

Sovereign Exploration Associates International, Inc.
Form 10KSB/A
November 14, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A
Amendment no. 1

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

For the fiscal year ended June 30, 2007

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

For the transition period from _____ to _____

Commission file number 333-29903

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.
(Name of small business issuer in its charter)

Utah 30-0123229
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)
organization)

503 East Washington Avenue, Suite 2D, Newtown, 18940
Pennsylvania
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (215) 968-0200

Securities registered pursuant to Section 12(b) of the Act: N/A

Securities registered pursuant to section 12(g) of the Act: N/A

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Note - Checking this box above will not relieve any registrant required to file reports pursuant to Section 13 of 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or

Edgar Filing: Sovereign Exploration Associates International, Inc. - Form 10KSB/A

information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

The issuer's revenues for the year ended June 30, 2007 were \$1,860,442.

The number of shares outstanding of the issuer's Common Stock as of September 17, 2007 was 33,682,017 shares. The aggregate market value of the Common Stock totaling 13,682,789 shares held by non-affiliates, based on the approximate average of the bid and asked prices of \$0.18 per share as of September 17, 2007, was \$2,495,302.

Transitional Small Business Disclosure Format (Check One): Yes No

Table of Contents

	PAGE
PART I	
Item 1 Description of Business	3
Item 1A Risk Factors	7
Item 1B Unresolved Staff Comments	9
Item 2 Description of Property	9
Item 3 Legal Proceedings	10
Item 4 Submission of Matters to a Vote of Security Holders	10
PART II	
Item 5 Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities	10
Item 6 Management's Discussion and Analysis or Plan of Operation	12
Item 7 Financial Statements	22
Item 8 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	22
Item 8A Controls and Procedures	22
Item 8A(T) Controls and Procedures	25
Item 8B Other Information	25
PART III	
Item 9 Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act	26
Item 10 Executive Compensation	28
Item 11 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	28
Item 12 Certain Relationships and Related Transactions	30
Item 13 Exhibits	32
Item 14 Principal Accountant Fees and Services	33

SIGNATURES

PART I

Item 1. Description of Business

Sovereign Exploration Associates International, Inc. (the "Company") was incorporated in Utah in 1980. The Company on January 13, 2004, elected to be treated as a business development company under the Investment Company Act of 1940 (the "1940 Act"). A business development company is an investment company that invests primarily in, and makes available significant managerial assistance to, eligible portfolio companies that may not have ready access to capital through conventional financial channels.

There was a change in control of the Company on October 17, 2005. The Company, then known as CALI Holdings, Inc., on that date entered into an Exchange Agreement (the "Exchange Agreement") with Sovereign Exploration Associates International, Inc., a Pennsylvania Company now known as Historic Discoveries, Inc. ("Historic Discoveries"). As a result of the Exchange Agreement, Historic Discoveries became a wholly-owned subsidiary of the Company and the former shareholders of Historic Discoveries received 90% of the capital stock of the Company. All of the Directors and officers of the Company resigned, and new Directors and officers took office. Immediately prior to and in connection with the entry into the Exchange Agreement, the Company disposed of substantially all of its assets.

The Business of Historical Shipwreck Recovery

Searching for and salvaging historical shipwrecks is a multistage process. The Company generally seeks to identify and recover artifacts from historical shipwrecks dating from 1500 to 1900. The wrecked ships themselves generally were made of wood and have completely disintegrated. The Company therefore seeks to recover valuable and historically interesting artifacts from the shipwreck sites.

An initial step is locating promising sites for exploration. The Company has conducted extensive research into historical shipwrecks. It currently focuses on inshore, shallow-water sites that tend to be less costly and to provide the Company with a higher likelihood of greater recovery-per-dive than achieved by deep-water recovery operations. The Company also takes into account the effect of local laws, which vary in the degree to which a salvager must share recovered items with governmental authorities.

For any licenses that are owned by the Company, it must obtain an exploratory or disturbance permit before commencing exploratory operations. The permit gives the holder the exclusive right to conduct exploratory operations in the area covered by the permit. The Company holds or has rights to a number of these permits and considers that they make up a significant portion of its net worth; in many cases, the permits are owned by a third party who contracts with a subsidiary of the Company. During the exploratory operations, the Company seeks to locate shipwrecks and to confirm their identification through examination of a limited number of salvaged items. Both exploratory and salvage operations are dependent upon favorable weather conditions. For operations off the coast of Nova Scotia, where several of the Company's sites are located, these are restricted to the warmer months of the year.

A separate recovery permit is required before the Company can make any substantial recoveries from a site. Recoveries under a recovery permit require the involvement of a science team, which examines recovered items and turns its findings over to the applicable governmental authority. The artifacts must be thoroughly documented in accordance with commonly accepted historical and archaeological standards. These records will be retained by the Company and made available to researchers by request. After items have been recovered and examined, it generally is necessary to negotiate an in-kind sharing of recovered items with the governmental authority. In the Company's experience, this negotiation can take a year or more. The Company then can begin realizing on the recovered items through a deaccession process. An effort will be made to keep a deaccessioned artifact in the public domain by offering museums and similar institutions the opportunity to purchase the artifact at fair market value as determined

by the average of no less than two independent appraisers adhering to the standards of the Appraisers Association of America standards. Consideration will be given to institutions in the region of origin.

3

The eventual deaccession will follow one of three options:

- Sale - In order of preference, artifacts may be sold for fair market value to a museum, university or public institution collection; by publicly advertised auction to the highest bidder; or by private sale based upon fair market value.
- Exchange - With approval of the Board of Directors, artifacts can be exchanged for another artifact from a qualified museum, university or public institution collection to further complete the present collection of that institution, when the exchanging institution has a policy allowing for final deaccession to a private entity.
- Gift - With approval from the Board of Directors, artifacts may be deaccessed to a qualified museum, university or public institution collection to further complete a given collection.

Typically it will take a period of two to three years from the Company's location of a shipwreck to when it begins to realize on its recoveries. The Company may also realize returns from its intellectual property rights with respect to historically significant or interesting shipwrecks, such as the development and sale of documentaries and television specials, but these are expected to be no more than a secondary revenue source. They may, however, increase interest in sales of recovered artifacts. In an initial use of the Company's intellectual property, the Company has entered into a media partnership with Principle Pictures, Inc., planning the creation of at least five television documentaries and a series of companion books, educational tools, and interactive websites.

The Company's Subsidiaries

The Company conducts its operations through its subsidiaries and controlled companies. These entities generally lease all major equipment, including dive ships, for only the period of time it is actually used in operation. However, equipment may be owned if it appears to be advantageous to do so, particularly with less costly technological materials, such as compressors, small zodiac boats, and dive equipment for recovery teams, that require minimal maintenance and have relatively long life-cycles. Operations are conducted primarily by part-time and contracted explorers, divers, historians, marine archaeologists, and other personnel.

As of June 30, 2007, the Company, including its subsidiaries, has five (5) full-time employees.

The Company generally intends to finance specific recovery efforts through a system of project finance. The Company will form a special-purpose entity, typically a limited liability company, to conduct a specific recovery effort. The special-purpose entity will be managed by a subsidiary of the Company and will seek investment from affluent individuals to fund its operations. Such investors may be collectors who seek an in-kind share of recovered items, individuals who are attracted by the opportunity to participate in a historically significant recovery effort, or investors attracted by the entity's potentially large gains. The Company's share of proceeds will be reduced by the share distributable to the entity's investors, which will vary with the amount of investment received.

Historic Discoveries, Inc.

Historic Discoveries is the Company's primary subsidiary and is wholly-owned by the Company. The Company acquired Historic Discoveries in connection with the change in control on October 17, 2005, and it has since made additional investments in Historic Discoveries. Historic Discoveries has two wholly-owned subsidiaries, Artifact Recovery & Conservation Inc. ("ARC") and Sea Research, Inc. ("SRI").

The Company and Historic Discoveries had agreed to distribute 20% of the net profits arising out of the exploitation of permits, licenses, finder fees rights, contracts and other rights (collectively, "permits") held by ARC to its former corporate parent, Sovereign Marine Explorations, Inc. ("SME"), and to distribute 20% of the net profits arising out of the exploitation of permits held by SRI to its former corporate parent, Sea Hunt, Inc. ("Sea Hunt"). On May 19, 2007,

the Company issued 10,000,000 shares of Convertible Preferred Stock in exchange for this 20% net profits participation agreement. The stock carries a 4 to 1 conversion feature into 40,000,000 common shares of the Company.

Artifact Recovery & Conservation, Inc.

ARC holds licenses for some of the Company's most promising sites. ARC has already recovered substantial artifacts from Le Chameau, a French ship lost off Cape Lorembec, Cape Breton Island, Nova Scotia, on August 27, 1725. The Chameau carried extensive loadings of specie, military supplies, trade goods, and commercially-consigned freight, as well as the personal effects of wealthy passengers. ARC submitted artifacts from the Chameau and other ships to the Nova Scotia government for artifact selection in 2005, and the selection process was completed in March 2006.

ARC has also conducted extensive exploratory efforts in Fantome Cove, near Prospect, Nova Scotia. The H.M.S. Fantome and accompanying ships are believed to have been lost in Fantome Cove on November 24, 1814. The Fantome is particularly historically significant, as it played a role in the War of 1812 and potentially could have been carrying plunder from the sacking of Washington, DC in August 1814. ARC's exploratory efforts have confirmed that it has located at least two historical shipwrecks, although it has not specifically confirmed that either wreck is that of the Fantome. During its most recent reconnaissance efforts in late summer, 2006, ARC identified two very large concretion fields, and its divers observed flatware, artifacts, ship fittings, and thousands of coins in the concretions. Because Fantome Cove is in Canadian waters but may involve British ships and American plunder, any shipwrecks located in Fantome Cove may be subject to competing claims. The United Kingdom has filed a formal notice on the H.M.S. Fantome that has caused a delay in the Company's plans for a recovery in Fantome Cove.

ARC was notified on August 31, 2006, its application for a Class B recovery permit for the Fantome Cove treasure trove site has not been approved. A Class B permit is required before ARC can make any substantial recoveries from the site. The Nova Scotia Department of Tourism, Culture & Heritage has recommended that ARC and Le Chameau Explorations Limited (a wholly-owned subsidiary of the Company), secure permission from the United Kingdom. The Company's management and counsel believe that the admiralty and treaty laws governing the site will substantiate ARC's and Le Chameau Explorations Limited's Interest as license holder. As of June 30, 2007, the Company is arranging meetings with representatives from the United Kingdom and is waiting for Class B permit approval.

Sea Research, Inc.

SRI holds the rights to seven sites, several of which have multiple ships. The wrecked ships are believed to have contained diverse cargoes, including money, bullion, religious artifacts, jewelry, and other personal items. SRI also owns an exploratory vessel, the Sea Quest, through its wholly-owned subsidiary, Sea Quest, Inc

Sovereign Exploration Associates International of Spain, Inc.

Sovereign Exploration Associates International of Spain, Inc. ("SEAI - Spain"), a wholly-owned subsidiary of the Company, was acquired in November 2005 from unrelated parties in exchange for \$800,000 of convertible debentures. The debentures were due on November 15, 2006, with accrued interest at a rate of 6% per annum. The Company may, at any time prior to November 15, 2006, convert the principal amount of the debentures into common stock of the Company at the average closing price of the Company's common stock for the ten business days prior to the conversion date. The debenture holders may, at any time after November 15, 2006, convert the principal amount of the debenture into common stock of the Company at the average closing price of the Company's common stock for the ten business days prior to the conversion date. SEAI - Spain has secured the finder's rights to four shipwrecks in Spain with potential historic and intrinsic value. Effective November 15, 2006, the Company converted the debentures into 848,000 (including accrued interest of \$48,000) common shares of the Company at a price of \$1.00 per share.

Lavelle Holdings, Inc.

On June 11, 2007, the Company acquired 100% of the common stock of the Lavelle Holdings, Inc., a company based in Texas, for consideration of \$300,000 cash at closing plus a cash amount equal to five (5) times the net profit of Lavelle Holdings, Inc. for a one (1) year period beginning on or the date that is six (6) months after the closing date. This amount will be paid in cash and/or stock on or before nineteen (19) months following the closing date. Management is unable to determine this amount of this contingent liability as of the balance sheet date of June 30, 2007. If the Company becomes insolvent during the nineteen (19) months following the closing date, the selling shareholders have the right of refusal to repurchase the purchased stock from the Company.

In consideration for certain rights to purchase common stock of Lavelle Holdings, Inc. the Company paid \$225,000, in cash, to the rights holders, at closing. The total cash paid for this acquisition at closing on June 11, 2007 was \$525,000. Lavelle Holdings, Inc. is a wholly-owned subsidiary of the Company.

Pursuant to SFAS no. 141; the Company accounted for Lavelle Holdings, Inc. operations and cash flows for the year ended June 30, 2007 in its consolidated financial statements contained within this 10-KSB/A. In addition, the Company considered the recognition of an increase or decrease in the provisional amount recognized for any identifiable asset or liability by means of a decrease or increase in goodwill. As of the date of this transaction, there were no identifiable assets or liabilities that required recognition through a corresponding change in goodwill.

LeChateau Explorations Limited

On June 13, 2007, the Company acquired 100% of the issued and outstanding capital stock of LeChateau Explorations Limited, a company based in Nova Scotia, for total consideration of USD \$274,009. The payment for the stock is in the form of a note agreement, which is collateralized by the common stock of the Company. The note is due June 13, 2008. If the Company defaults, the note is convertible to the Company's common stock at a rate of 1.25 times the outstanding liability as of its due date valued at the ten day average of the stock price prior to the conversion date. Under this acquisition, the Company now owns twenty-five licenses under the Nova Scotia Treasure Trove Act. LeChateau Explorations Limited is a wholly-owned subsidiary of the Company.

The sole asset of this company were licenses held under the Nova Scotia Treasure Trove Act and did not maintain any operations, therefore, there were no operations and cash flows for the year ended June 30, 2007. In addition, the Company considered the recognition of an increase or decrease in the provisional amount recognized for any identifiable asset or liability by means of a decrease or increase in goodwill. As of the date of this transaction, there were no identifiable assets or liabilities that required recognition through a corresponding change in goodwill.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-KSB may contain forward-looking statements which include assumptions about future market conditions, operations and financial results. These statements are based on current expectations and are subject to risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results, performance or achievements in the future could differ significantly from the results, performance or achievements discussed or implied in such forward-looking statements herein and in prior Securities and Exchange Commission ("SEC") filings by the Company. The Company assumes no obligation to update these forward-looking statements or to advise of changes in the assumptions on which they were based. Factors that could cause or contribute to such differences include, but are not limited to, changes in the competitive environment of the Company, general economic and business conditions, industry trends, and changes in government rules and regulations and environmental rules and regulations.

SEC Filings

The Company's Quarterly Reports on Form 10-QSB for the periods ended March 31, 2007, December 31, 2006 and September 30, 2006 were based on preliminary information that has in some cases been corrected in this Annual Report on Form 10-KSB/A.

The Company is an SEC reporting company and, pursuant to Section 15(d) of the Securities Exchange Act of 1934, it is required to file Annual Reports on Form 10-KSB, Quarterly Reports on Form 10-QSB, and Current Reports on Form 8-K with the SEC. However, the Company is not registered under Section 12 of the Securities Exchange Act of 1934. Accordingly, the Company is not required to provide proxy statements, information statements, or annual reports to its shareholders, although it may optionally do so, and its investors are not required to file Forms 3,

4, or 5 or Schedules 13D or 13G with the SEC.

6

Further information about the Company is available at its website, www.sea-int.com. Although the Company does not currently post its SEC filings on its website because of its limited number of full-time personnel, those filings are available online via the SEC's EDGAR program at the SEC's website, www.sec.gov.

Item 1A. Risk Factors.

THE COMPANY'S BUSINESS INVOLVES A HIGH DEGREE OF RISK. SHAREHOLDERS AND INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND THE OTHER INFORMATION INCLUDED IN THIS REPORT.

The Company's Business Is Inherently Risky and Speculative

The Company's business of historic shipwreck exploration and recovery is inherently risky, and the risks predominate at each step of the Company's business model.

The value of the Company is largely dependent on permits giving the Company (through its subsidiaries and controlled companies) the exclusive right to exploration and recovery for historical shipwrecks in specified areas. The value of these permits is dependent, to a substantial degree, upon the research and data assembled by the Company indicating that a historical shipwreck is likely to be in the area. Although the Company has access to a substantial amount of research and data, which has been compiled during various projects, all such research and data regarding shipwrecks is imprecise, incomplete and unreliable, as it is often composed of, or affected by, numerous assumptions, rumors, "legends," historical and scientific inaccuracies, and inaccurate interpretations that have become a part of such research and data over time. The shipwrecks sought by the Company generally have long disintegrated, and confirming their locations is difficult. Even if the shipwrecks are accurately located in waters covered by the Company's permits, the shipwrecks may have been salvaged or may not have had anything of value on board at the time of the sinking.

Underwater recovery operations are inherently difficult and dangerous and may be delayed or suspended by weather, sea conditions or other natural hazards. Further, such operations may be undertaken more safely during certain months of the year than during others. These risks are particularly great in the waters off Nova Scotia, where many of the shipwrecks sought by the Company are believed to be located. There can be no assurances that the Company will be able to conduct search and/or recovery operations only during such favorable periods. In addition, even though sea conditions in a particular search location may be somewhat predictable, the possibility exists that unexpected conditions in a search area may occur and that such unexpected conditions might adversely affect operations. Further, it is possible that natural hazards may prevent or significantly delay search and recovery operations.

From time to time, it will be necessary to contract with third parties for additional equipment and/or labor necessary for the location and recovery of wreck sites. There can be no assurance that third party contracts will be available to the Company. The availability of specialized recovery equipment may present a problem, and the cost of obtaining the use of such equipment to conduct recovery operations is uncertain and will depend on, in part, the location and condition of the wreckage to be recovered. Persons and entities other than the Company and its affiliates may claim title to the shipwrecks. Even if the Company is successful in locating and recovering shipwrecks, there is no assurance of establishing the rights to property recovered as against governmental entities, prior owners, or other attempted salvors claiming an interest therein. There is also a risk of theft of valuable items at sea, both before and after their recovery, by pirates or poachers and while in transit to a safe destination.

Even after the location of a historical shipwreck has been confirmed, it may require a period of years before the Company can realize revenue from salvage operations. The Company generally must obtain a recovery permit before the Company can make any substantial recoveries from the site. Salvage operations generally require a substantial period of time to complete. Recovered items must be carefully examined by the Company's science team. The

Company then must negotiate with applicable government authorities, which generally are entitled to retain a portion of the recovered items. The issuance of recovery permits and negotiations with governmental authorities may result in delays particularly if there is public sentiment against salvage, there are multiple governmental claims to the shipwreck, or the recovered items are especially valuable or historically significant.

7

Even if valuable items can be located and recovered, it is difficult to predict the price that may be realized for these items. The items may have been damaged by salt water or by natural sea conditions. The value of the recovered items will fluctuate with a precious metals market that has been highly volatile in recent years. Moreover, the entrance into the market of a large supply of similar items from shipwrecks, including those located and recovered by the Company, could itself depress the market for these items. The methods and channels that may be used in the disposition of the recovered items are uncertain at present and may include one or a combination of several alternatives. Ready access to buyers for disposition of any artifacts or other valuable items recovered cannot be assured and delays in the disposition of such items are very possible.

Need for Additional Capital

Although the Company has recovered a number of valuable items in its salvage operations to date, it has not yet realized any revenues from these salvage operations, and any revenues it realizes in the near future are unlikely to be sufficient to fund the Company's operations. In addition, the Company has minimal financial resources. Accordingly, the Company can continue its operations only if it or its subsidiaries or controlled companies can raise additional working capital.

Legal and Political Risks

Historical shipwreck recovery is highly regulated and can be a high-profile political issue, due to jurisdictional disputes, public concern over historically significant shipwrecks, and archaeological and environmental concerns. A localized group in Nova Scotia has forwarded the idea to repeal the Nova Scotia Treasure Trove Act. This action remains on the horizon. However, the Company's legal representation in Nova Scotia indicates the likelihood that it will not move forward and if it does that the Company may be grandfathered for a period of time.

Legal Exposure

In the period leading up to the change in control of the Company on October 17, 2005, the Company, under its prior management, disposed of a number of its assets for aggregate consideration of \$20 and issued 800,000,000 shares (800,000 shares on a split-adjusted basis) for consideration the receipt of which the Company's present management has been unable to confirm.

In the period from October 17, 2005 to September 22, 2006, although the Company had elected treatment as a business development company under the 1940 Act, the Company may not have met all of the requirements for treatment as a business development company, and some of the activities of it or its affiliates raised questions under the 1940 Act. The Company accordingly could face legal exposure in the event of either private litigation or a SEC enforcement action with respect to events either before or after the change in control. Neither the SEC nor any private litigant has expressed a present intention of bringing such an action against the Company.

Dependence on Key Personnel

The Company's success will depend largely on the skills of its key management personnel, who currently function without employment contracts. The loss of one or more of the Company's key management personnel may materially and adversely affect its business and results of operations. The Company cannot guarantee that it will be able to replace any key management personnel in the event that their services become unavailable.

There is a Limited Public Trading Market for the Company's Securities.

There is only a limited public trading market for the Company's securities and no assurances can be given that a liquid market, or active market, will develop or, if developed, that it will continue to be maintained.

Limitation on the Use of Net Operating Loss Carryforwards

Effective October 17, 2005, there was a change in control as defined under Section 382 of the Internal Revenue Code. As of June 30, 2007, the Company had federal net operating loss carryforwards of approximately \$853,311; portions of which expire yearly through 2027 (subject to certain limitations). This balance gives effect to annual limitations on the utilization of the loss carryforwards caused by "ownership changes" as defined in Section 382 of the Internal Revenue Code. If there is any additional ownership change, there can be no assurance as to the specific amount of net operating loss carryforwards available in any post-change year since the calculation is based upon a fact-dependent formula.

Item 1B. Unresolved Staff Comments.

N/A

Item 2. Description of Property.

The Company's principal offices are located at 503 Washington Avenue, Suite 2D, Newtown, Pennsylvania and 120 Alpine Road, West Palm Beach, Florida. The offices in Pennsylvania and Florida are leased by affiliates of the Company and the Company utilizes some of the space. The offices are sufficiently equipped for the business of the Company as now conducted.

9

Item 3. Legal Proceedings.

On June 30, 2006, the Company entered into a Settlement Agreement and General Release ("Settlement Agreement") among members of the Company's former management and their affiliates, James E. Jenkins, Charles Giannetto, KMA Capital Partners Ltd., KMA Capital Partners, Inc. and CF Holdings, LLC (collectively, the "Former Management Parties"). The purpose of the Settlement Agreement was to reach a comprehensive resolution to the disputes between the Company and the Former Management Parties, in particular an arbitration demand filed by KMA Capital Partners, Ltd. on or about December 29, 2005 (American Arbitration Association Case No.: 33-180-00463-05) relating to an Exchange Agreement dated October 17, 2005. The Settlement Agreement provides that the Former Management Parties release all claims that they may have against the Company, its parents, subsidiaries, affiliates, predecessors, successors, assigns, partners, agents, representatives and attorneys (collectively, "affiliated parties") and that the Company releases all claims it may have against the Former Management Parties.

In a matter related to KMA Capital Partners Ltd, James Jenkins and Charles Giannetto, filed as KMA Capital Partners Ltd., v. Sovereign Exploration Association, Inc., et al, in the Circuit Court of the Ninth Judicial Circuit, in and for Orange County, Florida, the Company claims that KMA Capital Partners Ltd, James Jenkins and Charles Giannetto are in breach of a "Leak Out Agreement", which restricts the number of shares of the Company's common stock, traded as SVXA.OB, they are allowed to sell or transfer. As of June 30, 2006, the court entered an Order which limits Mr. Jenkins and Mr. Giannetto to selling no more than 2,000 shares of the Company's common stock per trading day. As of June 30, 2007 and 2006, there is no liability under this matter that requires the establishment of a liability within the accompanying consolidated financial statements.

The Company is one of several defendants in a law suit, Patricia A. Mullican v. Sovereign Exploration Associates International, Inc., et al in the Circuit Court of the Ninth Judicial Circuit, in and for Orange County, Florida. The plaintiff in this case is seeking damages for the alleged failure to pay two (2) debentures issued by TS&B Holdings to Mr. Mullican (one for \$150,000 and the other for \$250,000) as well as an unpaid promissory note for \$50,000 plus accrued interest on the debentures and the promissory note along with attorney fees. TS&B Holdings, Inc. subsequently became Cali Holdings, Inc., which was acquired by the Company in October 2005. It is the Company's position that these debts are not its responsibility, to the extent that neither the debentures nor promissory notes were disclosed at the time Cali Holdings, Inc. was acquired by the Company. There are numerous defenses which the Company will be relying upon to support its legal position that these obligations are not its responsibility. As of June 30, 2007 and 2006, the accompanying consolidated financial statements do not provide for any liability in the event that the Company is deemed responsible in this case.

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

Effective September 20, 2006, the shareholders of the Company voted, affirmative, to file the Company's election to withdrawal its Business Development Company status under the Investment Company Act of 1940.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Sovereign Exploration Associates International, Inc. Common Stock, par value \$.001 per share ("Common Stock"), is traded over the counter on the OTC Bulletin Board ("OTCBB") under the symbol "SVXA." The following table sets forth, for the period indicated, the range of high and low closing prices reported by the OTCBB. Such quotations represent prices between dealers and may not include markups, markdowns, or commissions and may not necessarily represent actual transactions.

Quarter Ended	High	Low
06/30/2006\$	0.88\$	0.45
09/30/2006\$	0.63\$	0.35
12/31/2006\$	0.62\$	0.26
03/31/2007\$	0.78\$	0.25
06/30/2007\$	0.89\$	0.30

Shareholders of Record

As of September 17, 2007, there were ninety-three (93) shareholders of record of the Company's common stock.

Dividends

The Company did not pay a cash dividend on its Common Stock during the years ended June 30, 2007 and 2006, respectively, and, by reason of its present financial status and its contemplated financial requirements, does not anticipate paying any cash dividends in the foreseeable future. It is anticipated that earnings, if any, which may be generated from operations will be used to finance the operations of the Company.

Unregistered/Registered Sales/Issuances of Equity Securities and Use of Proceeds

For the year ended June 30, 2006:

On October 5, 2005, the Company, under prior management, issued 800,000 (split-adjusted) shares of Common Stock to KMA Capital Partners Ltd. The Company does not possess any documentation or knowledge regarding the consideration for which these shares were issued to KMA Capital Partners Ltd., nor has it been able to confirm that any consideration was received. The shares were issued in a transaction exempt from registration under Section 4(2) of the 1933 Act, and the shares originally bore a restrictive legend. Subsequently, prior management caused the legend to be removed, and 400,000 shares were sold on the open market in December 2005. These shares were the subject of arbitration between current and prior management. see Item 13 - Certain Relationships and Related Transactions. The remaining 400,000 shares have again been legended.

On November 15, 2005, the Company issued \$800,000 of convertible debentures in exchange for finders' rights and other assets were being held by SEAI - Spain. The debentures were due on November 15, 2006 with accrued interest at a rate of 6% per annum. The Company may, at any time prior to November 15, 2006, convert the principal amount of the debentures into Common Stock of the Company at the average closing price of the Company's common stock for the ten business days prior to the conversion date. The debenture holders may, at any time after November 15, 2006, have converted the principal amount of the debentures into Common Stock of the Company at the average closing price of the Company's common stock for the ten business days prior to the conversion date. The Company relied upon the exemption from registration contained in Section 4(2) of the 1933 Act. As of November 15, 2006, these debentures along with accrued interest were converted into 848,000 common shares of the Company.

For the year ended June 30, 2007:

The Company issued the following common shares:

- Issuance of common shares – settlement - prior management 910,000 (1)
- Conversion of convertible debt – acquisition of SEAI - Spain 848,000
- Conversion of convertible debt – private individual 95,851
- Issuance of common shares – Rule 506 – Regulation D 700,000 (2)

Edgar Filing: Sovereign Exploration Associates International, Inc. - Form 10KSB/A

·	Issuance of common shares – Rule 144 – Regulation D	350,000
·	Issuance of common shares – Services – S-8	735,000

11

Total common shares issued were 3,638,851; the par value of the common shares and the additional paid-in capital increased by \$2,069,537.

- (1) Subject to a leak-out agreement
- (2) \$175,000 cash was received for the issuance of common stock

The balance of the increase in additional paid in capital of \$1,407,177 was non-cash issuances of common stock, additional capital contributions, and conversion of convertible debt.

In each case when securities were issued in reliance upon an exemption from registration pursuant to Section 4(2) of the 1933 Act, the recipients 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 securities. The securities 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 1933 Act.

On March 7, 2007, the Board of Directors approved the Form S-8 registration for the 2006 Stock Incentive Plan for Employees and Consultants. 3,000,000 shares of the Company's common stock were registered with the SEC in order to provide employees and consultants of the Company and its subsidiaries with an increased incentive to make significant and extraordinary contributions to the long-term performance and growth of the Company and its subsidiaries, to join the interest of employees and consultants with the interest of the shareholders of the Company, and to facilitate attracting and retaining employees and consultants of exceptional ability.

Item 6. Restated Management's Discussion and Analysis or Plan of Operation

THIS REPORT, INCLUDING THE DISCLOSURES BELOW, CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE SUBSTANTIAL RISKS AND UNCERTAINTIES. WHEN USED HEREIN, THE TERMS "ANTICIPATES," "EXPECTS," "ESTIMATES," "BELIEVES" AND SIMILAR EXPRESSIONS, AS THEY RELATE TO THE COMPANY OR ITS MANAGEMENT, ARE INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS. THE COMPANY'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH MATERIAL DIFFERENCES INCLUDE THE FACTORS DISCLOSED IN THE "RISK FACTORS" SECTION OF THIS ANNUAL REPORT ON FORM 10-KSB, WHICH READERS OF THIS REPORT SHOULD CONSIDER CAREFULLY.

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

CORRECTION OF ERRORS IN PREVIOUSLY ISSUED STATEMENTS

The Company determined that as an operating company and reporting pursuant to the 1934 Act, certain errors were discovered and corrected retrospectively pursuant to SFAS no. 154. The following are the errors that were discovered and corrected:

- a) the classification and amortization of the licenses and permits,
- b) the depreciation of the research vessel and,

c)the accounting for the write-off of the accrued and unpaid salaries and expenses to certain officers and directors.

12

Edgar Filing: Sovereign Exploration Associates International, Inc. - Form 10KSB/A

The following table reflects the impact of the corrections on the restated consolidated balance sheet as of June 30, 2007:

	2007 As Corrected	2007	Change
Current assets			
Cash and cash equivalents	\$ 542,336	\$ 542,336	\$ -
Accounts receivable	323,493	323,493	-
Inventory	2,132,820	2,132,820	-
Total current assets	2,998,649	2,998,649	-
Equipment, net of depreciation			
Equipment, net of depreciation	100,000	-	100,000
Total property and equipment	100,000	-	100,000
Other assets			
Capitalized costs and permits	-	-	-
Research vessel	-	125,000	(125,000)
Licenses and permits, net of amortization	1,480,946	1,682,916	(201,970)
Investments, net of allowance of \$173,868	51,962	51,962	-
Notes receivable, net of allowance of \$832,849	-	-	-
Total other assets	1,532,908	1,859,878	(326,970)
Total assets	\$ 4,631,557	\$ 4,858,527	\$ (226,970)
Liabilities and Deficiency in Assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 752,657	\$ 752,657	\$ -
Related party notes payable	3,459,359	3,459,359	-
Due to related parties	1,237,726	1,237,726	-
Convertible notes payable	1,000,000	1,000,000	-
Debentures payable	99,174	99,174	-
Total current liabilities	6,548,916	6,548,916	-
Total liabilities	6,548,916	6,548,916	-
Commitments and contingencies	-	-	-
Deficiency in assets			
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 authorized, none issued and outstanding	-	-	-
Class D - Preferred stock, no par value, 10,000 shares authorized, none issued and outstanding	-	-	-
Preferred stock - Series A, \$0 par value, 100,000,000 shares authorized;	-	-	-
none issued and outstanding as of June 30, 2007	-	-	-
Common stock - \$.001 par value, 250,000,000,000 shares authorized;	29,842	29,842	-

29,842,017 issued and outstanding			
Additional paid-in capital	20,119,147	20,565,550	446,403
Minority interest	(803,530)	(803,530)	-
Accumulated deficit	(21,262,818)	(20,589,445)	(673,373)
Total deficiency in assets	(1,917,359)	(797,583)	(1,119,776)
			-
Total liabilities and deficiency in assets	\$ 4,631,557	\$ 5,751,333	\$ (1,119,776)

A - Entry to reclassify the research vessel from other assets to property and equipment

B - To record \$25,000 in depreciation expense for the research vessel that was available for use during the fiscal year ended June 30, 2007

C - To record the \$201,970 for the amortization of the licenses and permits owned by the Company for the fiscal year ended June 30, 2007

D - To record the \$25,000 in depreciation expenses for the research vessel and the \$201,970 for the amortization of the licenses and permits for the fiscal year ended June 30, 2007

The following table reflects the impact of the corrections on the restated consolidated statement of operations for the fiscal year ended June 30, 2007:

	2007 As Corrected	2007		Change
Revenue	\$ 1,860,442	\$ 1,860,442	\$	-
Cost of sales	1,474,632	1,474,632		-
Gross profit	385,810	385,810		-
Operating expenses				-
Salaries and wages	562,547	116,144	A	446,403
General and administrative	585,304	585,304		-
Legal and professional fees	318,497	318,497		-
Total operating expenses	1,466,348	1,019,945		446,403
Loss from operations	(1,080,538)	(634,135)		(446,403)
Other income (expenses)				
Depreciation and amortization	(226,970)	-	B	(226,970)
Interest income	1,351	1,351		-
Interest expense	(144,532)	(144,532)		-
Total other (income) expenses	(370,151)	(143,181)		(226,970)
Operating loss before income taxes	(1,450,689)	(777,316)		(673,373)
Provision for income taxes	-	-		-
Net loss	\$ (1,450,689)	\$ (777,316)	C	(673,373)
Net loss per common share				
Basic	\$ (0.05)	\$ (0.03)	D	(0.02)
Diluted	\$ (0.05)	\$ (0.03)	\$	(0.02)
Weighted average of common shares outstanding				
Basic	27,580,209	27,580,209		-
Diluted	30,132,628	30,132,628		-

See accompanying notes to consolidated financial statements, which are an integral part of the financial statements.

A - The accrued and unpaid salaries and expenses of certain officers and directors increase the operating expenses by \$446,403.

This amount was adjusted through additional paid in capital to reflect the write-off of the accrued and unpaid salaries and expenses of certain officers and directors on June 30, 2007.

B - For the fiscal year ended June 30, 2007, the \$226,970 in depreciation and amortization is as follows: \$25,000 in depreciation for the research vessel and the \$201,970 is for the amortization of the licenses and permits owned by the Company. See Note 4 for a description of the fixed assets and Note 5 for a description of the licenses and permits

C - For the fiscal year ended June 30, 2007, the net loss increased by \$673,373 for these corrections.

D - For the fiscal year ended June 30, 2007, the net effect of the corrections was \$(0.02) on the basic and diluted net loss per common share of the Company.

Edgar Filing: Sovereign Exploration Associates International, Inc. - Form 10KSB/A

The following table reflects the impact of the corrections on the restated consolidated balance sheet as of June 30, 2006:

	2006 As Corrected	2006	Change
Current assets			
Cash and cash equivalents	\$ 570	\$ 570	\$ -
Inventory	1,614,004	-	1,614,004
Total current assets	1,614,574	570	1,614,004
Other assets			
Capitalized costs and permits	-	3,463,890	(3,463,890)
Research vessel	-	-	-
Licenses and permits, net of amortization	1,682,916	-	1,682,916
Investments, net of allowance of \$173,868	-	-	-
Notes receivable, net of allowance of \$832,849	-	-	-
Total other assets	1,682,916	3,463,890	(1,780,974)
Total assets	\$ 3,297,490	\$ 3,464,460	\$ (166,970)
Current liabilities			
Accounts payable and accrued expenses	\$ 347,528	\$ 347,528	\$ -
Related party notes payable	2,583,955	2,583,955	-
Due to related parties	817,929	817,929	-
Convertible notes payable	800,000	800,000	-
Debentures payable	121,840	121,840	-
Total current liabilities	4,671,252	4,671,252	-
Total liabilities	4,671,252	4,671,252	-
Commitments and contingencies	-	-	-
Deficiency in assets			
Common stock - \$.001 par value, 250,000,000,000 shares authorized; 26,203,166 issued and outstanding	26,203	26,203	-
Additional paid-in capital	19,215,694	19,215,694	-
Minority interest	(803,530)	(803,530)	-
Accumulated deficit	(19,812,129)	(19,645,159)	(166,970)
Total deficiency in assets	(1,373,762)	(1,206,792)	(166,970)
Total liabilities and deficiency in assets	\$ 3,297,490	\$ 3,464,460	\$ (166,970)

A - The capitalized costs and permits are being reclassified to inventory and permits at the earliest date possible pursuant to SFAS no. 154. These reclassifications had no effect on the net loss for the fiscal year ended June 30, 2006

B - The amortization expense of \$166,970 is being recorded for the amortization of the licenses and permits for the fiscal year ended June 30, 2006. The \$166,970 increased the net loss for the fiscal year ended June 30, 2006

The following table reflects the impact of the corrections on the restated consolidated statement of operations as of June 30, 2006:

	2006 As Corrected	2006		Change
Revenue	\$ -	\$ -	\$	-
Cost of sales	-	-		-
Gross profit	-	-		-
Operating expenses				-
Termination of employment and consulting agreements	600,000	600,000		-
Salaries and wages	802,680	802,680		-
General and administrative	507,890	507,890		-
Legal and professional fees	304,978	304,978		-
Total operating expenses	2,215,548	2,215,548		-
Loss from operations	(2,215,548)	(2,215,548)		-
Other income (expenses)				
Depreciation and amortization	(166,970)	-	A	(166,970)
Interest expense	(40,184)	(40,184)		-
Total other (income) expenses	(207,154)	(40,184)		(166,970)
Operating loss before income taxes	(2,422,702)	(2,255,732)		(166,970)
Provision for income taxes	-	-		-
Net loss	\$ (2,422,702)	\$ (2,255,732)		(166,970)
Net loss per common share				
Basic	(0.09)	(0.08)	B	(0.01)
Diluted	\$ (0.08)	\$ (0.07)	\$	(0.01)
Weighted average of common shares outstanding				
Basic	28,022,592	28,022,592		-
Diluted	28,022,592	28,022,592		-

A - Amortization expense of \$166,970 is being recorded for the amortization of the licenses and permits for the fiscal year ended June 30, 2006. The \$166,970 increased the net loss for the fiscal year ended June 30, 2006

B - For the fiscal year ended June 30, 2006, the net effect of the correction was an increase of \$0.01 on the basic and diluted net loss per common share of the Company.

BASIS OF PRESENTATION AND CHANGE IN REPORTING STATUS

The accompanying Restated Consolidated Financial Statements present the two (2) full fiscal years ended June 30, 2007 and 2006, which are that of an operating company pursuant to the 1934 Act. As an operating company, the required financial statement presentation and accounting for securities held by the Company utilize either fair value or historical cost methods of accounting, depending on the classification of the investment and the Company's intent with respect to the period of time it intends to hold the investment. The Company and its subsidiaries are reflected for financial accounting purposes as one consolidated entity.

The accompanying Restated Consolidated Statements of Deficiency in Assets have been revised pursuant to paragraph 23 of SFAS no. 154 to reflect the beginning June 30, 2005 equity accounts, as filed, followed by one line identified as "Change in Reporting Entity Status" giving effect to the change in reporting entity status to the earliest period resulting in adjusted balances at June 30, 2005.

The following table reflects the changes in the beginning June 30, 2005 equity accounts for the change in reporting status of the Company from a BDC to an operating company:

	Class C Convertible Preferred Stock Par Value		Common Stock Par Value		Additional paid-in capital	Stock Subscription Receivable	Minority Interest	Accumulated Deficit	Unrealized Depreciation of Investments	Total
Balance, June 30, 2005	10,000	\$ 10,000	55,837	\$ 56	\$ 17,316,337	\$ (4,760)	\$ -	\$ (17,207,468)	\$ (657,328)	\$ (543,163)
Change in reporting entity status	(10,000)	(10,000)	-	-	1,925,504	4,760	(803,530)	(181,959)	657,328	1,592,103
Balance, June 30, 2005	-	-	55,837	\$ 56	\$ 19,241,841	\$ -	\$ (803,530)	\$ (17,389,427)	\$ -	\$ 1,048,940

The net effect on the total stockholders' equity as of June 30, 2005 was \$1,592,103, which consists of the following adjustments:

1. \$657,328 in the unrealized depreciation of investments for the elimination of this account.
2. \$(181,959) in the accumulated deficit to account for the change in loss as an operating company versus a BDC.
3. \$(803,530) in minority interests for the capital investments in the Company's subsidiaries from unrelated parties.
4. \$4,760 in stock subscription receivable to eliminate this account.
5. \$1,925,504 in the additional paid in capital for the net effect of the change in the reporting entity pursuant to SFAS no. 154; \$2,240,163 for the effect of the issuance of common stock for the escrow/exchange agreements, \$(23,583) for the effect of the common shares issued with the exchange agreement and \$(291,076) for the net effect of the disposal of the assets of the Company prior to the exchange agreement in October 2005.
6. \$(10,000) for the elimination of the Class C Convertible Preferred Stock.

The \$(1,612,517) after the June 30, 2006 balances in the accompanying restated statement was to account for the adjustment necessary at the earliest possible date under SFAS no. 154 for this entry that relates to the exchange agreement in October 2005.

Overview

The Company was 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's shareholders approved the proposal to allow the Company to elect to be treated as a business development company ("BDC") under the 1940 Act. The Company on September 22, 2006, withdrew its election to be treated as a BDC. Following the withdrawal of its election, the Company carries on a marine recovery and explorations business, which it conducts through subsidiaries and controlled companies, and will be managed so that it will not be subject to the provisions of the 1940 Act. On June 11, 2007, the Company acquired 100% of the outstanding common stock of Lavelle Holding, Inc. On June 13, 2007 the Company acquired 100% of the outstanding common stock of LeChateau Explorations Limited.

For the years ended June 30, 2007 and 2006, the Company has presented the accompanying restated consolidated financial statements to comply with Regulation S-X as an operating company under the 1934 Act.

For the year ended June 30, 2005 and prior years, the Company prepared its financial statements in accordance with accounting principles generally accepted in the United States of America for investment companies under the 1940 Act.

The Restated Consolidated Statement of Deficiency in Assets as of June 30, 2005 has been restated to reflect the change in the reporting entity status at the earliest possible date as presented pursuant to SFAS no. 154 for the change from a business development company reporting pursuant to the 1940 Act to an operating company reporting pursuant to the 1934 Act.

Because the Company has withdrawn its BDC election and has presented the accompanying restated consolidated financial statements as of and for the years ended June 30, 2007 and 2006 and will not in future periods prepare its financial statements as an investment company, the financial statements discussed herein for the year ended June 30, 2007 and 2006, are not comparable to any prior years.

On November 6, 2008, the Company filed Form 8-K stating that the Company's previously issued financial statements for the fiscal year ended June 30, 2007 should not be relied upon.

The increasing complexity of the business environment and applicable authoritative accounting guidance required the Company to closely monitor its accounting policies. The Company had 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

The Company is no longer subject to valuing its private investments at fair value as defined in Section 2(a)(41) of the 1940 Act, (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.

As of June 30, 2007, the following is a list of the private companies in which the Company had an investment in and notes receivable, stated at the lower of cost or market value;

Name of Company	Cost	FMV
Gulf Coast Records, LLC – Investment and Note Receivable	\$ 1,006,717	\$ -
Reds Caribbean – Investment	\$ 51,962	\$ 51,962

Totals \$ 1,058,679 \$ 51,962

18

As of June 30, 2007 and 2006, the Company's investments in entities that accounted for under the equity method, wherein the Company owns less than 50% (more than 20%) of the membership interests or capital stock are reflected at the lower of cost or market. Since there is typically no readily ascertainable market value for the investments in its portfolio, the Company valued substantially all of its investments at the lower of cost or market 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 was 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.

Gulf Coast Records, LLC

The investment (a 49% minority interest) and note receivable in Gulf Coast Records, LLC was acquired as part of the Exchange Agreement dated October 17, 2005. In the year ended June 30, 2006, while reporting under the 40 Act as a business development company, the Board of Directors agreed with management's assessment to write this investment down to zero based on the information received from the management of Gulf Coast Records, LLC. For the years ended June 30, 2007 and 2006, the investment in and note receivable to Gulf Coast is being carried as zero, which is the lower of cost or market.

Reds Caribbean

The investment (a 30% minority interest) in Reds Caribbean was acquired in the stock purchase agreement with the shareholders of Lavelle Holdings, Inc. on June 11, 2007. As of June 30, 2007, the Company is recording this newly acquired investment at its cost of \$51,962.

For the year ended June 30, 2007 and for future years, the Company expects to not record any changes in estimated fair value or have any "net increase (decrease) in unrealized (depreciation) appreciation" in its statement of operations.

Valuation of Loans and Debt Securities

The Company did not value its loans or debt securities above cost, but loans and debt securities were subject to fair value write-down when the asset is considered impaired with respect to the Company's investments. As of June 30, 2007 and 2006, the note receivable to Gulf Coast Records, LLC of \$832,849 was considered impaired and continues to be carried as zero. The investment in Reds Caribbean was acquired in June 2007 in conjunction with the acquisition of Lavelle Holdings, which is not considered as impaired and it is being carried at its cost.

Financial Condition

As of June 30, 2007 as compared with June 30, 2006:

Total assets increased by \$1,334,067 or 40% to \$4,631,557. Cash increased by \$541,766 primarily because of the \$1,000,000 cash the Company received under the note payable in June 2007. Accounts receivable of \$323,493 is that of Lavelle Holdings, Inc., a wholly-owned subsidiary of the Company.

Investments of \$51,962 represent Lavelle Holdings, Inc's minority ownership in Reds Caribbean.

The cash and cash equivalents of \$542,336 and \$570 were approximately 11% and 0.2% of total assets as of June 30, 2007 and 2006.

Inventory increased by \$518,816 or 27%, which was primarily funded by the issuance of common stock, proceeds from notes payable and proceeds from related party notes payable.

Results of Operations

For the year ended June 30, 2007 as compared with the year ended June 30, 2006::

For the year ended June 30, 2007:

The revenue for the year ended June 30, 2007 was derived all from the Company's subsidiary, Lavelle Holdings, Inc. Lavelle Holdings specializes in offshore project management and subsea marine services. The company has unique expertise in underwater cable installation, laying of offshore pipelines, subsea risers, ROV (remote operated vehicles) and saturation diving services. Lavelle's technical team is one of the best companies in the industry at implementing complex subsea installations and salvage operations.

The loss from operations was \$1,080,538 primarily due to the lack of significant revenues and the related cost of being a public company. The Company has yet to realize any revenue from the artifacts it has recovered to-date. There was a write-off of accrued/unpaid salaries, and expenses owed to related parties of \$446,403. This amount is being recorded as an operating expense and the write-off is being adjusted through additional paid in capital.

Net loss was \$1,450,689. Depreciation and amortization of \$226,970 was for the licenses, permits and equipment, which are being amortized or depreciated over their respective lives of five years. The interest expense of \$144,532 was incurred due to the accrued interest on the notes payable, the debenture payable and the related party notes payable.

Net cash used in operating activities was \$1,226,473 primarily from the net loss, change in accounts receivable and accounts payable, and the increase in inventory

For the year ended June 30, 2006:

The Company realized zero revenue in the year ended June 30, 2006.

The loss from operations of \$2,215,548 of primarily due to the lack of significant revenues and the related cost of being a public company along with significant costs related the exchange agreement in October 2005 wherein the Company incurred cost of \$600,000 for the termination of employment and consulting agreements.

Net loss was \$2,422,702, which consists of the loss from operations along with depreciation and amortization of \$166,970 and the interest expense of \$40,184.

Net cash used in operating activities was \$3,596,505 primarily from the net loss, change in accounts receivable and accounts payable and the increase in inventory.

Operating Expenses

Total operating expenses for the year ended June 30, 2007 were \$1,466,348 as compared to \$2,215,548 for the year ended June 30, 2006. The operating expenses consisted of \$562,547 in salaries and wages of which \$446,403 was a write-off of accrued/unpaid salaries, and expenses owed to related parties. This amount is being recorded as an operating expense and the write-off is being adjusted through additional paid in capital. There were \$585,304 in general administrative expenses and \$318,497 in legal and professional fees. A significant amount of the legal and accounting fees of approximately \$150,000 incurred during the year ended June 30, 2007 were due to the Company's

withdrawal of its election to be a Business Development Company (BDC) under the 1940 Act, which was effective in September 2006.

20

Liquidity and Capital Resources

At June 30, 2007, the Company had \$542,336 in cash and cash equivalents. The Company does not expect 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 intends to seek to raise additional funds from investors, either directly or through its subsidiary or controlled companies, including special-purpose entities formed to conduct specific marine salvage operations. There can be no assurance that the Company's fund-raising efforts will be successful. The Company also expects to realize some revenues from the sale of previously salvaged artifacts by a subsidiary, although these revenues by themselves are not expected to be sufficient to fund the Company's operating costs. The Company expects that its wholly-owned subsidiary, Lavelle Holdings, Inc., will generate cash from its own operations to be sufficient for its operations during the next twelve (12) months.

Debt Financing

On June 4, 2007, the Company received \$1,000,000 cash under a promissory note. Under the terms of the note, Company is obligated to pay the note in one payment of all outstanding principal plus all accrued unpaid interest on or before the six month anniversary of the closing date unless the holders agree to extend the note, in which case the note shall become a demand note, payable upon demand or at such later date as specified by holders to Company in writing, in holders sole discretion. The Company's stock is the collateral that supports this note. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any late charges; and then to any unpaid collection costs. The annual interest rate for this Note is computed on a 365 days per year basis. The Company will pay the holders at holders' address or at such other place as the holders may designate in writing. The interest rate on this Note is six percent (6%) per annum calculated on the principal amount of the Note then outstanding. Company may make a prepayment, in whole or in part, of this Note without the prior consent of the holders with no prepayment penalty. At the maturity date of the note, the holders shall be entitled to purchase 250,000 shares of common stock of the Company at a price of \$.20 per share. The holders will also be entitled to purchase an additional 250,000 shares of common stock of the Company at the closing price of the Company stock as reported on the OTCBB on the closing date (June 4, 2007) and, in addition, these shares must be exercised within one year from the closing date.

All proceeds of the equity and debt financing for the year ended June 30, 2007 were used for the stated operations of the Company. As of June 30, 2007, the Company maintained a cash balance in checking and money market accounts of \$542,336 at five banking institutions located in Pennsylvania, Florida, Texas and Nova Scotia.

Quantitative and Qualitative Disclosures about Market Risk

The Company's investment activities contained elements of risk. The portion of the Company's investment portfolio consisting of equity or equity-linked debt securities in private companies was subject to valuation risk. Because there was typically no public market for the equity and equity-linked debt securities in which it invested, 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 have differed significantly from the value that would be placed on the portfolio if a ready market for the investments existed. At times a portion of the Company's portfolio may have included marketable securities traded in the over-the-counter market. In addition, there may have been a portion of the Company's portfolio for which no regular trading market existed. In order to realize the full value of a security, the market must have traded 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 have been able to realize the fair value of its marketable investments or other investments in a timely manner.

As of June 30, 2007 and 2006, the Company did not have any off-balance sheet investments or hedging investments.

21

Impact of Inflation

The Company does not believe that its business was 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 7. Financial Statements

The Company's consolidated financial statements together with the related notes and the report of independent registered public accounting firm, are set forth beginning on page F-1 of this Form 10-KSB/A.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 8A. Controls and Procedures

CEO and CFO Certifications

As of the end of the year covered by this Form 10-KSB/A, the Company carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer ("the Certifying Officers"), an evaluation of the effectiveness of our "disclosure controls and procedures." The certifications of the CEO and the CFO required by Rules 13a-14(a) and 15d-14(c) of the Securities Exchange Act of 1934, as amended (the "Certifications") are filed as exhibits to this report.

22

This section of this report contains information concerning the evaluation of our "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) ("Disclosure Controls") and changes to internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) ("Internal Controls") referred to in the Certifications and should be read in conjunction with the Certifications for a more complete understanding of the topics presented.

Evaluation of Disclosure Controls

The Company maintains controls and procedures designed to ensure that they are able to collect the information that is required to be disclosed in the reports they file with the Securities and Exchange Commission (the "SEC") and to process, summarize and disclose this information within the time period specified in the rules of the SEC. The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing, maintaining and enhancing these procedures. The officers are also responsible, as required by the rules established by the SEC, for the evaluation of the effectiveness of these procedures.

Based on management's evaluation (with participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, the principal executive officer and principal financial officer concluded that there were deficiencies identified in the Company's internal controls over financial reporting which constituted a "material weakness." Accordingly, management concluded that the Company's disclosure controls and procedures were not effective.

The material weakness was the result of an insufficient number of personnel to provide effective, and timely, oversight and review over the Company's financial close and reporting process due to limited financial resources.

Limitations on the Effectiveness of Controls

The Company's management does not expect that their disclosure controls or their internal controls over financial reporting will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources, and the benefits of a control system must be considered relative to its costs. These limitations also include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of a control. A design of a control system is also based upon certain assumptions about potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Changes in Internal Controls

The Company maintains a system of internal controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization; transactions are recorded as necessary to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP"). It is the responsibility of Company's management to establish and maintain adequate internal control over financial reporting.

It is the responsibility of Company's management to establish and maintain adequate internal control over financial reporting. The material weakness identified relates to an insufficient number of personnel to provide effective oversight and review over our financial close and reporting process. This is the result of limited financial resources. These control deficiencies in the aggregate resulted in misstatements in the fiscal year end consolidated financial

statements for June 30, 2007 and 2006 for the Company to report as an operating company pursuant to the 1934 Act.

Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that is designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In accordance with Exchange Act Rules 13a-15 and 15d-15, an evaluation was completed under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Form 10-KSB/A.

Based on that evaluation, the Company's Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were not effective, to provide reasonable assurance that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms.

1. The Company determined that as an operating company and reporting pursuant to the 1934 Act, certain errors were discovered and corrected retrospectively pursuant to SFAS no. 154. The following are the errors that were discovered and corrected; the classification and amortization of the licenses and permits, the depreciation of the research vessel, and the accounting for the write-off of the accrued and unpaid salaries and expenses.

There have been no changes to the Company's internal controls over financial reporting that occurred during our last fiscal quarter of the year ended June 30, 2007, that materially affected, or were reasonably likely to materially affect, our internal controls over financial reporting.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

For the fiscal year ended June 30, 2007, management did conduct an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, it has concluded that notwithstanding the foregoing, the Company's internal controls over financial reporting were not effective as of June 30, 2007, and there were material weaknesses in financial reporting that have been discovered upon our management's evaluation. The

errors as stated elsewhere in this 10-KSB/A were corrected as of June 30, 2007 and 2006, respectively. Their related impact on the accompanying restated consolidated financial statements have been fully disclosed.

As noted in this 10-KSB/A, the Company has limited resources available. We have addressed these issues and upon obtaining additional funding and employ additional personnel, we will implement programs to ensure the proper segregation of duties and reporting channels.

This Form 10-KSB/A does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

Item 8A (T). Controls and Procedures

Not applicable

Item 8B. Other Information.

Not applicable.

25

PART III

Item 9. Directors and Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16 (A) of the Exchange Act

Officers and Directors

Name, Age and Address

Position and Length of time with the Company

Principal Occupation, Business Experience and Directorships

Robert D. Baca (51) 503 Washington Avenue, Suite 2D Newtown, PA 18940	President, CEO and Director since October 2005
---	---

President and CEO of Sovereign Exploration Associates International, (2005-present); Chief Financial Officer of Sovereign Marine Exploration, Inc. (2004-present); President of Monarch Group (consulting) (2001-present); President of Premier Neurodiagnostics, LLC (mobile EMG (neurology services) (2004 – Present) Chief Financial Officer of Artifact Recovery and Conservation, Inc. (marine recovery) (2005-present); President of Clinical Strategy Partners, LLC (subject recruiting); (2005-2006); President of Monarch Clinical Strategies (subject recruiting) (2004-2005)

John J. Barr (50) 503 Washington Avenue, Suite 2D Newtown, PA 18940	Director since October 2005
---	-----------------------------

Attorney, Palmer & Barr, PC. (1989 – Present)

James J. Cavan (41) 503 Washington Avenue, Suite 2D Newtown, PA 18940	Vice President since October 2005
---	-----------------------------------

Director of Research of Drexel University College Associates International of Medicine (2003-2005); Associate Director and Director of Research Office, University of Medicine and Dentistry of Medicine and Dentistry of New Jersey (2003)

Kevin J. Conner (45)	Director since October 2005
-------------------------	-----------------------------

503 Washington Avenue,
Suite 2D
Newtown, PA 18940

Managing Director, Conner & Associates, PC (CPA firm)
(1992 – Present)
General Partner, Westrock Partners (Private Investment
Firm) (1994 – Present)

Donald G. Conrad
(77)
503 Washington Avenue,
Suite2D
Newtown, PA 18940

Director since October 2005

Retired, Chevy Chase Bank, F.S.B.

Barry Gross
(56)
503 Washington Avenue
Suite 2D
Newtown, PA 18940

Senior Vice President and Secretary since October 2005

Senior Vice President-Project Operations of Sovereign Exploration (2005-present); Northeast Regional Manager of
Taut, Inc. (laparoscopic medical device manufacturer) (2001- present)

Peter Knollenberg
(57)
503 Washington Avenue,
Suite 2D
Newtown, PA 18940

Chairman and Director since October 2005

Curtis R. Sprouse
(42)
503 Washington Avenue
Suite 2D
Newtown, PA 18940

Chief Operating Officer since October 2005

President and CEO of Boston Market Strategies, Inc. (consulting) (1993-present); President and CEO of iBall, Inc. (software consulting) (2003-present); Operating Officer of Sovereign Exploration (2005-present); Chief Operating Officer of Sovereign Marine Exploration, Inc. (2005-present); Chief Operating Officer of Artifact Recovery and Conservation (marine exploration) (2005-present); Vice President of Clinical Strategy Partners (2005-2006); Vice President of Research Clinical Strategies (subject recruiting) (2004-2005)

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities pursuant to section 12, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten-percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

The Company's securities are not registered under Section 12 of the Securities Exchange Act of 1934 and, therefore, the Company's directors, officers and beneficial owners of more than ten percent of the Company's outstanding Common Stock are not required to file Forms 3, 4 and 5 with the SEC.

Code of Ethics

The Company has not adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Company has not adopted a code of ethics because the Company's Board of Directors feels the Company's small size makes written standards of conduct unnecessary. However, the Company will consider whether to add a written code of ethics in the future.

Audit, Nominating and Compensation Committees

As of June 30, 2007, the Company does not have a separate Audit Committee because the Board of Directors determined that a separate Audit Committee was not necessary due to the relatively small size of the Company. The Company's Board of Directors serves as the Audit Committee, overseeing (i) the integrity of the Company's financial statements; (ii) the independent registered public accounting firm's qualifications and independence; (iii) the performance of the Company's internal audit function and independent registered public accounting firm; and (iv) the Company's compliance with legal and regulatory requirements.

Item 10. Executive Compensation.

The following table discloses compensation received for each of the two fiscal years ended June 30, 2007 and June 30, 2006 by (i) the Company's Chief Executive Officer and (ii) the other highly compensated executive officers.

Name and principal position	Fiscal year	Salary (\$)	Bonus (\$)	Other Annual Compensation
Robert D. Baca, President and CEO	2007	\$ 0	\$ 0	\$ 0
	2006	\$ 185,000	\$ 0	\$ 0
Curtis R. Sprouse, Chief Operating Officer	2007	\$ 0	\$ 0	\$ 0
	2006	\$ 185,000	\$ 0	\$ 0
James Cavan, Vice President	2007	\$ 0	\$ 0	\$ 0
	2006	\$ 150,000	\$ 0	\$ 0

Employment Agreements

As of June 30, 2007 and 2006, respectively, the Company had no employment contracts.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth, as of September 17, 2007 the beneficial ownership of the Company's Common Stock (i) by any person or group known by the Company to beneficially own more than 5% of the outstanding Common Stock, (ii) each Director and executive officer, and (iii) by all Directors and officers as a group.

Edgar Filing: Sovereign Exploration Associates International, Inc. - Form 10KSB/A

Name and Address (1)	Number of Shares	Percent of Outstanding
Robert D. Baca President, Chief Executive Office and Director	11,909,790 (2)	35.2%
Barry Gross Vice President and Secretary.	11,822,582 (3)	34.9%
Peter Knollenberg Chairman of the Board	11,860,238 (4)	35.0%
Curtis R. Sprouse Chief Operating Officer	11,824,725 (5)	34.9%
Robert McKinnon Vice – President	11,791,368 (6)	34.9%
Martin Thorp Chief Financial Officer and Director	100,000	*
Donald G. Conrad Director	240,000	*
Kevin J. Conner Director	174,800	*
John J. Barr Director	20,000	*
James Caven Vice President	7,242	*
Robert Holloway Vice – President	-	*
All Executive Officers and Directors as a Group	24,357,067 (7)	71.9%
Sea Hunt, Inc. 120 Alpine Road West Palm Beach, FL 33405	11,791,368	34.8%
Sovereign Marine Explorations, Inc. 503 Washington Avenue, Suite 2D Newtown, PA 18940	11,791,368	34.8%

* - Denotes less than 1% of the outstanding common shares on September 17, 2007

1. The address for each Director and executive officer is c/o Sovereign Exploration Associates International Inc., 503 Washington Avenue, Suite 2D, Newtown, PA 18940.
2. Includes 73,422 shares owned directly and 11,791,368 shares as to which Mr. Baca may be deemed to have beneficial ownership by reason of his status as a director and officer of Sovereign Marine Explorations, Inc. ("SME"). Mr. Baca disclaims beneficial ownership of shares held by SME.
3. Includes 31,214 shares owned directly and 11,791,368 shares as to which Mr. Gross may be deemed to have beneficial ownership by reason of his status as a director and officer of SME. Mr. Gross disclaims beneficial ownership of shares held by SME.
4. Includes 24,000 shares owned directly and 11,791,368 shares as to which Mr. Knollenberg may be deemed to have beneficial ownership by reason of his status as president, director, and sole shareholder of Sea Hunt, Inc.
5. Includes 13,653 shares owned directly, 19,704 shares held through the Boston Market Strategies, Inc. Employee Profit Sharing Plan ("BMSI"), and 11,791,368 shares as to which Mr. Sprouse may be deemed to have beneficial ownership by reason of his status as a director and officer of SME. Mr. Sprouse disclaims beneficial ownership of shares held by SME and through BMSI.
6. Includes 11,791,368 shares that may be beneficially owned by directors and officers of SME, each of whom disclaims beneficial ownership of such shares.
7. Includes 11,791,368 shares that may be beneficially owned by directors and officers of SME, each of whom disclaims beneficial ownership of such shares; 11,791,368 shares beneficially owned by Mr. Knollenberg as president, director, and sole shareholder of Sea Hunt, Inc.; and 19,704 shares that may be beneficially owned by Mr. Sprouse through the BMSI, who disclaims beneficial ownership of such shares.

Item 12. Certain Relationships and Related Transactions

Certain officers and directors of the Company hold certain executive positions in Historic Discoveries, Inc., Sea Research, Inc. and their respective subsidiaries. The Company maintains shared office space in Pennsylvania and Florida with unrelated companies controlled by certain officers of the Company. The Company shares office space with these companies at no cost.

The Company on October 5, 2005, while under prior management, issued 800,000 (split-adjusted) shares of Common Stock to KMA Capital Partners Ltd. ("KMA"), which at that time was a portfolio company of the Company and contractually provided consulting services to the Company. Current management has been unable to confirm that the Company received any consideration for these shares.

Immediately prior to and in connection with the entry into the Exchange Agreement, the Company disposed of substantially all of its assets. The Company sold nine Limited Partnership Units in KMA to Kairos Holdings, Inc. for a total consideration of \$10, and it sold its interests in six portfolio companies, its brokerage account at NevWest, three notebook computers, furniture and fixtures, and office and computer equipment to KMA Capital Partners Ltd. Inc. of Texas for a total consideration of \$10. The Company realized losses of \$2,525,274 on these divestitures. The Company does not have sufficient information to determine the value of the assets sold or the validity of the transactions, nor does it have any information on the relationship, if any, that KMA or prior management may have had with the purchasers.

The Company has sought further information on these transactions from the purchasers and prior management, but its efforts to date have been unsuccessful. The Company retained its interest in one portfolio company, Gold Coast Records, LLC, which the Company currently carries at a fair value of zero, as well as prepaid legal fees and security deposits of \$7,375, also subsequently written down to zero.

The Company on October 17, 2005, entered into an Exchange Agreement with Sovereign Exploration Associates International, Inc., a Pennsylvania Company now known as Historic Discoveries, Inc. ("Historic Discoveries"). The Exchange Agreement provided that Historic Discoveries would contribute 100% of its capital stock to the Company in exchange for 90% of the capital stock of the Company. As a result, the former shareholders of Historic Discoveries gained a controlling interest in the Company. In addition, all of the Directors of the Company resigned and new directors took office. Historic Discoveries intended, by entering into the transaction, to improve its ability to raise funds for its marine recovery and explorations business in the capital markets. For accounting purposes, the Board of Directors of the Company determined that, in the absence of more reliable evidence as to its value, Historic Discoveries should be valued at its historical cost, which was subsequently determined to be \$1,161,410 on that date.

In connection with the contribution of ARC and SRI to the Company's wholly-owned subsidiary Historic Discoveries, the Company and Historic Discoveries agreed to distribute 20% of the net profits arising out of the exploitation of permits, licenses, finder fees rights, contracts and other rights (collectively, "permits") held by ARC to its former corporate parent, Sovereign Marine Explorations, Inc. ("SME"), and to distribute 20% of the net profits arising out of the exploitation of permits held by SRI to its former corporate parent, Sea Hunt, Inc. ("Sea Hunt"). The agreement continued a pre-existing arrangement among Historic Discoveries, SME, and Sea Hunt.

On May 19, 2007, the Company issued 10,000,000 shares of Convertible Preferred Stock in exchange for this 20% net profits participation agreement. The stock carries a 4 to 1 conversion feature into 40,000,000 common shares of the Company.

The Exchange Agreement provided that at a future point, but in no event later than April 1, 2006, the Company would conduct a reverse stock split, following which Historic Discoveries would have 90% ownership of the Company. The reverse stock split and issuance of shares to the former shareholders of Historic Discoveries were affected on January 17, 2006. The Company issued 11,791,368 shares to Sea Hunt and 11,791,368 shares to SME. Peter Knollenberg, the Chairman of the Company, is the president and sole Shareholder of Sea Hunt, and Robert D. Baca, the President and Chief Executive Officer of the Company, is the chief financial officer and a director of SME. The Company on January 17, 2006, also canceled all outstanding shares of preferred stock. All holders of outstanding preferred stock were parties to the Settlement Agreement discussed below and have no further claims with respect to their holdings of preferred stock.

Prior to the change in control on October 17, 2005, the Company was a party to executive management contracts with James E. Jenkins, its President and Chief Executive Officer, and Charles Giannetto, its Secretary and General Counsel. In addition, the Company was a party to a consulting contract with KMA, pursuant to which KMA provided it with consulting services. In consideration of the termination of the executive management contracts and the consulting contract, Historic Discoveries agreed to pay to Mr. Jenkins, Mr. Giannetto, and KMA an aggregate of \$600,000 and to provide them with 5% of the Company's Common Stock. Sea Hunt paid Mr. Jenkins, Mr. Giannetto, and KMA \$300,000 at the closing of the Exchange Agreement. As noted above, Sea Hunt holds 45% of the outstanding Common Stock, and its president and sole shareholder, Mr. Knollenberg, is the Chairman of the Company. In addition, Venture Planning Inc., another Company controlled by Mr. Knollenberg provided Mr. Jenkins, Mr. Giannetto, and KMA with, and subsequently paid a note for the remaining \$300,000. Because the underlying obligations to Mr. Jenkins, Mr. Giannetto, and KMA were obligations of the Company, the Company has booked a note payable of \$600,000, which remains outstanding, to Sea Hunt and Venture Planning Inc. in consideration of their payment of these amounts.

Following the change in control on October 17, 2005, certain disputes arose between the Company and Mr. Jenkins, Mr. Giannetto and KMA. As a result of these disputes, the Company did not issue any common stock of the Company to Mr. Jenkins, Mr. Giannetto, or KMA, and they commenced an arbitration proceeding against the Company. The Company and Mr. Jenkins, Mr. Giannetto, KMA, KMA Capital Partners, Inc., and CF Holdings, LLC (collectively, the "Former Management Parties") on June 30, 2006, entered into a Settlement Agreement and General Release (the "Settlement Agreement") in order to reach a comprehensive resolution of their disputes.

The Settlement Agreement provides that the Former Management Parties release all claims that they may have against the Company, its parents, subsidiaries, affiliates, predecessors, successors, assigns, partners, agents, representatives, and attorneys (collectively, "affiliated parties") and that the Company releases all claims it may have against the Former Management Parties and their respective affiliated parties. The Settlement Agreement also provides that the Company will issue 303,333 shares of common stock of the Company to KMA Capital Partners, Inc. (the successor by merger to KMA), 303,333 shares of common stock of the Company to Mr. Jenkins, and 303,334 shares of Common Stock to Mr. Giannetto.

In a matter related to KMA Capital Partners Ltd, James Jenkins and Charles Giannetto, filed as KMA Capital Partners Ltd., v. Sovereign Exploration Association, Inc., et al, in the Circuit Court of the Ninth Judicial Circuit, in and for Orange County, Florida, the Company claims that KMA Capital Partners Ltd, James Jenkins and Charles Giannetto are in breach of a "Leak Out Agreement", which restricts the number of shares of the Company's common stock, traded as SVXA.OB, they are allowed to sell or transfer. As of June 30, 2006, the court entered an Order which limits Mr. Jenkins and Mr. Giannetto to selling no more than 2,000 shares of the Company's common stock per trading day. As of June 30, 2007, there is no liability under this matter that requires the establishment of a liability within the accompanying consolidated financial statements.

On December 26, 2005, the Company issued 100,000 shares of Common Stock for 100% ownership of the stock of Sea Quest, Inc., which became a wholly-owned subsidiary of Sea Research. Sea Quest, Inc. was owned 50% by a private unrelated individual and 50% owned by Sea Hunt Holding, LLC, which is owned by Mr. Knollenberg. By acquiring Sea Quest, Inc., Sea Research acquired a vessel known as the Sea Quest.

Item 13. Exhibits

(a) The following exhibits are incorporated as part of this Amended 10KSB annual report:

3(i) Articles of Incorporation, as Amended

3(ii) By-Laws

10.1	Exchange Agreement
10.2	Settlement Agreement
10.3	Stock Purchase Agreements – Lavelle Holdings, Inc.
10.4	Stock Purchase Agreement – LeChateau Explorations Limited
21	Subsidiaries of Registrant
31.1	Section 302 CEO Certification
31.2	Section 302 CFO Certification
32.1	Section 906 CEO and CFO Certification
32.2	Section 906 CEO and CFO Certification

Item 14. Principal Accounting Fees and Services.

FEES PAID TO THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

During the fiscal year ended June 30, 2007, professional audit services were performed for the Company by Baumann, Raymondo & Company, P.A., the Company's independent registered public accounting firm. During the fiscal years ended June 30, 2007 and 2006 professional tax services were performed by Conner & Associates, PC, certified public accountants. Set forth below is information relating to the aggregate fees billed by Baumann Raymondo and Conner & Associates for professional services rendered. All fees and services were approved by the Board before the respective firms were engaged.

Audit Fees. The aggregate fees billed, or to be billed, for the audit of the Company annual financial statements, review of the financial statements included in the Company's Form 10-QSB filings, and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements were \$59,312 and \$37,205 for fiscal years ended June 30, 2007 and 2006, respectively.

Audit-Related Fees. Baumann Raymondo did not perform any services for assurance or related services on behalf of the Company that were reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees" during the fiscal years ended June 30, 2007 and 2006.

Tax Fees. The aggregate fees billed, or to be billed, by Conner & Associates, PC for professional services related to the preparation of the consolidated tax returns and other tax compliance services were \$18,200 and \$12,250 during the fiscal years ended June 30, 2007 and 2006, respectively.

All Other Fees.

Not applicable.

PRE-APPROVAL POLICY FOR SERVICES BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors has implemented procedures for the pre-approval of all engagements of the Company's independent registered public accounting firm for both audit and permissible non-audit services, including the fees and terms of each engagement. The Board annually meets with the independent registered public accounting firm and reviews and pre-approves all audit-related services prior to the commencement of the audit engagement.

Index to Restated Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm	F-2
Restated Consolidated Balance Sheets	F-3
Restated Consolidated Statements of Operations	F-4
Restated Consolidated Statements of Deficiency in Assets	F-5
Restated Consolidated Statements of Cash Flows	F-6
Notes to Restated Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Sovereign Exploration Associates International, Inc.
Newtown, Pennsylvania

We have audited the consolidated balance sheets of Sovereign Exploration Associates International, Inc. and subsidiaries as of June 30, 2007 and 2006, and the related consolidated statements of operations, deficiency in assets, and cash flows, for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sovereign Exploration Associates International, Inc. and subsidiaries as of June 30, 2007 and 2006, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 2 and 3 to the consolidated financial statements, the consolidated financial statements have been restated.

As discussed in note 2 to the consolidated financial statements Sovereign Exploration Associates International, Inc. changed its reporting status for the year ending June 30, 2006 from a business development company to an operating company.

As discussed in note 3 to the consolidated financial statements Sovereign Exploration Associates International, Inc. corrected errors in recording depreciation, amortization and write-off of unpaid salaries and expenses due to officers and directors.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the restated consolidated financial statements, the Company suffered recurring losses from operations and has not yet realized any revenues. This raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Baumann, Raymondo & Company, P.A.

Baumann, Raymondo & Company P.A.
Tampa, Florida

October 11, 2007, except as to the restatement discussed in notes 2 and 3
to the consolidated financial statements which is as of November 7, 2008

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
 RESTATED CONSOLIDATED BALANCE SHEETS
 June 30, 2007 and 2006

	Assets	
	2007 Restated	2006 Restated
Current assets		
Cash and cash equivalents	\$ 542,336	\$ 570
Accounts receivable	323,493	-
Inventory	2,132,820	1,614,004
Total current assets	2,998,649	1,614,574
Equipment, net of depreciation	100,000	-
Other assets		
Licenses and permits, net of amortization	1,480,946	1,682,916
Investments, net of allowance of \$173,868	51,962	-
Notes receivable, net of allowance of \$832,849	-	-
Total other assets	1,532,908	1,682,916
Total assets	\$ 4,631,557	\$ 3,297,490
Liabilities and Deficiency in Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 752,657	\$ 347,528
Related party notes payable	3,459,359	2,583,955
Due to related parties	1,237,726	817,929
Convertible notes payable	1,000,000	800,000
Debentures payable	99,174	121,840
Total current liabilities	6,548,916	4,671,252
Total liabilities	6,548,916	4,671,252
Commitments and contingencies	-	-
Deficiency in assets		
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 authorized, none issued and outstanding	-	-
Class D - Preferred stock, no par value, 10,000 shares authorized, none issued and outstanding	-	-
Preferred stock - Series A, \$0 par value, 100,000,000 shares authorized; None issued and outstanding as of June 30, 2007, and 10,000,000 issued and outstanding as of June 30, 2006	-	-
Common stock - \$.001 par value, 250,000,000,000 shares authorized;	29,842	26,603

Edgar Filing: Sovereign Exploration Associates International, Inc. - Form 10KSB/A

29,842,017 issued and outstanding as of June 30, 2007, and 26,203,166 issued and outstanding as of June 30, 2006		
Additional paid-in capital	20,119,147	19,215,694
Minority interest	(803,530)	(803,530)
Accumulated deficit	(21,262,818)	(19,812,129)
Total deficiency in assets	(1,917,359)	(1,373,762)
Total liabilities and deficiency in assets	\$ 4,631,557	\$ 3,297,490

See accompanying notes to consolidated financial statements, which are an integral part of the financial statements.

F-3

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
 RESTATED CONSOLIDATED STATEMENTS OF OPERATIONS
 For the years ended June 30, 2007 and 2006

	2007 Restated	2006 Restated
Revenue	\$ 1,860,442	\$ -
Cost of sales	1,474,632	-
Gross profit	385,810	-
Operating expenses		
Termination of employment and consulting agreements	-	600,000
Salaries and wages	562,547	802,680
General and administrative	585,304	507,890
Legal and professional fees	318,497	304,978
Total operating expenses	1,466,348	2,215,548
Loss from operations	(1,080,538)	(2,215,548)
Other income (expenses)		
Depreciation and amortization	(226,970)	(166,970)
Interest income	1,351	-
Interest expense	(144,532)	(40,184)
Total other expenses	(370,151)	(207,154)
Operating loss before income taxes	(1,450,689)	(2,422,702)
Provision for income taxes	-	-
Net loss	\$ (1,450,689)	\$ (2,422,702)
Net loss per common share		
Basic	\$ (0.05)	\$ (0.09)
Diluted	\$ (0.05)	\$ (0.09)
Weighted average of common shares outstanding		
Basic	27,580,209	28,022,592
Diluted	30,132,628	28,022,592
Dividends declared per common share	\$ -	\$ -

See accompanying notes to consolidated financial statements, which are an integral part of the financial statements.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
 RESTATED CONSOLIDATED STATEMENTS OF DEFICIENCY IN ASSETS
 For the years ended June 30, 2007 and 2006

	Class C Convertible Preferred Stock Par Value	Series A Preferred Stock Par Value	Common Stock Shares	Stock Par Value	Additional paid-in capital	Stock Subscription Receivable	Minority Interest	Accumulated Deficit	Net Unrealized Depreciation of investments			
	10,000	\$ 10,000	-	-	55,837	\$ 56	\$ 17,316,337	\$(4,760)	\$ -	\$(17,207,468)	\$(657,328)	\$
	(10,000)	(10,000)	-	-	-	-	1,925,504	4,760	(803,530)	(181,959)	657,328	
	-	-	-	-	55,837	56	19,241,841	-	(803,530)	(17,389,427)	-	
	-	-	-	-	26,147,203	26,147	(26,147)	-	-	-	-	
	-	-	-	-	126	-	-	-	-	-	-	
	-	-	-	-	-	-	-	-	-	(2,422,702)	-	
	-	-	-	-	26,203,166	26,203	19,215,694	-	(803,530)	(19,812,129)	-	
	-	-	-	-	-	-	(1,612,517)	-	-	-	-	
	-	-	-	-	-	-	125,000	-	-	-	-	
	-	-	-	-	943,851	944	881,562	-	-	-	-	

-	-	-	-	2,695,000	2,695	1,063,005	-	-	-	-				
-	-	10,000,000	-	-	-	-	-	-	-	-				
-	-	-	-	-	-	446,403	-	-	-	-				
-	-	-	-	-	-	-	-	-	(1,450,689)	-				
-	\$	-	10,000,000	-	29,842,017	\$ 29,842	\$ 20,119,147	\$	-	\$ (803,530)	\$ (21,262,818)	\$	-	\$

See accompanying notes to consolidated financial statements, which are an integral part of the financial statements.

F-5

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
 RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the years ended June 30, 2007 and 2006

	2007 Restated	2006 Restated
Cash flows from operating activities:		
Net loss	\$ (1,450,689)	\$ (2,422,702)
Adjustments to reconcile net loss from operations to net cash used in operating activities:		
Stock issued for services	376,200	-
Depreciation and Amortization	226,970	166,970
(Increase) decrease in:		
Accounts receivable	(323,493)	3,692
Inventory	(518,816)	(1,614,004)
Increase in accounts payable and accrued expenses	463,355	269,539
Net cash (used in) operating activities	(1,226,473)	(3,596,505)
Cash flows from investing activities		
Purchases of licenses and permits	-	(1,849,886)
Purchase of business	(525,000)	
Purchase of equipment	(125,000)	-
Purchase of investment	(51,962)	-
Net cash (used in) investing activities	(701,962)	(1,849,886)
Cash flows from financing activities		
Proceeds from the issuance of common stock, net	175,000	2,014,043
Proceeds from notes payable	1,000,000	-
Proceeds from due to related parties	419,797	817,929
Proceeds from related party notes payable	875,404	2,583,955
Net cash provided by financing activities	2,470,201	5,415,927
Net increase(decrease) in cash and cash equivalents	541,766	(30,464)
Cash and cash equivalents , beginning of year	570	31,034
Cash and cash equivalents, end of year	\$ 542,336	\$ 570
Supplemental disclosure of cash flow information:		
Interest paid	\$ 263	\$ -
Taxes paid	\$ -	\$ -

See accompanying notes to consolidated financial statements, which are an integral part of the financial statements.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES

RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS, continued

For the years ended June 30, 2007 and 2006

Non-cash investing and financing activities	2007 Restated	2006 Restated
Common stock issued for:		
Settlement - prior management	\$ 364,000	\$ -
Conversion of convertible debt – acquisition of SEAI - Spain	848,000	-
Conversion of convertible debt – private individual	34,506	-
Rule 144 – Regulation D	150,500	-
Services	176,200	-
Note payable issued for:		
Acquisition of LeChateau Limited	\$ 274,009	\$ -

See accompanying notes to consolidated financial statements, which are an integral part of the financial statements.

F-7

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO RESTATED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 and 2006

NOTE 1 NATURE OF ORGANIZATION

Sovereign Exploration Associates International, Inc. (the "Company") was incorporated in the state of Utah in 1980.

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of June 30, 2007, the Company's subsidiaries were development stage enterprises, except for Gulf Coast Records, LLC, which is accounted for on the equity method of accounting. In addition, Lavelle Holdings, Inc, a wholly-owned subsidiary of the Company, is a subsea consulting service company wherein it provides project management, personnel, equipment and specialized services to the petroleum, marine, and aviation industries and is not in its development stage.

As of June 30, 2006, the Company's subsidiaries were development stage enterprises, except for Gulf Coast Records, LLC, which is accounted for on the equity method of accounting.

SFAS no. 7, Accounting and Reporting by Development Stage Enterprises, defines a development stage enterprise as one that is devoting substantially all of its efforts to establishing a new business and either planned principal operations have not commenced or planned principal operations have commenced but there has been no significant revenue. Several artifacts have been recovered, but for the years ended June 30, 2007 and 2006, there was no revenue from the Company's historical shipwreck recovery business.

The accompanying restated consolidated financial statements have been prepared on a going-concern basis, which contemplates the continuation of operations, realization of assets and liquidation of liabilities in the ordinary course of business. The Company's subsidiaries have capitalized all of their ocean explorations and archaeologically sensitive recoveries of artifacts, treasure trove and/or cargo from shipwrecks costs to-date. The Company plans to obtain additional financing through the sale of publicly traded stock, limited liability company member units of its subsidiaries and/or debt financing. There is no assurance these efforts will be successful. The financial statements do

not include any adjustments relating to the recoverability and classifications of reported asset amounts or the amounts of liabilities that might result from the outcome of that uncertainty.

F-8

BASIS OF PRESENTATION AND CHANGE IN REPORTING STATUS

The accompanying Restated Consolidated Financial Statements present the two (2) full fiscal years ended June 30, 2007 and 2006, which are that of an operating company pursuant to the 1934 Act. As an operating company, the required financial statement presentation and accounting for securities held by the Company utilize either fair value or historical cost methods of accounting, depending on the classification of the investment and the Company's intent with respect to the period of time it intends to hold the investment. The Company and its subsidiaries are reflected for financial accounting purposes as one consolidated entity.

The accompanying Restated Consolidated Statements of Deficiency in Assets have been revised pursuant to paragraph 23 of SFAS no. 154 to reflect the beginning June 30, 2005 equity accounts, as filed, followed by one line identified as "Change in Reporting Entity Status" giving effect to the change in reporting entity status to the earliest period resulting in adjusted balances at June 30, 2005.

The following table reflects the changes in the beginning June 30, 2005 equity accounts for the change in reporting status of the Company from a BDC to an operating company:

	Class C Convertible Preferred Stock		Common Stock		Additional paid-in capital	Stock Subscription Receivable	Minority Interest	Accumulated Deficit	Unrealized Depreciation of Investments	Total
	Shares	Par Value	Shares	Par Value						
Balance, June 30, 2005	10,000	\$ 10,000	55,837	\$ 56	\$ 17,316,337	\$ (4,760)	\$ -	\$ (17,207,468)	\$ (657,328)	\$ (543,163)
Change in reporting entity status	(10,000)	(10,000)	-	-	1,925,504	4,760	(803,530)	(181,959)	657,328	1,592,103
Balance, June 30, 2005	-	-	55,837	\$ 56	\$ 19,241,841	\$ -	\$ (803,530)	\$ (17,389,427)	\$ -	\$ 1,048,940

The net effect on the total stockholders' equity as of June 30, 2005 was \$1,592,103, which consists of the following adjustments:

1. \$657,328 in the unrealized depreciation of investments for the elimination of this account.
2. \$(181,959) in the accumulated deficit to account for the change in loss as an operating company versus a BDC.
3. \$(803,530) in minority interests for the capital investments in the Company's subsidiaries from unrelated parties.
4. \$4,760 in stock subscription receivable to eliminate this account.
5. \$1,925,504 in the additional paid in capital for the net effect of the change in the reporting entity pursuant to SFAS no. 154; \$2,240,163 for the effect of the issuance of common stock for the escrow/exchange agreements, \$(23,583) for the effect of the common shares issued with the exchange agreement and \$(291,076) for the net effect of the

disposal of the assets of the Company prior to the exchange agreement in October 2005.

6. \$(10,000) for the elimination of the Class C Convertible Preferred Stock.

The \$(1,612,517) after the June 30, 2006 balances in the accompanying restated statement was to account for the adjustment necessary at the earliest possible date under SFAS no. 154 for this entry that relates to the exchange agreement in October 2005.

Principles of Consolidation

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

F-9

As of June 30, 2007, the Company's subsidiaries and the related equity ownership are as follows:

Historic Discoveries, Inc.

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

Artifact Recovery & Conservation, Inc.

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

As of June 30, 2007, the minority interest in Fantome Cove Treasure Trove 150, LLC and Interspace Exploration, LLC is \$803,530.

Sovereign Exploration Associates International of Spain, Inc.

Sovereign Exploration Associates International of Spain, Inc. ("SEAI - Spain"), a wholly-owned subsidiary of the Company, was acquired in November 2005 from unrelated parties in exchange for \$800,000 of convertible debentures. The debentures were due on November 15, 2006, with accrued interest at a rate of 6% per annum. The Company may, at any time prior to November 15, 2006, convert the principal amount of the debentures into common stock of the Company at the average closing price of the Company's common stock for the ten business days prior to the conversion date. The debenture holders may, at any time after November 15, 2006, convert the principal amount of the debenture into common stock of the Company at the average closing price of the Company's common stock for the ten business days prior to the conversion date. SEAI - Spain has secured the finder's rights to four shipwrecks in Spain with potential historic and intrinsic value. Effective November 15, 2006, the Company converted the debentures into 848,000 (including accrued interest of \$48,000) common shares of the Company at a price of \$1.00 per share.

Lavelle Holdings, Inc.

On June 11, 2007, the Company acquired 100% of the common stock of the Lavelle Holdings, Inc., a company based in Texas, for consideration of \$300,000 cash at closing plus a cash amount equal to five (5) times the net profit of Lavelle Holdings, Inc. for a one (1) year period beginning on or the date that is six (6) months after the closing date. This amount will be paid in cash and/or stock on or before nineteen (19) months following the closing date. Management is unable to determine this amount of this contingent liability as of the balance sheet date of June 30, 2007. If the Company becomes insolvent during the nineteen (19) months following the closing date, the selling shareholders have the right of refusal to repurchase the purchased stock from the Company. In consideration for certain rights to purchase common stock of Lavelle Holdings, Inc. the Company paid \$225,000, in cash, to the rights holders at closing. The total cash paid for this acquisition at closing on June 11, 2007 was \$525,000. Lavelle Holdings, Inc. is a wholly-owned subsidiary of the Company. Pursuant to SFAS no. 141, the Company accounted for Lavelle Holdings, Inc. operations and cash flows for the year ended June 30, 2007 in its consolidated financial statements contained within this 10-KSB/A. In addition, the Company considered the recognition of an increase or decrease in the provisional amount recognized for any identifiable asset or liability by means of a decrease or increase in goodwill. As of the date of this transaction, there were no identifiable assets or liabilities that required recognition through a corresponding change in goodwill.

LeChameau Explorations Limited

On June 13, 2007, the Company acquired 100% of the issued and outstanding capital stock of LeChameau Explorations Limited, a company based in Nova Scotia, for total consideration of USD \$274,009. The payment for the stock is in the form of a note agreement, which is collateralized by the common stock of the Company. The note is due June 13, 2008. If the Company defaults, the note is convertible to the Company's common stock at a rate of 1.25 times the outstanding liability as of its due date valued at the ten day average of the stock price prior to the conversion date. Under this acquisition, the Company now owns twenty-five licenses under the Nova Scotia Treasure Trove Act. LeChameau Explorations Limited is a wholly-owned subsidiary of the Company.

The sole asset of this company were licenses held under the Nova Scotia Treasure Trove Act and did not maintain any operations, therefore, there were no operations and cash flows for the year ended June 30, 2007. In addition, the Company considered the recognition of an increase or decrease in the provisional amount recognized for any identifiable asset or liability by means of a decrease or increase in goodwill. As of the date of this transaction, there were no identifiable assets or liabilities that required recognition through a corresponding change in goodwill.

Investments

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

Gulf Coast Records, LLC

The investment (a 49% minority interest) and note receivable in Gulf Coast Records, LLC was acquired as part of the Exchange Agreement dated October 17, 2005. In the year ended June 30, 2006, while reporting under the 1940 Act as a business development company, the Board of Directors agreed with management's assessment to write this investment down to zero based on the information received from the management of Gulf Coast Records, LLC. For the year ended June 30, 2007, the investment in and note receivable to Gulf Coast are being carried at a zero value, which is the lower of cost or market.

Reds Caribbean

The investment (a 30% minority interest) in Reds Caribbean was acquired in the stock purchase agreement with the shareholders of Lavelle Holdings, Inc. on June 11, 2007. As of June 30, 2007, the Company is recording this newly acquired investment at its cost of \$51,962. As of June 30, 2007, the Company has determined that the fair value in accordance with SFAS no.141 of the investment in Reds Caribbean is reflected at its original cost, which is the lower of its cost or fair value. The Company receives periodic management reports from Reds Caribbean wherein management of the Company reviews the financial statements, as presented to determine the fair value of this investment.

Revenue Recognition

The Company recognizes revenue using the accrual method of accounting wherein revenue is recognized when earned.

Allowance for Bad Debts

As of June 30, 2006, there were zero accounts receivable. As of June 30, 2007, the \$323,493 in accounts receivable and the allowance for bad debts of \$0 were all for Lavelle Holdings, Inc., a wholly-owned subsidiary of the Company. Allowance for bad debts is a management estimate based management's review of historical billing and collection activity along with management's expectations under the balance sheet method contained in the allowance method, which is in conformity with generally accepted accounting principles. The balance in the allowance account is taken into consideration and the adjusting entry brings the allowance account up to the desired amount. If the allowance account has a debit balance, it is "overdrawn". In other words, there have been more write-offs than planned.

F-11

If the allowance account has a credit balance, it has a positive balance and has not been utilized as fully as was expected. Accounting for bad debts expense is done only at the end of the accounting period and is done as an adjusting entry. The bad debt expense account is not used at the time individual accounts are written off. The adjusting entry looks identical under either the income statement method or the balance sheet method (since direct write-off is not GAAP, the Company does not do journal entries related to the method). The adjusting journal entry replenishes the allowance account, which is a contra-asset account and is in effect a reserve for uncollectible accounts.

Economic Dependence

The Company's wholly-owned subsidiary, Lavelle Holdings, Inc, which was acquired by the Company in June 2007, has economic dependence for its revenue on less than ten (10) customers and they have less than ten (10) vendors with whom they conduct their business.

Fair Value of Financial Instruments

The Company measures its financial assets and liabilities in accordance with generally accepted accounting principles. For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued payroll and other expenses, the carrying amounts approximate fair value due to their short maturities. The amount shown for notes payable also approximates fair value because the current interest rates offered to the Company for debt of similar maturities are substantially the same.

Use of Estimates

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

Cash and Cash Equivalents

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

Advertising costs

For the years ended June 30, 2007 and 2006, the Company did not incur any advertising costs.

Segments

As of June 30, 2007 and 2006, the Company operated as one segment as defined by the Statement of Financial Accounting Standards No. 131 Disclosures about Segments of an Enterprise and Related Information.

Foreign Currency Translation

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

New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption.

F-12

Additionally, in May 2007, the FASB published FASB Staff Position No. FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48" ("FSP FIN 48-1"). FSP FIN 48-1 is an amendment to FIN 48. It clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective upon the initial adoption of FIN 48. The Company does not expect the adoption of FIN 48 to have an effect on its financial statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157 ("FAS 157"), Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements. Prior to FAS 157, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. Moreover, that guidance was dispersed among the many accounting pronouncements that require fair Value measurements. Differences in that guidance created inconsistencies that added to the complexity in applying GAAP. The changes to current practice resulting from the application of FAS 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does expect the adoption of FAS 157 to have an effect on its financial statements.

NOTE 3 CORRECTION OF ERRORS IN PREVIOUSLY ISSUED STATEMENTS

The Company determined that as an operating company and reporting pursuant to the 1934 Act, certain errors were discovered and corrected retrospectively pursuant to SFAS no. 154. The following are the errors that were discovered and corrected:

d)the classification and amortization of the licenses and permits,

e)the depreciation of the research vessel and,

f)the accounting for the write-off of the accrued and unpaid salaries and expenses to certain officers and directors.

F-13

Edgar Filing: Sovereign Exploration Associates International, Inc. - Form 10KSB/A

The following table reflects the impact of the corrections on the restated consolidated balance sheet as of June 30, 2007:

	2007 As Corrected	2007	Change
Current assets			
Cash and cash equivalents	\$ 542,336	\$ 542,336	\$ -
Accounts receivable	323,493	323,493	-
Inventory	2,132,820	2,132,820	-
Total current assets	2,998,649	2,998,649	-
Equipment, net of depreciation			
Equipment, net of depreciation	100,000	-	100,000
Total property and equipment	100,000	-	100,000
Other assets			
Capitalized costs and permits	-	-	-
Research vessel	-	125,000	(125,000)
Licenses and permits, net of amortization	1,480,946	1,682,916	(201,970)
Investments, net of allowance of \$173,868	51,962	51,962	-
Notes receivable, net of allowance of \$832,849	-	-	-
Total other assets	1,532,908	1,859,878	(326,970)
Total assets	\$ 4,631,557	\$ 4,858,527	\$ (226,970)
Liabilities and Deficiency in Assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 752,657	\$ 752,657	\$ -
Related party notes payable	3,459,359	3,459,359	-
Due to related parties	1,237,726	1,237,726	-
Convertible notes payable	1,000,000	1,000,000	-
Debentures payable	99,174	99,174	-
Total current liabilities	6,548,916	6,548,916	-
Total liabilities	6,548,916	6,548,916	-
Commitments and contingencies	-	-	-
Deficiency in assets			
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 authorized, none issued and outstanding	-	-	-
Class D - Preferred stock, no par value, 10,000 shares authorized, none issued and outstanding	-	-	-
Preferred stock - Series A, \$0 par value, 100,000,000 shares authorized;	-	-	-
none issued and outstanding as of June 30, 2007	-	-	-
Common stock - \$.001 par value, 250,000,000,000 shares authorized;	29,842	29,842	-

Edgar Filing: Sovereign Exploration Associates International, Inc. - Form 10KSB/A

29,842,017 issued and outstanding			
Additional paid-in capital	20,119,147	20,565,550	446,403
Minority interest	(803,530)	(803,530)	-
Accumulated deficit	(21,262,818)	(20,589,445)	(673,373)
Total deficiency in assets	(1,917,359)	(797,583)	(1,119,776)
			-
Total liabilities and deficiency in assets	\$ 4,631,557	\$ 5,751,333	\$ (1,119,776)

A - Entry to reclassify the research vessel from other assets to property and equipment

B - To record \$25,000 in depreciation expense for the research vessel that was available for use during the fiscal year ended June 30, 2007

C - To record the \$201,970 for the amortization of the licenses and permits owned by the Company for the fiscal year ended June 30, 2007

D - To record the \$25,000 in depreciation expenses for the research vessel and the \$201,970 for the amortization of the licenses and permits for the fiscal year ended June 30, 2007

F-14

The following table reflects the impact of the corrections on the restated consolidated statement of operations for the fiscal year ended June 30, 2007:

	2007 As Corrected	2007		Change
Revenue	\$ 1,860,442	\$ 1,860,442	\$	-
Cost of sales	1,474,632	1,474,632		-
Gross profit	385,810	385,810		-
Operating expenses				-
Salaries and wages	562,547	116,144	A	446,403
General and administrative	585,304	585,304		-
Legal and professional fees	318,497	318,497		-
Total operating expenses	1,466,348	1,019,945		446,403
Loss from operations	(1,080,538)	(634,135)		(446,403)
Other income (expenses)				
Depreciation and amortization	(226,970)	-	B	(226,970)
Interest income	1,351	1,351		-
Interest expense	(144,532)	(144,532)		-
Total other (income) expenses	(370,151)	(143,181)		(226,970)
Operating loss before income taxes	(1,450,689)	(777,316)	C	(673,373)
Provision for income taxes	-	-		-
Net loss	\$ (1,450,689)	\$ (777,316)		(673,373)
Net loss per common share				
Basic	\$ (0.05)	\$ (0.03)	D	\$ (0.02)
Diluted	\$ (0.05)	\$ (0.03)	\$	(0.02)
Weighted average of common shares outstanding				
Basic	27,580,209	27,580,209		-
Diluted	30,132,628	30,132,628		-

See accompanying notes to consolidated financial statements, which are an integral part of the financial statements.

A - The accrued and unpaid salaries and expenses of certain officers and directors increase the operating expenses by \$446,403.

This amount was adjusted through additional paid in capital to reflect the write-off of the accrued and unpaid salaries and expenses of certain officers and directors on June 30, 2007.

B - For the fiscal year ended June 30, 2007, the \$226,970 in depreciation and amortization is as follows: \$25,000 in depreciation for the research vessel and the \$201,970 is for the amortization of the licenses and permits owned by the Company. See Note 4 for a description of the fixed assets and Note 5 for a description of the licenses and permits.

C - For the fiscal year ended June 30, 2007, the net loss increased by \$673,373 for these corrections.

D - For the fiscal year ended June 30, 2007, the net effect of the corrections was \$(0.02) on the basic and diluted net loss per common share of the Company.

Edgar Filing: Sovereign Exploration Associates International, Inc. - Form 10KSB/A

The following table reflects the impact of the corrections on the restated consolidated balance sheet as of June 30, 2006:

	2006 As Corrected	2006	Change
Current assets			
Cash and cash equivalents	\$ 570	\$ 570	\$ -
Inventory	1,614,004	-	1,614,004
Total current assets	1,614,574	570	1,614,004
Other assets			
Capitalized costs and permits	-	3,463,890	(3,463,890)
Research vessel	-	-	-
Licenses and permits, net of amortization	1,682,916	-	1,682,916
Investments, net of allowance of \$173,868	-	-	-
Notes receivable, net of allowance of \$832,849	-	-	-
Total other assets	1,682,916	3,463,890	(1,780,974)
Total assets	\$ 3,297,490	\$ 3,464,460	\$ (166,970)
Current liabilities			
Accounts payable and accrued expenses	\$ 347,528	\$ 347,528	\$ -
Related party notes payable	2,583,955	2,583,955	-
Due to related parties	817,929	817,929	-
Convertible notes payable	800,000	800,000	-
Debentures payable	121,840	121,840	-
Total current liabilities	4,671,252	4,671,252	-
Total liabilities	4,671,252	4,671,252	-
Commitments and contingencies	-	-	-
Deficiency in assets			
Common stock - \$.001 par value, 250,000,000,000 shares authorized; 26,203,166 issued and outstanding	26,203	26,203	-
Additional paid-in capital	19,215,694	19,215,694	-
Minority interest	(803,530)	(803,530)	-
Accumulated deficit	(19,812,129)	(19,645,159)	(166,970)
Total deficiency in assets	(1,373,762)	(1,206,792)	(166,970)
Total liabilities and deficiency in assets	\$ 3,297,490	\$ 3,464,460	\$ (166,970)

A - The capitalized costs and permits are being reclassified to inventory and permits at the earliest date possible pursuant to SFAS no. 154. These reclassifications had no effect on the net loss for the fiscal year ended June 30, 2006

B - The amortization expense of \$166,970 is being recorded for the amortization of the licenses and permits for the fiscal year ended June 30, 2006. The \$166,970 increased the net loss for the fiscal year ended June 30, 2006

The following table reflects the impact of the corrections on the restated consolidated statement of operations as of June 30, 2006:

	2006 As Corrected	2006		Change
Revenue	\$ -	\$ -	\$	-
Cost of sales	-	-		-
Gross profit	-	-		-
Operating expenses				-
Termination of employment and consulting agreements	600,000	600,000		-
Salaries and wages	802,680	802,680		-
General and administrative	507,890	507,890		-
Legal and professional fees	304,978	304,978		-
Total operating expenses	2,215,548	2,215,548		-
Loss from operations	(2,215,548)	(2,215,548)		-
Other income (expenses)				
Depreciation and amortization	(166,970)	-	A	(166,970)
Interest expense	(40,184)	(40,184)		-
Total other (income) expenses	(207,154)	(40,184)		(166,970)
Operating loss before income taxes	(2,422,702)	(2,255,732)		(166,970)
Provision for income taxes	-	-		-
Net loss	\$ (2,422,702)	\$ (2,255,732)	\$	(166,970)
Net loss per common share				
Basic	(0.09)	(0.08)	B	(0.01)
Diluted	\$ (0.08)	\$ (0.07)	\$	(0.01)
Weighted average of common shares outstanding				
Basic	28,022,592	28,022,592		-
Diluted	28,022,592	28,022,592		-

A - Amortization expense of \$166,970 is being recorded for the amortization of the licenses and permits for the fiscal year ended June 30, 2006. The \$166,970 increased the net loss for the fiscal year ended June 30, 2006

B - For the fiscal year ended June 30, 2006, the net effect of the correction was an increase of \$0.01 on the basic and diluted net loss per common share of the Company.

NOTE 4 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.

As June 30, 2006, there were zero fixed assets. As of June 30, 2007, the Company's equipment consisted of a research vessel owned by one of the Company's wholly-owned subsidiaries. The research vessel was available for use and is being depreciated over its useful life of five years using a straight line method of depreciation.

For the years ended June 30, 2007 and 2006, depreciation expense was \$25,000 and \$0, respectively.

NOTE 5 Inventory and Permits

As of June 30, 2007 and 2006, all costs related to the Nova Scotia diving operations and permits are being capitalized as inventory and permits because all of the costs relate to the recovery operations for artifacts on the ships for which the Company has received permits from the Nova Scotia government. Periodically, management reviews the cost of its recovery operations and assesses the viability of its recovery operations on each of the sites to determine the estimated fair value of the artifacts recovered to-date and prospects for future operations. As of June 30, 2007 and 2006, management of the Company determined that all of the sites under recovery operations had viable operations and the prospect for future operations were positive.

At the time the Company starts to realize revenue from the sale of artifacts that it recovers on sites that the Company owns the permits, management will start to expense a portion of inventory based on an estimated percentage of the total recovery per the Company's research and the ship's manifest. In the event the Company decides to discontinue diving operations, all inventory and permit costs will be expensed in the period that the Company discontinues operations.

As of June 30, 2007 and 2006, management of the Company determined that all of the sites under recovery operations had viable operations and the prospect for future operations were positive.

There are licenses in Nova Scotia that provide the Company with the rights to apply for permits related to ships, all located off the coast of Nova Scotia. These licenses carry the rights to apply for various permits required for research, diving and recovery operations. They all have a useful life of five years, and such will be amortized over this period of time starting with the date of acquisition.

For the finders rights' agreements for Spain; there are no expiration or cut off dates for these agreements related to the four wreck sites located in Spanish waters. In accordance with SFAS no. 142, these intangible assets do not have a finite life, these amounts will not be amortized, however, management will assess their impairment on a periodic basis.

As of June 30, 2007, management tested all of the licenses, permits, and finders rights for impairment to comply with paragraph 8.b of SFAS no. 144 and determined no impairment had taken place at such date.

For the years ended June 30, 2007 and 2006, the amortization expense is \$201,970 and \$166,970, respectively.

NOTE 6 STOCK ISSUED FOR SERVICES

During the year ended June 30, 2007, the Company issued 735,000 shares of common stock for services rendered on behalf of the Company. The value of the stock issued for services rendered for the year ended June 30, 2007 was \$376,200, which is being classified as general and administrative expenses or legal and professional fees in the accompanying restated consolidated financial statements.

F-18

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

NOTE 7 INCOME TAXES

Pursuant to the Exchange Agreement dated October 17, 2005, substantial ownership of the Company was transferred and according to provisions of the Internal Revenue Code under section 382, this transaction limits the future deductibility of loss carryforwards for federal income tax purposes starting with fiscal year that ended June 30, 2006.

The Company has approximately \$310,926 in gross deferred tax assets at June 30, 2007, resulting from net operating loss carryforwards. A valuation allowance has been recorded to fully offset these deferred tax assets because the future realization of the related income tax benefits is uncertain. As of June 30, 2007, the Company has federal net operating loss carry forwards of approximately \$777,316 available to offset future taxable income through 2027.

For the year ended June 30, 2007, the difference between the tax provision at the statutory federal income tax rate and the tax provision attributable to loss before income taxes is as follows (in percentages):

Statutory federal income tax rate	34%
State taxes - net of federal benefits	5%
Valuation allowance	39%
Income tax rate – net	0%

Net change in valuation was \$310,926.

NOTE 8 LEASE ARRANGEMENTS

The Company maintains shared office space in Pennsylvania and Florida with unrelated companies controlled by certain officers of the Company. The Company shares office space with these companies at no cost. Rent expense for the year ended June 30, 2007 was \$0

NOTE 9 DEBENTURES PAYABLE

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

\$ 99,174

Total notes payable, current \$ 99,174

For the year ended June 30, 2007, the Company incurred interest expense on this convertible debenture of \$7,263. This convertible debenture was incurred prior to October 2005 by prior management. There is a dispute because of the corresponding stock price as of August 11, 2005 vs. June 30, 2007. Interest continues to be accrued until both parties agree on an acceptable number of shares to be issued to settle this debenture

During the year ended June 30, 2007, the Company issued 95,851 shares of common stock at a per share price of \$.36 in the settlement of a convertible note payable with a balance including principal and accrued interest of \$34,506.

NOTE 10 AGREEMENTS

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

F-19

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 Company and Historic Discoveries had agreed to distribute 20% of the net profits arising out of the exploitation of permits, licenses, finder fees rights, contracts and other rights (collectively, "permits") held by ARC to its former corporate parent, Sovereign Marine Explorations, Inc. ("SME"), and to distribute 20% of the net profits arising out of the exploitation of permits held by SRI to its former corporate parent, Sea Hunt, Inc. ("Sea Hunt").

On May 19, 2007, the Company issued 10,000,000 shares of Convertible Preferred Stock in exchange for this 20% net profits participation agreement. The stock carries a 4 to 1 conversion feature which allows the holders to convert into 40,000,000 common shares of the Company.

The Fantome project (Fantome Cove Treasure Trove License 150, LLC. a subsidiary of ARC) sold a 2.06% equity interest for a capital investment of \$411,530, and the LeChameau project (Interspace Explorations, LLC, a subsidiary of ARC) sold a 26.0% ownership interest and 40% profit participation interest for \$392,000. As of June 30, 2007 and 2006, the total minority interest in these two entities is \$803,530.

NOTE 11 SETTLEMENT AGREEMENT AND GENERAL RELEASE

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

NOTE 12 SHAREHOLDERS' EQUITY AND ISSUANCE OF STOCK

As of June 30, 2007, the authorized capital of the Company was 250,000,000 shares of common stock (with voting rights), par value \$.001.

For the year ended June 30, 2007, the Company issued the following common shares:

Issuance of common shares – settlement - prior management	910,000(1)
Conversion of convertible debt – acquisition of SEAI - Spain	848,000
Conversion of convertible debt – private individual	95,851
Issuance of common shares – Rule 506 – Regulation D	700,000(2)
Issuance of common shares – Rule 144 – Regulation D	350,000
Issuance of common shares – Services – S-8	735,000

Total common shares issued were 3,638,851; (1) Subject to a leak-out agreement; (2) \$175,000 cash was received for the issuance of common stock

F-20

NOTE 13 CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist principally of cash. As of June 30, 2007, the Company maintains its cash accounts with financial institutions located in Pennsylvania, Florida, Texas and Nova Scotia.

The Federal Deposit Insurance Corporation (FDIC) guarantees the Company's deposits in US-based financial institutions up to \$100,000.

The Company's deposits with financial institutions that exceeded federally insured guarantees amounted to \$257,186 as of June 30, 2007. Historically, the Company has not experienced any losses on its deposits in excess of federally insured guarantees.

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

NOTE 14 NOTES PAYABLE

On June 4, 2007, the Company received \$1,000,000 cash under a promissory note. Under the terms of the note, Company is obligated to pay the note in one payment of all outstanding principal plus all accrued unpaid interest on or before the six month anniversary of the closing date unless the holders agree to extend the note, in which case the note shall become a demand note, payable upon demand or at such later date as specified by holders to Company in writing, in holders sole discretion. The Company's stock is the collateral that supports this note. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any late charges; and then to any unpaid collection costs. The annual interest rate for this Note is computed on a 365 days per year basis. Company will pay Holders at Holders address or at such other place as Holders may designate in writing. The interest rate on this Note is six percent (6%) per annum calculated on the principal amount of the Note then outstanding. Company may make a prepayment, in whole or in part, of this Note without the prior consent of Holders with no prepayment penalty. At the maturity date of the note, the holders shall be entitled to purchase 250,000 shares of common stock of the Company at a price of \$.20 per share. The holders will also be entitled to purchase an additional 250,000 shares of common stock of the Company at the closing price of the Company stock as reported on the OTCBB on the closing date and, in addition, these shares must be exercised within one year from the closing date. As of June 30, 2007, the value of this option to purchase common stock of the Company was \$12,500. The closing price of the common stock on June 30, 2007 was \$.69 and on June 4, 2007 it was \$.64.

NOTE 15 RELATED PARTY TRANSACTIONS

ACCRUED PAYROLL AND EXPENSES; DUE TO RELATED PARTIES

Certain officers and directors of the Company agreed to write-down their accrued and unpaid salaries and reimbursable expenses to zero for the year ended June 30, 2007 in the amount of \$446,403. As of June 30, 2007, the due to related parties on the balance sheet includes the accrued and unpaid salaries and reimbursable expenses incurred through June 30, 2006.

OFFICERS AND DIRECTORS OF THE COMPANY

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

F-21

NOTE 16 RELATED PARTY NOTES PAYABLE

As of June 30, 2007 and 2006, the related party notes payable were as follows:

	June 30, 2007	June 30, 2006
Term note payable of \$160,000 due on November 15, 2007 plus accrued interest of the lesser of 0.9% or the legal rate under Texas law - November 15, 2006	\$ 161,440	\$ -
Term note payable of \$600,000 due on November 15, 2007 plus accrued interest of the lesser of 0.9% or the legal rate under Texas law - November 15, 2006	671,111	635,111
Term note payable of \$274,009 plus interest at 6% per annum for the acquisition of LeChameau LeChameau Explorations Limited – June 13, 2007	275,836	-
Demand note payable of \$350,000 plus accrued interest at 6% per annum for the purchase of the original permits	408,240	385,132
Demand note payable of \$250,000 plus accrued interest at 6% per annum for the balance of the Fantome Cove Project	259,329	254,650
Demand note payable of \$500,000 plus accrued interest of \$3,444 per month as a direct pass through from Nova Savings Bank - July 10, 2006	541,328	-
Demand note payable - advances to Sovereign Exploration Associates International, Inc. These advances have no formal repayment requirements	-	47,200
Demand note payable - advances to Sovereign Exploration Associates International, Inc. These advances have no formal repayment requirements	-	11,900
Demand note payable - advances to Sea Research, Inc. prior to the exchange agreement on October 17, 2005	574,355	574,355
Demand note payable - advances to Sovereign Exploration Associates International, Inc. These advances have no formal repayment requirements	-	120,188
Demand note payable - advances to Sovereign Exploration Associates International, Inc. These advances have no formal repayment requirements	81,720	69,419
Demand note payable - advances to Interspace		

Explorations Limited plus accrued interest at 6% per annum.	486,000	486,000
Total related party notes payable - all current	\$ 3,459,359	\$ 2,583,955

F-22

NOTE 17 LEGAL PROCEEDINGS

On June 30, 2006, the Company entered into a Settlement Agreement and General Release ("Settlement Agreement") among members of the Company's former management and their affiliates, James E. Jenkins, Charles Gianetto, KMA Capital Partners Ltd., KMA Capital Partners, Inc. and CF Holdings, LLC (collectively, the "Former Management Parties"). The purpose of the Settlement Agreement was to reach a comprehensive resolution to the disputes between the Company and the Former Management Parties, in particular an arbitration demand filed by KMA Capital Partners, Ltd. on or about December 29, 2005 (American Arbitration Association Case No.: 33-180-00463-05) relating to an Exchange Agreement dated October 17, 2005. The Settlement Agreement provides that the Former Management Parties release all claims that they may have against the Company, its parents, subsidiaries, affiliates, predecessors, successors, assigns, partners, agents, representatives and attorneys (collectively, "affiliated parties") and that the Company releases all claims it may have against the Former Management Parties.

In a matter related to KMA Capital Partners Ltd, James Jenkins and Charles Gianetto, filed as KMA Capital Partners Ltd., v. Sovereign Exploration Association, Inc., et al, in the Circuit Court of the Ninth Judicial Circuit, in and for Orange County, Florida, the Company claims that KMA Capital Partners Ltd, James Jenkins and Charles Gianetto are in breach of a "Leak Out Agreement", which restricts the number of shares of the Company's common stock, traded as SVXA.OB, they are allowed to sell or transfer. As of June 30, 2007, the court entered an Order which limits Mr. Jenkins and Mr. Gianetto to selling no more than 2,000 shares of the Company's common stock per trading day. As of June 30, 2007, there is no liability under this matter that requires the establishment of a liability within the accompanying consolidated financial statements.

The Company is one of several defendants in a law suit, Patricia A. Mullican v. Sovereign Exploration Associates International, Inc., et al in the Circuit Court of the Ninth Judicial Circuit, in and for Orange County, Florida. The plaintiff in this case is seeking damages for the alleged failure to pay two (2) debentures issued by TS&B Holdings to Mr. Mullican (one for \$150,000 and the other for \$250,000) as well as an unpaid promissory note for \$50,000 plus accrued interest on the debentures and the promissory note along with attorney fees. TS&B Holdings, Inc. subsequently became Cali Holdings, Inc., which was acquired by the Company in October 2005. It is the Company's position that these debts are not its responsibility, to the extent that neither the debentures nor promissory notes were disclosed at the time Cali Holdings, Inc. was acquired by the Company. There are numerous defenses which the Company will be relying upon to support its legal position that these obligations are not its responsibility. As of June 30, 2007, the accompanying consolidated financial statements do not provide for any liability in the event that the Company is deemed responsible in this case.

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

SIGNATURES

Pursuant to the requirements of Section 3 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-KSB/A to be signed on its behalf by the undersigned, thereunto duly authorized.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL, INC.

November 14, 2008
Date

By: /s/ Robert D. Baca
Robert D. Baca
President and Chief Executive Officer

November 14, 2008
Date

By: /s/ Martin Thorp
Martin Thorp
Chief Financial Officer

Supplemental Information to be Furnished With Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act:

The Company has not sent any annual report to security holders covering the Company's last fiscal year. The Company mailed proxy solicitation materials to its shareholders on or about September 8, 2006, in connection with a special meeting of shareholders held September 20, 2006. The Company voluntarily filed its definitive proxy statement on Schedule 14A on September 8, 2006.
