ALTERNET SYSTEMS INC
Form 10-Q
May 15, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **March 31, 2012**

[ ] 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	**88-047897**
(State of Incorporation)	(I.R.S. Employer Identification No.)

2665 S. Bayshore Dr.
Miami, Florida 33133
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 [X] 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 [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

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

Class	Outstanding at May 14th, 2012
Common Stock, $0.00001 par value per share	80,499,131 shares

PART 1   FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Our unaudited interim consolidated financial statements for the three month period ended March 31, 2012 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.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
MARCH 31, 2012

(Unaudited   Prepared by Management)

ALTERNET SYSTEMS INC.
CONSOLIDATED INTERIM BALANCE SHEETS
(Unaudited)
As at March 31, 2012 and December 31, 2011

		March 31, 2012		December 31, 2011
ASSETS				
Current Assets				
Cash	$	224,294	$	77,312
Accounts receivable		2,132,643		2,215,586
Share subscriptions receivable		54,000		4,000
Prepaids and deposits		317,636		335,010
		2,728,573		2,631,908
Fixed assets (Note 3)		131,737		142,408
Intellectual property (Note 4)		1,600,000		1,600,000
TOTAL ASSETS	**$**	**4,460,310**	**$**	**4,374,316**
LIABILITIES				
Current Liabilities				
Accounts payable and accrued charges	$	1,825,058	$	1,802,876
Wages payable		402,435		321,285
Accrued taxes		572,702		505,833
Customer deposits (Note 2)		609,828		655,828
Deferred income (Note 2)		388,748		359,400
Other loans payable (Note 5)		312,541		2,448
Due to related parties (Note 5 and 8)		50,949		50,040
Current portion of capital leases (Note 6)		46,148		44,499
		4,208,409		3,742,209
Capital leases (Note 6)		10,948		23,142
TOTAL LIABILITIES		4,219,357		3,765,351
STOCKHOLDERS' EQUITY				
Capital stock (Note 7)				
Authorized: 100,000,000 common shares with a par value of $0.00001				
Issued and outstanding: 79,816,017 common shares (2011 – 74,171,876)		794		738
Additional paid-in capital		12,365,285		11,171,559
Private placement subscriptions (Note 7)		530,362		630,362
Obligation to issue shares		-		113,333
Deficit		(12,653,558)		(11,626,148)
		242,883		289,844
Non-controlling interest		(1,930)		319,121
TOTAL STOCKHOLDERS' EQUITY		240,953		608,965
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$**	**4,460,310**	**$**	**4,374,316**

The accompanying notes are an integral part of these financial statements

ALTERNET SYSTEMS INC.
CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS
(Unaudited)

		Three months ended March 31, 2012		2011
REVENUE				
Sales	$	59,285	$	24,467
COST OF SALES				
Direct cost of sales		37,967		27,493
GROSS PROFIT		21,318		(3,026)
OPERATING EXPENSES				
Bad debt		-		3,023
Bank charges and interest		12,917		18,580
Depreciation		10,671		179
Interest on capital leases		2,337		-
Investor relations		26,370		40,095
Licenses, dues, and insurance		521		-
Management and consulting		331,895		140,917
Marketing		16,681		1,800
Office and general		12,986		5,076
Professional fees		92,437		39,806
Rent		31,696		17,623
Salaries		227,964		245,901
Telephone and utilities		16,897		4,739
Travel		48,321		37,009
TOTAL OPERATING EXPENSES		831,693		554,748
NET LOSS BEFORE OTHER ITEMS		(810,375)		(557,774)
OTHER ITEMS				
Customer fees		-		96
Interest income		367		-
Gain (Loss) on debt settlement		(536,574)		-
Increase (decrease) in derivative liability		-		(116,323)
		(536,207)		(116,227)
NET LOSS BEFORE INCOME TAXES		(1,346,582)		(674,001)
INCOME TAXES		1,879		-
NET LOSS BEFORE NON-CONTROLLING INTEREST	$	(1,348,461)	$	(674,001)
NON-CONTROLLING INTEREST		(321,051)		(124,491)
NET LOSS ATTRIBUTABLE TO ALTERNET SYSTEMS INC. FOR THE PERIOD	$	**(1,027,410)**	$	**(549,510)**

BASIC NET LOSS PER SHARE	**$**	(0.01)	**$**	(0.01)
WEIGHTED COMMON SHARES OUTSTANDING		**78,094,544**		**47,984,562**

The accompanying notes are an integral part of these financial statements

ALTERNET SYSTEMS INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
OPERATING ACTIVITIES		
Net loss from operations attributable to Alternet Systems Inc.	$ (1,027,410)	$ (549,510)
Non-controlling interest	(321,051)	(124,491)
Add: Items Not Affecting Cash		
Depreciation	10,671	179
Shares for services	34,875	70,000
Shares for debt	-	189,156
Deferred compensation	-	60,334
(Gain) loss on debt settlement	536,574	-
Changes In Non-Cash Working Capital:		
Accounts receivable	82,943	138,271
Prepaids and deposits	17,374	18,844
Accounts payable and accrued charges	31,182	13,993
Wages payable	81,150	242,844
Accrued taxes	66,869	9,756
Customer deposits	(46,000)	40,200
Deferred income	29,348	20,176
Due to related parties	909	147,063
	(502,566)	276,815
INVESTING ACTIVITIES		
Acquisition of intellectual property	-	(100,000)
FINANCING ACTIVITIES		
Change in loans payable	310,093	(68,435)
Change in capital leases	(10,545)	-
Net proceeds on sale of common stock and subscriptions	350,000	-
	649,548	(68,435)
NET CHANGE IN CASH DURING THE PERIOD	146,982	108,380
CASH, BEGINNING OF PERIOD	77,312	13,718
CASH, END OF PERIOD	**$ 224,294**	**$ 122,098**

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ALTERNET SYSTEMS INC.
CONSOLIDATED INTERIM STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Shares	Common Stock	Additional Paid in Capital	Private Placement Subscriptions	Accumulated Deficit	Deferred Compensation	Obligation to Issue shares	Other Comprehen Income
Balance December 31, 2010	**48,219,648**	**483**	**7,860,223**	**145,362**	**(9,016,091)**	**(79,832)**	**108,000**	**(165**
Issuance of common stock for debt at $0.155 per share - February 25, 2011	1,220,363	12	189,144	-	-	-	-	
Issuance of common stock for debt at $0.13 per share - April 12, 2011	2,214,276	22	287,834	-	-	-	-	
Issuance of common stock for debt at $0.13 per share - April 19, 2011	1,498,000	15	194,726	-	-	-	-	
Issuance of common stock for services at $0.13 per share - April 19, 2011	1,289,000	13	167,557	-	-	-	-	
Issuance of common stock for	444,079	4	57,726	-	-	-	-	

debt at $0.13 per share - April 21, 2011							
Issuance of common stock for services at $0.13 per share - April 21, 2011	600,000	6	77,994	-	-	-	(78,000)
Issuance of common stock for services at $0.12 per share - May 3, 2011	1,500,000	15	179,985	-	-	-	(120,000)
Issuance of common stock for debt at $0.10 per share - May 13, 2011	1,016,613	10	101,651	-	-	-	-
Issuance of common stock for services at $0.12 per share - June 7, 2011	400,000	4	47,996	-	-	-	-
Issuance of common stock for services at $0.11 per share - June 8, 2011	250,000	3	27,497	-	-	-	-

Issuance of common stock for cash at $0.10 per share - June 15, 2011	3,333,333	33	499,967	-	-	-	-

The accompanying notes are an integral part of these financial statements

ALTERNET SYSTEMS INC.
CONSOLIDATED INTERIM STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Shares	Common Stock	Additional Paid in Capital	Private Placement Subscriptions	Accumulated Deficit	Deferred Compensation	Obligation to Issue shares	Other Comprehensi Income
Issuance of common stock for services at $0.11 per share - June 21, 2011	250,000	2	27,498	-	-	-	-	
Issuance of common stock for services at $0.10 per share - July 7, 2011	250,000	2	24,998	-	-	-	(25,000)	
Issuance of common stock for cash at $0.10 per share - July 14, 2011	1,935,000	19	193,481	(193,500)	-	-	-	
Issuance of common stock for debt at $0.10 per share - July 14, 2011	252,934	2	25,291	-	-	-	-	
Issuance of common stock for debt at $0.12 per share - July 20, 2011	2,265,207	23	271,802	-	-	-	-	
	133,304	1	17,329	-	-	-	-	

Issuance of common stock for debt at $0.13 per share - July 25, 2011							
Issuance of common stock for cash at $0.15 per share - August 2, 2011	600,000	6	89,994	-	-	-	-
Issuance of common stock for debt at $0.12 per share - August 2, 2011	733,333	7	87,993	-	-	-	-
Issuance of common stock for services at $0.11 per share - August 11, 2011	112,500	1	12,374	-	-	-	-
Issuance of common stock for services at $0.12 per share - August 16, 2011	112,500	1	13,499	-	-	-	-
Issuance of common stock for debt at $0.12 per share - September	500,000	5	59,995	-	-	-	-

15, 2011

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ALTERNET SYSTEMS INC.
CONSOLIDATED INTERIM STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Shares	Common Stock	Additional Paid in Capital	Private Placement Subscriptions	Accumulated Deficit	Deferred Compensation	Obligation to Issue shares	Ot Compr Inc
Cancellation of common stock issued for services at $0.13 per share - April 19, 2011	(250,000)	(3)	(32,497)	-	-	16,250	-	
Issuance of common stock for services at $0.14 per share - November 21, 2011	100,000	1	13,999	-	-	-	-	
Issuance of common stock for services at $0.14 per share - November 22, 2011	112,500	1	15,749	-	-	-	-	
Issuance of common stock for services at $0.14 per share - December 7, 2011	1,000,000	10	139,990	-	-	-	-	
Issuance of common stock for cash at $0.15 per share - December 29, 2011	3,333,333	33	499,967	(500,000)	-	-	-	
Issuance of common stock for debt at $0.17 per share - December 29, 2011	245,903	2	41,802	-	-	-	-	

Share issue costs	-	-	(39,000)	-	-	-	-
Share subscriptions from prior years issued	500,000	5	14,995	(15,000)	-	-	-
Private placement subscriptions received	-	-	-	1,193,500	-	-	-
Services provided per term of contracts	-	-	-	-	-	76,082	-
Obligation to issue shares per consulting agreements	-	-	-	-	-	(12,500)	(10,000)
Obligation to issue shares per employment agreement	-	-	-	-	-	-	100,000
Obligation to issue shares per consulting agreement	-	-	-	-	-	-	25,000
Obligation to issue shares per Debt Settlement agreement	-	-	-	-	-	-	113,333
Subsidiary shares to be issued to non-controlling interest	-	-	-	-	-	-	-

The accompanying notes are an integral part of these financial statements

ALTERNET SYSTEMS INC.
CONSOLIDATED INTERIM STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Shares	Common Stock	Additional Paid in Capital	Private Placement Subscriptions	Accumulated Deficit	Deferred Compensation	Obligation to Issue shares	O Compr Inc
Increase (decrease) in derivative liability	-	-	-	-	-	-	-	
Non-controlling interest	-	-	-	-	-	-	-	
Net loss for the year	-	-	-	-	(2,278,661)	-	-	
Balance December 31, 2011	**74,171,826**	**738**	**11,171,559**	**630,362**	**(11,294,752)**	**-**	**113,333**	
Issuance of common stock for debt at $0.29 per share - February 22, 2012	60,000	1	17,399	-	-	-	-	
Issuance of common stock for debt at $0.30 per share - March 5, 2012	2,138,358	21	641,486	-	-	-	(113,333)	
Issuance of common stock for services at $0.31 per share - March 31, 2012	112,500	1	34,874	-	-	-	-	
Share subscriptions from prior years issued	3,333,333	33	499,967	(500,000)	-	-	-	
Private placement	-	-	-	400,000	-	-	-	

subscriptions received							
Non-controlling interest	-	-	-	-	-	-	-
Net loss for the year	-	-	-	-	(1,027,410)	-	-
Balance March 31, 2012	**79,816,017**	**794**	**12,365,285**	**530,362**	**(12,322,162)**	**0**	**0**

The accompanying notes are an integral part of these financial statements

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012 and December 31, 2011
NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Alternet Systems Inc. (Alternet or the Company), through its subsidiaries, provides leading edge mobile financial solutions and mobile security and related solutions. The former are offered throughout the Western Hemisphere, but most actively in South America, and the latter are offered globally.

The Company was organized under the laws of the State of Nevada on June 26, 2000, under the name North Pacific Capital Corp. In 2001 the Company changed its name to SchoolWeb Systems Inc. and then, in 2002, to Alternet Systems, Inc. On December 31, 2007 the Company executed a merger with TekVoice Communications, Inc. of Miami, Florida. Since then the Company has changed business focus and strategy to mobile financial services and mobile security. In 2011 TekVoice became inactive.

In July 2009, the Company purchased 51% of the outstanding shares of Alternet Transactions Systems, Inc. (ATS), a company incorporated in the State of Florida on July 29, 2009, for $5,100. ATS is doing business as Utiba Americas.

In September 2009, the Company purchased 60% of the outstanding shares of International Mobile Security, Inc. (IMS), a company incorporated in the State of Florida for $6,000.

In January 2010, AI Systems Group (Canada) Inc., a subsidiary, was dissolved. All transactions incurred from January 1, 2010 to January 11, 2010 have been included in these interim financial statements.

In February 2011, the Company purchased 100% of the outstanding shares of Megatecnica, S.A., a company incorporated in Panama.

In August 2011, the Company incorporated a wholly owned subsidiary, Utiba Guatemala, S.A., in Guatemala.

In September 2011, the Company formed two one-member limited liability companies, Alternet Financial Solutions, L.L.C. and Alternet Payment Solutions, L.L.C., in the State of Florida.

These consolidated interim 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 March 31, 2012 the Company had a working capital deficiency of $1,479,836. 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 interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated interim financial statements include the accounts of the following companies:

- Alternet Systems Inc.
- AI Systems Group, Inc., a wholly owned subsidiary of Alternet

- AI Systems Group (Canada), Inc., a wholly owned subsidiary of AI Systems Group, Inc
- Tekvoice Communications, Inc., a wholly owned subsidiary of Alternet
- Alternet Transactions Systems, Inc., a subsidiary of Alternet
- Utiba Guatemala, S.A., a wholly-owned subsidiary of Alternet Transactions Systems Inc.
- International Mobile Security, Inc, a subsidiary of Alternet
- Megatecnica, S.A., a wholly owned subsidiary of International Mobile Security, Inc.
- Alternet Financial Solutions, L.L.C, wholly-owned subsidiary of Alternet
- Alternet Payment Solutions, L.L.C, wholly-owned subsidiary of Alternet

The minority interests of ATS, IMS, and ATS s and IMS s wholly owned subsidiaries have been deducted from earnings and equity. All significant intercompany transactions and account balances have been eliminated.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012 and December 31, 2011
NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment of Long Lived Assets

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

Intellectual Property The Company accounts for its intellectual property in accordance with the Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Under the provisions of SFAS 142, intangible assets deemed to have an indefinite life are not amortized but are subject to impairment tests at each reporting date. The Company assesses the impairment of intangible assets on a quarterly basis or whenever events or changes in circumstances indicate that the fair value is less than its carrying value. If the carrying amount of the intangible asset exceeds its fair value, the intangible asset is considered impaired and the second step of the test is performed to determine the amount of impairment loss, if any.

Revenue Recognition

The Company derives its revenues from the sale of licenses of software, implementation services, support services, and telecommunication services. Revenues are recognized when title transfers or services are rendered, as follows:

a) Revenue from the sale of licenses is recognized when the title of the license transfers to the customer.
b) Revenue from implementation services performed is recognized upon completion of the service.
c) Revenue from support services is recognized as earned.
d) Revenue from telecommunications services are recognized when billed, which occurs at the end of the month the services are provided.

The Company invoices 100% of the implementation services and requires customers to pay a non-refundable deposit prior to any services being performed. The Company recognizes the customer deposit as unearned revenue until either completion of the implementation or upon the contract being cancelled at which time the revenue is recognized. The uncollected portion of the implementation invoice is recorded as customer deposits until collection has occurred, completion of the implementation services, or upon the contract being cancelled.

The Company invoices support services at the beginning of the term and recognizes the revenue over the term of the agreement.

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.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012 and December 31, 2011
NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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, no common equivalent shares have been included 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 to the Company's operations 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.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012 and December 31, 2011
NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In January 2011, the FASB issued ASU 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* (*Receivables Topic 310),* which is effective upon issuance. This update defers the effective date of the disclosures required under ASU 2010-20 to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restricting as presented in proposed ASU update: *Receivables (Topic 310) Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. This standard did not have an effect on the Company's reported financial position or results of operations.

In April 2011, the FASB issued ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements (Transfers and Service Pricing Topic 860),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update provides on the accounting for repurchase agreements (repos) and other agreements that entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This standard did not have an effect on the Company's reported financial position or results of operations.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFS (Fair Value Measurement Topic 820),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update explains how to measure fair value. This standard did not have an effect on the Company's reported financial position or results of operations.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income (Comprehensive Income Topic 220),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update provides guidance on improving the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income This standard did not have an effect on the Company's reported financial position or results of operations

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* (*Intangibles - Goodwill and Other Topic 350),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update simplifies how entities test goodwill for impairment by permitting them to use qualitative factors to first to determine whether an impairment is more likely or not. This standard did not have an effect on the Company's reported financial position or results of operations.

In September 2011, the FASB issued ASU 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan* (*Compensation - Retirement Benefits - Multiemployer Plans Topic 715-80),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update requires increased disclosure from Company's participating in a Multiemployer Plan. This standard did not have an effect on the Company's reported financial position or results of operations.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities* (*Balance Sheet Topic 210),* which is effective for financial statements issued for interim and annual periods beginning on or after January 1, 2013. This update facilitates comparison between financial statements presented under US GAAP and financial statements prepared under IFRS. This standard is not expected to have an effect on the Company's reported financial position or results of operations.

In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05* (*Comprehensive Income Topic 220),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update defers some of the requirements relating to the reclassification of items out of Other Comprehensive Income under ASU 2011-05. This standard did not have an effect on the Company's reported financial position or results of operations.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012 and December 31, 2011
NOTE 3 FIXED ASSETS

	March 31, 2012		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 344,252	$ 323,588	**$ 20,664**
Computer equipment capital lease	137,790	29,453	**108,337**
Computer software	75,128	72,745	**2,383**
Equipment	10,576	10,223	**353**
	$ 567,746	$ 436,009	**$ 131,737**

	December 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 344,252	$ 321,912	**$ 22340**
Computer equipment capital lease	137,790	20,669	**117,121**
Computer software	75,128	72,552	**2,576**
Equipment	10,576	10,205	**371**
	$ 567,746	$ 425,338	**$ 142,408**

NOTE 4 INTELLECTUAL PROPERTY

On January 25, 2011, the Company signed a Copyright Agreement with a supplier for various intellectual property. As at March 31, 2012, the Company had $68,900 included in accounts payable and accrued charges relating to this agreement.

In December 2011, the Company purchased four software licenses from Utiba Pte., a non-controlling interest investor in ATS, valued at $1,500,000.

NOTE 5 CONVERTIBLE DEBENTURE NOTES AND OTHER LOANS

Convertible Debentures

On February 4, 2008, the Company issued a note payable in the amount of $50,000. The note carried interest at the rate of 8% per quarter and was due on May 4, 2008. If the note was not repaid on maturity or in any other event of default, the holder was entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value 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 20, 2011, the creditor converted $136,252 of debt into 2,265,207 common shares of the Company resulting in a full repayment of the loan.

On December 18, 2009, the Company issued a note payable in the amount of $100,000. The note carried interest at the rate of 12% per annum and was due on March 18, 2010. If the note was not repaid on maturity or in any other event of default, the holder was entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 80% of the lowest daily low price of the Company s stock for the 30 trading days immediately preceding and including the date of conversion. During the year ended December 31, 2010, the creditor converted $50,640 of debt into 3,331,604 common shares of the company. On April 12, 2011, the creditor converted $61,500 of debt into 853,163 common shares of the Company resulting in a full repayment of the loan.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012 and December 31, 2011
NOTE 5 - CONVERTIBLE DEBENTURE NOTES AND OTHER LOANS (continued)

Convertible Debentures (continued)

On December 18, 2009, the Company entered into a Debt Settlement agreement whereby a creditor agreed to receive shares in lieu of payment of a $152,916 promissory note. The holder was entitled to receive common stock of the Company at a conversion value equal to 50% of the lowest closing price of the Company's stock for the 10 days prior to the date of conversion. The holder may not hold more than 4.99% of the outstanding common stock of the Company at any point in time. During the year ended December 31, 2010, the creditor converted $113,750 of debt into 4,457,699 common shares of the company. On February 25, 2011, the creditor converted $72,833 of debt into 1,220,363 common shares of the Company resulting in a full repayment of the loan.

On March 8, 2010, the Company issued a note payable in the amount of $25,000. The note carried interest at the rate of 12% per annum and was due on April 8, 2010. If the note was not repaid on maturity or in any other event of default, the holder was entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the lowest closing price of the Company's stock for the 10 trading days immediately preceding and including the date of conversion. On August 29, 2011, the Company repaid the loan in full.

On April 14, 2010, the Company issued a note payable in the amount of $15,000. The note carried interest at the rate of 10% per annum and was due on May 18, 2010. If the note was not repaid on maturity or in any other event of default, the holder was entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the lowest closing price of the Company's stock for the 10 trading days immediately preceding and including the date of conversion. On October 20, 2011, the Company repaid the loan in full.

On April 30, 2010, the Company issued a note payable in the amount of $100,000. The note carried interest at the rate of 10% per annum and was due on July 30, 2010. If the note was not repaid on maturity or in any other event of default, the holder was entitled to convert all or any portion of the original principal face value of the note into shares of common stock of the Company at a conversion value equal to 50% of the lowest daily low price of the Company's stock for the 10 trading days immediately preceding and including the date of conversion. On August 22, 2011, the creditor submitted a Notice of Conversion to convert $113,333 of debt into 2,138,358 common shares of the company resulting in a full repayment of the loan. At December 31, 2011, the shares had not been issued to the creditor resulting in the full balance being included in obligation to issue shares. On March 5, 2012, the Company issued the 2,138,358 common shares of the Company resulting in a full repayment of the loan.

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 161; 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
(Unaudited)
March 31, 2012 and December 31, 2011
NOTE 5 - CONVERTIBLE DEBENTURE NOTES AND OTHER LOANS (continued)

Other Loans

On October 22, 2007, the Company signed a Promissory Note whereby the Company agreed to repay a creditor $20,000 plus interest at 8% per annum on November 22, 2007. On March 7, 2011, the Company signed a Debt Settlement Agreement with the creditor to convert the outstanding balance into shares of the Company. On April 21, 2011, the creditor converted $27,000 of debt into 444,079 common shares of the company resulting in a full repayment of the loan.

On January 25, 2011, the Company signed a Promissory Note whereby the Company agreed to repay a director $20,000 plus interest at 10% per annum on April 25, 2011. On April 25, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $20,500 under the previous Promissory Note and extended the maturity date to July 25, 2011. On July 24, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $21,013 under the previous Promissory Note and extended the maturity date to October 21, 2011. On October 21, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of 21,519 under the previous Promissory Note and extended the maturity date to April 18, 2012. As at March 31, 2012, $22,474 of principal and accrued interest on this note was included in Due to related parties.

On February 9, 2011, the Company signed a Promissory Note whereby the Company agreed to repay a director $5,000 plus interest at 10% per annum on May 9, 2011. On May 10, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $5,125 under the previous Promissory Note and extended the maturity date to August 8, 2011. On August 8, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $5,253 under the previous Promissory Note and extended the maturity date to November 5, 2011. On November 4, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $5,378 under the previous Promissory Note and extended the maturity date to May 2, 2012. As at March 31, 2012, $5,596 of principal and accrued interest on this note was included in Due to related parties.

On February 11, 2011, the Company signed a Promissory Note whereby the Company agreed to repay a director $8,988 plus interest at 10% per annum on May 11, 2011. On May 12, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $9,213 under the previous Promissory Note and extended the maturity date to August 10, 2011. On August 10, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $9,443 under the previous Promissory Note and extended the maturity date to November 7, 2011. On November 8, 2011, the Company signed a new Promissory Note with the creditor which capitalized the unpaid principal and interest of $9,673 under the previous Promissory Note and extended the maturity date to May 7, 2012. As at March 31, 2012, $10,058 of principal and accrued interest on this note was included in Due to related parties.

On March 2, 2011, the Company signed a Promissory Note whereby the Company agreed to repay a director $100,000 plus interest at 10% per quarter on June 2, 2011. On July 14, 2011, the director of the Company sold the loan to an unrelated third party. On August 8, 2011, the creditor converted $110,000 of debt into 733,333 common shares of the company resulting in a full repayment of the loan.

On January 25, 2012, the Company signed a Promissory Note whereby the Company agreed to repay a creditor $100,000 plus interest at 12% per annum on April 24, 2012. As at March 31, 2012, the Company has accrued $2,203 of interest relating to this loan. On April 8, 2012, the Company signed a debt settlement agreement with the creditor whereby the creditor will convert the outstanding principal and interest of $102,466 into 683,105 common shares of the Company and 409,863 warrants. Each warrant entitles the holder to purchase one common shares of the Company at an exercise price of $0.25 per share until October 8, 2013. The Company issued 113,889 common shares on April 11, 2012, 400,000 common shares on April 19, 2012 and 152,778 on April 26, 2012 leaving 16,438 common shares outstanding to be issued.

On February 1, 2012, the Company signed a Promissory Note whereby the Company agreed to repay a creditor $200,000 plus interest at 24% per annum on May 1, 2012. As at March 31, 2012, the Company has accrued $7,890 of interest relating to this loan.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012 and December 31, 2011
NOTE 6 CAPITAL LEASE

On April 27, 2011, the Company signed a Lease Agreement with a creditor to lease various computer equipment. The lease requires 24 monthly payments of $3,620 including implicit interest of 14.99% and expires on May 1, 2013. As at March 31, 2012, the balance on the lease was $46,228 (December 31, 2011 - $55,132).

On September 26, 2011, the Company signed another Lease Agreement with the same creditor to lease additional computer equipment. The lease requires 24 monthly payments of $668 including implicit interest of 14.19% and expires on September 26, 2013. As at March 31, 2012, the balance on the lease was $10,887 (December 31, 2011 - $12,509).

The remaining required principal payments over the next two fiscal years are as follows:

2012	$33,974
2013	23,141

NOTE 7 CAPITAL STOCK

Common Shares

The Company is authorized to issue up to 100,000,000 shares of the Company s common stock with a par value of $0.00001. As at March 31, 2012, 79,816,017 shares of common stock were issued and outstanding.

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 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 three months ended March 31, 2012, the Company issued:

- 3,333,333 common shares valued at $500,000 for share subscriptions received in the prior year,
- 2,198,358 common shares valued at $658,907 for debt settlements and convertible debenture agreements of which 2,138,358 shares valued at $113,333 were obligated to be issued at December 31, 2011, and
- 112,500 common shares valued at $34,875 for consulting services to be rendered during the period,

During the year ended December 31, 2011, the Company issued:

- 500,000 common shares valued at $15,000 for share subscriptions received in prior years,
- 10,024,012 common shares valued at $1,275,395 for debt settlement and convertible debenture agreements,
- 2,037,500 common shares valued at $248,625 for consulting services to be rendered during the period, and
- 4,189,000 common shares valued at $528,070 for employment incentives in accordance with employment agreements,

In addition, during the year ended December 31, 2011, the Company issued common shares for the following subscriptions received during the year:

- on June 15, 2011, the Company issued 3,333,333 common shares at $0.15 per share for total cash proceeds of $500,000,
- on July 14, 2011, the Company issued 1,935,000 common shares at $0.10 per share for total cash proceeds of $193,500,
- on August 2, 2011, the Company issued 600,000 common shares at $0.15 per share for total proceeds of $90,000, and
- on December 29, 2011, the Company issued 3,333,333 common shares at $0.15 per share for total cash proceeds of $500,000.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012 and December 31, 2011
NOTE 7 CAPITAL STOCK (continued)

During the three months ended March 31, 2012, the Company received $350,000 (March 31, 2011 - $Nil) toward $400,000 of share subscriptions for which shares have not been issued by the end of the period. At March 31, 2012, the Company had $50,000 (March 31, , 2011 - $Nil) in share subscriptions receivable and $530,362 (December 31, 2011 - $630,362) in private placement subscriptions which are reported as private placement subscriptions within stockholders deficit.

The shares which were not issued as at March 31, 2012 or March 31, 2011 were not used to compute the total weighted average shares outstanding as at March 31, 2012 or March 31, 2011 respectively and were thus not used in the basic net loss per share calculation.

Warrants

The Company s warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2010	-	-
Issued	6,569,444	0.23
Balance, December 31, 2011	6,569,444	0.23
Issued	-	-
Balance, March 31, 2012	6,569,444	0.23

a) In conjunction with the 3,333,333 common shares issued on June 15, 2011, the Company issued 2,000,000 warrants exercisable at $0.25 per share for a period of one and a half years. The warrants were valued at $207,846 calculated using the Black-Scholes option pricing model assuming a life expectancy of one and a half years, a risk free rate of 0.05%, a forfeiture rate of 0%, and volatility of 273.13%. In addition to these warrants, the Company signed a Stock Grant Agreement with the shareholder allowing the shareholder to receive up to an additional 569,444 shares of the Company (bonus shares). The shareholder will receive 0.284722 bonus shares for each warrant exercised. The bonus shares were valued at $68,333 calculated using the Black-Scholes option pricing model assuming a life expectancy of one and a half years, a risk free rate of 0.05%, a forfeiture rate of 0%, and volatility of 273.13%.

b) In conjunction with two subscription agreements signed on December 21, 2011, the Company issued 4,000,000 warrants exercisable at $0.25 per share for a period of one and a half years. The warrants were valued at $398,752 calculated using the Black-Scholes option pricing model assuming a life expectancy of 1.53 years, a risk free rate of 0.01%, a forfeiture rate of 0%, and volatility of 180.97%.

All warrants issued can be called by the Company in the event the average closing price of the common stock of the Company for any 60 day period is $0.40 or greater.

The following table summarizes the warrants outstanding at March 31, 2012:

Warrants outstanding	Exercise price $	Expiration date
2,000,000	0.25	December 31, 2012
569,444	0.00	December 31, 2012
4,000,000	0.25	June 30, 2013

The weighted average life of warrants outstanding at March 31, 2012 was 1.06 years.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012 and December 31, 2011

NOTE 8 - RELATED PARTY TRANSACTIONS

As at March 31, 2012, a total of $357,147 (December 31, 2011 - $282,801) was payable to directors and officers of the Company of which $319,018 (December 31, 2011 - $282,801) was non-interest bearing and had no specific terms of repayment and $38,128 (December 31, 2011 - $37,220) relates to loans detailed in Note 5. Of the amount payable, $55,981 (December 31, 2011 - $47,368) was included in accounts payable for expense reimbursements and $185,393 (December 31, 2011 - $185,393) was included in wages payable for accrued fees.

During the three months ended March 31, 2012, the Company expensed a total of $145,000 (December 31, 2011 - $767,870) in consulting fees, investor relations and salaries paid to directors and officers of the Company. Of the amounts incurred, $72,500 (December 31, 2011 - $185,393) has been accrued, $72,500 (December 31, 2011 - $354,907) has been paid in cash, and $Nil (December 31, 2011 - $227,570) has been paid through the issuance of shares.

During the year ended December 31, 2011, the Company issued 3,931,030 shares of the Company's common stock valued at $480,536 to three directors of the Company for accrued consulting fees and investor relations and 1,539,000 shares of the Company's common stock valued at $187,570 to three directors of the Company for consulting and management fees.

As at March 31, 2012, the Company held an accounts receivable from a company with a director in common with the Company for $1,552,258 (6,674,709 Venezuelan bolivar fuerte ("VEF")) (December 31, 2011 - $1,552,258 (VEF 6,674,709) of which $28,658 (VEF 123,227) (December 31, 2011 - $1,049,000 (VEF 4,510,700)) is included in revenue, $388,628 (December 31, 2011 - $388,628 (VEF 1,671,100)) is included in customer deposits, and $85,972 (VEF 369,682) (December 31, 2011 - $114,630 (VEF 492,909)) is included in deferred income.

NOTE 9 - DEFERRED COMPENSATION

On July 1, 2010, 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 1,200,000 shares of the Company's common stock valued at $159,000 of which 900,000 shares are to be issued by September 30, 2010 and 300,000 shares are to be issued by December 31, 2010. The shares were fully issued on April 21, 2011 resulting in a decrease in the value of $30,000 to $129,000. This amount was expensed over the life of the contract.

On March 29, 2011, the Company entered into an agreement with a consultant for a six-month term whereby the consultant will provide business consulting services to the Company in exchange for 250,000 shares of the Company's common stock valued at $32,500 based on the date of issuance, April 19, 2011. On August 25, 2011, the agreement was terminated and the shares were cancelled. The full balance was reversed.

On April 12, 2011, the Company entered into an agreement with a consultant for a six month term whereby the consultant will provide business consulting services. The agreement requires the first and last month's payment of $5,000 each, total $10,000, to be paid through the issuance of 250,000 shares of the Company's common stock. This amount is being expensed over the life of the contract.

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 three months ended March 31, 2012, the Company expensed $Nil (year ended December 31, 2011 - $76,082) relating to the above contracts. The shares issued were all valued at their market price on the date of issuance or in accordance with defined agreement terms.

ALTERNET SYSTEMS INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
March 31, 2012 and December 31, 2011
NOTE 10 - LAWSUITS

On May 10, 2010, the Company received notice that they had been named as Defendants in a lawsuit whereby the Plaintiffs are seeking a judgment of $6,889 including interest of $1,444 for unpaid invoices. The Company had 30 days to respond to the notice before a default judgment is awarded. As at March 31, 2012, the full amount has been accrued and is included in accounts payable.

NOTE 11 - SUBSEQUENT EVENTS

- On April 8, 2012, the Company signed a debt settlement agreement with a creditor whereby the creditor will convert the outstanding principal and interest of $102,466 into 666,667 common shares of the Company and 400,000 warrants. Each warrant entitles the holder to purchase one common shares of the Company at an exercise price of $0.25 per share until October 8, 2013. The Company issued 113,889 common shares on April 11, 2012 and 400,000 common shares on April 19, 2012 leaving 152,778 common shares outstanding to be issued.

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

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

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

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

Company History and Business

Alternet Systems, Inc. (the "Company"), was organized under the laws of the State of Nevada on June 26, 2000, under the name North Pacific Capital Corp. In 2001 the Company changed its name to SchoolWeb Systems Inc. and then, in 2002, to Alternet Systems, Inc. On December 31, 2007 the Company executed a merger with TekVoice Communications, Inc. of Miami, Florida. Since then the Company has changed business focus and strategy to mobile financial services and mobile security. In 2011 TekVoice became inactive.

2009 - to present Focus on Mobile Financial Services and Security

Since late 2009 the Company has focused its investment and operational expertise on the mobile value added services markets of mobile financial transactions and security, through two new subsidiaries. These subsidiaries, Alternet Transaction Systems (dba Utiba Americas, which is 49% owned by Utiba Pte, Ltd) and International Mobile Security (IMS, which is 40% owned by General Services Holding LLC) were launched within the fiscal year 2010. The new lines of business and Company focus were intended to provide new revenue streams and profitability from the high growth segments of the mobile value added service market, namely mobile financial services and mobile security, Growth of both of these market segments is driven by the exponential adoption of mobile phones which in 2011 reached more than 70%, of the global population, with a total of 5 billion phones.

Competition

The Company competes in two distinct industries, mobile financial services and mobile security. Although the Company has unique features in its product offerings, and in mobile financial services is considered a pioneer and market leader, it competes with companies that are better financed. In 2010 and 2011 some market consolidation has taken place. Smaller competitors with market name recognition have been absorbed by larger organizations eager to capture market share and/or obtain technology and continued consolidation is expected over the next couple of years.

Research and Development

The Company spends a judicious amount in research and development expenditures. In mobile financial services, the Company primarily relies on its joint-venture partner's longstanding and continued research and development, and as appropriately purchases the necessary technology. In 2011, the Company purchased $1.5 million in intellectual property from its joint-venture partner. In mobile security the Company has its own proprietary technology and is in constant development to address client and market needs.

Employees

The company continued to increase staffing in the three months ended March 31, 2012 in its operating subsidiaries. At March 31, 2012, total staff stood at 25 versus 9 the prior year. The Company continues to outsource contract employment as appropriate.

Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011

Net Sales

For the three months ended March 31, 2012, the Company had $59,285 in sales compared to $24,467 for the corresponding period in 2011. The increase in sales while significant as a percentage (142%) was well below the volume anticipated for the period as delays arose in proposal closing due to timing factors of qualified prospects of sales of mobile commerce and mobile security license software in the same period by Alternet Transaction Systems, (DBA Utiba Americas) and International Mobile Security. Based on client feedback, management continues to anticipate closing such proposals during the current year.

Gross Profit

Gross profit was $21,381 in the three months ending March 31, 2012 compared to a loss of $3,026 in the three month period ending March 31, 2011, representing an increase in gross profit for the period of $24,344. As noted up above, such results were well below anticipated performance.

Operating Expenses

For the three months ended March 31, 2012, the Company's operating expenses increased substantially ($831,693 in 2012 versus $554,748 in prior year, an increase of $276,945, or 50%) when compared to the prior year. The increase was attributable to the Company's increased staffing and infrastructure growth required to properly address market opportunities and customer demand. This increase can best be seen in the year-over-year growth of the combined management and consulting and salary expenses ($559,859 in 2012 and $386,818 in 2011, an increase of $173,041, or 45%). Such item accounts for 62% of the increase ($276,945) in operating expenses. Another 19% of the increase in operating expenses is attributable to professional fees, which reached $92,437 in 2012 versus $39,806.

Accounts payable totaled $1,825,058 and accounts receivable were $2,132,643 at March, 31, 2012

Net Loss

For the three months ended March 31, 2012, the Company had a net loss of $1,027,410 or $(0.01) per share, which was an increase of $477,900 when compared to the net loss for the corresponding prior year period of $549,510 or $(0.01) per share. The increased loss was primarily due to increased operating expenses and the loss ($536,574) on debt settlement. The latter reflects the accounting loss, recorded on the date of such events based on fair market value(refer to Note 2).

Interest and other expenses

As shown in operating expenses, for the three months ended March 31, 2012, the Company had interest expenses of $15,254 compared with $18,580 for the corresponding period to March 31, 2011.

Liquidity and Capital Resources

The Company had current assets including cash on hand of $2,728,573 as at March 31, 2012 ($1,044,154 at March 31, 2011). The Company also had a net loss of $549,510 during the three months ended March, 31st 2011.

The Company had a working capital deficiency of $1,479,836 at March 31, 2012 ($1,718, 557 at March 31, 2011). 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 operating subsidiaries, Alternet Transaction Systems (DBA Utiba Americas), and International Mobile Security (IMS).

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 products;
- The Company s sales are currently insufficient and its future prospects are dependent on the ability to market its products and services;
- The Company has a history of operating 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 Company is active in competitive industries and faces competition from more established companies 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.

Our business operations are also subject to a number of risks and uncertainties, including, but not limited to those set forth below:

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, 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 needs. We expect positive cash flow from operations in 2012 but 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.

In the near term we will depend 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 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.

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 significant 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, 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 and to find purchases for 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 January 2011, the FASB issued ASU 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* (*Receivables Topic 310),* which is effective upon issuance. This update defers the effective date of the disclosures required under ASU 2010-20 to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restricting as presented in proposed ASU update: *Receivables (Topic 310) Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. This standard did not have an effect on the Company's reported financial position or results of operations.

In April 2011, the FASB issued ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements (Transfers and Service Pricing Topic 860),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update provides on the accounting for repurchase agreements (repos) and other agreements that entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This standard did not have an effect on the Company's reported financial position or results of operations.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFS (Fair Value Measurement Topic 820),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update explains how to measure fair value. This standard did not have an effect on the Company's reported financial position or results of operations.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income (Comprehensive Income Topic 220),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update provides guidance on improving the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income This standard did not have an effect on the Company's reported financial position or results of operations

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* (*Intangibles - Goodwill and Other Topic 350),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update simplifies how entities test goodwill for impairment by permitting them to use qualitative factors to first to determine whether an impairment is more likely or not. This standard did not have an effect on the Company's reported financial position or results of operations.

In September 2011, the FASB issued ASU 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan* (*Compensation - Retirement Benefits - Multiemployer Plans Topic 715-80),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update requires increased disclosure from Company's participating in a Multiemployer Plan. This standard did not have an effect on the Company's reported financial position or results of operations.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities* (*Balance Sheet Topic 210),* which is effective for financial statements issued for interim and annual periods beginning on or after January 1, 2013. This update facilitates comparison between financial statements presented under US GAAP and financial statements prepared under IFRS. This standard is not expected to have an effect on the Company's reported financial position or results of operations.

In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05* (*Comprehensive Income Topic 220),* which is effective for financial statements issued for interim and annual periods beginning on or after December 15, 2011. This update defers some of the requirements relating to the reclassification of items out of Other Comprehensive Income under ASU 2011-05. This standard did not have an 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 March 31, 2012, 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 March, 31st 2012 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 May 10, 2010, the Company received noticed that they had been named as Defendants in a lawsuit whereby the Plaintiffs are seeking a judgment of $6,889 including interest of $1,444 for unpaid invoices. The Company had 30 days to respond to the notice before a default judgment is awarded. As at March 31, 2012, the full amount has been accrued and is included in accounts payable.

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

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

During the quarter ended March 31, 2012, the Company issued 3,333,333 common shares valued at $500,000 for share subscriptions received in the prior year, 2,198,358 common shares valued at $658,907 for debt settlements and convertible debenture agreements of which 2,138,358 shares valued at $113,333 were obligated to be issued at December 31, 2011, and 112,500 common shares valued at $34,875 for consulting services to be rendered during the period,

During the three months ended March 31, 2012, the Company received $350,000 (March 31, 2011 - $Nil) toward $400,000 of share subscriptions for which shares have not been issued by the end of the period. At March 31, 2012, the Company had $50,000 (December 31, 2011 - $Nil) in share subscriptions receivable and $530,362 (December 31, 2011 - $630,362) in private placement subscriptions which are reported as private placement subscriptions within stockholders deficit.

The shares which were not issued as at March 31, 2012 or March 31, 2011 were not used to compute the total weighted average shares outstanding as at March 31, 2012 or March 31, 2011 respectively and were thus not used in the basic net loss per share calculation.

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 has not filed any reports on Form 8K during the period ending March 31 2012 and none subsequent to the period.

(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	By-Laws (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

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)
May, 14th 2012

By: */s/ Michael Viadero*
Michael Viadero, Secretary, Treasurer
(Principal Financial Officer and Principal Accounting Officer)
May, 14th 2012