ALTERNET SYSTEMS INC
Form 10-K
March 30, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2015**

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

For the transition period from [ ] to [ ]

Commission file number **000-31909**

ALTERNET SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Nevada	**88-0473897**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2665 S Bayshore Drive Miami FL	**33133**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	**786-265-1840**

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

Title of Each Class	Name of Each Exchange On Which Registered
N/A	**N/A**

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

N/A
(Title of class)

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

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

Act
Yes [   ]   No [X]

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

Indicate by check mark 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 [X]   No [ ]

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

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

Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant on June 30, 2015 was $2,164,086 based on a $0.02 closing price for the Common Stock on June 30, 2015. 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.
115,724,304 as of March 30, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

None.

TABLE OF CONTENTS

PART I

Item 1. Description of Business Forward Looking Statements

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

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

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

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

Company History and Business

Alternet Systems, Inc. (the "Company"), was organized under the laws of the State of Nevada on June 26, 2000, under the name North Pacific Capital Corp. In 2001 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.

<u>2009 to 2013 Focus on Mobile Financial Services and Security</u>

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), Alternet 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 was 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 were collected in 2015.

2014 to 2015 Digital Currency Opportunity

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, Alternet, 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 Alternet 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, Alternet 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 Alternet 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.

In 2015 Alternet decided to cease pursuing digital currency opportunities due to the market collapse for Digital Currencies, mostly due to the volatility of such digital assets as Bitcoin, the lack of a clear regulatory framework, a risky value and revenue generation model, and the entrance of major players in the field, obliged management to steer away from these opportunities.

In January of 2015, the Company entered into its an accelerated business development phase, which leveraged the experience and knowledge in mobile technology and financial services. Management and the Board of Directors, laid out a comprehensive plan to develop three sector verticals, these are: Multichannel payments, Data Analytics and Financial Inclusion Services and Technologies. The Company decided to restructure its organization, by creating direct operating divisions directly under Alternet. This corporate action will reduce operational overhead, accounting and auditing costs and allow for direct consolidation into the Company. This financial consolidation will also allow the use of accumulated Net Operating Losses (NOL s) to be used in an efficient way.

In April 2015, the Company signed an agreement with R4 Technologies, Inc. Under this agreement the Company sells, implements and provides consulting services to customers using the R4 Technologies   Data Analytics suite of services. The Company is focusing on opportunities in the Southeast US and Latin America region. The target markets includes financial, telecommunications, large surface retailers and mass consumer goods companies. The solution allows marketing and sales organizations to analyze and produce clustering and micro-segmentation reports, including deductive, forensic and predictive scenarios. The Company also provides full consulting and other big data services.

In April 2015, the Company signed an agreement with APPI from Brasil. APPI, now called MUXI, is a software development company specializing in solutions for the electronic point of sales industry. MUXI solutions include the ability to develop, implement and electronically distribute applications that are installed on the existing legacy point of sale and transforms the device into a multichannel selling platform. The Company has secured a distribution agreement to cover the continental US. According to Visa   s Global Registry of Service Providers, the potential market size of existing electronic point of sales devices is close to 40 million units, owned by close to 1800 Independent Sales Organizations (ISO   s) that process payments for retailers and merchants in the US. These solutions extend the experience of the Company in the US electronics payments markets with a proven and popular solution.

In December 2015, The Company signed an agreement with Pure Software for the distribution and sale of their comprehensive suite of financial inclusion software and its multiple integration to most core banking systems. The Pure Software solution allows for core integration with the core banking system, and provides a multi service platform to financial organizations, agent networks, branchless banking, prepaid/debit payments, mobile banking and agent management.

As of December 31, 2015, the Company is engaged in two evaluation pilots of the data analytics solution in Colombia and in Peru. The prospects list continues to grow in the US, Mexico, Central America, Colombia, Peru, the Caribbean and Panama. These opportunities are in different commercial development stages.

2016 and Beyond

In 2016, the Company will provide its products and services on a commercial basis:

The current offering will include

- Retail and consumer payment mechanisms
- Modernization of an electronics Point of Sale legacy infrastructure, which expands the useful life of the electronic point of sale, and includes new payment functions in the terminals, such as bill payment, electronic top-up and native payments with digital currency at the point of sale.
- Data analytics tools and services for the telecommunications and financial services industries.
- Financial inclusion, mobile banking, branchless banking and agent networks management solutions, including electronic and digital payments. The target markets will be financially underserved markets in the Americas.
- The Company will expand its data analytics and big data offerings, with cloud based reporting and visualization tools, as well marketing automation applications. The market requires applications and tools to manage digital and electronic offerings, including social media and hyper localization targeted marketing. The Company expects to create a development team to directly provide its customers with these solutions.

Employees

The Company   s staff decreased in 2014 due to the sale of assets and business of ATS. At December 31, 2015, total staff stood at 2 (4 in 2014). 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
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. On March 23, 2015, the Supreme Court of the State of New York vacated and set aside the default judgments. As of December 31, 2015, no provision for this claim has been made.

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 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 December 9, 2015, the Company agreed to settle the lawsuit for $80,000 plus the release of all amounts payable and from to Utiba for a total of $1,055,177; as such, all amounts payable and from Utiba were recorded against discontinued operations on the Consolidated statements of operations and comprehensive income, resulting in a net gain of $1,387,344.

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:

2015		HIGH	LOW
First Quarter	$	0.05	0.02
Second Quarter	$	0.03	0.02
Third Quarter	$	0.02	0.01

Fourth Quarter	$	0.03		0.01

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

Holders of Common Stock

On December 31, 2015, there were 108,224,304 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 quarter ending March 31, 2016, the Company:

- issued 7,500,000 common shares valued at $40,000 for the repayment of convertible debt.

During the year ended December 31, 2015, the Company:

- issued 2,583,333 common shares valued at $77,500 for legal, accounting, and consulting services rendered;
- issued 1,092,535 common shares valued at $32,776 for payment of accounts payable; and
- issued 5,065,372 common shares valued at $379,903 for the repayment of convertible debt.

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 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 .

Convertible Debenture Notes

On August 29, 2012, the Company issued a note payable in the amount of $44,438. The note carried 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 was 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. The debt discount was fully amortized during the year ended December 31, 2013. On February 24, 2015, the Company issued 729,189 shares valued at $54,689 per the terms of the agreement as full repayment of the convertible debenture.

On September 26, 2012, the Company issued a note payable in the amount of $60,000. The note carried 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 was 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. The debt discount was fully amortized during the year ended December 31, 2013. On February 24, 2015, the Company issued 978,411 shares valued at $73,381 per the terms of the agreement as full repayment of the convertible debenture.

On October 19, 2012, the Company issued a note payable in the amount of $80,000. The note carried 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 was 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. The debt discount was fully amortized during the year ended December 31, 2013. On February 24, 2015, the Company issued 1,297,827 shares valued at $97,337 per the terms of the agreement as full repayment of the convertible debenture.

On January 25, 2013, the Company issued a note payable in the amount of $80,000. The note carried 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 was 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. The debt discount was fully amortized during the year ended December 31, 2013. On February 24, 2015, the Company issued 1,277,662 shares valued at $95,825 per the terms of the agreement as full repayment of the convertible debenture.

On April 24, 2013, the Company issued a note payable in the amount of $50,000. The note carried 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 was 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. The debt discount was fully amortized during the year ended December 31, 2013. On February 24, 2015, the Company issued 782,283 shares valued at $58,671 per the terms of the agreement as full repayment of the convertible debenture.

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. 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. 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, 2015, the balance owing to this creditor was $66,815 (December 31, 2014 - $61,566) which includes $14,335 (December 31, 2014 - $9,087) of accrued interest. On January 21, 2016, the creditor elected to convert $15,000 of the outstanding balance into 2,500,000 shares of the Company s common stock.

9

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. 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, 2015, the balance owing to this creditor was $33,005 (December 31, 2014 - $30,381) which includes $6,765 (December 31, 2014 - $4,141) 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. 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, 2015, the balance owing to this creditor was $51,323 (December 31, 2014- $46,692) which includes $5,012 (December 31, 2014- $381) of accrued interest. The note is past due and continues to accrue interest at the rate of 10% per annum. On January 21, 2016, the creditor elected to convert $25,000 of the outstanding balance into 5,000,000 shares of the Company s common stock.

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. 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. 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 was able to convert the unpaid principal and interest into common shares of ATS stock 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. On March 6, 2014, the Company was relieved of the full amount of the loan of $505,063 per the terms of the Asset Purchase Agreement.

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. On January 25, 2015, this loan was renewed with the unpaid principal and interest of $280,411 being capitalized to the loan balance on renewal and the maturity being extended to July 6, 2015. All other terms remained the same. On August 10, 2015, the Company repaid the creditor $50,000 of which $13,677 was applied to principal and $36,323 was applied to outstanding interest. As of December 31, 2015, the balance owing to this creditor was $291,989 (December 31, 2014- $276,466) which includes $25,256 (December 31, 2014- $26,466) of accrued interest. The note is past due and continues to accrue interest at the rate of 10% per annum.

On May 12, 2015, the Company signed a promissory note whereby the Company agreed to repay a creditor $150,000 on September 8, 2015 which includes repayment of $145,583 of principal plus $4,417 of interest calculated at a rate of 10% per annum. On September 8, 2015, the Company paid the creditor $150,000 as full repayment of the loan.

On November 20, 2015, the Company signed a promissory note whereby the Company agreed to repay a creditor $20,000 on May 18, 2016. As of December 31, 2015, the balance owing to this creditor was $20,230 which includes $230 of accrued interest.

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, 2015.

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.

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.

The Company implemented mobile financial service solutions in Bolivia, Colombia, Ecuador, Guatemala, and Honduras. Revenue came 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 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 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.*

In 2014 Alternet 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 Alternet was 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 would 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

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.

2015 and Beyond

In 2015 Alternet decided to cease pursuing digital currency opportunities due to the market collapse for digital currencies, mostly due to the volatility of such digital assets as Bitcoin, the lack of a clear regulatory framework, a risky value and revenue generation model, and the entrance of major players in the field, obliged management to steer away from these opportunities.

The Company and its wholly owned subsidiaries, started 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
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.
Data analytics tools and services for the Telecommunications and Financial Services industries.

In April 2015 APS signed an agreement with R4 Technologies, LLC (R4) to market and promote R4 s purpose-built cloud platform for microsegment data, insight and engagement to help brands leverage data and automate yield optimization. APS will partner with R4 across Latin America and the Caribbean.

In May 2015 APS signed a commercial distribution software reseller agreement with APPI Tecnologia S/A (APPI), a leading information technology company, based in Brazil, specializing in the integration and development of technical solutions and software for the electronic transaction payment industry. APS will promote APPI s unique, innovative, and efficient solutions for the Payments and Services segments in the United States, Canada and the Caribbean.

Solutions

Alternet delivers technology solutions to financial organizations that manage a wide range of payment channels including development engines that extend the capabilities of processing across all capture devices such as point-of-sale (POS), mobile phones, tablets, PCs and web-based applications. These solutions deliver channel specific abilities. Alternet partners with leading manufacturers that deliver solutions that meet the needs of device and channel management, now and in the future.

Growing demand from mobile point-of-sale terminals and increased emphasis on advanced analytics features are significant factors for the growing demand for software in the point-of-sale terminals market. Alternet is strategically positioned to introduce MUXI s innovative, brand agnostic point-of-sale terminal and disruptive payment technology to underserved U.S. markets while providing timely and cost effective solutions across all devices to facilitate multichannel capability to any merchant.

Payment Technologies Rapidly expanding market

Legacy from multiple decades of infrastructure for credit card payments and Point-of-Sale (POS) terminals
Merchant acquirers providing POS terminals and payment services want higher consumer usage to maximize revenues
Omni-channel payments will require a complete refresh of the legacy installed base
The only cost-effective, efficient solution is through software

Data Analytics

Revolutionizing how leading organizations optimize data analytics and automate marketing research operations, Alternet s integrated analytics, micro segmentation and marketing automation technology empower marketing organizations to create and develop critical marketing decision matrixes. In addition, the Company s solutions give clients a proprietary market view across diverse data sources, allows discovery of unique audience and location micro-segments, automates data management, and generates recommendations at micro level P&L-oriented yield optimization, across products, price and promotion investment.

Analytics Large investment opportunity through 2020

Data is quickly becoming the true measure of value
Big data promises better targeting and decision making
Analytics evolves: Reporting > Predicting > Prescribing
Advanced analytics are moving into mid-market companies in addition to large enterprises

Results of Operations

Results of operations are for the year ended December 31, 2015 compared to the year ended December 31, 2014.

The Company s results 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 (2014), ATS and IMS. Alternet has a controlling interest in both ATS subsidiaries.

Net Sales

For the year ended December 31, 2015, the Company had net sales of $20,000 versus $Nil for the prior year. The low sales in 2015 and 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 through ATS prior to the sale on March 4, 2015. All revenue earned by ATS up to March 4, 2015 was included in discontinued operations.

IMS continued to underperform and, accordingly, was dissolved on September 25, 2015.

Selling, General and Administrative Expenses

The operating and administrative expenses for the year ended December 31, 2015 totaled $981,724 as compared to $1,938,515 for the year ended December 31, 2014. The table below details the major changes in administrative expenditures for the year ended December 31, 2015 as compared to the corresponding year ended December 31, 2014.

Expenses	**Increase / Decrease in Expenses**	**Explanation for Change Year Ended December 31, 2015 as Compared to Year Ended December 31, 2014**
Investor relations	Increase of $3,889	The comparative year included significant communication with investors due to the sale of ATS. No significant communication was required during the year ended December 31, 2015.
Research and development	Decrease of $500,000	During the year ended December 31, 2014, the Company paid a fee of $500,000 in connection with the ability to offer and promote digital currency. No fee was required to be paid during the year ended December 31, 2015.
Management and consulting	Decrease of $283,700	The comparative year included consulting fees for searching out new business ventures. During the current year, the company had a more focused plan and did not require as much consulting services.
Office and general	Decrease of $77,092	Decreased office expenses due to fewer staffing resulting from the sale of ATS. The comparative year also included additional marketing and website design relating to the change in business.
Payroll (recovery)	Increase of $199,492	The comparative year included a reversal of previously recorded estimated payroll tax penalties and accrued salaries.
Professional fees	Decrease of $193,122	During 2014, the Company accrued $45,000 for estimated legal fees in relation to a $5,000 monthly charge for corporate legal services. During the current year, it was determined that the legal fees were not owed as the services would not be utilized and the accrual was reversed causing the decrease from the comparative year. Additionally, the comparative year included increased legal fees relating to the potential digital currency business.
Travel	Decrease of $72,634	The comparative year included an increase due to the need for additional 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 $84,238 for the year ended December 31, 2015 compared to $109,019 the previous year due to the decrease in loans outstanding during the year, reflecting the repayment of several loans payable.

Net Income

For the year ended December 31, 2015, the Company had a comprehensive loss attributable to Alternet Systems, Inc. from continuing operations of $1,039,604 or ($0.01) per share and an overall net and comprehensive income of $347,740 or $0.00 per share, a decrease of 43.11% and 77.80% respectively, when compared to the corresponding year December 31, 2014 which had a net loss 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.

Liquidity and Capital Resources

As of December 31, 2015, the Company had $78,780 of cash in the bank, $5,000 of outstanding accounts receivable, and a working capital deficiency of $2,622,872 as compared to $74,907 of cash in the bank, $Nil outstanding accounts receivable, and a working capital deficiency of $3,460,610 as of December 31, 2014.

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 $746,508 at December 31, 2015 compared to accounts payable of $633,466 at December 31, 2014. Accounts receivable decreased slightly to $5,000 for 2015 versus $8,149 for 2014.

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

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 recognized the full amount as income in 2014 as it did 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.

On March 4, 2014, the ATS Transaction closed pursuant to which the Company received $4,928,036 in proceeds. An additional $667,264 was held in escrow 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. The remaining $300,000 was included in sales proceeds held back and a deferred gain on sale. Proceeds of $150,000 were received in April 2015 with the remaining balance received in September 2015.

During the year ended December 31, 2015, the Company wrote off $32,167 to discontinued operations for wages payable from ATS s operations prior to the ATS Transaction which were determined not to be payable. Additionally, the Company settled its lawsuit with Utiba (refer to Part 1 Item 3) for $80,000 plus the release of all amounts payable to and from to Utiba for a total of $1,055,177.

The following table summarizes the financial results of ATS s consolidated discontinued operations for the years ended December 31, 2015 and 2014:

	2015	2014
	$	$
Revenue	-	155,036
Cost of Sales	-	142,441
Gross Margin	-	12,595
Operating Expenses (Recovery)	(32,167)	459,108
Net Income (Loss) Before Other Items	32,167)	(446,513)
Other Items	-	(12,119)
Non-Compete Income	-	2,200,000
Shareholder Release Income	-	200,000
Gain on Disposal of Assets	300,000	1,248,687
Gain on Settlement of Debt	1,055,177	-
Net Income (Loss) Before Non-Controlling Interest	1,387,344	3,190,055
Non-Controlling Interest	-	(203,660)
Discontinued Operations for Alternet Systems, Inc.	**1,387,344**	**3,393,715**

The table below details the Company s gain on disposal of assets at December 31, 2015 and 2014:

	2015	2014
	$	$
Total funds received	300,000	5,295,300
Less: Funds relating to non-compete and shareholder release income	-	(2,400,000)
Net funds received	300,000	2,895,300
Liabilities assumed by the purchaser	-	177,401
Total proceeds	300,000	3,072,701
Assets sold	-	(1,824,014)
Gain on disposal of assets	**300,000**	**1,248,687**

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

Plan of Operations

In 2015, the Company and its wholly owned subsidiaries, started 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
- 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.
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16

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Analytics Large investment opportunity through 2020

Data is quickly becoming the true measure of value
Big data promises better targeting and decision making
Analytics evolves: Reporting > Predicting > Prescribing
Advanced analytics are moving into mid-market companies in addition to large enterprises

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 data analytics, multichannel payments systems and financial inclusion applications and services. 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 its operations, and to invest in market expansion, operations and business development. We have engaged 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 data analytics is undergoing massive growth. Management recommended to the Board of Directors and Shareholders that the Company continue investing in this high growth sector.

Our payments division 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 the estimated over 40 million electronic POS devices and will enable consumers to initiate payment processing services, through a card, a mobile wallet or a bank account, referred to as multichannel payments.

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.

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 ratable over the term of the agreement.

Subsequent to March 4, 2014 the Company implemented the criteria outlined in ASC 605 and recognizes 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.

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 items in the Consolidated Statements of Operations. The Company determines fair value as of the balance sheet date based on Level 1 inputs which consist of quoted prices in active markets. The value of the Company s digital currency is $114,763 (2014 $118,494), net of $10,237 (2014 - $6,506) of unrealized losses, as of December 31, 2015. 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.

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, 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. The Company s investment in digital currency is valued using Level 1 inputs which consist of quoted prices in active markets.

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, 2015 and 2014 the Company had no warrants or options outstanding to consider in the income (loss) per share calculations.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification Topic No. 605, Revenue Recognition, most industry-specific guidance throughout the industry topics of the accounting standards codification, and some cost guidance related to construction-type and production-type contracts. ASU 2014-09 is effective for public entities for annual periods and interim periods within those annual periods beginning after December 15, 2017. Early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. In August 2015, the FASB subsequently issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date,* which defers the effective date of ASU 2014-09 by one year for all entities. In March 2016, the FASB subsequently issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* which reduce the potential for diversity in practice arising from inconsistent application. The Company is currently evaluating the potential impact of adopting this guidance on its 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.

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30).* This ASU is effective for annual and interim reporting periods beginning after December 15, 2015. ASU No 2015-03 reduces the complexity in the accounting standard by requiring debt issuance costs to be directly deducted from the carrying amount of the related debt. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement.* This ASU is effective for annual and interim reporting periods beginning after December 15, 2015. ASU No 2015-05 provides guidance about whether a cloud computing arrangement includes a software license and how to account for it. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.* This ASU is effective for annual and interim reporting periods beginning after December 15, 2016. ASU No 2015-17 simplifies the presentation of deferred income taxes by requiring all deferred income taxes to be classified as non-current. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 740): Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU is effective for annual and interim reporting periods beginning after December 15, 2017. ASU No 2016-01 enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* This ASU is effective for annual and interim reporting periods beginning after December 15, 2018. ASU No 2016-02 increases transparency and comparability among organizations to improve financial reporting. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-04, *Liabilities Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage from Certain Prepaid Stored-Value Products.* This ASU is effective for annual and interim reporting periods beginning after December 15, 2017. ASU No 2016-04 addresses the current and potential future diversity in practice related to the derecognition of a prepaid stored-value product liability. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, *Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* This ASU is effective for annual and interim reporting periods beginning after December 15, 2016. ASU No 2016-07 eliminates the requirement to retroactively adopt the equity method when a change in ownership occurs. 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, 2015 AND 2014

AND THE YEARS THEN ENDED

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Alternet Systems, Inc.

We have audited the accompanying consolidated balance sheet of Alternet Systems, Inc. ("the Company) as of December 31, 2015, and the related consolidated statements of operations and comprehensive loss, stockholders (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alternet Systems, Inc. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

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

/s/ SingerLewak LLP

Denver, Colorado
March 30, 2016

23

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Alternet Systems, Inc.

We have audited the accompanying consolidated balance sheet of Alternet Systems, Inc. and subsidiaries as of December 31, 2014, and the related consolidated statements of operations and comprehensive loss, stockholders equity, and cash flows for the year 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 audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 the results of its operations and its cash flows for the year 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.

/s/ StarkSchenkein, LLP
StarkSchenkein, LLP

Denver, Colorado
March 31, 2015

ALTERNET SYSTEMS INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2015 and 2014

	2015 $	2014 $
ASSETS		
Current Assets		
Cash	78,780	74,907
Accounts receivable, net	5,000	-
Investment in digital currency	114,763	118,494
Deposits and other assets	2,000	7,000
Current assets of discontinued operations	-	308,149
Total current assets	200,543	508,550
TOTAL ASSETS	**200,543**	**508,550**
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
Current liabilities		
Accounts payable and accrued charges	746,508	633,466
Wages payable	1,308,207	832,101
Accrued payroll taxes	168,753	181,532
Other loans payable, net of beneficial conversion feature	474,377	796,078
Due to related parties	1,796	36,643
Current liabilities of discontinued operations	123,574	1,489,340
Total current liabilities	2,823,215	3,969,160
Stockholders' (deficit)		
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: 108,224,295 common stock (2014 - 99,483,055)	1,083	995
Additional paid-in capital	15,351,463	14,861,372
Private placement subscriptions	505,362	505,362
Share subscription receivable	(375,000)	(375,000)
Accumulated other comprehensive income	(331,354)	(331,373)
Accumulated deficit	(17,774,226)	(18,121,966)
	(2,622,672)	(3,460,610)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	**200,543**	**508,550**

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

25

ALTERNET SYSTEMS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the years ended December 31, 2015 and 2014

	2015 $	2014 $
REVENUE	20,000	-
OPERATING EXPENSES		
Bank charges	1,845	4,229
Depreciation	-	2,733
Investor relations	93,000	89,111
Management and consulting	566,936	850,636
Office and general	28,149	105,241
Payroll (recovery)	96,438	(103,054)
Professional fees	141,199	334,321
Rent	28,197	27,648
Research and development	-	500,000
Telephone and utilities	14,330	23,386
Travel	31,630	104,264
	1,001,724	1,938,515
NET LOSS BEFORE OTHER ITEMS	(981,724)	(1,938,515)
OTHER ITEMS		
Interest expense, net	(84,238)	(109,019)
Gain on foreign exchange	29,129	60,333
Unrealized (loss) on investment	(3,731)	(6,506)
Forgiveness and adjustment of accounts payable	960	188,032
	(57,880)	132,840
NET LOSS FROM CONTINUING OPERATIONS	(1,039,604)	(1,805,675)
NON-CONTROLLING INTEREST FROM CONTINUING OPERATIONS	-	21,693
NET LOSS ATTRIBUTABLE TO ALTERNET SYSTEMS INC. FROM CONTINUING OPERATIONS	(1,039,604)	(1,827,368)
DISCONTINUED OPERATIONS	1,387,344	3,393,715
TOTAL NET AND COMPREHENSIVE INCOME ATTRIBUTABLE TO ALTERNET SYSTEMS INC.	**347,740**	**1,566,347**

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, 2015 and 2014

	2015 $	2014 $
OPERATING ACTIVITIES		
Net income attributable to Alternet Systems Inc.	347,740	1,566,347
Non-controlling interest	-	21,693
Add items not affecting cash		
Depreciation	-	2,733
Interest accrued	84,233	114,633
Relief of debt	-	(55,169)
Forgiveness and adjustment of accounts payable	(960)	(188,032)
Shares for services	77,500	249,917
Debt assumed by Amdocs	-	(505,063)
Unrealized loss on investments	3,731	6,506
Unrealized foreign exchange loss	(28,192)	(59,839)
Deferred compensation	-	143,125
Changes in non-cash working capital:		
Accounts receivable, net	(5,000)	13,442
Deposits and other assets	5,000	14,785
Accounts payable and accrued charges	146,778	512,125
Wages payable	476,106	(692,213)
Accrued payroll taxes	(12,779)	(1,489,821)
Due to related parties	(5,769)	(5,982)
Net cash provided by (used in) operating activities	1,088,388	(350,813)
INVESTING ACTIVITIES		
Net cash provided by investing activities	-	-
FINANCING ACTIVITIES		
Proceeds from loans payable	173,083	400,000
Payments on loans payable	(200,000)	(718,007)
Payments on long term debt	-	(318,083)
Checks issued in excess of bank balance	-	(168)
Net cash (used in) financing activities	(26,917)	(636,258)
EFFECT OF EXCHANGE RATES ON CASH	19	(41)
CASH FLOWS FROM CONTINUING OPERATIONS	1,061,490	(987,112)
CASH FLOWS FROM DISCONTINUED OPERATIONS	(1,057,617)	1,062,019
NET INCREASE IN CASH DURING THE YEAR	3,873	74,907
CASH, BEGINNING OF YEAR	74,907	-
CASH, END OF YEAR	**78,780**	**74,907**

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

ALTERNET SYSTEMS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT)

	Shares	Common Stock	Additional Paid in Capital $	Private Placement Subscriptions $	Subscription Receivable $	Deferred Compensation $	Obligation to Issue shares $	Accu D
Balance December 31, 2013	95,737,389	957	14,453,693	130,362	-	(113,125)	2,800	(17
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
Non-controlling interest	-	-	-	-	-	-	-	
Net income	-	-	-	-	-	-	-	1
Balance December 31, 2014	**99,483,055**	**995**	**14,861,372**	**505,362**	**(375,000)**	**-**	**-**	**(18**
Shares issued for services	2,583,333	26	77,474	-	-	-	-	
Shares issued for accounts payable	1,092,535	11	32,765	-	-	-	-	
Shares issued for convertible debt	5,065,372	51	379,852	-	-	-	-	

Foreign exchange translation adjustment	-	-	-	-	-	-	-	
Net loss	-	-	-	-	-	-	-	
Balance December 31, 2015	**108,224,295**	**1,083**	**15,351,463**	**505,362**	**(375,000)**	**-**	**-**	**(17**

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

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Alternet Systems Inc. s focus has evolved into the digital payments and data analytics, micro segmentation and marketing intelligence. The target markets include the mass consumer goods, payments, financial services and telecommunications sectors. Its vision is to be the leading digital commerce solutions provider into global markets, and its mission is to provide innovative solutions that facilitate and expedite commerce, enriching our partners and their customers experience, and improving efficiency. The Company business evolved from a content management platform and into the digital currency technology and financial services.

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.* The Company 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

In 2015 Alternet decided to cease pursuing digital currency opportunities due to the market collapse for digital currencies, mostly due to the volatility of such digital assets as Bitcoin, the lack of a clear regulatory framework, a risky value and revenue generation model, and the entrance of major players in the field, obliged management to steer away from these opportunities.

The Company and its wholly owned subsidiaries, started 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
- 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.
- Data analytics tools and services for the Telecommunications and Financial Services industries.

In April 2015 APS signed a partner agreement with R4 Technologies, LLC (R4) to market and promote R4 s purpose-built cloud platform for microsegment data, insight and engagement to help brands leverage data and automate yield optimization. APS will partner with R4 across Latin America and the Caribbean.

In May 2015 APS signed a commercial distribution software reseller agreement with APPI Tecnologia S/A (APPI), a leading information technology company, based in Brazil, specializing in the integration and development of technical solutions and software for the electronic transaction payment industry. APS will promote APPI s unique, innovative, and efficient solutions for the Payments and Services segments in the United States, Canada and the Caribbean.

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, 2015 the Company had a working capital deficiency of $2,622,672 (2014 - $3,460,610). 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), dissolved September 25, 2015
- Megatecnica, S.A., a wholly owned subsidiary of International Mobile Security, Inc.
- Alternet Financial Solutions, LLC (AFS), wholly-owned subsidiary of Alternet
- Alternet Payment Solutions, LLC (APS), 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, 2015 and 2014
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, 2015 and 2014
NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 own any long-lived assets during the year ended December 31, 2015 and 2014.

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 did not own any indefinite lived intangible assets during the year ended December 31, 2015 and 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 (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, 2015 and 2014
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, 2015 and 2014
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 ratable 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, 2015 and 2014
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 items in the Consolidated Statements of Operations. The Company determines fair value as of the balance sheet date based on Level 1 inputs which consist of quoted prices in active markets. The value of the Company s digital currency is $114,763 (2014 $118,494), net of $10,237 (2014 - $6,506) of unrealized losses, as of December 31, 2015. 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, 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. The Company s investment in digital currency is valued using Level 1 inputs which consist of quoted prices in active markets.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
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, 2015 and 2014 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, 2015 and 2014
NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification Topic No. 605, Revenue Recognition, most industry-specific guidance throughout the industry topics of the accounting standards codification, and some cost guidance related to construction-type and production-type contracts. ASU 2014-09 is effective for public entities for annual periods and interim periods within those annual periods beginning after December 15, 2017. Early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. In August 2015, the FASB subsequently issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date,* which defers the effective date of ASU 2014-09 by one year for all entities. In March 2016, the FASB subsequently issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* which reduce the potential for diversity in practice arising from inconsistent application. The Company is currently evaluating the potential impact of adopting this guidance on its 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.

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30).* This ASU is effective for annual and interim reporting periods beginning after December 15, 2015. ASU No 2015-03 reduces the complexity in the accounting standard by requiring debt issuance costs to be directly deducted from the carrying amount of the related debt. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement.* This ASU is effective for annual and interim reporting periods beginning after December 15, 2015. ASU No 2015-05 provides guidance about whether a cloud computing arrangement includes a software license and how to account for it. 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, 2015 and 2014
NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.* This ASU is effective for annual and interim reporting periods beginning after December 15, 2016. ASU No 2015-17 simplifies the presentation of deferred income taxes by requiring all deferred income taxes to be classified as non-current. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 740): Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU is effective for annual and interim reporting periods beginning after December 15, 2017. ASU No 2016-01 enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* This ASU is effective for annual and interim reporting periods beginning after December 15, 2018. ASU No 2016-02 increases transparency and comparability among organizations to improve financial reporting. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-04, *Liabilities Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage from Certain Prepaid Stored-Value Products.* This ASU is effective for annual and interim reporting periods beginning after December 15, 2017. ASU No 2016-04 addresses the current and potential future diversity in practice related to the derecognition of a prepaid stored-value product liability. Management does not anticipate that this accounting pronouncement will have any material future effect on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, *Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* This ASU is effective for annual and interim reporting periods beginning after December 15, 2016. ASU No 2016-07 eliminates the requirement to retroactively adopt the equity method when a change in ownership occurs. 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.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 3 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. 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 4 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 carried 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 was 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. The debt discount was fully amortized during the year ended December 31, 2013. On February 24, 2015, the Company issued 729,189 shares valued at $54,689 per the terms of the agreement as full repayment of the convertible debenture.

On September 26, 2012, the Company issued a note payable in the amount of $60,000. The note carried 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 was 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. The debt discount was fully amortized during the year ended December 31, 2013. On February 24, 2015, the Company issued 978,411 shares valued at $73,381 per the terms of the agreement as full repayment of the convertible debenture.

On October 19, 2012, the Company issued a note payable in the amount of $80,000. The note carried 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 was 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. The debt discount was fully amortized during the year ended December 31, 2013. On February 24, 2015, the Company issued 1,297,827 shares valued at $97,337 per the terms of the agreement as full repayment of the convertible debenture.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
NOTE 4 CONVERTIBLE DEBENTURE NOTES AND OTHER LOANS PAYABLE (continued)

Convertible Debentures

On January 25, 2013, the Company issued a note payable in the amount of $80,000. The note carried 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 was 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. The debt discount was fully amortized during the year ended December 31, 2013. On February 24, 2015, the Company issued 1,277,662 shares valued at $95,825 per the terms of the agreement as full repayment of the convertible debenture.

On April 24, 2013, the Company issued a note payable in the amount of $50,000. The note carried 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 was 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. The debt discount was fully amortized during the year ended December 31, 2013. On February 24, 2015, the Company issued 782,283 shares valued at $58,671 per the terms of the agreement as full repayment of the convertible debenture.

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, 2015 and 2014
NOTE 4 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. 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. 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, 2015, the balance owing to this creditor was $66,815 (December 31, 2014 - $61,566) which includes $14,335 (December 31, 2014 - $9,087) of accrued interest. On January 21, 2016, the creditor elected to convert $15,000 of the outstanding balance into 2,500,000 shares of the Company s common stock.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
NOTE 4 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. 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. 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, 2015, the balance owing to this creditor was $33,005 (December 31, 2014 - $30,381) which includes $6,765 (December 31, 2014 - $4,141) 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. 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, 2015, the balance owing to this creditor was $51,323 (December 31, 2014- $46,692) which includes $5,012 (December 31, 2014- $381) of accrued interest. The note is past due and continues to accrue interest at the rate of 10% per annum. On January 21, 2016, the creditor elected to convert $25,000 of the outstanding balance into 5,000,000 shares of the Company s common stock

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
NOTE 4 CONVERTIBLE DEBENTURE NOTES AND OTHER LOANS PAYABLE (continued)

Other Loans Payable (continued)

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. 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. 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 was able to convert the unpaid principal and interest into common shares of ATS stock 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. On March 6, 2014, the Company was relieved of the full amount of the loan of $505,063 per the terms of the Asset Purchase Agreement.

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. On January 25, 2015, this loan was renewed with the unpaid principal and interest of $280,411 being capitalized to the loan balance on renewal and the maturity being extended to July 6, 2015. All other terms remained the same. On August 10, 2015, the Company repaid the creditor $50,000 of which $13,677 was applied to principal and $36,323 was applied to outstanding interest. As of December 31, 2015, the balance owing to this creditor was $291,989 (December 31, 2014- $276,466) which includes $25,256 (December 31, 2014- $26,466) of accrued interest. The note is past due and continues to accrue interest at the rate of 10% per annum.

On May 12, 2015, the Company signed a promissory note whereby the Company agreed to repay a creditor $150,000 on September 8, 2015 which includes repayment of $145,583 of principal plus $4,417 of interest calculated at a rate of 10% per annum. On September 8, 2015, the Company paid the creditor $150,000 as full repayment of the loan.

On November 20, 2015, the Company signed a promissory note whereby the Company agreed to repay a creditor $20,000 on May 18, 2016. As of December 31, 2015, the balance owing to this creditor was $20,230 which includes $230 of accrued interest.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
NOTE 5 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 6 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 shared 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, 2015, the Company:

- issued 2,583,333 common shares valued at $77,500 for legal, accounting, and consulting services rendered;
- issued 1,092,535 common shares valued at $32,776 for payment of accounts payable; and
- issued 5,065,372 common shares valued at $379,903 for the repayment of convertible debt (see Note 5).

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, 2015 and 2014
NOTE 6 CAPITAL STOCK (continued)

Common Shares (continued)

As of December 31, 2015, the Company had $505,362 (December 31, 2014 - $505,362) in private placement subscriptions which are reported as private placement subscriptions within stockholders deficit.

The shares which were not issued as at December 31, 2015 or December 31, 2014 were not used to compute the total weighted average shares outstanding as at December 31, 2015 or December 31, 2014, 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 106,376,464 (2014 97,462,100) common shares outstanding resulting in basic and diluted net and comprehensive loss per common share from continuing operations of $(0.01) (2014 - $(0.02)), basic and diluted net and comprehensive income per common share from discontinued operations of $0.01 (2014 $0.03), and basic and diluted net and comprehensive income per common share of $0.00 (2014 - $0.02) .

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, 2015 and 2014, the Company had no outstanding stock options or restricted stock units.

Warrants

The Company had no warrants outstanding at December 31, 2015 and 2014.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
NOTE 7 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

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 recognized the full amount as income in 2014 as it did 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.

On March 4, 2014, the ATS Transaction closed pursuant to which the Company received $4,928,036 in proceeds. An additional $667,264 was held in escrow 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. The remaining $300,000 was included in sales proceeds held back and a deferred gain on sale. Proceeds of $150,000 were received in April 2015 with the remaining balance received in September 2015.

During the year ended December 31, 2015, the Company wrote off $32,167 to discontinued operations for wages payable from ATS s operations prior to the ATS Transaction which were determined not to be payable. Additionally, the Company settled its lawsuit with Utiba (see Note 15) for $80,000 plus the release of all amounts payable to and from to Utiba for a total of $1,055,177.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
NOTE 7 DISCONTINUED OPERATIONS (continued)

As of December 31, 2015 and 2014, the associated assets and liabilities of the consolidated ATS business have been classified as discontinued operations and are presented below

	2015 $	2014 $
ASSETS		
Accounts receivable	-	8,149
Sales proceeds held in escrow	-	300,000
CURRENT ASSETS OF DISCONTINUED OPERATIONS	**-**	**308,149**
LIABILITIES		
Accounts payable and accrued charges	123,574	1,189,340
Deferred gain on sale	-	300,000
CURRENT LIABILITIES OF DISCONTINUED OPERATIONS	**123,574**	**1,489,340**

The following table summarizes the financial results of ATS s consolidated discontinued operations for the years ended December 31, 2015 and 2014:

	2015 $	2014 $
Revenue	-	155,036
Cost of Sales	-	142,441
Gross Margin	-	12,595
Operating Expenses (Recovery)	(32,167)	459,108
Net Income (Loss) Before Other Items	32,167	(446,513)
Other Items	-	(12,119)
Non-Compete Income	-	2,200,000
Shareholder Release Income	-	200,000
Gain on Disposal of Assets	300,000	1,248,687
Settlement Income	1,055,177	-
Net Income (Loss) Before Non-Controlling Interest	1,387,344	3,190,055
Non-Controlling Interest	-	(203,660)
Discontinued Operations for Alternet Systems, Inc.	**1,387,344**	**3,393,715**

The table below details the Company s gain on disposal of assets at December 31, 2015 and 2014:

	2015 $	2014 $
Total funds received	300,000	5,295,300
Less: Funds relating to non-compete and shareholder release income	-	(2,400,000)
Net funds received	300,000	2,895,300
Liabilities assumed by the purchaser	-	177,401
Total proceeds	300,000	3,072,701
Assets sold	-	(1,824,014)
Gain on disposal of assets	**300,000**	**1,248,687**

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
NOTE 7 DISCONTINUED OPERATIONS (continued)

The following table summarizes the cash flow of ATS s consolidated discontinued operations for the years ended December 31, 2015 and 2014:

	2015	2014
	$	$
Operating Activities	(1,357,617)	(494,210)
Investing Activities	300,000	1,630,311
Financing Activities	-	(74,082)
Cash Flows From Discontinued Operations	**(1,057,617)**	**1,062,019**

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

NOTE 8 - RELATED PARTY TRANSACTIONS

As of December 31, 2015, a total of $947,260 (2014 - $658,663) was payable to directors and officers of the Company of which $947,260 (2014 - $658,663) was non-interest bearing and had no specific terms of repayment. Of the amount payable, $21,840 (2014 - $17,591) was included in accounts payable for expense reimbursements, $934,209 (2014 - $639,375) was included in wages payable for accrued fees and capitalized interest, and $(8,789) (2014 - $1,697) was included in due from 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 30, 2014 included $4,800 for accounts payable for expense reimbursements and $160,809 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, 2015, the Company expensed a total of $444,056 (2014 - $393,958) in consulting fees and salaries paid to directors and officers of the Company. Of the amounts incurred, $389,890 (2014 - $872,084) has been accrued and $54,166 (2014 - $161,037) 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) 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. As of December 31, 2015, the Company owes this company $6,753 (VEF 5,971,438) (2014 - $34,946; 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, 2015 and 2014
NOTE 9 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 was being expensed on a straight-line basis over the life of the contract. During the year ended December 31, 2015, the Company expensed $Nil (2014 - $13,125) 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 was being expensed when the benchmarks are met. As at December 31, 2014, two of the benchmarks were met; as such, the Company issued 1,000,000 common shares 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 was being expensed on a straight-line basis over six months, the term stipulated in the contract. During the year ended December 31, 2015, the Company expensed $Nil (2014 - $80,000) to consulting fees. The contract was expensed in full by August 17, 2014.

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, 2015, the Company expensed $Nil (2014 -$143,125) 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, 2015 and 2014
NOTE 10 INCOME TAXES

There is no provision for federal or state income taxes for the years ended December 31, 2015 and 2014 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:

	December 31, 2015 $	**2014** $
Loss from continuing operations before income taxes	(1,039,604)	(1,805,675)
Effective tax rate	*40.50%*	*40.50%*
Income tax benefit	(421,000)	(731,300)
Non-deductible items	3,000	13,200
Other deductible items	-	(300)
Change in valuation allowance	(644,400)	-
Tax benefits not recognized	1,062,400	718,400
Income tax expense	-	-

	December 31, 2015 $	**2014** $
Income (loss) from discontinued operations before income taxes	1,387,344	3,190,055
Effective tax rate	*40.50%*	*40.50%*
Income tax (benefit)	561,900	1,292,000
Non-deductible items	-	538,900
Other deductible items	-	(2,900)
Change in valuation allowance	340,500	-
Tax benefits not recognized (recognized)	(902,400)	(1,828,000)
Income tax expense	-	-

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
NOTE 10 INCOME TAXES (continued)

Deferred tax assets and liabilities and related valuation allowance as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	2014
	$	$
Deferred tax assets:		
Capital loss carryforwards - continuing operations	-	-
Net operating loss carryforwards - continuing operations	6,114,500	6,763,000
Net operating loss carryforwards - discontinued operations	1,189,600	849,100
	7,304,100	7,612,100
Deferred tax liabilities:		
Capital assets continuing operations	-	-
Capital assets discontinued operations	-	-
Unrealized losses continuing operations	1,500	(2,600)
	1,500	(2,600)
Net deferred tax assets before valuation allowance	7,305,600	7,609,500
Valuation allowance	(7,305,600)	(7,609,500)
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, 2015 and 2014
NOTE 10 INCOME TAXES (continued)

At December 31, 2015, the Company has available unused net operating loss carryforwards of approximately $18.0 million that expire from 2021 to 2034 for federal tax purposes and approximately $4.8 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, 2015, 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, 2015, 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. The Company is subject to income tax examination for fiscal years beginning December 31, 2012.

NOTE 11 OPERATING LEASES

The Company leased its office facilities under a one-year lease agreement with a monthly cost of $1,800. The lease expired in March 2015 and was renewed at a monthly rate of $1,872 which expired on February 28, 2016. The lease was further renewed on February 29, 2016 at a monthly rate of $1,944.

Lease expense totaled $22,248 and $20,878 during the year ended December 31, 2015 and 2014, respectively.

The Company is required to make future minimum rental payments under the operating lease agreement of $23,187 during the 2016 fiscal year and $3,889 during the 2017 fiscal year.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 12 SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	December 31, 2015 $	December 31, 2014 $
Supplemental cash flow disclosures:		
Interest paid	40,740	118,714
Cash paid for income taxes	-	-
Supplemental non-cash disclosures:		
Shares issued for previous subscriptions	-	2,800
Shares issued for deferred compensation	-	80,000
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
Shares issued for convertible debt	379,903	-
Shares issued for accounts payable	32,776	-

NOTE 13 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 and investment in digital currency, are measured at fair value using Level 1 inputs.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014
NOTE 14 LAWSUITS

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 Officer. On March 23, 2015, the Supreme Court of the State of New York vacated and set aside the default judgments. As of December 31, 2015, no provision for this claim has been made.

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 ATS. The Complaint alleged 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 December 9, 2015, the Company agreed to settle the lawsuit for $80,000 plus the release of all amounts payable to and from to Utiba for a total of $1,055,177; as such, all amounts payable to and from Utiba were recorded against discontinued operations on the Consolidated statements of operations and comprehensive income.

NOTE 15 SUBSEQUENT EVENTS

In February 2016, the Company issued 7,500.000 common shares valued at $40,000 for the repayment of convertible debt.

Events occurring after December 31, 2015 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, 2015, 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, 2015. 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, 2015, 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, 2015 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 Annual General Meeting
Robin Bjorklund	Director	Resigned on February 2, 2015
Fernando Cisneros	Director	Resigning on March 31, 2016
Michael Viadero	CFO, Secretary, Treasurer and Director	Appointed on February 2, 2015 to replace Robin Bjorklund
Fabio Alvino	CEO of APS	Resigned on October 5, 2015

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 Alternet 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 Alternet 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 Alternet he was Regional Financial Officer for MasterCard International, responsible for financial operations, product and service pricing strategy, and transitioning the company from privately-held to public entity, including compliance with Sarbanes-Oxley Act. 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, 2015 and 2014; 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, 2015 and 2014, 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 **(a)**	Year **(b)**	**Annual Compensation**			**Long-term compensation**			
		Salary ($) **(c)**	Bonus ($) **(d)**	Other Annual Compensation ($) **(e)**	**Awards**		**Payouts**	
					Restricted Stock Award(s) ($) **(f)**	Securities Underlying options/SARs (#) **(g)**	LTIP payouts ($) **(h)**	All other Compensation ($) **(i)**
Henryk Dabrowski President and Chairman	2015 2014 2013	165,000 165,000 165,000	0 0 165,500	0 11,200 9,852	0 0 0	0 0 0	0 0 0	0 0 0
Robin Bjorklund Former Director Resigned on February 2, 2015	2015 2014 2013	0 0 0	0 0 0	0 0 0	0 0 0	0 0 0	0 0 0	0 0 0
Fernando Cisneros Director	2015 2014 2013	0 0 0	0 0 0	0 0 0	0 0 0	0 0 0	0 0 0	0 0 0
Michael Viadero, CFO (and Director as of February 2, 2015)	2015 2014 2013	160,000 160,000 160,000	0 50,000 160,000	0 8,576 9,926	0 0 0	0 0 0	0 0 0	0 0 0
Fabio Alvino CEO - APS (resigned on October 5, 2015)	2015 2014 2013	95,056 130,000 130,000	0 0 130,000	0 2,400 29,290	0 0 0	0 0 0	0 0 0	0 0 0

Name	Year	Salary	Bonus	Other Annual	Stock Award(s)	Securities	LTIP	All other
Henryk Dabrowski								
Paid in Cash	2015	27,500	0	0	0	0	0	0
Accrued and unpaid	2015	149,500	0	0	0	0	0	0
Paid in cash	2014	68,750	0	0	0	0	0	0
Accrued and unpaid	2014	96,250	0	11,200	0	0	0	0
Paid in cash	2013	13,750	0	9,852				
Accrued and unpaid	2013	151,250	165,000	0	0	0	0	0
Fabio Alvino								
Paid in cash	2015	0	0	0	0	0	0	0
Accrued and unpaid	2015	95,056	0	0	0	0	0	0
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
Michael Viadero								
Paid in Cash	2015	26,666	0	0	0	0	0	0
Accrued and unpaid	2015	145,334	0	0	0	0	0	0
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

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, 2015. 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, 2015, 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, 2015 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, 2016 (115,724,304 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 th Street Miami, FL 33143	President, Director	5,819,930	5.03%
Fernando Cisneros 2100 Salzedo Street, Suite 300 Coral Gables, Florida 33134	Director	8,179,700	7.07%
Michael Viadero 2694 Inagua Avenue, PH1 Miami, Florida 33133	CFO	2,078,000	1.80%
Directors, Officers and 5% stockholders in total		16,077,630	13.89%

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.

As of December 31, 2015, a total of $947,260 (2014 - $658,663) was payable to directors and officers of the Company of which $947,260 (2014 - $658,663) was non-interest bearing and had no specific terms of repayment. Of the amount payable, $21,840 (2014 - $17,591) was included in accounts payable for expense reimbursements, $934,209 (2014 - $639,375) was included in wages payable for accrued fees and capitalized interest, and $(8,789) (2014 - $1,697) was included in due from 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 30, 2014 included $4,800 for accounts payable for expense reimbursements and $160,809 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, 2015, the Company expensed a total of $444,056 (2014 - $393,958) in consulting fees and salaries paid to directors and officers of the Company. Of the amounts incurred, $389,890 (2014 - $872,084) has been accrued and $54,166 (2014 - $161,037) 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) 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. As of December 31, 2015, the Company owes this company $6,753 (VEF 5,971,438) (2014 - $34,946; 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 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, 2015 and for fiscal year ended December 31, 2014 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, 2015	**December 31, 2014**
Audit Fees	**$50,000**	**$62,000**
Audit Related Fees	**Nil**	**$11,277**
Tax Fees	**$8,750**	**$2,190**
All Other Fees	**Nil**	**Nil**
Total	**$58,750**	**$75,467**

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

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

PART IV

Item 15. Exhibits, Financial Statement Schedules

EXHIBIT INDEX

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

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 30, 2016

By:*/s/ Michael T. Viadero*
Michael T. Viadero, Secretary, Treasurer
(Principal Financial Officer and Principal Accounting Officer)
March 30, 2016

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 30, 2016

By:*/s/ Michael T. Viadero*
Michael T. Viadero, Secretary, Treasurer
(Principal Financial Officer and Principal Accounting Officer)
March 30, 2016