

ALTERNET SYSTEMS INC
Form 10KSB/A
September 09, 2008

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

FORM 10-KSB/A
Amendment No. 3

(Mark One)

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

For the fiscal year ended **December 31, 2007**

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: **000-31909**

ALTERNET SYSTEMS, INC.

(Name of small business issuer in its charter)

Nevada

(State or other jurisdiction of incorporation or
organization)

88-0473897

(IRS Employer Identification No.)

#610-815 West Hastings Street, Vancouver, BC, V6C 1B4

(Address of Principal Executive Offices)

604-608-2540

(Registrant's Telephone Number)

Securities registered pursuant to Section 12(b) of the Exchange Act: **None**

None

(Title of class)

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

Common Stock, \$0.00001 Par Value

Check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 past 90 days. Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 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 an accelerated filer (as defined in Rule 12b-2 of the Act) Yes [] No [X]

Of the 11,853,146 shares of voting stock of the registrant issued and outstanding as of March 24, 2008, 5,974,842 shares are held by non-affiliates.

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 24 2008, 2008 was approximately \$2,867,924 based upon the closing price per share of the registrant's common shares of \$0.48 on that date.

The issuer had revenues of \$3,161,118 for the fiscal year ended December 31, 2007.

Transitional Small Business Disclosure Format (check one) Yes [] No [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]

**FORM 10-KSB/A ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2007
ALTERNET SYSTEMS, INC.**

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PART I

Item 1. Description of Business

Forward Looking Statements

This report contains forward-looking statements. The forward-looking statements include all statements that are not statements of historical fact. The forward-looking statements are often identifiable by their use of words such as may, expect, believe, anticipate intend, could, estimate, or continue, or the negative or other variations of these comparable terms. Our actual results could differ materially from the anticipated results described in the forward-looking statements. Factors that could affect our results include, but are not limited to, those discussed in Item 6, Management's Discussion and Analysis and include elsewhere in this report.

Company History and Business

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

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

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

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

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

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

The Company anticipates that it will begin the process of registering the "HealthWeb" name. There can be no guarantee that all, or any, of these names will be successfully registered in the United States or Canada.

TekVoice Inc. Merger

Altnet Systems Inc. executed a merger with TekVoice Communications, Inc. of Miami, Florida, on December 31, 2007. TekVoice is a telecommunications services company with operations in North America and Latin America. TekVoice revenues exceeded \$3 million in 2007 and 2006.

The combined entity is called Altnet Systems Inc. and its primary business is delivering telecom services; education / healthcare application software and content; and transaction services to customers primarily located in Latin America, North America and the Caribbean. Altnet offers a portfolio of next-generation solutions for government, business, schools, hospitals and residents in this region.

Management believes that the combination of Altnet with TekVoice is the ideal strategy to achieve our goal of offering a complete telecom, application software and transactions solution for this growing market.

The combination of Altnet's proprietary software systems, with the TekVoice VOIP-based telecommunications offerings, will significantly improve the way telecom services, education / medical information technology and transaction services are delivered in all areas of Latin America.

About TekVoice Communications Inc.

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

On December 31, 2007, Altnet Systems, Inc. (the Company) Fabio Alvino, Eduardo & Monica Bello, Henryk Dabrowski, Manfred Koroschetz, New Market Technology, Inc., John Puente, Red Hawke, Inc., Hector Rodriguez (each, a Transferor and collectively, the Transferors) and TekVoice Communications, Inc. (TekVoice)entered into and closed a Stock Acquisition Agreement (the Agreement) pursuant to which the Company acquired all of the issued and outstanding shares of

capital stock of TekVoice from the Transferors in consideration for an aggregate amount of four million (4,000,000) shares of common stock of the Company (the Acquisition Shares). In addition to the Acquisition Shares, the Transferors, in the aggregate, shall be entitled to receive an up to an additional two million (2,000,000) shares of common stock of the Company if TekVoice's sales for the fiscal year ending December 31, 2008 exceed sales for fiscal year ended December 31, 2007 by twenty percent (20%) (the Additional Consideration). In the event the Company is merged with another entity prior to December 31, 2008, the Additional Consideration shall be issued to the Transferors on the day immediately prior to the day that such merger takes place. The Transferors shall be entitled to appoint three (3) members to the Company's board of directors, effective at the closing, provided, however, in no event shall Transferors be required to appoint a member to the Company's Board of Directors.

Item 2. Description of Property

The Company does not own any real property as of March 13, 2008.

The Company rents approximately 1700 sq. ft. of office space at Suite #610 815 West Hastings Street, British Columbia, Canada V6C 1B4. The rent is on a month to month basis and is \$2,500.

Item 3. Legal Proceedings

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

On March 14, 2005 the Company was named as a defendant in a Writ of Summons and Statement of Claim in the Supreme Court of British Columbia, Vancouver Registry in which the Native Trade and Investment Association requested an order to pay the Plaintiff Cdn \$53,500 and 100,000 common shares for trade shows attended by the Company. On February 6 2007 The Supreme Court of British Columbia ordered the Company to pay NITA \$53,500 plus interest of \$4,126 and costs of \$5,673 and 100,000 common shares. As a result of the settlement, the Company recorded a net gain of \$8,443 in 2006.

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

Item 4. Submission of Matters To A Vote of Security Holders

A Schedule 14A Definitive Proxy was submitted to a vote of security holders at the Annual General Meeting on December 27, 2007. The following matters were submitted to a vote.

1. To elect the three (3) nominees as Directors of the Company until the next Annual Meeting of shareholders or until their respective successors shall be elected and qualified: Patrick Fitzsimmons, Robin Bjorklund and; Henryk Dabrowski.
2. To approve the appointment of Dale Matheson Carr-Hilton Labonte as the Company's independent auditors for the present fiscal year and succeeding years and empower the Board of Directors to appoint successors to Dale Matheson Carr-Hilton Labonte if they choose to do so;
3. To approve the Company's proposed stock-based incentive option compensation plan;
4. To approve the change of the Company's fiscal year end from December 31 to November 30;
5. To approve a consolidation of the Company's common shares outstanding of 10 old shares for 1 new share.
6. To consider any other matter that properly may come before the meeting or any adjournment thereof.

All matters were passed by a majority of shareholders of Alternet Systems Inc.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Market for Common Stock

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

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

| 2007 | HIGH | LOW |
|----------------|----------|----------|
| First Quarter | \$ 0.06 | \$ 0.02 |
| Second Quarter | \$ 0.03 | \$ 0.075 |
| Third Quarter | \$ 0.065 | \$ 0.04 |
| Fourth Quarter | \$ 0.025 | \$ 0.045 |

Holders of Common Stock

On December 31, 2007, there were approximately 96 holders of record of our common stock and there were 62,781,460 shares outstanding. There are 205 indirect holders of common shares in outside institutions or stock brokerage firms, and we estimate that there are no additional beneficial shareholders beyond the 96 registered shareholders and 205 non-registered shareholders at December 31, 2007.

Share Capital Consolidation

At the Annual General Meeting held on December 27 2007, shareholders approved a consolidation of the Company's common shares outstanding, of ten (10) old shares for one (1) new share. This consolidation became effective on January 24 2008, at which time the total issued and outstanding common shares of the Company was 6,278,146.

Dividends

We have not declared or paid a cash dividend to stockholders since our incorporation. The Board of Directors presently intends to retain any earnings to finance company operations and does not expect to authorize cash dividends in the foreseeable future. Any payment of cash dividends in the future will depend upon our earnings, capital requirements and other factors.

Recent Sales of Unregistered Securities (Prior to Reverse Split)

Sales in 2007

On August 20, 2007 the Company issued a total of 300,000 shares at a price of \$0.05 to one person resident in the United States.

Sales in 2006

On February 20 2006 the Company issued a total of 5,765,000 shares at a price of \$0.05 per share. Of this amount, 1,523,000 shares were sold to 1 person resident in the United States and a total of 4,242,000 shares to 4 persons resident in Canada. All of the shares were sold at a price of \$0.05 per shares for total proceeds of \$288,250.

On June 1 2006 the Company issued a total of 4,690,000 shares at a price of \$0.05 per share, to 4 persons resident in Canada for total proceeds of \$234,500.

Where the offerings described in Sales in 2007 and Sales in 2006 above were made to Canadian residents they were undertaken under Regulation S and they were made under Rule 903 (Category 3, equity securities) and:

- the sale was made in an offshore transaction;
- no directed selling efforts were made in the United States by the Company;
- the purchaser certified that it is not a US person and is not acquiring the securities for the account or benefit of any US person;
- the purchaser agreed to resell such securities only in accordance with the provisions of the Securities Act of 1933 or regulations applicable to their securities;

- the securities contained a legend to the effect that transfer was prohibited unless the securities were first registered under the Securities Act of 1933 or resale was made pursuant to an exemption therefrom.

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

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

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

RECENT ISSUANCE OF NON- RESTRICTED STOCK (Prior to Reverse Split)

Issuance in 2007

On March 12 2007, the Company issued 5,700,000 common shares at a price of \$0.02 per share pursuant to the Company's S8 Registration filed on February 5 2007 to 7 individuals under the terms of management and marketing consulting agreements by which they provided management and product marketing consulting services to the Company.

On March 12 2007, the Company issued 2,600,000 common shares at a price of \$0.02 per share pursuant to the Company's S8 Registration filed on February 5 2007 to 2 individuals under the terms of an agreement by which they provided services to the Company.

On April 24 2007, the Company issued 375,000 common shares at a price of \$0.02 per share pursuant to the Company's S8 Registration filed on February 5 2007 to 1 individual under the terms of a management consulting agreement by which they provided management consulting services to the Company.

On July 3 2007, the Company issued 2,000,000 common shares at a price of \$0.05 per share pursuant to the Company's S8 Registration filed on July 3 2007 to 1 individual under the terms of a marketing consulting agreement by which they provided product marketing consulting services to the Company.

On July 20 2007, the Company issued 500,000 common shares exercised under the Company's Employee Stock Option program, registered pursuant to the Company's S8 Registration filed on July 3 2007, to 1 individual.

On August 7 2007, the Company issued 500,000 common shares at a price of \$0.05 per share pursuant to the Company's S8 Registration filed on July 3 2007 to 1 individual under the terms of a management consulting agreement by which they provided management consulting services to the Company.

On August 8 2007, the Company issued 300,000 common shares at a price of \$0.05 per share pursuant to the Company's S8 Registration filed on July 3 2007 to 1 individual under the terms of a management consulting agreement by which they provided management consulting services to the Company.

On August 22 2007, the Company issued 1,000,000 common shares at a price of \$0.04 per share pursuant to the Company's S8 Registration filed on July 3 2007 to 4 individuals under the terms of management and marketing consulting agreements by which they provided management and product marketing consulting services to the Company.

On August 22 2007, the Company issued 650,000 common shares exercised under the Company's Employee Stock Option program, registered pursuant to the Company's S8 Registration filed on July 3 2007, to 3 individuals.

On September 5 2007, the Company issued 300,000 common shares exercised under the Company's Employee Stock Option program, registered pursuant to the Company's S8 Registration filed on July 3 2007, to 1 individual.

On December 6 2007, the Company issued 1,000,000 common shares exercised under the Company's Employee Stock Option program, registered pursuant to the Company's S8 Registration filed on July 3 2007, to 1 individual.

Issuance in 2006

On January 11, 2006, the Company issued a total of 990,000 shares at a price of \$0.09 per share pursuant to the Company's S8 Registration Statement filed on January 21 2005. These shares were issued to 1 person resident in Canada under the terms of a management agreement by which they provided product marketing and financial consulting services to the Company.

On May 15 2006 the Company issued 80,000 shares at a price of \$0.15 per share pursuant to the Company's S8 Registration Statement filed on May 5 2006. These shares were issued under a debt settlement for accounting and administrative services.

On August 4 2006 the Company issued a total of 3,000,000 shares to three directors at a price of \$0.16 pursuant to the Company's S8 Registration Statement filed on May 5 2006. These shares were issued under management consulting agreements by which the three directors provide marketing consulting services to the Company over a twelve month period.

On August 30 2006 the Company issued a total of 200,000 shares at a price of \$0.15 per share pursuant to the Company's S8 Registration Statement filed on May 5 2006. These shares were issued to one person resident in Canada under a management consulting agreement by which they provided product marketing consulting services.

On October 25 2006 the Company issued 57,000 shares at a price of \$0.13 per share under a debt settlement agreement for accounting and administrative services, pursuant to the Company's S8 Registration Statement filed on May 5 2006.

On October 30 2006 the Company issued 2,000,000 shares at a price of \$0.10 per share pursuant to a management contract for product marketing services over a twelve month period under the Company's S8 Registration Statement filed on May 5 2006. These shares were issued to one person resident in Canada.

On November 15 2006 the company issued 200,000 shares for cash at a price of \$0.10 per share pursuant to the exercise of stock options. These shares were registered under the Company's S8 Registration Statement filed on May 5 2006.

On November 15 2006 the Company issued 100,000 shares at a price of \$0.10 per share under a debt settlement agreement for administrative services, pursuant to the Company's S8 Registration Statement filed on May 5 2006

On December 22 2006 the Company issued 500,000 shares at a price of \$0.07 per share pursuant to the company's S8 Registration Statement filed on May 5 2006. These shares were issued to one person resident in Canada under a management contract for product marketing consulting services over a twelve month period.

RETAINER STOCK PLAN - 2006

The Company adopted a retainer stock plan on May 3, 2006. The Retainer Plan calls for the issuance of up to 6,000,000 shares of common stock to directors, officers, employees and consultants to compensate them for services rendered to the Company in lieu of cash compensation. To date a total of 5,500,000 shares have issued under this plan.

RETAINER STOCK PLAN - 2007

The Company adopted a retainer stock plan on February 15 2007. The Retainer Plan calls for the issuance of up to 10,000,000 shares of common stock to directors, officers, employees and consultants to compensate them for services rendered to the Company in lieu of cash compensation. The 2007 Plan will terminate on February 15, 2012. The Company filed a Registration Statement on Form S8 to register the underlying shares included in the 2007 Plan.

RETAINER STOCK PLAN 2007B

The Company adopted a retainer stock plan on July 3 2007. The 2007 B Retainer Stock Plan authorizes the issuance of a maximum of 5,000,000 shares of our common stock granted to our or our subsidiary s employees or directors and to consultants performing work for us or our subsidiary, in lieu of cash compensation. All of the shares issuable under the 2007 B Retainer Stock Plan were registered under a Registration Statement on Form S-8.

RETAINER STOCK PLAN 2008

The Company adopted a retainer stock plan on January 29 2008. The 2008 Retainer Stock Plan authorizes the issuance of a maximum of 6,000,000 shares of our common stock granted to our or our subsidiary s employees or directors and to consultants performing work for us or our subsidiary. All of the shares issuable under the 2008 Retainer Stock Plan were registered under a Registration Statement on Form S-8.

Item 6. Management s Discussion and Analysis or Plan of Operation

The following discussion should be read in conjunction with the Company s consolidated financial statements and the notes thereto. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

Critical Accounting Policies

In Note 2 to the audited financial statements for the years ended December 31, 2006 and 2005, included in this Form 10-KSB, the Company discusses those accounting policies that are considered to be significant in determining the results of operations and its financial position. The Company believes that the accounting principles utilized by it conform to accounting principles generally accepted in the United States of America.

The preparation of financial statements requires Company management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. By their nature, these judgments are subject to an inherent degree of uncertainty. On an on-going basis, the Company evaluates estimates. The Company bases its estimates on historical experience and other facts and circumstances that are believed to be reasonable, and the results form the basis for making judgments about the carrying value of assets and liabilities. The actual results may differ from these estimates under different assumptions or conditions.

Results of Operations :

Results for the year ended December 31, 2007 compared to the year ended December 31, 2006.

The Company's results, on a consolidated basis, reflected its own results consolidated with its subsidiaries, AI Systems Group Inc. and AI Systems Group Canada Inc.

In addition, with the closing of the Stock Purchase Agreement on December 31, 2007, the Company's results, on a consolidated basis, reflected its own results consolidated with its subsidiary, TekVoice Communications Inc. For the remainder of this part, the term "Company" refers to both the Company and its wholly owned subsidiaries above and TekVoice Communications Inc.

Management believes that the combination of Altnet with TekVoice is the ideal strategy to achieve our goal of offering a complete telecommunications, applications and transactions solution for this growing market.

Net Sales

For the year ending December 31, 2007, the Company had sales of \$3,161,118. During the corresponding year ended December 31, 2006, the Company had sales of \$3,344,740. The 9.46% decrease in sales is attributable to the fact that the Company re-organized its sales and marketing personnel and has been integrating the new personnel over the past year. In 2007, the Telecommunication Services division contributed 100% of the Company's revenue.

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

Net Loss

For the year ending December 31, 2007, the Company had a net loss of \$320,321 or (\$0.03) per share, which was a decrease of 43% when compared to the net loss for the corresponding year to December 31, 2006 of \$553,314 or \$(0.07) per share. The decreased loss was due primarily to; no goodwill impairment charges occurring in the year ended December 31 2007 compared to \$741,000 in the year ended December 31, 2006, and an increase in other income of \$144,997. The net loss from operations before other items for the year ended December 31 2007 was \$469,612, compared to the net profit from operations before other items of \$172,173, for the year ended December 31 2006. This was primarily due to an increase in management fees and commissions paid.

Gross Profit

Gross Profit was \$1,052,911 in the year ended December 31 2007, compared to \$804,596 for the year ended December 31, 2006. This represents an 8% increase when compared to last year and is primarily due to reduced direct cost of sales for the year ended December 31 2007.

Selling, General and Administrative Expenses

For the year ended December 31 2007 the Company incurred office and general expenses of \$41,225, which was an increase of 660% from the \$6,215 incurred in the previous year ending December 31 2006. Marketing expenses of \$7,420 were 30% higher than the marketing expenses of \$5,128 for the year ending December 31 2006.

Management and consulting fees of \$676,794 represents a 250% increase from the management and consulting fees of \$265,790 incurred in the year ending December 31 2006. Professional fees of \$17,525 were incurred in the period ending December 31 2007, which was a 70% reduction from the professional fees of \$60,910 incurred in the previous year ending December 31 2006. The increase in management consulting expense for the year ended December 31 2007 is a result of increased staffing levels compared to the corresponding year ending December 31, 2006.

Accounts payable were \$394,095 at December 31 2007, which was a 250% increase when compared to accounts payable of \$182,736 at December 31 2006. Accounts receivable were \$430,497 for the year ended December 31 2007 which was a 38% reduction from accounts receivable of \$691,534 for the previous year ended December 31 2006.

Interest and other expenses

The Company had no material interest expenses.

Liquidity and Capital Resources

As at December 31, 2007, the Company had \$18,604 cash in the bank, prepaid expenses of \$12,107, accounts receivable of \$430,497 and accounts payable of \$394,095. The Company is currently pursuing financing to fund ongoing operations and to pay current debts. The Company's ability to continue as a going concern will be negatively affected if it is unsuccessful.

PLAN OF OPERATION

Over the next 12 months, the Company will be concentrating on marketing its telecommunications products and SchoolWeb, HealthWeb software systems in North America / Latin America and internationally.

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

Sales will come from organic growth from its existing operations. Company has identified two strategic acquisition targets, and is in preliminary discussions and discovery processes, to determine its value and requirements.

Company has initiated the execution of framework agreements with critical vendors, to launch the transaction based services. We are initially pursuing opportunities in the Mass

Transportation Management and Fare Collection management, expanding in retail points of sale and enabling the use of the mobile phone as a personal financial tool. We have also initiated a program to participate in the money remittance service industry, by enabling technologies that will allow the remitter to make mobile to mobile , mobile to cash and mobile to ATM remittances.

A structured plan has been defined to pursue immediate opportunities. Management has identified and contacted initial prospects. The needs and opportunities of these initial prospects have been identified and we are preparing offers and agreements. Management expects to close initial sales in its new line of business in the 2nd Quarter 2008.

Additionally, Company personnel will be making presentations on the electronic transaction services that will be offered by Altnet, for the telecom, financial, utilities and transportation sectors.

Currently our sales and business development partners have identified and pursued projects in Colombia, Guatemala, Panama, Mexico and the United States.

Although the Company believes that demand exists for its products and services, there can be no assurance that sales will increase in the future.

Senior management is being expanded with the entrance of Vice President of Finance. The position's main responsibilities are the financial management of the company, the preparation of budgets and cash control of the subsidiaries, the establishment of appropriate controls between the Company and its projects, the evaluation of new projects and the supervision of the Company performance, always oriented to meet its financial and operational goals. The Vice President of Finance will work with the Chief Executive Officer and the Chief Financial Officer, in preparing forward looking statements and projections, as well as reporting to the Board of Directors on the cash situation of the company and financial resources needed.

The Company is expected to remain dependent upon debt or equity financing unless revenues from operations grow significantly.

FUNDS REQUIRED FOR OPERATIONS

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

| | |
|------------------------------|-----------|
| Management Fees and Salaries | \$ 70,000 |
| Product Development Expense: | \$ 5,000 |
| Office Rent | \$ 4,500 |
| Telephones | \$ 2,000 |

| | |
|--------------------|-----------|
| Travel | \$ 20,000 |
| Marketing Expenses | \$ 5,000 |
| Professional Fees | \$ 1,500 |

| | |
|-------------------------|------------|
| Accounting fees | \$ 2,000 |
| Total Monthly Expenses: | \$ 110,000 |

The Company is dependent for the continuance of its operations on further debt or equity financings. Failure to obtain such financings could result in the Company being unable to continue its operations.

There can be no certainty that such financings would be obtained on favorable terms, if at all, and any equity financings could dilute the interests of existing shareholders.

Inflation

Management does not believe that inflation had a material adverse affect on the financial statements for the periods presented.

Qualitative and Quantitative Disclosure Regarding Risk

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

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

Item 7. Financial Statements

The audited Consolidated Financial Statements are included in this Form 10-KSB beginning on page F-1 following the signature page.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

During the Company's two most recent fiscal years and to the date of change in certifying accountant, there were no disagreements with the Company's accountants on any matter of accounting principle or practices, financial statement disclosure or auditing scope or procedure. In addition, there were no reportable events as described in Item 304(a)(1)(iv)(B)1 through 3 of Regulation S-B that occurred within the Company's two most recent fiscal years and the subsequent interim periods.

Change in Accountant

On March 12 2008 the Board of Directors of Alternet Systems Inc., unanimously approved the appointment of Pollard-Kelley Auditing Services Inc. as the Company's auditor, replacing Dale Matheson Carr Labonte Ltd.

Item 8A . Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by the report, being December 31, 2007, we have carried out an evaluation of the effectiveness of the design and operation of our Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our Company's management, including our Company's Chief Executive Officer and our Company's Principal Financial Officer. Based upon that evaluation, our Company's Chief Executive Officer and our Company's Principal Financial Officer concluded that our Company's disclosure controls and procedures were not effective as at the end of the fiscal year ending December 31 2007. This was because the required management report was not included in the Form 10KSB for the year ending December 31 2007. . In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our president and chief executive officer as appropriate, to allow timely decisions regarding required disclosure.

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13(a) - 15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets and our consolidated entities;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and our directors; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, no system of internal control over financial reporting, including those determined to be effective, may prevent or detect all misstatements. Also, 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

Our Independent Registered Chartered Accountants have not issued an attestation report on our internal control over financial reporting pursuant to the temporary rules of the U.S. Securities and Exchange Commission that permit us to provide only management's report for the year ended December 31, 2007

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

PART III**Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act**

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

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

1. Directors, whether appointed at a meeting of stockholders or by the remaining directors, are appointed until the next annual meeting of stockholders.
2. The President, Secretary, CEO and Treasurer do not have a set term of office. They serve at the pleasure of the Directors and can be removed at any time by the Directors.

Henryk Dabrowski, President and Chairman

Mr Dabrowski has over 20 years experience in the information technology industry, data network and telecommunications industry. He is President of TekVoice Communications Inc., a Miami FL based Voice over IP telecommunications company that merged with Altnet Systems Inc.

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

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

Mr. Manfred Koroschetz - Director, Chief Technical Officer

Mr. Koroschetz is the Chief Technology Officer of TekVoice Communications Inc. which merged with Altnet Systems Inc.

Previous to TekVoice, Mr. Koroschetz was Chief Technology Officer at Vox2Vox Communications, responsible for the design and implementation of the VoIP network, creating and delivering voice services for end-users, integrating Internet and voice technologies over 12 countries, spanning Europe and the Americas. He also managed the budget for technical operations.

Mr. Koroschetz was co-founder and served as Director of Technology at RKM IT Solutions of Caracas, Venezuela, providing technology strategies and creating the technical vision of the company.

Previously, for over 10 years he was with Telenorma, Venezuela, where he held positions in the capacity of Quality Assurance Manager, Manufacturing Manager and Logistics Manager for its Latin America operations.

He has more than twenty years of systems integration experience, implementing and pioneering technologies such as unified messaging and directory services.

Mr. Koroschetz graduated from the University of Bologna, Italy, in Electronic Engineering, specializing in Data Networking, and is fluent in 4 languages.

Patrick Fitzsimmons, Vice President and Director

Pat Fitzsimmons, age 54. Mr. Fitzsimmons has extensive sales and management experience gained from a 28-year career in the high-technology sector. Mr. Fitzsimmons has represented firms such as NCR, Timeplex, Rogers Cable, and Newbridge Networks, offering a wide range of technology solutions. Previous to joining Alternet Systems Inc. he was Manager, Major Accounts, AT&T Canada, Vancouver B.C., Canada.

Robin Bjorklund, Director,

Robin Bjorklund, age 42. 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.

Item 10. Executive Compensation

Summary Compensation Table

| Name and principal position (a) | Year (b) | Annual Compensation | | | Long-term compensation | | | |
|---|------------------------|-------------------------------|------------------------------|--|--|--|-------------------------------------|---|
| | | Salary (\$) (c) | Bonus (\$) (d) | Other Annual Compensation (\$) (e) | Awards | | Payouts | All other Compensation (\$) (i) |
| | | | | | Restricted Stock Award(s) (\$) (f) | Securities Underlying options/SARs (#) (g) | LTIP payouts (\$) (h) | |
| Henryk Dabrowski President and Chairman | 2007 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Patrick Fitzsimmons Director, Treasurer | 2007 2006 | 45,500 44,050 | 0 0 | 0 0 | 0 75,000 | 0 1,000,000 | 0 0 | 0 0 |
| Robin Bjorklund Director | 2007 | 72,495 | 0 | 0 | 0 | 1,000,000 | 0 | 0 |
| Manfred Koroschetz Director, Chief Technical Officer | 2007 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding the beneficial ownership of shares of the Company's common stock as of December 31, 2007 (6,278,146 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 | President, Director, | 0 | |
| Patrick Fitzsimmons 1406-151 E. Keith Rd. N. Vancouver, BC V7L 4M3 | Director, Secretary/ Treasurer | 234,500 | |
| Manfred Koroschetz | Director, | 0 | |
| Robin Bjorklund | Director | 1,350,000 | |
| Directors, Officers and 5% stockholders in total | | 1,584,500 | |

Item 12. Certain Relationships and Related Transactions

Except as concerns compensation to directors and officers, during the past two years, there have not been any transactions that have occurred between the Company and its officers, directors, and five percent or greater shareholders. Executive compensation and related party compensation are disclosed in the notes to the Company's financial statements included herein and in "Executive Compensation" above.

Certain of the officers and directors of the Company are engaged in other businesses, either individually or through partnerships and corporations in which they have an interest, hold an office, or serve on a board of directors. As a result, certain conflicts of interest may arise between the Company and its officers and directors. The Company will attempt to resolve such conflicts of interest in favor of the Company. The officers and directors of the Company are accountable to it and its shareholders as fiduciaries, which require that such officers and directors exercise good faith and integrity in handling the company's affairs. A shareholder may be able to institute legal action on behalf of the Company or on behalf of itself and other similarly situated shareholders to recover damages or for other relief in cases of the resolution of conflicts is in any manner prejudicial to the Company.

Item 13. Exhibits and Reports on Form 8-K

The exhibits to be filed with this Form 10-KSB are listed below in the Exhibit Index.

During the reporting period and subsequent to it but prior to the date of this Report, the Registrant filed reports on Form 8-K on January 19 2007, September 18 2007, and three reports on Form 8K subsequent to the year ended December 31 2007 on January 8 2008, January 16 2008 and March 19, 2008 on the SEC's EDGAR system available at www.sec.gov.

Item 14. Principal Accountant Fees and Services

As of the date of this Annual Report, the Company has not appointed members to an audit committee and, therefore, the respective role of an audit committee has been conducted by the board of directors of the Company. When established, the audit committee's primary function will be to provide advice with respect to the Company's financial matters and to assist the board of Directors in fulfilling its oversight responsibilities regarding finance, accounting, tax and legal compliance. The audit committee's primary duties and responsibilities will be to: (i) serve as an independent and objective party to monitor the Company's financial reporting process and internal control system; (ii) review and appraise the audit efforts of the Company's independent accountant's; (iii) evaluate the Company's quarterly financial performance as well as its compliance with laws and regulations; (iv) oversee management's establishment and enforcement of financial policies and business practices; and (v) provide an open avenue of communication among the independent accountants, management and the board of directors.

The board of directors has considered whether the regulatory provision of non-audit services is compatible with maintaining the principal independent accountant's independence.

Audit Fees

During the years ended December 31, 2007 and December 31, 2006, the Company will incur approximately \$26,000 and has incurred \$26,000 respectively, in fees to its principal independent accountants for professional services rendered in connection with the audits of the Company's financial statements. Included in these amounts are billing for other accounting services consisting solely of review of the Company's quarterly reports filed on Form 10-QSB for the periods ended March 31, June 30, and September 30.

Audit-related Fees

During the years ended December 31, 2007 and 2006, the Company did not incur any audit-related fees for professional services rendered by its principal independent accountant.

Tax Fees

During the years ended December 31, 2007 and 2006, the Company did not incur any fees for tax compliance, advisory or planning services rendered by its principal independent accountant.

During fiscal year ended December 31, 2007, the Company did not incur any fees for professional services rendered by its principal independent accountant for certain information technology services which may include, but is not limited to, operating or supervising or managing the Company's information or local area network or designing or implementing a hardware or software system that aggregate source data underlying the financial statements.

All Other Fees

During the years ended December 31, 2007 and 2006, the Company did not incur any other fees for professional services rendered by its principal independent accountant for all other non-audit services which may include, but is not limited to, tax-related services, actuarial services or valuation services.

EXHIBIT INDEX

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

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALTERNET SYSTEMS, INC.

Dated: September 8, 2008

By: */s/ Henryk Dabrowski*
Henryk Dabrowski, President CEO and Director

Dated: September 8, 2008

By: */s/ Patrick Fitzsimmons*
Patrick Fitzsimmons, Director,
Principal Financial Officer

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 CEO and Director
(Principal Executive Officer)
Date: September 8, 2008

By: */s/ Patrick Fitzsimmons*

Patrick Fitzsimmons,
Secretary, Treasurer and Director
(Principal Financial Officer and Principal Accounting Officer)
Date: September 8, 2008

Pollard-Kelley Auditing Services, Inc.

Auditing Services

4500 Rockside Road, Suite 450, Independence, OH 44131 330-864-2265

Report of Independent Registered Public Accounting Firm

Alternet Systems, Inc. and Subsidiaries

Miami, FL

We have audited the accompanying balance sheets of Alternet Systems, Inc. and Subsidiaries as of December 31, 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the one year in the period ended December 31, 2007. 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 audits.

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

As discussed in Note 1 the Company has not generated significant profits to date. This factor among others raises substantial doubt the Company will be able to continue as a going concern. The Company's continuation as a going concern depends upon its ability to generate sufficient cash flow to conduct its operations and its ability to obtain additional sources of capital and financing. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management's plans concerning this matter are also discussed in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2007, and the results of its operations and its cash flows for the one year in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting standards.

Pollard-Kelley Auditing Services, Inc.

/S/ Pollard-Kelley Auditing Services, Inc.

Independence, Ohio

March 29, 2008

Pollard-Kelley Auditing Services, Inc.

Auditing Services

4500 Rockside Road, Suite 450, Independence, OH 44131 330-864-2265

Report of Independent Registered Public Accounting Firm

TekVoice Communications, Inc.

Miami, FL

We have audited the accompanying balance sheets of TekVoice Communications, Inc. as of December 31, 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the one year in the period ended December 31, 2006. 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 audits.

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

As discussed in Note 1 the Company has not generated significant profits to date. This factor among others raises substantial doubt the Company will be able to continue as a going concern. The Company's continuation as a going concern depends upon its ability to generate sufficient cash flow to conduct its operations and its ability to obtain additional sources of capital and financing. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management's plans concerning this matter are also discussed in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2006, and the results of its operations and its cash flows for the one year in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting standards.

Pollard-Kelley Auditing Services, Inc.

/S/ Pollard-Kelley Auditing Services, Inc.

Independence, Ohio

October 8, 2007

**ALTERNET SYSTEMS INC.
CONSOLIDATED BALANCE SHEET**

As at December 31, 2007

| | December 31, 2007 | December 30, 2006 |
|---|------------------------------|------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 18,604 | \$ 43,761 |
| Accounts receivable | 430,497 | 691,534 |
| Prepays and deposits | 12,107 | 4,889 |
| Total Current Assets | 461,208 | 740,184 |
| Fixed Assets - net of depreciation | 7,551 | 42,865 |
| TOTAL ASSETS | \$ 468,759 | \$ 783,049 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 394,095 | \$ 182,736 |
| Accrued taxes | 66,385 | 15,718 |
| Due to related parties | 41,397 | 107,892 |
| Total Current Liabilities | 501,877 | 306,346 |
| Long Term Debt | 147,000 | 135,000 |
| TOTAL LIABILITIES | 648,877 | 441,346 |
| STOCKHOLDERS' DEFICIENCY | | |
| Capital Stock (Note 4) | 103 | 9,051 |
| Additional paid-in capital | 3,424,336 | 3,818,697 |
| Private placement subscriptions | 231,487 | - |
| Deferred compensation | (29,677) | - |
| Deficit | (3,806,367) | (3,486,045) |
| TOTAL STOCKHOLDERS' DEFICIENCY | (180,221) | 332,652 |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | \$ 468,656 | \$ 773,998 |

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

ALTERNET SYSTEMS INC.
CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

(Unaudited)

| | Year ended December 31, 2007 | Year ended December 31, 2006 |
|--|------------------------------------|------------------------------------|
| REVENUE | | |
| Sales | \$ 3,161,118 | \$ 3,344,740 |
| COST OF SALES | | |
| Direct Cost of Sales | 2,108,207 | 2,540,144 |
| GROSS PROFIT | 1,052,911 | 804,596 |
| OPERATING EXPENSES | | |
| Bad Debt | 51,682 | 55,550 |
| Bank Charges and Interest | 29,095 | 27,183 |
| Commissions | 535,570 | 3,229 |
| Depreciation and Amortization | 42,251 | 106,495 |
| License Fees | 3,038 | 469 |
| Management and Consulting | 676,794 | 265,790 |
| Marketing | 7,421 | 5,128 |
| Office and General | 41,225 | 6,215 |
| Professional fees | 17,525 | 60,910 |
| Rent | 21,600 | 10,000 |
| Salaries | 70,202 | 68,903 |
| Telephone and Utilities | 12,114 | 20,866 |
| Travel | 14,007 | 1,685 |
| TOTAL OPERATING EXPENSES | 1,522,524 | 632,423 |
| NET INCOME/(LOSS) BEFORE OTHER ITEMS | (469,613) | 172,173 |
| Customer fees | 4,294 | 4,744 |
| Other income | 144,997 | 10,769 |
| Goodwill impairment | - | (741,000) |
| NET INCOME/(LOSS) FOR THE YEAR | \$ (320,322) | \$ (553,314) |
| BASIC NET LOSS PER SHARE | \$ (0.03) | \$ (0.07) |
| WEIGHTED COMMON SHARES OUTSTANDING (Note 7) | 9,727,369 | 8,149,190 |

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

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

| | Year ended December 31, 2007 | Year ended December 31, 2006 |
|--|---|---|
| OPERATING ACTIVITIES | | |
| Net Income (Loss) From Operations | \$ (320,322) | \$ (553,314) |
| Add: Items Not Affecting Cash | | |
| Depreciation | 42,251 | 106,495 |
| Issuance of shares for services rendered | - | 377,730 |
| Goodwill impairment | - | 741,000 |
| Changes In Non-Cash Working Capital: | | |
| Accounts receivable | 261,037 | 205,195 |
| Prepays and deposit | (5,292) | 4,158 |
| Accounts Payable & Accrued charges | 13,585 | (801,664) |
| Related party payables | (27,215) | (353,804) |
| Accrued taxes | 47,155 | 12,919 |
| | 11,199 | (261,285) |
| INVESTING ACTIVITIES | | |
| Acquisition of fixed assets | - | - |
| | - | - |
| FINANCING ACTIVITIES | | |
| Related parties | (48,356) | (25,692) |
| Long term debt | 12,000 | - |
| Net proceeds on sale of common stock and subscriptions | - | 287,270 |
| | (36,356) | 261,578 |
| NET CHANGE IN CASH DURING THE YEAR | (25,157) | 293 |
| CASH, BEGINNING OF YEAR | 43,761 | 43,468 |
| CASH, END OF YEAR | \$ 18,604 | \$ 43,761 |

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

ALTERNET SYSTEMS INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Period from May 16, 2002 (Inception) to December 31, 2007

| | Shares | Common Stock | Additional Paid in Capital | Treasury Shares | Treasury Stock | Private Placement subscriptions | Accumulated Deficit | Defer Comper |
|--|------------------|-----------------|-------------------------------|--------------------|-------------------|------------------------------------|------------------------|-----------------|
| Balance May 16, 2002 | - | - | - | - | - | - | - | - |
| Issuance of common stock for cash at \$0.223 per share - May 17, 2002 | 448,400 | 448 | 99,552 | - | - | - | - | - |
| Issuance of common stock for services at \$0.223 per share - December 31, 2002 | 2,394,854 | 2,396 | 531,684 | - | - | - | - | - |
| Issuance of common stock for cash at \$0.223 per share - December 31, 2002 | 156,776 | 157 | 34,805 | - | - | - | - | - |
| Net Loss for the year | - | - | - | - | - | - | (88,038) | - |
| Balance December 31, 2002 | 3,000,030 | 3,001 | 666,041 | - | - | - | (88,038) | - |
| Net Loss for the year | - | - | - | - | - | - | (387,426) | - |
| Balance December 31, 2003 | 3,000,030 | 3,001 | 666,041 | - | - | - | (475,464) | - |
| Issuance of common stock for cash at \$0.31 per share - April 30, 2004 | 363,669 | 364 | 112,256 | - | - | - | - | - |
| Issuance of common stock for services at \$0.31 per share - April 30, 2004 | 475,914 | 475 | 146,905 | - | - | - | - | - |
| Redemption of shares | - | - | - | 1,615,445 | 360,260 | - | - | - |
| | - | - | 148,698 | (762,122) | (167,668) | - | - | - |

Issuance of
common stock
at \$0.42 per
share

| | | | | | | | |
|---|---|---|---------|-----------|----------|---|---|
| Issuance of common stock for acquisition at \$0.50 per share - June 30, 2004 | - | - | 115,321 | (411,268) | (90,479) | - | - |
|---|---|---|---------|-----------|----------|---|---|

| | | | | | | | |
|---|---|---|--------|----------|----------|---|---|
| Issuance of common stock for services at \$0.50 per share - June 30, 2004 | - | - | 28,018 | (99,919) | (21,982) | - | - |
|---|---|---|--------|----------|----------|---|---|

| | | | | | | | |
|---|--------|----|--------|-----------|----------|---|---|
| Issuance of common stock for cash at \$0.60 per share - September 30, 2004 | 33,516 | 34 | 76,917 | (154,988) | (36,299) | - | - |
|---|--------|----|--------|-----------|----------|---|---|

| | | | | | | | |
|---|--------|----|--------|-----------|----------|---|---|
| Issuance of common stock for Services at \$0.60 per share - September 30, 2004 | 40,471 | 40 | 92,878 | (187,148) | (43,832) | - | - |
|---|--------|----|--------|-----------|----------|---|---|

| | | | | | | | |
|---|---------|-----|---------|---|---|---|---|
| Issuance of common stock for cash at \$0.50 per share - September 30, 2004 | 204,834 | 205 | 102,295 | - | - | - | - |
|---|---------|-----|---------|---|---|---|---|

| | | | | | | | |
|---|---------|-----|---------|---|---|---|---|
| Issuance of common stock for services at \$0.50 per share - September 30, 2004 | 644,600 | 644 | 321,856 | - | - | - | - |
|---|---------|-----|---------|---|---|---|---|

| | | | | | | | |
|--|---------|-----|---------|---|---|---|---|
| Issuance of common stock for cash at \$0.48 per share - October 1, 2004 | 413,956 | 414 | 199,586 | - | - | - | - |
|--|---------|-----|---------|---|---|---|---|

| | | | | | | | |
|--|---------|-----|--------|---|---|---|---|
| Issuance of common stock for services at \$0.48 per share - October 1, 2004 | 150,000 | 150 | 71,850 | - | - | - | - |
|--|---------|-----|--------|---|---|---|---|

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| | | | | | | | |
|--|------------------|--------------|------------------|---|---|---|--------------------|
| Net Loss for the year | - | - | - | - | - | - | (1,619,425) |
| Balance December 31, 2004 | 5,326,990 | 5,327 | 2,082,621 | - | - | - | (2,094,889) |
| Issuance of common stock for cash at \$0.48 per share - June 30, 2005 | 357,477 | 357 | 172,304 | - | - | - | - |
| Issuance of common stock for services at \$0.48 per share - June 30, 2005 | 1,137,880 | 1,138 | 548,201 | - | - | - | - |
| Issuance of common stock for acquisition at \$0.48 per share - June 30, 2005 | 425,961 | 426 | 205,374 | - | - | - | - |
| Net Loss for the year | - | - | - | - | - | - | (837,842) |
| Balance December 31, 2005 | 7,248,308 | 7,248 | 3,008,500 | - | - | - | (2,932,731) |
| Issuance of common stock for cash at \$0.48 per share - June 30, 2006 | 594,585 | 595 | 286,676 | - | - | - | - |
| Issuance of common stock for services at \$0.48 per share - June 30, 2006 | 781,818 | 782 | 376,947 | - | - | - | - |
| Issuance of common stock for services at \$0.35 per share - June 30, 2006 | 425,961 | 426 | 146,574 | - | - | - | - |
| Net Loss for the year | - | - | - | - | - | - | (553,314) |
| Balance December 31, 2006 | 9,050,672 | 9,051 | 3,818,697 | - | - | - | (3,486,045) |
| Net Loss for the year | - | - | - | - | - | - | (320,322) |
| Balance December 31, 2007 | 9,050,672 | 9,051 | 3,818,697 | - | - | - | (3,806,367) |

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| | | | | | | | | |
|--|-------------------|------------|------------------|----------|----------|----------------|--------------------|----------|
| Alternet Systems Inc. balance before reverse acquisition | 6,278,146 | 63 | 5,136,702 | - | - | 231,487 | (5,540,778) | (|
| Issued to effect reverse acquisition | 4,000,000 | 40 | 21,791 | - | - | - | - | |
| Reverse acquisition recapitalization adjustment | (9,050,672) | (9,051) | (5,552,854) | - | - | - | 5,540,778 | |
| Balance, December 31, 2007 | 10,278,146 | 103 | 3,424,336 | - | - | 231,487 | (3,806,367) | (|

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

By agreement entered into December 31, 2007, Alternet issued 4,000,000 shares of restricted common stock to the shareholders of TekVoice Communications, Inc., a Company incorporated on May 17, 2002 in the State of Florida, in exchange for all of the issued and outstanding shares of TekVoice Communications, Inc. (refer to note 7).

The acquisition resulted in the former shareholders of TekVoice Communications, Inc. acquiring 38.92% of the then outstanding shares of the Company and has been accounted for as a reverse merger with TekVoice Communications, Inc., the legal subsidiary, being treated as the accounting parent and Alternet, the legal parent, being treated as the accounting subsidiary. Accordingly, the consolidated results of operations of the Company include those of TekVoice Communications, Inc. for all periods shown and those of Alternet since the date of the reverse acquisition. The results of operations of TekVoice Communications, Inc. are from its inception, May 17, 2002.

The consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. At December 31, 2007 the Company had a working capital deficiency of \$40,669. The Company s continued operations are dependent on the successful implementation of its business plan, its ability to obtain additional financing as needed, continued support from creditors, settling its outstanding debts and ultimately attaining profitable operations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

The consolidated financial statements are a continuation of the financial statements of TekVoice Communications, Inc. and accordingly reflect the operations of TekVoice for all periods shown.

Use of Estimates and Assumptions

Preparation of the Company s financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment

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

Computer equipment and software - 30% declining balance basis

Equipment - 20% declining balance basis.

Impairment of Long lived Assets

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

Revenue Recognition

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

Foreign Currency Translation

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

Fair Value of Financial Instruments

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

Income Taxes

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

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for stock-based awards under the recognition and measurement provisions of Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees* using the intrinsic value method of accounting, under which compensation expense was only recognized if the exercise price

of the Company's employee stock options was less than the market price of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R *Share Based Payments*, using the modified prospective transition method. Under that transition method, compensation cost is recognized for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Company had not granted any options to December 31, 2005; therefore, no pro-forma disclosures are required.

Loss per Share

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

For the purpose of computing earnings per share in which a reverse takeover occurs and for the year for which comparative statements are presented, the number of shares outstanding for the period from the beginning of the fiscal year to the date of the reverse takeover is the number of shares issued by the Company to the shareholders of TekVoice Communications, Inc., the legal subsidiary. For the period from the date of the reverse takeover to the end of the fiscal year, the number of shares used in the calculation of the earnings per share is the actual number of shares of the Company's outstanding in that period. The earnings per share for the comparative period are computed by dividing the earnings (loss) of TekVoice Communications, Inc. by the number of shares of the Company's issued in the reverse takeover transactions. Since the date of the reverse takeover was December 31, 2007, the number of weighted average common shares is equal to the number of shares that were issued in the reverse acquisition.

Risk Management

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

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

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use

fair value on the face of the balance sheet. The new Statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments*. This standard is not expected to have a significant effect on the Company's reported financial position or results of operations.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In December 2007, The FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, is effective for fiscal years beginning after December 15, 2008. The statement requires all entities to report noncontrolling or minority interests in subsidiaries in the same way as equity in the consolidated financial statements. Moreover, the Statement eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. This standard is not expected to have a significant effect on the Company's reported financial position or results of operations.

NOTE 3 - PROPERTY AND EQUIPMENT

| | | | 2007 | | 2006 |
|--------------------|------------|----|-----------------------------|---------------------------|-------------------|
| | Cost | | Accumulated Amortization | Net Book Value | Net Book Value |
| Computer equipment | \$ 326,758 | \$ | 321,748 | \$ 5,010 | \$ 40,365 |
| Computer software | 72,560 | | 70,925 | 1,635 | 2,500 |
| Equipment | 10,576 | | 9,670 | 906 | - |
| | \$ 409,894 | \$ | 402,343 | \$ 7,551 | \$ 42,865 |

NOTE 4 CAPITAL STOCK

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

The comparative figures for 2006 are that of TekVoice Communications, Inc.. As at December 31, 2006, there were 9,056,672 shares of common stock issued and outstanding.

NOTE 5 DEFERRED COMPENSATION

Prior to the date of the reverse acquisition, the Company had entered into various consulting agreements. In accordance with the terms of these agreements, the Company had issued 474,832 shares valued at \$29,677, for services that are to be provided in the future. This amount is reported on the balance sheet under the shareholders equity section as deferred compensation.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 RELATED PARTY TRANSACTIONS

At December 31, 2007, a total of \$41,397 (December 2006 - \$107,892) was owed to directors. Amounts due to related parties are non-interest bearing and have no specific terms of repayment.

During the year, the company has paid a total \$336,968 (2006 - \$ -) in consulting fees to a related party.

NOTE 7 STOCK ACQUISITION

By agreement dated December 31, 2007, the Company acquired 100% of the issued and outstanding shares of TekVoice Communications, Inc. in exchange of 4,000,000 shares of the common stock of Altnet. At the time of the transaction, the former shareholders of TekVoice Communications, Inc. (the Transferors) acquired 38.92% of the 10,278,146 total issued and outstanding shares of Altnet.

In addition to the shares issued upon acquisition, the Transferors, in the aggregate, shall be entitled to receive up to an additional 2,000,000 shares in the common stock of the Company if the sales of TekVoice Communications, Inc. for the fiscal year ended December 31, 2008 exceed sales for fiscal year ended December 31, 2007 by 20%. In the event the Company is merged with another entity prior to December 31, 2008, the Additional Consideration shall be issued to the Transferors on the day immediately prior to the day that such merger takes place. The Transferors shall be entitled to appoint three members to the Company s board of directors, effective at the closing, provided, however, in no event shall Transferors be required to appoint a member to the Company s Board of Directors.

This acquisition has been accounted for as a capital transaction in substance using accounting principles applicable to reverse acquisitions, with TekVoice Communications, Inc. being treated as the accounting parent (acquirer) and Altnet being treated as the accounting subsidiary (acquiree). The acquisition has been valued at the net carrying value of the assets and liabilities of TekVoice Communications, Inc. as at December 31, 2007 immediately prior to the reverse acquisition.

The acquisition has been accounted for as follows:

| | |
|--|------------|
| Assets of TekVoice Communications, Inc. | |
| Current Assets | |
| Cash | \$ 18,563 |
| Accounts receivable | 430,497 |
| Prepays and deposits | 10,181 |
| Total Assets | \$ 459,241 |
| Liabilities of TekVoice Communications, Inc. | |
| Current Liabilities | |
| Accounts payable | \$ 194,828 |
| Accrued taxes | 63,261 |
| Due to related parties | 32,321 |
| Total Current Liabilities | 290,410 |
| Long Term Debt | 147,000 |
| Total Liabilities | \$ 437,410 |
| Total Assets less Total Liabilities | \$ 21,831 |

| | | |
|----------------------------|----|---------------|
| Capital Stock | \$ | 40 |
| Additional paid in capital | | 21,791 |
| | \$ | 21,831 |

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007

NOTE 7 STOCK ACQUISITION (Continued)

These consolidated financial statements include the results of operations of TekVoice Communications, Inc. since January 1, 2006 and the results of operations of Altnet Systems Inc. since the date of the reverse acquisition on December 31, 2007. Altnet had no operations for December 31, 2007.

The weighted average number of Common shares outstanding for 2007 are that of the Company calculated as if the additional 4,000,000 shares issued in connection with the acquisition of TekVoice Communications, Inc. were issued on January 1 2007. The weighted average number of Common shares outstanding for 2006 are that of TekVoice Communications, Inc.

NOTE 8 SUBSEQUENT EVENTS

Effective January 29, 2008, the Company adopted a Retainer Stock Plan for Professional and Consultants (the 2008 Professional/Consultant Stock Compensation Plan) for the purpose of providing the Company with the means to compensate, in the form of common stock of the Company, eligible consultants that have previously rendered services or that will render services during the term of this 2008 Professional/Consultant Stock Compensation Plan. A total of 6,000,000 post consolidated common shares may be awarded under this plan. The Company filed a Registration Statement on Form S-8 to register the underlying shares included in the 2008 Plan.
