

ALTERNET SYSTEMS INC  
Form 10-K  
March 31, 2015

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended **December 31, 2014**

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

For the transition period from [ ] to [ ]

Commission file number **000-31909**

**ALTERNET SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**88-0473897**

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

**2665 S Bayshore Drive Miami FL**

(Address of principal executive offices)

**33133**

(Zip Code)

Registrant's telephone number, including area code:

**786-265-1840**

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

Title of Each Class

**N/A**

Name of Each Exchange On Which Registered

**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]

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the last 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

The aggregate market value of Common Stock held by non-affiliates of the Registrant on June 30, 2014 was \$10,005,156 based on an \$0.11 closing price for the Common Stock on June 30, 2014. 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.

**104,798,436 as of March 31, 2015.**

DOCUMENTS INCORPORATED BY REFERENCE

None.

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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 negative or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled *Risk Factors* that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

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

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

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

#### Company History and Business

Alternet Systems, Inc. (the "Company"), was organized under the laws of the State of Nevada on June 26, 2000, under the name North Pacific Capital Corp. In 2001 Alternet changed its name to SchoolWeb Systems Inc. and then, in 2002, to Alternet Systems, Inc. On December 31, 2007, Alternet executed a merger with TekVoice Communications, Inc. of Miami, Florida. In 2011, TekVoice became inactive. In 2008, Alternet entered into a Joint Venture, with Tianjin Contactless Payment Systems, Inc., the Joint Venture was called Transtech Sino America, Inc. Transtech Sino America, Inc. provided Prepaid Fare collection systems, for public transportation systems. Alternet provided services in Latin America and the Caribbean, In 2009, after the financial crisis of 2008, Alternet Systems, Inc. sold its participation in the Joint Venture to management, and exited that line of business. Since then Alternet has changed business focus and strategy to mobile financial services and mobile security. In 2009, Alternet formed Alternet Transaction Systems, Inc. ( *Utiba Americas* ), a majority owned joint venture, with Utiba Pte. Ltd. Utiba Americas, provided a mobile financial services software for the mobile telecommunications, financial industry and payment services providers. In March of 2014, Alternet, sold all of Utiba America's assets to Utiba Pte. Ltd., as part of an asset purchase agreement with Amdocs.

#### 2009 to 2013 Focus on Mobile Financial Services and Security

Since late 2009, Alternet 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, Inc. (d/b/a 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 was driven by the exponential adoption of mobile phones which in 2012 reached more than 70%, of the global population, with a total of 5 billion phones.



Effective on October 15, 2013, the Company, Utiba Pte Ltd ( Utiba ), Alnetnet Transaction Systems Inc. ( ATS ) and Utiba Guatemala S.A., a wholly owned subsidiary of ATS, ( Utiba Guatemala ) entered into an Asset Purchase Agreement in order to effect the sale by ATS of all of its business and assets to Utiba, as described below ( ATS Transaction ). Consummation of the transactions set out in the APA are conditions upon the approval of the shareholders of the Company.

The Company operated its mobile financial services sales business through ATS, a Florida corporation, as a joint venture entity currently owned 51% by the Company and 49% by Utiba, and which does business as Utiba Americas. Utiba is a software developer and professional services provider of mobile financial services software for the telecommunications, banking and financial services industry.

The shareholders of Utiba (the Utiba Sellers ) also agreed to sell the entire issued share capital of Utiba.

#### Overview of the ATS Transaction and Consideration Payable

The transaction, which was subject to the approval of the shareholders of the Company, involved the following components:

- 1 The sale pursuant to the Asset Purchase Agreement by ATS of substantially all of its business and assets to Utiba (including the assumption by Utiba of certain liabilities related to such business and assets), in consideration for up to \$3,100,000 in cash (the "Cash Purchase Price") subject to certain adjustments related to certain net receivables or liabilities, as the case may be, and reduction to the extent of certain tax liabilities of ATS. The amount of \$300,000 of the Cash Purchase Price will be held back to cover certain claims that may be made under the indemnification provisions of the Asset Purchase Agreement.
- 2 The entry by the Company into a non-compete covenant in favor of Utiba and its affiliates in the mobile payment, top up and mobile financial services industry for a period of 36 months, in consideration for a payment in cash on closing of the transactions contemplated by the Asset Purchase Agreement (the Closing ) of \$2,200,000. The Company is recognizing the full amount as income on closing as it does not intend to compete in this industry in the future.
- 3 The release by the Company of Utiba from all its obligations under the ATS Shareholders Agreement in consideration for a payment in cash on Closing of \$200,000.
- 4 Upon Closing, Utiba shall transfer its 49% interest in ATS to the Company so that the Company will own 100% of ATS after Closing.

A Special Meeting of Shareholders was held on February 21, 2014 and the necessary approval was obtained with over 99% of the votes cast voting in favor. On March 4, 2014 the ATS Transaction was closed pursuant to which the Company received \$4,928,036 in proceeds. An additional \$667,264 was being held back to cover certain claims that may be made under the indemnification provisions of the Asset Purchase Agreement. During the year ended December 31, 2014, \$367,264 was released upon confirmation from the IRS that all payroll taxes had been paid. The remaining \$300,000 held back at December 31, 2014 are included in sale proceeds held back and a deferred gain on sale and will be released as follows:

- \$150,000 on March 4, 2015; and
- \$150,000 on September 4, 2015.

The March 4, 2015 payment has not been received. The Company has pursued payment with Utiba and Amdocs without result. On March 24, 2015 the Company formally notified Utiba and Amdocs that it is in default of the Asset Purchase Agreement and demanded immediate payment.





## **2014**

International Mobile Security, Inc. ( IMS ) developed digital offensive software applications for the defense, intelligence and law enforcement sectors, as well as defensive applications for the corporate and consumer markets. In 2012 IMS acquired the assets from Data Enforce, S.A. In 2014, Altnet, based on a lack of performance by IMS, decided to shut down operations, return all assets to Data Enforce, S.A. and settled debt and pending liabilities with 3rd parties.

In 2014, the Company created Altnet Financial Solutions, LLC ( AFS ), a wholly owned subsidiary. AFS provides financial services based on Digital Asset solutions, these include foreign exchange services, and digital currency clearing (including Bitcoin, VEN and other crypto currencies).

The Company also incorporated a wholly owned subsidiary, Altnet Payment Solutions, LLC, ( APS ) specialized in financial services software, including biometric authentication, multichannel payment solutions, electronic point of sale modernization, NFC point of sale solutions for the mobile financial industry, payment processing and data analytics tools.

In 2014 Altnet sought to transform into an accelerator of high growth, emerging mobile and digital, technology and services companies, in the digital currency, multichannel payments and the mobile and digital security fields. Our goal was to expand the horizons of individuals and organizations, by providing a growth and networking platform, empowering them to go beyond their expectations and goals.

The new vision of Altnet is to accelerate the future of money through the creation of a digital bank, multichannel payment solutions, including hard and digital currency, and by providing an exchange that allows for the movement from virtual money to fiat currency.

The Company entered into its next phase, which leveraged the experience and knowledge in mobile technology and financial services, and created solutions in the digital currency, multichannel payments and digital casset financia services. Investments and the underlying companies, in these fields, are well underway to revenues.

As of the date of this report, the Company has reached the following milestones:

- entered into arrangements with select digital currencies, with the first having taken place in February 2014 with Ven;
- became a full time member of the Bitcoin Foundation and DATA (Digital Asset Transfer Association);
- entered into a strategic joint venture with BIOMETRY for "BioME", which replaces passwords and PINs through the combination of dynamic facial and voice recognition in a unique ID system; to provide end to end security for digital currencies;
- signed a Letter of Intent with P2P Cash to launch the Digital Asset Exchange initiative under the OneMarket subsidiary, subject to approval of the license by the New York Department of Financial Services. Under this Letter of Intent, the Company plans to launch a digital currency exchange, fully compliant with government regulations and foreign exchange capabilities. The Company is actively pursuing and preparing to apply for a license with The New York Department of Financial Services to be allowed to receive, transmit, store, exchange, issue or convert virtual currency for Customers. The licensing process will not be completed until late 2015 as regulatory requirements are still being defined;
- entered into a strategic channel partner agreement with BitPay - the world leader in business solutions for the bitcoin digital currency;
- in October 2014 the Company completed a formal agreement with Wildcard Consulting Inc. ("Wildcard") to launch the first U.S. based Bitcoin debit card.



VEN is a global digital currency traded in international financial markets and originally used by members of a social network service, Hub Culture, to buy, share, and trade knowledge, goods, and services. The value of Ven is determined on the financial markets from a basket of currencies, commodities and carbon futures. It trades against major currencies at floating exchange rates.

In the first quarter of 2014, we entered into a relationship with VEN and Hub Culture to become a VEN Authority. This relationship will allow us to become an issuer of the VEN Currency on a global basis, leveraging the experience and the strength of this digital currency.

P2P Cash's technology and intellectual property provides a highly secure, real-time mobile payment solution to deliver cash transfers and remittance payments in developing countries through seamless international cash transfers. P2P Cash's proprietary platform is a unique method for the implementation of a mobile banking standard that can work with any wireless carrier and/or any bank worldwide.

In addition, the Company's financial services initiative will focus on bringing to market innovative consumer products, including a multi-asset debit and credit card. This initiative is the first of its kind with dynamic currency conversion from digital to physical currency, digital currency exchange and merchant acquisition solutions. All of these services will include the seamless integration of existing digital currencies, including Bitcoin, Ven, Ripple and others. The Company expects to have a global reach, initially launching in Latin America and the Caribbean, with expansion opportunities into Africa and Eastern Europe.

Early 2014, we incorporated OneMarket Inc. This company is a wholly owned subsidiary of Alternet Systems, Inc. OneMarket is applying for the Digital Asset Exchange license, under the Department of Financial Services, of the State of New York.. Onmarket expects to become on the leading digital currency, hard currency (fiat) and commodities. As of the time of writing of this report, the State of New York had not issued a final formal proposal or an estimated date to pass this important regulation.

We actively participate in the industry associations and promoting organizations. We also seek speaking and industry show participation, promoting our new initiatives.

### **2015 and Beyond**

In 2015, the Company and its wholly owned subsidiaries, will start to provide its products and services on a commercial basis. These services will include:

- Retail and consumer payment mechanisms
- Digital currency payment solutions (debit and secured credit card)
- Modernization of the electronics Point of Sale legacy infrastructure. Expanding the useful life of the electronic point of sale, and including new payment functions in the terminals, such as Bill Payment, Electronic top-up and native payments with digital currency at the point of sale. Digital asset exchange, leveraging the new regulations in the United States.
- Data analytics tools and services for the Telecommunications and Financial Services industries.

**Employees**

The Company's staff decreased in 2014, due to the sale of assets and business of Utiba Americas. At year-end 2014, total staff stood at 4 (12 in 2013). The Company continues to outsource contract work as appropriate.

**Item 1A. Risk Factors**

Note required for Smaller Reporting Companies.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Executive Offices

Our corporate headquarters are leased and are located at 2665 S. Bayshore Dr., Suite 305, 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.

In January 2014, the Company received notice of a default judgment in the amount of \$39,000 plus interest entered by the State of New York related to an unpaid service agreement entered into on February 11, 2009. The Company has filed a motion to vacate the foreign judgment or in the alternative stay the enforcement. The Company, until receipt of such notice, was unaware of any such demand. No prior notice had been served to the Company or its chief executive. As of December 31, 2014, no provision for this claim has been made. A court date has been set in April 2015 to dismiss the case.

On February 13, 2015 the Company filed a complaint ( *Complaint* ) in the Circuit Court for Miami-Dade County, Florida, against Justin Ho and Richard Matotek ( *Defendants* ), the previous combined 96% shareholders of Utiba Pte. Ltd., the joint-venture partner of the Company in Alternet Transaction Systems, Inc. ( *ATS* ). The Complaint alleges that the Defendants did not honor their commitment of paying its 49% share of the liabilities held by ATS at closing of the ATS Transaction (refer to Part 1 Item 1 *Overview of the ATS Transaction and Consideration Payable*). The Company alleges that it is owed \$1,181,639.

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. Mine Safety Disclosures**

Not applicable.

**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:

2014		HIGH		LOW
First Quarter	\$	0.17	\$	0.02
Second Quarter	\$	0.15	\$	0.08
Third Quarter	\$	0.11	\$	0.05
Fourth Quarter	\$	0.06	\$	0.03
2013		HIGH		LOW
First Quarter	\$	0.18	\$	0.09
Second Quarter	\$	0.13	\$	0.09
Third Quarter	\$	0.09	\$	0.04
Fourth Quarter	\$	0.06	\$	0.03

**Holders of Common Stock**

On December 31, 2014, there were 99,483,055 shares outstanding.

*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, 2014, the Company:

- issued 1,250,000 common shares valued at \$125,000 for share subscription;
- issued 2,495,666 common shares valued at \$252,717 for legal, consulting, and investor relations services rendered;
- issued 1,000,000 common shares valued at \$80,000 for consulting services to be rendered over a twelve month period which were included in deferred compensation; and
- cancelled 1,000,000 common shares valued at \$50,000 previously issued for investor relations to be released upon achieving certain benchmarks which were included in deferred compensation.

During the year ended December 31, 2013, the Company:

- issued 1,140,590 common shares valued at \$145,388 for employment incentives in accordance with employment agreements;
- issued 2,840,596 common shares valued at \$199,048 for legal, consulting, and investor relations services rendered;
- issued 700,000 common shares valued at \$105,000 for investor relations to be rendered over a twelve month period which were included in deferred compensation; and
- issued 2,000,000 common shares valued at \$100,000 for investor relations to be released upon achieving certain benchmarks which were included in deferred compensation.

### Convertible Debenture Notes

On August 29, 2012, the Company issued a note payable in the amount of \$44,438. The note carries interest at the rate of 10% per annum and was due on February 28, 2013. Since the note was not repaid on maturity, 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 of \$0.075. The beneficial conversion feature discount resulting from the conversion price being \$0.045 below the market price on August 29, 2012 of \$0.12 provided a value of \$26,663. During the year ended December 31, 2014, \$Nil (2013 - \$8,596) of the debt discount was amortized. As of December 31, 2014, \$54,494 (2013 - \$50,051) of principal, accrued interest, and unamortized debt discount on this note was included in other loans payable. The note is past due and continues to accrue interest at the rate of 10% per annum.

On September 26, 2012, the Company issued a note payable in the amount of \$60,000. The note carries interest at the rate of 10% per annum and was due on March 31, 2013. Since the note was not repaid on maturity, 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 of \$0.075. The beneficial conversion feature discount resulting from the conversion price being \$0.045 below the market price on September 26, 2012 of \$0.12 provided a value of \$36,000. During the year ended December 31, 2014, \$Nil (2013 - \$17,419) of the debt discount was amortized. As of December 31, 2014, \$73,118 (2013 - \$67,118) of principal and accrued interest, and unamortized debt discount on this note was included in other loans payable. The note is past due and continues to accrue interest at the rate of 10% per annum.

On October 19, 2012, the Company issued a note payable in the amount of \$80,000. The note carries interest at the rate of 10% per annum and was due on April 30, 2013. Since the note was not repaid on maturity, 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 of \$0.075. The beneficial conversion feature discount resulting from the conversion price being \$0.085 below the market price on October 19, 2012 of \$0.16 provided a value of \$80,000. During the year ended December 31, 2014, \$Nil (2013 - \$49,741) of the debt discount was amortized. As of December 31, 2014, \$96,986 (2013 - \$88,986) of principal, accrued interest, and unamortized debt discount on this note was included in other loans payable. The note is past due and continues to accrue interest at the rate of 10% per annum.

On January 25, 2013, the Company issued a note payable in the amount of \$80,000. The note carries interest at the rate of 10% per annum and was due on October 22, 2013. Since the note was not repaid on maturity, 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 of \$0.075. The beneficial conversion feature discount resulting from the conversion price being \$0.055 below the market price on January 25, 2013 of \$0.13 provided a value of \$58,667. During the year ended December 31, 2014, \$Nil (2013 - \$58,667) of the debt discount was amortized. As of December 31, 2014, \$95,474 (2013 - \$87,474) of principal, accrued interest, and unamortized debt discount on this note was included in other loans payable. The note is past due and continues to accrue interest at the rate of 10% per annum.

On April 24, 2013, the Company issued a note payable in the amount of \$50,000. The note carries interest at the rate of 10% per annum and was due on October 31, 2013. Since the note was not repaid on maturity, 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 of \$0.075. The beneficial conversion feature discount resulting from the conversion price being \$0.025 below the market price on April 24, 2013 of \$0.10 provided a value of \$16,667. During the year ended December 31, 2014, \$Nil (2013 - \$16,667) of the debt discount was amortized. As of December 31, 2014, \$58,452 (2013 - \$53,452) of principal, accrued interest, and unamortized debt discount on this note was included in other loans payable. The note is past due and continues to accrue interest at the rate of 10% per annum.



## Other Loans Payable

On January 25, 2011, the Company signed a promissory note whereby the Company agreed to repay a director \$20,000 plus interest at 10% per annum on April 25, 2011. This loan was not repaid on its maturity and has since been renewed several times with the unpaid principal and interest being capitalized to the loan balance on each renewal. On July 1, 2013, the director combined this loan with a total unpaid principal and interest balance of \$2,864 with two other matured loans and extended the maturity date to December 29, 2013. All other terms remained the same. The combined loan was paid in full on September 22, 2014.

On February 9, 2011, the Company signed a promissory note whereby the Company agreed to repay a director \$5,000 plus interest at 10% per annum on May 9, 2011. This loan was not repaid on its maturity and has since been renewed several times with the unpaid principal and interest being capitalized to the loan balance on each renewal. On July 1, 2013, the director combined this loan with a total unpaid principal and interest balance of \$6,324 with two other matured loans and extended the maturity date to December 29, 2013. All other terms remained the same. The combined loan was paid in full on September 22, 2014.

On February 11, 2011, the Company signed a promissory note whereby the Company agreed to repay a director \$8,988 plus interest at 10% per annum on May 11, 2011. This loan was not repaid on its maturity and has since been renewed several times with the unpaid principal and interest being capitalized to the loan balance on each renewal. On July 1, 2013, the director combined this loan with a total unpaid principal and interest balance of \$11,365 with two other matured loans and extended the maturity date to December 29, 2013. All other terms remained the same. The combined loan was paid in full on September 22, 2014.

On July 1, 2013, the above three promissory notes to one director of the Company were combined which capitalized the unpaid principal and interest on the three separate promissory notes totaling \$20,553 into one promissory note and extended the maturity date to December 29, 2013. All other terms remained the same. In April 2014, the note was renewed retroactively from December 29, 2013 until December 29, 2014 which included interest of \$1,025 being capitalized to the principal. As of December 31, 2014, the Company has accrued \$Nil (December 31, 2013 - \$1,036) of interest relating to this loan. On September 22, 2014, the Company paid the director \$23,156 as full repayment of the loan.

On February 1, 2012, the Company signed a promissory note whereby the Company agreed to repay a creditor \$200,000 plus interest at 24% per annum on May 1, 2012. On May 1, 2012, the Company signed a new promissory note with the creditor which capitalized the unpaid principal and interest of \$211,836 under the previous promissory note and extended the maturity date to September 30, 2012. On October 1, 2012, the Company signed a new promissory note with the creditor which capitalized the unpaid principal and interest of \$233,147 under the previous promissory note and extended the maturity date to January 31, 2013. The note was not repaid by January 31, 2013; as a result, \$18,856 of unpaid interest was capitalized to the principal resulting in a total principal balance outstanding of \$252,003 which is incurring a late payment charge of 0.10% per day on any unpaid balances. As of December 31, 2013, the Company had accrued \$75,507 of late payment charges which was included in the outstanding principal and interest balance of \$309,274. On March 6, 2014, the Company paid the creditor \$293,480 as full repayment of the loan and realized a gain of \$15,794 which was recorded against interest expense.

On October 10, 2012, the Company signed a promissory note whereby the Company agreed to repay a creditor \$50,000 plus interest at 10% per annum on April 8, 2013. On April 9, 2013, the Company signed a new promissory note with the creditor which capitalized the unpaid principal and interest of \$52,479 under the previous promissory note and extended the maturity date to October 6, 2013. The note was not repaid by October 6, 2013 and continues to accrue interest at the rate of 10% per annum. As of December 31, 2014, the balance owing to this creditor was \$61,566 (2013 - \$56,318) which includes \$9,087 (2013 - \$3,839) of accrued interest.

On November 19, 2012, the Company signed a promissory note whereby the Company agreed to repay a creditor \$100,000 plus interest at 10% per annum on May 18, 2013. The loan was not repaid by its maturity date; as such, a late payment charge is being accrued on the unpaid principal and interest of \$104,959. On December 9, 2013, the Company paid the creditor \$15,000 towards the late payment charges. As of December 31, 2013, the Company had accrued \$13,260 of interest relating to this loan. On March 6, 2014, the Company paid the creditor \$119,059 as full repayment of the loan.

On November 19, 2012, the Company signed a promissory note whereby the Company agreed to repay a creditor \$100,000 plus interest at 10% per annum on May 18, 2013. The loan was not repaid by May 18, 2013 and continues to accrue interest at the rate of 10% per annum. On July 24, 2013, the creditor combined this loan with another matured loan and extended the maturity date to January 20, 2014. All other terms remained the same. Refer to the promissory note dated July 24, 2013 for further details. The combined loan was repaid in full on March 6, 2014.

On December 5, 2012, the Company signed a promissory note whereby the Company agreed to repay a creditor \$25,000 plus interest at 10% per annum on June 3, 2013. On June 3, 2013, the Company signed a new promissory note with the creditor which capitalized the unpaid principal and interest of \$26,240 under the previous promissory note and extended the maturity date to December 1, 2013. The note was not repaid by December 1, 2013 and continues to accrue interest at the rate of 10% per annum. As of December 31, 2014, the balance owing to this creditor was \$30,381 (2013 - \$27,757) which includes \$4,141 (2013 - \$1,517) of accrued interest.

On January 24, 2013, the Company signed a promissory note whereby the Company agreed to repay a creditor \$50,000 plus interest at 10% per annum on July 23, 2013. On July 24, 2013, the creditor combined this loan with another matured loan and extended the maturity date to January 20, 2014. All other terms remained the same. Refer to the promissory note dated July 24, 2013 for further details. The combined loan was repaid on March 6, 2014.

On February 8, 2013, the Company signed a promissory note whereby the Company agreed to repay a creditor \$100,000 plus interest at 10% per annum on August 7, 2013. This loan was not repaid on its maturity and has since been renewed several times with the unpaid principal and interest being capitalized to the loan balance on each renewal. All other terms remained the same. The loan matured on February 4, 2015. On December 2, 2014, the Company paid the creditor \$72,907 of which \$9,055 was applied to the accrued interest and \$63,852 was applied to the principal outstanding. As of December 31, 2014, the balance owing to this creditor was \$46,692 (2013 - \$109,157) which includes \$381 (2013 - \$4,198) of accrued interest. The note is past due and continues to accrue interest at the rate of 10% per annum.

On February 19, 2013, the Company signed a promissory note whereby the Company agreed to repay a creditor \$33,000 plus interest at 10% per annum on May 20, 2013. The loan was not repaid by May 18, 2013 and continued to accrue interest at the rate of 10% per annum. On July 17, 2013, the Company paid the creditor \$34,338 resulting in a full repayment of the loan.

On February 28, 2013, the Company signed a promissory note whereby the Company agreed to repay a creditor \$50,000 plus interest at 10% per annum on August 27, 2013. This loan was not repaid on its maturity and has since been renewed several times with the unpaid principal and interest being capitalized to the loan balance on each renewal. All other terms remained the same. The loan matures on February 25, 2015. On June 11, 2014, the Company paid the creditor \$50,000 of which \$1,600 was applied to the accrued interest and \$48,400 was applied to the principal outstanding. As of December 31, 2013, Company had accrued \$1,812 of interest on a principal balance of \$52,479. On December 2, 2014, the Company paid the creditor \$7,093 as full repayment of the loan.

On July 24, 2013, the Company signed a new promissory note with a creditor which capitalized the unpaid principal and interest on two separate loans totaling \$164,295 under previous promissory notes and extended the maturity date to January 20, 2014. The note was not repaid by January 20, 2014 and continued to accrue interest at the rate of 10% per annum. As of December 31, 2013, the Company has accrued \$7,247 of interest relating to this loan. On March 6, 2014, the Company paid the creditor \$174,468 as full repayment of the loan.

On October 15, 2013, the Company signed a new promissory note with a creditor for a total of \$500,000 which was disbursed to the Company in three tranches: Tranche A - \$200,000 (received in November 2013); Tranche B - \$150,000 (received in December 2013); and Tranche C - \$150,000 (received in January 2014). The note had a maturity date of April 15, 2014 and bears interest at 5% per annum. In the event of default, the creditor is able to convert the unpaid principal and interest into common shares of ATS as is required in order for the shareholding of the creditor, when added to the 49% shareholding of Utiba, be equal to 52.57% of the entire issued share capital of ATS. As of December 31, 2013, the balance on the loan was \$351,382 which includes \$1,382 of accrued interest. On March 6, 2014, the Company paid the creditor \$505,063 as full repayment of the loan.

On July 24, 2014, the Company signed a promissory note whereby the Company agreed to repay a creditor \$250,000 plus interest at 24% per annum on January 24, 2015. As of December 31, 2014, the balance owing to this creditor was \$276,466 which includes \$26,466 of accrued interest. This loan was not repaid on its maturity and has since been renewed with the unpaid principal and interest of \$280,411 being capitalized to the loan balance on renewal. The new loan matures on July 6, 2015 and bears interest at 24% per annum.

### **Long Term Debt**

On August 5, 2013, the Company signed a new promissory note with a creditor for a total of \$550,000 which was to be disbursed to the Company in three tranches: Tranche A - \$100,000 (received in June 2013); Tranche B - \$200,000 by August 31, 2013 (received \$100,000 in August 2013 and \$100,000 in September 2013); and Tranche C - \$250,000 by September 30, 2013 (outstanding as it has not yet been received by the Company). The note had a maturity date of December 31, 2015 and bears interest at 10% per annum with 5% per annum being capitalized to the loan and 5% per annum being payable in cash at each disbursements respective anniversary date. In the event of default, the creditor is able to convert the unpaid principal and interest into common shares of ATS at two times the principal amount outstanding with an exercise price being equal to ATS's capital stock and paid in capital for the month immediately prior to the Event of Default divided by the total outstanding shares of ATS of the same month. As of December 31, 2013, the balance on the loan was \$312,667 which included \$12,667 of accrued interest. On March 6, 2014, the Company paid the creditor \$318,084 as full repayment of the loan.

**Recent Issuance of Non- Restricted Securities**

*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 fiscal year ended December 31, 2014.

**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.

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

*Overview*

*2013 and Historical*

Alternet Systems, Inc. has traditionally operated in two distinct industries, mobile financial services and mobile security. In mobile financial services, the Company had unique features in its product offerings and was considered a global pioneer and market leader, consistently ranked by independent surveys amongst the top three in the world. The Company has a geographical focus on the entire Western Hemisphere (North, Central and South America and the Caribbean).

Digital and Mobile Security Software and Services

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

Mobile Financial Services

In 2010, the Company launched its mobile financial and mobile commerce suite of services, which it offered in equity partnership with leading mobile financial services software developer, Utiba Pte. Utiba Americas enjoyed 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 was 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 was in its early growth and adoption stages and several successful initiatives had been launched worldwide by our competitors. We believe that as wireless usage expands, the demand for our services would grow.

Since launching in 2010, the Company had implemented mobile financial service solutions in Bolivia, Colombia, Ecuador, Guatemala, and Honduras. Revenue would come from organic growth of its existing operations, primarily from its hosted service, and the Company's robust sales pipeline with many qualified opportunities throughout the region. The Company also benefited from its name recognition and reputation, being one of the leading names in mobile financial services.

Sales and marketing was accomplished through the Company's existing sales staff, who contact potential clients directly, and through agent sales, channel partners, trade shows, and industry associations. Marketing materials such as brochures, web sites, and technical specifications were continuously updated with an increased emphasis being placed on its offerings for specific vertical industries, specifically the telecom, financial, government and utilities sectors.

The Company had been successful in capturing a leading market share in regional deployments and was widely recognized as having among the broadest and most robust product offerings. In 2012, the Company was awarded a multi country license sale agreement with Digicel Group, with an initial launch in Haiti, as well as the sale of a license to Astra Holdings, S.A. a Central America mobile payment service provider, that initially launched in Honduras and was to expand into 5 Central America countries. It also successfully launched in January 2013, the electronic top up platform for Corporación Digitel S.A. a mobile network operator in Venezuela, and in August 2013 the Mobile Commerce platform in Haiti, for Digicel.

The SaaS product offering had successfully garnered key clients in Guatemala, Bolivia, México and Latin America. The Company was working in several other projects with a regional player with a multi country reach. The Company continued to receive widespread interest as it was negotiating several SaaS proposals with regional banks and mobile payment service providers prior to the ATS Transaction discussed in Note 8 of the financial statements.

In 2014 the Company sold of all of its business and assets to Utiba, as described previously in the *Overview of the ATS Transaction and Consideration Payable*.

**2014**

In 2014 Alternet transformed into an accelerator of high growth, the digital currency and the financial technology fields. Our goal is to expand the horizons of individuals and organizations, by providing a growth and networking platform, empowering them to go beyond their expectations and goals

The new vision of Alternet is to accelerate the future of money a digital monetary ecosystem, and providing an exchange that allows for the movement from virtual money to fiat currency

Our new product and service will offer consumers and business s the cost savings and speed associated with the internet while being compliant with anti-money laundering procedures currency in place at US brokerage firms and banks

Alternet has stayed competitive not because we are perfect but because we make progress. Progress is about getting better, being better, doing better. We are mission based. Alternet technology and people, move, communicate, protects and empower the world.

The difficult part about progress is that great results take time. But, the pay-back can be huge. Strategic investments in revolutionary new products that have come to market in the past few years, are based on big bet technologies, years in the making and delivered ahead of the competition.

After the sale of the assets of ATS, management has achieved three key objectives. These are:

- Redefining the strategic objectives of Alternet Systems, Inc, focusing in the multichannel payments and digital assets verticals.
- With its shareholders, restructuring the company capital structure. Increasing the number of authorized common shares, including the blank check preferred and the stock option program.
- Reducing the outstanding debt to a minimum. Including trust liabilities and long term debt.

The future is wide open. With a smart strategy Alternet Systems, Inc., is positioning itself as a leader in the digital asset and multichannel payment industries.

The technologies behind Bitcoin and the distributed ledger, commonly referred as the Blockchain, will again disrupt the financial and payment industry. As we expand our business, Alternet Systems, Inc. is tactically positioned to take advantage of its public company advantage, complete transparency and disclosure.

In 2014, the Company completed the following milestones:

- Entered into arrangements with select digital currencies, with the first having taken place in February 2014 with Ven
- Initiated the launch of the digital currency bank, fully compliant with government regulations and with FX exchange capabilities
- Initiated projects in micro payment services to the unbanked and global diasporas in the Americas and Asia
- Launched several initiatives in the alternative financial services (multichannel payments) to the retail industry emerging markets
- Attracted key talent specialized in digital payments, FX transactions, and Financial Technology and Services
- Became a full time member of the Bitcoin Foundation and DATA (Digital Asset Transfer Association) and of the Bitcoin Foundation
- Entered into a strategic joint venture with BIOMETRY for "BioME", which replaces passwords and PINs through the combination of dynamic facial and voice recognition in a unique ID system; to provide end to end security for digital currencies
- Signed a Letter of Intent with P2P Cash to launch the Digital Asset Exchange initiative under the OneMarket subsidiary, subject to approval of the license by the New York Department of Financial Services. Under this Letter of Intent, the plans to execute the launch of the digital currency exchange, fully compliant with government regulations and foreign exchange capabilities. The Company is actively pursuing and preparing to apply for a license with The New York Department of Financial Services to be allowed to receive, transmit, store, exchange, issue or convert virtual currency for Customers. The licensing process will not be completed until 2015 as requirements are still being defined;
- Entered into a strategic channel partner agreement with BitPay - the world leader in business solutions for the bitcoin digital currency;
- In October 2014 the Company completed a formal agreement with Wildcard Consulting Inc. ("Wildcard") to launch the first U.S. based Bitcoin debit card.

In 2014 we have entered into a relationship with VEN and Hub Culture to become a VEN Authority. This relationship will allow us to become an issuer of the VEN Currency on a global basis, leveraging the experience and the strength of this digital currency. We expect to start generating revenues from the sale of the currency in 2015.

Hub Culture is an invitation-led social network service that operates the global digital currency Ven, and according to its website, is "the first to merge online and physical world environments. It was founded in November 2002. The Hub Culture group of companies is privately held with offices in Bermuda, Hong Kong, London and New York, with a network of knowledge brokers in over 20 locations worldwide. The web site is [www.hubculture.com](http://www.hubculture.com).

VEN is a global digital currency traded in international financial markets and originally used by members of a social network service, Hub Culture, to buy, share, and trade knowledge, goods, and services. The value of Ven is determined on the financial markets from a basket of currencies, commodities and carbon futures. It trades against major currencies at floating exchange rates.

In 2014, the Company created Altnet Financial Services, Inc. ( AFS ), a wholly owned subsidiary. AFS provides financial services based on Digital Asset solutions, these include foreign exchange services, digital currency clearing (including Bitcoin, VEN and other crypto currencies).

The Company also incorporated a wholly owned subsidiary, Altnet Payment Services, Inc, ( APS ) specialized in financial services software, including biometric authentication, multichannel payment solutions, electronic point of sale modernization, NFC point of sale solutions for the mobile financial industry, payment processing and data analytics tools.





VEN is a global digital currency traded in international financial markets and originally used by members of a social network service, P2P Cash's technology and intellectual property provides a highly secure, real-time mobile payment solution to deliver cash transfers and remittance payments in developing countries through seamless international cash transfers. P2P Cash's proprietary platform is a unique method for the implementation of a mobile banking standard that can work with any wireless carrier and/or any bank worldwide.

In addition, the Company's financial services initiative will focus on bringing to market innovative consumer products, including a multi-asset debit and credit card. This initiative is the first of its kind with dynamic currency conversion from digital to physical currency, digital currency exchange and merchant acquisition solutions. All of these services will include the seamless integration of existing digital currencies, including Bitcoin, Ven, Ripple and others. The Company expects to have a global reach, initially launching in Latin America and the Caribbean, with expansion opportunities into Africa and Eastern Europe.

In September 2014, APS entered into a non-exclusive agent agreement to sell and support the BitPay platform into Altnet's customer base. APS will leverage its experience in the mobile and disruptive payments technology industry, to focus on providing business to business Bitcoin payment methods, such as converting local currency to Bitcoin and/or Bitcoin to USD in the Americas, Caribbean and Asia-Pacific. Altnet's experience in disruptive payment technologies, and a customer network comprised of leading mobile operators, financial service providers and banks, will allow us to deploy BitPay's solutions in these markets.

Early 2014, we incorporated OneMarket Inc. This company is a wholly owned subsidiary of Altnet Systems, Inc. OneMarket is applying for the Digital Asset Exchange license, under the Department of Financial Services, of the State of New York.. OneMarket expects to become on the leading digital currency, hard currency (fiat) and commodities. As of the time of writing of this report, the State of New York had not issued a final formal proposal or an estimated date to pass this important regulation.

### **2015 and Beyond**

In 2015, the Company and its wholly owned subsidiaries, will start to provide its products and services on a commercial basis. These services will include:

- APS will develop and deploy, retail and consumer multichannel payment mechanisms
- Altnet subsidiary, APS, will apply for electronic payment licenses in several countries in Latin America
- Invest in technologies around the Bitcoin distributed Blockchain. These applications are called Sidechains, and can be applied to a wide variety of uses, from Title Registration, Citizens ID, Vehicle Tag Management, Logistics, etc
- Digital currency payment solutions (debit and secured credit card)
- Modernization of the electronics Point of Sale legacy infrastructure. Expanding the useful life of the electronic point of sale, and including new payment functions in the terminals, such as Bill Payment, Electronic top-up and native payments with digital currency at the point of sale. Digital asset exchange, leveraging the new regulations in the United States.
- Data analytics tools and services for the Telecommunications and Financial Services industries.

### **Results of Operations**

Results of Operations are for the year ended December 31, 2014 compared to the year ended December 31, 2013.

The Company's results, on a consolidated basis, reflect 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. Altnet has a controlling interest in both ATS subsidiaries.

**Net Sales**

For the year ended December 31, 2014, the Company had net sales of \$Nil versus \$3,141, for the prior year. The low sales in 2014 were a result of the Company searching for new business ventures to replace the digital and mobile financial and security services it was offering in 2013. The low sales in 2013 were a result of the Company focusing its efforts on Utiba, which was classified as a discontinued operation at December 31, 2013. All revenue earned by Utiba was included in discontinued operations.

IMS continued to underperform and management is reviewing various options, including divestiture, reorganization or merger opportunities.

**Selling, General and Administrative Expenses**

The operating and administrative expenses for the year ended December 31, 2014 totaled \$1,869,715 as compared to \$1,505,881 for the year ended December 31, 2013. The table below details the major changes in administrative expenditures for the year ended December 31, 2014 as compared to the corresponding year ended December 31, 2013.

<b>Expenses</b>	<b>Increase / Decrease in Expenses</b>	<b>Explanation for Change Year Ended December 31, 2014 as Compared to Year Ended December 31, 2013</b>
Investor relation	Decrease of \$57,235	The 2013 year included additional investor communications because of the ATS transaction.
Research and development	Increase of \$496,435	In 2014, the Company paid a fee of \$500,000 in connection with the ability to offer and promote digital currency.
Management and consulting	Increase of \$215,206	Increased consulting fees have been incurred in the current period while the Company searches for new business ventures. Additionally, in the interim the Company has utilized more consultants rather than salaried employees
Office and general	Increase of \$78,9853	The 2014 year end includes \$14,755 of VAT paid by ATSE in previous years that will most likely not be collected. The increase also stems from increased subscriptions and dues and \$55,302 from increased marketing due to the Company rebranding its image after the closing of the ATS Transaction
Payroll, net	Decrease of \$556,259	The 2013 year end included an estimate for payroll tax penalties and interest of \$563,866 while the 2014 year end included a reversal of \$206,600 of estimated interest on payroll taxes that was over accrued in fiscal 2013. Additionally, the 2014 year end included a reversal of \$68,800 of unpaid wages which were forgiven by a former employee of IMS.
Professional fees	Increase of \$104,353	Increased accounting fees relating to the filing of quarterly reports and payroll tax payments and increased legal fees relating to the digital currency exchange licensing process and increased legal oversight and SEC filings.
Travel	Increase of \$83,411	Increased need for travel for meetings and due diligence on new initiatives being explored by the Company.

## Interest and Other Expenses

The Company's interest expense decreased to \$109,019 for the year ended December 31, 2014 compared to \$403,603 the previous year due to the decrease in loans outstanding during the year, reflecting the repayment of several loans payable.

## Net Loss

For the year ended December 31, 2014, the Company had a comprehensive loss attributable to Altnet Systems, Inc. from continuing operations of \$1,827,368 or (\$0.02) per share and an overall net and comprehensive income of \$1,566,347 or \$0.02 per share, a decrease of 2.95% and an increase of 147.62% respectively, when compared to the corresponding year December 31, 2013 which had a net loss from continuing operations of \$1,872,699 or (\$0.02) per share and an overall net and comprehensive loss of \$3,310,183 or \$(0.04) per share.

## Liquidity and Capital Resources

As of December 31, 2014, the Company had \$74,907 of cash in the bank and \$8,149 of outstanding accounts receivable. At December 31, 2014, the Company had a working capital deficiency of \$3,460,610.

The Company will be pursuing additional financing to fund ongoing operations and new initiatives. The Company's ability to continue as a going concern will be negatively affected if it is unsuccessful.

Accounts payable were \$1,790,639 at December 31, 2014 compared to accounts payable of \$1,466,546 at December 31, 2013. Accounts receivable increased to \$8,149 for 2014 versus \$Nil for 2013.

## Discontinued Operations

On October 15, 2013 and subsequently amended in its entirety on January 6, 2014, the Company, Utiba Pte. Ltd. ( Utiba ), a non-controlling interest investor in ATS, ATS, and Utiba Guatemala entered into an Asset Purchase Agreement in order to effect the sale by ATS of all of its business and assets to Utiba, as described below (the ATS Transaction ). For such transaction to proceed, approval of the Company's shareholder was required, which approval was obtained on February 21, 2014.

### Overview of the ATS Transaction and Consideration Payable

The transaction involves the following components:

- 1 The sale pursuant to the Asset Purchase Agreement by ATS of substantially all of its business and assets to Utiba (including the assumption by Utiba of certain liabilities related to such business and assets), in consideration for up to \$3,100,000 in cash (the "Cash Purchase Price") subject to certain adjustments related to certain net receivables or liabilities, as the case may be, and reduction to the extent of certain tax liabilities of ATS. The amount of \$300,000 of the Cash Purchase Price will be held back to cover certain claims that may be made under the indemnification provisions of the Asset Purchase Agreement.
- 2 The entry by the Company into a non-compete covenant in favor of Utiba and its affiliates in the mobile payment, top up and mobile financial services industry for a period of 36 months, in consideration for a payment in cash on closing of the transactions contemplated by the Asset Purchase Agreement (the Closing ) of \$2,200,000. The Company is recognizing the full amount as income on closing as it does not intend to compete in this industry in the future.

The release by the Company of Utiba from all its obligations under the ATS Shareholders Agreement in consideration for a payment in cash on Closing of \$200,000.

- 4 Upon Closing, Utiba shall transfer its 49% interest in ATS to the Company so that the Company will own 100% of ATS after Closing.

On March 4, 2014, the ATS Transaction closed pursuant to which the Company received \$4,928,036 in proceeds. An additional \$667,264 was being held back to cover certain claims that may be made under the indemnification provisions of the Asset Purchase Agreement. During the year ended December 31, 2014, \$367,264 was released upon confirmation from the IRS that all payroll taxes had been paid. The remaining \$300,000 held back at December 31, 2014 are included in sale proceeds held back and a deferred gain on sale and will be released as follows:

- \$150,000 on March 4, 2015; and
- \$150,000 on September 4, 2015.

The March 4, 2015 payment has not been received. The Company has pursued payment with Utiba and Amdocs without result. On March 24, 2015 the Company formally notified Utiba and Amdocs that it is in default of the Asset Purchase Agreement and demanded immediate payment.

As of December 31, 2013, the associated assets and liabilities of the consolidated ATS business have been classified as discontinued operations and are presented below:

	<b>2013</b>
	\$
<b>ASSETS</b>	
Cash	44,107
Accounts receivable, net of allowance for doubtful accounts of \$789,565	301,991
Prepaid cost of sales	25,056
Deposits and other assets	40,500
Fixed assets, net of accumulated amortization of \$119,006 (2012 - \$116,025)	137,170
Intellectual property	1,500,000
<b>CURRENT ASSETS OF DISCONTINUED OPERATIONS</b>	<b>2,048,824</b>
<b>LIABILITIES</b>	
Accounts payable and accrued charges	555,914
Deferred income	153,150
Long-term debt	69,039
Capital leases	5,042
<b>CURRENT LIABILITIES OF DISCONTINUED OPERATIONS</b>	<b>783,145</b>

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The following table summarizes the financial results of ATS' s consolidated discontinued operations for the years ended December 31, 2014 and 2013:

	2014	2013
	\$	\$
Revenue	155,036	1,185,912
Cost of Sales	142,441	1,136,976
Gross Margin	12,595	48,936
Operating Expenses	459,108	2,894,209
Net Loss Before Other Items	(446,513)	(2,845,273)
Other Items	(12,119)	44,970
Non-Compete Income	2,200,000	-
Shareholder Release Income	200,000	-
Gain on Disposal of Assets	1,248,687	-
Net Income (Loss) Before Non-Controlling Interest	3,190,055	(2,800,303)
Non-Controlling Interest	(203,660)	(1,362,819)
<b>Discontinued Operations for Alternet Systems, Inc.</b>	<b>3,393,715</b>	<b>(1,437,484)</b>

The table below details the Company' s gain on disposal of assets at December 31, 2014:

	2014
	\$
Total funds received	5,295,300
Less: Funds relating to non-compete and shareholder release income	(2,400,000)
Net funds received	2,895,300
Liabilities assumed by the purchaser	177,401
Total proceeds	3,072,701
Assets sold	(1,824,014)
<b>Gain on disposal of assets</b>	<b>1,248,687</b>

All other Disclosures in this Report that were impacted by this discontinued operation have been reclassified accordingly.

### Plan of Operations

Management has effectively disposed of the assets of International Mobile Security (IMS). While the market for IMS products, primarily the government, law enforcement and, to a lesser degree, corporate segments, appears to be large and growing, IMS' product offering needed further refinement and development. Similarly, significantly more management time was required to address the current challenges as well as additional resources, which may distract from the Company' s primary focus. Therefore, the decision was made to return the assets acquired to Data Enforce, and sign mutual full releases and settlement of debts.

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The new vision of Alternet is to accelerate the future of money a digital monetary ecosystem, and providing an exchange that allows for the movement from virtual money to fiat currency

Our new product and service will offer consumers and businesses the cost savings and speed associated with the internet while being compliant with anti-money laundering procedures currency in place at US brokerage firms and



banks

In addition, the Company's financial services initiative will focus on bringing to market innovative consumer products, including a multi-asset debit and credit card. This initiative is the first of its kind with dynamic currency conversion from digital to physical currency, digital currency exchange and merchant acquisition solutions. All of these services will include the seamless integration of existing digital currencies, including Bitcoin, Ven, Ripple and others. The Company expects to have a global reach, initially launching in Latin America and the Caribbean, with expansion opportunities into Africa and Eastern Europe.

APS will leverage its experience in the mobile and disruptive payments technology industry, to focus on providing business to business Bitcoin payment methods, such as converting local currency to Bitcoin and/or Bitcoin to USD in the Americas, Caribbean and Asia-Pacific. Altnet's experience in disruptive payment technologies, and a customer network comprised of leading mobile operators, financial service providers and banks, will allow us to deploy BitPay's solutions in these markets.

OneMarket is applying for the Digital Asset Exchange license, under the Department of Financial Services, of the State of New York. OneMarket expects to become one of the leading digital currency, hard currency (fiat) and commodities. As of the time of writing of this report, the State of New York had not issued a final formal proposal or an estimated date to pass this important regulation.

In 2015, the Company and its wholly owned subsidiaries, will start to provide its products and services on a commercial basis. These services will include:

- APS will develop and deploy, retail and consumer multichannel payment mechanisms
- Alternet subsidiary, APS, will apply for electronic payment licenses in several countries in Latin America
- Invest in technologies around the Bitcoin distributed Blockchain. These applications are called Sidechains, and can be applied to a wide variety of uses, from Title Registration, Citizens ID, Vehicle Tag Management, Logistics, etc
- Digital currency payment solutions (debit and secured credit card)
- Modernization of the electronics Point of Sale legacy infrastructure. Expanding the useful life of the electronic point of sale, and including new payment functions in the terminals, such as Bill Payment, Electronic top-up and native payments with digital currency at the point of sale. Digital asset exchange, leveraging the new regulations in the United States.
- Data analytics tools and services for the Telecommunications and Financial Services industries.

### Conclusion

The Company is entering into its next phase which will leverage the experience and knowledge in mobile technology and financial services to provide solutions in the digital currency and the mobile and digital security fields. Investments in these fields are underway.

The Company anticipates raising additional money via debt or private placement. The proceeds from this financing will be used to expand the operations of our subsidiaries, and to invest in both the Blockchain applications and the OneMarket Exchange. We will engage an investment banking organization to assist in the financing efforts.

As part of the actions executed in 2014, and approved by the Shareholders, we increased the number of the authorized common shares to 500 million and we also included 10 million of Preferred shares. These shares may be used for both our financing activities as well as for potential acquisitions in stock. The Board of Directors of the Company, has not determined and decided on the follow up actions and activities in regards to either financing or acquisitions.

The market for both payments and digital currency is undergoing massive growth. Management recommends to the Board of Directors and to the Shareholders, that the Company continue investing in this high growth sectors. The use of digital currency in on the way to become mainstream, and the ability to pay, using multiple mechanisms is a consumer need. Having our own digital currency exchange will facilitate clearing the transactions generated via our consumer and B2B offerings and create additional value.

The relationship with VEN, through our wholly owned subsidiary Alternet Financial Solutions will continue to grow and expand as new opportunities in new markets are pursued.

Our subsidiary, Alternet Payment Solutions, LLC. will allow the Company to expand and create revenue opportunities in the legacy payments space. Through the relationship with its technology partners, the Company will be able to tap into over 45 million electronic POS devices, increase adoption of Bitcoin, by adding online retailers to the Bitpay acquiring network, initiate payment processing services, through a card, a mobile wallet or a bank account, referred to as multichannel payments.

In the future the Company continues to see itself in the digital currency space, investing in digital currency verticals, such as the Sidechain development applications, the Digital Currency Exchange, or as it is called at the Company, OneMarket.

The future of payments is intrinsically tied to the proper analysis of data. The Company will seek partners in this space, and bring on board, these functionalities.

## **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. 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 and Assumptions*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the useful life and recoverability of long-lived assets, fair value of convertible notes payable and derivative liabilities. The 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 value of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between estimates and the actual results, future results of operations will be affected.

### *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.

*Accounts Receivable and Allowance for Doubtful Accounts*

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

*Foreign Currency Translation*

The Company's functional currency and its reporting currency is the United States Dollar. 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' equity (deficit), whereas gains or losses resulting from foreign currency transactions are included in the results of operations.

*Long-Lived Assets Including Other Acquired Intellectual Property*

Management monitors the recoverability of long-lived assets and intangibles 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. The Company did not recognize an impairment charges related to long-lived assets during the year ended December 31, 2014 and 2013.

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. The Company recognized an impairment charge of \$Nil (2013 - \$100,000) related to indefinite lived intangible assets during the year ended December 31, 2014.

*Revenue Recognition*

Up to March 4, 2014, the Company entered into sales arrangements that may have provided for multiple deliverables to a customer. Software sales may have included the sale of a software license, implementation/customization services, and/or ongoing support services.

In order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, the Company accounts for each deliverable separately. Licenses, support fees, and hosted services have standalone value as such services are often sold separately. In determining whether implementation/customization services have standalone value, the Company considers the following factors for each agreement: availability of the services from other vendors, the nature of the services, the timing of when the services contract was signed in comparison to the services start date, and the contractual dependence of the customization service on the customer's satisfaction with the implementation/customization services work.

The Company concluded that all of the services included in multiple-deliverable arrangements executed had standalone values when multiple deliverables included in an arrangement are separated into different units of accounting. The arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. The Company determines the relative selling price for a deliverable based on its vendor-specific objective evidence of selling price ( VSOE ), if available, or its best estimate of selling price ( BESP ), if VSOE is not available. The Company has determined that third-party evidence of selling price ( TPE ) is not a practical alternative due to differences in its service offerings compared to other parties and the availability of relevant third party pricing information. The amount of revenue allocated to delivered items is limited by contingent revenue, if any.

The Company has not established VSOE for a majority of its revenue due to lack of pricing consistency, the customer specific requests, and other factors. Accordingly, the Company used its BESP to determine the relative selling price.

The Company determined BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company's discounting practices, the size and volume of the Company's transactions, the geographic area where services are sold, its market strategy, historic contractually stated prices and prior relationships, and future service sales with certain customers. The determination of BESP is made through consultation with and approval by the Company's management, taking into consideration the market strategy. As the Company's market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes in selling prices.

Revenue was recognized upon delivery or when services were performed, provided that persuasive evidence of a sales arrangement existed, both title and risk of loss passed to the customer, and collection was reasonably assured. Persuasive evidence of a sales arrangement existed upon execution of a written sales agreement or signed purchase order that constituted a fixed and legally binding commitment between the Company and the buyer. Specifically, revenue from the sale of licenses was recognized when the title of the license transferred to the customer while revenue from implementation/customization services performed was recognized upon successful completion of a User Acceptance Test ( UAT ). If a successful UAT was never achieved and the sales arrangement was cancelled, the Company recognized any deferred revenue not required to be refunded to the customer.

The Company's payment terms vary by client. To reduce credit risk in connection with software license and support sales, the Company may, depending upon the circumstances, require significant deposits prior to delivery. In some circumstances, the Company may require payment in full for its products prior to delivery. For support and hosted services, the Company sold customers service agreements that were recorded as deferred revenue and provided for payment in advance on either an annual or other periodic basis. Revenue for these support services was recognized ratably over the term of the agreement.

Subsequent to March 4, 2014 the Company implemented the criteria outlined in SAB 104 and recognized revenue when:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered;
- the seller's price to the buyer is fixed or determinable; and
- collectability is reasonably assured.

#### *Deferred Income*

The Company recognizes revenues as earned. Amounts billed in advance of the period in which service is rendered are recorded as a liability under Deferred income.

#### *Research and Development*

The Company expenses costs when incurred for items associated with researching and developing new sources of revenue.

#### *Digital Currency Transactions*

The Company enters into transactions that are denominated in digital currency (Ven). These transactions result in digital currency denominated assets and liabilities that are revalued periodically. Upon revaluation, transaction gains and losses are generated and are reported as unrealized gains and losses in other gain (loss), net in the Consolidated Statements of Operations. The Company determines fair value as of the balance sheet date based on Level I inputs which consist of quoted prices in active markets. The value of the Company's digital currency is \$118,494, net of \$6,506 of unrealized losses, as of December 31, 2014. Due to the uncertainty regarding the current and future accounting treatment and tax, legal and regulatory requirements relating to digital currencies or transactions utilizing digital currencies, such accounting, legal, regulatory and tax developments or other requirements may adversely affect us.

#### *Debt with Conversion Options*

The Company accounts for convertible debentures in accordance with ASC Topic 470-20, *Debt with Conversion and Other Options*, which applies to all convertible debt instruments that have a net settlement feature, which means instruments that by their terms may be settled either wholly or partially in cash upon conversion. Accordingly, the liability and equity components of convertible debt instruments that may be settled wholly or partially in cash upon conversion should be accounted for separately in a manner reflective of their issuer's nonconvertible debt borrowing rate. Conversion features determined to be beneficial to the holder are valued at fair value and recorded to additional paid in capital. Any discount derived from determining the fair value to the debenture conversion features is amortized to interest expense over the life of the debenture. The unamortized costs, if any, upon the conversion of the debentures is expensed to interest immediately.

#### *Leases*

The Company leases operating facilities which include switches, other network equipment, and premises. Rentals payable under operating leases are charged to the statements of operation on a straight line basis over the term of the relevant lease. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as an asset and a liability in the statement of financial position. Amounts due within one year are classified as short-term liabilities and the remaining balance as long-term liabilities.

*Fair Value of Financial Instruments*

The Company has determined the estimated fair value of financial instruments using available market information and appropriate valuation methodologies. The carrying value of the Company's financial instruments, consisting of accounts receivable, checks in excess of bank balances, accounts payable and accrued liabilities, wages payable, accrued payroll taxes, other loans payable, stock-based compensation, warrants, and due to related parties, approximate their fair value due to the relatively short maturity of these 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 recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement.

### *Stock-Based Compensation*

The Company accounts for its share-based compensation plans in accordance with the fair value recognition provisions of ASC 718 *Compensation - Stock Compensation*. The Company utilizes the Black-Scholes option pricing model as its method for determining the fair value of stock option grants. ASC 718 requires the fair value of all share-based awards that are expected to vest to be recognized in the statements of operations over the service or vesting period of each award. The Company uses the straight-line method of attributing the value of share-based compensation expense for all stock option grants over the requisite service period.

### *Loss per Share*

The Company computes net earnings (loss) per share in accordance with ASC Topic 260, *Earnings Per Share*. Topic 260 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.

At December 31, 2014 and 2013 the Company had no warrants or options outstanding to consider in the income (loss) per share calculations.

### *Recent Accounting Pronouncements*

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This ASU is to be applied prospectively for all disposals of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods beginning on or after December 15, 2015. Additionally, this ASU is to be applied to all business activated that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015. ASU No 2014-08 addresses concerns about the accounting for discontinued operations and the disposal of small groups of assets that are recurring in nature but qualify as discontinued operations under subtopic 205-20 Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU is effective for annual reporting periods beginning after December 15, 2016. ASU No 2014-09 addresses concerns about weaknesses and inconsistencies in revenue recognition across entities, industries, jurisdictions, and capital markets. Management does not anticipate that this accounting pronouncement will have any material future effect on our



consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This ASU is effective for annual and interim reporting periods beginning after December 15, 2015. ASU No 2015-02 amends the analysis required to by a reporting entity to determine if it should consolidate certain types of legal entities. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. This ASU is effective for annual reporting periods beginning after December 15, 2015. ASU No 2014-12 clarifies the diverse accounting treatments used by entities to account for awards based on performance targets achieved after the requisite period. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Topic 205): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU is effective for annual reporting periods ending after December 15, 2016. ASU No 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In November 2014, the FASB issued ASU No. 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is more Akin to Debt or Equity*. This ASU is effective for annual and interim reporting periods beginning after December 15, 2015. ASU No 2014-16 objective is to eliminate the use of different methods of accounting for these types of instruments and thereby reduce existing diversity under GAAP. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This ASU is effective for annual and interim reporting periods beginning after December 15, 2015. ASU No 2015-01 eliminates the concept of extraordinary items. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future financial position, results of operations or cash flows.

**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**

**AS OF DECEMBER 31, 2014 AND 2013**

**AND THE YEARS THEN ENDED**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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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Audit Report

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
Alternet Systems, Inc.

We have audited the accompanying consolidated balance sheets of Alternet Systems, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alternet Systems, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the entity has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

StarkSchenkein, LLP  
Denver, Colorado  
March 31, 2015

**ALTERNET SYSTEMS INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**As of December 31, 2014 and 2013**

	2014	2013
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	74,907	-
Accounts receivable, net	8,149	-
Sale proceeds held in escrow	300,000	-
Investment in digital currency	118,494	-
Deposits and other assets	7,000	21,785
Current assets of discontinued operations	-	2,048,824
<b>Total current assets</b>	<b>508,550</b>	<b>2,070,609</b>
<b>Fixed assets, net</b>	<b>-</b>	<b>2,733</b>
<b>TOTAL ASSETS</b>	<b>508,550</b>	<b>2,073,342</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current liabilities</b>		
Checks issued in excess of bank balance	-	168
Accounts payable and accrued charges	1,790,639	1,466,546
Wages payable	864,268	1,672,273
Accrued payroll taxes	181,532	1,671,353
Deferred gain on sale	300,000	-
Other loans payable, net of beneficial conversion feature	796,078	1,543,509
Due to related parties	36,643	102,464
Current liabilities of discontinued operations	-	783,145
<b>Total current liabilities</b>	<b>3,969,160</b>	<b>7,239,458</b>
<b>Long term debt</b>	<b>-</b>	<b>312,667</b>
	3,969,160	7,552,125
<b>Stockholders' equity (deficiency)</b>		
Capital stock		
Authorized: 500,000,000 common stock with a par value of \$0.00001 and 10,000,000 preferred stock with a par value of \$0.00001		
Issued and outstanding: 99,483,055 common stock (2013 - 95,737,389)		
	995	957
Additional paid-in capital	14,861,372	14,453,693
Private placement subscriptions	505,362	130,362
Share subscription receivable	(375,000)	-
Obligation to issue shares	-	2,800
Deferred compensation	-	(113,125)
Accumulated other comprehensive income	(331,373)	(331,332)
Accumulated deficit	(18,121,966)	(17,939,881)

	(3,460,610)	(3,796,526)
Non-controlling interest	-	(1,682,257)
	(3,460,610)	(5,478,783)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)</b>	<b>508,550</b>	<b>2,073,342</b>

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

**ALTERNET SYSTEMS INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**For the years ended December 31, 2014 and 2013**

	2014	2013
	\$	\$
<b>REVENUE</b>	-	3,141
<b>OPERATING EXPENSES</b>		
Bad debts	-	7,646
Bank charges	4,229	2,438
Depreciation	2,733	1,129
Investor relations	89,111	146,346
Research and development	500,000	3,565
Management and consulting	850,636	635,430
Office and general	105,241	26,288
Recovery of penalties and interest	(284,561)	-
Payroll, net	181,507	384,405
Professional fees	334,321	229,968
Rent	27,648	33,874
Telephone and utilities	23,386	13,939
Travel	104,264	20,853
	1,938,515	1,505,881
<b>NET LOSS BEFORE OTHER ITEMS</b>	(1,938,515)	(1,502,740)
<b>OTHER ITEMS</b>		
Interest expense, net	(109,019)	(403,603)
Gain on foreign exchange	60,333	100,601
Unrealized loss on investment	(6,506)	-
Impairment of intellectual property	-	(100,000)
Forgiveness and adjustment of accounts payable	188,032	18,425
	132,840	(384,577)
<b>NET LOSS FROM CONTINUING OPERATIONS</b>	(1,805,675)	(1,887,317)
<b>NON-CONTROLLING INTEREST FROM CONTINUING OPERATIONS</b>	21,693	(14,618)
<b>NET LOSS ATTRIBUTABLE TO ALTERNET SYSTEMS INC. FROM CONTINUING OPERATIONS</b>	(1,827,368)	(1,872,699)
<b>DISCONTINUED OPERATIONS</b>	3,393,715	(1,437,484)
<b>TOTAL NET AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ALTERNET SYSTEMS INC.</b>	<b>1,566,347</b>	<b>(3,310,183)</b>

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





**ALTERNET SYSTEMS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net income (loss) attributable to Alternet Systems Inc.	1,566,347	(3,310,183)
Non-controlling interest	21,693	(14,618)
Add items not affecting cash		
Depreciation	2,733	1,129
Interest accrued	114,633	266,626
Bad debt expense	-	7,646
Relief of debt	(55,169)	-
Forgiveness and adjustment of accounts payable	(188,032)	-
Debt assumed by Amdocs	(505,063)	-
Shares for services	249,917	344,436
Unrealized loss on investments	6,506	-
Accretion of debt discount	-	151,090
Unrealized foreign exchange gain	(59,839)	(55,040)
Deferred compensation	143,125	91,875
Impairment of intellectual property	-	100,000
Changes in non-cash working capital:		
Accounts receivable	13,442	11,587
Deposits and other assets	14,785	-
Accounts payable and accrued charges	512,125	394,826
Wages payable	(692,213)	779,987
Accrued taxes	(1,489,821)	750,006
Due to related parties	(5,982)	(99,879)
Net cash (used in) operating activities	(350,813)	(580,512)
<b>INVESTING ACTIVITIES</b>		
Net cash (used in) investing activities	-	-
<b>FINANCING ACTIVITIES</b>		
Proceeds from loans payable	400,000	1,013,000
Payments on loans payable	(718,007)	(69,338)
Payments on long term debt	(318,083)	-
Checks issued in excess of bank balance	(168)	(3,545)
Share issue costs	-	(21,000)
Net cash provided by financing activities	(636,258)	919,117
<b>EFFECT OF EXCHANGE RATES ON CASH</b>	(41)	17
<b>CASH FLOWS FROM CONTINUING OPERATIONS</b>	(987,112)	338,622
<b>CASH FLOWS FROM DISCONTINUED OPERATIONS</b>	1,062,019	(338,622)
<b>NET INCREASE IN CASH DURING THE YEAR</b>	74,907	-
<b>CASH, BEGINNING OF YEAR</b>	-	-

<b>CASH, END OF YEAR</b>	<b>74,907</b>	<b>-</b>
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The accompanying notes are an integral part of these consolidated financial statements

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

	Shares	Common Stock	Additional Paid in Capital \$	Private Placement Subscriptions \$	Deferred Compensation \$	Obligation to Issue shares \$	Accumulated Deficit \$	Comp In
<b>Balance December 31, 2012</b>	<b>89,056,203</b>	<b>890</b>	<b>13,849,991</b>	<b>130,362</b>	<b>-</b>	<b>-</b>	<b>(14,629,698)</b>	
Shares issued for services	6,681,186	67	549,369	-	(205,000)	-	-	
Share issue costs	-	-	(21,000)	-	-	-	-	
Beneficial conversion features	-	-	75,333	-	-	-	-	
Services provided per terms of the contract	-	-	-	-	91,875	-	-	
Obligation to issue shares per consulting agreement	-	-	-	-	-	2,800	-	
Foreign exchange translation adjustment	-	-	-	-	-	-	-	
Adjustment to non-controlling interest accounts payable	-	-	-	-	-	-	-	
Non-controlling interest	-	-	-	-	-	-	-	
Net loss	-	-	-	-	-	-	(3,310,183)	
<b>Balance December 31, 2013</b>	<b>95,737,389</b>	<b>957</b>	<b>14,453,693</b>	<b>130,362</b>	<b>(113,125)</b>	<b>2,800</b>	<b>(17,939,881)</b>	

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

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

	Shares	Common Stock	Additional Paid in Capital \$	Private Placement Subscriptions \$	Subscription Receivable \$	Deferred Compensation \$	Obligation to Issue shares \$	Accumulated Deficit \$
Balance December 31, 2013	95,737,389	957	14,453,693	130,362	-	(113,125)	2,800	(17,900)
Shares issued for services	3,495,666	35	332,682	-	-	(80,000)	(2,800)	
Shares issued for cash	1,250,000	13	124,987	(125,000)	-	-	-	
Cancellation of shares issued for services	(1,000,000)	(10)	(49,990)	-	-	50,000	-	
Share subscriptions received	-	-	-	500,000	(375,000)	-	-	
Services provided per terms of the contract	-	-	-	-	-	143,125	-	
Foreign exchange translation adjustment	-	-	-	-	-	-	-	
Adjustment to non-controlling interest accounts payable	-	-	-	-	-	-	-	
Purchase of non-controlling interest	-	-	-	-	-	-	-	(1,700)
Non-controlling interest	-	-	-	-	-	-	-	
Net income	-	-	-	-	-	-	-	1,500
<b>Balance December 31, 2014</b>	<b>99,483,055</b>	<b>995</b>	<b>14,861,372</b>	<b>505,362</b>	<b>(375,000)</b>	<b>-</b>	<b>-</b>	<b>(18,100)</b>

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

**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

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

Alternet Systems Inc., through its subsidiaries ( Alternet or the Company ), plans to enter the digital currency space and provide end to end security for digital currencies, launch its digital currency bank, fully compliant with government regulations, foreign exchange capabilities, offer micro payment services to the unbanked and global diasporas, and alternative financial services to the retail industry emerging markets. Previously, the Company provided leading edge mobile financial solutions and mobile security and related solutions with the former being offered throughout the Western Hemisphere, but most actively in Central and South America and the Caribbean, and the latter being offered globally. As detailed in Note 8, Discontinued Operations, the Company, pursuant to the ATS Transaction, discontinued providing mobile financial solutions and mobile security.

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, 2014 the Company had a working capital deficiency of \$3,460,610 (2013 - \$5,168,849). The Company s continued operations are dependent on the successful implementation of its business plan, its ability to obtain additional financing as needed, continued support from creditors, settling its outstanding debts and ultimately attaining profitable operations. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are prepared in US dollars unless otherwise noted.

**Principles of Consolidation**

These consolidated financial statements include the accounts of the following companies:

- Alternet Systems Inc.
- AI Systems Group, Inc., a wholly owned subsidiary of Alternet
- Tekvoice Communications, Inc., a wholly owned subsidiary of Alternet
- Alternet Transactions Systems ( ATS ), Inc., a wholly owned subsidiary of Alternet (formerly a 51% owned subsidiary. See Note 8, Discontinued Operations)
- Utiba Guatemala, S.A., a wholly-owned subsidiary of Alternet Transactions Systems Inc.
- International Mobile Security, Inc. ( IMS ), a wholly owned subsidiary of Alternet (formerly a 60% owned subsidiary)
- 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
- OneMarket, Inc., a 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.

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

**December 31, 2014 and 2013**

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

**Use of Estimates and Assumptions**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the useful life and recoverability of long-lived assets, fair value of convertible notes payable and derivative liabilities. The 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 value of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between estimates and the actual results, future results of operations will be affected.

**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.

**Accounts Receivable and Allowance for Doubtful Accounts**

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

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

**December 31, 2014 and 2013**

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

**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

**Long-Lived Assets Including Other Acquired Intellectual Property**

Management monitors the recoverability of long-lived assets and intangibles 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. The Company did not recognize an impairment charges related to long-lived assets during the year ended December 31, 2014 and 2013.

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. The Company recognized an impairment charge of \$Nil (2013 - \$100,000) related to indefinite lived intangible assets during the year ended December 31, 2014.

**Foreign Currency Translation**

The Company's functional currency and its reporting currency is the United States Dollar. 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' equity (deficit), whereas gains or losses resulting from foreign currency transactions are included in the results of operations.

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

**December 31, 2014 and 2013**

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

**Revenue Recognition**

Up to March 4, 2014, the Company entered into sales arrangements that may have provided for multiple deliverables to a customer. Software sales may have included the sale of a software license, implementation/customization services, and/or ongoing support services.

In order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, the Company accounts for each deliverable separately. Licenses, support fees, and hosted services have standalone value as such services are often sold separately. In determining whether implementation/customization services have standalone value, the Company considers the following factors for each agreement: availability of the services from other vendors, the nature of the services, the timing of when the services contract was signed in comparison to the services start date, and the contractual dependence of the customization service on the customer's satisfaction with the implementation/customization services work.

The Company concluded that all of the services included in multiple-deliverable arrangements executed had standalone values when multiple deliverables included in an arrangement are separated into different units of accounting. The arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. The Company determines the relative selling price for a deliverable based on its vendor-specific objective evidence of selling price ( VSOE ), if available, or its best estimate of selling price ( BESP ), if VSOE is not available. The Company has determined that third-party evidence of selling price ( TPE ) is not a practical alternative due to differences in its service offerings compared to other parties and the availability of relevant third party pricing information. The amount of revenue allocated to delivered items is limited by contingent revenue, if any.

The Company has not established VSOE for a majority of its revenue due to lack of pricing consistency, the customer specific requests, and other factors. Accordingly, the Company used its BESP to determine the relative selling price.

The Company determined BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company's discounting practices, the size and volume of the Company's transactions, the geographic area where services are sold, its market strategy, historic contractually stated prices and prior relationships, and future service sales with certain customers. The determination of BESP is made through consultation with and approval by the Company's management, taking into consideration the market strategy. As the Company's market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes in selling prices.



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

**December 31, 2014 and 2013**

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

**Revenue Recognition (continued)**

Revenue was recognized upon delivery or when services were performed, provided that persuasive evidence of a sales arrangement existed, both title and risk of loss passed to the customer, and collection was reasonably assured. Persuasive evidence of a sales arrangement existed upon execution of a written sales agreement or signed purchase order that constituted a fixed and legally binding commitment between the Company and the buyer. Specifically, revenue from the sale of licenses was recognized when the title of the license transferred to the customer while revenue from implementation/customization services performed was recognized upon successful completion of a User Acceptance Test ( UAT ). If a successful UAT was never achieved and the sales arrangement was cancelled, the Company recognized any deferred revenue not required to be refunded to the customer.

The Company's payment terms vary by client. To reduce credit risk in connection with software license and support sales, the Company may, depending upon the circumstances, require significant deposits prior to delivery. In some circumstances, the Company may require payment in full for its products prior to delivery. For support and hosted services, the Company sold customers service agreements that were recorded as deferred revenue and provided for payment in advance on either an annual or other periodic basis. Revenue for these support services was recognized ratably over the term of the agreement.

Subsequent to March 4, 2014 the Company implemented the criteria outlined in SAB 104 and recognized revenue when:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered;
- the seller's price to the buyer is fixed or determinable; and
- collectability is reasonably assured.

**Deferred Income**

The Company recognizes revenues as earned. Amounts billed in advance of the period in which service is rendered are recorded as a liability under Deferred income.

**Research and Development**

The Company expenses costs when incurred for items associated with researching and developing new sources of revenue.

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

**December 31, 2014 and 2013**

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

**Digital Currency Transactions**

The Company enters into transactions that are denominated in digital currency (Ven). These transactions result in digital currency denominated assets and liabilities that are revalued periodically. Upon revaluation, transaction gains and losses are generated and are reported as unrealized gains and losses in other gain (loss), net in the Condensed and Consolidated Statements of Operations. The Company determines fair value as of the balance sheet date based on Level I inputs which consist of quoted prices in active markets. The value of the Company's digital currency is \$118,494, net of \$6,506 of unrealized losses, as of December 31, 2014. Due to the uncertainty regarding the current and future accounting treatment and tax, legal and regulatory requirements relating to digital currencies or transactions utilizing digital currencies, such accounting, legal, regulatory and tax developments or other requirements may adversely affect us.

**Debt with Conversion Options**

The Company accounts for convertible debentures in accordance with ASC Topic 470-20, *Debt with Conversion and Other Options*, which applies to all convertible debt instruments that have a net settlement feature, which means instruments that by their terms may be settled either wholly or partially in cash upon conversion. Accordingly, the liability and equity components of convertible debt instruments that may be settled wholly or partially in cash upon conversion should be accounted for separately in a manner reflective of their issuer's nonconvertible debt borrowing rate. Conversion features determined to be beneficial to the holder are valued at fair value and recorded to additional paid in capital. Any discount derived from determining the fair value to the debenture conversion features is amortized to interest expense over the life of the debenture. The unamortized costs, if any, upon the conversion of the debentures is expensed to interest immediately.

**Leases**

The Company leases operating facilities which include switches, other network equipment, and premises. Rentals payable under operating leases are charged to the statements of operation on a straight line basis over the term of the relevant lease. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as an asset and a liability in the statement of financial position. Amounts due within one year are classified as short-term liabilities and the remaining balance as long-term liabilities.

**Fair Value of Financial Instruments**

The Company has determined the estimated fair value of financial instruments using available market information and appropriate valuation methodologies. The carrying value of the Company's financial instruments, consisting of accounts receivable, checks in excess of bank balances, accounts payable and accrued liabilities, wages payable, accrued payroll taxes, other loans payable, and due to related parties, approximate their fair value due to the relatively short maturity of these instruments.

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

**December 31, 2014 and 2013**

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

**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 recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement.

**Stock-Based Compensation**

The Company accounts for its share-based compensation plans in accordance with the fair value recognition provisions of ASC 718 *Compensation - Stock Compensation*. The Company utilizes the Black-Scholes option pricing model as its method for determining the fair value of stock option grants. ASC 718 requires the fair value of all share-based awards that are expected to vest to be recognized in the statements of operations over the service or vesting period of each award. The Company uses the straight-line method of attributing the value of share-based compensation expense for all stock option grants over the requisite service period.

**Loss per Share**

The Company computes net earnings (loss) per share in accordance with ASC Topic 260, *Earnings Per Share*. Topic 260 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.

At December 31, 2014 and 2013 the Company had no warrants or options outstanding to consider in the income (loss) per share calculations.

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

**December 31, 2014 and 2013**

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

**Reclassification**

Certain comparative figures have been reclassified in order to conform to the current year's presentation.

**Recent Accounting Pronouncements**

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This ASU is to be applied prospectively for all disposals of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods beginning on or after December 15, 2015. Additionally, this ASU is to be applied to all business activated that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015. ASU No 2014-08 addresses concerns about the accounting for discontinued operations and the disposal of small groups of assets that are recurring in nature but qualify as discontinued operations under subtopic 205-20. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU is effective for annual reporting periods beginning after December 15, 2016. ASU No 2014-09 addresses concerns about weaknesses and inconsistencies in revenue recognition across entities, industries, jurisdictions, and capital markets. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. This ASU is effective for annual reporting periods beginning after December 15, 2015. ASU No 2014-12 clarifies the diverse accounting treatments used by entities to account for awards based on performance targets achieved after the requisite period. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Topic 205): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU is effective for annual reporting periods ending after December 15, 2016. ASU No 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

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

**December 31, 2014 and 2013**

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

**Recent Accounting Pronouncements (continued)**

In November 2014, the FASB issued ASU No. 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is more Akin to Debt or Equity*. This ASU is effective for annual and interim reporting periods beginning after December 15, 2015. ASU No 2014-16 objective is to eliminate the use of different methods of accounting for these types of instruments and thereby reduce existing diversity under GAAP. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This ASU is effective for annual and interim reporting periods beginning after December 15, 2015. ASU No 2015-01 eliminates the concept of extraordinary items. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This ASU is effective for annual and interim reporting periods beginning after December 15, 2015. ASU No 2015-02 amends the analysis required to by a reporting entity to determine if it should consolidate certain types of legal entities.. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future financial position, results of operations or cash flows.

**NOTE 3 FIXED ASSETS**

	<b>December 31, 2014</b>		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Computer equipment	320,933	320,933	-
Computer software	75,128	75,128	-
Equipment	10,576	10,576	-
	406,637	406,637	-

	<b>December 31, 2013</b>		
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Computer equipment	320,933	319,700	<b>1,233</b>
Computer software	75,128	73,866	<b>1,262</b>
Equipment	10,576	10,338	<b>238</b>

406,637	403,904	<b>2,733</b>
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Depreciation expense in 2014 and 2013 was \$2,733 and \$1,129, respectively.

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

**December 31, 2014 and 2013**

**NOTE 4 INTELLECTUAL PROPERTY**

On January 25, 2011, the Company signed a Copyright Agreement with a supplier for various intellectual properties of which \$100,000 was due upon signing of the agreement. As of December 31, 2014, the Company had \$Nil (2013 - \$68,900) included in accounts payable and accrued charges relating to this agreement. Management decided to impair the assets at December 31, 2013 as the Company had not been able to derive any revenues from the intellectual properties.

During the year ended December 31, 2014, management sold the intellectual property to a former director of the Company and ATS for relief of the balance owed to the vendors; as such, the Company recorded an adjustment of accounts payable of \$68,900.

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

**Convertible Debentures**

On August 29, 2012, the Company issued a note payable in the amount of \$44,438. The note carries interest at the rate of 10% per annum and was due on February 28, 2013. Since the note was not repaid on maturity, 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 of \$0.075. The beneficial conversion feature discount resulting from the conversion price being \$0.045 below the market price on August 29, 2012 of \$0.12 provided a value of \$26,663. During the year ended December 31, 2014, \$Nil (2013 - \$8,596) of the debt discount was amortized. As of December 31, 2014, \$54,494 (2013 - \$50,051) of principal, accrued interest, and unamortized debt discount on this note was included in other loans payable. The note is past due and continues to accrue interest at the rate of 10% per annum.

On September 26, 2012, the Company issued a note payable in the amount of \$60,000. The note carries interest at the rate of 10% per annum and was due on March 31, 2013. Since the note was not repaid on maturity, 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 of \$0.075. The beneficial conversion feature discount resulting from the conversion price being \$0.045 below the market price on September 26, 2012 of \$0.12 provided a value of \$36,000. During the year ended December 31, 2014, \$Nil (2013 - \$17,419) of the debt discount was amortized. As of December 31, 2014, \$73,118 (2013 - \$67,118) of principal and accrued interest, and unamortized debt discount on this note was included in other loans payable. The note is past due and continues to accrue interest at the rate of 10% per annum.

On October 19, 2012, the Company issued a note payable in the amount of \$80,000. The note carries interest at the rate of 10% per annum and was due on April 30, 2013. Since the note was not repaid on maturity, 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 of \$0.075. The beneficial conversion feature discount resulting from the conversion price being \$0.085 below the market price on October 19, 2012 of \$0.16 provided a value of \$80,000. During the year ended December 31, 2014, \$Nil (2013 - \$49,741) of the debt discount was amortized. As of December 31, 2014, \$96,986 (2013 - \$88,986) of principal, accrued interest, and unamortized debt discount on this note was included in other loans payable. The note is past due and continues to accrue interest at the rate of 10% per annum.

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

**December 31, 2014 and 2013**

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

**Convertible Debentures**

On January 25, 2013, the Company issued a note payable in the amount of \$80,000. The note carries interest at the rate of 10% per annum and was due on October 22, 2013. Since the note was not repaid on maturity, 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 of \$0.075. The beneficial conversion feature discount resulting from the conversion price being \$0.055 below the market price on January 25, 2013 of \$0.13 provided a value of \$58,667. During the year ended December 31, 2014, \$Nil (2013 - \$58,667) of the debt discount was amortized. As of December 31, 2014, \$95,474 (2013 - \$87,474) of principal, accrued interest, and unamortized debt discount on this note was included in other loans payable. The note is past due and continues to accrue interest at the rate of 10% per annum.

On April 24, 2013, the Company issued a note payable in the amount of \$50,000. The note carries interest at the rate of 10% per annum and was due on October 31, 2013. Since the note was not repaid on maturity, 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 of \$0.075. The beneficial conversion feature discount resulting from the conversion price being \$0.025 below the market price on April 24, 2013 of \$0.10 provided a value of \$16,667. During the year ended December 31, 2014, \$Nil (2013 - \$16,667) of the debt discount was amortized. As of December 31, 2014, \$58,452 (2013 - \$53,452) of principal, accrued interest, and unamortized debt discount on this note was included in other loans payable. The note is past due and continues to accrue interest at the rate of 10% per annum.

**Other Loans Payable**

On January 25, 2011, the Company signed a promissory note whereby the Company agreed to repay a director \$20,000 plus interest at 10% per annum on April 25, 2011. This loan was not repaid on its maturity and has since been renewed several times with the unpaid principal and interest being capitalized to the loan balance on each renewal. On July 1, 2013, the director combined this loan with a total unpaid principal and interest balance of \$2,864 with two other matured loans and extended the maturity date to December 29, 2013. All other terms remained the same. The combined loan was paid in full on September 22, 2014.

On February 9, 2011, the Company signed a promissory note whereby the Company agreed to repay a director \$5,000 plus interest at 10% per annum on May 9, 2011. This loan was not repaid on its maturity and has since been renewed several times with the unpaid principal and interest being capitalized to the loan balance on each renewal. On July 1, 2013, the director combined this loan with a total unpaid principal and interest balance of \$6,324 with two other matured loans and extended the maturity date to December 29, 2013. All other terms remained the same. The combined loan was paid in full on September 22, 2014.



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

**December 31, 2014 and 2013**

**NOTE 5 CONVERTIBLE DEBENTURE NOTES AND OTHER LOANS PAYABLE (continued)**

**Other Loans Payable (continued)**

On February 11, 2011, the Company signed a promissory note whereby the Company agreed to repay a director \$8,988 plus interest at 10% per annum on May 11, 2011. This loan was not repaid on its maturity and has since been renewed several times with the unpaid principal and interest being capitalized to the loan balance on each renewal. On July 1, 2013, the director combined this loan with a total unpaid principal and interest balance of \$11,365 with two other matured loans and extended the maturity date to December 29, 2013. All other terms remained the same. The combined loan was paid in full on September 22, 2014.

On July 1, 2013, the above three promissory notes to one director of the Company were combined which capitalized the unpaid principal and interest on the three separate promissory notes totaling \$20,553 into one promissory note and extended the maturity date to December 29, 2013. All other terms remained the same. In April 2014, the note was renewed retroactively from December 29, 2013 until December 29, 2014 which included interest of \$1,025 being capitalized to the principal. As of December 31, 2014, the Company has accrued \$Nil (December 31, 2013 - \$1,036) of interest relating to this loan. On September 22, 2014, the Company paid the director \$23,156 as full repayment of the loan.

On February 1, 2012, the Company signed a promissory note whereby the Company agreed to repay a creditor \$200,000 plus interest at 24% per annum on May 1, 2012. On May 1, 2012, the Company signed a new promissory note with the creditor which capitalized the unpaid principal and interest of \$211,836 under the previous promissory note and extended the maturity date to September 30, 2012. On October 1, 2012, the Company signed a new promissory note with the creditor which capitalized the unpaid principal and interest of \$233,147 under the previous promissory note and extended the maturity date to January 31, 2013. The note was not repaid by January 31, 2013; as a result, \$18,856 of unpaid interest was capitalized to the principal resulting in a total principal balance outstanding of \$252,003 which is incurring a late payment charge of 0.10% per day on any unpaid balances. As of December 31, 2013, the Company had accrued \$75,507 of late payment charges which was included in the outstanding principal and interest balance of \$309,274. On March 6, 2014, the Company paid the creditor \$293,480 as full repayment of the loan and realized a gain of \$15,794 which was recorded against interest expense.

On October 10, 2012, the Company signed a promissory note whereby the Company agreed to repay a creditor \$50,000 plus interest at 10% per annum on April 8, 2013. On April 9, 2013, the Company signed a new promissory note with the creditor which capitalized the unpaid principal and interest of \$52,479 under the previous promissory note and extended the maturity date to October 6, 2013. The note was not repaid by October 6, 2013 and continues to accrue interest at the rate of 10% per annum. As of December 31, 2014, the balance owing to this creditor was \$61,566 (2013 - \$56,318) which includes \$9,087 (2013 - \$3,839) of accrued interest.

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

**December 31, 2014 and 2013**

**NOTE 5 CONVERTIBLE DEBENTURE NOTES AND OTHER LOANS PAYABLE(continued)**

**Other Loans Payable (continued)**

On November 19, 2012, the Company signed a promissory note whereby the Company agreed to repay a creditor \$100,000 plus interest at 10% per annum on May 18, 2013. The loan was not repaid by its maturity date; as such, a late payment charge is being accrued on the unpaid principal and interest of \$104,959. On December 9, 2013, the Company paid the creditor \$15,000 towards the late payment charges. As of December 31, 2013, the Company had accrued \$13,260 of interest relating to this loan. On March 6, 2014, the Company paid the creditor \$119,059 as full repayment of the loan.

On November 19, 2012, the Company signed a promissory note whereby the Company agreed to repay a creditor \$100,000 plus interest at 10% per annum on May 18, 2013. The loan was not repaid by May 18, 2013 and continues to accrue interest at the rate of 10% per annum. On July 24, 2013, the creditor combined this loan with another matured loan and extended the maturity date to January 20, 2014. All other terms remained the same. Refer to the promissory note dated July 24, 2013 for further details. The combined loan was repaid in full on March 6, 2014.

On December 5, 2012, the Company signed a promissory note whereby the Company agreed to repay a creditor \$25,000 plus interest at 10% per annum on June 3, 2013. On June 3, 2013, the Company signed a new promissory note with the creditor which capitalized the unpaid principal and interest of \$26,240 under the previous promissory note and extended the maturity date to December 1, 2013. The note was not repaid by December 1, 2013 and continues to accrue interest at the rate of 10% per annum. As of December 31, 2014, the balance owing to this creditor was \$30,381 (2013 - \$27,757) which includes \$4,141 (2013 - \$1,517) of accrued interest.

On January 24, 2013, the Company signed a promissory note whereby the Company agreed to repay a creditor \$50,000 plus interest at 10% per annum on July 23, 2013. On July 24, 2013, the creditor combined this loan with another matured loan and extended the maturity date to January 20, 2014. All other terms remained the same. Refer to the promissory note dated July 24, 2013 for further details. The combined loan was repaid on March 6, 2014.

On February 8, 2013, the Company signed a promissory note whereby the Company agreed to repay a creditor \$100,000 plus interest at 10% per annum on August 7, 2013. This loan was not repaid on its maturity and has since been renewed several times with the unpaid principal and interest being capitalized to the loan balance on each renewal. All other terms remained the same. The loan matures on February 4, 2015. On December 2, 2014, the Company paid the creditor \$72,907 of which \$9,055 was applied to the accrued interest and \$63,852 was applied to the principal outstanding. As of December 31, 2014, the balance owing to this creditor was \$46,692 (2013 - \$109,157) which includes \$381 (2013 - \$4,198) of accrued interest. The note is past due and continues to accrue interest at the rate of 10% per annum.

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

**December 31, 2014 and 2013**

**NOTE 5 CONVERTIBLE DEBENTURE NOTES AND OTHER LOANS PAYABLE(continued)**

**Other Loans Payable (continued)**

On February 19, 2013, the Company signed a promissory note whereby the Company agreed to repay a creditor \$33,000 plus interest at 10% per annum on May 20, 2013. The loan was not repaid by May 18, 2013 and continued to accrue interest at the rate of 10% per annum. On July 17, 2013, the Company paid the creditor \$34,338 resulting in a full repayment of the loan.

On February 28, 2013, the Company signed a promissory note whereby the Company agreed to repay a creditor \$50,000 plus interest at 10% per annum on August 27, 2013. This loan was not repaid on its maturity and has since been renewed several times with the unpaid principal and interest being capitalized to the loan balance on each renewal. All other terms remained the same. The loan matures on February 25, 2015. On June 11, 2014, the Company paid the creditor \$50,000 of which \$1,600 was applied to the accrued interest and \$48,400 was applied to the principal outstanding. As of December 31, 2013, Company had accrued \$1,812 of interest on a principal balance of \$52,479. On December 2, 2014, the Company paid the creditor \$7,093 as full repayment of the loan.

On July 24, 2013, the Company signed a new promissory note with a creditor which capitalized the unpaid principal and interest on two separate loans totaling \$164,295 under previous promissory notes and extended the maturity date to January 20, 2014. The note was not repaid by January 20, 2014 and continued to accrue interest at the rate of 10% per annum. As of December 31, 2013, the Company has accrued \$7,247 of interest relating to this loan. On March 6, 2014, the Company paid the creditor \$174,468 as full repayment of the loan.

On October 15, 2013, the Company signed a new promissory note with a creditor for a total of \$500,000 which was disbursed to the Company in three tranches: Tranche A - \$200,000 (received in November 2013); Tranche B - \$150,000 (received in December 2013); and Tranche C - \$150,000 (received in January 2014). The note had a maturity date of April 15, 2014 and bears interest at 5% per annum. In the event of default, the creditor is able to convert the unpaid principal and interest into common shares of ATS as is required in order for the shareholding of the creditor, when added to the 49% shareholding of Utiba, be equal to 52.57% of the entire issued share capital of ATS. As of December 31, 2013, the balance on the loan was \$351,382 which includes \$1,382 of accrued interest. On March 6, 2014, the Company paid the creditor \$505,063 as full repayment of the loan.

On July 24, 2014, the Company signed a promissory note whereby the Company agreed to repay a creditor \$250,000 plus interest at 24% per annum on January 24, 2015. As of December 31, 2014, the balance owing to this creditor was \$276,466 which includes \$26,466 of accrued interest. This loan was not repaid on its maturity and has since been renewed with the unpaid principal and interest of \$280,411 being capitalized to the loan balance on renewal. The new loan matures on July 6, 2015 and bears interest at 24% per annum.

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

**December 31, 2014 and 2013**

**NOTE 6 LONG-TERM DEBT**

On August 5, 2013, the Company signed a new promissory note with a creditor for a total of \$550,000 which was to be disbursed to the Company in three tranches: Tranche A - \$100,000 (received in June 2013); Tranche B - \$200,000 by August 31, 2013 (received \$100,000 in August 2013 and \$100,000 in September 2013); and Tranche C - \$250,000 by September 30, 2013 (outstanding as it has not yet been received by the Company). The note had a maturity date of December 31, 2015 and bears interest at 10% per annum with 5% per annum being capitalized to the loan and 5% per annum being payable in cash at each disbursements respective anniversary date. In the event of default, the creditor is able to convert the unpaid principal and interest into common shares of ATS at two times the principal amount outstanding with an exercise price being equal to ATS's capital stock and paid in capital for the month immediately prior to the Event of Default divided by the total outstanding shares of ATS of the same month. As of December 31, 2013, the balance on the loan was \$312,667 which included \$12,667 of accrued interest. On March 6, 2014, the Company paid the creditor \$318,084 as full repayment of the loan.

**NOTE 7 CAPITAL STOCK**

On September 25, 2014 the Company's Shareholders approved amending the Company's Articles of Incorporation to increase its authorized capital stock to 510,000,000 shares of which 500,000,000 shares are common stock and 10,000,000 shares are preferred stock. The Company's Articles were amended effective October 23, 2014.

**Common Stock**

The Company is authorized to issue up to 500,000,000 shares of the Company's common stock with a par value of \$0.00001.

During the year ended December 31, 2014, the Company:

- issued 1,250,000 common shares valued at \$125,000 for share subscription;
- issued 2,495,666 common shares valued at \$252,717 for legal, consulting, and investor relations services rendered;
- issued 1,000,000 common shares valued at \$80,000 for consulting services to be rendered over a twelve month period which were included in deferred compensation (see Note 10); and
- cancelled 1,000,000 common shares valued at \$50,000 previously issued for investor relations to be released upon achieving certain benchmarks which were included in deferred compensation (see Note 10).

**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**  
**NOTE 7 CAPITAL STOCK (continued)**

**Common Shares (continued)**

During the year ended December 31, 2013, the Company:

- issued 1,140,590 common shares valued at \$145,388 for employment incentives in accordance with employment agreements;
- issued 2,840,596 common shares valued at \$199,048 for legal, consulting, and investor relations services rendered;
- issued 700,000 common shares valued at \$105,000 for investor relations to be rendered over a twelve month period which were included in deferred compensation (See Note 10); and
- issued 2,000,000 common shares valued at \$100,000 for investor relations to be released upon achieving certain benchmarks which were included in deferred compensation (See Note 10).

As of December 31, 2014, the Company had \$505,362 (December 31, 2013 - \$130,362) in private placement subscriptions which are reported as private placement subscriptions within stockholders' deficit.

The shares which were not issued as at December 31, 2014 or December 31, 2013 were not used to compute the total weighted average shares outstanding as at December 31, 2014 or December 31, 2013, respectively, and were thus not used in the basic net loss per share calculation.

**Preferred Stock**

The Company is authorized to issue up to 10,000,000 shares of the Company's preferred stock with a par value of \$0.00001.

**Losses Per Share**

As at December 31, 2014, the Company had a weighted average of 97,462,100 (2013 - 91,636,234) common shares outstanding resulting in basic and diluted net and comprehensive loss per common share from continuing operations of \$(0.02) (2013 - \$(0.02)), basic and diluted net and comprehensive income (loss) per common share from discontinued operations of \$0.03 (2013 - \$(0.02)), and basic and diluted net and comprehensive income (loss) per common share of \$0.02 (2013 - \$(0.04)).

**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**  
**NOTE 7 CAPITAL STOCK (continued)**

**Stock Options and Restricted Stock**

Effective July 17, 2014, the Company adopted the 2014 Equity Incentive Plan (the Plan ) for the purpose of providing the Company with the means to compensate, in the form of common stock of the Company, directors, officer, consultants, advisors, and employees of the Company or any of its subsidiaries. The Plan was approved by the Company s stockholders at a special meeting held on September 25, 2014. The Plan will terminate on July 17, 2024 following which no new Options or Restricted Stock can be granted under the Plan. The Company is authorized to issue a maximum 5,000,000 common shares under the Plan, which will automatically increase each time the Company issues additional shares of common stock for a maximum of 5% of the total outstanding common stock.

As at December 31, 2014 and 2013, the Company had no outstanding stock options or restricted stock units.

**Warrants**

The Company had no warrants outstanding at December 31, 2014 and 2013.

**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**  
**NOTE 8 DISCONTINUED OPERATIONS**

On October 15, 2013 and subsequently amended in its entirety on January 6, 2014, the Company, Utiba Pte. Ltd. ( Utiba ), a non-controlling interest investor in ATS, ATS, and Utiba Guatemala entered into an Asset Purchase Agreement in order to effect the sale by ATS of all of its business and assets to Utiba, as described below (the ATS Transaction ). For such transaction to proceed, approval of the Company's shareholder was required, which approval was obtained on February 21, 2014.

Overview of the ATS Transaction and Consideration Payable

The transaction involves the following components:

- 1 The sale pursuant to the Asset Purchase Agreement by ATS of substantially all of its business and assets to Utiba (including the assumption by Utiba of certain liabilities related to such business and assets), in consideration for up to \$3,100,000 in cash (the "Cash Purchase Price") subject to certain adjustments related to certain net receivables or liabilities, as the case may be, and reduction to the extent of certain tax liabilities of ATS. The amount of \$300,000 of the Cash Purchase Price will be held back to cover certain claims that may be made under the indemnification provisions of the Asset Purchase Agreement.
- 2 The entry by the Company into a non-compete covenant in favor of Utiba and its affiliates in the mobile payment, top up and mobile financial services industry for a period of 36 months, in consideration for a payment in cash on closing of the transactions contemplated by the Asset Purchase Agreement (the Closing ) of \$2,200,000. The Company is recognizing the full amount as income on closing as it does not intend to compete in the this industry in the future.
- 3 The release by the Company of Utiba from all its obligations under the ATS Shareholders Agreement in consideration for a payment in cash on Closing of \$200,000.
- 4 Upon Closing, Utiba shall transfer its 49% interest in ATS to the Company so that the Company will own 100% of ATS after Closing.

On March 4, 2014, the ATS Transaction closed pursuant to which the Company received \$4,928,036 in proceeds. An additional \$667,264 was being held back to cover certain claims that may be made under the indemnification provisions of the Asset Purchase Agreement. During the year ended December 31, 2014, \$367,264 was released from funds held back upon confirmation from the IRS that all payroll taxes had been paid. The remaining \$300,000 held back at December 31, 2014 are included in sale proceeds held back and a deferred gain on sale and will be released as follows:

- \$150,000 on March 4, 2015; and
- \$150,000 on September 4, 2015.

The March 4, 2015 payment has not been received. The Company has pursued payment with Utiba and Amdocs without result. On March 24, 2015 the Company formally notified Utiba and Amdocs that it is in default of the Asset Purchase Agreement and demanded immediate payment.

**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**  
**NOTE 8 DISCONTINUED OPERATIONS (continued)**

As of December 31, 2013, the associated assets and liabilities of the consolidated ATS business have been classified as discontinued operations and are presented below:

	<b>2013</b>
	\$
<b>ASSETS</b>	
Cash	44,107
Accounts receivable, net of allowance for doubtful accounts of \$789,565	301,991
Prepaid cost of sales	25,056
Deposits and other assets	40,500
Fixed assets, net of accumulated amortization of \$119,006 (2012 - \$116,025)	137,170
Intellectual property	1,500,000
<b>CURRENT ASSETS OF DISCONTINUED OPERATIONS</b>	<b>2,048,824</b>
<b>LIABILITIES</b>	
Accounts payable and accrued charges	555,914
Deferred income	153,150
Long-term debt	69,039
Capital leases	5,042
<b>CURRENT LIABILITIES OF DISCONTINUED OPERATIONS</b>	<b>783,145</b>

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**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**  
**NOTE 8 DISCONTINUED OPERATIONS (continued)**

The following table summarizes the financial results of ATS's consolidated discontinued operations for the years ended December 31, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
	\$	\$
Revenue	155,036	1,185,912
Cost of Sales	142,441	1,136,976
Gross Margin	12,595	48,936
Operating Expenses	459,108	2,894,209
Net Loss Before Other Items	(446,513)	(2,845,273)
Other Items	(12,119)	44,970
Non-Compete Income	2,200,000	-
Shareholder Release Income	200,000	-
Gain on Disposal of Assets	1,248,687	-
Net Income (Loss) Before Non-Controlling Interest	3,190,055	(2,800,303)
Non-Controlling Interest	(203,660)	(1,362,819)
<b>Discontinued Operations for Alternet Systems, Inc.</b>	<b>3,393,715</b>	<b>(1,437,484)</b>

The table below details the Company's gain on disposal of assets at December 31, 2014:

	<b>2014</b>
	\$
Total funds received	5,295,300
Less: Funds relating to non-competes and shareholder release income	(2,400,000)
Net funds received	2,895,300
Liabilities assumed by the purchaser	177,401
Total proceeds	3,072,701
Assets sold	(1,824,014)
<b>Gain on disposal of assets</b>	<b>1,248,687</b>

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

**December 31, 2014 and 2013**

**NOTE 8 DISCONTINUED OPERATIONS (continued)**

The following table summarizes the cash flow of ATS's consolidated discontinued operations for the years ended December 31, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
	\$	\$
Operating Activities	(494,210)	(142,495)
Investing Activities	1,630,311	-
Financing Activities	(74,082)	(196,127)
<b>Cash Flows From Discontinued Operations</b>	<b>1,062,019</b>	<b>(338,622)</b>

All other Notes to the consolidated financial statements that were impacted by this discontinued operation have been reclassified accordingly.

**NOTE 9 - RELATED PARTY TRANSACTIONS**

As of December 31, 2014, a total of \$658,663 (2013 - \$1,046,352) was payable to directors and officers of the Company of which \$658,663 (2013 - \$357,957) was non-interest bearing and had no specific terms of repayment, \$Nil (2013 - \$21,589) related to loans detailed in Note 4, and \$Nil (2013 - \$666,806) related to unpaid wages for prior years accruing interest at 10% per annum. Of the amount payable, \$17,591 (2013 - \$73,950) was included in accounts payable for expense reimbursements, \$639,375 (2013 - \$964,723) was included in wages payable for accrued fees and capitalized interest, and \$1,697 (2013 - \$7,679) was included in due to related parties.

During the year ended December 31, 2014, a director of the Company and ATS and a director of IMS resigned from the respective Board of Directors. The amounts owing to these two individuals as at December 31, 2014 included \$4,800 (2013 - \$71,279) for accounts payable for expense reimbursements and \$160,809 (2013 - \$520,079) for accrued fees, and interest. Additionally, on September 30, 2014, the former director of IMS released the Company of its obligation to pay the director unpaid wages of \$115,792.

During the year ended December 31, 2014, the Company expensed a total of \$393,958 (2013 - \$910,000) in consulting fees and salaries paid to directors and officers of the Company. Of the amounts incurred, \$232,921 (2013 - \$872,084) has been accrued and \$161,037 (2013 - \$Nil) has been paid in cash.

During the year ended December 31, 2014, the Company's discontinued operations wrote off an accounts receivable from a company with a director in common with the Company for \$789,565; 6,674,709 Venezuelan bolivar fuerte ( VEF ) (2013 - \$789,565; VEF 6,674,709) that had been fully allowed for during the year ended December 31, 2013 due to collectability uncertainty caused by the uncertainty of obtaining foreign currency in Venezuela. In addition, the Company owes this company \$34,946 (VEF 5,971,438) (2013 - \$94,784; VEF 5,971,438) which is non-interest bearing, has no specific terms of repayment, and is included in due to related parties.

**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**  
**NOTE 10 DEFERRED COMPENSATION**

On February 15, 2013, the Company signed an investor relations agreement with a consultant to provide investor relations services for a term of one year. Under the agreement, the Company agreed to make monthly payments to the consultant of \$5,000 if the Company was able to raise \$1,000,000 by May 16, 2013. As the Company did not raise the \$1,000,000 by May 16, 2013, the monthly payments of \$5,000 did not commence. The Company also agreed to issue to the consultant 700,000 shares of common stock, in four equal tranches of 175,000 each on or before February 20, 2013, May 16, 2013, August 14, 2013, and November 12, 2013. On February 19, 2013, the Company issued 700,000 shares in the name of the consultant valued at \$0.15 per share, the closing price of the stock on the issue date, for a total value of \$105,000. As of December 31, 2013, all of the shares had been issued to the consultant. The value of the services is being expensed on a straight-line basis over the life of the contract. During the year ended December 31, 2014, the Company expensed \$13,125 (2013 - \$91,875) to investor relations. The contract was expensed in full by February 15, 2014.

In October 2013, the Company signed an investor relations agreement with another consultant to provide investor relations services for a term of one year. Under the agreement, the Company agreed to make two monthly payments to the consultant of \$10,000 from the date of signing (paid). The Company also agreed to issue to the consultant 2,000,000 shares of common stock based on certain benchmarks. On November 6, 2013, the Company issued 2,000,000 common shares in the name of the consultant valued at \$0.05 per share, the closing price of the stock on the issue date, for a total value of \$100,000 of which none have been delivered to the consultant. The 2,000,000 shares will be delivered to the consultant when the benchmarks of the contract have been met. If the contract is terminated and the consultant does not meet the stages of the benchmarks, the Company may cancel any shares not delivered to the consultant. The value of the services is being expensed when the benchmarks are met. As at December 31, 2014, two of the benchmarks were met (2013 - none); as such, the Company issued 1,000,000 common shares (2013 - Nil) to the consultant and expensed \$50,000 to investor relations. In April 2014, the Company terminated the contract with the consultant and cancelled the remaining 1,000,000 common shares.

On February 18, 2014, the Company signed a consulting agreement with a consultant to provide strategic business consulting services for a term of one year. Under the agreement, the Company agreed to make monthly payments of \$6,500 to the consultant and to issue the consultant 1,000,000 shares of common stock. On June 9, 2014, the Company issued the 1,000,000 common shares in the name of the consultant valued at \$0.08 per share, the closing price of the stock on the issue date, for a total value of \$80,000. The value of the services is being expensed on a straight-line basis over six months, the term stipulated in the contract. During the year ended December 31, 2014, the Company expensed \$80,000 to consulting fees.

The Company recorded the aggregate fair value of the shares issued pursuant to the above agreements as deferred compensation. During the year ended December 31, 2014, the Company expensed \$143,125 (2013 - \$91,875) relating to the above contracts. The shares issued were all valued at their market price on the date of issuance.

**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**  
**NOTE 11 INCOME TAXES**

There is no provision for federal or state income taxes for the years ended December 31, 2014 and 2013 since the Company has established a valuation allowance equal to the total deferred tax asset related to losses incurred during such periods.

A reconciliation of the effect of applying the federal statutory rate and the effective income tax rate used to calculate the Company's income tax provision is as follows:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	\$	\$
Loss from continuing operations before income taxes	(1,805,675)	(1,887,317)
<i>Effective tax rate</i>	<i>40.50%</i>	<i>40.50%</i>
Income tax benefit	(731,300)	(764,400)
Share issue costs	-	(8,500)
Non-deductible items	13,200	224,900
Other deductible items	(300)	(400)
Tax benefits not recognized	718,400	548,400
Income tax expense	-	-

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	\$	\$
Income (loss) from discontinued operations before income taxes	3,190,055	(2,800,283)
<i>Effective tax rate</i>	<i>40.50%</i>	<i>40.50%</i>
Income tax (benefit)	1,292,000	(1,134,100)
Non-deductible items	538,900	159,400
Other deductible items	(2,900)	(30,100)
Tax benefits not recognized (recognized)	(1,828,000)	1,004,800
Income tax expense	-	-

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

**December 31, 2014 and 2013**

**NOTE 11 INCOME TAXES (continued)**

Deferred tax assets and liabilities and related valuation allowance as of December 31, 2014 and 2013 are as follows:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	\$	\$
Deferred tax assets:		
Capital loss carryforwards - continuing operations	-	40,500
Net operating loss carryforwards - continuing operations	6,763,000	6,002,300
Net operating loss carryforwards - discontinued operations	849,100	2,727,200
	7,612,100	8,770,000
Deferred tax liabilities:		
Capital assets continuing operations	-	(800)
Capital assets discontinued operations	-	(50,100)
Unrealized losses continuing operations	(2,600)	
	(2,600)	(50,900)
Net deferred tax assets before valuation allowance	7,609,500	8,719,100
Valuation allowance	(7,609,500)	(8,719,100)
Net deferred tax assets (liabilities)	-	-

Based on the Company's historical losses and its expectation of continuation of losses for the foreseeable future, the Company has determined that it is more likely than not that the deferred tax assets will not be realized and accordingly, has provided a valuation allowance.

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

**December 31, 2014 and 2013**

**NOTE 11 INCOME TAXES (continued)**

At December 31, 2014, the Company has available unused net operating loss carryforwards of approximately \$18.5 million that expire from 2021 to 2034 for federal tax purposes and approximately \$7.0 million for Florida state tax purposes, which expire from 2027 to 2034. Additionally, the Company has loss carryforwards of approximately \$5,100 in Guatemala and \$48,500 in Ecuador.

As of December 31, 2014, the Company believes that it has no liability for uncertain tax provisions. If the Company were to determine there were an uncertain tax provisions, the Company would recognize the liability and related interest and penalties within income tax expense. As of December 31, 2014, the Company has no provisions for interest or penalties related to uncertain tax positions.

The Company files income tax returns in Guatemala, Ecuador, and the U.S. including both the federal jurisdiction and Florida state jurisdiction. There are no income tax examinations currently underway in any jurisdictions, however to the extent that net operating losses have been utilized in either the current or preceding years such losses may be subject to future income tax examination.

**NOTE 12 OPERATING LEASES**

The Company leases its office facilities under a one-year lease agreement with a monthly cost of \$1,800. The lease expired on March 2015 and was renewed at a monthly rate of \$1,872 and expires on February 28, 2016.

Lease expense totaled \$18,000 and \$16,851 during the years ended December 31, 2014 and 2013, respectively.

The following is a schedule by fiscal year of future minimum rental payments required under the operating lease agreement:

2015	\$ 22,320
2016	3,744
Total	\$ 26,064

Total minimum lease payments do not include contingent rentals that may be paid under certain leases because of use in excess of specified amounts. Contingent rental payments were not significant for the years ended December 31, 2014 or 2013.

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

**December 31, 2014 and 2013**

**NOTE 13 SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	\$	\$
<b>Supplemental cash flow disclosures:</b>		
Interest paid	118,714	35,572
Cash paid for income taxes	-	-
<b>Supplemental non-cash disclosures:</b>		
Shares obligated to be issued	-	(2,800)
Shares issued for previous subscriptions	2,800	-
Shares issued for share issue costs	-	21,000
Shares issued for deferred compensation	80,000	205,000
Shares issued for wages and related benefits payable	-	85,795
Value of beneficial conversion feature	-	75,333
Deferred gain from funds held in escrow	300,000	-
Shares issued for investment in digital currency	125,000	-
Cancellation of shares issued for deferred compensation	50,000	-
Settlement of wages payable to a director	115,792	-
Subscription receivable	375,000	-

**NOTE 14 FAIR VALUE**

Fair value accounting establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The fair value of the Company's accounts receivable, sale proceeds held in escrow, accounts payable and accrued liabilities, wages payable, accrued taxes, customer deposits, deferred income, other loans payable, and due to related parties approximate their carrying values. The Company's other financial instruments, being cash, are measured at fair value using Level 1 inputs.

**ALTERNET SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**  
**NOTE 15 LAWSUIT**

In January 2014, the Company received notice of a default judgment in the amount of \$39,000 plus interest entered by the State of New York related to an unpaid service agreement entered into on February 11, 2009. The Company has filed a motion to vacate the foreign judgment or in the alternative stay the enforcement. The Company, until receipt of such notice, was unaware of any such demand. No prior notice had been served to the Company or its chief executive. As of December 31, 2014, no provision for this claim has been made.

**NOTE 16 SUBSEQUENT EVENTS**

- On January 16, 2015, the Company issued 250,000 common shares valued at \$7,500 to legal counsel for services to be rendered.
- On February 13, 2015 the Company filed a complaint ( *Complaint* ) in the Circuit Court for Miami-Dade County, Florida, against Justin Ho and Richard Matotek ( *Defendants* ), the previous combined 96% shareholders of Utiba Pte. Ltd., the joint-venture partner of the Company in Alternet Transaction Systems, Inc. ( *ATS* ). The Complaint alleges that the Defendants did not honor their commitment of paying its 49% share of the liabilities held by ATS at closing of the ATS Transaction (refer to Part 1 Item 1 *Overview of the ATS Transaction and Consideration Payable*). The Company alleges that it is owed \$1,181,639.
- On March 1, 2015, the Company renewed the office facility lease which requires monthly payments of \$1,872 and expires on February 28, 2016.
- After repeated requests for payment, on March 24, 2015 the Company formally notified Utiba and Amdocs that it is in default of the Asset Purchase Agreement and demanded immediate payment of the \$150,000 held back at the time of closing. Release of such amount was due on March 4, 2015.

Events occurring after December 31, 2014 were evaluated through the date this Annual Report was issued, in compliance FASB ASC Topic 855 *Subsequent Events* , to ensure that any subsequent events that met the criteria for recognition and/or disclosure in this report have been included.



**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.

**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, 2014, 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 not effective as of the end of the period covered by this annual report in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. 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, 2014, our internal control over financial reporting is not 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 the company's independent 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 significant changes in our internal controls over financial reporting that occurred during the year ended December 31, 2014 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	Resigned on February 2, 2015
Fernando Cisneros	Director	Expires at next AGM
Michael Viadero	CFO and Director	Appointed on February 2, 2015 to replace Robin Bjorklund

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 multimillion 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 Altnet Systems Inc. in 2008.

**Fernando Cisneros, Director**

Mr. Cisneros, is an entrepreneur and private equity investor with deep financial expertise. Since April 2012 Mr. Cisneros has been a Partner at Octagon Group, a Peruvian real estate development firm, and spearheading multi-million dollar residential and commercial projects. Prior to Octagon Group, Mr. Cisneros was a Vice President in LXG Capital from May 2010 to April 2012, a boutique Latin American investment bank, working on mergers and acquisitions, divestitures, general strategic advisory services, and capital raising. Mr. Cisneros has also served as a Partner in Flow Investments, from December 2008 to February 2010, a global macro hedge fund, where he focused on equities and options. Previously he was Vice President of Finance at Grupo Mistral, a private group of companies in the industrial, retail, and consumer product sectors in Venezuela. Lastly, he began his career as an Analyst at Lazard Frères in mergers and acquisitions.

**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 Altnet Systems Inc. Effective February 2, 2015 Mr. Bjorklund resigned from the Board and was replaced by Mr. Viadero.

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

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 Altnet 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. Effective February 2, 2015 Mr. Viadero replaced Mr. Bjorklund on the Board.

**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, 2014 and 2013; 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, 2014 and 2013,

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:

Name and principal position <b>(a)</b>	Year <b>(b)</b>	Annual Compensation			Long-term compensation			
		Salary (\$) <b>(c)</b>	Bonus (\$) <b>(d)</b>	Other Annual Compensation (\$) <b>(e)</b>	Awards		Payouts	
					Restricted Stock Award(s) (\$) <b>(f)</b>	Securities Underlying options/SARs (#) <b>(g)</b>	LTIP payouts (\$) <b>(h)</b>	All other Compensation (\$) <b>(i)</b>
Henryk Dabrowski	2014	165,000	0	11,200	0	0	0	0
President and	2013	165,000	165,000	9,852	0	0	0	0
Chairman	2012	165,000	82,500	17,865	0	0	0	0
Robin Bjorklund Former Director Resigned on February 2, 2015	2014	0	0	0	0	0	0	0
	2013	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
Fernando Cisneros Director	2014	0	0	0	0	0	0	0
	2013	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0
Michael Viadero, CFO (and Director as of February 2, 2015)	2014	160,000	50,000	8,576	0	0	0	0
	2013	160,000	160,000	9,926	0	0	0	0
	2012	160,000	80,000	9,944	0	0	0	0
Fabio Alvino Former Director (resigned on July 30, 2014)	2014	18,958	0	2,400	0	0	0	0
	2013	130,000	130,000	29,290	0	0	0	0
	2012	130,000	65,000	29,340	0	0	0	0

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Name	Year	Salary	Bonus	Other Annual	Stock Award(s)	Securities	LTIP	All other
<b>Henryk Dabrowski</b>								
Paid in Cash	2014	68,750	0	0	0	0	0	0
Accrued and unpaid	2014	96,2500	0	11,200	0	0	0	0
Paid in cash	2013	13,750	0	9,852	0	0	0	0
Accrued and unpaid	2013	151,250	165,000	0	0	0	0	0
Paid in cash	2012	165,000	82,500	17,865				
Accrued and unpaid	2012	0	0	0	0	0	0	0
<b>Fabio Alvino</b>								
Paid in cash	2014	18,958	0	2,400	0	0	0	0
Accrued and unpaid	2014	0	0	0	0	0	0	0
Paid in cash	2013	130,000	0	29,290	0	0	0	0
Accrued and unpaid	2013	0	130,000	0	0	0	0	0
Paid in cash	2012	130,000	0	29,340	0	0	0	0
Paid in common shares	2012	0	65,000	0	0	0	0	0
Accrued and unpaid	2012	0	0	0	0	0	0	0
<b>Michael Viadero</b>								
Paid in Cash	2014	73,333	0	0	0	0	0	0
Accrued and unpaid	2014	86,776	50,000	8,576	0	0	0	0
Paid in cash	2013	160,000	0	0	0	0	0	0
Accrued and unpaid	2013	0	160,000	9,926	0	0	0	0
Paid in cash	2012	160,000	80,000	9,945	0	0	0	0
Accrued and unpaid	2012	0	0	0	0	0	0	0

### **Involvement in Certain Legal Proceedings**

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

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

### **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, 2014. 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, 2014, 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's board of directors does not have an audit committee.

### **Option Exercises and Stock Vested**

During our fiscal year ended December 31, 2014 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 31, 2015 (16,077,630 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 5500-SW 86 <sup>th</sup> Street Miami, FL 33143	President, Director	5,819,930	5.55%
Fernando Cisneros 2100 Salzedo Street, Suite 300 Coral Gables, Florida 33134	Director	8,179,700	7.81%
Michael Viadero 2694 Inagua Avenue, PH1 Miami, Florida 33133	CFO	2,078,000	1.98%
Directors, Officers and 5% stockholders in total		16,077,630	15.35%

*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.

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As of December 31, 2014, a total of \$658,663 (December 31, 2013 - \$1,046,352) was payable to directors and officers of the Company of which \$658,663 (December 31, 2013 - \$357,957) was non-interest bearing and had no specific terms of repayment, \$Nil (December 31, 2013 - \$21,589) related to loans detailed in Note 4, and \$Nil (December 31, 2013 - \$666,806) related to unpaid wages for prior years accruing interest at 10% per annum. Of the amount payable, \$17,591 (December 31, 2013 - \$73,950) was included in accounts payable for expense reimbursements, \$639,375 (December 31, 2013 - \$964,723) was included in wages payable for accrued fees and capitalized interest, and \$1,697 (December 31, 2013 - \$7,679) was included in due to related parties.

During the year ended December 31, 2014, a director of the Company and ATS and a director of IMS resigned from the respective Board of Directors. The amounts owing to these two individuals as at December 31, 2014 included \$4,800 (December 31, 2013 - \$71,279) for accounts payable for expense reimbursements and \$160,809 (December 31, 2013 - \$520,079) for accrued fees and capitalized interest of which \$Nil (December 31, 2013 - \$281,120) related to unpaid wages of prior years accruing interest at 10% per annum. Additionally, on September 30, 2014, the former director of IMS released the Company of its obligation to pay the director unpaid wages of \$115,792.

During the year ended December 31, 2014, the Company expensed a total of \$393,958 (2013 - \$910,000) in consulting fees and salaries paid to directors and officers of the Company. Of the amounts incurred, \$232,921 (2013 - \$872,084) has been accrued and \$161,037 (2013 - \$Nil) has been paid in cash.

As of December 31, 2014, the Company's discontinued operations held an accounts receivable from a company with a director in common with the Company for \$789,565; 6,674,709 Venezuelan bolivar fuerte ( VEF ) (2013 - \$789,565; VEF 6,674,709) which the Company fully allowed for during the year ended December 31, 2013 due to collectability uncertainty caused by the uncertainty of obtaining foreign currency in Venezuela. In addition, the Company owes this company \$34,946 (VEF 5,971,438) (2013 - \$94,784; VEF 5,971,438) which is non-interest bearing, has no specific terms of repayment, and is included in due to related parties.

### *Director Independence*

Our board acts with three (3) directors, consisting of Henryk Dabrowski, Fernando Cisneros, and Robin Bjorklund. On February 2, 2015, Robin Bjorklund resigned as a director of the Company and was replaced by Michael Viadero. 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, 2014 and for fiscal year ended December 31, 2013 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, 2014	December 31, 2013
Audit Fees	\$62,000	\$74,000
Audit Related Fees	\$11,277	\$4,831

	Year Ended	
	December 31, 2014	December 31, 2013
Tax Fees	\$2,190	\$ 2,842
All Other Fees	Nil	Nil
Total	\$75,467	\$ 81,673

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

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

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

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

**SIGNATURES**

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

**ALTERNET SYSTEMS INC.**

By: /s/Henryk Dabrowski  
Henryk Dabrowski, President  
(Principal Executive Officer)  
March 31, 2015

By: /s/ Michael T. Viadero  
Michael T. Viadero, Secretary, Treasurer  
(Principal Financial Officer and Principal Accounting  
Officer)  
March 31, 2015

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)  
March 31, 2015

By: /s/ Michael T. Viadero  
Michael T. Viadero, Secretary, Treasurer  
(Principal Financial Officer and Principal Accounting  
Officer)  
March 31, 2015