

ALTERNET SYSTEMS INC  
Form 10-K  
April 15, 2010

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended **December 31, 2009**

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

For the transition period from [ ] to [ ]

Commission file number **000-31909**

**ALTERNET SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**88-0473897**

(I.R.S. Employer Identification No.)

**2665 S Bayshore Drive Miami FL**

(Address of principal executive offices)

**33133**

(Zip Code)

Registrant's telephone number, including area code: **786-265-1840**

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

Title of Each Class

Name of Each Exchange On Which Registered

**N/A**

**N/A**

Securities registered pursuant to Section 12(g) of the Act:

**N/A**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 the Securities Act.  
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act  
Yes ☐ No ☒

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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 last 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The aggregate market value of Common Stock held by non-affiliates of the Registrant on April 13, 2010 was \$1,144,377 based on a \$0.075 closing price for the Common Stock on April 13, 2010. For purposes of this computation, all executive officers and directors have been deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers and directors are, in fact, affiliates of the Registrant.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date. **21,917,233 as of April 13, 2010**

DOCUMENTS INCORPORATED BY REFERENCE

None.

**TABLE OF CONTENTS**

|                 |                                                                                                                     |           |
|-----------------|---------------------------------------------------------------------------------------------------------------------|-----------|
| <u>Item 1.</u>  | <u>Business</u>                                                                                                     | <u>4</u>  |
| <u>Item 1A.</u> | <u>Risk Factors</u>                                                                                                 | <u>6</u>  |
| <u>Item 1B.</u> | <u>Unresolved Staff Comments</u>                                                                                    | <u>8</u>  |
| <u>Item 2.</u>  | <u>Properties</u>                                                                                                   | <u>8</u>  |
| <u>Item 3.</u>  | <u>Legal Proceedings</u>                                                                                            | <u>9</u>  |
| <u>Item 4.</u>  | <u>Submission of Matters to a Vote of Security Holders</u>                                                          | <u>9</u>  |
| <u>Item 5.</u>  | <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>9</u>  |
| <u>Item 6.</u>  | <u>Selected Financial Data</u>                                                                                      | <u>12</u> |
| <u>Item 7.</u>  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | <u>13</u> |
| <u>Item 7A.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                   | <u>19</u> |
| <u>Item 8.</u>  | <u>Financial Statements and Supplementary Data</u>                                                                  | <u>19</u> |
| <u>Item 9.</u>  | <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>                         | <u>20</u> |
| <u>Item 9A.</u> | <u>Controls and Procedures</u>                                                                                      | <u>21</u> |
| <u>Item 9B.</u> | <u>Other Information</u>                                                                                            | <u>22</u> |
| <u>Item 10.</u> | <u>Directors, Executive Officers and Corporate Governance</u>                                                       | <u>22</u> |
| <u>Item 11.</u> | <u>Executive Compensation</u>                                                                                       | <u>23</u> |
| <u>Item 12.</u> | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>               | <u>26</u> |
| <u>Item 13.</u> | <u>Certain Relationships and Related Transactions, and Director Independence</u>                                    | <u>27</u> |
| <u>Item 14.</u> | <u>Principal Accounting Fees and Services</u>                                                                       | <u>28</u> |
| <u>Item 15.</u> | <u>Exhibits, Financial Statement Schedules</u>                                                                      | <u>28</u> |

## PART I

### Item 1. Description of Business

#### Forward Looking Statements

This annual report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to "common shares" refer to the common shares in our capital stock.

#### Company History and Business

Alternet Systems, Inc. (the "Company"), was organized under the laws of the State of Nevada on June 26, 2000 under the name North Pacific Capital Corp. On June 26, 2000 the Company increased its authorized share capital from 20,000 shares with no par value to 100,000,000 shares with a par value of \$0.00001. On December 20, 2001 the Company received shareholder approval to change its name from North Pacific Capital Corp. to "SchoolWeb Systems Inc."

On April 26, 2002, the Company received shareholder approval to change its name from SchoolWeb Systems Inc. to Alternet Systems, Inc. and in May of 2002 this change of name was completed.

Alternet Systems, Inc. developed, markets and sells Internet application software and systems, marketed under the names "SchoolWeb" and HealthWeb.

Each SchoolWeb "system" or software / hardware package is comprised of the SchoolWeb virtual library software, Linux Operating System, a network server, redundant file system, software configuration, SchoolWeb user license, 24 hour technical support, on-site installation, training, system maintenance and 5X9 on-site warranty.

A SchoolWeb system and software were sold to Burnaby School District, near Vancouver, Canada. Burnaby School District placed an order for SchoolWeb for installation in 52 schools. This installation was completed in February of 2003.

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SchoolWeb has been granted trademark rights in the Canada for the trademark "SchoolWeb". The initial application was filed in Canada on March 30, 2001 and it was granted in March of 2003. The trademark is also registered on the supplemental register in the United States, as the United States trademark was applied for based on the Canadian trademark application. Once a company has used a supplemental register mark in the United States for five years, the company's mark is placed on the full register. In the meantime, its rights in the United States are protected.

### **TekVoice Inc. Merger**

Alternet Systems Inc. executed a merger with TekVoice Communications, Inc. of Miami, Florida, on December 31, 2007. TekVoice is a telecommunications services company with operations in North America and Latin America. The combined entity is called Alternet Systems Inc. and its primary business is delivering telecom services; education / healthcare application software and content; and mobile transaction services to customers primarily located in Latin America, North America and the Caribbean.

Alternet offers a portfolio of next-generation solutions for government, business, schools, hospitals and residents in this region.

### **About TekVoice Communications Inc.**

**TekVoice Communications, Inc.** is a Voice over IP telecommunications company that since 2002, offers convergent voice and data services over IP networks. With sales of over \$3 million in both 2006 and 2007, it has capitalized on its in-depth knowledge of the Hispanic and Latin American market, the quality of its telecommunications network and the dramatic cost savings that the network delivers to its customers. As a pioneer in the VOIP industry, TekVoice has been at the leading edge in the design and deployment of new products and services for the corporate and residential markets. TekVoice Communications, Inc. is a U.S. corporation with offices in Miami, Florida.

On December 31, 2007, Alternet Systems, Inc. (the Company) Fabio Alvino, Eduardo & Monica Bello, Henryk Dabrowski, Manfred Koroschetz, New Market Technology, Inc., John Puente, Red Hawke, Inc., Hector Rodriguez (each, a Transferor and collectively, the Transferors) and TekVoice Communications, Inc. ( TekVoice )entered into and closed a Stock Acquisition Agreement (the Agreement) pursuant to which the Company acquired all of the issued and outstanding shares of capital stock of TekVoice from the Transferors in consideration for an aggregate amount of four million (4,000,000) shares of common stock of the Company (the Acquisition Shares).

### ***Competition***

The Company competes in two distinct technology sectors, telecommunications and network systems. Although the Company has unique features in its product offerings, it competes with companies that may be better financed to survive any adverse economic conditions.

### ***Research and Development***

The Company has incurred \$Nil in research and development expenditures over the last fiscal year.

### ***Employees***

Currently our only employees are our directors, officers, and an office manager. We will continue to outsource contract employment as needed.

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## Item 1A. Risk Factors

The Company is exposed to a number of risks, including the following:

- The Company may be unable to market and sell its software and telecommunications products;
- The Company has a history of operating its software business at a significant loss;
- The Company requires additional equity financing to continue operations and may be unable to obtain this financing;
- If further equity financing is obtained, it will dilute the value of existing shareholders' stock;
- The Company has limited working capital with which to continue operations;
- The telecom and software industries are extremely competitive and the Company faces competition from more established distributors and producers with greater financial resources and established sales and distribution capabilities;
- The Company has a significant number of shares outstanding which may be eligible for resale under Rule 144 and which, if sold, could depress the market price of the Company's shares;
- The profit margins in the telecom industry have been steadily eroding such that, even if it is able to make sales for its products, the Company may be unable to do so at a profitable margin.

Our business operations are also subject to a number of risks and uncertainties, including, but not limited to those set forth below:

*We have had negative cash flows from operations. If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, we may be unable to continue our business and as a result may be required to scale back or cease operations for our business, the result of which would be that our stockholders would lose some or all of their investment.*

To date we have had negative cash flows from operations and we have been dependent on sales of our equity securities and debt financing to meet our cash. We do not expect positive cash flow from operations in the near term and there is no assurance that actual cash requirements will not exceed our estimates, or that our sales projections will be realized as estimated. The occurrence of any of the aforementioned events could adversely affect our ability to meet our business plans.

We will depend almost exclusively on outside capital to pay for the continued development of our business. Such outside capital may include the sale of additional stock and/or commercial borrowing. Capital may not continue to be available if necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to us. The issuance of additional equity securities by us would result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, we may be unable to continue our business and as a result may be required to scale back or cease operations for our business, the result of which would be that our stockholders would lose some or all of their investment.

*A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.*

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A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been primarily financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, we may not be able to raise additional capital or generate funds from operations sufficient to meet our obligations.

*We have a history of losses and fluctuating operating results.*

There is no assurance that we will operate profitably or will generate positive cash flow in the future. In addition, our operating results in the future may be subject to significant fluctuations due to many factors not within our control, such as the unpredictability of when customers will purchase our products and/or services, the size of customers purchases, the demand for our production and/or services, and the level of competition and general economic conditions. If we cannot generate positive cash flows in the future, or raise sufficient financing to continue our normal operations, then we may be forced to scale down or even close our operations.

*We have a limited operating history and if we are not successful in continuing to grow our business, then we may have to scale back or even cease our ongoing business operations.*

We have limited history of revenues from operations and have limited significant tangible assets. We have yet to generate positive earnings and there can be no assurance that we will ever operate profitably. Our company has a limited operating history and must be considered in the development stage. Our company's operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. We are in the development stage and potential investors should be aware of the difficulties normally encountered by enterprises in the development stage. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investment in our company.

*Trading of our stock may be restricted by the SEC's "Penny Stock" regulations, which may limit a stockholder's ability to buy and sell our stock.*

The U.S. Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors." The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of, our common stock.



*The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements which may also limit a stockholder's ability to buy and sell our stock.*

In addition to the "penny stock" rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

*Trading in our common shares on the OTC Bulletin Board is limited and sporadic making it difficult for our shareholders to sell their shares or liquidate their investments.*

Our common shares are currently listed for public trading on the OTC Bulletin Board. The trading price of our common shares has been subject to wide fluctuations. Trading prices of our common shares may fluctuate in response to a number of factors, many of which will be beyond our control. The stock market has generally experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies with no current business operation. There can be no assurance that trading prices and price earnings ratios previously experienced by our common shares will be matched or maintained. These broad market and industry factors may adversely affect the market price of our common shares, regardless of our operating performance.

In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted. Such litigation, if instituted, could result in substantial costs for us and a diversion of management's attention and resources.

*Because of the early stage of development and the nature of our business, our securities are considered highly speculative.*

Our securities must be considered highly speculative, generally because of the nature of our business and the early stage of its development.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

##### *Executive Offices*

Our corporate headquarters are located at 2665 S. Bayshore Dr. Miami Florida, 33133. At the present time, we do not have any real estate holdings and there are no plans to acquire any real property interests.

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### Item 3. Legal Proceedings

Other than as described below, management is not aware of any legal proceedings (either presently engaged in or contemplated) by any government authority or other party involving the Company, its properties or its products.

On March 14, 2005 the Company was named as a defendant in a Writ of Summons and Statement of Claim in the Supreme Court of British Columbia, Vancouver Registry in which the Native Trade and Investment Association requested an order to pay the Plaintiff Cdn \$53,500 and 100,000 common shares for trade shows attended by the Company. On February 6 2007 The Supreme Court of British Columbia ordered the Company to pay NITA \$53,500 plus interest of \$4,126 and costs of \$5,673 and 100,000 common shares.

On June 30, 2008, the Company filed an action in the Circuit Court in and for Miami-Dade County, Florida against a customer seeking to recover a total of \$142,121 for services and loans provided. The Company is also seeking to recover interest and attorneys' fees and costs. The likelihood of any results from the above lawsuit is not determinable at this time, consequently the company has made bad debt provisions for the entire amounts.

On October 16 2009 the Company received notice that they had been named as Defendants in a lawsuit whereby the Plaintiffs are seeking a judgement of \$39,000 plus interest thereon from March 11 2009 for breach of contract. As at September 30 2009 no amounts have been accrued as the result of the lawsuit is not determinable at this time.

No directors, officers, or affiliate of the Company is (i) a party adverse to the Company in any legal proceedings, or (ii) has an adverse interest to the Company in any legal proceedings.

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

There were no matters submitted to a vote of our security holders either through solicitation of proxies or otherwise in the fourth quarter of the fiscal year ended December 31, 2008.

## PART II

### Item 5. Market for Common Equity and Related Stockholder Matters Market for Common Stock

The Company's securities trade on the NASD's OTCBB under the symbol ALYI.

The following table summarizes the high and low bid prices for our common stock for the periods indicated as reported by the OTC Bulletin Board:

| 2009           | HIGH |      | LOW |      |
|----------------|------|------|-----|------|
| First Quarter  | \$   | 0.20 | \$  | 0.15 |
| Second Quarter | \$   | 0.15 | \$  | 0.10 |
| Third Quarter  | \$   | 0.12 | \$  | 0.10 |
| Fourth Quarter | \$   | 0.12 | \$  | 0.10 |

### Holders of Common Stock

On December 31, 2009, there were 101 holders of record of our common stock and there were 21,917,233 shares outstanding. There are 205 indirect holders of common shares in outside institutions or stock brokerage firms, and we estimate that there are no additional beneficial shareholders beyond the 101 registered shareholders and 205 non-registered shareholders at December 31, 2009.

### *Dividend Policy*

We have not paid any cash dividends on our common stock and have no present intention of paying any dividends on the shares of our common stock. Our current policy is to retain earnings, if any, for use in our operations and in the development of our business. Our future dividend policy will be determined from time to time by our board of directors.

### **Recent Sales of Unregistered Securities**

#### **Sales in 2009**

During the year ended December 31 2009 the Company issued 312,500 shares valued at \$25,000 for cash received and 200,000 shares valued at \$20,000 for services to be rendered over a one year period. The Company has received a total of \$225,415 in respect of a further private placement of common stock. These shares were not issued as at December 31, 2009 and this amount is reported as private placement subscriptions within stockholders' deficit.

#### **Sales in 2008**

During the year, a total of 970,218 shares valued at \$339,572 were issued with respect to private placement.

Where the offerings described in Sales in 2009 and Sales in 2008 above were made to Canadian residents they were undertaken under Regulation S and they were made under Rule 903 (Category 3, equity securities) and:

- the sale was made in an offshore transaction;
- no directed selling efforts were made in the United States by the Company;
- the purchaser certified that it is not a US person and is not acquiring the securities for the account or benefit of any US person;
- the purchaser agreed to resell such securities only in accordance with the provisions of the Securities Act of 1933 or regulations applicable to their securities;
- the securities contained a legend to the effect that transfer was prohibited unless the securities were first registered under the Securities Act of 1933 or resale was made pursuant to an exemption therefrom.

No commission or professional fees were paid in connection with the Company's sales of unregistered securities under Regulation S.

Where the sales were made to residents of the United States under Regulation D each person to whom the sale was made was asked by the Company to confirm in writing that they were accredited investors, as that term is defined in the rules and regulations of the Securities Exchange Commission.

Neither we nor any person acting on our behalf offered or sold the foregoing securities by means of any form of general solicitation or general advertising. All purchasers represented in writing that they acquired the securities for their own accounts. A resale legend has been provided for the stock certificates stating that the securities have not been registered under the Securities Act of 1933 and cannot be resold or otherwise transferred without registration or an exemption (such as that provided by Regulation S or Rule 144).

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## Convertible Debenture Notes

On February 4, 2008, the Company issued a note payable in the amount of \$50,000. The note carries interest at the rate of 8% per annum and is due on May 4, 2008. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion.

On February 13, 2008, the Company issued a note payable in the amount of \$50,000. The note carries interest at the rate of 8% per annum and is due on May 13, 2008. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion.

On April 9, 2008, the Company issued a note payable in the amount of \$10,000. The note carries interest at the rate of 8% per annum and is due on July 9, 2008. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion.

On April 28, 2008, the Company issued a note payable in the amount of \$20,000. The note carries interest at the rate of 8% per annum and is due on July 16, 2008. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion.

On July 16, 2008, the Company issued a total of 383,364 shares to repay the above four convertible notes valued at \$130,000

On January 8, 2009, the Company issued a note payable in the amount of \$48,464. The note carries interest at the rate of 10% per annum and is due on January 8, 2010. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion. On December 30, 2009, the Company repaid the total outstanding interest plus \$10,347 of the principal on the note. As such, the corresponding liability was reduced to reflect this repayment.

On January 8, 2009, the Company issued a note payable in the amount of \$48,517. The note carries interest at the rate of 10% per annum and is due on January 8, 2010. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion. On December 30, 2009, the Company repaid the note in full and as such the corresponding derivative liability was written off.

On January 8, 2009, the Company issued a note payable in the amount of \$42,085. The note carries interest at the rate of 10% per annum and is due on January 8, 2010. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion. On September 15, 2009, the balance outstanding on the note payable was agreed to be settled prior to the conversion date and as such the corresponding derivative liability was written off.



On December 18, 2009, the Company issued a note payable in the amount of \$100,000. The note carries interest at the rate of 12% per annum and is due on March 18, 2010. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 80% of the average market price of the Company's stock for the 30 days prior to the date of conversion.

The Company accounts for debt with embedded conversion features and warrant issues in accordance with EITF 98-5: Accounting for convertible securities with beneficial conversion features or contingency adjustable conversion and EITF No. 00-27: Application of issue No 98-5 to certain convertible instruments. Conversion features determined to be beneficial to the holder are valued at fair value and recorded to additional paid in capital. The Company determines the fair value to be ascribed to the detachable warrants issued with the convertible debentures utilizing the *Black-Scholes* method. Any discount derived from determining the fair value to the debenture conversion features and warrants is amortized to financing cost over the life of the debenture. The unamortized costs if any, upon the conversion of the warrants is expensed to financing cost on a pro rata basis over the life of the warrant.

Debt issued with the variable conversion features are considered to be embedded derivatives and are accountable in accordance with FASB 133; Accounting for Derivative Instruments and Hedging Activities. The fair value of the embedded derivative is recorded to derivative liability. This liability is required to be marked each reporting period. The resulting discount on the debt is amortized to interest expense over the life of the related debt.

#### **Recent Issuance of Non- Restricted Securities**

##### **Employee and Consultant Retainer Stock Plan 2008**

The Company adopted a retainer stock plan on January 29 2008. The 2008 Retainer Stock Plan authorizes the issuance of a maximum of 6,000,000 shares of our common stock granted to our or our subsidiary's employees or directors and to consultants performing work for us or our subsidiary. All of the shares issuable under the 2008 Retainer Stock Plan were registered under a Registration Statement on Form S-8. To date, 5,998,542 common shares valued at \$431,631 relating to services provided have been awarded, leaving a balance of 1,458 shares which maybe awarded under this plan.

##### ***Purchase of Equity Securities by the Issuer and Affiliated Purchasers***

We did not purchase any of our shares of common stock or other securities during our fourth quarter of our fiscal year ended December 31, 2009.

#### **Item 6. Selected Financial Data**

As a smaller reporting company, we are not required to provide the information required by this Item.

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## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with our consolidated audited financial statements and the related notes that appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this annual report, particularly in the section entitled "Risk Factors".

Our consolidated audited financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles.

### ***Overview***

Alternet Systems Inc. offers long-distance telecommunications services, mobile transaction services and internet content management solutions for the North and South American markets.

### **Results of Operations :**

Results of Operations are for the year ended December 31, 2009 compared to the year ended December 31, 2008.

The Company's results, on a consolidated basis, reflected its own results consolidated with its subsidiary TekVoice Communications Inc. For the remainder of this part, the term "Company" refers to both the Company and its wholly owned subsidiary above.

On July 29, 2009 the Company incorporated Alternet Transactions Systems, Inc. ("ATS") in the State of Florida in partnership with Utiba PTE Ltd. The Company owns 5,100 shares (51%) of the outstanding shares of ATS with Utiba PTE Ltd. owning the remaining 4,900 (49%). ATS is doing business as Utiba Americas. As at December 31, 2009, ATS has not incurred any transactions.

On September 17, 2009 the Company incorporated International Mobile Security, Inc. ("IMS") in the State of Florida in partnership with General Services Holdings, LLC. The Company owns 6,000 shares (60%) of the outstanding shares of IMS with General Services Holdings, LLC. owning the remaining 4,000 (40%). As at December 31, 2009, IMS has not incurred any transactions.

### **Net Sales**

For the year ending December 31, 2009, the Company had sales of \$227,551. During the corresponding year ended December 31, 2008, the Company had sales of \$664,736. The decrease in sales is attributable to the fact that the Company re-organized its sales and marketing personnel to concentrate on the sales of its e-transactions products and experienced less demand for the Telecommunication Services division.

The objective of the Company's marketing plan is to have three distinct product divisions over the next twelve months: Mobile Transaction Services, Telecommunication Services; and network systems for Education and Healthcare.

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## **Net Loss**

For the year ending December 31, 2009, the Company had a net loss of \$685,896 or (\$0.03) per share, which was a decrease of 65% when compared to the net loss for the corresponding year to December 31, 2008 of \$1,840,477 or \$(0.11) per share. The decreased loss was due primarily to a 97% decrease in bad debt in the telecom services division and a 44% decrease in management and consulting fees for the year ended December 31 2009 compared to the year ended December 31, 2008.

## **Selling, General and Administrative Expenses**

For the year ended December 31 2009 the Company incurred office and general expenses of \$32,550, compared to the \$32,898 incurred in the previous year ending December 31 2008. Marketing expenses for the year ending December 31 2009 were -\$2230 were 80% higher than the marketing expenses of \$37,228 for the year ending December 31 2008. Investor relations costs were \$80,888 for the year ending December 31 2009, compared to \$197,582 for the year ending 2008

Management and consulting fees of \$534,266 for the year ending December 31 2009 represents a 44% decrease from the management and consulting fees of \$946,779 incurred in the year ending December 31 2008. Professional fees of \$61,657 were incurred in the period ending December 31 2009, which was a 50% decrease from the professional fees of \$110,646 incurred in the previous year ending December 31 2008. The decrease in management consulting expense for the year ended December 31 2009 is a result of decreased staffing levels compared to the corresponding year ending December 31, 2008.

Accounts payable were \$907,353 at December 31 2009, which was a 68% increase when compared to accounts payable of \$288,457 at December 31 2008. Accounts receivable were \$36,585 for the year ended December 31 2008 which was a 39% increase from accounts receivable of \$22,515 for the previous year ended December 31 2008.

## **Interest and other expenses**

The Company had no material interest expenses.

## **Liquidity and Capital Resources**

As at December 31, 2009, the Company had \$17,584 cash in the bank, share subscriptions receivable of \$8900 and accounts receivable of \$36,585. At December 31 2009, the Company had a working capital deficiency of \$1,490,025. The Company is currently pursuing financing to fund ongoing operations and to pay current debts. The Company's ability to continue as a going concern will be negatively affected if it is unsuccessful.

## **Plan of Operation**

Over the next 12 months, the Company will be concentrating on marketing its mobile financial transaction and telecommunications platforms, in the telecommunication, public utility, government and financial industries.

Sales and marketing is accomplished through the Company's existing sales staff, who contact potential clients through personal and agent sales, trade shows and industry associations.

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Sales will come from organic growth from its existing operations. The Company may identify in the course of business, strategic acquisition targets.

Company has accomplished the execution of framework agreements with critical vendors, and is in the process of launching its mobile financial and mobile commerce suite of services.

We have also initiated a program to participate in the financial services industry, by enabling cellular phone technologies that will allow customers to make mobile to mobile , mobile to cash and mobile to money remittances .

Demand for our services is driven primarily by mobile subscriber purchasing activity via their cellular phone. The global mobile commerce industry is in its early growth and adoption stages. The drivers for growth are cellular phone penetration, large unbanked population worldwide, user acceptance of the cell phone as a means of payment. Subscriber adoption of new wireless technologies and services can also drive demand for our services due to the resulting increase in interoperability complexities. We believe that as wireless usage expands and complexity continues to increase, the demand for our services will grow.

A structured plan has been defined to close and pursue opportunities. The company has a funnel of potential prospects in different stages of closing. The needs and opportunities of these initial prospects have been identified and we are preparing offers and agreements.

The Company will be updating its marketing material, including web presence and technical information. It will also be focusing on its electronic transaction products, targeting specific vertical industries, specifically the telecom, financial, utilities and transportation sectors.

Currently our sales and business development partners have identified and pursued projects in Colombia, Ecuador, Bolivia, Guatemala, Panama, Mexico, Brasil, Costa Rica, El Salvador, Honduras, Venezuela, Guyana, Haiti, Dominican Republic and the United States.

Although the Company believes that demand exists for its products and services, there can be no assurance that sales will increase in the future. The Company is expected to remain dependent upon debt or equity financing unless revenues from operations grow significantly.

#### Funds Required For the Next 12 Months of Operations

The Company anticipates the following for monthly cash expenses in the next 12 months (excluding the cost of any share issuances which may be made pursuant to management agreements between the Company and senior management):

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|                              |            |
|------------------------------|------------|
| Management Fees and Salaries | \$ 65,000  |
| Product Development Expense: | \$ 15,000  |
| Office Rent                  | \$ 6,000   |
| Telephones                   | \$ 2,000   |
| Travel                       | \$ 30,000  |
| Marketing Expenses           | \$ 25,000  |
| Professional Fees            | \$ 25,000  |
| Accounting fees              | \$ 6,000   |
| Total Monthly Expenses:      | \$ 174,000 |

### **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with the accounting principles generally accepted in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our financial statements is critical to an understanding of our financial statements.

#### *Basis of Presentation and Consolidation*

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in United States dollars. Our company has produced significant revenue from its principal business and in fiscal years prior to December 31, 2008 was considered an Exploration Stage Company, as defined by Statement of Financial Accounting Standard ( SFAS ) No. 7 Accounting and Reporting for Development Stage Enterprises . These financial statements include the accounts of the Company and its wholly owned subsidiaries,. Our fiscal year-end is December 31.

#### *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our company regularly evaluates estimates and assumptions. Our company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by our company may differ materially and adversely from our company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

#### *Foreign Currency Translation*

Our company's and its United States subsidiaries' functional and reporting currency is the United States dollar. The functional currency of our company's Canadian subsidiary is the Canadian dollar. The financial statements of the subsidiary are translated to United States dollars in accordance with SFAS No. 52 *Foreign Currency Translation* using period-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues and expenses. Translation gains (losses) are recorded in accumulated other comprehensive income as a component of

stockholders' equity. Foreign currency transaction gains and losses are included in current operations. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in Canadian dollars. Our company has not, to the date of these financials statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

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### *Long-Lived Assets*

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ", the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. Our company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

### *Loss Per Share*

Our company computes net loss per share in accordance with SFAS No. 128 " *Earnings per Share* " which requires presentation of both basic and diluted earnings per share (EPS) on the face of the statement of operations. Basic EPS is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including convertible debt, stock options, and warrants, using the treasury stock method. Diluted EPS excludes all dilutive potential shares if their effect is anti dilutive. Diluted loss per share figures are equal to those of basic loss per share for each period since the effects of convertible debt, stock options and warrants have been excluded as they are anti-dilutive.

### *Other Comprehensive Income (Loss)*

SFAS No. 130, *Reporting Comprehensive Income* , establishes standards for the reporting and display of comprehensive loss and its components in the financial statements.

### *Financial Instruments*

The carrying value of our company's financial instruments, consisting of cash and cash equivalents, restricted cash, receivables, and accounts payable and accrued liabilities, approximate fair value due to the relatively short maturity of these instruments.

### *Income Taxes*

Our company follows the liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes* . Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax balances. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to the taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

### *Debt Issue Costs*

In accordance with the Accounting Principles Board Opinion 21 *Interest on Receivables and Payables* , our company recognizes debt issue costs on the balance sheet as deferred charges, and amortizes the balance over the term of the related debt. Our company follows the guidance in the EITF 95-13 *Classification of Debt Issue Costs in the Statement of Cash Flows* and classifies cash payments for debt issue costs as a financing activity.

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## Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combination*, which is effective for fiscal years beginning after December 15, 2008. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This standard did not effect the Company's reported financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which is effective for fiscal years beginning after December 15, 2008. The statement requires all entities to report noncontrolling or minority interests in subsidiaries in the same way as equity in the consolidated financial statements. Moreover, the Statement eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. The Company has reported all noncontrolling interests as an equity transaction.

In March 2008, the FASB issued SFAS No.161, *Disclosures about Derivative Instruments and Hedging Activities*, which is effective for fiscal years and interim periods beginning after November 15, 2008. The statement amends and expands the disclosure requirements of Statement 133 and requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The Company has expanded the information included in Note 4 – Convertible Debenture Notes to include the new requirements. This standard did not effect the Company's reported financial position or results of operations.

In May 2008, the FASB issued SFAS No.162, *The Hierarchy of Generally Accepted Accounting Principles*, which is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411. This statement identifies the sources of accounting principles and framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States, the GAAP hierarchy. This standard did not effect the Company's reported financial position or results of operations.

In May 2008, the FASB issued SFAS No.163, *Accounting for Financial Guarantee Insurance Contract*, which is effective for financial statements issued for fiscal years beginning after December 15, 2008. This statement requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60, *Accounting and Reporting by Insurance Enterprises*, applies to financial guarantee insurance contract, including the recognition and measurement to be used to account for premium revenue and claim liabilities. This standard did not effect the Company's reported financial position or results of operations.

In May 2009, the FASB issued SFAS No.165, *Subsequent Events*, which is effective for interim or annual financial statements issued after June 15, 2009. This statement requires the Company to disclose the period for which subsequent events have been reported and clarifies when subsequent events should be disclosed. This standard did not effect the Company's reported financial position or results of operations.

In June 2009, the FASB issued SFAS No.166, *Accounting for Transfers of Financial Assets*, which is effective for financial statements issued for fiscal years beginning after November 15, 2009. This statement amends SFAS No.140, *Accounting for Transfers and Servicing of Financial Assets and extinguishments of Liabilities*, by removing the concept of special purpose entity from SFAS No.140. This statement also clarifies the objective of paragraph 9 of SFAS No.140 which is to determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control of transferred financial assets. This standard is not expected to

have a significant effect on the Company's reported financial position or results of operations

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In June 2009, the FASB issued SFAS No.167, *Amendments to FASB Interpretation No.46(R)*, which is effective for financial statements issued for fiscal years beginning after November 15, 2009. This statement amends FASB Interpretation No.46(R), *Consolidation of Variable Interest Entities*, by requiring an entity to perform an analysis to determine whether the entity's variable interest or interest give it a controlling financial interest in a variable interest entity. This standard is not expected to have a significant effect on the Company's reported financial position or results of operations.

In June 2009, the FASB issued SFAS No.168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which replaces SFAS 162 and is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This statement identifies the sources of accounting principles and framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States, the GAAP hierarchy. This standard did not effect the Company's reported financial position or results of operations..

In January 2010, the FASB issued ASU 2010-01, *Accounting for Distributions to Shareholders with Components of Stock and Cash*, which is effective for financial statements issued for interim and annual periods ending after December 15, 2009. This update identifies how companies should be reporting distributions to shareholders that offers them the ability to elect to receive the distribution in cash or an equivalent number of shares. It was determined that all distributions of shares relating to these payments should be recorded as new share issuances. This standard did not effect the Company's reported financial position or results of operations.

In January 2010, the FASB issued ASU 2010-02, *Consolidation*, which replaces SFAS No. 160 and is effective for financial statements issued for interim and annual periods ending after December 15, 2009. This update establishes the accounting and reporting guidance for noncontrolling interest and changes in ownership interests of a subsidiary. This standard is not expected to have a significant effect on the Company's reported financial position or results of operations. This standard did not effect the Company's reported financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, *FairValue Measurements and Disclosures*, which replaces SFAS No. 157 and is effective for financial statements issued for interim and annual periods ending after December 15, 2009 except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements which are effective for financial statements issued for fiscal years ending after December 15, 2010 and interim periods commencing December 16, 2009. This update identifies new disclosure requirements relating to fair value measurements. This standard did not effect the Company's reported financial position or results of operations.

In February 2010, the FASB issued ASU 2010-09, *Subsequent Events*, which is effective for financial statements issued for interim and annual periods ending after June 15, 2010. This update addresses both the interaction of the requirements of Topic 855 with the SEC's reporting requirements and the intended breadth of the reissuance disclosure provision related to subsequent events. This standard is not expected to have a significant effect on the Company's reported financial position or results of operations.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company, we are not required to provide the information required by this Item.

#### **Item 8. Financial Statements and Supplementary Data**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Alternet Systems, Inc.

Miami, FL

We have audited the accompanying balance sheets of Alternet Systems, Inc., as of December 31, 2009, and the related statements of operations, stockholders' equity (deficit) and cash flows for the year 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. The financial statements of Alternet Systems, Inc. as of December 31, 2008, were audited by other auditors whose report dated April 14, 2009, expressed an unqualified opinion with a going concern.

We conducted our audit in accordance with 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 provides a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that Alternet Systems, Inc. will continue as a going concern. As discussed in Note 1 to the financial statements, Alternet Systems, Inc. suffered recurring losses from operations which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alternet Systems, Inc. as of December 31, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Hamilton, PC

/s/ Hamilton, PC

Denver, Colorado

April 15, 2010

**ALTERNET SYSTEMS INC.**

**(A Development Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**ALTERNET SYSTEMS INC.**  
**CONSOLIDATED BALANCE SHEET**  
(Unaudited)

As at December 31, 2009 and 2008

|                                                       | December<br>31,<br>2009 | December<br>31,<br>2008 |
|-------------------------------------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>                                         |                         |                         |
| <b>Current Assets</b>                                 |                         |                         |
| Cash                                                  | \$ 17,854               | \$ 4,326                |
| Accounts receivable                                   | 36,585                  | 22,515                  |
| Share subscriptions receivable                        | 8,900                   | -                       |
| Prepays and deposits                                  | -                       | 10,169                  |
| Deferred financing costs                              | 30,920                  | -                       |
| <b>Total Current Assets</b>                           | <b>94,259</b>           | <b>37,010</b>           |
| <b>Fixed Assets (Note 3)</b>                          | <b>4,592</b>            | <b>6,457</b>            |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 98,851</b>        | <b>\$ 43,467</b>        |
| <b>LIABILITIES</b>                                    |                         |                         |
| <b>Current Liabilities</b>                            |                         |                         |
| Accounts payable                                      | \$ 907,353              | \$ 288,457              |
| Accrued taxes                                         | 81,739                  | 61,979                  |
| Other loans payable                                   | 359,397                 | 54,238                  |
| Due to related parties (Note 4 and 6)                 | 82,916                  | 501,702                 |
| Demand loan                                           | -                       | 125,000                 |
| Derivative liability                                  | 71,879                  | -                       |
| <b>TOTAL LIABILITIES</b>                              | <b>1,503,284</b>        | <b>1,031,376</b>        |
| <b>STOCKHOLDERS' DEFICIENCY</b>                       |                         |                         |
| Capital Stock (Note 5)                                | 202                     | 197                     |
| Additional paid-in capital                            | 5,257,695               | 5,212,700               |
| Private placement subscriptions                       | 225,415                 | 225,415                 |
| Obligation to issue shares                            | 83,196                  | 90,000                  |
| Deferred compensation (Note 7)                        | (645,181)               | (872,143)               |
| Deficit                                               | (6,334,660)             | (5,644,078)             |
|                                                       | (1,413,333)             | (987,909)               |
| Noncontrolling interest                               | 8,900                   | -                       |
| <b>TOTAL STOCKHOLDERS' DEFICIENCY</b>                 | <b>(1,404,433)</b>      | <b>(987,909)</b>        |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b> | <b>\$ 98,851</b>        | <b>\$ 43,467</b>        |

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



**ALTERNET SYSTEMS INC.**  
**CONSOLIDATED STATEMENT OF LOSS AND DEFICIT**  
(Unaudited)

Years ended December 31, 2009 and 2008

|                                           | 2009              | 2008              |
|-------------------------------------------|-------------------|-------------------|
| <b>REVENUE</b>                            |                   |                   |
| Sales                                     | \$ 277,551        | \$ 664,736        |
| <b>COST OF SALES</b>                      |                   |                   |
| Direct Cost of Sales                      | 81,527            | 498,547           |
| <b>GROSS PROFIT</b>                       | 196,024           | 166,189           |
| <b>OPERATING EXPENSES</b>                 |                   |                   |
| Bad Debt                                  | 13,894            | 414,036           |
| Bank Charges and Interest                 | 51,247            | 19,682            |
| Commissions                               | -                 | 1,450             |
| Depreciation and Amortization             | 2,148             | 2,365             |
| Financing Costs                           | 127,625           | 143,480           |
| Investor Relations                        | 80,888            | 197,582           |
| License Fees                              | 299               | 133               |
| Management and Consulting                 | 534,266           | 946,779           |
| Marketing (recovery)                      | (2,230)           | 37,288            |
| Office and General                        | 32,550            | 32,898            |
| Professional fees                         | 61,657            | 110,646           |
| Rent                                      | 26,574            | 48,064            |
| Salaries                                  | 254,032           | 82,365            |
| Telephone and Utilities                   | 6,110             | 35,230            |
| Travel                                    | 16,154            | 65,478            |
| <b>TOTAL OPERATING EXPENSES</b>           | 1,205,214         | 2,137,476         |
| <b>NET LOSS BEFORE OTHER ITEMS</b>        | (1,009,190)       | (1,971,287)       |
| <b>OTHER ITEMS</b>                        |                   |                   |
| Customer fees                             | 4,827             | -                 |
| Other income/(expense)                    | (6,922)           | (12,670)          |
| Gain on sale of investment                | 196,628           | -                 |
| Gain on debt settlement                   | 35,237            | -                 |
| Increase in Derivative Liability          | 93,524            | 143,480           |
| <b>NET LOSS FOR THE YEAR</b>              | \$ (685,896)      | \$ (1,840,477)    |
| <b>BASIC NET LOSS PER SHARE</b>           | \$ (0.03)         | \$ (0.11)         |
| <b>WEIGHTED COMMON SHARES OUTSTANDING</b> | <b>20,100,921</b> | <b>17,513,381</b> |

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

**ALTERNET SYSTEMS INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Unaudited)

Years ended December 31, 2009 and 2008

|                                                        | 2009         | 2008           |
|--------------------------------------------------------|--------------|----------------|
| <b>OPERATING ACTIVITIES</b>                            |              |                |
| Net Loss From Operations                               | \$ (685,896) | \$ (1,840,477) |
| Add: Items Not Affecting Cash                          |              |                |
| Depreciation                                           | 2,148        | 2,365          |
| Shares for services                                    | 36,250       | 438,240        |
| Shares for debt                                        | 26,946       | -              |
| Reversal of shares for debt                            | (50,000)     | -              |
| Stock-based compensation                               | -            | 133,125        |
| Deferred compensation                                  | 226,962      | -              |
| Changes In Non-Cash Working Capital:                   |              |                |
| Accounts receivable                                    | (14,070)     | 407,982        |
| Share subscriptions receivable                         | (8,900)      | -              |
| Prepays and deposit                                    | 10,169       | 1,938          |
| Accounts payable and accrued charges                   | 618,896      | (105,638)      |
| Accrued taxes                                          | 19,760       | (4,406)        |
| Due to related parties                                 | (615,414)    | 460,305        |
|                                                        | (236,521)    | (506,566)      |
| <b>INVESTING ACTIVITIES</b>                            |              |                |
| Acquisition of fixed assets                            | (283)        | (1,271)        |
| <b>FINANCING ACTIVITIES</b>                            |              |                |
| Change in loans payable                                | 180,159      | 32,238         |
| Derivative liability                                   | 71,879       | -              |
| Deferred financing costs                               | (30,920)     | -              |
| Net proceeds on sale of common stock and subscriptions | 25,000       | 464,087        |
| Minority shares issued                                 | 8,900        | -              |
|                                                        | 255,018      | 496,325        |
| <b>OTHER COMPREHENSIVE INCOME</b>                      | (4,686)      | (2,766)        |
| <b>NET CHANGE IN CASH DURING THE YEAR</b>              | 13,528       | (14,278)       |
| <b>CASH, BEGINNING OF YEAR</b>                         | 4,326        | 18,604         |
| <b>CASH, END OF YEAR</b>                               | \$ 17,854    | \$ 4,326       |

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

**ALTERNET SYSTEMS INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**For the Period from May 16, 2002 (Inception) to December 31, 2009**

|                                                                                                     | Shares           | Common<br>Stock | Additional<br>Paid in<br>Capital | Treasury<br>Shares | Treasury<br>Stock | Private<br>Placement<br>subscriptions | Accumulated<br>Deficit | Deferred<br>Compensation | Obligations<br>to Issuance<br>shares |
|-----------------------------------------------------------------------------------------------------|------------------|-----------------|----------------------------------|--------------------|-------------------|---------------------------------------|------------------------|--------------------------|--------------------------------------|
| Balance<br>May 16,<br>2002                                                                          | -                | -               | -                                | -                  | -                 | -                                     | -                      | -                        | -                                    |
| Issuance of<br>common<br>stock for<br>cash at<br>\$0.223 per<br>share - May<br>17, 2002             | 448,400          | 448             | 99,552                           | -                  | -                 | -                                     | -                      | -                        | -                                    |
| Issuance of<br>common<br>stock for<br>services at<br>\$0.223 per<br>share -<br>December<br>31, 2002 | 2,394,854        | 2,396           | 531,684                          | -                  | -                 | -                                     | -                      | -                        | -                                    |
| Issuance of<br>common<br>stock for<br>cash at<br>\$0.223 per<br>share -<br>December<br>31, 2002     | 156,776          | 157             | 34,805                           | -                  | -                 | -                                     | -                      | -                        | -                                    |
| Net Loss<br>for the year                                                                            | -                | -               | -                                | -                  | -                 | -                                     | (88,038)               | -                        | -                                    |
| <b>Balance<br/>December<br/>31, 2002</b>                                                            | <b>3,000,030</b> | <b>3,001</b>    | <b>666,041</b>                   | <b>-</b>           | <b>-</b>          | <b>-</b>                              | <b>(88,038)</b>        | <b>-</b>                 | <b>-</b>                             |
| Net Loss<br>for the year                                                                            | -                | -               | -                                | -                  | -                 | -                                     | (387,426)              | -                        | -                                    |
| <b>Balance<br/>December<br/>31, 2003</b>                                                            | <b>3,000,030</b> | <b>3,001</b>    | <b>666,041</b>                   | <b>-</b>           | <b>-</b>          | <b>-</b>                              | <b>(475,464)</b>       | <b>-</b>                 | <b>-</b>                             |
| Issuance of<br>common<br>stock for<br>cash at<br>\$0.31 per                                         | 363,669          | 364             | 112,256                          | -                  | -                 | -                                     | -                      | -                        | -                                    |

|                                                                                                     |         |     |         |           |           |   |   |   |   |
|-----------------------------------------------------------------------------------------------------|---------|-----|---------|-----------|-----------|---|---|---|---|
| share -<br>April 30,<br>2004                                                                        |         |     |         |           |           |   |   |   |   |
| Issuance of<br>common<br>stock for<br>services at<br>\$0.31 per<br>share -<br>April 30,<br>2004     | 475,914 | 475 | 146,905 | -         | -         | - | - | - | - |
| Redemption<br>of shares                                                                             | -       | -   | -       | 1,615,445 | 360,260   | - | - | - | - |
| Issuance of<br>common<br>stock at<br>\$0.42 per<br>share                                            | -       | -   | 148,698 | (762,122) | (167,668) | - | - | - | - |
| Issuance of<br>common<br>stock for<br>acquisition<br>at \$0.50 per<br>share - June<br>30, 2004      | -       | -   | 115,321 | (411,268) | (90,479)  | - | - | - | - |
| Issuance of<br>common<br>stock for<br>services at<br>\$0.50 per<br>share - June<br>30, 2004         | -       | -   | 28,018  | (99,919)  | (21,982)  | - | - | - | - |
| Issuance of<br>common<br>stock for<br>cash at<br>\$0.60 per<br>share -<br>September<br>30, 2004     | 33,516  | 34  | 76,917  | (154,988) | (36,299)  | - | - | - | - |
| Issuance of<br>common<br>stock for<br>Services at<br>\$0.60 per<br>share -<br>September<br>30, 2004 | 40,471  | 40  | 92,878  | (187,148) | (43,832)  | - | - | - | - |
| Issuance of<br>common<br>stock for                                                                  | 204,834 | 205 | 102,295 | -         | -         | - | - | - | - |

|                                                                                                     |                  |              |                  |          |          |          |                    |          |
|-----------------------------------------------------------------------------------------------------|------------------|--------------|------------------|----------|----------|----------|--------------------|----------|
| cash at<br>\$0.50 per<br>share -<br>September<br>30, 2004                                           |                  |              |                  |          |          |          |                    |          |
| Issuance of<br>common<br>stock for<br>services at<br>\$0.50 per<br>share -<br>September<br>30, 2004 | 644,600          | 644          | 321,856          | -        | -        | -        | -                  | -        |
| Issuance of<br>common<br>stock for<br>cash at<br>\$0.48 per<br>share -<br>October 1,<br>2004        | 413,956          | 414          | 199,586          | -        | -        | -        | -                  | -        |
| Issuance of<br>common<br>stock for<br>services at<br>\$0.48 per<br>share -<br>October 1,<br>2004    | 150,000          | 150          | 71,850           | -        | -        | -        | -                  | -        |
| Net Loss<br>for the year                                                                            | -                | -            | -                | -        | -        | -        | (1,619,425)        | -        |
| <b>Balance<br/>December<br/>31, 2004</b>                                                            | <b>5,326,990</b> | <b>5,327</b> | <b>2,082,621</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>(2,094,889)</b> | <b>-</b> |
| Issuance of<br>common<br>stock for<br>cash at<br>\$0.48 per<br>share - June<br>30, 2005             | 357,477          | 357          | 172,304          | -        | -        | -        | -                  | -        |
| Issuance of<br>common<br>stock for<br>services at<br>\$0.48 per<br>share - June<br>30, 2005         | 1,137,880        | 1,138        | 548,201          | -        | -        | -        | -                  | -        |

**ALTERNET SYSTEMS INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**For the Period from May 16, 2002 (Inception) to December 31, 2009**

|                                                                                             | Shares           | Common<br>Stock | Additional<br>Paid in<br>Capital | Treasury<br>Shares | Treasury<br>Stock | Private<br>Placement<br>subscriptions | Accumulated<br>Deficit | Deferred<br>Compensation | Ob<br>to<br>s |
|---------------------------------------------------------------------------------------------|------------------|-----------------|----------------------------------|--------------------|-------------------|---------------------------------------|------------------------|--------------------------|---------------|
| Issuance of<br>common stock<br>for acquisition<br>at \$0.48 per<br>share - June 30,<br>2005 | 425,961          | 426             | 205,374                          | -                  | -                 | -                                     | -                      | -                        |               |
| Net Loss for the<br>year                                                                    | -                | -               | -                                | -                  | -                 | -                                     | (837,842)              | -                        |               |
| <b>Balance<br/>December 31,<br/>2005</b>                                                    | <b>7,248,308</b> | <b>7,248</b>    | <b>3,008,500</b>                 | <b>-</b>           | <b>-</b>          | <b>-</b>                              | <b>(2,932,731)</b>     | <b>-</b>                 |               |
| Issuance of<br>common stock<br>for cash at<br>\$0.48 per share<br>- June 30, 2006           | 594,585          | 595             | 286,676                          | -                  | -                 | -                                     | -                      | -                        |               |
| Issuance of<br>common stock<br>for services at<br>\$0.48 per share<br>- June 30, 2006       | 781,818          | 782             | 376,947                          | -                  | -                 | -                                     | -                      | -                        |               |
| Issuance of<br>common stock<br>for services at<br>\$0.35 per share<br>- June 30, 2006       | 425,961          | 426             | 146,574                          | -                  | -                 | -                                     | -                      | -                        |               |
| Net Loss for the<br>year                                                                    | -                | -               | -                                | -                  | -                 | -                                     | (553,314)              | -                        |               |
| <b>Balance<br/>December 31,<br/>2006</b>                                                    | <b>9,050,672</b> | <b>9,051</b>    | <b>3,818,697</b>                 | <b>-</b>           | <b>-</b>          | <b>-</b>                              | <b>(3,486,045)</b>     | <b>-</b>                 |               |
| Net Loss for the<br>year                                                                    | -                | -               | -                                | -                  | -                 | -                                     | (320,322)              | -                        |               |
| Balance<br>December 31,<br>2007                                                             | 9,050,672        | 9,051           | 3,818,697                        | -                  | -                 | -                                     | (3,806,367)            | -                        |               |
| Alternet<br>Systems Inc.<br>balance before<br>reverse<br>acquisition                        | 6,278,146        | 63              | 5,136,702                        | -                  | -                 | 231,487                               | (5,540,778)            | (29,677)                 |               |

|                                                                           |                   |            |                  |          |          |                |                    |                 |
|---------------------------------------------------------------------------|-------------------|------------|------------------|----------|----------|----------------|--------------------|-----------------|
| Issued to effect reverse acquisition                                      | 4,000,000         | 40         | 21,791           | -        | -        | -              | -                  | -               |
| Reverse acquisition recapitalization adjustment                           | (9,050,672)       | (9,051)    | (5,552,854)      | -        | -        | -              | 5,540,778          | -               |
| <b>Balance December 31, 2007</b>                                          | <b>10,278,146</b> | <b>103</b> | <b>3,424,336</b> | <b>-</b> | <b>-</b> | <b>231,487</b> | <b>(3,806,367)</b> | <b>(29,677)</b> |
| Stock-based compensation at \$0.025 per share - January 2, 2008           | 4,500,000         | 45         | 112,455          | -        | -        | -              | -                  | -               |
| Stock-based compensation at \$0.025 per share - January 15, 2008          | 750,000           | 7          | 18,743           | -        | -        | -              | -                  | -               |
| Stock-based compensation at \$0.025 per share - January 23, 2008          | 75,000            | 1          | 1,874            | -        | -        | -              | -                  | -               |
| Issuance of common stock for services at \$0.30 per share - May 23, 2008  | 23,542            | -          | 7,063            | -        | -        | -              | -                  | -               |
| Issuance of common stock for services at \$0.51 per share - May 23, 2008  | 150,000           | 2          | 76,498           | -        | -        | -              | -                  | -               |
| Issuance of common stock for services at \$0.50 per share - June 6, 2008  | 100,000           | 1          | 49,999           | -        | -        | -              | -                  | -               |
| Issuance of common stock for services at \$0.42 per share - June 26, 2008 | 1,500,000         | 15         | 629,985          | -        | -        | -              | -                  | -               |
| Issuance of common stock for debenture                                    | 277,778           | 3          | 99,997           | -        | -        | -              | -                  | -               |

note at \$0.36  
per share - July  
16, 2008

Issuance of  
common stock  
for debenture  
note at \$0.21  
per share - July  
16, 2008

48,443

-

10,000

-

-

-

-

-

Issuance of  
common stock  
for debenture  
note at \$0.35  
per share - July  
16, 2008

57,143

1

19,999

-

-

-

-

-

**ALTERNET SYSTEMS INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**For the Period from May 16, 2002 (Inception) to December 31, 2009**

|                                                                                               | Shares  | Common<br>Stock | Additional<br>Paid in<br>Capital | Treasury<br>Shares | Treasury<br>Stock | Private<br>Placement<br>subscriptions | Accumulated<br>Deficit | Deferred<br>Compensation | Obligation<br>to holders of<br>preferred stock |
|-----------------------------------------------------------------------------------------------|---------|-----------------|----------------------------------|--------------------|-------------------|---------------------------------------|------------------------|--------------------------|------------------------------------------------|
| Issuance of<br>common stock<br>for cash at<br>\$0.35 per share<br>- July 16, 2008             | 670,000 | 7               | 234,493                          | -                  | -                 | (234,500)                             | -                      | -                        | -                                              |
| Issuance of<br>common stock<br>for services at<br>\$0.42 per share<br>- July 16, 2008         | 500,000 | 5               | 209,995                          | -                  | -                 | -                                     | -                      | -                        | -                                              |
| Issuance of<br>common stock<br>for services at<br>\$0.42 per share<br>- August 6,<br>2008     | 310,000 | 3               | 130,197                          | -                  | -                 | -                                     | -                      | -                        | -                                              |
| Issuance of<br>common stock<br>for cash at<br>\$0.35 per share<br>- August 7,<br>2008         | 14,100  | -               | 4,930                            | -                  | -                 | (4,930)                               | -                      | -                        | -                                              |
| Issuance of<br>common stock<br>for cash at<br>\$0.35 per share<br>- August 11,<br>2008        | 241,158 | 2               | 84,403                           | -                  | -                 | (84,405)                              | -                      | -                        | -                                              |
| Issuance of<br>common stock<br>for cash at<br>\$0.35 per share<br>- August 13,<br>2008        | 44,960  | -               | 15,735                           | -                  | -                 | (15,735)                              | -                      | -                        | -                                              |
| Issuance of<br>common stock<br>for services at<br>\$0.41 per share<br>- September<br>16, 2008 | 200,000 | 2               | 81,998                           | -                  | -                 | -                                     | -                      | -                        | -                                              |

|                                                                         |                   |            |                  |          |          |                |                    |                  |          |
|-------------------------------------------------------------------------|-------------------|------------|------------------|----------|----------|----------------|--------------------|------------------|----------|
| Private placement subscriptions received                                | -                 | -          | -                | -        | -        | 333,498        | -                  | -                | -        |
| Foreign exchange translation adjustment                                 | -                 | -          | -                | -        | -        | -              | -                  | -                | -        |
| Increase in derivative liability                                        | -                 | -          | -                | -        | -        | -              | -                  | -                | -        |
| Obligation to issue shares per consulting agreement                     | -                 | -          | -                | -        | -        | -              | -                  | -                | -        |
| Services provided per term of contracts                                 | -                 | -          | -                | -        | -        | -              | -                  | (842,466)        | -        |
| Net loss for the year                                                   | -                 | -          | -                | -        | -        | -              | (1,983,957)        | -                | -        |
| <b>Balance December 31, 2008</b>                                        | <b>19,740,270</b> | <b>197</b> | <b>5,212,700</b> | <b>-</b> | <b>-</b> | <b>225,415</b> | <b>(5,790,324)</b> | <b>(872,143)</b> | <b>9</b> |
| Issuance of common stock for cash at \$0.08 per share - April 9, 2009   | 312,500           | 3          | 24,997           | -        | -        | (25,000)       | -                  | -                | -        |
| Issuance of common stock for services at \$0.10 per share - May 5, 2009 | 200,000           | 2          | 19,998           | -        | -        | -              | -                  | -                | -        |
| Private placement subscriptions received                                | -                 | -          | -                | -        | -        | 25,000         | -                  | -                | -        |
| Foreign exchange translation adjustment                                 | -                 | -          | -                | -        | -        | -              | -                  | -                | -        |
| Increase (decrease) in derivative liability                             | -                 | -          | -                | -        | -        | -              | -                  | -                | -        |
| Services provided per term of contracts                                 | -                 | -          | -                | -        | -        | -              | -                  | 226,962          | -        |

|                                                          |                   |            |                  |          |          |                |                    |                  |          |
|----------------------------------------------------------|-------------------|------------|------------------|----------|----------|----------------|--------------------|------------------|----------|
| Reversal of obligation to issue shares                   | -                 | -          | -                | -        | -        | -              | -                  | -                | (5       |
| Obligation to issue shares per consulting agreement      | -                 | -          | -                | -        | -        | -              | -                  | -                | 1        |
| Obligation to issue shares per debt settlement agreement | -                 | -          | -                | -        | -        | -              | -                  | -                | 2        |
| Subsidiary shares issued to noncontrolling interest      | -                 | -          | -                | -        | -        | -              | -                  | -                |          |
| Net loss for the year                                    | -                 | -          | -                | -        | -        | -              | (779,420)          | -                |          |
| <b>Balance December 31, 2009</b>                         | <b>20,252,770</b> | <b>202</b> | <b>5,257,695</b> | <b>-</b> | <b>-</b> | <b>225,415</b> | <b>(6,569,744)</b> | <b>(645,181)</b> | <b>8</b> |

**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

Alternet Systems Inc. ( Alternet or the Company ) designs, markets and sells proprietary software and hardware systems known as SchoolWeb and CommunityWeb . The Company s products provide high speed Internet access to schools and rural communities, in North America and internationally. The Company also provides Voice over IP services, primarily in Latin America.

The Company was incorporated on June 26, 2000 in the State of Nevada as North Pacific Capital Corp. and was organized for the purpose of creating a corporate vehicle to locate and acquire an operating business. On December 19, 2001, the Company changed its name to Schoolweb Systems Inc. and on May 14, 2002 the Company changed its name to Alternet Systems Inc. ( Alternet or the Company ). On November 6, 2000, the Company filed a Form 10SB registration statement with the United States Securities and Exchange Commission ( SEC ) and as a result is subject to the regulations governing reporting issuers in the United States. On March 14, 2003, the Company was listed for quotation on the Over-the-Counter Bulletin Board.

By agreement entered into December 31, 2007, Alternet issued 4,000,000 shares of restricted common stock to the shareholders of TekVoice Communications, Inc., a Company incorporated on May 17, 2002 in the State of Florida, in exchange for all of the issued and outstanding shares of TekVoice Communications, Inc.

The acquisition resulted in the former shareholders of TekVoice Communications, Inc. acquiring 38.92% of the then outstanding shares of the Company and has been accounted for as a reverse merger with TekVoice Communications, Inc., the legal subsidiary, being treated as the accounting parent and Alternet, the legal parent, being treated as the accounting subsidiary. Accordingly, the consolidated results of operations of the Company include those of TekVoice Communications, Inc. for all periods shown and those of Alternet since the date of the reverse acquisition.

On July 29, 2009 the Company incorporated Alternet Transactions Systems, Inc. ( ATS ) in the State of Florida in partnership with Utiba PTE Ltd. The Company owns 5,100 shares (51%) of the outstanding shares o ATS with Utiba PTE Ltd. owning the remaining 4,900 (49%). ATS is doing business as Utiba Americas. As at December 31, 2009, ATS has not incurred nay transactions.

On September 17, 2009 the Company incorporated International Mobile Security, Inc. ( IMS ) in the State of Florida in partnership with General Services Holdings, LLC. The Company owns 6,000 shares (60%) of the outstanding shares of IMS with General Services Holdings, LLC. owning the remaining 4,000 (40%). As at December 31, 2009, IMS has not incurred nay transactions.

The consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. At December 31, 2009 the Company had a working capital deficiency of \$1,490,025. The Company s continued operations are dependent on the successful implementation of its business plan, its ability to obtain additional financing as needed, continued support from creditors, settling its outstanding debts and ultimately attaining profitable operations.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, AI Systems Group, Inc., AI Systems Group (Canada) Ltd., TekVoice Communications, Inc., Alternet Transactions Systems, Inc., and International Mobile Security, Inc. All significant intercompany transactions and account balances have been eliminated.

**Use of Estimates and Assumptions**

Preparation of the Company's 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 and disclosures. Accordingly, actual results could differ from those estimates.

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**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and Cash Equivalents**

The Company considers all liquid investments, with an original maturity of three months or less when purchased, to be cash equivalents.

**Equipment**

Fixed assets are recorded at cost and depreciated at the following rates:

|                                 |   |                             |
|---------------------------------|---|-----------------------------|
| Computer equipment and software | - | 30% declining balance basis |
| Equipment                       | - | 20% declining balance basis |

**Impairment of Long Lived Assets**

Management monitors the recoverability of long-lived assets based on estimates using factors such as current market value, future asset utilization, and future undiscounted cash flows expected to result from its investment or use of the related assets. The Company's policy is to record any impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. Any impairment loss is calculated as the excess of the carrying value over estimated realizable value.

**Revenue Recognition**

Revenues are recognized when title transfers or services are rendered. Telecommunications services are billed at the end of the month the services are provided.

**Foreign Currency Translation**

The financial statements are presented in United States dollars. In accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation", foreign denominated monetary assets and liabilities are translated to their United States dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Related translation adjustments are reported as a separate component of stockholders' deficit, whereas gains or losses resulting from foreign currency transactions are included in the results of operations.

**Fair Value of Financial Instruments**

In accordance with the requirements of SFAS No. 107, the Company has determined the estimated fair value of financial instruments using available market information and appropriate valuation methodologies. The fair value of financial instruments classified as current assets or liabilities approximate carrying value due to the short-term maturity of the instruments.

**Income Taxes**

The Company accounts for income taxes under a method, which requires the Company to recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements carrying amounts and tax basis of assets and liabilities using enacted tax rates. The Company presently prepares its tax returns on the cash basis and financial statement on the accrual basis. No deferred tax assets or liabilities have been recognized at this time, since the Company has shown losses for both tax and financial reporting.

### **Stock-Based Compensation**

Prior to January 1, 2006, the Company accounted for stock-based awards under the recognition and measurement provisions of Accounting Principles Board Opinion ( APB ) No. 25, *Accounting for Stock Issued to Employees* using the intrinsic value method of accounting, under which compensation expense was only recognized if the exercise price of the Company's employee stock options was less than the market price of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R

*Share Based Payments*, using the modified prospective transition method. Under that transition method, compensation cost is recognized for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

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**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Stock-Based Compensation (continued)**

All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

**Loss per Share**

The Company computes net earnings (loss) per share in accordance with SFAS No. 128, *Earnings per Share*. SFAS No. 128 requires presentation of both basic and diluted earnings per share (EPS) on the face of the statement of operations. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including warrants using the treasury stock method. Diluted EPS excludes all dilutive potential common shares if their effect is anti-dilutive. As the Company has net losses, we did not include common equivalent shares in the computation of diluted net loss per share as the effect would be anti-dilutive.

**Risk Management**

The Company is exposed to credit risk through accounts receivable and therefore, the Company maintains adequate provisions for potential credit losses.

The Company's functional currency is the United States dollar. The Company operates in foreign jurisdictions, giving rise to exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

**Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combination*, which is effective for fiscal years beginning after December 15, 2008. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This standard did not effect the Company's reported financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which is effective for fiscal years beginning after December 15, 2008. The statement requires all entities to report noncontrolling or minority interests in subsidiaries in the same way as equity in the consolidated financial statements. Moreover, the Statement eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. The Company has reported all noncontrolling interests as an equity transaction.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, which is effective for fiscal years and interim periods beginning after November 15, 2008. The statement amends and

expands the disclosure requirements of Statement 133 and requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The Company has expanded the information included in Note 4 – Convertible Debenture Notes to include the new requirements. This standard did not effect the Company's reported financial position or results of operations.

In May 2008, the FASB issued SFAS No.162, *The Hierarchy of Generally Accepted Accounting Principles*, which is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411. This statement identifies the sources of accounting principles and framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States, the GAAP hierarchy. This standard did not effect the Company's reported financial position or results of operations.

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**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Recent Accounting Pronouncements (continued)**

In May 2008, the FASB issued SFAS No.163, *Accounting for Financial Guarantee Insurance Contract*, which is effective for financial statements issued for fiscal years beginning after December 15, 2008. This statement requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60, *Accounting and Reporting by Insurance Enterprises*, applies to financial guarantee insurance contract, including the recognition and measurement to be used to account for premium revenue and claim liabilities. This standard did not effect the Company's reported financial position or results of operations.

In May 2009, the FASB issued SFAS No.165, *Subsequent Events*, which is effective for interim or annual financial statements issued after June 15, 2009. This statement requires the Company to disclose the period for which subsequent events have been reported and clarifies when subsequent events should be disclosed. This standard did not effect the Company's reported financial position or results of operations.

In June 2009, the FASB issued SFAS No.166, *Accounting for Transfers of Financial Assets*, which is effective for financial statements issued for fiscal years beginning after November 15, 2009. This statement amends SFAS No.140, *Accounting for Transfers and Servicing of Financial Assets and extinguishments of Liabilities*, by removing the concept of special purpose entity from SFAS No.140. This statement also clarifies the objective of paragraph 9 of SFAS No.140 which is to determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control of transferred financial assets. This standard is not expected to have a significant effect on the Company's reported financial position or results of operations.

In June 2009, the FASB issued SFAS No.167, *Amendments to FASB Interpretation No.46(R)*, which is effective for financial statements issued for fiscal years beginning after November 15, 2009. This statement amends FASB Interpretation No.46(R), *Consolidation of Variable Interest Entities*, by requiring an entity to perform an analysis to determine whether the entity's variable interest or interest give it a controlling financial interest in a variable interest entity. This standard is not expected to have a significant effect on the Company's reported financial position or results of operations.

In June 2009, the FASB issued SFAS No.168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which replaces SFAS 162 and is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This statement identifies the sources of accounting principles and framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States, the GAAP hierarchy. This standard did not effect the Company's reported financial position or results of operations..

In January 2010, the FASB issued ASU 2010-01, *Accounting for Distributions to Shareholders with Components of Stock and Cash*, which is effective for financial statements issued for interim and annual periods ending after December 15, 2009. This update identifies how companies should be reporting distributions to shareholders that offers them the ability to elect to receive the distribution in cash or an equivalent number of shares. It was determined that all distributions of shares relating to these payments should be recorded as new share issuances. This standard did not

effect the Company's reported financial position or results of operations.

In January 2010, the FASB issued ASU 2010-02, *Consolidation*, which replaces SFAS No. 160 and is effective for financial statements issued for interim and annual periods ending after December 15, 2009. This update establishes the accounting and reporting guidance for noncontrolling interest and changes in ownership interests of a subsidiary. This standard is not expected to have a significant effect on the Company's reported financial position or results of operations. This standard did not effect the Company's reported financial position or results of operations.

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**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Recent Accounting Pronouncements (continued)**

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures*, which replaces SFAS No. 157 and is effective for financial statements issued for interim and annual periods ending after December 15, 2009 except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements which are effective for financial statements issued for fiscal years ending after December 15, 2010 and interim periods commencing December 16, 2009. This update identifies new disclosure requirements relating to fair value measurements. This standard did not effect the Company's reported financial position or results of operations.

In February 2010, the FASB issued ASU 2010-09, *Subsequent Events*, which is effective for financial statements issued for interim and annual periods ending after June 15, 2010. This update addresses both the interaction of the requirements of Topic 855 with the SEC's reporting requirements and the intended breadth of the reissuance disclosure provision related to subsequent events. This standard is not expected to have a significant effect on the Company's reported financial position or results of operations.

**NOTE 3 FIXED ASSETS**

|                    |             |    |                                                           |    |                           |    | <b>December<br/>31,<br/>2008</b> |
|--------------------|-------------|----|-----------------------------------------------------------|----|---------------------------|----|----------------------------------|
|                    | <b>Cost</b> |    | <b>December 31, 2009<br/>Accumulated<br/>Amortization</b> |    | <b>Net Book<br/>Value</b> |    | <b>Net Book<br/>Value</b>        |
| Computer equipment | \$ 328,029  | \$ | 324,818                                                   | \$ | <b>3,211</b>              | \$ | <b>4,587</b>                     |
| Computer software  | 72,560      |    | 71,759                                                    |    | <b>801</b>                |    | <b>1,145</b>                     |
| Equipment          | 10,576      |    | 9,996                                                     |    | <b>580</b>                |    | <b>725</b>                       |
|                    | \$ 411,165  | \$ | 406,573                                                   | \$ | <b>4,592</b>              | \$ | <b>6,457</b>                     |

**NOTE 4 CONVERTIBLE DEBENTURE NOTES**

On February 4, 2008, the Company issued a note payable in the amount of \$50,000. The note carries interest at the rate of 8% per annum and is due on May 4, 2008. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion.

On February 13, 2008, the Company issued a note payable in the amount of \$50,000. The note carries interest at the rate of 8% per annum and is due on May 13, 2008. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion.

On April 9, 2008, the Company issued a note payable in the amount of \$10,000. The note carries interest at the rate of 8% per annum and is due on July 9, 2008. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion.

On April 28, 2008, the Company issued a note payable in the amount of \$20,000. The note carries interest at the rate of 8% per annum and is due on July 16, 2008. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion.

On July 16, 2008, the Company issued a total of 383,364 shares to repay the above four convertible notes valued at \$130,000

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**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**NOTE 4 CONVERTIBLE DEBENTURE NOTES (continued)**

On January 8, 2009, the Company issued a note payable in the amount of \$48,464. The note carries interest at the rate of 10% per annum and is due on January 8, 2010. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion. On December 30, 2009, the Company repaid the total outstanding interest plus \$10,347 of the principal on the note. As such, the corresponding liability was reduced to reflect this repayment.

On January 8, 2009, the Company issued a note payable in the amount of \$48,517. The note carries interest at the rate of 10% per annum and is due on January 8, 2010. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion. On December 30, 2009, the Company repaid the note in full and as such the corresponding derivative liability was written off.

On January 8, 2009, the Company issued a note payable in the amount of \$42,085. The note carries interest at the rate of 10% per annum and is due on January 8, 2010. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock for the 30 days prior to the date of conversion. On September 15, 2009, the balance outstanding on the note payable was agreed to be settled prior to the conversion date and as such the corresponding derivative liability was written off.

On December 18, 2009, the Company issued a note payable in the amount of \$100,000. The note carries interest at the rate of 12% per annum and is due on March 18, 2010. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 80% of the average market price of the Company's stock for the 30 days prior to the date of conversion.

The Company accounts for debt with embedded conversion features and warrant issues in accordance with EITF 98-5: Accounting for convertible securities with beneficial conversion features or contingency adjustable conversion and EITF No. 00-27: Application of issue No 98-5 to certain convertible instruments. Conversion features determined to be beneficial to the holder are valued at fair value and recorded to additional paid in capital. The Company determines the fair value to be ascribed to the detachable warrants issued with the convertible debentures utilizing the *Black-Scholes* method. Any discount derived from determining the fair value to the debenture conversion features and warrants is amortized to financing cost over the life of the debenture. The unamortized costs if any, upon the conversion of the warrants is expensed to financing cost on a pro rata basis over the life of the warrant.

Debt issued with the variable conversion features are considered to be embedded derivatives and are accountable in accordance with FASB 161; Accounting for Derivative Instruments and Hedging Activities. The fair value of the embedded derivative is recorded to derivative liability. This liability is required to be marked each reporting period. The resulting discount on the debt is amortized to interest expense over the life of the related debt.

**NOTE 5 CAPITAL STOCK**

The Company has 100,000,000 shares of Common Stock authorized, of which 62,781,428 shares of Common Stock were outstanding as at December 27, 2007. On December 27, 2007, the Company held its annual and special meeting of shareholders, at which the Company's shareholders approved a special resolution authorizing a share consolidation of the issued and outstanding common shares on the basis of a ratio of ten existing common shares for one new consolidated common share. After this consolidation, the Company had 6,278,146 outstanding shares. The amendment did not change the total authorized number of shares of capital stock. The par value of the Common Stock remained unchanged at \$0.00001 per share. As a result, as of the effective date, the stated capital attributable to the Common Stock on the Company's balance sheet was reduced proportionately based on the reverse stock split ratio of 10 for 1. The additional paid in capital account has been credited with the amount by which the stated capital is reduced. On December 31, 2007, the Company issued an additional 4,000,000 shares for the acquisition of TekVoice Communications, Inc. (refer to note 7). After this acquisition, the total issued and outstanding shares of common stock as at December 31, 2007 were 10,278,146.

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**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**NOTE 5 - CAPITAL STOCK (continued)**

Effective January 29, 2008, the Company adopted a Retainer Stock Plan for Professional and Consultants (the 2008 Professional/Consultant Stock Compensation Plan ) for the purpose of providing the Company with the means to compensate, in the form of common stock of the Company, eligible consultants that have previously rendered services or that will render services during the term of this 2008 Professional/Consultant Stock Compensation Plan. A total of 6,000,000 post consolidated common shares may be awarded under this plan. The Company filed a Registration Statement on Form S-8 to register the underlying shares included in the 2008 Plan. To date, 5,998,542 common shares valued at \$431,631 relating to services provided have been awarded, leaving a balance of 1,458 shares which maybe awarded under this plan.

During the year ended December 31, 2008, a total of 970,218 shares valued at \$339,572 were issued with respect to a private placement. The Company has received a total of \$225,415 (December 31, 2007 - \$291,895) with respect of a further private placement of common stock. This amount is reported as private placement subscriptions within stockholders' deficit.

The Company is obligated to issue 864,554 (2008 - 300,000) common shares valued at \$83,196 (2008 - \$90,000) as at December 31, 2009 of which 450,000 shares valued at \$56,250 are for services rendered by consultants during the year and 414,554 shares valued at \$26,946 are for a debt settlement agreed on October 1, 2009. During the year, a liability to issued 100,000 shares valued at \$50,000 owed to one consultant was written off to consulting fees as the consultant had not performed the services in accordance with the contract.

During the year ended December 31, 2009, the Company issued 312,500 shares valued at \$25,000 for cash received during the three months ended March 31, 2009 and 200,000 shares valued at \$20,000 for services to be rendered over a one year period. As at September 30, 2009, the Company has \$225,415 (December 31, 2008 - \$225,415) in private placement subscriptions which are reported as private placement subscriptions within stockholders' deficit.

The shares which were not issued as at December 31, 2009 or December 31, 2008 were not used to compute the total weighted average shares outstanding as at December 31, 2009 or December 31, 2008 respectively and were thus are not used in the basic net loss per share calculation.

**NOTE 6 - RELATED PARTY TRANSACTIONS**

At December 31, 2009, a total of \$566,714 (December 31, 2008 - \$444,299) was payable to directors of which \$528,597 is non-interest bearing and has no specific terms of repayment and \$38,117 relates to the convertible debentures detailed in Note 4.

During the year ended December 31, 2009, the company expensed a total of \$424,668 (December 31, 2008 - \$605,202) in consulting fees and investor relations paid to related parties.

Of the amounts incurred to directors and officers, \$424,668 (December 31, 2008 - \$473,952) was accrued or paid in cash and \$Nil (December 31, 2008 - \$131,250) was paid by way of zero (December 31, 2008 - 5,250,000) common shares issued for services.

On September 15, 2009, a director of the Company resigned and an agreement was reached whereby all amounts owing to him from accrued salaries, vacations, loans, and expenses due would be fully settled through a transfer of the Company's investment in 26,000 shares of another company with a book value of \$26,000 to the director. The net effect of this transaction, \$196,628, has been recorded to gain on sale of investment.

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**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**NOTE 7 DEFERRED COMPENSATION**

On June 26, 2008, 1,500,000 common shares valued at \$630,000 were issued to a consultant pursuant to a contract with certain terms and benchmarks. As at September 30, 2009 these benchmarks have not been met, thus the entire amount has been classified as deferred compensation.

On April 15, 2008, the Company entered into agreement with a consultant for a one-year term whereby the consultant will provide investor relations services to the Company in exchange for 200,000 shares of the Company's common stock. On June 6, 2008, 100,000 common shares valued at \$50,000 were issued to the consultant and 100,000 common shares valued at \$50,000 were recorded as obligation to issue share during the year (refer to note 5). These amounts are being expensed over the life of the contract.

On May 12, 2008, the Company entered into an agreement with a consultant for a one-year term whereby the consultant will provide business consulting services to the Company (valued at \$76,500) in exchange for 150,000 shares of the Company's common stock which was issued on May 23, 2008.

On September 15, 2008, the Company entered into agreement with two consultants for a one-year term whereby the consultants will provide marketing services to the Company (valued at \$82,000) in exchange for 200,000 shares of the Company's common stock. The consultants will provide such services as developing sales channels for the Company's products, developing marketing plans and maintaining customer relations and reporting to the Company's board of directors as determined by the board.

On October 15, 2008, the Company entered into agreement with a consultant for a one-year term whereby the consultants will provide consulting services to the Company in exchange for 200,000 shares of the Company's common stock. As of the year ended date, 200,000 common shares valued at \$40,000 were recorded as obligation to issue share during the year (refer to note 5). These amounts are being expensed over the life of the contract.

On January 5, 2009, the Company entered into an agreement with a consultant for a one-year term whereby the consultant will provide business consulting services to the Company in exchange for 200,000 shares of the Company's common stock valued at \$20,000.

On December 8, 2009, the Company entered into an agreement with a consultant for a one-year term whereby the consultant will provide business consulting services to the Company in exchange for 250,000 shares of the Company's common stock valued at \$16,250 based on the date of issuance.

The Company recorded the aggregate fair value of the shares issued pursuant to the above agreements as deferred compensation and amortizes the costs of all these services on a straight-line basis over the respective terms of the contracts. During the year ended the Company expensed \$263,212 relating to the above contracts. At December 31, 2009, the unamortized portion of the deferred compensation totalled \$645,181. The shares issued were all valued at their market price on the date of issuance.

**NOTE 8 LAWSUIT**

On June 30, 2008, the Company filed an action in the Circuit Court in and for Miami-Dade County, Florida against a customer seeking to recover a total of \$142,121 for services and loans provided. The Company is also seeking to

recover interest and attorneys' fees and costs. The likelihood of any results from the above lawsuit is not determinable at this time, consequently the company made a bad debt provision in the year ended December 31, 2008 for the entire amount.

On October 16, 2009, the Company received noticed that they had been named as Defendants in a lawsuit whereby the Plaintiffs are seeking a judgment of \$39,000 plus interest thereon from March 11, 2009 for breach of contract. The Company had 30 days to respond to the notice before a default judgment is awarded. As at December 31, 2009, no amounts have been accrued as the likelihood of an unfavorable judgment is considered high.

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**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**

**NOTE 9 SUBSEQUENT EVENTS**

On January 5, 2010, the Company entered into an agreement with a consultant for a one-year term whereby the consultant will provide business consulting services to the Company in exchange for 300,000 shares of the Company's common stock.

On February 23, 2010, Utiba Americas entered into a strategic partnership agreement with WAU Movil to help Utiba Americas quickly and effectively expand its services into more than 17 countries in the Americas and Caribbean.

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There were no disagreements related to accounting principles or practices, financial statement disclosure, internal controls or auditing scope or procedure during the two fiscal years and interim periods, including the interim period up through the date the relationship ended.

**Change in Accountant**

On March 15, 2010, the members of the Board of Directors of Alternet Systems, Inc., a Nevada corporation (the Registrant), unanimously approved the dismissal of Pollard Kelley Audit Services Inc. (PK), as the Registrant's independent registered public accounting firm.

No reports of PK on the Registrant's financial statements for the past two fiscal years; specifically the fiscal years ended December 31, 2007 and 2008 and through March 24, 2010, contained any adverse opinion or disclaimer of opinion or was qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal years ended December 31, 2007 and 2008 and through March 24, 2010, there were no disagreements with PK on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of PK, would have caused it to make reference thereto in any report.

During the fiscal years ended December 31, 2007 and 2008 and through March 24, 2010, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

On March 24, 2010, the Registrant engaged the firm of Hamilton PC as the Registrant's principal independent accountant to audit the Registrant's financial statements. The members of the Registrant's Audit Committee unanimously approved the engagement of Hamilton PC.

Prior to the engagement of Hamilton PC, neither the Registrant nor any person on the Registrant's behalf consulted Hamilton PC regarding either (i) the application of accounting principles to a specified completed or proposed transaction or the type of audit opinion that might be rendered on the Registrant's financial statements, or (ii) any matter that was the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to such Item) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).

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## **Item 9A. Controls and Procedures**

### ***Management's Report on Disclosure Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the *Securities Exchange Act of 1934*, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our president (also our principal executive officer) and our secretary, treasurer and chief financial officer (also our principal financial and accounting officer) to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2009, the end of our fiscal year covered by this report, we carried out an evaluation, under the supervision and with the participation of our president (also our principal executive officer) and our secretary, treasurer and chief financial officer (also our principal financial and accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president (also our principal executive officer) and our secretary, treasurer and chief financial officer (also our principal financial and accounting officer) concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles.

### ***Management's Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control-Integrated Framework*. Our management has concluded that, as of December 31, 2009, our internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles. Our management reviewed the results of their assessment with our Board of Directors.

This annual report does not include an attestation report of our company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit our company to provide only management's report in this annual report.

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***Inherent limitations on effectiveness of controls***

Internal control over financial reporting has inherent limitations which include but is not limited to the use of independent professionals for advice and guidance, interpretation of existing and/or changing rules and principles, segregation of management duties, scale of organization, and personnel factors. Internal control over financial reporting is a process which involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis, however these inherent limitations are known features of the financial reporting process and it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

***Changes in Internal Control over Financial Reporting***

There have been no significant changes in our internal controls over financial reporting that occurred during the year ended December 31, 2009 that have materially or are reasonably likely to materially affect, our internal controls over financial reporting.

**Item 9B. Other Information**

None.

**PART III****Item 10. Directors, Executive Officers and Corporate Governance**

The following discussion contains disclosure concerning the directors, officers and control persons of the Company. There are no persons which have acted as a promoter, controlling person, or significant employee of the Company other than as disclosed below.

| Name                | Position                         | Term of Office*1*2  |
|---------------------|----------------------------------|---------------------|
| Henryk Dabrowski    | President, Chairman and Director | Expires at next AGM |
| Patrick Fitzsimmons | Director                         | Expires at next AGM |
| Robin Bjorklund     | Director                         | Expires at next AGM |

1. Directors, whether appointed at a meeting of stockholders or by the remaining directors, are appointed until the next annual meeting of stockholders.

2. The President, Secretary, CEO and Treasurer do not have a set term of office. They serve at the pleasure of the Directors and can be removed at any time by the Directors.

**Henryk Dabrowski, President and Chairman**

Mr Dabrowski has over 21 years experience in the information technology industry, data network and telecommunications industry. He is President of TekVoice Communications Inc., a Miami FL based Voice over IP telecommunications company that merged with Altnet Systems Inc.

Mr Dabrowski served as COO/President of Vox2Vox Communications in Miami, a multi million dollar IP telecommunications and value added services company, with presence in Europe (Italy, Spain, Portugal and Turkey) and Latin America (Brazil, Venezuela, Mexico and Argentina) part of Ella Cisneros Communications Holdings (ECC Holdings).

He has extensive experience in the US, Europe and Latin American markets, is fluent in 4 languages and holds an MBA from Universidad Metropolitana.

**Patrick Fitzsimmons, Director**

Pat Fitzsimmons, age 57. Mr. Fitzsimmons has extensive sales and management experience gained from a 29-year career in the high-technology sector. Mr. Fitzsimmons has represented firms such as NCR, Timeplex, Rogers Cable, and Newbridge Networks, offering a wide range of technology solutions. Previous to joining Altnet Systems Inc. he was Manager, Major Accounts, AT&T Canada, Vancouver B.C., Canada.

**Robin Bjorklund, Director,**

Robin Bjorklund, age 46. Mr. Bjorklund has an extensive background in building successful multi-million dollar companies from start-up to profitability. Over the past 5 years he has worked as a venture capitalist and as a consultant with Altnet Systems Inc.

**Item 11. Executive Compensation**

The particulars of the compensation paid to the following persons:

- (a) our principal executive officer;
- (b) each of our two most highly compensated executive officers who were serving as executive officers at the end of the years ended December 31, 2009 and 2008; and
- (c) up to two additional individuals for whom disclosure would have been provided under (b) but for the fact that the individual was not serving as our executive officer at the end of the years ended December 31, 2009 and 2008,

who we will collectively refer to as the named executive officers of our company, are set out in the following summary compensation table, except that no disclosure is provided for any named executive officer, other than our principal executive officers, whose total compensation did not exceed \$100,000 for the respective fiscal year:

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## Summary Compensation Table

| Name and principal position<br><br>(a)                  | Year<br><br>(b) | Annual Compensation    |                       |                                           | Long-term compensation                    |                                                    |                              |                                        |
|---------------------------------------------------------|-----------------|------------------------|-----------------------|-------------------------------------------|-------------------------------------------|----------------------------------------------------|------------------------------|----------------------------------------|
|                                                         |                 | Salary (\$)<br><br>(c) | Bonus (\$)<br><br>(d) | Other Annual Compensation (\$)<br><br>(e) | Awards                                    |                                                    | Payouts                      | All other Compensation (\$)<br><br>(i) |
|                                                         |                 |                        |                       |                                           | Restricted Stock Award(s) (\$)<br><br>(f) | Securities Underlying options/ SARs (#)<br><br>(g) | LTIP payouts (\$)<br><br>(h) |                                        |
| Henryk Dabrowski<br>President and Chairman              | 2009<br>2008    | 140,000<br>140,000     | 0                     | 0                                         | 0<br>43,750                               | 0                                                  | 0                            | 0                                      |
| Patrick Fitzsimmons<br>Director, Treasurer              | 2009<br>2008    | 100,000<br>100,000     | 0<br>0                | 0<br>0                                    | 0<br>18,750                               | 0<br>0                                             | 0<br>0                       | 0<br>0                                 |
| Robin Bjorklund<br>Director                             | 2009<br>2008    | 102,000<br>72,495      | 0                     | 0                                         | 0<br>25,000                               | 0                                                  | 0                            | 0                                      |
| Manfred Koroschetz<br>Director, Chief Technical Officer | 2007<br>2008    | 30,000<br>120,000      | 0                     | 0                                         | 0<br>43,750                               | 0                                                  | 0                            | 0                                      |

## Involvement in Certain Legal Proceedings

None of our directors, executive officers, promoters or control persons has been involved in any of the following events during the past five years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding, excluding traffic violations and other minor offences;
3. being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
4. being found by a court of competent jurisdiction in a civil action, the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law

and the judgment has not been reversed, suspended, or vacated.

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## **Compliance with Section 16(a) of the Securities Exchange Act of 1934**

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors and persons who own more than 10% of our common stock to file with the Securities and Exchange Commission initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common stock and other equity securities, on Forms 3, 4 and 5 respectively. Executive officers, directors and greater than 10% shareholders are required by the SEC regulations to furnish us with copies of all Section 16(a) reports that they file.

Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during fiscal year ended December 31, 2008, all filing requirements applicable to our officers, directors and greater than 10% percent beneficial owners were complied with.

## **Code of Ethics**

Effective March 24, 2004, our company's board of directors adopted a Code of Business Conduct and Ethics that applies to, among other persons, our company's president and secretary (being our principal executive officer, principal financial officer and principal accounting officer), as well as persons performing similar functions. As adopted, our Code of Business Conduct and Ethics sets forth written standards that are designed to deter wrongdoing and to promote:

1. honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us;
3. compliance with applicable governmental laws, rules and regulations;
4. the prompt internal reporting of violations of the Code of Business Conduct and Ethics to an appropriate person or persons identified in the Code of Business Conduct and Ethics; and
5. accountability for adherence to the Code of Business Conduct and Ethics.

Our Code of Business Conduct and Ethics requires, among other things, that all of our company's senior officers commit to timely, accurate and consistent disclosure of information; that they maintain confidential information; and that they act with honesty and integrity.

In addition, our Code of Business Conduct and Ethics emphasizes that all employees, and particularly senior officers, have a responsibility for maintaining financial integrity within our company, consistent with generally accepted accounting principles, and federal and state securities laws. Any senior officer who becomes aware of any incidents involving financial or accounting manipulation or other irregularities, whether by witnessing the incident or being told of it, must report it to our company. Any failure to report such inappropriate or irregular conduct of others is to be treated as a severe disciplinary matter. It is against our company policy to retaliate against any individual who reports in good faith the violation or potential violation of our company's Code of Business Conduct and Ethics by another.

Our Code of Business Conduct and Ethics is filed with the Securities and Exchange Commission as an Exhibit to our annual report.

## **Board and Committee Meetings**

Our board of directors held no formal meetings during the year ended December 31, 2009. All proceedings of the board of directors were conducted by resolutions consented to in writing by all the directors and filed with the minutes of the proceedings of the directors. Such resolutions consented to in writing by the directors entitled to vote on that resolution at a meeting of the directors are, according to the Nevada General Corporate Law and our Bylaws, as valid and effective as if they had been passed at a meeting of the directors duly called and held.



## **Nomination Process**

As of December 31, 2009, we did not effect any material changes to the procedures by which our shareholders may recommend nominees to our board of directors. Our board of directors does not have a policy with regards to the consideration of any director candidates recommended by our shareholders. Our board of directors has determined that it is in the best position to evaluate our company's requirements as well as the qualifications of each candidate when the board considers a nominee for a position on our board of directors. If shareholders wish to recommend candidates directly to our board, they may do so by sending communications to the president of our company at the address on the cover of this annual report.

## **Audit Committee**

Currently our company does not have an audit committee.

## **Option Exercises and Stock Vested**

During our Fiscal year ended December 31, 2009 there were no options exercised by our named officers.

## **Compensation of Directors**

We do not have any agreements for compensating our directors for their services in their capacity as directors, although such directors are expected in the future to receive stock options to purchase shares of our common stock as awarded by our board of directors.

## **Pension, Retirement or Similar Benefit Plans**

There are no arrangements or plans in which we provide pension, retirement or similar benefits for directors or executive officers. We have no material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to our directors or executive officers, except that stock options may be granted at the discretion of the board of directors or a committee thereof.

## **Indebtedness of Directors, Senior Officers, Executive Officers and Other Management**

None of our directors or executive officers or any associate or affiliate of our company during the last two fiscal years, is or has been indebted to our company by way of guarantee, support agreement, letter of credit or other similar agreement or understanding currently outstanding.

## **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth information regarding the beneficial ownership of shares of the Company's common stock as of April 13 2010 (21,917,233) shares issued and outstanding) by (i) all stockholders known to the Company to be beneficial owners of more than 5% of the outstanding common stock; and (ii) all directors and executive officers of the Company, and as a group (each person has sole voting power and sole dispositive power as to all of the shares shown as beneficially owned by them):

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| Name and Address                                                          | Position             | Amount of Stock Beneficially Owned | Percentage of Class |
|---------------------------------------------------------------------------|----------------------|------------------------------------|---------------------|
| Henryk Dabrowski<br>5500-SW 86 <sup>th</sup> Street<br>Miami FL 33143     | President, Director, | 3,104,400                          |                     |
| Patrick Fitzsimmons<br>One Glen Royal Parkway<br>Ste 40, Miami FL 33125   | Director             | 954,000                            |                     |
| Manfred Koroschetz<br>14359 Miramar Prkwy,<br>Ste 351<br>Miramar FL 33027 |                      | 2,940,000                          |                     |
| Robin Bjorklund<br>473-1027 Davie Street<br>Vancouver BC V6E 4L2          | Director             | 2,600,500                          |                     |
| Directors, Officers and 5% stockholders in total                          |                      | 9,598,900                          |                     |

*Changes in Control*

We are unaware of any contract or other arrangement the operation of which may at a subsequent date result in a change in control of our company.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Except as disclosed herein, no director, executive officer, shareholder holding at least 5% of shares of our common stock, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transaction since the year ended December 31, 2009, in which the amount involved in the transaction exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at the year end for the last three completed fiscal years.

At December 31, 2009, a total of \$566,714 (December 2008 - \$444,299) was payable to directors. Amounts due to related parties are non-interest bearing and have no specific terms of repayment.

During the year, the company has expensed for a total \$424,299 (2007 - \$605,202) in consulting fees to related parties.

Of the amounts incurred to directors and officers, \$424,668 was accrued or paid in cash and nil was paid by zero common shares issued. For the year ended December 31 2008, \$131,250 was paid by way of 5,250,000 common shares for services.

*Director Independence*

We currently act with four (3) directors, consisting of Henryk Dabrowski, Patrick Fitzsimmons and Robin Bjorklund. From inception to present date, we believe that the members of our board of directors have been and are collectively capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting.

**Item 14. Principal Accounting Fees and Services**

The aggregate fees billed for the most recently completed fiscal year ended December 31, 2009 and for fiscal year ended December 31, 2008 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

|                    | Year Ended        |                   |
|--------------------|-------------------|-------------------|
|                    | December 31, 2009 | December 31, 2008 |
| Audit Fees         | \$40,000          | \$40,000          |
| Audit Related Fees | \$24,500          | \$24,500          |

|                | Year Ended        |                   |
|----------------|-------------------|-------------------|
|                | December 31, 2009 | December 31, 2008 |
| Tax Fees       | \$6,500           | \$6,500           |
| All Other Fees | Nil               | Nil               |
| Total          | \$70,000          | \$70,000          |

Our board of directors pre-approves all services provided by our independent auditors. All of the above services and fees were reviewed and approved by the board of directors either before or after the respective services were rendered.

Our board of directors has considered the nature and amount of fees billed by our independent auditors and believes that the provision of services for activities unrelated to the audit is compatible with maintaining our independent auditors' independence.

**PART IV****Item 15. Exhibits, Financial Statement Schedules  
EXHIBIT INDEX**

| Number      | Exhibit Description                                                                                                                                |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1         | Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Registration Statement on Form 10SB filed on EDGAR on November 6, 2000) |
| 3.2         | Certificate of amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.2 on the report on Form 8- K filed on May 23, 2002)  |
| <u>14.1</u> | <u>Code of Business Conduct</u>                                                                                                                    |
| <u>23.1</u> | <u>Consent of Auditor, Dale Matheson Carr-Hilton LaBonte LLP</u>                                                                                   |
| <u>31.1</u> | <u>Section 302 Certification of Chief Executive Officer</u>                                                                                        |
| <u>31.2</u> | <u>Section 302 Certification of Chief Financial Officer</u>                                                                                        |
| <u>32.1</u> | <u>Section 906 Certification of Chief Executive Officer</u>                                                                                        |
| <u>32.2</u> | <u>Section 906 Certification of Chief Financial Officer</u>                                                                                        |

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ALTERNET SYSTEMS INC.**

By: /s/Henryk Dabrowski  
Henryk Dabrowski, President  
(Principal Executive Officer)  
April 14, 2010

By: /s/Luz Villanueva  
Luz Villanueva, Secretary, Treasurer  
(Principal Financial Officer and Principal Accounting Officer)  
April 14, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Henryk Dabrowski  
Henryk Dabrowski, President  
(Principal Executive Officer)  
April 14, 2010

By: /s/ Luz Villanueva  
Luz Villanueva, Secretary, Treasurer  
(Principal Financial Officer and Principal Accounting Officer)  
April 14, 2010

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