the bullet above or pursuant to the exercise of options, warrants or rights relating to such securities;

- * Securities of bankrupt or insolvent companies that were eligible at the time of the business development company's initial acquisition of their securities but are no longer eligible, provided that the business development company has maintained a substantial portion of its initial investment in those companies; and
- * Cash, cash items, government securities or high quality debt securities (within the meaning of the 1940 Act), maturing in one year or less from the time of investment.

A business development company is permitted to invest in the securities of public companies and other investments that are not qualifying assets, but those kinds of investments may not exceed 30% of the business development company's total asset value at the time of the investment.

As a business development company, the Company is entitled to issue senior securities in the form of stock or senior securities representing indebtedness, including debt securities and preferred stock, as long as each class of senior security has asset coverage of at least 200% immediately after each such issuance.

The Company is also prohibited under the 1940 Act from knowingly participating in certain transactions with its affiliates without the prior approval of its board of directors who are not interested persons and, in some cases, prior approval by the Securities and Exchange Commission.

A business development company must make significant managerial assistance available to the issuers of eligible portfolio securities in which it invests. Making available significant managerial assistance means among other things, any arrangement whereby the business development company, through its directors, officers or employees, offers to provide and, if accepted does provide, significant guidance and counsel concerning the management, operation or business objectives and policies of a portfolio company.

The Company may be periodically examined by the Securities and Exchange Commission for compliance with the 1940 Act. As of the date of this filing the Company has not been examined by the Securities and Exchange Commission and has not been notified of a pending examination.

As with other companies regulated by the 1940 Act, a business development company must adhere to certain substantive regulatory requirements. A majority of its directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, the Company is required to provide and maintain a bond issued by a reputable fidelity insurance company to protect it against larceny and embezzlement.

Furthermore, as a business development company, the Company is prohibited from protecting any director or officer against any liability to the Company or its shareholders arising from willful malfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

The Company maintains a Code of Ethics that establishes procedures for personal investment and restricts certain transactions by its personnel. The Company's Code of Ethics generally does not permit investment by its employees in securities that may be purchased or held by the Company.

The Company may not change the nature of its business so as to cease to be, or withdraw its election as, a business development company unless authorized by vote of a "majority of the outstanding voting securities," as defined in the 1940 Act, of its shares. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67% or more of such company's shares present at a meeting if more than 50% of the outstanding shares of such company are present and represented by proxy or (ii) more than 50% of the outstanding shares of such company. Since the Company elected to become a business development company, it has not made any substantial change in the nature of its business.

Regulated Investment Company

The Company has not elected to be taxed as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986.

Compliance with the Sarbanes-Oxley Act of 2002 and NYSE Corporate Governance Regulations.

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The Sarbanes-Oxley Act imposes a wide variety of new regulatory requirements on publicly held companies and their insiders. Many of these requirements will affect the Company. For example:

- * The Company's chief executive officer and chief financial officer must now certify the accuracy of the financial statements contained in its periodic reports;
- * The Company's periodic reports must disclose conclusions about the effectiveness of its disclosure controls and procedures;
- * The Company's periodic reports must disclose whether there were significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses; and
- * The Company may not make any loan to any director or executive officer and may not materially modify any existing loans.

The Sarbanes-Oxley Act has required the Company to review its current policies and procedures to determine whether it complies with the Sarbanes-Oxley Act and the new regulations promulgated thereunder. The Company will continue to monitor its compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance.

Employees

As of December 31, 2005 the Company had five employees.

Risk Factors and Other Considerations

Investing in the Company's common stock involves a high degree of risk. Careful consideration should be given to the risks described below and all other information contained in this Quarterly Report, including the financial statements and the related notes and the schedules as exhibits to this Quarterly Report.

Limited Operating History as a Business Development Company Which May Impair Your Ability to Assess Our Prospects.

Prior to January 2004 the Company had not operated as a business development company under the Investment Company Act of 1940. As a result the Company has limited operating results under this regulatory framework that can

demonstrate either its effect on its business or management's ability to manage the Company under these frameworks. In addition, the Company's management has no prior experience managing a business development company. The Company cannot assure that management will be able to operate successfully as a business development company.

Because there is generally no established market for which to value its investments, the Company's board of directors' determination of the value of its investments may differ materially from the values that a ready market or third party would attribute to these investments.

Under the 1940 Act the Company is required to carry its portfolio investments at market value, or, if there is no readily available market value, at fair value as determined by the board. The Company is not permitted to maintain a general reserve for anticipated loan losses. Instead, the Company is required by the 1940 Act to specifically value each individual investment and to record any unrealized depreciation for any asset that has decreased in value. Since there is typically no public market for the loans and equity securities of the companies in which it invests, the Company's board will determine the fair value of these loans and equity securities pursuant to its valuation policy. These determinations of fair value may necessarily be somewhat subjective. Accordingly, these values may differ materially from the values that would be determined by a party or placed on the portfolio if there existed a market for our loans and equity securities.

Investments in Private Companies Involves a High Degree of Risk.

The Company's portfolio consists of primarily long-term loans to and investments in private companies. Investments in private businesses involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative. There is generally no publicly available information about the companies in which the Company invests, and the Company relies significantly on the due diligence of its employees and agents to obtain information in connection with its investment decisions. If the Company is unable to uncover all material information about these companies, it may not make a fully informed investment decision and the Company may lose money on its investments.

In addition, some smaller businesses have narrower product lines and market shares than their competition, and may be more vulnerable to customer preferences, market conditions or economic downturns, which may adversely affect the return on, or the recovery of, the Company's investment in such business.

The Lack of Liquidity of the Company's Privately Held Investments may Adversely Affect Our Business.

Substantially all of the investments the Company expects to acquire in the future will be, subject to restrictions on resale, including in some instances, legal restrictions, or will otherwise be less liquid than publicly traded securities. The illiquidity of these investments may make it difficult for the Company to quickly obtain cash equal to the value at which it records its investments if the need arises. This could cause the Company to miss important business opportunities. In addition, if the Company were required to quickly liquidate all or a portion of its portfolio, it may

realize significantly less than the value at which it had previously recorded its investments.

If the Industry Sectors in which the Company's Portfolio is Concentrated Experience Adverse Economic or Business Conditions, Our Operating Results may be Negatively Impacted.

The Company's customer base is primarily in the recording industry and marine exploration and excavation industry sectors. These customers can experience adverse business conditions or risks related to their industries. Accordingly, if the Company's customers suffer due to these adverse business conditions or risks or due to economic slowdowns or downturns in these industry sectors the Company will be more vulnerable to losses in its portfolio and our operating results may be negatively impacted.

Some of these companies may be unable to obtain financing from public capital markets or from traditional credit sources, such as commercial banks. Accordingly, advances made to these types of customers may entail a higher degree of risk than advances made to customers who are able to utilize traditional credit sources. These conditions may also make it difficult for us to obtain repayment of our loans.

Economic downturns or recessions may impair the Company's customers' ability to repay its loans, harm its operating results.

Many of the companies in which the Company has made or will make investments may be susceptible to economic slowdowns or recessions. An economic slowdown may affect the ability of a company to engage in a liquidity event. The Company's non-performing assets are likely to increase and the value of its portfolio is likely to decrease during these periods. These conditions could lead to financial losses in its portfolio and a decrease in its revenues, net income and assets.

The Company's business of making private equity investments and positioning them for liquidity events also may be affected by current and future market conditions. The absence of an active senior lending environment may slow the amount of private equity investment activity generally. As a result, the pace of the Company's investment activity may slow. In addition, significant changes in the capital markets could have an effect on the valuations of private companies and on the potential for liquidity events involving such companies. This could affect the amount and timing of gains realized on its investments.

The Company's Borrowers May Default on Their Payments, Which May Have an Effect on Financial Performance.

Some of these companies may be unable to obtain financing from public capital markets or from traditional credit sources, such as commercial banks. Accordingly, advances made to these types of customers may entail a higher degree of risk than advances made to customers who are able to utilize traditional credit sources. These conditions

may also make it difficult for the Company to obtain repayment of its loans. Numerous factors may affect a borrower's ability to repay its loan; including the failure to meet its business plan, a downturn in its industry, or negative economic conditions. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in any related collateral.

If the Company Fails to Manage Its Growth, its Financial Results Could be Adversely Affected.

The Company has expanded its operations and strategic relationships at a rapid pace. The Company's growth has placed and continues to place significant strain on its management systems and resources. The Company must continue to refine and expand its marketing capabilities, its management of the investing process, access to financing resources and technology. As the Company grows, it must continue to hire, train, supervise and manage new employees. The Company may not develop sufficient lending and administrative personnel and management and operating systems to manage its expansion effectively. If the Company is unable to manage its growth, operations could be adversely affected and the financial results could be adversely affected.

The Company's Private Finance Investments May Not Produce Current Returns or Capital Gains.

The Company's private finance investments are typically structured as debt securities with a relatively high fixed rate of interest and with equity features such as conversion rights, warrants or other options. As a result, the Company's private finance investments are generally structured to generate interest income from the time they are made and may also produce a realized gain from an accompanying equity feature. The Company cannot be sure that its portfolio will generate a current return or capital gain.

The Company Operates in a Competitive Market for Investment Opportunities

The Company competes for investments with a large number of private equity funds and mezzanine funds, investment banks and other equity and non-equity based investment funds, and other sources of financing, including traditional financial services companies such as commercial banks. Some of its competitors have greater resources than the Company. Increased competition would make it more difficult for the Company to purchase or originate investments at attractive prices. As a result of this competition, sometimes the Company may be precluded from making otherwise attractive investments.

Investing in the Company's Stock Is Highly Speculative and an Investor Could Lose Some or All of the Amount Invested

The value of the Company's common stock may decline and may be affected by numerous market conditions, which could result in the loss of some or the entire amount invested in its shares. The securities markets frequently experience extreme price and volume fluctuations, which affect market prices for securities of companies generally, and very small capitalization companies in particular. The price of its common stock may be higher or lower than the price paid for shares, depending on many factors, some of which are beyond the Company's control and may not be directly related to its operating performance. These factors include the following:

- * Price and volume fluctuations in the overall stock market from time to time;
- * Significant volatility in the market price and trading volume of securities of business development companies or other financial service companies;
- * Changes in the regulatory policies or tax guidance with respect to business development companies;
- * Actual or anticipated changes in the earnings or fluctuations of operating results or changes in the experience of securities analysts.

The Company's Business Depends on Key Personnel

The Company depends on the continued service of its executive officers and other key management personnel. If the Company were to lose any of these officers or other management personnel, such a loss could result in inefficiencies in the Company's operations and the loss of business opportunities. The Company does not maintain any key man life insurance on any of its officers or employees.

The Company's Business Plan is dependent upon External Financing which may Expose the Company to Risks Associated with Leverage

The Company will require a substantial amount of cash to operate and grow. The Company may acquire additional capital from the following sources:

Senior Securities

. The Company intends to issue debt securities, other evidences and preferred stock, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits the Company, as a business development company, to issue debt securities and preferred stock, to which it refers collectively as senior securities, in amounts such that the asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of senior securities. As a result of issuing senior securities, the Company will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of investments will have a greater impact on the value of its common stock to the extent that the Company borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income received on the investments made with such borrowed funds. In addition, the ability to pay dividends or incur additional indebtedness would be restricted if asset coverage is not at least twice the Company's indebtedness. If the value of the Company's assets declines, it might be unable to satisfy that test. If this happens, it may be required to liquidate a

portion of its loan portfolio and repay a portion of its indebtedness at a time when a sale may be disadvantageous. Furthermore, any amounts that the Company uses to service its indebtedness will not be available for distributions to stockholders.

Common Stock

. Because the Company is limited in its ability to issue debt for the reasons given above, the Company is dependent on the issuance of equity as a financing source. If the Company raises additional funds by issuing more common stock or debt securities convertible into or exchangeable for our common stock, the percentage ownership of its stockholders at the time of the issuance would decrease and they may experience dilution. In addition, any convertible or exchangeable securities issued in the future may have rights, preferences and privileges more favorable than those of the Company's common stock.

Securitization

. In addition to issuing securities to raise capital as described above, the Company anticipates that in the future it will securitize loans to generate cash for funding new investments. An inability to successfully securitize the Company's loan portfolio could limit its ability to grow the business, fully execute the business strategy and impact its profitability. Moreover, successful securitization of the Company's loan portfolio might expose it to losses as the loans in which it does not plan to sell interests will be those that are riskier and more apt to generate losses.

Shares of Closed-End Investment Companies Frequently Trade at a Discount from Net Asset Value.

Shares of closed-end investment companies frequently trade at a discount from net asset value. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that the Company's net asset value per share will decline.

Changes in the Law or Regulations That Govern the Company Could Have a Material Impact on its Operations

The Company is regulated by the Securities and Exchange Commission. In addition, changes in the laws or regulations that govern business development companies may significantly affect its business. Any changes in the law or regulations that govern its business could have a material impact on operations. The Company is subject to federal, state and local laws and regulations and is subject to judicial and administrative decisions that affect its operations. If these laws, regulations or decisions change, or if the Company expands its business into jurisdictions that have adopted more stringent requirements than those in which it currently conducts business, the Company may incur significant expenses in order to comply or might restrict operations.

Acts of God, Hurricane, Flood, etc. May Affect Operations and Subject the Company To Risk of Damage or Loss.

The Company and its portfolio companies could be subject to acts of God, hurricane, fire, flood or other disaster, condition or event that adversely affects the Company or its portfolio companies or their ability to do business and

could result in a loss of sales and revenue and impair operating results.

The following information should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this Form 10-Q/A.

Forward Looking Statements

This Form 10-Q/A including the Management's Discussion and Analysis of Financial Condition and Results of Operation contains forward-looking statements that involve substantial risk and uncertainties. These forward-looking statements are not historical facts but rather are based on current expectations, estimates and projections about the Company's industry, beliefs, and assumptions. Such forward-looking statements involve risks and uncertainties that could cause risks or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include without limitation statements relating to the Company's plans, strategies, objectives, expectations and intentions and are intended to be made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", and "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties, and other factors, some of which are beyond the Company's control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements including without limitation:

- * The state of securities markets in which the securities of the Company's portfolio company trade or could be traded;
- * The liquidity within the national financial markets;
- * Economic downturns or recessions may impair the Company's customers' ability to repay its loans and increase its non-performing assets;
- * A contraction of available credit and/or inability to access the equity markets could impair its lending and investment activities;
- * The risks associated with the possible disruption in the Company's operations due to terrorism; and
- * The risks and uncertainties described under the caption "Risk Factors and Other Considerations" contained in Part I, Item I, which is incorporated herein by reference.

Although the assumptions on which these forward looking statements are based are reasonable, any of those assumptions also could be incorrect. In light of these and other uncertainties, the inclusion of a projection or forward-looking statements in this Quarterly Report should be regarded as a representation of the Company that its plans and objectives will be achieved. Undue reliance should not be placed on these forward-looking statements, which apply only as of the date of this Quarterly Report.

Overview

The Company is a financial service company providing financing and advisory services to small and medium-sized companies throughout the United States. Effective January 5, 2004 the Company shareholders approved the proposal to allow the Company to convert to a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act").

The Company invests either directly in the equity of a company through equity shares or through a debt instrument. The Company's debt instruments usually do not have a maturity of more than five years. Interest is either currently paid or deferred.

Investment opportunities are identified for the Company by the management team. Investment proposals may, however, come to the Company from many sources, and may include unsolicited proposals from the public and from referrals from banks, lawyers, accountants and other members of the financial community. The management team brings an extensive network of investment referral relationships.

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America for investment companies. For a summary of all of its significant accounting policies, including the critical accounting policies, see financial statements in Item 8.

The increasing complexity of the business environment and applicable authoritative accounting guidance requires the Company to closely monitor its accounting policies. The Company has identified three critical accounting policies that require significant judgment. The following summary of the Company's critical accounting policies is intended to enhance your ability to assess its financial condition and results of operation and the potential volatility due to changes in estimates.

Valuation of Investments

At December 31, 2005, 97.17% of the Company's total assets represented investments recorded at fair value, which approximates cost. Value as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is determined in good faith by the board of directors. Since there is typically no readily ascertainable market value for the investments in its portfolio, the Company values substantially all of its investments at fair value as determined in good faith by the board of directors pursuant to a valuation policy and consistent valuation process. Because of the inherent uncertainty in determining the fair value of investments that do not have a readily ascertainable market value, the fair value of its investments determined in good faith by the board of directors may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Initially, the fair value of each such portfolio investment is based upon original cost. There is no single standard for determining fair value in good faith. As a result, determining fair value requires the judgment be applied to the specific facts and circumstances of each portfolio investment. The Board of Directors considers fair value to be the amount which the Company may reasonably expect to receive for portfolio securities when sold on the valuation date. The Company analyzes and values each individual investment on a quarterly basis, and records unrealized depreciation for an investment that it believes has become impaired, including where collection of a loan or realization of an equity security is doubtful. Conversely, the Company will record unrealized appreciation if it believes that the underlying portfolio company has appreciated in value and, therefore, the Company's equity security has also appreciated in value. Without a readily ascertainable market value and because of the inherent uncertainty of valuation

the fair value of the Company's investments determined in good faith by the Board of Directors may differ significantly from the values that would have been used had a ready market existed for the investments, and the favorable or unfavorable differences could be material.

In the valuation process, the Company uses financial information received monthly, quarterly, and annually from the portfolio companies, which include both audited, and unaudited financial information supplied by portfolio companies management. This information is used to determine financial condition, performance and valuation of the portfolio investments. Valuation should be reduced if a company's performance and potential have significantly deteriorated. If the factors, which led to the reduction in valuation, are overcome, the valuation may be restated.

Another key factor used in valuation of the equity investments is recent arms-length equity transactions entered into by the investment company that the Company utilizes to form a basis for its underlying value. Many times the terms of these equity transactions may not be identical to those of the Company and the impact on these variations as it relates to market value may be impossible to quantify.

Any changes in estimated fair value are recorded in the statements of operations as "Net increase (decrease) in unrealized (depreciation) appreciation."

Valuation of Equity Securities

With respect to private equity securities, each investment is valued using industry valuation benchmarks and then the value is assigned a discount reflecting the illiquid nature of the investment, as well as the Company's minority non-control positions. When an external event such as a purchase transaction, public offering, or subsequent equity sale occurs, the pricing indicated by the external event will be used to corroborate the Company's private equity valuation. Securities that are traded in the over-the-counter market or on a stock exchange will generally be valued at the prevailing bid price on the valuation date. However, restricted and unrestricted publicly traded securities may be valued at discounts from the public market value due to restrictions on sale, the size of its investment or market liquidity concerns.

Valuation of Loans and Debt Securities

As a general rule, the Company does not value its loans or debt securities above cost, but loans and debt securities will be subject to fair value write-down when the asset is considered impaired.

Financial Condition

The Company's assets decreased by \$271,745 or 9.03% to \$2,738,915 during the six months ending December 31, 2005.

The Company's financial condition is dependent on the success of its portfolio holdings. It has invested a substantial portion of its assets in small and medium-sized companies. These businesses tend to be thinly capitalized, small companies that may lack experienced management. The following summarizes the Company's investment portfolio as of December 31, 2005.

December 31,
2005

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Investment at Cost	\$ 3,668,127
Unrealized depreciation, net	(1,006,717)
Total investments in and advances to affiliates	\$ 2,661,410

During the Company's fiscal year, the Company valued its equity and investment holdings in accordance with the established valuation policies (see "Valuation of Investments and Equity Holdings") above.

The cash and cash equivalents approximated .92% of net assets as of December 31, 2005.

Results of Operations

The results of operations for the six months ended December 31, 2005 reflect the net effects of the Exchange Agreement completed on October 17, 2005.

After October 17, 2005, a new management of officers and directors assumed control of the Company.

The financial effect of this transaction is reflected in the financial statements for the three months ended December 31, 2005. The accounting treatment of this transaction increased the Company's realized loss by \$(2,525,274) and increased the unrealized loss by \$(558,332)

Taking into account this one time treatment of the recording of this transaction would reduce the loss for the quarter ended and six months ended December 31, 2005 to \$(919,077) and \$(1,025,701) respectively.

Dividends and Interest

Dividends and interest income on investments for the six months ended December 31, 2005 and December 31, 2004 was \$40,283 and \$31,315, respectively. The increase in interest and dividends was primarily due to the sources of income shifting from a transactional base business to the Company receiving interest income from its portfolio companies.

Management Fees

Management fees for the six months ended December 31, 2005 and December 31, 2004 were \$425,000 and \$612,482 respectively. The management fees decreased mainly due to the sale of the Company's portfolio investments in the last quarter. The majority of these management fees were earned by the prior management in the quarter ending September 30, 2005.

Operating Expenses

Total operating expenses for the six months ended December 31, 2005 and December 31, 2004 was \$732,094 and \$1,215,453. A significant component of total operating expenses was general and administrative expenses of \$355,389 and \$545,931 for the six months ending December 31, 2005 and 2004, respectively. The decrease in general and administrative expenses would have been greater but for the bad debt expense of \$143,232 for the non-portfolio company assets that were written-off in October 2005 as part of the divestiture of assets prior to the Exchange Agreement dated October 17, 2005. A second component of total operating expenses was professional fees of \$72,156 for the six months ending December 31, 2005 and \$170,463 for the six months ending December 31, 2004. The

decrease in professional fees is primarily due to the Company using employees rather than outside consultants to complete due diligence on potential portfolio companies.

Liquidity and Capital Resources

At December 31, 2005 and June 30, 2005, the Company had \$25,130 and \$31,034 respectively in cash and cash equivalents. The Company's objective is to have sufficient cash on hand to cover current funding requirements and operations.

The Company expects its cash on hand and cash generated from operations to be adequate to meet its cash needs at its current level of operations, including the next twelve months. The Company generally funds new investments using cash on hand and equity financing and outside investments.

Private Portfolio Company Investments

The following is a list of the private companies in which the Company had an investment in and the fair market value which approximates cost of such securities at December 31, 2005:

Name of Company	Cost	FMV
Historic Discoveries, Inc.	\$ 1,861,410	\$ 1,861,410
Gulf Coast Records, LLC - Investment and Note Receivable	1,006,717	-
Sovereign Exploration Associates International of Spain, Inc.	800,000	800,000
Total	\$ 3,668,127	\$ 2,661,410

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's investment activities contain elements of risk. The portion of the Company's investment portfolio consisting of equity or equity-linked debt securities in private companies is subject to valuation risk. Because there is typically no public market for the equity and equity-linked debt securities in which it invests, the valuation of the equity interest in the portfolio is stated at "fair value" and determined in good faith by the Board of Directors on a quarterly basis in accordance with the Company's investment valuation policy.

In the absence of a readily ascertainable market value, the estimated value of the Company's portfolio may differ significantly from the value that would be placed on the portfolio if a ready market for the investments existed. Any changes in valuation are recorded in the Company's consolidated statement of operations as "Net unrealized appreciation (depreciation) on investment".

At times a portion of the Company's portfolio may include marketable securities traded in the over-the-counter market. In addition, there may be a portion of the Company's portfolio for which no regular trading market exists. In order to realize the full value of a security, the market must trade in an orderly fashion or a willing purchaser must be

available when a sale is to be made. Should an economic or other event occur that would not allow the markets to trade in an orderly fashion the Company may not be able to realize the fair value of its marketable investments or other investments in a timely manner.

As of December 31, 2005, the Company did not have any off-balance sheet investments or hedging investments.

Impact of Inflation

The Company does not believe that its business is materially affected by inflation, other than the impact inflation may have on the securities markets, the valuations of business enterprises and the relationship of such valuation to underlying earnings all of which will influence the value of the Company's investments.

Item 4. Control & Procedures

Evaluation of Disclosure Control and Procedures

Management, with the participation of the principal executive officer and principal financial officer, has evaluated the effectiveness of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q/A. Based on such evaluation, the principal executive officer and principal financial officer have concluded that as of such date, the disclosure controls and procedures were deficient and designed new controls and procedures to ensure that information required to be disclosed by management in reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported with the time periods specified in applicable SEC rules and forms were effective. The new controls designed by the principal executive officer and principal financial officer are effective in ensuring that reports that are filed or submitted under the Exchange Act are accurate and do not contain any material misstatements.

Changes in Internal Control Over Financial Reporting

Subsequent to the Company's evaluation as stated above, there have been no significant changes in internal control or in other factors that could significantly affect those controls subsequent to our evaluation, including corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its property is subject. A debenture holder has claimed that the Company has defaulted on the issuance of stock underlying the convertible debenture. The Company disputes the issuance of stock and the event of default; however, management does not believe that the outcome of this dispute will materially affect the Company as a result of the Company's collateral position against prior management relating to the note. The Company is in dispute with prior management which filed for arbitration to recover stock and the balance owed on a note. The Company has counter-claimed, *inter alia*, for the return of monies paid and breach of fiduciary duties; however, management does not believe that the outcome of this dispute will materially affect the Company.

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

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 un-related individual and 50% owned by Sea Hunt Holding, LLC, which is owned by the Chairman of the Company.

On October 5, 2005, the prior management issued 800,000 shares of restricted common stock to KMA Capital Partners, Ltd. 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. Although the shares were restricted, 400,000 shares were subsequently sold in December 2005. These shares are the subject of legal proceedings between current and prior management.

Subsequent to the reverse split on January 17, 2006, pursuant to the Exchange Agreement of October 17, 2005, the Company issued 11,791,368 shares of the Company's common stock to Sovereign Marine Explorations, Inc. ("SME") in exchange for its 50% interest in Historic Discoveries, Inc., and 11,791,368 to Sea Hunt, Inc. ("SH") in exchange for its 50% interest in Historic Discoveries, Inc. Officers and directors of the Company hold certain executive positions in Historic Discoveries, Inc., SME, and SH.

The 100,000 shares of common stock, the 800,000 shares of common stock, and both blocks of 11,791,368 shares of common stock were issued in reliance upon an exemption from registration pursuant to Section 4(2) of the Securities Act. The recipients of the shares took the securities for investment purposes without a view to distribution and had access to information concerning the Company and its business prospects, as required by the Securities Act. In addition, there was no general solicitation or advertising for the purchase of the Company's shares. The 100,000 shares of common stock were sold, and the 800,000 shares of common stock and both blocks of 11,791,368 shares of common stock were issued only to persons with whom the Company had a direct personal preexisting relationship, and after a thorough discussion. Finally, the Company's stock transfer agent has been instructed not to transfer any of such shares, unless such shares are registered for resale or there is an exemption with respect to their transfer. All certificates representing the remaining shares bear restrictive legends as required by the Securities Act.

Item 3. Defaults Upon Senior Securities

A debenture holder has claimed that the Company has defaulted on the issuance of stock underlying the convertible debenture. The Company disputes the issuance of stock and the event of default; however, management does not believe that the outcome of this dispute will materially affect the Company.

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

NOT APPLICABLE

Item 5. Other Information

Effective October 17, 2005, the Company acquired all of the shares of Historic Discoveries, Inc. pursuant to the Exchange Agreement dated October 17, 2005 between the Company and Historic Discoveries, Inc. ("Exchange Agreement"). Historic Discoveries, Inc., a privately held company, is a marine exploration company headquartered in Pennsylvania. Pursuant to the Exchange Agreement, prior management disposed of all of its existing portfolio companies other than Gulf Coast Records LLC. 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 its investment. Historic Discoveries, Inc. and Sea Hunt, Inc. were issued shares equal to ninety percent of all of the issued and outstanding shares of the Company. Prior management agreed to indemnify Historic Discoveries, Inc. from all claims for a period of 1 year, and

collateralized the indemnification with previous management's interest in the Company's stock.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
31.1	<u>Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>
32.1	<u>Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 906, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002</u>

In accordance with Section 13 or 15(d) 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 19, 2006

By: /s/ Robert D. Baca

Robert D. Baca
Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Sovereign Exploration Associates International, INC.

Date: May 19, 2006

By: /s/ Robert D. Baca

Robert D. Baca
President, CEO

Sovereign Exploration Associates International, INC.

Date: May 19, 2006

By:

/s/ Robert D. Baca

Robert D. Baca
Chief Financial Officer