ALTERNET SYSTEMS INC
Form 10-K/A
October 02, 2012

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-K /A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended **December 31, 2011**

[ ] 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** | **88-0473897** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **2665 S Bayshore Drive Miami FL** | **33133** |
| (Address of principal executive offices) | (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 [X]

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 [X]

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 [X] 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 [X]

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant on March 28, 2012 was $23,911,058 based on a $0.30 closing price for the Common Stock on March 28, 2012. 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.

**79,703,526 as of March 28, 2012**

DOCUMENTS INCORPORATED BY REFERENCE

None.

**EXPLANATORY NOTE – AMENDMENT**

The purpose of this Amendment No.1 to our Annual Report Form 10-K for the period ended December 31, 2011 (“Form 10-K”), as filed with the Securities and Exchange Commission on March 30, 2012, is to:

1. Include Exhibit 23.1, Independent Auditor’s Consent to Form S-8 pertaining to Alternet Systems, Inc. 2008 Professional/Consultant Compensation Plan filed on January 29, 2008.
2. Change on page 23, in Management’s Report on Internal Control over Financial Reporting, the date December 31, 2010 to December 31, 2011.
3. Eliminate on page 23, in the Changes in Internal Control over Financial Reporting, the word “significant”.
4. Change on page 23, in the Changes in Internal Control over Financial Reporting, the date December 31, 2010 to December 31, 2011.

No other changes have been made to the 10-K, and this Amendment has not been updated to reflect events occurring subsequent to the filing of the 10-K.

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# 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 negativ 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. In 2001 the Company changed its name to SchoolWeb Systems Inc. and then, in 2002, to Alternet Systems, Inc. On December 31, 2007 the Company executed a merger with TekVoice Communications, Inc. of Miami, Florida. Since then the Company has changed business focus and strategy to mobile financial services and mobile security. In 2011 TekVoice became inactive.

### 2009 to present Focus on Mobile Financial Services and Security

Since late 2009 the Company has focused its investment and operational expertise on the mobile value added services markets of mobile financial transactions and security, through two new subsidiaries. These subsidiaries, Alternet Transaction Systems (dba Utiba Americas, which is 49% owned by Utiba Pte, Ltd) and International Mobile Security (IMS, which is 40% owned by General Services Holding LLC) were launched within the fiscal year 2010. The new lines of business and Company focus were intended to provide new revenue streams and profitability from the high growth segments of the mobile value added service market, namely mobile financial services and mobile security, Growth of both of these market segments is driven by the exponential adoption of mobile phones which in 2011 reached more than 70%, of the global population, with a total of 5 billion phones.

### *Competition*

The Company competes in two distinct industries, mobile financial services and mobile security. Although the Company has unique features in its product offerings, and in mobile financial services is considered a pioneer and market leader, it competes with companies that are better financed. In 2010 and 2011 some market consolidation has taken place. Smaller competitors with market name recognition have been absorbed by larger organizations eager to capture market share and/or obtain technology and continued consolidation is expected over the next couple of years.

***Research and Development***

The Company spends a judicious amount in research and development expenditures. In mobile financial services, the Company primarily relies on its joint-venture partner s longstanding and continued research and development, and as appropriately purchases the necessary technology. In 2011, the Company purchased $1.5 million in intellectual property from its joint-venture partner. In mobile security the Company has its own proprietary technology and is in constant development to address client and market needs.

***Employees***

The company increased its staff in 2011, primarily in its operating subsidiaries. At the corporate level key management positions were strengthened to better provide timely and effective oversight and drive business. At year-end 2011, total staff stood at 21 (6 in 2010). The Company continues to outsource contract employment as appropriate.

**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 products;
- The Company s sales are currently insufficient and its future prospects are dependent on the ability to market its products and services;
- The Company has a history of operating 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 Company is active in competitive industries and faces competition from more established companies 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.

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, 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 needs. We expect positive cash flow from operations in 2012 but 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.

In the near term we will depend 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 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.

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

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, 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 and to find purchases for 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 leased and 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.

**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 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. The company had 30 days to respond to the notice before a default judgment is awarded. As at December 31, 2010, no amounts have been accrued as the likelihood of an unfavorable judgment is considered low.

On May 10, 2010, the Company received noticed that they had been named as Defendants in a lawsuit whereby the Plaintiffs are seeking a judgment of $6,889 including interest of $1,444 for unpaid invoices. The Company had 30 days to respond to the notice before a default judgment is awarded. As at December 31, 2010, the full amount has been accrued and is included in accounts payable.

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, 2011.

**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 OTCQB 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:

| 2011 | HIGH | | LOW | |
|---|---|---|---|---|
| First Quarter | $ | 0.20 | $ | 0.11 |
| Second Quarter | $ | 0.14 | $ | 0.09 |
| Third Quarter | $ | 0.14 | $ | 0.09 |
| Fourth Quarter | $ | 0.21 | $ | 0.12 |

**Holders of Common Stock**

On December 31, 2011, there were 332 holders of record of our common stock and there were 74,171,826, shares outstanding. There are an estimated 367 indirect holders of common shares in outside institutions or stock brokerage firms, and we estimate that there are no additional beneficial shareholders beyond the 332 registered shareholders and 367 non-registered shareholders at December 31, 2011.

*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**

During the year ended December 31, 2011, the Company issued 5,726,500 shares valued at $688,195 for services rendered during the year ended December 31, 2011; 10,524,012 shares valued at $1,335,395 for debt settlement and convertible debenture agreements, and 9,701,667 shares valued at $1,298,500 for share subscriptions.

During the year ended December 31, 2011, the Company issued:

- 500,000 common shares valued at $15,000 for share subscriptions received in prior years,
- 10,024,012 common shares valued at $1,275,395 for debt settlement and convertible debenture agreements,
- 2,037,500 common shares valued at $248,625 for consulting services to be rendered during the period, and
- 4,189,000 common shares valued at $528,070 for employment incentives in accordance with employment agreements,

In addition, the Company issued common shares for the following subscriptions received during the year:

- on June 15, 2011, the Company issued 3,333,333 common shares at $0.15 per share for total cash proceeds of $500,000,
- on July 14, 2011, the Company issued 1,935,000 common shares at $0.10 per share for total cash proceeds of $193,500,
- on August 2, 2011, the Company issued 600,000 common shares at $0.15 per share for total proceeds of $90,000, and
- on December 29, 2011, the Company issued 3,333,333 common shares at $0.15 per share for total cash proceeds of $500,000.

**Convertible Debenture Notes**

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. As the loan had not been repaid by the maturity date, the loan was extended and interest continued to accrue. On April 22, 2010 the Company signed a Debt Settlement Agreement with the creditor whereby the creditor agreed to receive shares in lieu of payment of the outstanding balance. Under the terms of the Debt Settlement Agreement, the creditor is entitled to receive common stock of the Company at a conversion value equal to 50% of the average daily low price of the Company s stock for the 20 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $55,141 of debt into 2,542,782 common shares of the Company resulting in a full repayment of the loan.

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. As the loan had not been repaid by the maturity date, the loan was extended and interest continued to accrue. On April 22, 2010 the Company signed a Debt Settlement Agreement with the creditor whereby the creditor agreed to receive shares in lieu of payment of the outstanding balance. Under the terms of the Debt Settlement Agreement, the creditor is entitled to receive common stock of the Company at a conversion value equal to 50% of the average daily low price of the Company s stock for the 20 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $55,066 of debt into 1,180,846

common shares of the Company resulting in a full repayment of the loan.

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 lowest daily low price of the Company s stock for the 30 trading days immediately preceding and including the date of conversion. During the year ended December 31, 2010, the creditor converted $50,640 of debt into 3,331,604 common shares of the company. On April 12, 2011, the creditor converted $61,500 of debt into 853,163 common shares of the Company resulting in a full repayment of the loan.

On December 18, 2009, the Company entered into a Debt Settlement agreement whereby a creditor agreed to receive shares in lieu of payment of a $152,916 promissory note. The holder is entitled to receive common stock of the Company at a conversion value equal to 50% of the lowest closing price of the Company s stock for the 10 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $113,750 of debt into 4,457,699 common shares of the company. On February 25, 2011, the creditor converted $72,833 of debt into 1,220,363 common shares of the company resulting in a full repayment of the loan.

On March 8, 2010, the Company issued a note payable in the amount of $25,000. The note carries interest at the rate of 12% per annum and is due on April 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 lowest closing price of the Company s stock for the 10 trading days immediately preceding and including the date of conversion. On August 29, 2011, the Company repaid the loan in full.

On April 14, 2010, the Company issued a note payable in the amount of $15,000. The note carries interest at the rate of 10% per annum and is due on May 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 50% of the lowest closing price of the Company s stock for the 10 trading days immediately preceding and including the date of conversion. On October 20, 2011, the Company repaid the loan in full.

On April 22, 2010, the Company entered into a Debt Settlement agreement whereby a creditor agreed to receive shares in lieu of payment of a $50,000 promissory note plus accrued interest calculated at 10% per annum. The creditor is entitled to receive common stock of the Company at a conversion value equal to 50% of the average daily low price of the Company s stock for the 20 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $51,874 of debt into 1,703,169 common shares of the company resulting in a full repayment of the loan.

On April 30, 2010, the Company issued a note payable in the amount of $100,000. The note carries interest at the rate of 10% per annum and is due on July 30, 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 lowest daily low price of the Company s stock for the 10 trading days immediately preceding and including the date of conversion. On August 22, 2011, the creditor submitted a Notice of Conversion to convert $113,333 of debt into 2,138,358 common shares of the company resulting in a full repayment of the loan. At December 31, 2011, the shares had not been issued to the creditor resulting in the full balance being included in obligation to issue shares.

On June 1, 2010, the Company entered into a Debt Settlement agreement whereby a creditor agreed to receive shares in lieu of payment of a $32,000 debt. The creditor is entitled to receive common stock of the Company at a conversion value equal to 50% of the lowest daily low price of the Company s stock for the 20 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $32,000 of debt into 1,258,604 common shares of the company resulting in a full repayment of the loan.

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.

**Other Loans**

On September 15, 2010, the Company signed a Promissory Note whereby the Company will repay a creditor $20,000 plus interest at 10% per annum on October 15, 2010. The loan was repaid in full on November 5, 2010.

On September 17, 2010, the Company signed a Promissory Note whereby the Company will repay a creditor $3,000 plus interest at 10% per annum on October 31, 2010. If the Promissory Note is not repaid by the maturity date, a $50 penalty will be assessed for each month the loan is outstanding after the maturity date. The loan was repaid in full on November 5, 2010.

On January 25, 2011, the Company signed a Promissory Note whereby the Company will repay a director $20,000 plus interest at 10% per annum on April 25, 2011. On April 25, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $20,500 under the previous Promissory Note and extended the maturity date to July 25, 2011. On July 24, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $21,013 under the previous Promissory Note and extended the maturity date to October 21, 2011. On October 21, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of 21,519 under the previous Promissory Note and extended the maturity date to April 18, 2012. As at December 31, 2011, $21,940 of principal and accrued interest on this note was included in Due to related parties.

On February 9, 2011, the Company signed a Promissory Note whereby the Company will repay a director $5,000 plus interest at 10% per annum on May 9, 2011. On May 10, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $5,125 under the previous Promissory Note and extended the maturity date to August 8, 2011. On August 8, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $5,253 under the previous Promissory Note and extended the maturity date to November 5, 2011. On November 4, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $5,378 under the previous Promissory Note and extended the maturity date to May 2, 2012. As at December 31, 2011, $5,463 of principal and accrued interest on this note was included in Due to related parties.

On February 11, 2011, the Company signed a Promissory Note whereby the Company will repay a director $8,988 plus interest at 10% per annum on May 11, 2011. On May 12, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $9,213 under the previous Promissory Note and extended the maturity date to August 10, 2011. On August 10, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $9,443 under the previous Promissory Note and extended the maturity date to November 7, 2011. On November 8, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $9,673 under the previous Promissory Note and extended the maturity date to May 7, 2012. As at December 31, 2011, $9,817 of principal and accrued interest on this note was included in Due to related parties.

On March 2, 2011, the Company signed a Promissory Note whereby the Company will repay a director $100,000 plus interest at 10% per quarter on June 2, 2011. On July 14, 2011, the director of the Company sold the loan to an unrelated third party. On August 8, 2011, the creditor converted $110,000 of debt into 733,333 common shares of the company resulting in a full repayment of the loan.

**Recent Issuance of Non- Restricted Securities**

**Employee and Consultant Retainer Stock Plan 2008**

During 2010, the Company issued restricted shares as compensation to key management. Juan Cubides, CEO of International Mobile Security Inc. received 1,000,000 shares, Luz Villanueva, CFO, received 1,000,000 shares and Erin Clancy received 250,000 shares, as part of 2010 compensation and sign up bonuses. During 2011, the Company issued restricted shares as compensation to key management. Michael Viadero, the new CFO, received 1,000,000 shares as sign up bonus, and Jesus Luzardo, VP - Sales, 500,000 as compensation bonus.

***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, 2011.

**Item 6. Selected Financial Data**

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

**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 mobile financial services and mobile and digital security solutions for the Western Hemisphere and globally.

**Results of Operations:**

Results of Operations are for the year ended December 31, 2011 compared to the year ended December 31, 2010.

The Company s results, on a consolidated basis, reflected its own results consolidated with its subsidiaries. For the remainder of this part, the term Company refers to both the Company and its wholly owned and two majority owned subsidiaries, International Mobile Security, Inc. ( IMS ) and Alternet Transactions Systems, Inc. ( ATS ) which also does business as Utiba Americas. Alternet has a controlling interest in both subsidiaries.

**Net Sales**

For the year ending December 31, 2011, the Company had net sales of $1,210,766. During the corresponding year ended December 31, 2010, the Company had net sales of 1,301,558, a decline of $90,792. Sales decreased slightly as our mobile financial services subsidiary, Utiba Americas or ATS experienced delays in anticipated license sales as a result of project postponements. ATS is still actively engaged in discussions with clients and expects to sign the projects in 2012. IMS has experienced a longer sale cycle than previously anticipated. Similarly the projects have migrated to 2012.

The objective of the Company s marketing plan is to have two distinct product divisions over the next twelve months: Mobile Financial Transaction Services and Mobile Security.

**Net Loss**

For the year ending December 31, 2011, the Company had a net loss of $2,444,395 or ($0.04) per share, a decrease of 14% when compared to the net loss for the corresponding year December 31, 2010 of $2,847,011 or $(0.08) per share. The lower loss was due primarily to the significant decrease in financing costs, offset by the higher costs associated

with implementing the company s strategy, as reflected by the increase in management and consulting fees, professional fees, salaries and other operating expenses for the year ended December 31 2011 compared to prior year.

**Selling, General and Administrative Expenses**

For the year ended December 31, 2011, the Company incurred office and general expenses of $80,631, compared to the $61,446 for the previous year. Marketing expenses for the year ending December 31, 2011 was $11,727, down from $89,092 for the year ending December 31, 2010. While investor relations costs were significantly scaled back to $40,650, from $734,478 for the prior year.

Management and consulting fees increased to $989,341 for the year ending December 31, 2011 compared to the $605,988 incurred in 2010. Professional fees also increased, reaching $318,387, up from $262,058 incurred in the previous year. The increase in management consulting expense for the year ended December 31 2011 is a result of increased staffing levels compared to the corresponding year ending December 31, 2010. Salaries increased to $1,005,585 versus $411,033 the prior year, an increase of $594,552, reflecting the increase in staff from 6 to 21.

Accounts payable were $1,802,876 at December 31, 2011 compared to accounts payable of $1,003,828 at December 31, 2010. Accounts receivable increased to $2,215,586 for the 2010 versus $856,339 for 2010. Both items reflect the timing impact of sales closed at the end of the year.

**Interest and other expenses**

The Company s bank charges and interest expense decreased to $48,053 for year ended December 31, 2011 compared to $118,920 the previous year. Financing costs were slashed to $0 in 2011, down from $1,096,670 the prior year, due to the Company s decision to cease issuing convertible debentures.

**Liquidity and Capital Resources**

As at December 31, 2011, the Company had $77,312 cash in the bank, shares subscriptions receivable of $4,000 and accounts receivable of $2,215,586. At December 31, 2011, the Company had a working capital deficiency of $1,110,301. The Company is currently pursuing financing to fund ongoing operations. 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 continue selling mobile financial services, in the form of software licenses and, increasingly more given market demand, as a service, commonly referred to as Software as a Services (SaaS), through its subsidiary Alternet Transaction Systems (dba Utiba Americas). Through International Mobile Security (IMS) the Company will continue to sell its mobile and digital security software and services. Targeted industries include, government and law enforcement.

Mobile Financial Services

In the year 2010 the Company launched its mobile financial and mobile commerce suite of services, which it offers in equity partnership with the leading mobile financial services software developer, Utiba. Utiba Americas enjoys exclusive rights to the Utiba software platform for the Americas region, sold as a software license, or as a hosted service, also known as Software as a Service (SaaS).

Demand for our mobile financial transaction services is driven by the widespread adoption of mobile phone service and the existence of large segments of the global population which possess a mobile phone, but do not possess a bank account. The global mobile commerce industry is in its early growth and adoption stages and several successful initiatives have been launched worldwide by our competitors. We believe that as wireless usage expands the demand for our services will grow.

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Since launching in 2010 the Company has implemented mobile financial service solutions in Bolivia, Colombia, Ecuador and Guatemala, with further implementations under way in Venezuela and Honduras. Revenue will come from organic growth of its existing operations, primarily from its hosted service, and the company has a robust sales pipeline with many qualified opportunities throughout the region. The Company also benefits from its name recognition and reputation, being one of the leading names in mobile financial services.

Sales and marketing is accomplished through the Company s existing sales staff, who contact potential clients directly, and through agent sales, channel partners, trade shows and industry associations. Recently the Company s joint-venture partner Utiba entered into a global strategic relationship with MasterCard that is expected to further enhance the Company s business opportunities and open additional doors with financial institutions.

Marketing materials- brochures, web sites, and technical specifications are continuously updated and an increased emphasis is being placed on its offerings for specific vertical industries, specifically the telecom, financial, utilities and transportation sectors.

The Company has been successful in capturing a leading market share in regional deployments and is widely recognized as having among the broadest and most robust product offerings. The SaaS product offering has been successfully launched, has garnered a key client in Guatemala, and is continuing to receive widespread interest. In 2012 the Company expects to leverage its market leadership and regional footprint to garner additional profitable business and market share and aggressively replicate the SaaS business model throughout the region.

Digital and Mobile Security Software and Services

International Mobile Security (IMS) finalized the acquisition of proprietary technology in early 2011 and is well-positioned to offer software and security products in the global market segments of law enforcement, corporate and consumer sales. Sales efforts will be conducted in house and through value added resellers. Drivers of demand include smart phones and the newly arrived mobile tablet computers.

Conclusion

The Company has positioned itself as the regional go to, if not preferred, provider of mobile financial services and solutions and is confident in the future demand for its products and services. However, 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

Based on the staffing required to properly address market demand and service customers 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):

| | | |
|---|---|---|
| Wages/Salaries/Management Fees | $ | 375,000 |
| Product Development/Intellectual Property | $ | 50,000 |
| Travel | $ | 65,000 |
| Advertising & Marketing | $ | 25,000 |
| Professional Fees | $ | 25,000 |
| General & Administrative | $ | 60,000 |
| Total Monthly Expenses | $ | 600,000 |

**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 and majority 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.

*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.

**Recent Accounting Pronouncements**

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 affect 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 affect 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 non-controlling 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 affect the Company s reported financial position or results of operations.

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 affect the Company s reported financial position or results of operations.

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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.

In March 2010, the FASB issued ASU 2010-11, *Derivatives and Hedging (Topic 815),* which is effective for financial statements issued at the beginning of the entity s first fiscal quarter beginning after June 15, 2010. This update provides amendments to Subtopic 815-15, Derivatives and Hedging Embedded Derivatives, such as clarification of the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another and whether those derivatives are subject to potential bifurcation. This standard is not expected to have a significant effect on the Company s reported financial position or results of operations.

In April 2010, the FASB issued ASU 2010-13, *Compensation Stock Compensation (Topic 718),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2010. This update addresses the classification of an employee share-based payment award with an exercise price denominated in a currency that differs from the functional currency of the employer entity or payroll currency of the employee. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

In April 2010, the FASB issued ASU 2010-17, *Revenue Recognition Milestone Method (Topic 605),* which is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. This update provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. This standard did not have an effect on the Company s reported financial position or results of operations.

In April 2010, the FASB issued ASU 2010-18, *Receivables (Topic 310),* which is effective on a prospective basis for modifications of loans accounted for within pools occurring in the first interim or annual period ending on or after July 15, 2010. This update provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition. This standard did not have an effect on the Company s reported financial position or results of operations.

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310),* which for public entities, the disclosures as of the end of a reporting period are effective in financial statements issued for interim and annual periods ending on or after December 15, 2010 and for disclosures about activities that occur during a period are effective for interim and annual periods beginning on or after December 15, 2010. This update provides guidance on increasing transparency about an entity s allowance for credit losses and the credit quality of its financing receivables. This standard did not have an effect on the Company s reported financial position or results of operations.

In December 2010, the FASB issued ASU 2010-28, *Intangibles Goodwill and Other (Topic 350),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2010. This update modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 850),* which is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. This update provides guidance on the pro forma revenue and earnings disclosure requirements for business combinations. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

In January 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310),* which is effective upon issuance. This update defers the effective date of the disclosures required under ASU 2010-20 to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restricting as presented in proposed ASU update: *Receivables (Topic 310) Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. This standard did not have an 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**

**ALTERNET SYSTEMS INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**

CONSOLIDATED BALANCE SHEETS
CONSOLIDATED STATEMENTS OF OPERATIONS
CONSOLIDATED STATEMENTS OF CASH FLOWS
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders
Alternet Systems Inc.
Miami, Florida

We have audited the accompanying consolidated balance sheets of Alternet Systems Inc., and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the two years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. 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 of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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, 2011 and 2010, and the result of its operations and its cash flows for the two years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

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.

Hamilton, PC

/s/ Hamilton, PC

Denver, Colorado

March 28, 2012

**ALTERNET SYSTEMS INC.**
**CONSOLIDATED BALANCE SHEETS**

**As at December 31, 2011 and December 31, 2010**

| | | 2011 | | 2010 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| | | | | |
| **Current Assets** | | | | |
| Cash | $ | 77,312 | $ | 13,718 |
| Accounts receivable | | 2,215,586 | | 856,339 |
| Share subscriptions receivable | | 4,000 | | 4,000 |
| Prepaids and deposits | | 335,010 | | 218,832 |
| | | 2,631,908 | | 1,092,889 |
| **Fixed assets (Note 3)** | | 142,408 | | 2,544 |
| **Intellectual property (Note 4)** | | 1,600,000 | | - |
| **TOTAL ASSETS** | $ | **4,374,316** | $ | **1,095,433** |
| | | | | |
| **LIABILITIES** | | | | |
| | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and accrued charges | $ | 1,802,876 | $ | 1,003,828 |
| Wages payable | | 321,285 | | 396,156 |
| Accrued taxes | | 505,833 | | 224,324 |
| Customer deposits (Note 2) | | 655,828 | | 144,000 |
| Deferred income (Note 2) | | 359,400 | | 142,312 |
| Other loans payable (Note 5) | | 2,448 | | 313,313 |
| Due to related parties (Note 5 and 8) | | 50,040 | | 133,181 |
| Current portion of capital leases (Note 6) | | 44,499 | | - |
| | | 3,742,209 | | 2,357,114 |
| **Capital leases (Note 6)** | | 23,142 | | - |
| **TOTAL LIABILITIES** | | 3,765,351 | | 2,357,114 |
| | | | | |
| **STOCKHOLDERS' EQUITY** | | | | |
| Capital stock (Note 7) | | | | |
| Authorized: 100,000,000 common shares with a par value of $0.00001 | | | | |
| Issued and outstanding: 74,171,876 common shares (2010 - 48,219,648) | | 738 | | 483 |
| Additional paid-in capital | | 11,171,559 | | 7,860,223 |
| Private placement subscriptions (Note 7) | | 630,362 | | 145,362 |
| Obligation to issue shares | | 113,333 | | 108,000 |
| Deferred compensation (Note 9) | | - | | (79,832) |
| Deficit | | (11,626,148) | | (9,181,753) |
| | | 289,844 | | (1,147,517) |
| Non-controlling interest | | 319,121 | | (114,164) |
| **TOTAL STOCKHOLDERS' EQUITY** | | 608,965 | | (1,261,681) |

| | | | | |
|---|---|---|---|---|
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **$** | **4,374,316** | **$** | **1,095,433** |

The accompanying notes are an integral part of these financial statements

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**ALTERNET SYSTEMS INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the years ended December 31, 2011 and 2010**

| | | **2011** | | **2010** |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Sales | $ | 1,219,421 | $ | 1,711,163 |
| Sales discounts | | (8,655) | | (409,605) |
| **TOTAL REVENUE** | | 1,210,766 | | 1,301,558 |
| **COST OF SALES** | | | | |
| Direct cost of sales | | 1,122,536 | | 838,794 |
| **GROSS PROFIT** | | 88,230 | | 462,764 |
| **OPERATING EXPENSES** | | | | |
| Bad debt | | 3,023 | | 21,055 |
| Bank charges and interest | | 48,053 | | 118,920 |
| Depreciation | | 25,525 | | 1,008 |
| Interest on capital leases | | 6,284 | | - |
| Investor relations | | 40,650 | | 734,478 |
| Licenses, dues, and insurance | | 8,873 | | 1,163 |
| Management and consulting | | 989,341 | | 605,988 |
| Marketing | | 11,727 | | 89,092 |
| Office and general | | 80,631 | | 61,446 |
| Professional fees | | 318,387 | | 262,058 |
| Rent | | 86,388 | | 49,318 |
| Salaries | | 1,005,585 | | 411,033 |
| Telephone and utilities | | 30,976 | | 14,553 |
| Travel | | 226,959 | | 88,686 |
| **TOTAL OPERATING EXPENSES** | | 2,882,402 | | 2,458,798 |
| **NET LOSS BEFORE OTHER ITEMS** | | (2,794,172) | | (1,996,034) |
| **OTHER ITEMS** | | | | |
| Customer fees | | 187 | | 403 |
| Other income/(expense) | | 2,231 | | - |
| Loss on disposal of assets | | - | | (1,411) |
| Gain (Loss) on debt settlement | | (303,622) | | 440,468 |
| Financing costs | | - | | (1,096,670) |
| Forgiveness and adjustment of old accounts payable | | - | | 83,833 |
| Increase (decrease) in derivative liability | | (165,734) | | (400,664) |
| **NET LOSS BEFORE NON-CONTROLLING INTEREST** | $ | (3,261,110) | $ | (2,970,075) |
| | | | | |
| **NON-CONTROLLING INTEREST** | | (816,715) | | (123,064) |
| **NET LOSS ATTRIBUTABLE TO ALTERNET SYSTEMS INC. FOR THE PERIOD** | $ | **(2,444,395)** | $ | **(2,847,011)** |
| **BASIC NET LOSS PER SHARE** | $ | (0.04) | $ | (0.08) |
| **WEIGHTED COMMON SHARES OUTSTANDING** | | **60,474,129** | | **35,046,924** |

The accompanying notes are an integral part of these financial statements

**ALTERNET SYSTEMS INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the years ended December 31, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss from operations attributable to Alternet Systems Inc. | $ (2,444,395) | $ (2,847,011) |
| Non-controlling interest | (816,715) | (123,064) |
| Add: Items Not Affecting Cash | | |
| Depreciation | 25,525 | 1,008 |
| Shares for services | 641,195 | 440,750 |
| Reversal of shares for services | - | (40,000) |
| Shares for debt | 1,302,896 | 1,249,919 |
| Loss on disposal of assets | - | 1,411 |
| Deferred compensation | 79,832 | 565,349 |
| (Gain) loss on debt settlement | 303,622 | (440,468) |
| Value of debt for share conversion features | - | 881,891 |
| Changes In Non-Cash Working Capital: | | |
| Accounts receivable | (1,359,247) | (819,754) |
| Share subscriptions receivable | - | 4,900 |
| Prepaids and deposit | (116,178) | (218,832) |
| Accounts payable and accrued charges | 485,161 | 832,190 |
| Wages payable | (170,303) | (339,559) |
| Accrued taxes | 281,509 | 142,585 |
| Customer deposits | 511,828 | 144,000 |
| Deferred income | 217,088 | 142,312 |
| Due to related parties | (83,141) | 50,265 |
| | (1,141,323) | (372,108) |
| **INVESTING ACTIVITIES** | | |
| Acquisition of fixed assets | (165,389) | (371) |
| Acquisition of intellectual property | (100,000) | - |
| | (265,389) | (371) |
| **FINANCING ACTIVITIES** | | |
| Change in loans payable | (341,835) | 394,384 |
| Change in capital leases | 67,641 | - |
| Derivative liability | - | (71,879) |
| Deferred financing costs | - | 30,920 |
| Net proceeds on sale of common stock and subscriptions | 1,783,500 | 15,000 |
| Share issue costs | (39,000) | - |
| | 1,470,306 | 368,425 |
| **OTHER COMPREHENSIVE INCOME** | - | (82) |
| **NET CHANGE IN CASH DURING THE PERIOD** | 63,594 | (4,136) |
| **CASH, BEGINNING OF PERIOD** | 13,718 | 17,854 |
| **CASH, END OF PERIOD** | **$ 77,312** | **$ 13,718** |

The accompanying notes are an integral part of these financial statements

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

| | Shares | Common Stock | Additional Paid in Capital | Private Placement Subscriptions | Accumulated Deficit | Deferred Compensation | Obligation to Issue shares | Oth Compreh Inco |
|---|---|---|---|---|---|---|---|---|
| **Balance December 31, 2009** | **20,252,770** | **202** | **5,257,695** | **225,415** | **(6,569,744)** | **(645,181)** | **83,196** | **2** |
| Issuance of common stock for services at $0.065 per share - Jan 5, 2010 | 250,000 | 2 | 16,248 | - | - | - | (16,250) | |
| Issuance of common stock for debt at $0.065 per share - Jan 5, 2010 | 414,554 | 4 | 26,942 | - | - | - | (26,946) | |
| Issuance of common stock for debt at $0.10 per share - Feb 18, 2010 | 1,000,000 | 10 | 99,990 | - | - | - | - | |
| Issuance of common stock for debt at $0.13 per share - April 19, 2010 | 500,000 | 5 | 64,995 | - | - | - | - | |
| Issuance of common stock for debt at $0.06 per share - May 5, 2010 | 800,000 | 8 | 49,592 | - | - | - | - | |
| Issuance of common stock for debt at | 769,231 | 8 | 46,146 | - | - | - | - | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| $0.06 per share - May 11, 2010 | | | | | | | |
| Issuance of common stock for debt at $0.045 per share - May 12, 2010 | 800,000 | 8 | 35,992 | - | - | - | - |
| Issuance of common stock for debt at $0.05 per share - May 19, 2010 | 611,077 | 6 | 30,548 | - | - | - | - |
| Issuance of common stock for debt at $0.04 per share - May 20, 2010 | 1,600,000 | 16 | 63,984 | - | - | - | - |
| Issuance of common stock for debt at $0.05 per share - May 21, 2010 | 3,266,667 | 33 | 163,300 | - | - | - | - |
| Issuance of common stock for debt at $0.03 per share - June 1, 2010 | 923,680 | 9 | 27,701 | - | - | - | - |

The accompanying notes are an integral part of these financial statements

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

| | Shares | Common Stock | Additional Paid in Capital | Private Placement Subscriptions | Accumulated Deficit | Deferred Compensation | Obligation to Issue shares | Com |
|---|---|---|---|---|---|---|---|---|
| Issuance of common stock for debt at $0.03 per share - June 17, 2010 | 7,076,297 | 71 | 212,218 | - | - | - | - | |
| Issuance of common stock for debt at $0.04 per share - July 22, 2010 | 3,331,604 | 34 | 133,231 | - | - | - | - | |
| Issuance of common stock for services at $0.085 per share - July October 5, 2010 | 3,150,000 | 32 | 267,718 | - | - | - | (76,500) | |
| Issuance of common stock for debt at $0.14 per share - November 23, 2010 | 1,258,604 | 13 | 176,192 | - | - | - | - | |
| Issuance of common stock for debt at $0.14 per share - November 30, 2010 | 521,801 | 5 | 73,047 | - | - | - | - | |
| Issuance of common stock for debt at $0.13 per share - December 22, 2010 | 559,672 | 6 | 72,751 | - | - | - | - | |
| Issuance of common stock for services at $0.13 per share - December 22, 2010 | 500,000 | 5 | 64,995 | - | - | - | - | |
| Share subscriptions issued | 633,691 | 6 | 95,047 | (95,053) | - | - | - | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Private placement subscriptions received | - | - | - | 15,000 | - | - | - |
| Value of debt for share conversion features | - | - | 881,891 | - | - | - | - |
| Services provided per term of contracts | - | - | - | - | - | 749,849 | - |
| Obligation to issue shares per consulting agreement | - | - | - | - | - | (184,500) | 184,500 |
| Reversal of obligation to issue shares | - | - | - | - | - | - | (40,000) |
| Net loss for the year | - | - | - | - | (2,446,347) | - | - |
| Foreign exchange translation adjustment | - | - | - | - | - | - | - |
| Increase (decrease) in derivative liability | - | - | - | - | - | - | - |
| Non-controlling interest | - | - | - | - | - | - | - |
| **Balance December 31, 2010** | **48,219,648** | **483** | **7,860,223** | **145,362** | **(9,016,091)** | **(79,832)** | **108,000** |

The accompanying notes are an integral part of these financial statements

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

| | Shares | Common Stock | Additional Paid in Capital | Private Placement Subscriptions | Accumulated Deficit | Deferred Compensation | Obligation to Issue shares | Other Comprehen Income |
|---|---|---|---|---|---|---|---|---|
| Issuance of common stock for debt at $0.155 per share - February 25, 2011 | 1,220,363 | 12 | 189,144 | - | - | - | - | |
| Issuance of common stock for debt at $0.13 per share - April 12, 2011 | 2,214,276 | 22 | 287,834 | - | - | - | - | |
| Issuance of common stock for debt at $0.13 per share - April 19, 2011 | 1,498,000 | 15 | 194,726 | - | - | - | - | |
| Issuance of common stock for services at $0.13 per share - April 19, 2011 | 1,289,000 | 13 | 167,557 | - | - | - | - | |
| Issuance of common stock for debt at $0.13 per share - | 444,079 | 4 | 57,726 | - | - | - | - | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| April 21, 2011 | | | | | | | |
| Issuance of common stock for services at $0.13 per share - April 21, 2011 | 600,000 | 6 | 77,994 | - | - | - | (78,000) |
| Issuance of common stock for services at $0.12 per share - May 3, 2011 | 1,500,000 | 15 | 179,985 | - | - | - | (120,000) |
| Issuance of common stock for debt at $0.10 per share - May 13, 2011 | 1,016,613 | 10 | 101,651 | - | - | - | - |
| Issuance of common stock for services at $0.12 per share - June 7, 2011 | 400,000 | 4 | 47,996 | - | - | - | - |

The accompanying notes are an integral part of these financial statements

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

| | Shares | Common Stock | Additional Paid in Capital | Private Placement Subscriptions | Accumulated Deficit | Deferred Compensation | Obligation to Issue shares | Other Comprehens Income |
|---|---|---|---|---|---|---|---|---|
| Issuance of common stock for services at $0.11 per share - June 8, 2011 | 250,000 | 3 | 27,497 | - | - | - | - | |
| Issuance of common stock for cash at $0.10 per share - June 15, 2011 | 3,333,333 | 33 | 499,967 | - | - | - | - | |
| Issuance of common stock for services at $0.11 per share - June 21, 2011 | 250,000 | 2 | 27,498 | - | - | - | - | |
| Issuance of common stock for services at $0.10 per share - July 7, 2011 | 250,000 | 2 | 24,998 | - | - | - | (25,000) | |
| Issuance of common stock for cash at $0.10 per share - July 14, | 1,935,000 | 19 | 193,481 | (193,500) | - | - | - | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2011 | | | | | | | |
| Issuance of common stock for debt at $0.10 per share - July 14, 2011 | 252,934 | 2 | 25,291 | - | - | - | - |
| Issuance of common stock for debt at $0.12 per share - July 20, 2011 | 2,265,207 | 23 | 271,802 | - | - | - | - |
| Issuance of common stock for debt at $0.13 per share - July 25, 2011 | 133,304 | 1 | 17,329 | - | - | - | - |
| Issuance of common stock for cash at $0.15 per share - August 2, 2011 | 600,000 | 6 | 89,994 | - | - | - | - |
| Issuance of common stock for debt at $0.12 per share - August 2, 2011 | 733,333 | 7 | 87,993 | - | - | - | - |
| Issuance of common stock for services | 112,500 | 1 | 12,374 | - | - | - | - |

at $0.11
per share
- August
11, 2011

The accompanying notes are an integral part of these financial statements

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

| | Shares | Common Stock | Additional Paid in Capital | Private Placement Subscriptions | Accumulated Deficit | Deferred Compensation | Obligation to Issue shares | Ot Compr Inc |
|---|---|---|---|---|---|---|---|---|
| Issuance of common stock for services at $0.12 per share - August 16, 2011 | 112,500 | 1 | 13,499 | - | - | - | - | |
| Issuance of common stock for debt at $0.12 per share - September 15, 2011 | 500,000 | 5 | 59,995 | - | - | - | - | |
| Cancellation of common stock issued for services at $0.13 per share - April 19, 2011 | (250,000) | (3) | (32,497) | - | - | 16,250 | - | |
| Issuance of common stock for services at $0.14 per share - November 21, 2011 | 100,000 | 1 | 13,999 | - | - | - | - | |
| Issuance of common stock for services at $0.14 per share - November 22, 2011 | 112,500 | 1 | 15,749 | - | - | - | - | |
| Issuance of common stock for services at $0.14 per share - | 1,000,000 | 10 | 139,990 | - | - | - | - | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| December 7, 2011 | | | | | | | |
| Issuance of common stock for cash at $0.15 per share - December 29, 2011 | 3,333,333 | 33 | 499,967 | (500,000) | - | - | - |
| Issuance of common stock for debt at $0.17 per share - December 29, 2011 | 245,903 | 2 | 41,802 | - | - | - | - |
| Share issue costs | - | - | (39,000) | - | - | - | - |
| Share subscriptions from prior years issued | 500,000 | 5 | 14,995 | (15,000) | - | - | - |
| Private placement subscriptions received | - | - | - | 1,193,500 | - | - | - |
| Services provided per term of contracts | - | - | - | - | - | 76,082 | - |
| Obligation to issue shares per consulting agreements | - | - | - | - | - | (12,500) | (10,000) |
| Obligation to issue shares per employment agreement | - | - | - | - | - | - | 100,000 |

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

| | Shares | Common Stock | Additional Paid in Capital | Private Placement Subscriptions | Accumulated Deficit | Deferred Compensation | Obligation to Issue shares | Com |
|---|---|---|---|---|---|---|---|---|
| Obligation to issue shares per consulting agreement | - | - | - | - | - | - | 25,000 | |
| Obligation to issue shares per Debt Settlement agreement | - | - | - | - | - | - | 113,333 | |
| Subsidiary shares to be issued to non-controlling interest | - | - | - | - | - | - | - | |
| Increase (decrease) in derivative liability | - | - | - | - | - | - | - | |
| Non-controlling interest | - | - | - | - | - | - | - | |
| Net loss for the year | - | - | - | - | (2,278,661) | - | - | |
| **Balance December 31, 2011** | **74,171,826** | **738** | **11,171,559** | **630,362** | **(11,294,752)** | **-** | **113,333** | |

The accompanying notes are an integral part of these financial statements

F-9

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

Alternet Systems Inc. ( Alternet or the Company ), through its subsidiaries, provides leading edge mobile financial solutions and mobile security and related solutions. The former offered throughout the Western Hemisphere, but most actively in South America, and the latter has global reach.

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. In 2001 the Company changed its name to SchoolWeb Systems Inc. and then, in 2002, to Alternet Systems, Inc. On December 31, 2007 the Company executed a merger with TekVoice Communications, Inc. of Miami, Florida. Since then the Company has changed business focus and strategy to mobile financial services and mobile security. In 2011 TekVoice became inactive.

In July 2009, the Company purchased 51% of the outstanding shares of Alternet Transactions Systems, Inc. ( ATS ), a company incorporated in the State of Florida on July 29, 2009, for $5,100. ATS is doing business as Utiba Americas.

In September 2009, the Company purchased 60% of the outstanding shares of International Mobile Security, Inc. ( IMS ), a company incorporated in the State of Florida on September 17, 2009, for $6,000.

In January 2010, AI Systems Group (Canada) Inc. was dissolved. All transactions incurred from January 1, 2010 to January 11, 2010 have been included in these interim financial statements.

In February 2011, the Company purchased 100% of the outstanding shares of Megatecnica, S.A., a company incorporated in Panama.

In August 2011, the Company incorporated a wholly owned subsidiary, Utiba Guatemala, S.A., in Guatemala.

In September 2011, the Company formed two one-member limited liability companies, Alternet Financial Solutions, L.L.C. and Alternet Payment Solutions, L.L.C., in the State of Florida.

These 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, 2011 the Company had a working capital deficiency of $1,110,301. The Company s continued operations are dependent on the successful implementation of its business plan, its ability to obtain additional financing as needed, 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 interim financial statements include the accounts of the following companies:

- Alternet Systems Inc.
- AI Systems Group, Inc., a wholly owned subsidiary of Alternet
- AI Systems Group (Canada), Inc., a wholly owned subsidiary of AI Systems Group, Inc
- Tekvoice Communications, Inc., a wholly owned subsidiary of Alternet
- Alternet Transactions Systems, Inc., a subsidiary of Alternet
- Utiba Guatemala, S.A., a wholly-owned subsidiary of Alternet Transactions Systems Inc.
- International Mobile Security, Inc, a subsidiary of Alternet
- Megatecnica, S.A., a wholly owned subsidiary of International Mobile Security, Inc.
- Alternet Financial Solutions, L.L.C, wholly-owned subsidiary of Alternet
- Alternet Payment Solutions, L.L.C, wholly-owned subsidiary of Alternet

The minority interests of ATS, IMS, and ATS s and IMS s wholly owned subsidiaries have been deducted from earnings and equity. 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.

**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 | - | 30% declining balance basis |
| Computer 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.

**Intellectual Property** The Company accounts for its intellectual property in accordance with the Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Under the provisions of SFAS 142, intangible assets deemed to have an indefinite life are not amortized but are subject to impairment tests at each reporting date. The Company assesses the impairment of intangible assets on a quarterly basis or whenever events or changes in circumstances indicate that the fair value is less than its carrying value. If the carrying amount of the intangible asset exceeds its fair value, the intangible asset is considered impaired and the second step of the test is performed to determine the amount of impairment loss, if any.

**Revenue Recognition**

The Company derives its revenues from the sale of licenses of software, implementation services, support services and hosted services (SaaS Software as a Service). Revenues are recognized when title transfers or services are rendered.

a) Revenue from the sale of licenses is recognized when the title of the license transfers to the customer.
b) Revenue from implementation services performed is recognized upon completion of the service.
c) Revenue from support services is recognized as earned.
d) Revenue from telecommunications services are recognized when billed, which occurs at the end of the month the services are provided.

The Company invoices 100% of the implementation services and requires customers to pay a non-refundable deposit prior to any services being performed. The Company recognizes the customer deposit as unearned revenue until either completion of the implementation or upon the contract being cancelled at which time the revenue is recognized. The uncollected portion of the implementation invoice is recorded as customer deposits until collection has occurred, completion of the implementation services, or upon the contract being cancelled.

The Company invoices support services at the beginning of the term and recognizes the revenue over the term of the agreement.

**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.

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, no common equivalent shares have been included 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 January 2010, the FASB issued ASU 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash (Accounting for Distributions to Shareholders with Components of Stock and Cash Topic 505), 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 affect the Company s reported financial position or results of operations.

In January 2010, the FASB issued ASU 2010-02, Accounting and Reporting for Decreases in Ownership of a Subsidiary (Consolidation Topic 810), 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 non-controlling interest and changes in ownership interests of a subsidiary. This standard did not affect the Company s reported financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements (Fair Value Measurements and Disclosures Topic 820), 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 affect the Company s reported financial position or results of operations.

In February 2010, the FASB issued ASU 2010-09, *Amendments to Certain Recognition and Disclosure Requirements (Subsequent Event Topic 855),* 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 did not have an effect on the Company s reported financial position or results of operations.

In March 2010, the FASB issued ASU 2010-11, *Scope Exception Related to Embedded Credit Derivatives (Derivatives and Hedging Topic 815),* which is effective for financial statements issued at the beginning of the entity s first fiscal quarter beginning after June 15, 2010. This update provides amendments to Subtopic 815-15, Derivatives and Hedging Embedded Derivatives, such as clarification of the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another and whether those derivatives are subject to potential bifurcation. This standard did not have a significant effect on the Company s reported financial position or results of operations.

In April 2010, the FASB issued ASU 2010-13, Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades (Compensation Stock Compensation Topic 718), which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2010. This update addresses the classification of an employee share-based payment award with an exercise price denominated in a currency that differs from the functional currency of the employer entity or payroll currency of the employee. This standard did not have an effect on the Company s reported financial position or results of operations.

In April 2010, the FASB issued ASU 2010-17, Milestone Method of Revenue Recognition (Revenue Recognition Milestone Method Topic 605), which is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. This update provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. This standard did not have an effect on the Company s reported financial position or results of operations.

In April 2010, the FASB issued ASU 2010-18, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset (Receivables Topic 310),* which is effective on a prospective basis for modifications of loans accounted for within pools occurring in the first interim or annual period ending on or after July 15, 2010. This update provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition. This standard did not have an effect on the Company s reported financial position or results of operations.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (*Receivables Topic 310),* which for public entities, the disclosures as of the end of a reporting period are effective in financial statements issued for interim and annual periods ending on or after December 15, 2010 and for disclosures about activities that occur during a period are effective for interim and annual periods beginning on or after December 15, 2010. This update provides guidance on increasing transparency about an entity s allowance for credit losses and the credit quality of its financing receivables. This standard did not have an effect on the Company s reported financial position or results of operations.

In December 2010, the FASB issued ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (Intangibles Goodwill and Other Topic 350), which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011 This update modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations* (*Business Combinations Topic 850),* which is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. This update provides guidance on the pro forma revenue and earnings disclosure requirements for business combinations. This standard did not have an effect on the Company s reported financial position or results of operations.

In January 2011, the FASB issued ASU 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* (*Receivables Topic 310),* which is effective upon issuance. This update defers the effective date of the disclosures required under ASU 2010-20 to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restricting as presented in proposed ASU update: *Receivables (Topic 310) Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. This standard did not have an effect on the Company s reported financial position or results of operations.

In April 2011, the FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements (Transfers and Service Pricing Topic 860), which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update provides on the accounting for repurchase agreements (repos) and other agreements that entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFS (Fair Value Measurement Topic 820),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update explains how to measure fair value. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income (Comprehensive Income Topic 220),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update provides guidance on improving the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* (*Intangibles Goodwill and Other Topic 350),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update simplifies how entities test goodwill for impairment by permitting them to use qualitative factors to first to determine whether an impairment is more likely or not. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

In September 2011, the FASB issued ASU 2011-09, *Disclosures about an Employer s Participation in a Multiemployer Plan* (*Compensation Retirement Benefits Multiemployer Plans Topic 715-80),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update requires increased disclosure from Company s participating in a Multiemployer Plan. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities* (*Balance Sheet Topic 210),* which is effective for financial statements issued for interim and annual periods beginning on or after January 1, 2013. This update facilitates comparison between financial statements presented under US GAAP and financial statements prepared under IFRS. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05* (*Comprehensive Income Topic 220),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update defers some of the requirements relating to the reclassification of items out of Other Comprehensive Income under ASU 2011-05. This standard is not expected to have an effect on the Company s reported financial position or results of operations.

**NOTE 3 FIXED ASSETS**

| | December 31, 2011 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Computer equipment | $ 344,252 | $ 321,912 | **$ 22,340** |
| Computer equipment capital lease | 137,790 | 20,669 | **117,121** |
| Computer software | 75,128 | 72,552 | **2,576** |
| Equipment | 10,576 | 10,205 | **371** |
| | $ 567,746 | $ 425,338 | **$ 142,408** |

| | December 31, 2010 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | **Net Book Value** |
| Computer equipment | $ 319,221 | $ 317,702 | **$ 1,519** |
| Computer software | 72,560 | 71,999 | **561** |
| Equipment | 10,576 | 10,112 | **464** |
| | $ 402,357 | $ 399,813 | **$ 2,544** |

**NOTE 4 INTELLECTUAL PROPERTY**

On January 25, 2011, the Company signed a Copyright Agreement with a supplier for various intellectual properties. As of December 31, 2011, the Company has $68,900 included in accounts payable and accrued charges relating to this agreement.

In December 2011, the Company purchased four software licenses from Utiba Pte., a non-controlling interest investor in ATS, valued at $1,500,000.

**NOTE 5 CONVERTIBLE DEBENTURE NOTES AND OTHER LOANS**

**Convertible Debentures**

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. As the loan had not been repaid by the maturity date, the loan was extended and interest continued to accrue. On April 22, 2010 the Company signed a Debt Settlement Agreement with the creditor whereby the creditor agreed to receive shares in lieu of payment of the outstanding balance. Under the terms of the Debt Settlement Agreement, the creditor is entitled to receive common stock of the Company at a conversion value equal to 50% of the average daily low price of the Company s stock for the 20 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $55,141 of debt into 2,542,782 common shares of the Company resulting in a full repayment of the loan.

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. As the loan had not been repaid by the maturity date, the loan was extended and interest continued to accrue. On April 22, 2010 the Company signed a Debt Settlement Agreement with the creditor whereby the creditor agreed to receive shares in lieu of payment of the outstanding balance. Under the terms of the Debt Settlement Agreement, the creditor is entitled to receive common stock of the Company at a conversion value equal to 50% of the average daily low price of the Company s stock for the 20 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $55,066 of debt into 1,180,846 common shares of the Company resulting in a full repayment of the loan.

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 lowest daily low price of the Company s stock for the 30 trading days immediately preceding and including the date of conversion. During the year ended December 31, 2010, the creditor converted $50,640 of debt into 3,331,604 common shares of the company. On April 12, 2011, the creditor converted $61,500 of debt into 853,163 common shares of the Company resulting in a full repayment of the loan.

On December 18, 2009, the Company entered into a Debt Settlement agreement whereby a creditor agreed to receive shares in lieu of payment of a $152,916 promissory note. The holder is entitled to receive common stock of the Company at a conversion value equal to 50% of the lowest closing price of the Company s stock for the 10 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $113,750 of debt into 4,457,699 common shares of the company. On February 25, 2011, the creditor converted $72,833 of debt into 1,220,363 common shares of the company resulting in a full repayment of the loan.

On March 8, 2010, the Company issued a note payable in the amount of $25,000. The note carries interest at the rate of 12% per annum and is due on April 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 lowest closing price of the Company s stock for the 10 trading days immediately preceding and including the date of conversion. On August 29, 2011, the Company repaid the loan in full.

On April 14, 2010, the Company issued a note payable in the amount of $15,000. The note carries interest at the rate of 10% per annum and is due on May 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 50% of the lowest closing price of the Company s stock for the 10 trading days immediately preceding and including the date of conversion. On October 20, 2011, the Company repaid the loan in full.

On April 22, 2010, the Company entered into a Debt Settlement agreement whereby a creditor agreed to receive shares in lieu of payment of a $50,000 promissory note plus accrued interest calculated at 10% per annum. The creditor is entitled to receive common stock of the Company at a conversion value equal to 50% of the average daily low price of the Company s stock for the 20 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $51,874 of debt into 1,703,169 common shares of the company resulting in a full repayment of the loan.

On April 30, 2010, the Company issued a note payable in the amount of $100,000. The note carries interest at the rate of 10% per annum and is due on July 30, 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 lowest daily low price of the Company s stock for the 10 trading days immediately preceding and including the date of conversion. On August 22, 2011, the creditor submitted a Notice of Conversion to convert $113,333 of debt into 2,138,358 common shares of the company resulting in a full repayment of the loan. At December 31, 2011, the shares had not been issued to the creditor resulting in the full balance being included in obligation to issue shares.

On June 1, 2010, the Company entered into a Debt Settlement agreement whereby a creditor agreed to receive shares in lieu of payment of a $32,000 debt. The creditor is entitled to receive common stock of the Company at a conversion value equal to 50% of the lowest daily low price of the Company s stock for the 20 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $32,000 of debt into 1,258,604 common shares of the company resulting in a full repayment of the loan.

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.

**Other Loans**

On September 15, 2010, the Company signed a Promissory Note whereby the Company will repay a creditor $20,000 plus interest at 10% per annum on October 15, 2010. The loan was repaid in full on November 5, 2010.

On September 17, 2010, the Company signed a Promissory Note whereby the Company will repay a creditor $3,000 plus interest at 10% per annum on October 31, 2010. If the Promissory Note is not repaid by the maturity date, a $50 penalty will be assessed for each month the loan is outstanding after the maturity date. The loan was repaid in full on November 5, 2010.

On January 25, 2011, the Company signed a Promissory Note whereby the Company will repay a director $20,000 plus interest at 10% per annum on April 25, 2011. On April 25, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $20,500 under the previous Promissory Note and extended the maturity date to July 25, 2011. On July 24, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $21,013 under the previous Promissory Note and extended the maturity date to October 21, 2011. On October 21, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of 21,519 under the previous Promissory Note and extended the maturity date to April 18, 2012. As at December 31, 2011, $21,940 of principal and accrued interest on this note was included in Due to related parties.

On February 9, 2011, the Company signed a Promissory Note whereby the Company will repay a director $5,000 plus interest at 10% per annum on May 9, 2011. On May 10, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $5,125 under the previous Promissory Note and extended the maturity date to August 8, 2011. On August 8, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $5,253 under the previous Promissory Note and extended the maturity date to November 5, 2011. On November 4, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $5,378 under the previous Promissory Note and extended the maturity date to May 2, 2012. As at December 31, 2011, $5,463 of principal and accrued interest on this note was included in Due to related parties.

On February 11, 2011, the Company signed a Promissory Note whereby the Company will repay a director $8,988 plus interest at 10% per annum on May 11, 2011. On May 12, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $9,213 under the previous Promissory Note and extended the maturity date to August 10, 2011. On August 10, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $9,443 under the previous Promissory Note and extended the maturity date to November 7, 2011. On November 8, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $9,673 under the previous Promissory Note and extended the maturity date to May 7, 2012. As at December 31, 2011, $9,817 of principal and accrued interest on this note was included in Due to related parties.

On March 2, 2011, the Company signed a Promissory Note whereby the Company will repay a director $100,000 plus interest at 10% per quarter on June 2, 2011. On July 14, 2011, the director of the Company sold the loan to an unrelated third party. On August 8, 2011, the creditor converted $110,000 of debt into 733,333 common shares of the company resulting in a full repayment of the loan.

## NOTE 6 CAPITAL LEASE

On April 27, 2011, the Company signed a Lease Agreement with a creditor to lease various computer equipment. The lease requires 24 monthly payments of $3,620 including implicit interest of 14.99% and expires on May 1, 2013. As at December 31, 2011, the balance on the lease was $55,132.

On September 26, 2011, the Company signed another Lease Agreement with the same creditor to lease additional computer equipment. The lease requires 24 monthly payments of $668 including implicit interest of 14.19% and expires on September 26, 2013. As at December 31, 2011, the balance on the lease was $12,509.

The remaining required principal payments over the next two fiscal years are as follows:

| | |
|---|---|
| 2012 | $ 44,499 |
| 2013 | $ 23,141 |

## NOTE 7 CAPITAL STOCK

**Common Shares**

The Company is authorized to issue up to 100,000,000 shares of the Company s common stock with a par value of $0.00001. As at December 31, 2011, 74,171,826 shares of common stock were issued and outstanding.

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 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 may be awarded under this plan.

The Company is obligated to issue 2,138,358 common shares valued at $113,333 as at December 31, 2011 in accordance with a debt settlement agreement. At December 31, 2010, the Company was obligated to issue 600,000 common shares valued at $108,500 in accordance with a consulting incentive. During year ended December 31, 2010, a liability to issue 200,000 shares valued at $40,000 owed to one consultant was reversed to consulting fees as the consultant had not performed the services in accordance with the contract.

During the year ended December 31, 2011, the Company issued 5,726,500 shares valued at $714,195 for services rendered during the year ended December 31, 2011; 10,524,012 shares valued at $1,335,395 for debt settlement and convertible debenture agreements, and 9,701,667 shares valued at $1,298,500 for share subscriptions.

During the year ended December 31, 2011, the Company issued:

- 500,000 common shares valued at $15,000 for share subscriptions received in prior years,
- 10,024,012 common shares valued at $1,275,395 for debt settlement and convertible debenture agreements,
- 2,037,500 common shares valued at $248,625 for consulting services to be rendered during the period, and
- 4,189,000 common shares valued at $528,070 for employment incentives in accordance with employment agreements,

In addition, the Company issued common shares for the following subscriptions received during the year:

- on June 15, 2011, the Company issued 3,333,333 common shares at $0.15 per share for total cash proceeds of $500,000,
- on July 14, 2011, the Company issued 1,935,000 common shares at $0.10 per share for total cash proceeds of $193,500,
- on August 2, 2011, the Company issued 600,000 common shares at $0.15 per share for total proceeds of $90,000, and
- on December 29, 2011, the Company issued 3,333,333 common shares at $0.15 per share for total cash proceeds of $500,000.

During the year ended December 31, 2011, the Company also received $500,000 for share subscriptions for which shares have not been issued by the end of the period. As at December 31, 2011, the Company has $630,362 (December 31, 2010 - $145,362) in private placement subscriptions which are reported as private placement subscriptions within stockholders deficit.

The shares which were not issued as at December 31, 2011 or December 31, 2010 were not used to compute the total weighted average shares outstanding as at December 31, 2011 or December 31, 2010 respectively and were thus not used in the basic net loss per share calculation.

**Warrants**

The Company s warrant transactions are summarized as follows:

| | December 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Balance, beginning of period | - | - | - | - |
| Issued | 6,569,444 | 0.23 | - | - |
| | | | | |
| Balance, end of period | 6,569,444 | 0.23 | - | - |

a) In conjunction with the 3,333,333 common shares issued on June 15, 2011, the Company issued 2,000,000 warrants exercisable at $0.25 per share for a period of one and a half years. The warrants were valued at $207,846 calculated using the Black-Scholes option pricing model assuming a life expectancy of one and a half years, a risk free rate of 0.05%, a forfeiture rate of 0%, and volatility of 273.13%. In addition to these warrants, the Company signed a Stock Grant Agreement with the shareholder allowing the shareholder to receive up to an additional 569,444 shares of the Company ( bonus shares ). The shareholder will receive 0.284722 bonus shares for each warrant exercised. The bonus shares were valued at $68,333 calculated using the Black-Scholes option pricing model assuming a life expectancy of one and a half years, a risk free rate of 0.05%, a forfeiture rate of 0%, and volatility of 273.13%. As at September 30, 2011, the Company had 2,000,000 warrants with an exercise price of $0.25 expiring on December 31, 2012 outstanding.

b) In conjunction with two subscription agreements signed on December 21, 2011, the Company issued 4,000,000 warrants exercisable at $0.25 per share for a period of one and a half years. The warrants were valued at $398,752 calculated using the Black-Scholes option pricing model assuming a life expectancy of 1.53 years, a risk free rate of 0.01%, a forfeiture rate of 0%, and volatility of 180.97%.

All warrants issued as at December 31, 2011 can be called by the Company in the event the average closing price of the common stock of the Company for any 60 day period is $0.40 or greater.

The following table summarizes the warrants outstanding at December 31, 2011:

| Warrants outstanding | Exercise price $ | Expiry date |
|---|---|---|
| 2,000,000 | 0.25 | December 31, 2012 |
| 569,444 | 0.00 | December 31, 2012 |
| 4,000,000 | 0.25 | June 30, 2013 |

**NOTE 8 - RELATED PARTY TRANSACTIONS**

As at December 31, 2011, a total of $282,801 (December 31, 2010 - $450,647) was payable to directors and officers of the Company of which $282,801 (December 31, 2010 - $388,869) was non-interest bearing and had no specific terms of repayment, $Nil (December 31, 2010 - $122,360) relates to a convertible debenture detailed in Note 5, and $37,220 (December 31, 2010 - $Nil) relates to loans detailed in Note 5. Of the amount payable, $47,368 (December 31, 2010 - $40,388) was included in accounts payable for expense reimbursements and $185,393 (December 31, 2010 - $340,660) was included in wages payable for accrued fees.

During the year ended December 31, 2011, the Company expensed a total of $767,870 (December 31, 2010 - $847,610) in consulting fees, investor relations and salaries paid to directors and officers of the Company. Of the amounts incurred, $185,393 (December 31, 2010 - $373,394) has been accrued, $354,907 (December 31, 2010 - $474,216) has been paid in cash, and $227,570 (December 31, 2010 - $Nil) has been paid through the issuance of shares. In addition, during the year ended December 31, 2010, $630,000 of deferred compensation relating to shares issued in June 2008 to a director of the Company was expensed to investor relations.

During the year ended December 31, 2011, the Company issued 3,931,030 shares of the Company s common stock valued at $480,536 to three directors of the Company for accrued consulting fees and investor relations and 1,539,000 shares of the Company s common stock valued at $187,570 to three directors of the Company for consulting and management fees.

During the year ended December 31, 2010, the Company issued 3,010,087 shares of the Company s common stock valued at $90,303 to two directors of the Company and 1,836,890 shares of the Company s common stock valued at $55,107 to a previous director of the Company for accrued consulting fees and investor relations.

During the year ended December 31, 2011, the Company held an accounts receivable from a company with a director in common with the Company for $1,552,258 (VEF 6,674,709) of which $1,049,000 (VEF 4,510,700) is included in revenue, $388,628 (VEF 1,671,100) is included in customer deposits, and $114,630 (VEF 492,909) is included in deferred income.

**NOTE 9 DEFERRED COMPENSATION**

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. This amount was expensed over the life of the contract.

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. This amount was expensed over the life of the contract.

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 originally valued at $19,500. This amount is being expensed over the life of the contract. The shares were issued on October 5, 2010 resulting in an increase in the value of $6,000 to $25,500.

On July 1, 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 1,200,000 shares of the Company s common stock valued at $159,000 of which 900,000 shares are to be issued by September 30, 2010 and 300,000 shares are to be issued by December 31, 2010. The shares were fully issued on April 21, 2011 resulting in a decrease in the value of $30,000 to $129,000. This amount was expensed over the life of the contract.

On March 29, 2011, the Company entered into an agreement with a consultant for a six-month 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 $32,500 based on the date of issuance, April 19, 2011. On August 25, 2011, the agreement was terminated and the shares were cancelled. The full balance was reversed.

On April 12, 2011, the Company entered into an agreement with a consultant for a six month term whereby the consultant will provide business consulting services. The agreement requires the first and last month s payment of $5,000 each, total $10,000, to be paid through the issuance of 250,000 shares of the Company s common stock. This amount is being expensed over the life of the contract.

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 December 31, 2011, the Company expensed $76,082 (December 31, 2010 - $749,849) relating to the above contracts. At December 31, 2011, the unamortized portion of the deferred compensation totalled $Nil (December 31, 2010 - $79,832). The shares issued were all valued at their market price on the date of issuance or in accordance with defined agreement terms.

**NOTE 10 LAWSUITS**

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, 2011, no amounts have been accrued as the likelihood of an unfavorable judgment is considered low.

On May 10, 2010, the Company received notice that they had been named as Defendants in a lawsuit whereby the Plaintiffs are seeking a judgment of $6,889 including interest of $1,444 for unpaid invoices. The Company had 30 days to respond to the notice before a default judgment is awarded. As at December 31, 2011, the full amount has been accrued and is included in accounts payable.

**NOTE 11 SUBSEQUENT EVENTS**

- On January 3, 2012, the Company issued 3,333,333 common shares of the Company to an investor for $500,000 of subscriptions received during the year ended December 31, 2011.
- On February 22, 2012, the Company issued 60,000 common shares to settle accounts payable of $9,000.

**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).

**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, 2011, 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 s 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, 2011. 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, 2011 , 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.

***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 changes in our internal controls over financial reporting that occurred during the year ended December 31, 2011 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 |
| Fabio Alvino | 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 is a successfully serial entrepreneur with more than 25 years of experience in the IT and telecommunications industries. He has founded, grown and sold multiple businesses in the systems integration, computer and IP telephony sectors in North and South America, and managed and expanded multi-country operations in Europe and the Americas.

After co-founding and growing multi-million dollar integrations firm, RKM IT of Venezuela, 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 three continents and eight countries. After Vox2Vox he served as President of TekVoice Communications Inc., a Miami FL – based Voice over IP telecommunications company, which merged with Alternet Systems Inc. in 2008.

**Fabio Alvino, Director and VP of Business Development**

Mr. Alvino has over 30 years of international entrepreneurship and management experience in the information technology, multimedia and business and information consulting industries. He has been involved in large project management and deployment experience in multi country and disciplinary teams. He has also been involved in successful founding and selling of multiple companies in the multimedia and internet consulting industries.

**Robin Bjorklund, Director**

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 Alternet Systems Inc.

**Michael Viadero, Chief Financial Officer (CFO)**

Mr. Viadero is a finance executive with broad experience in multiple disciplines, diverse industries and markets throughout Latin America. With over 30 years of experience managing multi-functional organizations and operations at MasterCard International, W.R. Grace and First Chicago. Prior to joining Alternet he was Regional Financial Officer for MasterCard International, responsible for financial operations, product and service pricing strategy, and transitioning the company from privately-held to public entity, including compliance with Sarbanes-Oxley Act.

**Angel Pacheco, Chief Technical Officer (CTO)**

Mr. Pacheco brings more than twenty years of experience in C-level positions for companies in the financial and mobile payment industries in the United States, Europe, Latin America and Asia Pacific. Most recently, he was a founder of mobile linked payments provider, Dinarii Systems, which provides end-to-end transaction processing technology to implement stored value card programs and mobile banking services. A serial entrepreneur and visionary technologist, Mr. Pacehco's ventures focus on bringing efficiency to inefficient markets, which is what has inspired him to pursue the field of mobile payments and to join the Alternet team. As Chief Technology Officer of Alternet Angel helps the company and its subsidiaries anticipate the convergence of prepaid, debit and credit cards and the mobile payment platform.

**Erin Clancy, Vice President Marketing**

Experienced international executive with more than 15 years experience in start-up and early stage growth companies in a multitude of industries but with a depth of experience in telecommunications and IT based products. Specialized in launching new products in high growth, emerging markets across international boundaries, and articulating value propositions to new customer segments. Multi-lingual and adept at managing in multi-cultural environments.

**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, 2011 and 2010; 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, 2011 and 2010,

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:

Summary Compensation Table

| Name and principal position (a) | Year (b) | **Annual Compensation** | | | **Long-term compensation** | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | **Awards** | | **Payouts** | |
| | | Salary ($) | Bonus ($) | Other Annual Compen-sation ($) | Restricted Stock Award(s) ($) | Securities Underlying options/ SARs | LTIP payouts ($) | All other Compen-sation |

| | | **(c)** | **(d)** | **(e)** | **(f)** | (#)<br>**(g)** | **(h)** | ($)<br>**(i)** |
|---|---|---|---|---|---|---|---|---|
| Henryk Dabrowski President and Chairman | 2011<br>2010<br>2009 | 165,000<br>140,000<br>140,000 | 82,500<br>70,000<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 |
| Fabio Alvino Director | 2011<br>2010<br>2009 | 130,000<br>130,000<br>120,000 | 65,000<br>65,000<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 |
| Robin Bjorklund Director | 2011<br>2010<br>2009 | 0<br>102,000<br>102,000 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>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.

**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, 2011. 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, 2010, we did not affect 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, 2011 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 March 28, 2011 (49,940,011) 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):

| Name and Address | Position | Amount of Stock Beneficially Owned | Percentage of Class |
|---|---|---|---|
| Henryk Dabrowski<br>5500-SW 86 th Street<br>Miami, FL 33143 | President, Director | 5,819,930 | 7.30% |
| Fabio Alvino<br>2627 S. Bayshore Drive, Apt. 1501<br>Miami, FL 33133 | Vice President of Business Development | 3,885,815 | 4.88% |
| Robin Bjorklund<br>473-1027 Davie Street<br>Vancouver BC V6E 4L2 | Director | 5,575,670 | 7.00% |
| Directors, Officers and 5%<br>stockholders in total | | 15,281,415 | |

*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, 2010, 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.

As at December 31, 2011, a total of $282,801 (December 31, 2010 - $450,647) was payable to directors and officers of the Company of which $282,801 (December 31, 2010 - $388,869) was non-interest bearing and had no specific terms of repayment, $Nil (December 31, 2010 - $122,360) relates to a convertible debenture, and $37,220 (December 31, 2010 - $Nil) relates to loans payable. The convertible debentures and loans payable are described in Note 5 of the Company s financial statements.

During the year ended December 31, 2011, the Company expensed a total of $767,870 (December 31, 2010 - $847,610) in consulting fees, investor relations and salaries paid to directors and officers of the Company. Of the amounts incurred to officers and directors, $185,393 (December 31, 2010 - $373,394) was accrued, $354,907 (December 31, 2010 - $474,216) was paid in cash, and $227,570 (December 31, 2010 - $Nil) was paid through the issuance of shares

During the year ended December 31, 2011, the Company issued 3,931,030 shares of the Company s common stock valued at $480,536 to three directors of the Company for accrued consulting fees and investor relations and 1,539,000 shares of the Company s common stock valued at $187,570 to three directors of the Company for consulting and management fees.

During the year ended December 31, 2011, the Company held an accounts receivable from a company with a director in common with the Company for $1,552,258 (VEF 6,674,709) of which $1,049,000 (VEF 4,510,700) is included in revenue, $388,628 (VEF 1,671,100) is included in customer deposits, and $114,630 (VEF 492,909) is included in deferred income.

*Director Independence*

We currently act with three (3) directors, consisting of Henryk Dabrowski, Fabio Alvino 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, 2011 and for fiscal year ended December 31, 2010 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, 2011** | **December 31, 2010** |
| Audit Fees | **$57,330** | **$46,670** |
| Audit Related Fees | **Nil** | **$660** |

| | **Year Ended** | |
|---|---|---|
| | **December 31, 2011** | **December 31, 2010** |
| Tax Fees | **$3,988** | **$3,500** |
| All Other Fees | **Nil** | **Nil** |
| Total | **$61,318** | **$50,830** |

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) |
| 14.1 | Code of Business Conduct* |
| 23.1 | Independent Auditor's Consent |
| 31.1 | Section 302 Certification of Chief Executive Officer |
| 31.2 | Section 302 Certification of Chief Financial Officer |
| 32.1 | Section 906 Certification of Chief Executive Officer |
| 32.2 | Section 906 Certification of Chief Financial Officer |

* Previously filed

**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)
October 2, 2012

By: _/s/ Michael T. Viadero_
Michael T. Viadero, Secretary, Treasurer
(Principal Financial Officer and Principal Accounting Officer)
October 2, 2012

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)
October 2, 2012

By: _/s/ Michael T. Viadero_
Michael T. Viadero, Secretary,Treasurer
(Principal Financial Officer and Principal Accounting Officer)
October 2, 2012