ALTERNET SYSTEMS INC
Form 10QSB
November 15, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

[] 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.
(Exact name of small business issuer as specified in its charter)

NEVADA	88-0473897
(State or other jurisdiction of incorporation or organization	(IRS Employer Identification No.)

#280 - 815 West Hastings Street
Vancouver, British Columbia
V6C 1B4

(604) 608-2540
(Registrant's telephone number)

SchoolWeb Systems, Inc.
Suite 2602 - 1111 Beach Ave Vancouver, BC Canada V6E 1T9
(Former name, former address and former fiscal year, if changed since last report)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.001 Par Value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 [x] No

As of September 30, 2002, the Registrant had 15,858,085 shares of common stock issued and outstanding.

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

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PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALTERNET SYSTEMS INC.
(Formerly Schoolweb Systems Inc.)
(A Development Stage Company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

(Unaudited)

ALTERNET SYSTEMS INC.
(Formerly Schoolweb Systems Inc.)
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

	September 30 2002 (Unaudited)	December 31 2001 (Note 1)
ASSETS		
CURRENT ASSETS		
Cash	$ 19,254	$ 5,669

Accounts receivable	30,619	-
Prepaid expenses	5,897	3,758
Inventory	6,057	-
	61,827	9,427
LICENSE RIGHTS, net of amortization of $10,500 (Note 4)	19,500	24,000
FURNITURE AND EQUIPMENT, net of depreciation of $1,365 (2001 - $600)	3,691	3,400
	85,018	36,827

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	86,771	26,091
Deferred license revenue	5,615	-
Due to related parties (Note 6)	12,542	33,486
	104,928	59,577
COMMITMENTS AND CONTINGENCIES (Notes 1 and 4)		
STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)		
Capital stock (Note 5)		
Common stock, $0.00001 par value, 100,000,000 shares authorized		
15,858,085 (2001 - 14,733,000) issued and outstanding	158	147
Additional paid-in capital	559,571	242,302
Obligation to issue shares	62,300	-
Deficit accumulated during development stage	(636,898)	(263,249)
Accumulated other comprehensive loss	(5,041)	(1,950)
	(19,910)	(22,750)
	85,018	36,827

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

ALTERNET SYSTEMS INC.
(Formerly Schoolweb Systems Inc.)
(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended September 30 2002	Three months ended September 30 2001	Nine months ended September 30 2002	Nine months ended September 30 2001	Oc (i Se
HARDWARE SALES AND FEES	$ 40,923	$ -	$ 58,398	$ -	$
COST OF SALES	46,090	-	48,115	-	
GROSS PROFIT (LOSS)	(5,167)	-	10,283	-	

EXPENSES				
Depreciation and amortization	1,755	1,650	5,265	4,650
Consulting	22,080	-	60,916	-
License fees	60,000	30,000	180,000	90,000
Office and general	21,115	3,689	50,696	28,522
Marketing	25,585	12,162	57,140	26,538
Professional fees	10,134	8,450	29,915	15,611
	140,669	55,951	383,932	165,321
NET LOSS FOR THE PERIOD	(145,836)	(55,951)	(373,649)	(165,321)
BASIC NET LOSS PER SHARE	(0.01)	(0.00)	(0.02)	(0.01)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	15,672,446	12,762,022	15,346,800	12,484,208

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

ALTERNET SYSTEMS INC.
(Formerly Schoolweb Systems Inc.)
(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30, 2002	Nine months ended September 30, 2001	Oct 13 2000 (inception) to September 30, 2002 (Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period	$ (373,649)	$ (165,321)	$ (636,898)
Adjusted for item not involving cash:			
Depreciation and amortization	5,265	4,650	11,865
Changes in operating assets and liabilities:			
Changes in accounts receivable	(30,619)	-	(30,619)
Changes in inventory	(6,057)	-	(6,057)
Changes in prepaid expenses	(2,139)	(3,758)	(5,897)
Changes in deferred license revenue	5,615	-	5,615
Changes in accounts payable	140,680	15,743	179,931
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(260,904)	(148,686)	(482,060)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances (to) from related parties	(20,944)	15,558	(8,596)
Obligation to issue shares	62,300	-	62,300
Proceeds on sale of common stock	237,280	138,100	457,633
NET CASH FLOWS FROM FINANCING ACTIVITIES	278,636	153,658	511,337

CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of capital assets	(1,056)	(4,000)	(5,056)
Cash acquired on reverse acquisition of SchoolWeb	-	74	74
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(1,056)	(3,926)	(4,982)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(3,091)	(706)	(5,041)
INCREASE IN CASH	13,585	340	19,254
CASH, BEGINNING OF PERIOD	5,669	3	-
CASH, END OF PERIOD	19,254	343	19,254

OTHER NON-CASH TRANSACTIONS:

During 2002 the Company issued 228,571 common shares at a price of $0.35 per share to settle debt of $80,000.

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

ALTERNET SYSTEMS INC.
(Formerly Schoolweb Systems Inc.)
(A Development Stage Company)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002
(Unaudited)

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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 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.

By agreement dated July 2, 2001 and completed September 10, 2001, Alternet issued 12,343,000 shares of restricted common stock to the shareholders of Schoolweb Holdings Inc. ("SW Holdings"), a development stage company incorporated October 13, 2000 in the State of Nevada, in exchange for all of the issued and outstanding shares of SW Holdings. On June 26, 2002 SW Holdings changed its name to AI Systems Group, Inc.

The acquisition resulted in the former shareholders of SW Holdings acquiring 90.1% of the outstanding shares of the Company and has been accounted for as a reverse merger with SW Holdings 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 SW Holdings for all periods shown and those of the Alternet since the date of the reverse acquisition. The results of operations of SW Holdings are from its inception, October 13, 2000 and include the results of its wholly-owned subsidiary, SchoolWeb Systems (Canada) Ltd. a company incorporated April 17, 2001 in the Province of British Columbia. Refer to Note 3.

SW Holdings, through a License Agreement dated January 1, 2001, distributes, markets, sells and licenses in the United States and Canada, certain proprietary software and hardware systems technology known as "SchoolWeb" used for caching Internet and multimedia files on special servers (refer to Note 4).

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. The Company has incurred losses since inception and further losses are anticipated before the Company reaches a commercial stage raising substantial doubt as to the Company's ability to continue as a going concern. The Company's continued operations are dependent on the successful implementation of its business plan, its ability to obtain additional financing as needed, and ultimately to attain profitable operations.

Unaudited Interim Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. They do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material changes in the information disclosed in the notes to the financial statements for the year ended December 31, 2001 included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-KSB. In the opinion of Management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

Principles of Consolidation

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates and Assumptions

Preparation of the Company's financial statements in conformity with generally accepted accounting principles 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.

Inventory

Inventory consists of computer hardware products held for resale and is carried at the lower of cost and net realizable value.

License Rights

The Company amortizes the cost of acquiring license rights on a straight-line basis over the term of the license. The Company evaluates the carrying amount of its unamortized license rights against the undiscounted future cash flows associated with them. If the evaluation indicates that the future undiscounted cash flows are not sufficient to recover the carrying value, an impairment provision is recorded to adjust the carrying value of the license rights to their fair value.

Furniture and Equipment

Furniture and equipment are recorded at cost and depreciated on a declining balance basis at a rate of 30% per annum.

Revenue recognition

To date, the Company has not generated any revenues from the licensing of its SchoolWeb system. The Company will license its SchoolWeb system on a prepaid basis for terms ranging from one to three years. The Company will recognize license revenues on a straight-line basis over the license term upon completion of the required hardware and software installations and upon acceptance by the purchasers.

The Company has generated revenues from hardware sales in connection with the testing of the SchoolWeb system. Hardware sales are recognized upon completion and acceptance of installation by the purchasers.

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' equity, whereas gains or losses resulting from foreign currency transactions are included in 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.

Stock-Based Compensation

The Company accounts for stock-based compensation in respect to stock options granted to employees and officers using the intrinsic value based method in accordance with APB 25. Stock options granted to non-employees are accounted for using the fair value method in accordance with SFAS No. 123. In addition, with respect to stock options granted to employees, the Company provides pro-forma information as required by SFAS No. 123 showing the results of applying the fair value method using the Black-Scholes option pricing model.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with SFAS No. 123 and the conclusions reached by the Emerging Issues Task Force in Issue No. 96-18. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earliest of a performance commitment or completion of performance by the provider of goods or services as defined by EITF 96-18.

The Company has also adopted the provisions of the Financial Accounting Standards Board Interpretation No.44, Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB Opinion No. 25 ("FIN 44"), which provides guidance as to certain applications of APB 25. FIN 44 is generally effective July 1, 2000 with the exception of certain events occurring after December 15, 1998.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax balances. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to the taxable income in the years in which those differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. As at September 30, 2002 the Company had net operating loss carryforwards; however, due to the uncertainty of realization the Company has provided a full valuation allowance for the deferred tax assets resulting from these loss carryforwards.

Net Loss per Common Share

Basic loss per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Dilutive earnings per share reflects the potential dilution of securities that could share in the earnings of the Company. The accompanying presentation is only of basic loss per share as the potentially dilutive factors are anti-dilutive to basic loss per share.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), which requires that goodwill not be amortized. SFAS requires that the Company review goodwill at least annually to determine if an impairment has occurred and if so that goodwill should be reduced accordingly. The Company has determined that the implementation of this standard does not have any impact on its financial statements.

NOTE 3 - ACQUISITION OF SW HOLDINGS

By agreement dated July 2, 2001 and completed September 10, 2001, Alternet acquired 100 % of the issued and outstanding shares of SW Holdings in exchange for 12,343,000 shares of restricted common stock of Alternet. At the time of this transaction, the former shareholders of SW Holdings acquired 90.1% of the 13,693,000 total issued and outstanding shares of Alternet.

This acquisition has been accounted for as a recapitalization using accounting principles applicable to reverse acquisitions with SW Holdings being treated as the accounting parent (acquirer) and Alternet being treated as the accounting subsidiary (acquiree). The value assigned to the capital stock of consolidated Alternet on acquisition of SW Holdings is equal to the book value of the capital stock of SW Holdings plus the book value of the net assets (liabilities) of Alternet as at the date of the acquisition.

The book value of SW System's capital stock subsequent to the acquisition is calculated and allocated as follows:

SW Holdings capital stock	$	153,103
Alternet net assets (liabilities)		(7,904)
	$	145,199
Capital stock	$	137
Additional paid-in capital		145,062
	$	145,199

These consolidated financial statements include the results of operations of SW Holdings since October 13, 2000 (inception) and the results of operations of Alternet since the date of the reverse acquisition on September 10, 2001.

NOTE 4 - LICENSE AGREEMENT

By agreement dated January 1, 2001, SW Holdings entered into an agreement with Advanced Interactive Inc. ("AII") and Advanced Interactive (Canada) Inc. ("AIC") whereby SW Holdings acquired exclusive and non-exclusive rights and licenses to commercialise, distribute and market SW Holdings related licensed technology, products and services in the United States and Canada for a period of five years renewable for a further five years at SW Holdings' option. SW Holdings must pay royalties equal to 40% of net revenue received plus a fixed amount of $10,000 per month in the first year, $20,000 per month in year two, and increasing by $8,000 per month in each of the subsequent years to a maximum of $84,000 per month in year ten. After year three, the fixed monthly payment is reduced by the amount of royalties otherwise payable. In addition SW Holdings issued 2,500,000 shares on June 29, 2001 valued at $.01 per share or $25,000.

Effective September 10, 2001 SW Holdings, AII and AIC amended the original agreement such that AI and AIC would receive an additional 500,000 shares valued at $5,000 which Alternet issued on September 10, 2001.

Also effective September 10, 2001 the President and director of AII and AIC became a director of the Company.

NOTE 5 - CAPITAL STOCK

To September 30, 2002, the Company has not granted any stock options and has not recorded any stock-based compensation.

During the period ended September 30, 2002, the Company completed a private placement of 510,000 units at a price of $.20 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire an additional share at a price of $0.50 per share to February 28, 2004.

During the period ended September 30, 2002, the Company completed private placements of 386,514 units at a price of $.35 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire an additional share at a price of $0.50 per share for two years.

The Company is in the process of completing a private placement of 193,000 units at a price of $.35 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire an additional share at a price of $0.50 per share to October 2, 2004. To September 30, 2002, the Company had received total subscription proceeds of $62,300 in connection with this private placement which was completed subsequently.

At September 30, 2002 there were 375,000 warrants outstanding to purchase 375,000 common shares at a price of $0.50 per share to November 24, 2003; 510,000 warrants outstanding to purchase 510,000 common shares at a price of $0.50 per share to February 28, 2004, 100,000 warrants outstanding to purchase 100,000 common shares at a price of $0.50 per share to March 15, 2004, 140,000 warrants outstanding to purchase 140,000 common shares at a price of $0.50 per share to April 30, 2004, and 146,514 warrants outstanding to purchase 146,514 common shares at a price of $0.50 per share to July 18, 2004.

Effective June 3, 2002 the Company filed a Form SB-2 Registration Statement with the SEC for the registration of a total of 7,764,000 shares of the Company's common stock of which 6,639,000 are issued and outstanding and 1,125,000 will be reserved to be issued upon the exercise of 1,125,000 share purchase warrants.

NOTE 6 - RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2002, certain directors were repaid for net cash advances and consulting fees owed totalling $20,944. At September 30, 2002 a total of $12,542 is owing to directors and shareholders. Amounts due from related parties are non-interest bearing and have no specific terms of repayment.

During the nine months ended September 30, 2002, the following amounts were incurred to directors of the Company or its subsidiary, and a company with a director in common.

	Nine months ended September 30, 2002	2001
Consulting	$ 45,319	$ -
License fees	180,000	-
Marketing	40,159	21,719
	$ 265,478	$ 21,719

NOTE 7 - INCOME TAXES

The Company and its subsidiaries have tax losses which may be available to reduce future year's taxable income, that result in deferred tax assets. Management believes that the realization of the benefits from these deferred tax assets appears uncertain due to the Company's limited operating history and losses to date. Accordingly a full, deferred tax asset valuation allowance has been provided and no deferred tax asset benefit has been recorded.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL OPERATIONS AND FINANCIAL RESULTS

The Company' subsidiary, in January of 2001, entered into a software license agreement with Advanced Interactive Inc. ("AII") by which it acquired the North American rights to market and distribute AII's broadcast / caching software (the SchoolWeb software system it currently markets and distributes).

On March 6, 2002, AII and Hewlett Packard (Canada) entered into an agreement (the "Hewlett Packard Agreement") where AII agreed that the broadcast caching software it had licensed to the Company would, be sold in conjunction with Hewlett Packard hardware and with financing provided by a division of Hewlett Packard (Canada), Hewlett Packard's leasing and finance division.

Effective March 6, 2002 but executed on April 10, 2002, the Company granted to AII its consent to the Hewlett Packard Agreement. As a result, the Company must only sell broadcast caching server software (including the SchoolWeb software system) in conjunction with Hewlett Packard hardware and with financing provided by Hewlett Packard's leasing and finance division.

Management of the Company consented to the Hewlett Packard Agreement because in it Hewlett Packard (Canada) agrees to use its best efforts to provide distribution and marketing of the broadcast caching software products the Company has licensed from AII. The Company hopes that Hewlett Packard (Canada) and its distribution capability will generate sales of the SchoolWeb software system and the HealthWeb software system. In exchange for its consent, the Company also secured rights under the License Agreement to a broader range of products than it previously had rights to. The License Agreement with AII originally entitled the Company only to the SchoolWeb and OfficeServer software products. The License Agreement has now been amended to expand the Company's rights to a North American license of all broadcast caching software products AII has developed.

(a) RESULTS OF OPERATIONS

With the closing of the SchoolWeb Agreement, the Company's results, on a consolidated basis, reflected its own results consolidated with its subsidiary, AI Systems Group Inc. (formerly known as SchoolWeb Holdings Inc). For the remainder of this part, the term "Company" refers to both the Company and its wholly owned subsidiary, AI Systems Group Inc.

For the quarter ending September 30, 2002, the Company had a net loss of $145,836 or $(0.01) per share. The net loss for the corresponding period of July 1, 2001, to September 30, 2001 was $55,591 or $(0.01) per share. The increased loss was due to: an increase in marketing expenses, consulting fees, professional fees, office expense and an increase in license fees due to Advanced Interactive Inc.

SALES

For the period ending September 30, 2002, the Company had sales of $40,923. During the corresponding period of July 1 2001 to September 30 2001, the Company had no sales. The increase in sales is attributable to the fact that the SchoolWeb and 1nterLink products were in development during the prior period and not ready for commercial sale.

EXPENSES

For the quarter ended September 30, 2002, the Company incurred general and administrative expenses of $21,115; marketing expenses of $25,585; consulting fees of $22,080; fees payable under the License Agreement of $60,000; and $10,134 in professional fees. For the corresponding period of July 1, 2001 to September 30, 2001, the Company had general and administrative expenses of $3,689; marketing expenses of $12,162; no consulting fees; fees payable under the License Agreement of $30,000 and professional fees of $8,450.

The increase in marketing, consulting and office and general expense this quarter, compared to the corresponding period of July 1 2001 to June 30 2002, is a result of increased activity in marketing the SchoolWeb and 1nterLink products since their commercial launch in May 2002. License fees payable to Advanced Interactive have increased to $20,000 per month compared to $10,000 per month during the period of July 1 2001 to September 30 2001, as per the License Agreement; and professional fees increased this quarter due to fees associated with achieving a public listing.

(b) Liquidity and Capital Resources

As at September 30, 2002, the Company had $19,254 cash in the bank, accounts receivable of $30,619 and prepaid expenses of $5,897. Inventory as of that date was $6,057.

The Company has installed an 1nterLink ISP system at the Heiltsuk aboriginal nation, located at Bella Bella, British Columbia, Canada. This system was installed in June 2002, and invoiced this quarter. Partial payment was received during this quarter, with the balance received subsequent to the quarter. The Company also installed and invoiced a SchoolWeb system during the quarter. It is likely that the Company will either entirely or partially dependant on raising capital or receiving advances from related parties in order to meet the continuing costs of marketing the Licensed Technology and, possibly, developing products other than the SchoolWeb software system which are based on the Licensed Technology (if available funds permit such development).

Audit Fees

During the period ended September 30, 2002, the Company incurred approximately $5,700 in fees to its principal independent accountant for all non-audit services (including reviews of the Company's quarterly financial statements).

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Registrant is not a party to any material pending legal proceedings and, to the best of its knowledge, no such action by or against the Registrant has been threatened.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The Registrant issued a total of 193,000 shares of common stock and 193,000 share purchase warrants (each share purchase warrant exercisable for a period of two years at an exercise price of $0.50 per warrant) for total consideration of $62,300.

These shares and warrants were issued to three persons who are non-US residents as that term is defined in the Securities Act of 1933 and the Rules and Regulations. The issuance was undertaken without registration under Regulation S. As a result, all three persons were advised that:

- the shares and warrants had not been registered under the Securities Act of 1933;

- the shares and warrants could not be resold in the United States or to a US resident person unless some other resale registration exemption was available to them;

- the transfer of the shares was restricted under the Registrant's constating bylaws; and

- other restrictions, such as short sale, were imposed by the issuance of the shares and warrants under Regulation S.

The three persons purchasing the 193,000 shares and 193,000 share purchase warrants represented and warranted to the Registrant in writing that they were purchasing the shares and share purchase warrants for their own account and not for any other person and further agreed to the restrictions imposed under Regulation S.

The Registrant intends to seek registration of the 193,000 shares and 193,000 share purchase warrants by inclusion of the three persons purchasing them as selling shareholders in its registration statement on Form SB-2 which is presently being reviewed by the SEC.

Proceeds from the sales of these securities have been applied to the general working capital of the Registrant.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Reports on Form 8-K. The Registrant filed one report on Form 8-K, filed September 12, 2002, during the quarterly period ended September 30, 2002.

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

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: November 14, 2002

By: /s/ Michael Dearden
Michael Dearden, President and Director

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	ByLaws (incorporated by reference to Exhibit 3.3 of the Form 10-QSB filed on November 7, 2001)
99.1	Certification