

ALTERNET SYSTEMS INC
Form 10-Q
November 16, 2009

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

FORM 10-Q

Quarterly report pursuant section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **September 30, 2009**

Transition report pursuant 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 small business issuer as specified in its charter)

Nevada
(State of Incorporation)

88-047897

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

One Glen Royal Parkway, Suite 401

Miami, Florida 33125

Tel: 786-265-1840

(Address and telephone number of Registrant's principal executive offices
and principal place of business)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

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 the definitions 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

(Do not check if a smaller reporting company)

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at November 13, 2009</u>
Common Stock, \$0.00001 par value per share	20,756,179 shares

PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements.

Our unaudited interim consolidated financial statements for the nine month period ended September 30, 2009 form part of this quarterly report. They are stated in United States Dollars (US\$) and are prepared in accordance with United States generally accepted accounting principles.

ALTERNET SYSTEMS INC.

(A Development Stage Company)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

(Unaudited Prepared by Management)

CONSOLIDATED INTERIM BALANCE SHEETS

CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

ALTERNET SYSTEMS INC.
CONSOLIDATED INTERIM BALANCE SHEET

(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash	\$ 1,208	\$ 4,326
Accounts receivable	28,530	22,515
Prepays and deposits	5,171	10,169
Deferred financing costs	27,208	-
Total Current Assets	62,117	37,010
Fixed Assets (Note 3)	5,058	6,457
TOTAL ASSETS	\$ 67,175	\$ 43,467
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 270,761	\$ 288,457
Accrued taxes	76,713	61,979
Other loans payable	87,187	54,238
Due to related parties (Note 4 and 6)	747,855	501,702
Demand loan	-	125,000
Derivative liability	201,878	-
TOTAL LIABILITIES	1,384,394	1,031,376
STOCKHOLDERS' DEFICIENCY		
Capital Stock (Note 5)	202	197
Additional paid-in capital	5,257,695	5,212,700
Private placement subscriptions	225,415	225,415
Obligation to issue shares	90,000	90,000
Deferred compensation (Note 7)	(636,666)	(872,143)
Deficit	(6,253,865)	(5,644,078)
TOTAL STOCKHOLDERS' DEFICIENCY	(1,317,219)	(987,909)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 67,175	\$ 43,467

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

ALTERNET SYSTEMS INC.
CONSOLIDATED INTERIM STATEMENT OF LOSS AND DEFICIT

(Unaudited)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
REVENUE				
Sales	\$ 68,606	\$ 82,874	\$ 230,436	\$ 547,122
COST OF SALES				
Direct Cost of Sales	31,282	34,793	113,502	454,356
GROSS PROFIT	37,324	48,081	116,934	92,766
OPERATING EXPENSES				
Bad Debt	14,038	267,128	14,038	410,654
Bank Charges and Interest	12,910	3,419	25,875	14,732
Commissions	-	-	-	1,450
Depreciation and Amortization	537	591	1,611	1,774
Financing Costs	22,373	5,426	94,833	143,480
Investor Relations	-	50,499	80,167	147,081
License Fees	320	15	586	118
Management and Consulting	31,584	224,906	449,384	577,846
Marketing	-	1,050	1,490	33,114
Office and General	8,565	8,246	21,035	40,939
Professional fees	6,908	21,097	57,157	107,502
Rent	-	8,100	13,974	39,964
Salaries	21,017	63,846	60,200	148,256
Telephone and Utilities	949	10,291	5,515	23,130
Travel	11,243	18,492	15,167	63,814
TOTAL OPERATING EXPENSES	130,444	683,106	841,032	1,753,854
NET INCOME/(LOSS) BEFORE OTHER ITEMS	(93,120)	(635,025)	(724,098)	(1,661,088)
OTHER ITEMS				
Customer fees	273	6,317	4,682	6,771
Other income/(expense)	(3,000)	(373)	(3,922)	(3,267)
Gain on sale of investment	194,937	-	194,937	-
Increase (decrease) in Derivative Liability	80,483	113,389	(79,837)	143,480
NET INCOME (LOSS) FOR THE PERIOD	\$ 179,573	\$ (515,692)	\$ (608,238)	\$ (1,514,104)
BASIC NET LOSS PER SHARE	0.01	\$ (0.03)	\$ (0.03)	\$ (0.09)
	\$ 20,252,770	19,064,151	20,049,737	16,765,667

**WEIGHTED COMMON SHARES
OUTSTANDING**

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

ALTERNET SYSTEMS INC.
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(Unaudited)

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
OPERATING ACTIVITIES		
Net Income (Loss) From Operations	\$ (608,238)	\$ (1,514,104)
Add: Items Not Affecting Cash		
Depreciation	1,611	1,774
Shares for services	20,000	317,857
Stock-based compensation	-	133,125
Gain on sale of investment	194,937	-
Deferred compensation	235,477	-
Changes In Non-Cash Working Capital:		
Accounts receivable	(6,015)	393,799
Prepays and deposit	4,998	(763)
Accounts payable and accrued charges	(17,696)	(113,892)
Accrued taxes	14,734	14,641
Due to related parties	51,216	299,544
	(108,976)	(468,019)
INVESTING ACTIVITIES		
Acquisition of fixed assets	(212)	(1,271)
FINANCING ACTIVITIES		
Change in loans payable	(92,051)	-
Derivative liability	201,878	-
Deferred financing costs	(27,208)	-
Net proceeds on sale of common stock and subscriptions	25,000	464,071
	107,619	464,071
OTHER COMPREHENSIVE INCOME	(1,549)	(2,758)
NET CHANGE IN CASH DURING THE PERIOD	(3,118)	(7,977)
CASH, BEGINNING OF PERIOD	4,326	18,604
CASH, END OF PERIOD	\$ 1,208	\$ 10,627

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 September 30, 2009

	Shares	Common Stock	Additional Paid in Capital	Treasury Shares	Treasury Stock	Private Placement subscriptions	Accumulated Deficit	Deferred Compensation	Obligation to Issue shares
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)	-	-

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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	-	-	-
Issuance of common stock at \$0.42 per share	-	-	148,698	(762,122)	(167,668)	-	-	-
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)	-	-	-

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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	-	-	-	-	-
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								

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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)	-

ALTERNET SYSTEMS INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Period from May 16, 2002 (Inception) to September 30, 2009

	Shares	Common Stock	Additional Paid in Capital	Treasury Shares	Treasury Stock	Private Placement subscriptions	Accumulated Deficit	Deferred Compensation	Obl to sh
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)	-	-
Alternet Systems Inc. balance before reverse acquisition	6,278,146	63	5,136,702	-	-	231,487	(5,540,778)	(29,677)	-
Issued to effect reverse acquisition	4,000,000	40	21,791	-	-	-	-	-	-
Reverse acquisition	-	-	-	-	-	-	-	-	-

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

Issuance of common stock for debenture note at \$0.36 per share - July 16, 2008	277,778	3	99,997	-	-	-	-	-
Issuance of common stock for debenture note at \$0.21 per share - July 16, 2008	48,443	-	10,000	-	-	-	-	-
Issuance of common stock for debenture note at \$0.35 per share - July 16, 2008	57,143	1	19,999	-	-	-	-	-
Issuance of common stock for cash at \$0.35 per share - July 16, 2008	670,000	7	234,493	-	-	(234,500)	-	-
Issuance of common stock for services at \$0.42 per share - July 16, 2008	500,000	5	209,995	-	-	-	-	-
Issuance of common stock for services at \$0.42 per share - August 6, 2008	310,000	3	130,197	-	-	-	-	-

ALTERNET SYSTEMS INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Period from May 16, 2002 (Inception) to September 30, 2009

	Shares	Common Stock	Additional Paid in Capital	Treasury Shares	Treasury Stock	Private Placement subscriptions	Accumulated Deficit	Deferred Compensation	Obligat to Issu shares
Issuance of common stock for cash at \$0.35 per share - August 7, 2008	14,100	-	4,930	-	-	(4,930)	-	-	
Issuance of common stock for cash at \$0.35 per share - August 11, 2008	241,158	2	84,403	-	-	(84,405)	-	-	
Issuance of common stock for cash at \$0.35 per share - August 13, 2008	44,960	-	15,735	-	-	(15,735)	-	-	
Issuance of common stock for services at \$0.41 per share - September 16, 2008	200,000	2	81,998	-	-	-	-	-	
Private placement subscriptions received	-	-	-	-	-	333,498	-	-	
Foreign exchange translation adjustment	-	-	-	-	-	-	-	-	
Increase in derivative liability	-	-	-	-	-	-	-	-	

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Obligation to issue shares per consulting agreement										90,
Services provided per term of contracts	-	-	-	-	-	-	-	(842,466)		
Net loss for the year	-	-	-	-	-	-	(1,983,957)	-		
Balance December 31, 2008	19,740,270	197	5,212,700	-	-	225,415	(5,790,324)	(872,143)	90,	
Issuance of common stock for cash at \$0.08 per share - April 9, 2009	312,500	3	24,997	-	-	(25,000)	-	-		
Issuance of common stock for services at \$0.10 per share - May 5, 2009	200,000	2	19,998	-	-	-	-	-		
Private placement subscriptions received	-	-	-	-	-	25,000	-	-		
Foreign exchange translation adjustment	-	-	-	-	-	-	-	-		
Increase (decrease) in derivative liability	-	-	-	-	-	-	-	-		
Services provided per term of contracts	-	-	-	-	-	-	-	235,477		
Net loss for the period	-	-	-	-	-	-	(528,401)	-		

**Balance
September
30,**

2009	20,252,770	202	5,257,695	-	-	225,415	(6,318,725)	(636,666)	90,
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ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2009

NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

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

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

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 September 30, 2009 the Company had a working capital deficiency of \$1,490,047. The Company s continued operations are dependent on the successful implementation of its business plan, its ability to obtain additional financing as needed, continued support from creditors, settling its outstanding debts and ultimately attaining profitable operations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

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

Use of Estimates and Assumptions

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

Cash and Cash Equivalents

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

Equipment

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

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

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

September 30, 2009

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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

September 30, 2009

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per Share

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

Risk Management

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

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

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combination*, which is effective for fiscal years beginning after December 15, 2008. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This standard 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*, which is effective for fiscal years beginning after December 15, 2008. The statement requires all entities to report noncontrolling or minority interests in subsidiaries in the same way as equity in the consolidated financial statements. Moreover, the Statement eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. This standard is not expected to have a significant effect on the Company's reported financial position or results of operations.

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

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

In May 2008, the FASB issued SFAS No.163, *Accounting for Financial Guarantee Insurance Contract*, which is effective for financial statements issued for fiscal years beginning after December 15, 2008. This statement requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60, *Accounting and Reporting by Insurance Enterprises*, applies to financial guarantee insurance contract, including the recognition and measurement to be used to account for premium revenue and claim liabilities. This standard 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 INTERIM FINANCIAL STATEMENTS**

September 30, 2009

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

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

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

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

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

NOTE 3 FIXED ASSETS

	September 30, 2009			December 31, 2008	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Computer equipment	\$ 328,029	\$ 324,474	\$ 3,555	\$ 4,587	
Computer software	72,560	71,673	887	1,145	
Equipment	10,576	9,960	616	725	
	\$ 411,165	\$ 406,107	\$ 5,058	\$ 6,457	

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

September 30, 2009

NOTE 4 CONVERTIBLE DEBENTURE NOTES

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

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

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

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

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

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

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

On January 8, 2009, the Company issued a note payable in the amount of \$42,085. The note carries interest at the rate of 10% per annum and is due on January 8, 2010. If the note is not repaid on maturity or in any other event of default, the holder is entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the average market price of the Company's stock

for the 30 days prior to the date of conversion. On September 15, 2009, the balance outstanding on the note payable was agreed to be settled prior to the conversion date and as such the corresponding derivative liability was written off.

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

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

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

September 30, 2009

NOTE 5 CAPITAL STOCK

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

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

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

The Company is obligated to issue 300,000 common shares valued at \$90,000 as at December 31, 2008 for services rendered to two consultants during the year. These shares were not issued as at September 30, 2009.

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

The shares which were not issued as at September 30, 2009 or December 31, 2008 were not used to compute the total weighted average shares outstanding as at September 30, 2009 or December 31, 2008 respectively and were thus are not used in the basic net loss per share calculation.

NOTE 6 - RELATED PARTY TRANSACTIONS

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At September 30, 2009, a total of \$571,925 (December 31, 2008 - \$444,299) was payable to directors of which \$467,253 is non-interest bearing and has no specific terms of repayment and \$104,672 relates to the convertible debentures detailed in Note 4.

During the nine months ended September 30, 2009, the company expensed a total of \$231,000 (December 31, 2008 - \$605,202) in consulting fees and investor relations paid to related parties.

Of the amounts incurred to directors and officers, \$231,000 (December 31, 2008 - \$473,952) was accrued or paid in cash and \$Nil (December 31, 2008 - \$131,250) was paid by way of zero (December 31, 2008 - 5,250,000) common shares issued for services.

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

September 30, 2009

NOTE 6 - RELATED PARTY TRANSACTIONS (continued)

On September 15, 2009, a director of the Company resigned and an agreement was reached whereby all amounts owing to him from accrued salaries, vacations, loans, and expenses due would be fully settled through a transfer of the Company's investment in 26,000 shares of another company with a book value of \$26,000 to the director. The net effect of this transaction, \$194,937, has been recorded to gain on sale of investment.

NOTE 7 DEFERRED COMPENSATION

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

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

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

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

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

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

The Company recorded the aggregate fair value of the shares issued pursuant to the above agreements as deferred compensation and amortizes the costs of all these services on a straight-line basis over the respective terms of the contracts. During the nine months ended the Company expensed \$235,477 relating to the above contracts. At September 30, 2009, the unamortized portion of the deferred compensation totalled \$636,666. The shares issued were all valued at their market price on the date of issuance.

NOTE 8 LAWSUIT

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On June 30, 2008, the Company filed an action in the Circuit Court in and for Miami-Dade County, Florida against a customer seeking to recover a total of \$142,121 for services and loans provided. The Company is also seeking to recover interest and attorneys' fees and costs. The likelihood of any results from the above lawsuit is not determinable at this time, consequently the company made a bad debt provision in the year ended December 31, 2008 for the entire amount.

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

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NOTE 9 SUBSEQUENT EVENTS

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

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

Overview

This quarterly report may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "we believe," "our company believes," "management believes" and similar language. These forward-looking statements are based on our current expectations and are subject to certain risks, uncertainties and assumptions, including those set forth in the following discussion, including under the heading "Risk Factors". Our actual results may differ materially from results anticipated in these forward-looking statements. We base our forward-looking statements on information currently available to us, and we assume no obligation to update them. In addition, our historical financial performance is not necessarily indicative of the results that may be expected in the future and we believe that such comparisons cannot be relied upon as indicators of future performance. Other important factors that could cause actual results to differ materially include the following: business conditions, the price of precious metals, ability to attract and retain personnel; the price of the

Company's stock; and the risk factors set forth from time to time in the Company's SEC reports, including but not limited to its annual report on Form 10-K; its quarterly reports on Forms 10-Q; and any reports on Form 8-K. In addition, the Company disclaims any obligation to update or correct any forward-looking statements in all the Company's annual reports and SEC filings to reflect events or circumstances after the date hereof.

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 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. previous to the merger with TekVoice, sold network systems and software for education and healthcare, marketed under the names "SchoolWeb" and HealthWeb.

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

TekVoice Inc. Merger

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 electronic transaction services, telecom services; and education / healthcare application software and content; and 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.

About TekVoice Communications Inc.

TekVoice Communications, Inc. is a Voice over IP telecom company that since 2002, offers convergent voice and data services over IP networks. 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.

TekVoice also sells electronic transaction systems for mass-transportation fare collection, bill payments and money remittance.

TekVoice Share Acquisition 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). The Company's results, on a consolidated basis, reflected its own results consolidated with its subsidiaries, TekVoice Communications Inc, AI Systems Group Inc. and AI Systems Group (Canada) Ltd. For the remainder of this part, the term Company refers to both the Company and its wholly owned subsidiaries, TekVoice Communications Inc., AI Systems Group Inc. and AI Systems Group (Canada) Ltd.

Plan of Operation

In addition to the operating the Company's VOIP telephony business, management is pursuing opportunities in mass-transportation electronic fare-collection management and electronic transaction platforms for utility bill prepayment. 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 remittance through a cell-phone.

Alternet personnel continue to make presentations on the services offered by the Company for the telecom, financial, utilities and transportation sectors, as well as our content delivery software for the education and health sectors.

Currently our sales personnel and business development partners have identified and are pursuing 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.

Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008

Net Sales

For the nine months ended September 30 2009, the Company had \$230,436 in sales compared to \$547,122 for the corresponding period in 2008. The decrease in sales resulted from a decrease in VoIP telephony sales from the Company's subsidiary, TekVoice Inc.

Gross Profit

Gross profit was \$116,934 in the six months ending September 30, 2009 compared to a gross profit of \$92,766 in the nine month period ending September 30, 2008. This represents an increase in gross profit for the period of \$24,168.

Selling, General and Administrative Expenses

For the nine months ended September 30 2009, the Company had office and general expenses of \$21,035, marketing expenses of \$1,490, management and consulting fees of \$449,384 professional fees of \$57,157 and rent of \$13,974.

For the corresponding period in 2008 the Company incurred office and general expenses of \$40,939; marketing expenses of \$33,114; management and consulting fees of \$577,846; \$107,502 in professional fees and \$39,964 in rent. Rent expense was reduced in the period due to the closing of the Vancouver office.

Accounts payable totaled \$270,761 and accounts receivable were \$28,530 at September 30, 2009

Net Loss

For the six months ended September 30, 2009, the Company had a net loss of \$ 608,238 or \$(0.03) per share, which was a decrease of 60% when compared to the net loss for the corresponding period to September 30 2008 of \$1,514,104 or \$(0.09) per share. The reduced loss was primarily due to a reduction in bad debt expense in the nine month period ending September 30 2009.

Interest and other expenses

The Company had no material interest expenses.

Liquidity and Capital Resources

The Company had current assets including cash on hand of \$62,117 as at September 30, 2009. The Company also had a net loss of \$608,238 during the nine months ended September 30, 2008.

The Company had a working capital deficiency of \$1,490,047 at September 30 2009. Management of the Company has determined that the Company's ability to continue as a going concern is dependent on raising additional capital and achieving increased sales of its TekVoice, Electronic Transaction and SchoolWeb / HealthWeb products.

Management can give no assurance that any increase in sales will occur in the future and if they do occur, may not be enough to cover the Company's operating expenses or any other costs. Should this be the case, we would be forced, unless sufficient working capital can be raised, to suspend operations and possibly liquidate the assets and wind up and dissolve the Company.

RISK FACTORS

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

- The Company may be unable to market and sell its software and sales of its telecommunications products could decline;
 - 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.
- *We have had negative cash flows from operations. If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, we may be unable to continue our business and as a result may be required to scale back or cease operations for our business, the result of which would be that our stockholders would lose some or all of their investment.* To date we have had negative cash flows from operations and we have been dependent on sales of our equity securities and debt financing to meet our cash. We do not expect positive cash flow from operations in the near term and there is no assurance that actual cash requirements will not exceed our estimates, or that our sales projections will be realized as estimated. The occurrence of any of the aforementioned events could adversely affect our ability to meet our business plans.
-

- *We will depend almost exclusively on outside capital to pay for the continued development of our business.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. 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, principal financial officer and principal accounting officer) to allow for timely decisions regarding required disclosure.

As of September 30, 2009, the end of our third quarter covered by this report, we carried out an evaluation, under the supervision and with the participation of our president (also our principal executive officer) and our secretary, treasurer and chief financial officer (also our principal financial and accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president (also our principal executive officer) and our secretary, treasurer and chief financial officer (also our principal financial and accounting officer) concluded that our disclosure controls and procedures were effective in providing reasonable assurance in the reliability of our financial reports as of the end of the period covered by this quarterly report.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2009 that have materially or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. 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, which were paid in March 2007. 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.

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Reports on Form 8-K. The Registrant filed one report on Form 8K during the period ending September 30 2009

(b) Exhibits. Exhibits included or incorporated by reference herein: See Exhibit Index below.

EXHIBIT INDEX

Number Exhibit Description

- 3.1 Articles of Incorporation (incorporated by reference to Exhibit 3 of the Registration Statement on Form 10-SB filed on September 28, 2000).
 - 3.2 Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 2 of the Form 10-SB filed on September 28, 2000).
 - 3.3 Certificate of Amendment to Articles of Incorporation dated October 13, 2000. (incorporated by reference to Exhibit 3.3 of the Form 10-QSB filed on November 7, 2000)
 - 3.4.1 ByLaws (incorporated by reference to Exhibit 3.3 of the Form 10-QSB filed on November 7, 2001)
 - 14.1 Code of Business Conduct
 - 31.1 Section 302 Certifications - CEO
 - 31.2 Section 302 Certifications - CFO
 - 32.1 Section 906 Certifications - CEO
 - 32.2 Section 906 Certifications - CFO
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SIGNATURES

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.

By: */s/ Henryk Dabrowski*
Henryk Dabrowski, President
(Principal Executive Officer)
November 14, 2009

By: */s/ Luz Villanueva*
Luz Villanueva
(Principal Financial Officer and Principal Accounting
Officer)
November 14, 2009
