Sovereign Exploration Associates International, Inc.
Form DEF 14A
September 08, 2006

SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to §240.14a-12

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL INC
(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Payment of Filing Fee (Check the appropriate box)

[X] No fee required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

_____

2) Aggregate number of securities to which transaction applies:

_____

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

_____

4) Proposed maximum aggregate value of transaction:

_____

5) Total fee paid:

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0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:
_____

2) Form, Schedule or Registration Statement No.:
_____

3) Filing Party:
_____

4) Date Filed:
_____

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL INC
503 Washington Avenue, Suite 2D
Newtown, Pennsylvania 18940
(215) 968-0200

NOTICE OF MEETING OF SHAREHOLDERS

September 8, 2006

To the Shareholders of Sovereign Exploration Associates International Inc.:

A Special Meeting of the Shareholders of Sovereign Exploration Associates International Inc. (the "Corporation") will be held at the offices of Stradley Ronon Stevens & Young, LLP, 2600 One Commerce Square, Philadelphia, PA 19103, on September 20, 2006, at 2 p.m. Eastern Time.

At the Special Meeting, Shareholders of the Corporation will vote on a proposal to withdraw the Corporation's election to be a business development company under the Investment Company Act of 1940 by filing Form N-54C with the Securities and Exchange Commission.

This is not the Annual Meeting of the Corporation's Shareholders. The Corporation intends to call a Special Meeting in Lieu of Annual Meeting following the availability of its Annual Report for the fiscal year ended June 30, 2006.

By Order of the Board of Directors,

Barry Gross
Secretary

Please sign and promptly return the proxy card in the enclosed self-addressed envelope regardless of the number of shares you own.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL INC.

503 Washington Avenue, Suite 2D
Newtown, Pennsylvania 18940
(215) 968-0200

PROXY STATEMENT

September 8, 2006

Sovereign Exploration Associates International Inc., a Utah corporation (the "Corporation"), is mailing this Proxy Statement on or about September 8, 2006, to holders of record of the Corporation's Common Stock, par value $.001 per share ("Common Stock"), at the close of business on September 1, 2006, in connection with the solicitation by the Board of Directors of the Corporation of a proxy in the enclosed form for the Special Meeting of Shareholders to be held on September 20, 2006 (the "Special Meeting").

A proxy card is enclosed for your use. YOU ARE REQUESTED TO SIGN, DATE AND RETURN THE PROXY CARD IN THE ACCOMPANYING ENVELOPE, which requires no postage if mailed in the United States.

The purpose of the Special Meeting is to consider a proposal (the "Proposal") for the Corporation to withdraw its election to be a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"), for the reasons set forth more fully below. The Corporation intends to file a Form N-54C to withdraw its BDC election promptly after the Special Meeting. Following the withdrawal of the election, the Corporation will continue to be a reporting company under the Securities Exchange Act of 1934 (the "1934 Act"), but will be managed so that it will not be subject to the provisions of the 1940 Act. The Board of Directors is not aware of any other business that will come before the Special Meeting, but if any such matters are properly presented, the proxies solicited hereby will be voted in accordance with the best judgment of the persons holding the proxies.

The Special Meeting is not a meeting in lieu of the Corporation's Annual Meeting, and Directors will not be elected at the Special Meeting. The Board of Directors intends to call a Special Meeting in Lieu of the Annual Meeting following the availability of the Corporation's Annual Report. The deadline for submitting shareholder proposals for inclusion in the Corporation's proxy statement and form of proxy for the Special Meeting in Lieu of the Annual Meeting is September 28, 2006.

If no instructions are specified on the proxy, shares represented thereby will be voted for the Proposal. Any shareholder who has given a proxy may revoke the proxy by executing a proxy bearing a later date or by delivering written notice of revocation of the proxy to the Secretary of the Corporation at the Corporation's executive offices at any time prior to the meeting or any postponement or adjournment thereof. Any shareholder who attends in person the Special

Meeting or any postponement or adjournment thereof may revoke any proxy

previously given and vote by ballot. Under Utah Law, no shareholder of the Corporation is afforded dissenters' or appraisal rights as a result of the approval of the Proposal.

As of August 21, 2006, there were 26,203,166 shares of Common Stock outstanding. Each share is entitled to one vote. Under the 1940 Act, approval of the Proposal requires the approval (A) of 67% or more of the shares of Common Stock present at the Special Meeting, if the holders of more than 50% of the outstanding shares of Common Stock are present or represented by proxy, or (B) of more than 50% of the outstanding shares of Common Stock, whichever is less. Abstentions and broker non-votes will have the same effect as votes against the Proposal. Holders of approximately 90% of the outstanding shares of Common Stock have agreed to vote in favor of the Proposal. The approval of the Proposal, therefore, is not in doubt.

The Corporation will bear the expenses relating to this Proxy Statement, including expenses in connection with preparing, printing and mailing this Proxy Statement and all documents that now accompany or may in the future supplement it. The Corporation estimates these expenses at $15,800. Banks, brokers and other custodians, nominees and fiduciaries will be reimbursed by the Corporation for their reasonable expenses for sending this Proxy Statement to the beneficial owners of the Common Stock. Only one Proxy Statement is being delivered to multiple shareholders sharing an address, unless we have received contrary instructions from one or more of the shareholders. We will undertake to deliver promptly upon written or oral request a separate copy of the Proxy Statement to a shareholder at a shared address to which a single copy of the Proxy Statement was delivered. You may make a written or oral request by sending a written notification to our principal executive offices stating your name, your shared address, and the address to which we should direct the additional copy of the Proxy Statement or by calling our principal executive offices. If multiple shareholders sharing an address have received one copy of this Proxy Statement and would prefer us to mail each shareholder a separate copy of future mailings, you may send notification to or call our principal executive offices. Additionally, if current shareholders with a shared address received multiple copies of this Proxy Statement and would prefer us to mail one copy of future mailings to shareholders at the shared address, notification of that request may also be made by mail or telephone call to our principal executive offices.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of August 21, 2006, the beneficial ownership of the Corporation's Common Stock (i) by any person or group known by the Corporation 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.

Name and Address(1)	Number of Shares	Percent of Outstanding Shares
Robert D. Baca President, Chief Executive Officer and Director	11,864,790(2)	45.3%
John Barr Director	-0-	*
James Cavan	7,242	*

Vice President		

Kevin J. Conner Director	4,800	*
Donald G. Conrad Director	220,000	*
Barry Gross Vice President and Secretary	11,822,582(3)	45.1%
Peter Knollenberg Chairman and Director	11,815,368(4)	45.1%
Curtis R. Sprouse Chief Operating Officer	11,824,725(5)	45.1%
All Executive Officers and Directors as a Group	23,957,067(6)	91.5%
Sea Hunt, Inc. 120 Alpine Road West Palm Beach, FL 33405	11,791,368	45.0%
Sovereign Marine Explorations, Inc. 503 Washington Avenue, Suite 2D Newtown, PA 18940	11,791,368	45.0%

* Denotes less than 1%

(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, 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.

(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; 11,791,368 shares beneficially owned by Mr. Knollenberg as president, director, and sole shareholder of Sea Hunt, Inc.; and 19,704 shares beneficially owned by Mr. Sprouse through the Boston Market Strategies, Inc. Employee Profit Sharing Plan.

CHANGE IN CONTROL OF THE CORPORATION

There was a change in control of the Corporation on October 17, 2005 (the "Change in Control"). The Corporation, 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 corporation now known as Historic Discoveries, Inc. ("Historic Discoveries"). The Exchange Agreement provided that Historic Discoveries would contribute 100% of its capital stock to the Corporation in exchange for 90% of the capital stock of the Corporation. As a result, the former shareholders of Historic Discoveries gained a controlling interest in the Corporation. In addition, all of the Directors of the Corporation 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.

As a result of the transaction, the Corporation gained indirect beneficial ownership of Historic Discoveries' wholly-owned subsidiaries, Artifact Recovery & Conservation Inc. ("ARC") and Sea Research, Inc. ("SRI"). Both ARC and SRI seek to identify and recover artifacts from historical shipwrecks dating from 1500 to 1900. The value of ARC and SRI consisted primarily of their ownership of rights to recover artifacts from shipwrecks, their ownership of artifacts recovered to date, and their intellectual property rights with respect to historically significant or interesting shipwrecks. At the time of the Change in Control, ARC, through its role as managing member of limited liability companies formed to recover artifacts from specific sites, had rights to recover artifacts from five shipwreck sites. ARC had already recovered substantial artifacts from Le Chameau, a French ship lost off Cape Lorembec, Cape Breton Island, Nova Scotia in 1725. The Chameau carried extensive ladings of specie, military supplies, trade-goods and commercially-consigned freight, as well as the personal effects of wealthy passengers. ARC had also identified other historic shipwrecks, including a tentative identification (since confirmed) of the wreck of the HMS Fantome near Prospect, Nova Scotia in 1814. The Fantome is a particularly historically significant ship, as it is believed to have carried plunder from the August 1814 sack of Washington in the War of 1812. SRI held rights to seven shipwreck sites, several of which are believed to have multiple ships of Spanish, French and British origin. The ships are believed to have contained diverse cargoes, including money, bullion, religious and military artifacts, jewelry and other personal items. None of the SRI sites had as yet been developed. For accounting purposes, the Corporation assigned a fair value of $1,861,410 to Historic Discoveries. However, this valuation is subject to uncertainty that could result in a higher or a lower valuation.

The Exchange Agreement provided that at a future point, but in no event later than April 1, 2006, the Corporation would conduct a reverse stock split, following which Historic Discoveries would have 90% ownership of the Corporation. The reverse stock split and issuance of shares to the former shareholders of Historic Discoveries were effected on January 17, 2006. The share issuance was calculated as follows:

Shares of Common Stock outstanding on October 17, 2005	2,520,303,997
Shares of Common Stock issued as consideration for the acquisition of Sea Quest, Inc. on December 26, 2005	100,000,000
Shares of Common Stock outstanding on January 16, 2006	2,620,303,997
Shares of Common Stock issued on January 17, 2006, to shareholders of Historic Discoveries	23,582,735,973
Shares of Common Stock outstanding on January 17, 2006, before reverse stock split	26,203,039,970
Shares of Common Stock outstanding on January 17, 2006, after 1-for-1000 reverse stock split	26,203,040
Shares of Common Stock issued to shareholders of Historic Discoveries, after effect of 1-for-1000 reverse stock split (i.e., 90% of outstanding Common Stock)	23,582,736

The Corporation 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.

Sea Hunt, Inc. ("Sea Hunt") and Sovereign Marine Explorations, Inc., the former shareholders of Historic Discoveries, currently each own approximately 45.0% of the outstanding Common Stock. Peter Knollenberg, the Chairman of the Corporation, is the president and sole shareholder of Sea Hunt, and Robert D. Baca, the President and Chief Executive Officer of the Corporation, is the chief financial officer and a director of Sovereign Marine Explorations, Inc. Approximately 90.4% of the outstanding Common Stock is owned by Mr. Baca, Mr. Knollenberg, Sea Hunt and Sovereign Marine Explorations, Inc. in the aggregate.

Immediately prior to and in connection with the entry into the Exchange Agreement, the Corporation disposed of substantially all of its assets. The Corporation sold nine Limited Partnership Units in KMA Capital Partners Ltd. 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 Corporation realized losses of $2,525,274 on these divestitures. The Corporation does not have sufficient information to determine the value of the assets sold

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

Prior to the Change in Control, the Corporation was controlled by its management, including James E. Jenkins, its President and Chief Executive Officer, and Charles Giannetto, its Secretary and General Counsel. The Corporation was a party to executive management contracts with Mr. Jenkins and Mr. Giannetto. In addition, the Corporation was a party to a consulting contract with KMA Capital Partners Ltd. ("KMA"). 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 Corporation'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 Corporation. In addition, 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 Corporation, the Corporation has booked payables of $600,000, which remain outstanding, to Sea Hunt and Mr. Knollenberg in consideration of their payment of these amounts.

Following the Change in Control, certain disputes arose between the Corporation and Mr. Jenkins, Mr. Giannetto, and KMA. As a result of these disputes, the Corporation did not issue any Common Stock to Mr. Jenkins, Mr. Giannetto, or KMA, and they commenced an arbitration proceeding against the Corporation. The Corporation 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 Corporation, its parents, subsidiaries, affiliates, predecessors, successors, assigns, partners, agents, representatives, and attorneys (collectively, "affiliated parties") and that the Corporation releases all claims it may have against the Former Management Parties and their respective affiliated parties. The Settlement Agreement also provides that the Corporation will issue 303,333 shares of Common Stock to KMA Capital Partners, Inc. (the successor by merger to KMA), 303,333 shares of Common Stock to Mr. Jenkins, and 303,334 shares of Common Stock to Mr. Giannetto. Because of concerns as to the legality of such issuance by a BDC, such shares have not yet been issued. The Corporation intends to issue these shares following the withdrawal of its election to be a BDC.

REASONS FOR CEASING TO BE A BUSINESS DEVELOPMENT COMPANY

Following the Change in Control, management has determined that many of the regulatory, financial reporting and other requirements imposed by the 1940 Act are too restrictive and prevent the Corporation from operating in the manner in

which it desires. Among these restrictions are the following:

- A BDC is an investment company and is engaged in the business of investing, reinvesting, owning, holding, or trading in securities. The Corporation instead intends to carry on its marine recovery and explorations business through subsidiaries and controlled companies.

- In carrying on its business, the Corporation from time to time expects to enter into joint venture and other transactions with affiliates, subject to the oversight and approval of the Board of Directors. BDCs generally are unable to enter into such transactions without the approval of the Securities and Exchange Commission (the "SEC"), and such approvals generally cannot be obtained without undue time and expense.

- BDCs are subject to restrictions in the 1940 Act on the type and amount of securities, other than Common Stock, that they can issue. The Corporation believes that it would be better served by greater flexibility in its capital structure.

- The closely regulated nature of BDCs causes them to be subject to greater legal and accounting expenses.

- Because of restrictions on the Corporation's ability to issue stock, it is unable to comply with the Settlement Agreement while it is a BDC. The Corporation believes that the comprehensive settlement embodied in the Settlement Agreement is in the Corporation's best interests.

The Corporation's Board of Directors agreed with management's assessment and determined that it was no longer feasible for the Corporation to operate as a BDC. The appropriate course of action is to withdraw the Corporation's election to be regulated as a BDC by filing a Form N-54C with the SEC. Following the withdrawal of the election, the Corporation will continue to be a reporting company under the 1934 Act, but will be managed so that it will not be subject to the

provisions of the 1940 Act.

EFFECT ON SHAREHOLDERS

Upon the Corporation's withdrawal of its election to be treated as a BDC, the Corporation would no longer be subject to regulation under the 1940 Act, which is designed to protect the interests of investors in investment companies. Specifically, our shareholders would no longer have the following protections of the 1940 Act:

- We would no longer be subject to the requirement in Section 61 of the 1940 Act that we maintain a ratio of assets to senior securities (such as senior debt or preferred stock) of at least 200%.

- We would no longer be prohibited from protecting any director or officer against any liability to the Corporation or our shareholders arising from willful malfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of that person's office.

- We would no longer be required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement.

- We would no longer be required to ensure that a majority of our directors are persons who are not "interested persons," as that term is defined in section 56 of the Investment Company Act, and certain persons that would be prevented from serving on our board if we were a BDC (such as investment bankers) would be able to serve on our board.

- We would no longer be subject to provisions of the 1940 Act regulating transactions between BDCs and certain affiliates.

- We would no longer be subject to provisions of the 1940 Act restricting our ability to issue shares, warrants and options.

- We would be able to change the nature of our business and fundamental investment policies without having to obtain the approval of our shareholders.

EFFECT ON FINANCIAL STATEMENTS AND TAX STATUS

The election to withdraw the Corporation as a BDC under the 1940 Act results in a significant change in the Corporation's required method of accounting. BDC financial statement presentation and accounting utilizes the value method of accounting used by investment companies, which allows BDCs to recognize income and value their investments at market value as opposed to historical cost. Operating companies use either the fair-value or historical-cost methods of accounting for financial statement presentation and accounting for securities held, depending on how the investment is classified and how long the company intends to hold the investment. Because of an absence of reliable market data as to the value of its assets, the

Corporation has used historical cost as a proxy for fair value. Accordingly, the Corporation does not expect the change in valuation to have any material impact on the reported value of the Corporation's assets on the day we withdraw our BDC election. In the future, however, changing our method of accounting could reduce the market value of our investments in privately held companies by eliminating our ability to report an increase in value of our holdings as they occur. Also, as an operating company, we would have to consolidate our financial statements with subsidiaries, thus eliminating the portfolio company reporting benefits available to BDCs.

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

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

In connection with the contribution of ARC and SRI to the Corporation's wholly-owned subsidiary Historic Discoveries, the Corporation 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, 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. Because these former corporate parents are affiliated persons of the Corporation, there are substantial questions as to the validity of these profit-sharing arrangements under the 1940 Act. No profits have in fact been shared to date. The Corporation's withdrawal of its BDC election should remove questions as to the arrangements' legality going forward.

Further Information. We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance with that Act, we file periodic reports, documents and other information with the SEC relating to our business, financial statements and other matters. These reports and other information may be inspected in person and are available for copying at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. (upon payment of any applicable fees). Our SEC filings are also available to the public on the SEC's website - http://www.sec.gov - through the EDGAR system.

The Corporation will furnish, without charge, a copy of its most recent Annual Report on Form 10-K and a copy of its most recent Quarterly Report on Form 10-Q to any shareholder on request. You may obtain these documents by calling Mary Joan Nappi, Administrative Assistant to the Chief Operating Officer, at (215) 968-0200 collect.

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL INC.
503 Washington Avenue, Suite 2D
Newtown, Pennsylvania 18940

PROXY CARD FOR SPECIAL MEETING OF SHAREHOLDERS
SEPTEMBER 20, 2006

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The Undersigned hereby revokes all previous proxies for his/her shares and appoints Robert D. Baca and Curtis R. Sprouse, and either of them (with full power to act alone), as Proxies of the undersigned, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on this Proxy Card, all shares of Common Stock of Sovereign Exploration Associates International Inc. (the "Corporation") held of record by the undersigned on the record date of September 1, 2006, at a Special Meeting of Shareholders to be held on September 20, 2006 at 2 p.m. Eastern Time at the offices of Stradley Ronon Stevens & Young, LLP, 2600 One Commerce Square, Philadelphia, PA 19103, and at any postponements or adjournments thereof, all as in accordance with the Notice of Special Meeting of Shareholders and Proxy Statement furnished with this Proxy.

(Continued and to be signed on the reverse side)

SPECIAL MEETING OF SHAREHOLDERS OF

SOVEREIGN EXPLORATION ASSOCIATES INTERNATIONAL INC.

SEPTEMBER 20, 2006

Please date, sign and mail
your proxy card in the
envelope provided as soon
as possible.

Please detach along perforated line and mail in the envelope provided.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE PROPOSAL TO WITHDRAW THE CORPORATION'S ELECTION TO BE A BUSINESS DEVELOPMENT COMPANY.
PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.
PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE [X]

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1. To approve the Corporation's proposal to withdraw its election to be a Business Development Company under the Investment Company Act of 1940.	FOR	AGAINST	ABSTAIN	In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the meeting and at any postponements or adjournments thereof. This proxy when properly executed will be voted in the manner directed by the stockholder. If no direction is made on this Proxy Card, this Proxy will be voted FOR the withdrawal of the Corporation's election to be a business development company and in accordance with the instructions of the Board of Directors on all other matters which may properly come before the meeting.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. [_]

Signature of Shareholder Date Signature of Shareholder Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.