VALIDIAN CORP
Form 424B3
June 28, 2004

Registration No. 333-114303

Filed pursuant to 424(b)(3)

PROSPECTUS

10,591,250 Shares

VALIDIAN CORPORATION

Common Stock

This prospectus covers the resale of a total of 10,591,250 shares of our common stock being offered by the selling stockholders. Of the shares covered by this prospectus, up to 6,500,000 shares are issuable to the selling stockholders upon the conversion of convertible debentures and up to 4,091,250 shares are issuable upon exercise of warrants issued to the selling stockholders. We will not receive any proceeds from sales of shares by the selling stockholders.

Our common stock is quoted on the OTC Bulletin Board, under the symbol VLDI . There is currently only a limited trading market in our common stock, and we do not know whether an active trading market will develop. On June 23, 2004, the last reported sale price for the common stock was $0.73 per share.

Investing in our common stock involves a high degree of risk.

See the section entitled Risk Factors, beginning on page 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is June 28, 2004.

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You should rely only on information contained in this document or to which we have referred you. Neither we nor the selling stockholders have authorized anyone to provide you with different or additional information. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document. You should not assume that the information in the prospectus, or incorporated herein by reference, or in any prospectus supplement is accurate as of any date other than the date on the front of those documents.

FORWARD LOOKING STATEMENTS

We caution readers that certain important factors may affect our actual results and could cause these results to differ materially from any forward-looking statements that we make in this prospectus. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements. This prospectus contains statements that constitute forward-looking statements. These forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as believes, anticipates, expects, estimates, plans may, will, or similar terms. These statements appear in a number of places in this prospectus and include statements regarding our intent, belief or current expectations with respect to many things. Some of these things are:

* trends affecting our financial condition or results of operations for our limited history;

* our business and growth strategies;

* our technology;

* the Internet; and

* our financing plans.

We caution readers that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties. In fact, actual results most likely will differ materially from those projected in the forward-looking statements as a result of various factors. Some factors that could adversely affect actual results and performance include:

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our limited operating history;

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our lack of sales to date;

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our future requirements for additional capital funding;

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the failure of our technology and products to perform as specified;

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the discontinuation of growth in the use of the Internet;

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the enactment of new adverse government regulations; and

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the development of better technology and products by others.

You should carefully consider and evaluate all of these factors. In addition, we do not undertake to update forward-looking statements after we file this report with the SEC, even if new information, future events or other circumstances have made them incorrect or misleading.

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PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. We urge you to read this entire prospectus carefully, including Risk Factors on page 6 and our financial statements and the notes to those financial statements contained elsewhere in this prospectus.

The Company

We provide communication security technologies for internet and private computer networks, both wired and wireless. Using our tools, customers can easily develop and use secure applications which run on different platforms at once, and individuals and mobile workers can exchange data and files safely and securely.

Customers will benefit from integrating our strong security model into their existing and newly developed distributed applications. E-commerce, e-banking, e-health and e-loyalty are examples of the industries we intend to serve.

Our technology works by encrypting data from an originating application and decrypting it within the receiving application. Our intellectual property assets include an addressing scheme, an authentication process and a key exchange process for all parties to a communication. These elements combine to form a strong trust model.

We plan to license our technology to large organizations including corporate information technology departments and independent software vendors and developers.

As of March 31, 2004, we had 22 full-time contractual personnel, of which 16 are software architects, engineers and programmers. We have operations in the U.S., Canada and Switzerland. We have initiated a two-pronged marketing program in North America and Europe. The direct sales division presents at e-commerce and e-security trade shows and to existing contacts of management and sales representatives. The channel sales division partners us with value-added resellers (VAR), independent marketing reps (IMR), system integrators (SI), software vendors and application service providers. We currently have agreements with VARs in the U.S., Canada and Mexico and with IMRs in the U.S. and Canada.

Our market research has been ongoing in the U.S. and Western Europe since 2000. Our sales force was launched in late 2002, and since that time we have hired specialists in electronic health care, supply chain management, system architecture and system integration to refine and implement our marketing plans in those areas. We have a fully developed array of technical literature to support both groups.

Sales cycles for our products are expected to be from four to eight months. Prime target areas are North America, Europe and Asia Pacific.

Currently we offer three products:

Application Security Infrastructure (ASI). ASI automatically manages security functions for any application in a network, including authentication, encryption, key generation, key distribution, addressing and data transport. ASI guarantees delivery of messages and files to, and only to, the target destination, and data never travels in the clear at any time between applications. ASI has been in use for approximately two years on a continuing basis by a growing number of users (currently several hundred), and supports our SIM product operation.

Secure Instant Messenger (SIM). SIM provides strong security for real-time communications and file exchange. It enables collaboration among individuals and groups in a secure environment. We believe Validian s Flash Communicator ™ is the only secure instant messenger to operate on USB flash memory devices. SIM operates over our Application Security Infrastructure (ASI). SIM has been in use for approximately two years by several hundred users in commercial and testing environments.

Software Development Kit (SDK). Our SDK includes control, transport and security features which are automatically inherited by any applications linked to the Application Security Infrastructure (ASI) through it. This means that developers who use Validian SDK don t have to learn new software to implement security on their applications. The SDK is offered free to qualified developers and system integrators.

We maintain our principal executive offices at 30 Metcalfe Street, Suite 620, Ottawa, Ontario Canada K1P 5L4, telephone (613) 230-7211.

The Offering

Common Stock Offered by the Company

None.

Common Stock Offered by the Selling

Stockholders

10,591,250 shares, including up to 6,500,000 shares of common stock issuable upon the conversion of convertible debentures and up to 4,091,250 shares of common stock issuable upon the exercise of outstanding warrants.

Common Stock

Outstanding Prior to this Offering

27,664,214 shares.

Outstanding After this Offering

38,255,464 shares, including up to 6,500,000 shares of common stock covered by this prospectus that are issuable upon the conversion of convertible debentures and up to 4,091,250 shares of common stock covered by this prospectus that are issuable upon the exercise of outstanding warrants.

Common Stock Reserved

3,912,302 shares issuable upon exercise of options that have been granted, 1,087,698 shares issuable upon exercise of additional options that may be granted under our stock option plan, 13,115,833 shares issuable upon exercise of outstanding warrants and approximately 4,300,000 shares issuable upon exercise of outstanding convertible debentures.

Other Resale Prospectus

We are also concurrently registering the resale of 10,579,999 shares of our common stock by certain stockholders pursuant to a separate prospectus contained in a Registration Statement on Form SB-2, as amended (Registration No. 333-114289). This prospectus relates only to the resale of common stock by the selling stockholders named in this prospectus.

Risk Factors

We urge you to read the Risk Factors section beginning on page 6 of this prospectus so that you understand the risks associated with an investment in our common stock.

Summary Financial Data

The summary financial data set forth below with respect to our consolidated statements of operations and cash flows for the three month periods ended March 31, 2003 and 2004 and each of the two fiscal years in the period ended December 31, 2003 and with respect to the consolidated balance sheets as at March 31, 2004, and at December 31, 2002 and 2003, are derived from, and should be read in conjunction with, our audited and unaudited consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	Three Months Ended March 31,		Years Ended December 31,	
	2004	**2003**	**2003**	**2002**
Operations Data				
Selling, general and administrative	$ 578,241	$ 254,170	$ 1,752,725	$ 473,306
Research and development	222,299	163,144	997,822	405,597
Interest and financing costs	320,497	23,456	59,824	45,978
Depreciation of property and equipment	1,864	1,062	4,333	281
Write-off of prepaid services	322,494		174,375	
Write-off of deferred consulting services	1,048,100			
Other expenses, net	10,337	(29)	12,821	(18,321)
Loss on extinguishment of debt	198,000			
Net loss	$ 2,701,832	$ 441,803	$ 3,001,900	$ 906,841

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Years Ended December 31, 2003	Years Ended December 31, 2002
Cash Flows Data				
Net cash from (used in) operations	$ (974,316)	$ (277,782)	$ (955,256)	$ (763,099)
Net cash from (used in) investing activities	(14,144)	(2,636)	(3,674)	(10,106)
Net cash from financing activities	6,856,148	125,000	1,348,703	929,151
Net increase (decrease) in cash and equivalents	$ 5,867,688	$ (155,418)	$ 389,773	$ 155,946

	At March 31, 2004	At December 31, 2003	At December 31, 2002
Balance Sheet Data			
Cash and cash equivalents	$ 6,414,111	$ 546,423	$ 156,650
Total current assets	6,756,798	1,182,383	371,358
Property and equipment	21,445	9,166	9,825
Total assets	8,349,667	3,076,872	381,183
Total current liabilities	984,296	1,295,785	1,379,775
Total long-term liabilities (see notes to financial statements)	141,869		
Stockholders' equity (deficiency)	7,223,502	1,781,087	(998,592)

RISK FACTORS

There are many risks that may affect your investment in our common stock, including those described below. You should carefully consider these risk factors together with all of the other information. If any of these or other risks actually occur, our business, financial condition and operating results, as well as the trading price or value of our securities could be materially adversely affected and you may lose all or part of your investment.

Risks relating to our business

We are a development stage company, and our limited operating history makes evaluating our business and prospects difficult.

We are a development stage company, and our limited operating history makes it difficult to evaluate our current business and prospects or to accurately predict our future revenues or results of operations. Our revenue and income potential are unproven, and our business plan is constantly evolving. The Internet is constantly changing and software technology is constantly improving, therefore we may need to continue to modify our business plan to adapt to these changes. As a result of our being in the early stages of development, particularly in the emerging technology industry, we are more vulnerable to risks, uncertainties, expenses and difficulties than more established companies. As a result, we may never achieve profitability and we may not be able to continue operations if we cannot successfully address the risks associated with early stage development companies in emerging technologies.

We have a history of operating losses and we anticipate losses and negative cash flow for the foreseeable future. Unless we are able to generate profits and positive cash flow we may not be able to continue operations.

We incurred an operating loss of $2,701,832 and negative cash flow from operations of $974,316 during the three months ended March 31, 2004, and an operating loss of $441,803 and negative cash flow from operations of $277,782 during the three months ended March 31, 2003. We incurred an an operating loss of $2,929,255 and negative cash flow from operations of $955,256 during the year ended December 31, 2003, and an operating loss of $879,184 and negative cash flow from operations of $763,099 during the year ended December 31, 2002. We expect operating losses and negative cash flow from operations to continue for the foreseeable future and to increase significantly from current levels as we increase expenditures for:

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sales and marketing;

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technology;

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infrastructure research and development; and

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general business enhancement.

With increased on-going operating expenses, we will need to generate significant revenues to achieve profitability. Consequently, we may never achieve profitability. Even if we do achieve profitability, we may not sustain or increase profitability on a quarterly or annual basis in the future. If we are unable to achieve or sustain profitability in the future, we may be unable to continue our operations.

We may require additional capital to proceed with our long-term business plan. If we are unable to obtain such capital in future years, we may be unable to proceed with our long-term business plan and we may be forced to limit or curtail our future operations.

We may require additional working capital to proceed with our long-term business plan. For a discussion of our capital requirements, see Management s Discussion and Analysis or Plan of Operation Plan of Operations." If we are unable to raise additional financing should it become necessary to do so, we may be unable to grow or to implement our long-term business plan and, in fact, we may be forced to limit or curtail our future operations.

The loss of any of our key personnel would likely have an adverse effect on our business.

Our future success depends, to a significant extent, on the continued services of our key contractual personnel. Our loss of any of these key personnel most likely would have an adverse effect on our business. At present, we have a contractual agreement with these personnel but we do not have key man life insurance on them. In addition, competition for personnel throughout the industry is intense and we may be unable to retain our current contractors or attract, integrate or retain other highly qualified personnel in the future. If we do not succeed in retaining our current contractors or in attracting and motivating new personnel, our business could be materially adversely affected.

The business environment is highly competitive and, if we do not compete effectively, we may experience material adverse effects on our operations.

The market for Internet security products and services is intensely competitive and we expect competition to increase in the future. We compete with large and small companies that provide products and services that are similar to some aspects of our security services. Our competitors may develop new technologies in the future that are perceived as being more secure, effective or cost efficient than the technology underlying our security services. In particular, the Internet security market has historically been characterized by low financial entry barriers.

Some of our competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical and marketing resources than we do. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than we will. We believe that there may be increasing consolidation in the Internet security market and this consolidation may materially adversely affect our competitive position. In addition, our competitors may have established or may establish financial or strategic relationships among themselves, with existing or potential customers, resellers or other third parties and rapidly acquire significant market share. If we cannot compete effectively, we may experience future price reductions, reduced gross margins and loss of market share, any of which will materially adversely affect our business, operating results and financial condition.

If we are unable to develop brand recognition, we may be unable to generate significant revenues and our results of operations may be materially adversely affected.

To attract customers we may have to develop a brand identity and increase public awareness of our technology and products. To increase brand awareness, we expect to significantly increase our expenditures for advertising and other marketing initiatives. However, these activities may not result in significant revenue and, even if they do, any revenue may not offset the expenses incurred in building brand recognition. Moreover, despite these efforts, we may not be able to increase public awareness of our brands, which would have a material adverse effect on our results of operations.

If we are unable to respond to rapid technological change and improve our products and services, our business could be materially adversely affected.

The Internet security industry is characterized by rapid technological advances, changes in customer requirements, frequent new product introductions and enhancements and evolving industry standards in computer hardware and software technology. As a result, we must continually change and improve our products in response to changes in operating systems, application software, computer and communications hardware, networking software, programming tools and computer language technology. The introduction of products embodying new technologies and the emergence of new industry standards may render existing products obsolete or unmarketable. In particular, the market for Internet and intranet applications is relatively new and is rapidly evolving. Our future operating results will depend upon our ability to enhance our current products and to develop and introduce new products on a timely basis that address the increasingly sophisticated needs of our end-users and that keep pace with technological developments, new competitive product offerings and emerging industry standards. If we do not respond adequately to the need to develop and introduce new products or enhancements of existing products in a timely manner in response to changing market conditions or customer requirements, our operating results may be materially diminished.

We may not be able to protect and enforce our intellectual property rights, which could result in the loss of our rights, loss of business or increased costs.

Our success depends to a significant degree upon the protection of our software and other proprietary technology. The unauthorized reproduction or other misappropriation of our proprietary technology would enable third parties to benefit from our technology without paying us for it. We depend upon a combination of patent, trademark, trade secret and copyright laws, license agreements and non-disclosure and other contractual provisions to protect proprietary and distribution rights of our products. We have registered trademarks in the United States, Canada and Europe and are preparing patent applications for new technology, as it is developed. Although we have taken steps to protect our proprietary technology, they may be inadequate and the unauthorized use thereof could have a material adverse effect on our business, results of operations and financial condition. Existing trade secret, copyright and trademark laws offer only limited protection. Moreover, the laws of other countries in which we market our products may afford little or no effective protection of our intellectual property. If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive, even if we were to prevail.

Claims by third parties that we infringe upon their proprietary technology could hurt our financial condition.

If we discover that any of our products or technology we license from third parties violates third party proprietary rights, we may not be able to reengineer our product or obtain a license on commercially reasonable terms to continue offering the product without substantial reengineering. In addition, product development is inherently uncertain in a rapidly evolving technology environment in which there may be numerous patent applications pending for similar technologies, many of which are confidential when filed. Although we sometimes may be indemnified by third parties against claims that licensed third party technology infringes proprietary rights of others, indemnity may be limited, unavailable or, where the third party lacks sufficient assets or insurance, ineffective. We currently do not have liability insurance to protect against the risk that our technology or future licensed third party technology infringes the proprietary rights of others. Any claim of infringement, even if invalid, could cause us to incur substantial costs defending against the claim and could distract our management from our business. Furthermore, a party making such a claim could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from selling our products. Any of these events could have a material adverse effect on our business, operating results and financial condition.

If our electronic security devices were breached, our business would be materially adversely affected.

A key element of our technology and products is our Internet security feature. If anyone is able to circumvent our security measures, they could misappropriate proprietary information or cause interruptions or problems with hardware and software of customers using our products. Any such security breaches could significantly damage our reputation. In addition, we could be liable to our customers for the damages caused by such breaches or we could incur substantial costs as a result of defending claims for those damages. We may need to expend significant capital and other resources to protect against such security breaches or to address problems caused by such breaches. Security measures taken by us may not prevent disruptions or security breaches. In the event that future events or developments result in a compromise or breach of the technology we use to protect a customer s personal information, our financial condition and business could be materially adversely affected.

We face restrictions on the exportation of our encryption technology, which could limit our ability to market our products outside of the United States.

Some of our Internet security products utilize and incorporate encryption technology. Exports of software products utilizing encryption technology are generally restricted by the United States and various non-United States governments, particularly in response to the terrorist acts of September 11, 2001. If we do not obtain the required approvals, we may not be able to sell some of our products in international markets, which could materially adversely affect our results of operations.

Our operating results may prove unpredictable, and may fluctuate significantly.

Our operating results are likely to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. Factors which may cause operating results to fluctuate significantly include the following:

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new technology or products introduced by us or by our competitors;

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the timing and uncertainty of sales cycles and seasonal declines in sales;

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our success in marketing and market acceptance of our products and services by our existing customers and by new customers;

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a decrease in the level of spending for information technology-related products and services by our existing and potential customers; and

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general economic conditions, as well as economic conditions specific to users of our products and technology.

Our operating results may be volatile and difficult to predict. As such, future operating results may fall below the expectations of securities analysts and investors. In this event, the trading price of our common stock may fall significantly.

We expect to generate some revenues and incur some operating expenses outside of the United States. If applicable currency exchange rates fluctuate our revenues and results of operations may be materially and adversely affected.

We expect that some portion of our revenues will be based on sales provided outside of the United States. In addition, we expect that a significant portion of our operating expenses will be incurred outside of the United States. As a result, our financial performance will be affected by fluctuations in the value of the U.S. dollar to foreign currency. At the present time, we have no plan or policy to utilize forward contracts or currency options to minimize this exposure, and even if these measures are implemented there can be no assurance that such arrangements will be available, be cost effective or be able to fully offset such future currency risks.

Other risks associated with international operations could adversely affect our business operations and our results of operations.

There are certain risks inherent in doing business on an international level, such as:

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unexpected changes in regulatory requirements, export and import restrictions, export and import;

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controls relating to encryption technology that may limit sales sometime in the future;

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legal uncertainty regarding liability and compliance with foreign laws;

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competition with foreign companies or other domestic companies entering into the foreign markets in which we operate;

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tariffs and other trade barriers and restrictions;

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difficulties in staffing and managing foreign operations;

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longer sales and payment cycles;

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problems in collecting accounts receivable;

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political instability;

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fluctuations in currency exchange rates;

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software piracy; and

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seasonal reductions in business activity during the summer months in Europe and elsewhere; and potentially adverse tax consequences.

Any of these factors could adversely impact the success of our international operations. One or more of such factors may impair our future international operations and our overall financial condition and business prospects.

Risks relating to our common stock and this offering

Our common stock price may be volatile.

The market prices of securities of Internet and technology companies are extremely volatile and sometimes reach unsustainable levels that bear no relationship to the past or present operating performance of such companies. Factors that may contribute to the volatility of the trading price of our common stock include, among others:

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our quarterly results of operations;

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the variance between our actual quarterly results of operations and predictions by stock analysts;

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financial predictions and recommendations by stock analysts concerning Internet companies and companies competing in our market in general, and concerning us in particular;

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public announcements of technical innovations relating to our business, new products or technology by us or our competitors, or acquisitions or strategic alliances by us or our competitors;

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public reports concerning our products or technology or those of our competitors; and

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the operating and stock price performance of other companies that investors or stock analysts may deem comparable to us.

In addition to the foregoing factors, the trading prices for equity securities in the stock market in general, and of Internet-related companies in particular, have been subject to wide fluctuations that may be unrelated to the operating performance of the particular company affected by such fluctuations. Consequently, broad market fluctuations may have an adverse effect on the trading price of our common stock, regardless of our results of operations.

There is a limited market for our common stock. If a substantial and sustained market for our common stock does not develop, our stockholders ability to sell their shares may be materially and adversely affected.

Our common stock is tradable in the over-the-counter market and is quoted on the OTC Bulletin Board. Many institutional and other investors refuse to invest in stocks that are traded at levels below the Nasdaq Small Cap Market which could make our efforts to raise capital more difficult. In addition, the firms that make a market for our common stock could discontinue that role. OTC Bulletin Board stocks are often lightly traded or not traded at all on any given day. We cannot predict whether a more active market for our common stock will develop in the future. In the absence of an active trading market:

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investors may have difficulty buying and selling or obtaining market quotations;

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market visibility for our common stock may be limited; and

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a lack of visibility for our common stock may have a depressive effect on the market price for our common stock.

Shares issuable upon the exercise of options, warrants and convertible debentures or under anti-dilution provisions in certain agreements could dilute stock holdings and adversely affect our stock price.

We have issued options and warrants to acquire common stock to our employees and certain other persons at various prices, some of which are, or may in the future have, exercise prices at or below the market price of our stock. As of May 20, 2004, we have outstanding options and warrants to purchase a total of 17,028,135 shares of our common stock. Of these options and warrants, 4,233,333 have exercise prices above the recent market price of $0.60 per share (as of May 20, 2004), and 12,794,802 have exercise prices at or below this recent market price. If exercised, these options and warrants will cause immediate and possibly substantial dilution to our stockholders.

Our existing stock option plan has 1,087,698 shares remaining for issuance as of May 20, 2004. Future options issued under the plan may have further dilutive effects.

The holders of our convertible debentures have the option of converting outstanding principal plus interest thereon into shares of our common stock at a ratio of one common share for every $0.50 of debt converted. Any such conversion would have a dilutive effect on stockholders.

Issuance of shares pursuant to the exercise of options, warrants, anti-dilution provisions, or the conversion of debentures, could lead to subsequent sales of the shares in the public market, which could depress the market price of our stock by creating an excess in supply of shares for sale. Issuance of these shares and sale of these shares in the public market could also impair our ability to raise capital by selling equity securities.

A large number of shares will be eligible for future sale and may depress our stock price.

As of May 20, 2004, we had outstanding 27,664,214 shares of common stock of which approximately 17,913,528 shares were restricted securities as that term is defined under Rule 144 promulgated under the Securities Act of 1933. These restricted shares are eligible for sale under Rule 144 at various times. We have entered into registration rights agreements requiring us to register the resale of approximately 21,171,249 shares of common stock, including shares of common stock issuable upon the exercise of warrants and the conversion of convertible debentures and including the shares of common stock covered by this prospectus. No prediction can be made as to the effect, if any, that sales of shares of common stock or the availability of such shares for sale will have on the market prices prevailing from time to time. Nevertheless, the possibility that substantial amounts of our common stock may be sold in the public market may adversely affect prevailing market prices for the common stock and could impair our ability to raise capital through the sale of our equity securities.

We do not intend to pay dividends in the near future.

Our board of directors determines whether to pay dividends on our issued and outstanding shares. The declaration of dividends will depend upon our future earnings, our capital requirements, our financial condition and other relevant factors. Our board does not intend to declare any dividends on our shares for the foreseeable future.

Our common stock may be deemed to be a penny stock. As a result, trading of our shares may be subject to special requirements that could impede our stockholders ability to resell their shares.

Our common stock is a penny stock as that term is defined in Rule 3a51-1 of the Securities and Exchange Commission because it is selling at a price below five dollars per share. In the future, if we are unable to list our common stock on NASDAQ or a national securities exchange, or the per share sale price is not at least $5.00, our common stock may continue to be deemed to be a penny stock . Penny stocks are stocks:

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with a price of less than five dollars per share;

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that are not traded on a recognized national exchange;

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whose prices are not quoted on the NASDAQ automated quotation system ; or

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of issuers with net tangible assets less than

$2,000,000 if the issuer has been in continuous operation for at least three years; or

$5,000,000 if in continuous operation for less than three years; or

of issuers with average revenues of less than $6,000,000 for the last three years.

Section 15(g) of the Exchange Act, and Rule 15g-2 of the Securities and Exchange Commission, require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor s account. Moreover, Rule 15g-9 of the Securities and Exchange Commission requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer:

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to obtain from the investor information concerning his or her financial situation, investment experience and investment objectives;

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to determine reasonably, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions;

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to provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and

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to receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor s financial situation, investment experience and investment objectives.

Compliance with these requirements may make it more difficult for holders of our common stock to resell their shares to third parties or to otherwise dispose of them.

Our current and former executive officers, directors and major stockholders own a significant percentage of our voting stock. As a result, they exercise significant control over our business affairs and policy.

As of March 31, 2004, our current and former executive officers, directors and holders of 5% or more of our outstanding common stock together beneficially owned approximately 40% of the outstanding common stock if they exercised all of the warrants held by them. These stockholders are able to significantly influence all matters requiring approval by stockholders, including the election of directors and the approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying, deterring or preventing a change in control and may make some transactions more difficult or impossible to complete without the support of these stockholders.

Our restated articles of incorporation contain provisions that could discourage an acquisition or change of control of our company.

Our restated articles of incorporation authorize our board of directors to issue preferred stock without stockholder approval. Provisions of our certificate of incorporation, such as the provision allowing our board of directors to issue preferred stock with rights more favorable than our common stock, could make it more difficult for a third party to acquire control of us, even if that change of control might benefit our stockholders.

USE OF PROCEEDS

The selling stockholders will receive all of the proceeds of the sale of shares of our common stock pursuant to this prospectus. We will not receive any proceeds from the sale of shares by the selling stockholders. We will, however, receive approximately $1,363,750 if all of the warrants issued to the selling stockholders are exercised for cash, and we intend to use any such proceeds for general corporate purposes.

PRICE RANGE OF COMMON STOCK

The principal U.S. market in which our common stock, all of which are of one class, $.001 par value per share, is traded is in the over-the-counter market. Our stock is quoted on the OTC Bulletin Board under the symbol VLDI .

The following table sets forth the range of high and low bid quotes of our common stock per quarter for the past two fiscal years as reported by the OTC Bulletin Board. These quotes reflect inter-dealer prices without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

	BID	
Quarter Ending	**High**	**Low**
2002		
March 31	$0.80	$0.48
June 30	0.53	0.33
September 30	0.46	0.15
December 31	0.28	0.07
2003		
March 31	0.27	0.07
June 30	1.02	0.09
September 30	1.00	0.38
December 31	1.12	0.80
2004		
March 31	1.47	0.85

June 30 (through June 23)	1.35	0.60

On June 23, 2004, the closing price of our common stock was $0.73 per share.

There were approximately 186 holders of record of our common stock as of May 24, 2004, inclusive of those brokerage firms and/or clearing houses holding our securities for their clientele, with each such brokerage house and/or clearing house being considered as one holder. The aggregate number of shares of common stock outstanding as of May 20, 2004 was 27,664,214 shares.

We have not paid or declared any dividends upon our common stock since inception and, by reason of our present financial status and our contemplated financial requirements, we do not contemplate or anticipate paying any dividends in the foreseeable future.

MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

General

In this section, we explain our consolidated financial condition and results of operations for the three months ended March 31, 2004 and 2003 and the years ended December 31, 2003 and 2002 and our plan of operations for the twelve months ending May 31, 2005. As you read this section, you may find it helpful to refer to our consolidated financial statements included in this prospectus.

Until we acquired our former subsidiary, Graph-O-Logic, S.A. in August 1999, we had no material or substantive business operations. Since then, our business has been as more fully described in Business. Accordingly, in this section we focus solely on the historical business operations of the subsidiary and our current business plan and operations.

Plan of Operations

We are a development stage enterprise. As such, our historical results of operations are unlikely to provide a meaningful understanding of the activities expected to take place during the period through May 31, 2005. Two of our products have reached the stage of being saleable during the first quarter of 2004. Our major initiatives through May 31, 2005 are:

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furthering the development of our products;

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obtaining commercial sales of our products, and continuing our current marketing program; and

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developing and improving product agents to perform specialized functions common to many e-commerce sites.

For more information, please see “Business Technology.”

Marketing Plans: We started the marketing process in the second quarter of 2000, with our original focus being potential customers located in the United States and Western Europe. The potential customers and our current marketing program are more fully described in “Business Target Market.” Marketing activities are multi-faceted.

Marketing leads are being developed by direct identification of potential customers, through trade shows and through personal contacts of management and marketing representatives. We expect to spend $120,000 in attending and exhibiting at trade shows through May 31, 2005. We anticipate that preparation of additional promotional literature, including technical evaluations of the products and testimonials from users of the products, and distribution of promotional literature at the trade shows and by direct mailings to the individuals identified as the decision makers and decision influencers will cost $730,000 during the twelve months ending May 31, 2005.

Sales representatives, who are compensated on a salary and commission basis, will continue to follow up these leads, with the objective of more fully explaining the products and their benefits to potential customers. We estimate the cost of this initiative, including travel and sales support, to be $1,150,000 for the twelve months ending May 31, 2005.

Pilot projects to demonstrate the utility and benefits of the products to the customer are expected to be funded at a break-even level by customers.

In summary, the marketing program is expected to cost approximately $2,000,000 through May 31, 2005.

Developing and Improving Product Agents: While we direct a considerable portion of our activities and budget to marketing, we will continue developing the core functions of the products and additional product agents and improving existing ones. For more information please see "Business Our Technology."

We will improve and further develop our products based upon responses from potential customers. The cost associated with this development is primarily a function of the activity currently planned and thus will be subject to a high degree of control. We estimate that the cost of this continued research and development effort will be $1,350,000 through May 31, 2005. In addition, we expect to spend $750,000 on general and administrative expenses through May 31, 2005.

Since entering the development stage, we have obtained financing from the exercise of our Series A warrants, which are now fully exercised, from the proceeds of loans, and from the issuance of convertible debentures. Until such time as we generate sufficient revenues from the licensing of our software applications, we will continue to be dependent on raising substantial amounts of additional capital through any one of a combination of debt offerings or equity offerings, including but not limited to:

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debt instruments, including demand notes and convertible debentures similar to those discussed below in Liquidity and Capital Resources";

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private placements of common stock;

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exercise of stock options at an exercise price of $0.33 per share;

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exercise of Series 'B' warrants at an exercise price of $3.00 per share;

*

exercise of Series 'E' warrants at an exercise price of $0.33 per share;

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exercise of Series F warrants at an exercise price of $0.50 per share;

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exercise of Series G warrants at an exercise price of $0.75 per share;

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exercise of Series H warrants at an exercise price of $0.50 per share;

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exercise of Series I warrants at an exercise price of $0.90 per share; or

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funding from potential clientele or future industry partners.

During the fourth quarter of 2003, and the first quarter of 2004, we raised gross proceeds of $8,000,000 through the private placement of 6,666,666 common shares and 3,333,333 warrants for gross proceeds of $6,000,000, and from the issuance of $2,000,000 in 4% senior subordinated convertible debentures and 1,400,000 warrants. We expect these resources to be adequate to fund our operations for the next two years. However, there can be no assurance that any future financings can be obtained, should they be required. In this regard, please see Risk Factors We may require additional capital to proceed with our long-term business plan."

Selected Financial Data

The selected financial data set forth below with respect to our consolidated statements of operations and cash flows for the three month periods ended March 31, 2004 and 2003 and each of the two fiscal years in the period ended December 31, 2003 and with respect to the consolidated balance sheets as at March 31, 2004, and at December 31, 2003 and 2002, are derived from our audited and unaudited consolidated financial statements included in this prospectus. The following selected financial data should be read in conjunction with our consolidated financial statements and the notes thereto.

	Three Months Ended March 31,		Years Ended December 31,	
	2004	**2003**	**2003**	**2002**
Operations Data				
Selling, general and administrative	$ 578,241	$ 254,170	$ 1,752,725	$ 473,306
Research and development	222,299	163,144	997,822	405,597
Interest and financing costs	320,497	23,456	59,824	45,978
Depreciation of property and equipment	1,864	1,062	4,333	281
Write-off of prepaid services	322,494		174,375	
Write-off of deferred consulting services	1,048,100			
Other expenses, net	10,337	(29)	12,821	(18,321)
Loss on extinguishment of debt	198,000			
Net loss	$ 2,701,832	$ 441,803	$ 3,001,900	$ 906,841

	Three Months Ended March 31,		Years Ended December 31,	
	2004	**2003**	**2003**	**2002**
Cash Flows Data				
Net cash from (used in) operations	$ (974,316)	$ (277,782)	$ (955,256)	$ (763,099)
Net cash from (used in) investing activities	(14,144)	(2,636)	(3,674)	(10,106)
Net cash from financing activities	6,856,148	125,000	1,348,703	929,151
Net increase (decrease) in cash and equivalents	$ 5,867,688	$ (155,418)	$ 389,773	$ 155,946

	At March 31,	At December 31,	
	2004	**2003**	**2002**
Balance Sheet Data			

Cash and cash equivalents	$ 6,414,111	$ 546,423	$ 156,650
Total current assets	6,756,798	1,182,383	371,358
Property and equipment	21,445	9,166	9,825
Total assets	8,349,667	3,076,872	381,183
Total current liabilities	984,296	1,295,785	1,379,775
Total long-term liabilities (see notes to financial statements)	141,869		
Stockholders’ equity (deficiency)	7,223,502	1,781,087	(998,592)

Results of Operations

In this section, we discuss our earnings for the periods indicated and the factors affecting them that resulted in changes from one period to the other.

Through September 30, 2001, our principal operations were conducted in Switzerland. Our expenses were incurred in Swiss francs. Subsequent to September 30, 2001 our principal operations were conducted in Canada and Europe. However the majority of our expenses were incurred in United States dollars. Our financial statements have been conformed to US GAAP and are presented in US dollars. The rates of exchange between the Swiss franc and US dollar set out below were used to convert the various financial statement balances from Swiss francs to US dollars. In the following tables we set forth:

*

the rates of exchange for the US dollar, expressed in Swiss francs (CH), in effect at the end of each of the periods indicated; and

*

the average of the exchange rates in effect during such periods.

	Year ending December 31	
	2003	**2002**
Rate at end of Period	1.24CH	1.39CH
Average Rate During Period	1.35CH	1.56CH

The Three Months Ended March 31, 2004 Compared to the Three Months Ended March 31, 2003

Revenue: We generated no revenues during the three months ended March 31, 2004, nor did we generate any revenues during the three months ended March 31, 2003. As of August 1999 we have directed all of our attention towards the completion and marketing of our software applications. We believe that if we are successful in our development and marketing efforts, we will generate a source of revenues in the future from sales and/or licensing of our software applications.

Selling, general and administrative expenses: Selling, general and administrative expenses consist primarily of personnel costs, professional fees, communications expenses, occupancy costs and other miscellaneous costs associated with supporting our research and development and sales and marketing activities. During the three months ended March 31, 2004 we incurred $578,241, as compared to $254,170 during the three months ended March 31, 2003. This increase of $324,071 (128%) is primarily a result of our increased efforts in the marketing of our products. Our current marketing program commenced during the third quarter of 2002, with the objective of increasing the number of beta sites and positioning ourselves within the marketplace, in order to obtain future commercial sales of our products. Included in selling, general and administrative expenses for the three months ended March 31, 2004 is $163,933 of stock-based compensation, compared to $2,000 in stock-based compensation for the three months ended March 31, 2003.

Research and development expenses: Research and development expenses consist primarily of personnel costs and consulting expenses directly associated with the development of our software applications. During the three months ended March 31, 2004, we incurred $222,299, an increase of $59,155 (36%) over the $163,144 we incurred during the three months ended March 31, 2003, developing our software applications. During the three months ended March 31, 2004, we had an average of 17 personnel engaged directly in the development of our software applications, compared with an average of 9 personnel during the three months ended March 31, 2003. This increase in staff is the primary reason for the increase in research and development expenses.

Interest and financing costs: Interest and financing costs consists primarily of interest on promissory notes payable, and interest and financing costs on convertible debentures. During the three months ended March 31, 2004, we incurred $320,497, an increase of $297,041 (1,266%) over the $23,456 incurred during the three months ended March 31, 2003, in interest and financing costs. This increase occurred primarily as a result of the costs associated with the $2,000,000 in senior subordinated convertible debentures (Note 4 to the financial statements), which we issued during December 2003 and January 2004. Included in the $320,497 we incurred in interest and financing costs during the three months ended March 31, 2004, is $309,938 in interest and financing costs, including $270,184 in amortization and accretion of stock-based charges, relating to the convertible debentures. There was no comparable expense during the three months ended March 31, 2003.

Write-off of prepaid services, and write-off of deferred consulting services: During the three months ended March 31, 2004, we cancelled a long-term service agreement with an unrelated company. As a result of terminating this agreement, 4,000,000 Series F warrants, issued by us during September 2003, were cancelled, resulting in the write-off of $322,494 of prepaid services and $1,048,100 of deferred consulting services. There was no comparable event during the three months ended March 31, 2003.

Net Loss: We incurred a loss of $2,701,832 ($0.12 per share) for the three months ended March 31, 2004, compared to $441,803 ($0.03 per share) for the three months ended March 31, 2003. Our revenues and future profitability are substantially dependent on our ability to:

*

continue the development of products based on our technology;

*

identify additional clients willing to install beta sites for our products;

*

continue to operate successfully these beta sites, integrating our technology into their operations;

*

modify the software applications based on the results of the beta site trials;

*

license the software applications to sufficient number of clients;

*

modify the successful software applications, over time, to provide enhanced benefits to then-existing users; and

*

successfully develop related software applications.

The fiscal year ended December 31, 2003 compared to the fiscal year ended December 31, 2002

Revenue: We generated no revenues during the year ended December 31, 2003, nor did we generate any revenues during the year ended December 31, 2002. Since August 1999, we have directed all of our attention towards the completion and marketing of the software applications discussed above. We believe that if we are successful in our development and marketing efforts, we will generate a source of revenue in the future from sales and/or licensing of our software applications. During the first quarter of 2004, one of our products reached the stage of being saleable.

Selling, general and administrative expenses: Selling, general and administrative expenses consist primarily of personnel costs, professional fees, communications expenses, occupancy costs and other miscellaneous costs associated with supporting our research and development and sales and marketing activities. During the year ended

December 31, 2003 we incurred $1,752,725, as compared to $473,306 during the year ended December 31, 2002. This increase of $1,279,419 (270%) is primarily a result of: (i) a total of $950,645 in non-cash consulting fees being recognized on the issuance of options, warrants and capital stock during the year ended December 31, 2003, as detailed in Note 6 to the financial statements, compared with $71,775 in non-cash consulting fees recognized during the year ended December 31, 2002, and (ii) our increased efforts in the marketing of our products. Our current marketing program commenced during the third quarter of 2002, with the objective of increasing the number of beta sites and positioning ourselves within the marketplace, in order to obtain future commercial sales of our products.

Research and development expenses: Research and development expenses consist primarily of personnel costs and consulting expenses directly associated with the development of our software applications. During the year ended December 31, 2003, we spent $997,822, an increase of $592,225 (146%) from the $405,597 spent in developing our technology, and implementing it into products during 2002. This increase was primarily the result of non-cash consulting fees in the amount of $335,816 being recognized on the issuance of warrants and stock options during the year ended December 31, 2003. There were no similar non-cash expenses recognized during the year ended December 31, 2002. We also retained additional senior level personnel for our development team commencing during the third quarter of 2002, which resulted in higher costs for the year ended December 31, 2003 as compared with the year ended December 31, 2002.

Amortization: Amortization expense was $4,333 during the year ended December 31, 2003, an increase of $4,052 (1,442%), over the $281 charged to expense during the year ended December 31, 2002. The use of computer equipment is provided under arrangements with our contractors. The use of office furniture and equipment is provided under the terms of our arrangements for leased premises as described above.

Net Loss: We incurred a loss of $3,001,900 ($0.16 per share) for the year ended December 31, 2003, compared to a loss of $906,841 ($0.06 per share) for the year ended December 31, 2002. Our revenues and future profitability and future rate of growth are substantially dependent on our ability to:

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identify clients willing to install beta sites for our products;

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operate successfully these beta sites, integrating our technology into their operations;

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modify the software applications based on the results of the beta site results;

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license the software applications to a sufficient number of clients;

*

modify the successful software applications, over time, to provide enhanced benefits to existing users; and

*

successfully develop related software applications.

Liquidity and Capital Resources

General: Since inception, we have funded our operations from private placements of debt and equity. In addition, until September 1999 we derived revenues from consulting contracts with affiliated parties, the proceeds of which were used to fund operations. Until such time as we are able to generate adequate revenues from the licensing of our software applications we cannot assure that cash from the issuance of debt securities, the exercise of existing warrants and the placements of additional equity securities will be sufficient to fund our long-term research and development and general and administrative expenses.

At December 31, 2003, we had negative working capital of $113,402, compared to negative working capital of $1,008,417 at December 31, 2002. This significant increase in working capital occurred primarily as a result of the conversion of $1,364,151 in promissory notes payable plus $93,413 in accrued interest thereon, into common shares, as well as the issuance of $600,000 in 4% senior subordinated convertible debentures. We had $546,423 of cash and cash equivalents on hand at December 31, 2003 compared to $156,650 at December 31, 2002.

Sources of Capital: In August 1999 we made a transition in business strategies. Prior to August 1999 we provided consulting services in addition to developing our core technology. Since then, we have directed all of our efforts to the development and marketing of our software applications. Our principal source of capital for funding our business activities subsequent to August 1999 has been the private placements of debt and equity.

During the three months ended March 31, 2004, we issued 4% convertible debentures and 980,000 Series H warrants, for gross proceeds of $1,400,000, and we completed a private placement of 6,666,666 common shares and 3,333,333 Series I warrants for gross proceeds of $6,000,000, in order to fund current and future operations. Also during the three months ended March 31, 2004, we issued 30,000 shares of our common stock, valued at $33,500 (average of $1.12 per common share) to an unrelated company in consideration for consulting services rendered.

Uses of Capital: Since August 1999 we have directed our efforts towards the development and marketing of our software applications. In May 2000, we started to actively market our software applications. We commenced our current marketing program during the third quarter of 2002, and have since engaged additional personnel to assist in this effort. The objective of this program is to increase the beta sites and to gain market recognition for our company and our products, in order to generate future commercial sales of our products in the earliest time-frame possible. During the three months ended March 31, 2004, we increased the size of our development team in order to implement revisions and enhancements to those of our products currently in use as they are identified, while continuing to develop additional products.

Net Cash Flow from Operations: During the year ended December 31, 2003, we used $955,256 in operations, compared to using $763,099 during the year ended December 31, 2002. The use of cash in operations during the year ended December 31, 2003 resulted primarily from a net loss of $3,001,900, which was partially offset by depreciation of $4,333, non-cash consulting fees of $1,286,461, non-cash interest of $59,824, non-cash write-off of prepaid services of $174,375, and by a net change in non-cash operating working capital of $521,651. During the year ended December 31, 2002, the use of cash in operations resulted from a net loss of $906,841, plus a $26,212 currency translation adjustment on liquidation of the investment in our foreign subsidiary, and partially offset by depreciation of $281, non-cash consulting fees of $71,775, non-cash interest of $48,185, and by a net change in non-cash operating working capital of $49,713.

Net Cash Used in Investing Activities: During the year ended December 31, 2003, we invested $3,674 in property and equipment, compared to $10,106 invested during the year ended December 31, 2002.

Net Cash From Financing Activities: During the year ended December 31, 2003, we raised $803,203 from the issuance of promissory notes, and $545,500 in proceeds net of cash-based issuance costs paid on or before December 31, 2003, of $54,500, from the issuance of 4% senior subordinated convertible debentures. During the year ended December 31, 2002, we raised $929,151 from the issuance of promissory notes. For information concerning our capital requirements see " Plan of Operations" above.

During the first quarter of 2004, we raised additional gross proceeds of $1,400,000 from the issuance of 4% convertible debentures and 980,000 warrants, and $6,000,000 from the private placement of 6,666,666 common shares and 3,333,333 warrants.

BUSINESS

Summary

Validian Corporation is a provider of communication security technologies for networked environments. We have developed technology to secure exchanges of data and files between mutually authenticated applications over the Internet. This easy-to-use infrastructure facilitates deployment and use of distributed applications and distributed networks and enables organizations to rapidly develop and deploy secure, collaborative, distributed applications for sharing data over public or private networks.

We have operations in the U.S., Canada and Switzerland. Products based on our technology:

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facilitate secure, reliable data communications between any two applications through the Internet or any private networks;

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allow customers to develop distributed applications that run on different platforms; and

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allow individuals and mobile workers to communicate securely with each other, and to exchange files in a secure manner.

Our technology enables corporations, institutions and individuals to develop secure interactive, distributed applications (such as e-commerce) running either through wired or wireless networks, with an ease of deployment and management of the communications.

Our Technology

Our technology is based upon our intellectual property and was used to develop our products.

Our intellectual property includes an addressing scheme, an authentication process and a key exchange process for all parties to a communication, thus offering a strong trust model for secure exchanges. It also includes an encryption function using standard algorithms that encrypts data from within an originating application and decrypts the data within the receiving application.

Our technology provides benefits, by enabling users:

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to integrate security and transport in all communication and document exchanges through an integrated approach; and

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to develop and use existing interactive, distributed applications (like e-commerce, e-banking, e-health and e-loyalty) where it implements what we believe is a strong security model.

Based on this technology, we have developed the products described below.

Target Market

Our business strategy is to license our technology either directly or through distribution channels to medium to large organizations that develop, market, sell, distribute or use software products where interaction with a distributed customer, employee and/or partner base is essential. This includes:

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corporate IT departments that serve their corporation with a variety of applications and implementation environments, according to the needs of the various internal departments. This implies writing applications for more than one platform or to migrate, at one point in time, from one platform to another while ensuring the security of communication between applications and over distributed networks; and

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independent software vendors and developers serving a relatively large group of customers, on a regional or national basis and who must respond to a variety of conditions and platforms, as imposed by their customers in specific industrial sectors and secure the exchanges between their customers partners, suppliers and other participants.

Potential customer industrial sectors include, among others:

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manufacturers in supply management chains;

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electronic health care providers and suppliers;

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financial institutions and insurance companies; and

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software distribution services.

Marketing Strategy and Distribution Channels

We have initiated a marketing program in North America and Europe to bring our products to the marketplace. This program has two components: direct and channel sales.

Direct Sales

The direct sales approach entails making high-level contacts within the organizations of target customers to present the benefits and competitive advantages of our products. Leads to such presentations are generated through existing contacts of management and sales representatives, and through attendance at and participation in specialized e-commerce and computer security trade shows.

Channel Sales

In order to penetrate the market for our products, we are attempting to partner with, value-added resellers (VARs), independent marketing representatives (IMRs), system integrators (SIs), independent software vendors (ISVs) and application service providers (ASPs). Potential partners are being identified based upon their ability to penetrate specific markets more easily than we can. We believe major customers also will act as VARs in their sector.

Sales representatives and sales agents are promoting our products within these two channels. The representatives are responding to queries and expressions of interest from those interested in becoming early adopters of our working models. These early customers and distributors may have an impact on the product development schedule, as we will develop interfaces with users existing systems in response to their feedback and individual requirements.

Currently, we have agreements with VARs in the U.S., in Canada and in Mexico. Agreements with IMRs have been implemented in the U.S. and in Canada. Agreements with SIs are being pursued currently.

Marketing Analysis

We have retained industry specialists in the electronic health care and in the supply chain management sectors. Their mandate is to identify specific areas and a limited number of corporations where our products would facilitate secure communication and the implementation of a strong security infrastructure with ease of deployment and management.

We have also retained a specialist to prepare a technical analysis of our approach, which we will distribute to system architects and engineers to help them understand the benefits that customers can derive from implementing our technology into their new or existing systems.

With the assistance of a system integrator, we have developed a sample code to help train other SIs in the use of our technology. This sample code is a part of our internal technical training program for our customers.

To support our sales force and these specialists, we have developed technical literature on the following topics:

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security;

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features and benefits;

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integration into current systems;

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openness of the architecture;

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future developments; and

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implementation procedures.

Estimated Sales Cycles

We expect that individual sales cycles will be from four to eight months in duration. The territory where most potential clients reside is expected to be in North America, Europe and Asia Pacific. We retained two sales representatives in the third quarter of 2002, and two sales agents in the fourth quarter of 2002. We began market research in the United States and Western Europe in the second quarter of 2000 and have continued in these and other potential markets since that time.

Marketing Expenses

The main expense factors for our marketing campaign are for:

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personnel, both internal and outside specialists;

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buying or renting lists of potential customers for direct marketing campaigns;

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direct marketing to potential customers;

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banner advertising on vertical industry websites;

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participation in trade shows;

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travel and living expenses;

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web site development and maintenance; and

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literature preparation and distribution.

For more information, please see Management s Discussion and Analysis or Plan of Operation Plan of Operations."

Our Products

Currently, we are offering three main products on a commercial basis.

<u>Our Application Security Infrastructure ("ASI</u>")

Our ASI is a comprehensive integrated infrastructure for securing data transport between distributed applications and Web services. ASI is specifically designed for distributed applications and distributed networks. It automatically manages all critical security functions for any application, including authentication, encryption, key generation, key distribution, addressing and data transport. ASI guarantees the delivery of the messages and files to, and only to, the target destination, and data never travels in the clear at any time between applications.

ASI has been in use for approximately two years on a continuous basis by a growing number of users (currently several hundred) to support our SIM product operation.

Our Secure Instant Messenger (SIM)

We offer an enterprise-class Secure Instant Messenger (SIM) that provides what we believe is a strong level of security for real-time communication and file exchange between authenticated parties. SIM creates gated communities of trusted users. It offers real-time tools for collaboration between individuals and groups, including synchronous and a-synchronous collaboration and enterprise-wide presence.

SIM performs encryption of both messages and attachments within its own operation, so that data never travels in the clear at any point in time. Within a SIM exchange, all participants are authenticated and messages and large files of most types, including video and audio files, can be transferred encrypted. We believe that SIM is currently the only secure instant messenger to operate on USB flash memory devices: the Validian Flash Communicator™. SIM operates over Validian s Application Security Infrastructure (ASI) and benefits from all the security features of ASI. SIM has been in use for approximately two years on a continuous basis by a growing number of users (currently several hundred) in commercial and testing environments.

Our Software Development Kit (SDK)

We provide a SDK, for rapidly and simply securing data transport between applications through ASI. The SDK includes a complete, integrated and built-in set of control, transport and security features, which are automatically inherited by any applications linked to ASI through the SDK. Application developers who use the Validian SDK do not have to learn and master any of the various transport and security products or mechanisms to implement security on their applications. They do not have to worry about the low-level IP addresses or ports nor concern themselves with implementing complex security features, as the SDK performs these functions automatically. This provides the application with a complete communication security chain, as the ASI protection initiates from within the originating application and transports data to within the destination application. The SDK is offered free of charge to qualified developers and system integrators.

Competition

Competitors for the ASI market are different from competitors for the SIM market.

ASI Competition

Our ASI product competes primarily with the products described below.

VPN

Virtual Private Networks (VPN) is a technology that ensures a secure communication link between two devices linked to the Internet or any communication network. This type of network security ensures that between those two hardware devices, the data cannot be intercepted and tampered with.

The main supplier of VPN is Check Point Software Technologies Ltd., but a number of suppliers are also offering competing products. As compared with ASI, VPNs protect data between hardware devices, whereas ASI protects data between applications.

PKI

Public Key Infrastructure (PKI) is a sophisticated method of authenticating communicating parties by providing each party with a set of two uniquely linked keys, one private key that is kept by the party and one public key that is published for every one to see. When communicating, messages are encrypted with the private key of the sender and decrypted by the receiver using the public key of the sender. Since both keys are mathematically linked, the receiver is assured that the message is coming from that sender and nobody else.

This exchange mechanism has been extended to protect more applications but we believe that its implementation on a large scale for distributed environments proves difficult and costly. Main suppliers of PKI include Entrust, Baltimore Technology and Verisign.

SSL

Secure Socket Layer (SSL) is a browser level protection offered by Netscape and Microsoft and incorporated in most browsers. SSL establishes a secure connection from a server to a browser requesting access to an application on this server. SSL is a standard widely used across a large number of platforms and systems. However, it relies on a rather weak trust model, since the browser is not authenticated by the server.

This brings a risk of impersonation. Protecting the application from that risk requires the implementation of a PKI to authenticate the participants.

SIM Competition

Our SIM competes primarily with the following products.

Free IM

The major suppliers of individual-class, free and unsecure IM systems are Yahoo!, Microsoft and AOL.

Enterprise-class Secure IM

The enterprise-class secure IM industry is in its infancy. Some suppliers offer products but the installed base is still limited. Suppliers include WireRed, Jabber, Bantu, Sigaba, FaceTime and IBM. AOL, Yahoo and Microsoft also have announced products which are in different states of development. We believe that we have significant technical competitive advantages over those suppliers and we are positioning to take a portion of this market.

Research and Development

We spent the following amounts during the periods mentioned on research and development activities:

Three Months ended March 31,		**Year ended December 31,**	
2004	**2003**	**2003**	**2002**
$222,299	$163,144	$997,822	$405,597

For more information, see: Management s Discussion and Analysis or Plan of Operation Plan of Operations."

Intellectual Property Protection

We rely on common law and statutory protection of trade secrets and confidentiality agreements. We claim copyright in specific software products and various elements of our core technology. We have registered trademarks in North America and in Europe to cover the Flash Communicator product and the generic term of FlashWare, as well as some graphic identification and the Validian name itself.

Our intellectual property includes an addressing scheme, an authentication process and a key exchange process for all parties to a communication, thus offering a strong trust model for secure exchanges. It also includes an encryption function using standard algorithms that encrypts data from within an originating application and decrypts within the receiving application.

We believe, but we cannot assure, that our technology and its implementation may be patentable. We are preparing a patent application covering certain aspects of our products. The initial patent applications will cover the U.S. and Canada and be expanded to other countries as and when we penetrate new markets. We have defined migration paths for the various products and developed schedules for that migration. This defines the requirement for additional patent, trademarks and copyright protection, which we plan to apply for as required in order to prevent unauthorized use of our technology.

We cannot assure that we will be able to obtain or to maintain the foregoing intellectual property protection. We also cannot assure that our technology does not infringe upon the intellectual property rights of others. In the event that we are unable to obtain the foregoing protection or our technology infringes intellectual property rights of others, our business and results of operations could be materially and adversely affected. For more information please see “Risk Factors We may not be able to protect and enforce our intellectual property rights, which could result in the loss of our rights, loss of business or increased costs.

Employees

As of March 31, 2004, we had 22 full-time contractual personnel, including one executive officer, three sales and marketing staff, 16 software architects, engineers and programmers, and two in administration. Five are located in Ottawa, Canada, one is located in Philadelphia, and 16 are located in Europe. In addition, we regularly engage technical consultants and independent contractors to provide specific advice or to perform certain marketing or technical tasks.

Our Corporate History

We were incorporated in Nevada on April 12, 1989 as CCC Funding Corp. to seek out one or more potential business ventures. On January 28, 2003, we changed our name from Sochrys.com Inc. to Validian Corporation.

Properties

Our principal executive office is located at 30 Metcalfe St., Suite 620, Ottawa, Canada, K1P 5L4. The telephone number is 613-230-7211. Our United States office is located at 4651 Roswell Road, Suite B-106, Atlanta, Georgia 30342. The telephone number is (404) 256-1963.

Until April 14, 2004, our Ottawa office was leased from a non-affiliated party per oral arrangement on a month-by-month basis. Effective April 15, 2004, we entered into a long-term lease agreement with a non-affiliated party for the rental of 5,576 square feet for a period of twenty-four and one-half months. Our Atlanta office is leased from a non-affiliated party per oral arrangement on a month-by-month basis. The lease provides shared access to and use of 1,000 square feet.

Legal Proceedings

We are not presently a party to any material litigation.

MANAGEMENT

The following table sets forth certain information concerning our directors and executive officers:

Name	Age	Position
Dr. André Maisonneuve	62	Director, Chairman, President and Chief Executive Officer

André Maisonneuve has been a Director, Chairman, President, and Chief Executive Officer since January 2002, and in addition to these positions was Chief Financial Officer and Secretary from January 2002 until February 2004. Prior to this, he was Director, Executive Vice President and Secretary from July 2001 until January 2002. He oversees key management and strategic decisions as well as marketing and sales activities, and interacts with major customers and suppliers to define the marketing and development strategies, focusing on customers requirements. He has over 30 years of experience in launching and managing information technology companies, both private and public. Prior to joining our company in 1999, from 1998 to 1999, he was Executive Vice President with Chataqua Inc., a computer based learning company. From 1995 to 1998, he was Director General of CESAM, a multi media industry consortium. From 1990 to 1995, he was Chairman of ADGA Inc., a software developer for computer based learning. From 1987 to 1990, he was Chief Executive Officer of Telemus Electronics, a defense-electronics company selling core technology and products to the U.S. Navy and large defense contractors such as Lockheed Martin, Teledyne Technologies and Ericsson. From 1985 to 1987, he was an Executive Vice President at ACDS, where he was instrumental in implementing an international distribution network for a publicly held spatial-database company, where customers included EDS, Atlanta Gas and IBM. From 1970 to 1985, he founded and managed CEGIR, an international information-technology and management-consulting company with customers in 14 countries and links with the major international development banks. He has a Ph.D. in Engineering and is a graduate of Harvard Graduate Business School.

Name	Age	Position
Bruce I. Benn		

50

Director, Executive Vice President and Secretary

Bruce Benn joined our company in 1999 and has been a Director, Executive Vice President and Secretary since February 2004. He oversees all aspects of corporate finance and has been principally responsible for arranging the $16 million of capital for the Company from 1999 to date. Since 1989, he is the President, Director and co-founder of Capital House Corporation, a boutique investment bank that has provided and/or arranged early and mid stage venture capital and hands-on managerial assistance to a portfolio of leading technology software companies. Mr. Benn was also a founder, Director and Officer of DevX Energy, Inc. from 1995 until it was sold to Comstock Resources Inc. in 2001 for over $120 million. From 1980 to 1993, he was with Corporation House Ltd., where he was a Vice President and a Director from 1985 to 1993. He is an attorney and holds a Masters of Law degree from the University of London, England, a Baccalaureate of Laws from the University of Ottawa, Canada, and a Bachelor of Arts in Economics from Carleton University in Ottawa, Canada.

Name

Age

Position

Ronald I. Benn

49

Director, Chief Financial Officer and Treasurer

Ron Benn was appointed a Director, Chief Financial Officer and Treasurer in February 2004. He is a co-founder, Officer and Director of Capital House Corporation since 1989. He was recently Chief Financial Officer of Coast Software, a position he held since September 2000 and where he was directly involved in raising more than $7 million in capital. Since 1995, he also has been a Director of Telemus Electronics. From 1995 until 2000 he was Chief Financial Officer of DevX Energy, Inc., a former publicly traded company on the NASDAQ exchange. He has 21 years   experience in senior finance positions, having begun his career in 1980 with Clarkson Gordon (now Ernst & Young) in the audit department. He holds a Chartered Accountant designation with the Institute of Chartered Accountants of Ontario (1982), and bachelor of commerce and bachelor of science degrees. Ron Benn is the brother of Bruce Benn.

Name

Age

Position

Henrik Olsen

41

Chief Technology Officer

Henrik Olsen joined our company in 2000 and is our Chief Technology Officer and the main architect of our technology and intellectual property. He has 15 years experience in project management and system design in the IT industry. He has designed and implemented many sophisticated applications, including a private trading platform for the Japanese warrant market and a dynamic charting and statistics supply chain management system. He managed the Swiss nodes of data network for Telecom Italia and implemented a number of LAN/WAN networks for large customers. He has a B.Sc. from the University of Geneva.

Name

Age

Position

Steve Brown

45

Vice President, Sales

Steve Brown joined our company in 2002 and is our Vice President of Sales, overseeing the sales team and the development and operation of channel sales, and direct sales for reference accounts. He has over 20 years sales and sales management experience with Xerox, Canon, Sterling Software, and JetForm Corporation (acquired by Adobe Software). His experience includes Director and V.P. Sales roles for a North American security infrastructure software developer, KyberPass Corporation, where he was responsible for the design, execution and management of the sales model for Fortune 100 companies, Government, OEM/ASPs and Tier 1 Systems Integrators. He has a B.Comm. (Honours) from Queens University.

Name

Age

Position

Tom Weishaar

54

Vice President, Business Development

Tom Weishaar joined our company in 2002 and is our Vice President, Business Development and brings more than 20 years of strategic sales and business development experience. He is responsible for creating strategic partnerships and developing the European market. As Vice President of Strategic Business Development at KyberPass Corporation, he helped position the company to compete against global market leaders, cultivated key strategic business partnerships and pioneered the company s European expansion. He co-founded Trekware Corporation, a mobile computing software/hardware company that sold more than 80,000 licenses of the first vector based mapping application for the Palm platform. He negotiated a major OEM deal with a division of Sony to license the product and invented the first full sized folding keyboard for the Palm Pilot. As Director of Global Business Development at Jetform Corporation (acquired by Adobe Software), he negotiated multiple million-dollar OEM agreements with companies such as IBM, Fujitsu/ICL and Sun Microsystems, Egghead Software and Metriplex Corporation.

Each of our directors and officers serves a term of one year or until his successor is appointed.

EXECUTIVE COMPENSATION

The following table shows all the cash compensation paid or to be paid by us or our subsidiaries, as well as certain other compensation paid or accrued, during the fiscal years indicated, to our chief executive officer and one additional executive officer whose total annual salary and bonus exceeded $100,000 in all capacities in which the person served.

Summary Compensation Table

						Long Term Compensation		
		Annual Compensation				Awards	Payouts	
(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	**(g)**	**(h)**	**(i)**
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation ($)**	**Restricted Stock Award ($)**	**Securities Underlying Options/ SARs ($)**	**LTIP Payouts ($)**	**All Other Compensation ($)**
Maisonneuve, André	2003	79,500	0	0	0	230,578	0	0
	2002	70,375	0	0	0	0	0	0
Director, Chairman, President and Chief Executive Officer *	2001	45,000						
Weishaar, Tom	2003	110,000	0	0	0	153,383	0	0
Vice President -	2002	25,000	0	0	0	0	0	0
Business Development**								

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*

Became Director, Executive Vice President and Secretary in July 2001. In addition, Mr. Maisonneuve served as Chairman, President, Chief Executive Officer, and Chief Financial Officer from January 2002 to February 2004.

**

Commenced in October 2002.

The following table sets forth information with respect to those executive officers listed above, concerning the grants of options and Stock Appreciation Rights (SAR) during the past fiscal year:

Option/SAR Grants in Last Fiscal Year

Name	Number of Securities Underlying Options/SARs Granted (#) (1)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date
Maisonneuve, André	1,005,000	26%	$0.33	May 7, 2008
Weishaar, Tom	1,005,000	26%	$0.33	May 7, 2008

(1) All options are exercisable immediately.

The following table sets forth information with respect to those executive officers listed above, concerning exercise of options during the last fiscal year and unexercised options and SARs held as of the end of the fiscal year:

Aggregated Option/SAR Exercises and Fiscal Year-End Option/SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#) Exerciseable/Unexercisable	Value of Unexercised In-The-Money Options/SARs at FY-End ($) (1) Exercisable/Unexercisable
Maisonneuve, André	0	0	1,005,000/0	$623,100/0
Weishaar, Tom	0	0	1,005,000/0	$623,100/0

(1) Calculated based on $0.95 per share of common stock, the closing bid price of our common stock on December 31, 2003.

Directors are not compensated for acting in their capacity as directors. Directors are reimbursed for their accountable expenses incurred in attending meetings and conducting their duties.

There is no employment agreement between us and our executive officers. See “Risk Factors The loss of any of our key personnel would likely have an adverse effect on our business.”

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Henrik Olsen became an officer of the Company in February 2004. Henrik Olsen has a beneficial interest in Echo Technologies S.A., which is a contractual developer of the Company for the purpose of paying wages and of holding warrants for personnel in Europe.

During the year ended December 31, 2003, there were no related party transactions. During the year ended December 31, 2002, there were no related party transactions.

PRINCIPAL STOCKHOLDERS

The following table sets forth information as of May 20, 2004, with respect to any person known by us to own beneficially more than 5% of our common stock, common stock beneficially owned by each of our officers named in Executive Compensation, and each of our directors, and the amount of common stock beneficially owned by our officers and directors as a group.

Approximate Percent

Name & Address of

Number of Shares

of Common Stock

Beneficial Owner

Beneficially Owned

Outstanding (1)

Bruce Benn* (2) (7) (8)

3,050,000

10.9%

Waycross Corp. (3)

3,400,000

12.1%

29 Rue des Deux Communes

1226 Thonex-Geneva

Switzerland

Valdosta Corp. (2)

3,400,000

12.1%

P.O. Box 30592

Cayside, 2nd Floor, Harbour Drive

Georgetown, Grand Cayman

Cayman Islands, BWI

Echo Technologies S.A. (4)

2,183,788

7.5%

Rte. de St. Cergue

297-1260 Nyon-Switzerland

Henrik Olsen*(4)

2,183,788

7.5%

André Maisonneuve* (5)

1,635,000

5.6%

Tom Weishaar* (6)

1,005,000

3.5%

Ron Benn* (7)

550,000

2.0%

All Executive Officers and Directors

As a Group

9,511,090 (8)

28.3%

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* Executive Officer and/or a Director.

(1)

Based upon 27,664,214 shares of common stock issued and outstanding as of May 20, 2004 and includes for each person the shares issuable upon exercise of the options and warrants owned by them.

(2)

Valdosta Corp. is a portfolio management corporation incorporated under the laws of the Cayman Islands. Bruce Benn has a beneficial interest in 2,650,000 of the shares owned of record by Valdosta Corporation. Accordingly, 2,650,000 shares of the 3,400,000 shares owned of record by Valdosta Corporation have been included as beneficially owned by him.

(3)

Waycross Corp. is a portfolio management corporation incorporated under the laws of the Cayman Islands.

(4)

Echo Technologies S.A. is a technology company incorporated under the laws of Switzerland. Includes 548,788 shares of common stock and 1,635,000 shares of common stock issuable upon exercise of warrants owned by Echo Technologies S.A. Henrik Olsen has a beneficial interest in a portion of the shares of Echo Technologies S.A. Accordingly, the 548,788 shares and 1,635,000 warrants owned of record by Echo Technologies S.A. have been included as beneficially owned by him.

(5)

Includes 1,525,000 shares of common stock issuable to André Maisonneuve upon exercise of the options and warrants owned by him.

(6)

Includes 1,005,000 shares of common stock issuable to Tom Weishaar upon exercise of the options owned by him.

(7)

Capital House Corporation is incorporated under the laws of Canada. Includes 400,000 shares of common stock issuable to Capital House Corporation upon exercise of the warrants owned by it. Bruce Benn and Ron Benn each has a beneficial interest in the shares of Capital House Corporation, and in 100,000 warrants owned of record by Capital House Corporation. Accordingly 100,000 warrants owned of record by Capital House Corporation have been included as beneficially owned by each of them. Bruce Benn and Ron Benn are brothers.

(8)

Includes (a) 2,650,000 shares owned of record by Valdosta Corporation, (b) 100,000 shares of common stock issuable pursuant to warrants held of record by Capital House Corporation, and (c) 300,000 shares issuable upon exercise of warrants held directly by Bruce Benn. See footnotes (2) and (7).

DESCRIPTION OF SECURITIES

General

The following discussion summarizes our capital stock and describes certain provisions of our restated articles of incorporation and bylaws. The information in this section is a summary only and is qualified by reference to our restated articles of incorporation and our bylaws, which have been filed as exhibits to the registration statement of which this prospectus forms a part. Our authorized capital stock consists of 50,000,000 shares of common stock, par value $.001 per share, and 5,000,000 shares of preferred stock, par value $.001 per share. As of May 20, 2004, we had 27,664,214 shares of common stock issued and outstanding. No shares of our preferred stock are currently outstanding.

Common Stock

Holders of our common stock are entitled to dividends, if any, as our board of directors may declare from time to time from legally available funds, subject to the preferential rights of the holders of any shares of our preferred stock that we may issue in the future. Except as otherwise required by law, the holders of our common stock are entitled to one vote per share on any matter to be voted upon by stockholders. Our bylaws require that a majority of our issued and outstanding shares need be represented, in person or by proxy, to constitute a quorum and to transact business at a stockholders meeting.

Our restated articles of incorporation deny cumulative voting rights in connection with the election of directors. Accordingly, directors will be elected by a plurality of the shares voting once a quorum is present. Our restated articles of incorporation deny preemptive rights to all holders of common stock to subscribe for, purchase or acquire additional shares of capital stock issued in the future.

Upon our voluntary or involuntary liquidation, distribution or sale of assets, dissolution or winding up of our affairs, the holders of our common stock are entitled to share, on a pro rata basis, all assets remaining after payment to creditors and subject to prior distribution rights, if any, on shares of preferred stock that we may issue in the future. All of the outstanding shares of common stock are fully paid and non-assessable.

Common Stock Purchase Warrants

There are currently outstanding warrants to purchase an aggregate of 13,115,833 shares of common stock at exercise prices ranging from $0.33 to $3.00 per share. We issued these warrants in connection with previous equity private placements and also in consideration for services rendered.

Common Stock Options and Convertible Debentures

There are currently outstanding options to purchase an aggregate of 3,912,302 shares of common stock, at an exercise price of $0.33 per share. We issued these options to non-employees in exchange for services rendered. In addition, we may issue up to an additional 1,087,698 options under our Incentive Equity Plan.

Also, there are currently outstanding $2,000,000 in 4% senior subordinated convertible debentures which are convertible at a ratio of one share of common stock for each $0.50 of debt converted.

Preferred Stock

Under our restated articles of incorporation, we may issue up to 5,000,000 shares of preferred stock. No shares of our preferred stock are currently outstanding. Under our restated articles of incorporation, our board of directors, without further action by our stockholders, is authorized to issue shares of preferred stock in one or more series. The board of directors may designate the preferred shares as to series, preferences, limitations and other provisions as the board of directors may designate from time to time. The preferred stock could have voting or conversion rights that could adversely affect the voting power or other rights of holders of our common stock.

Anti-Takeover Provisions of our Restated Articles of Incorporation, Bylaws and Nevada Law

Provisions with Anti-Takeover Implications

A number of provisions of our restated articles of incorporation and bylaws concern how we are governed and your rights as stockholders. Under our restated articles of incorporation, our board of directors may issue preferred stock and set the voting rights, conversion rights, preferences, and other terms of the preferred stock. These provisions and certain provisions of Nevada law could be deemed to discourage takeover attempts not first approved by our board of directors, including takeovers which may be considered by some stockholders to be in their best interests. Any discouraging effect upon takeover attempts could potentially depress the market price of our common stock or cause temporary fluctuations in the market price of the common stock that otherwise could result from actual or rumored takeover attempts. These provisions could also delay or frustrate the removal of incumbent directors or the assumption of control by stockholders, even if such removal or assumption would be beneficial to our stockholders. These provisions could also discourage or make more difficult a merger, tender offer, proxy contest or other takeover attempt, even if they could be favorable to the interests of our stockholders, and could potentially depress the market price of our common stock.

Special Meetings of Stockholders

Our bylaws provide that special meetings of our stockholders may be called by our president, by a majority of our board of directors or upon the written request of the holders of a majority of the then outstanding common stock entitled to vote at the meeting.

Stockholder Action by Written Consent

Our bylaws provide that whenever a vote of our stockholders is required or permitted to be taken to authorize or approve any action, other than the election of directors, such action may be taken without a stockholders meeting if approved by written consent of the holders of at least a majority of the voting power of the stockholders, except where a greater proportion of voting power is required, in which case such greater proportion of written consents by the stockholders will be required. Our bylaws also provide that the bylaw provision allowing stockholder action by written consent will not supersede any specific provision relating to action by written consent of stockholders under Nevada law. Nevada law provides that, unless otherwise provided in the articles of incorporation or the bylaws, any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting if, before or after the action, a written consent approving the action is signed by stockholders holding at least a majority of the voting power, except that if a different proportion of voting power is required for the approval of an action at a stockholders meeting, then that proportion of written consents is required.

Amendments to Bylaws

Our restated articles of incorporation and bylaws provide that our bylaws may be altered, amended or repealed by our board of directors or by the affirmative vote of the holders of a majority of our capital stock entitled to vote at any meeting of stockholders.

Nevada Law

Nevada s statutes governing business combinations with interested stockholders and acquisitions of control shares may prohibit or delay mergers or other takeover or change in control attempts. This could discourage attempts to acquire us.

The statutes governing business combinations with interested stockholders prohibit an applicable Nevada corporation from entering into specified business combinations with an interested stockholder and its affiliates and associates for a period of three years after the date of the transaction in which the person became an interested stockholder. Business combinations may be completed prior to the expiration of the three-year period only if the business combination was approved prior to the time the interested stockholder attained such status, or if the interested stockholder attained such status with the approval of the board of directors. Under Nevada law, a business combination encompasses a wide variety of transactions with or caused by an interested stockholder or its affiliates or associates, including mergers, asset sales, and other transactions in which an interested stockholder receives or could receive a financial benefit. An interested stockholder means the beneficial owner of 10% or more of the voting shares of a corporation or one of its affiliates or associates. The Nevada statutes governing business combinations with interested stockholders may have an anti-takeover effect for transactions not approved in advance by our board of directors, including discouraging takeover attempts that might result in a premium over the market price for the shares of our common stock.

Nevada s statutes governing acquisitions of control shares prohibit a stockholder, under certain circumstances, from voting shares of a corporation s stock after crossing certain threshold ownership percentages, unless the stockholder obtains the approval of the target corporation s disinterested stockholders. Once a stockholder crosses one of these thresholds, those shares acquired within 90 days become control shares and are deprived of the right to vote until disinterested stockholders restore the right. If the voting rights are restored and the stockholder has a majority or more of all voting power, any stockholder who did not vote in favor of authorizing voting rights is entitled to demand fair value for its shares. These statutes apply only to Nevada corporations doing business in the state and that have at least 200 stockholders, at least 100 of whom are stockholders of record and residents of Nevada.

Limitation of Liability and Indemnification of Officers and Directors

Our restated articles of incorporation provide that our directors and officers will not be personally liable to our company or our stockholders for damages arising out of a breach of fiduciary duty as a director or officer, except for damages for breach of fiduciary duty resulting from acts or omissions involving intentional misconduct, fraud or a knowing violation of law, or the payment of dividends in violation of Nevada law. As a result, neither we nor our stockholders, personally or through stockholder derivative suits on our behalf, have the right to recover damages against a director or officer for breach of fiduciary duty, except in the situations described above.

Our bylaws provide that we must indemnify any person who was, is or is threatened to be made a party to any action, suit or proceeding, including derivative suits on our behalf, by reason of the fact that the person acted as one of our directors, officers, employees or agents, against all expenses, judgments, fines and amounts paid in settlement by the person in connection with the action if the person acted in good faith and in a matter the person reasonably believed to be in, or not opposed to, our best interests, or in any criminal action if the person had no reasonable cause to believe his or her conduct was unlawful. We are generally not required to indemnify our directors, officers, employees or agents if the person is found to be guilty of gross negligence or willful misconduct. Our bylaws provide that we may purchase and maintain insurance on any of our directors, officers, agents and employees or anyone serving at our request.

Insofar as indemnification for the liabilities arising under Securities Act of 1933 may be permitted to our directors, officers or persons controlling our company pursuant to the provisions described above, we have been informed that in the opinion of SEC, such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

Transfer Agent

The transfer agent and registrar for our common stock is Interwest Transfer Company, Inc., 1981 East Murray Holladay Road, Suite 100, P.O. Box 17136, Salt Lake City, Utah 84117, and its telephone number is (801) 272-9294.

SELLING STOCKHOLDERS

General

This prospectus covers offers and sales from time to time by each selling stockholder of the common stock owned by such person. Each of the selling stockholders currently holds or has the right to acquire one or both of the following: (i) shares of common stock issuable upon the exercise of warrants and (ii) shares of common stock issuable upon the conversion of debentures. Pursuant to Rule 416 of the Securities Act, the selling stockholders may also offer and sell shares of common stock issued as a result of, among other events, stock splits, stock dividends and similar events. We have prepared and filed the registration statement of which this prospectus is a part pursuant to the terms of a Registration Rights Agreement among us and the purchasers named therein.

On December 30, 2003, we completed the private placement of an aggregate of (a) $600,000 in 4% senior debentures and (b) Series H warrants to purchase 420,000 shares of our common stock to 5 accredited investors. The transaction was consummated pursuant to a Securities Purchase Agreement by and among us and the purchasers named therein (the Securities Purchase Agreement). In connection with this transaction, we agreed to issue Series H warrants to purchase an aggregate of 480,000 shares our common stock to unrelated parties in consideration for consulting services rendered in connection with the placement of the debentures. On January 26, and January 30, 2004, we completed the private placement of an aggregate of (a) $650,000 and $750,000, respectively, in 4% senior debentures and (b) Series H warrants to purchase 980,000 shares of our common stock to 15 accredited investors. The transaction was consummated pursuant to the Securities Purchase Agreement. In connection with this transaction, we agreed to issue Series H warrants to purchase an aggregate of 847,500 shares our common stock to unrelated parties in consideration for financing services rendered in connection with the placement of the debentures.

The senior subordinated debentures mature on December 31, 2005 and are convertible at a ratio of one share of common stock for each $0.50 of debt converted. The warrants are exercisable, at $0.50 per share, until December 31, 2006. The warrants and debentures contain customary anti-dilution protections. In addition, pursuant to the Securities Purchase Agreement and from the date thereof until 90 days after the effective date of this registration statement, except for the sale of debentures and warrants to certain purchasers named therein, any subsequent or further offer or sale of our common stock or securities convertible into and/or other rights exercisable for the issuance of our common stock to or with any third party will require that: (i) the conversion price on any unconverted debenture be adjusted to an amount equal to the lower of (x) the then existing conversion price, or (y) the lowest conversion price that would be applicable under the terms of the new issuance; (ii) with respect to all portions of the principal and interest of the debenture converted prior to such date, we issue to the holder additional shares of our common stock equal the excess, if any, of (x) the aggregate amount of the principal and accrued interest of the debenture so converted, divided by the adjusted conversion price, over (y) the number of converted shares and additional shares of common stock, if any, previously issued in connection with such conversion; (iii) the number of warrants shall be adjusted to equal the higher of (x) the number of shares originally provided in the warrants or (y) the number of warrants under the terms of the new issuance multiplied by the lesser of (A) the number 1, if the exercise price of the warrants under the terms of the new issuance is less than or equal to the existing warrant price and (B) the quotient of the existing warrant price divided by the new issuance warrant price, if the new issuance warrant price exceeds the existing warrant price; and (iv) the exercise price of the warrants shall be adjusted to equal the lower of (x) the then existing warrant price or (y) the new issuance warrant price.

The Securities Purchase Agreement contains various representations, warranties and covenants of the parties customary for a transaction of this type. We have agreed to indemnify the purchasers against various liabilities.

We entered into a Registration Rights Agreement with each purchaser, and have agreed to file, within 45 calendar days of the date of the Securities Purchase Agreement, a registration statement with the SEC under the Securities Act, covering the resale of (i) the shares of common stock underlying the warrants; (ii) the shares of common stock underlying the debentures; and (iii) any shares of common stock issued or issuable upon a stock split, dividend or other distribution, recapitalization or similar event for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Rights Agreement requires us to initially register 150% of the shares issuable upon the exercise of warrants and the conversion of debentures. The 10,591,250 shares offered pursuant to this prospectus represent approximately 150% of the shares of our common stock issuable upon the exercise of warrants and the conversion of debentures. We and the purchasers each agreed with the other to indemnify the other for certain liabilities arising under the Securities Act. Pursuant to the Registration Rights Agreement and subject to certain other provisions therein, if we fail to timely perform or provide in accordance with our responsibilities under the Registration Rights Agreement and certain Securities Act provisions, then, in addition to any other rights the holder or holders may have pursuant to the Registration Rights Agreement or under applicable law: (i) on each such date when we have failed to timely perform or provide under the Registration Rights Agreement, we shall pay to each holder an amount in cash, as partial liquidated damages and not as a penalty, equal to 1.0% of the purchase price of all debentures issued pursuant to the Securities Purchase Agreement; and (ii) on each monthly anniversary of each such event date (if the applicable event shall not have been cured by such date) until the applicable event is cured, we shall pay to each holder an amount in cash, as partial liquidated damages and not as a penalty, equal to 2.0% of the purchase price of all debentures issued pursuant to the Securities Purchase Agreement.

The foregoing transactions were completed under exemptions from the registration requirements of the Securities Act, including those afforded by Section 4(2) of the Securities Act of 1933, and the rules and regulations promulgated under that Section.

vFinance Investments, one of the selling stockholders, has advised us that it is a registered broker-dealer and that it obtained warrants to purchase our common stock as compensation for its services in the placement of the convertible debentures and warrants described above. The following selling stockholders have advised us that they are affiliated with vFinance Investments, a registered broker-dealer, and are members of its Investment Banking department, and that they acquired the securities from vFinance Investments to be resold pursuant to this prospectus in the ordinary course of business and had no agreements or understandings, directly or indirectly, with any person to distribute the securities at the time of purchase: Vincent Calicchia, Jonathan Rich, David Stefansky and Richard Rosenblum. In addition, David Stefansky personally invested in the private placement of convertible debentures by purchasing $70,000 principal amount of convertible debentures and 49,000 warrants to purchase common stock, and Richard Rosenblum personally invested in the private placement of convertible debentures by purchasing $30,000 principal amount of convertible debentures and 21,000 warrants to purchase common stock.

Robert S. London, the individual who exercises voting and dispositive powers over the securities held by The London Family Trust, one of the selling stockholders, advised us that he is a registered representative for Stonegate Securities Dallas, Texas, a registered broker-dealer. Mr. London has advised us that he acquired beneficial ownership of our securities held by The London Family Trust in the ordinary course of business and had no agreements or understandings, directly or indirectly, with any person to distribute the securities at the time of purchase.

Selling Stockholders Table

The following table sets forth:

*

the name of each selling stockholder;

*

the number or shares of common stock beneficially owned by each selling stockholder as of the date of this prospectus, giving effect to the exercise of the selling stockholders warrants into shares of common stock and the conversion of debentures into shares of common stock;

*

the number of shares being offered by each selling stockholder, including approximately 150% of the shares currently issuable on exercise of the warrants and conversion of the debentures;

*

the number of shares represented by approximately 150% of the shares currently issuable upon exercise of the warrants;

*

the number of shares represented by approximately 150% of the shares currently issuable upon conversion of the convertible debentures;

*

the number of shares owned after the offering; and

*

the percent of class to be owned after offering.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities and includes any securities which the person has the right to acquire within 60 days of the date of this prospectus through the conversion or exercise of options, warrants, debentures, promissory notes and any other security or other right. Pursuant to the terms of the convertible debentures held by the selling stockholders, the holder generally does not have the right to exercise any portion of the convertible debentures to the extent that after exercise the holder, together with its affiliates, would own in excess of 4.99% of our outstanding shares of common stock. Solely for purposes of the selling stockholder table below, we have disregarded the restriction described above and determined beneficial ownership based on the rules of the SEC. The information below is as of April 2, 2004 and has been furnished by the respective selling stockholders.

The table below was prepared based on information supplied to us by the selling stockholders. We may amend or supplement this prospectus from time to time to update the disclosure set forth in the table. Because the selling stockholders identified in the table may sell some or all of the shares owned by them which are included in this prospectus, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the shares, no estimate can be given as to the number of shares available for resale hereby that will be held by the selling stockholders upon termination of the offering made hereby. We have therefore assumed, for the purposes of the following table, that the selling stockholders will sell all of the shares owned by them that are being offered hereby. None of the selling stockholders has held any position or office or had any material relationship with us or any of our affiliates in the last three years, other than as described herein.

Selling Stockholder	Shares Beneficially Owned(1)	Shares Offered Pursuant to this Prospectus(2)	Shares Offered from Exercise of Warrants Pursuant to this Prospectus(3)	Shares Offered Pursuant to this Prospectus from Conversion of Debentures(4)	Shares Owned After Offering	Percent of Class Owned After Offering
Alpha Capital (5)	428,385	645,000	157,500	487,500	- 0 -	- 0 -
Michael D. Madden	325,590	490,000	165,000	325,000	- 0 -	- 0 -
Thomas A. & Marilynn Slamecka	285,590	430,000	105,000	325,000	- 0 -	- 0 -
Scott Christie	701,590	490,000	165,000	325,000	376,000	*
Professional Traders Fund, LLC (6)	285,590	430,000	105,000	325,000	- 0 -	- 0 -
WEC Partners, LLC (7)	142,795	215,000	52,500	162,500	- 0 -	- 0 -
Zenny Trading (8)	285,590	430,000	105,000	325,000	- 0 -	- 0 -
Parker Consultants Ltd. (9)	999,565	1,505,000	367,500	1,137,500	- 0 -	- 0 -
David Stefansky	329,423	495,265	267,765	227,500	- 0 -	- 0 -
Richard Rosenblum	215,187	323,265	225,765	97,500	- 0 -	- 0 -
Bonnie Quinn	357,195	245,000	82,500	162,500	194,400	*
Bradley J. Goldstone	81,397	122,500	41,250	81,250	- 0 -	- 0 -

The London Family Trust (10)	858,270	1,290,000	315,000	975,000	1,500	*
Robert Prag	445,590	670,000	345,000	325,000	- 0 -	- 0 -
Daniel B. Steinberg	443,590	490,000	165,000	325,000	118,000	*
Andrew W. & Karen M. Watling	137,897	122,500	41,250	81,250	56,500	*
Marc Weisman	325,590	490,000	165,000	325,000	- 0 -	- 0 -
Brian Wildes	383,590	490,000	165,000	325,000	58,000	*
PEF Advisors, LTD (11)	162,795	245,000	82,500	162,500	- 0 -	- 0 -
Barbara Ellis	27,500	41,250	41,250	- 0 -	- 0 -	- 0 -
Jody Janson	114,290	17,685	17,685	- 0 -	102,500	*
Jonathan Rich	40,745	61,118	61,118	- 0 -	- 0 -	- 0 -
Michael Pieniazek	40,000	60,000	60,000	- 0 -	- 0 -	- 0 -
vFinance Investments (12)	422,295	633,442	633,442	- 0 -	- 0 -	- 0 -
Vincent Calicchia	106,150	159,225	159,225	- 0 -	- 0 -	- 0 -
TOTAL	7,946,199	10,591,250	4,091,250	6,500,000	906,900	

* Less than 1%

(1)

Includes (i) shares of common stock and warrants to purchase common stock held by the holder prior to this offering and (ii) shares offered pursuant to this prospectus from the exercise of warrants and the conversion of debentures.

(2)

Includes approximately 150% of the shares currently issuable upon the exercise of warrants held by the holder and approximately 150% of the shares currently issuable upon the conversion of debentures held by the holder.

(3)

Includes approximately 150% of the shares currently issuable upon the exercise of warrants held by the holder.

(4)

Includes approximately 150% of the shares currently issuable upon the conversion of debentures held by the holder.

(5)

Konrad Akerman exercises voting and dispositive powers over the securities held by Alpha Capital.

(6)

Howard Berger exercises voting and dispositive powers over the securities held by Professional Traders Fund, LLC.

(7)

Daniel Saks, Ethan Benovitz and Jamie Hartman exercise voting and dispositive powers over the securities held by WEC Partners, LLC.

(8)

David Hassan exercises voting and dispositive powers over the securities held by Zenny Trading.

(9)

Michael Raviv exercises voting and dispositive powers over the securities held by Parker Consultants Ltd.

(10)

Robert S. London exercises voting and dispositive powers over the securities held by The London Family Trust.

(11)

Paul Mannion and Andy Reckles exercise voting and dispositive powers over the securities held by PEF Advisors, LTD.

(12)

Leonard Sokolow exercises voting and dispositive powers over the securities held by vFinance Investments.

PLAN OF DISTRIBUTION

The selling stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

*

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

*

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

*

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

*

an exchange distribution in accordance with the rules of the applicable exchange;

*

privately negotiated transactions;

*

settlement of short sales;

*

broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

*

a combination of any such methods of sale;

*

through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise; or

*

any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act of 1933, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. Each selling stockholder does not expect these commissions and discounts relating to its sales of shares to exceed what is customary in the types of transactions involved.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act of 1933 in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933.

We are required to pay certain fees and expenses incurred by us incident to the registration of the shares. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933.

Because selling stockholders may be deemed to be underwriters within the meaning of the Securities Act of 1933, they will be subject to the prospectus delivery requirements of the Securities Act of 1933. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act of 1933 may be sold under Rule 144 rather than under this prospectus.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the shares may be resold by the selling stockholders under Rule 144 under the Securities Act of 1933 without volume or other restrictions or limits or (ii) all of the shares have been sold pursuant to the prospectus or Rule 144 under the Securities Act of 1933 or any other rule of similar effect. The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to our common stock for a period of two business days prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of our common stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale.

SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial amounts of common stock (including shares issued upon the exercise of outstanding warrants and options) in the public market after this offering could cause the market price of our common stock to decline. Those sales also might make it more difficult for us to sell equity-related securities in the future or might reduce the price at which we could sell any equity-related securities.

At the date of this prospectus, we have outstanding approximately 27,664,214 shares of common stock. Of the shares of common stock outstanding at the date of this prospectus, approximately 9,750,686 shares will be freely tradable without restriction or further registration under the Securities Act of 1933, except that any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act of 1933, generally may be sold only in compliance with the limitations of Rule 144 described below. Except as set forth below, all of the remaining 17,913,528 shares of common stock will be restricted securities as that term is defined in Rule 144. The restricted securities may not be resold unless they are registered under the Securities Act of 1933 or are sold pursuant to an available exemption from registration, including Rule 144 under the Securities Act. The restricted shares will be eligible for resale at various times upon the expiration of applicable holding periods. Restricted securities may be sold in the public market only if they qualify for an exemption from registration under Rule 144, including Rule 144(k), or Rule 701 under the Securities Act of 1933. In addition, up to 10,591,250 shares covered by this prospectus, when issued, will be freely tradable upon the effectiveness of the Registration Statement of which this prospectus forms a part, and up to 10,579,999 shares, including 6,666,666 shares that are currently outstanding and up to 3,913,333 shares issuable upon the exercise of warrants, when issued, will be freely tradable upon the effectiveness of the Registration Statement on Form SB-2 (Registration No. 333-114289).

Rule 144

In general, under Rule 144 as currently in effect, a person who has beneficially owned shares of our common stock for at least one year is entitled to sell within any three-month period a number of shares that does not exceed the greater of:

*

1% of the number of shares of common stock then outstanding, which is approximately 276,642 shares at the time of this prospectus, or

*

the average weekly trading volume of our common stock during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales under Rule 144 are also subject to manner of sale provisions, notice requirements and to the availability of current public information about us.

Rule 144(k)

Under Rule 144(k), a person who is not one of our affiliates at any time during the three months preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years is entitled to sell the shares under Rule 144(k) without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Outstanding Options, Warrants and Convertible Debentures

Shares of common stock issuable upon the exercise or conversion of the following options, warrants and convertible debentures will be restricted securities and may be resold by their holders only when covered by an effective registration under the Securities Act of 1933, or under an available exemption from registration:

*

5,000,000 shares of common stock issuable upon exercise of options under our stock option plan, 3,912,302 of which have been granted and are currently exercisable;

*

13,115,833 shares of common stock issuable upon exercise of outstanding warrants; and

*

4,000,000 shares of common stock issuable upon conversion of outstanding convertible debentures, plus approximately to a maximum 311,802 shares issuable upon conversion of accruable interest on the convertible debentures through December 31, 2005.

LEGAL MATTERS

The validity of the common stock offered by this prospectus will be passed upon for us by Woodburn and Wedge. Haynes and Boone, LLP has provided assistance to us on certain other legal matters.

EXPERTS

Our consolidated financial statements as of December 31, 2003 and 2002, and for the years then ended, appearing in this prospectus have been audited by KPMG LLP, independent auditors, given upon such firm s authority as an expert in auditing and accounting.

ADDITIONAL INFORMATION

We have filed a registration statement on Form SB-2 with the SEC. This prospectus, which forms a part of that registration statement, does not contain all of the information included in the registration statement and the exhibits and schedules thereto as permitted by the rules and regulations of the SEC. For further information with respect to us and the shares of our common stock offered hereby, please refer to the registration statement, including its exhibits and schedules. Statements contained in this prospectus as to the contents of any contract or other document referred to herein are not necessarily complete and, where the contract or other document is an exhibit to the registration statement, each such statement is qualified in all respects by the provisions of such exhibit, to which reference is hereby made.

We file annual, quarterly and current reports and other information with the SEC. You may read and review a copy of any document we file at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our SEC filings are also available to the public from the SEC s web site at www.sec.gov. If you would like a copy of this registration statement, our annual report including audited financial statements or any of our other SEC filings, please submit your request to Validian Corporation, 30 Metcalfe Street, Suite 620, Ottawa, Canada K1P 5L4, or call (613) 230-7211.

INDEX TO FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have audited the accompanying consolidated balance sheets of Validian Corporation and subsidiaries (a Development Stage Enterprise) as of December 31, 2003 and 2002 and the related consolidated statements of operations, changes in stockholders equity (deficiency) and comprehensive loss and cash flows for the years then ended and the period from August 3, 1999 to December 31, 2003. These consolidated financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Validian Corporation and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended and the period from August 3, 1999 to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

KPMG LLP

Chartered Accountants

Ottawa, Canada

January 16, 2004 (except for note 11 which

is as of March 8, 2004)

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Balance Sheets

December 31, 2003 and 2002

(In U.S. dollars)

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 546,423	$ 156,650
Prepaid expenses (note 6(c))	635,960	214,708
	1,182,383	371,358

Property and equipment (note 3)

9,166

9,825

Deferred financing costs

491,450

Deferred consulting services (note 6(c))

1,393,873

$

3,076,872

$

381,183

==

Liabilities and Stockholders Equity (Deficiency)

Current liabilities:

Accounts payable

$

630,793

$

180,910

Accrued liabilities

198,707

156,714

Promissory notes payable (note 4)

466,285

1,042,151

1,295,785

1,379,775

4% Senior subordinated convertible debentures (note 5)

Stockholders equity (deficiency):

Common stock ($0.001 par value. Authorized 50,000,000

shares; issued and outstanding 20,567,548 shares in 2003

and 15,727,786 shares in 2002) (note 6(a))

20,566

15,726

Preferred stock ($0.001 par value. Authorized 5,000,000

shares; issued and outstanding Nil shares in 2003

and 2002)

Additional paid-in capital

10,822,021

5,045,282

Deficit accumulated during the development stage

(9,033,066)

(6,031,166)

Retained earnings prior to entering development stage

21,304

21,304

Treasury stock (7,000 shares in 2003 and 2002 at cost)

(49,738)

(49,738)

1,781,087

(998,592)

Subsequent events (note 11)

$

3,076,872

$

381,183

==

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Operations

Years ended December 31, 2003 and 2002 and the period from August 3, 1999 to December 31, 2003

(In U.S. dollars)

	2003	2002	Period from August 3, 1999 to December 31, 2003
Expenses:			
Selling, general and administrative (note 6)	$ 1,752,725	$ 473,306	$ 4,211,399
Research and development (note 6)	997,822		

405,597

4,433,902

Depreciation of property and equipment

4,333

281

194,602

Write-off of prepaid services

174,375

174,375

Gain on sale of property and equipment

(7,442)

Write-off of accounts receivable

16,715

Write-off of due from related party

12,575

Loss on cash pledged as collateral

for operating lease

21,926

Write-down of property and equipment

14,750

2,929,255

879,184

9,072,802

Operating loss

(2,929,255)

(879,184)

(9,072,802)

Other income (expenses):

Gain on extinguishment of debt

291,507

Interest

(59,824)

(45,978)

(230,043)

Other

(12,821)

18,321

(21,728)

(72,645)

(27,657)

39,736

Net loss

$

(3,001,900)

$

(906,841)

$

(9,033,066)

==

Loss per common share before extraordinary

item - basic and diluted (note 7)

$

(0.16)

$

(0.06)

===

Loss per common share after extraordinary

item - basic and diluted (note 7)

$

(0.16)

$

(0.06)

==

Weighted average common shares outstanding

18,461,267

15,690,779

==

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the five years ended December 31, 2003

(In U.S. dollars)

	Number	Common stock amount	Additional paid-in capital	Retained earnings prior to entering development stage	Deficit accumulated during development stage	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balances at December 31, 1998	61,333	$ 61	$ 23,058	$ 30,080	$	$ (7,426)	$	$ 45,773
Issued for mining claims	92,591	92	27,408					27,500
Issued for cash	3,000,000	3,000	27,000					30,000
Reverse acquisition	8,459,000	8,459	21,541					30,000
Fair value of warrants issued to unrelated parties (note 6(b))			130,000					130,000
Shares issued upon exercise of warrants	380,000	380	759,620					760,000

Share issuance costs			(34,750)					(34,750)
Comprehensive loss:								
Net loss				(8,776)	(743,410)			(752,186)
Currency translation adjustment						11,837		11,837
Comprehensive loss								(740,349)
Balances at December 31, 1999	11,992,924	11,992	953,877	21,304	(743,410)	4,411		248,174
Shares issued upon exercise of warrants	620,000	620	1,239,380					1,240,000
Share issuance costs			(62,000)					(62,000)
Acquisition of common stock							(49,738)	(49,738)
Comprehensive loss:								
Net loss					(2,932,430)			(2,932,430)
Currency translation adjustment						(40,401)		(40,401)
Comprehensive loss								(2,972,831)
Balances at December 31, 2000	12,612,924	12,612	2,131,257	21,304	(3,675,840)	(35,990)	(49,738)	(1,596,395)
Shares issued in exchange for debt	2,774,362	2,774	2,216,715					2,219,489

(note 6(a))								
Fair value of warrants issued to unrelated parties (note 6(b))			451,500					451,500
Comprehensive loss:								
Net loss					(1,448,485)			(1,448,485)
Currency translation adjustment						62,202		62,202
Comprehensive loss								(1,386,283)
Balances at December 31, 2001	15,387,286	15,386	4,799,472	21,304	(5,124,325)	26,212	(49,738)	(311,689)

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the five years ended December 31, 2003

(In U.S. dollars)

	Number	Common stock amount	Additional paid-in capital	Retained earnings prior to entering development stage	Deficit accumulated during development stage	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balances at December 31, 2001	15,387,286	$15,386	$4,799,472	$ 21,304	$(5,124,325)	$ 26,212	$(49,738)	$ (311,689)
Shares issued in consideration of consulting services (note 6(a))	340,500	340	245,810					246,150
Comprehensive loss:								
Net loss					(906,841)			(906,841)
Currency translation adjustment on liquidation of investment in foreign subsidiary (note 2(h))						(26,212)		(26,212)
Comprehensive loss								(933,053)

Balances at December 31, 2002	15,727,786	15,726	5,045,282	21,304	(6,031,166)	(49,738)	(998,592)
Shares issued in exchange for debt (note 6(a))	4,416,862	4,417	1,453,147				1,457,564
Shares issued in consideration of consulting and financing services (note 6(a))	422,900	423	230,448				230,871
Fair value of warrants issued to unrelated parties for services (note 6(c))			2,896,042				2,896,042
Fair value of stock purchase options issued to unrelated parties for services (note 6(b))			597,102				597,102
Relative fair value of warrants issued to investors in conjunction with 4% senior subordinated convertible debentures (note 5)			355,186				355,186
			244,814				244,814

Intrinsic value of beneficial conversion feature on 4% convertible debentures issued to unrelated parties (note 5)					(3,001,900)				(3,001,900)
Net loss and comprehensive loss									
Balances at December 31, 2003	20,567,548	$ 20,566	$10,822,021	$ 21,304	(9,033,066)	$	$	$(49,738)	$ 1,781,087

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002 and the period from August 3, 1999 to December 31, 2003

(In U.S. dollars)

Period from

August 3,

1999 to

December 31,

2003

2002

2003

Cash flows from operating activities:

Net loss

$

(3,001,900)

$

(906,841)

$

(9,033,066)

Items not involving cash:

Depreciation of property and equipment

4,333

281

194,602

Non-cash consulting fees (note 6)

1,286,461

71,775

1,488,236

Non-cash interest expense

59,824

48,185

233,124

Write-off of prepaid services

174,375

174,375

Currency translation adjustment on liquidation

of investment in foreign subsidiary

(26,212)

(26,212)

Gain on sale of property and equipment

(7,442)

Gain on extinguishment of debt

(291,507)

Write-off of accounts receivable

16,715

Write-off of due from related party

12,575

Loss on cash pledged as collateral

for operating lease

21,926

Write-down of property and equipment

14,750

Change in non-cash operating working capital (note 10)

521,651

49,713

2,329,355

Net cash used in operating activities

(955,256)

(763,099)

(4,872,569)

Cash flows from investing activities:

Purchase of property and equipment

(3,674)

(10,106)

(323,520)

Proceeds on sale of property and equipment

176,890

Cash pledged as collateral for operating lease

(21,926)

Net cash used in investing activities

(3,674)

(10,106)

(168,556)

Cash flows from financing activities:

Issuance of promissory notes

803,203

929,151

3,108,731

Issuance of 4% senior subordinated

convertible debentures (note 5)

600,000

600,000

Debt issuance costs

(54,500)

(54,500)

Repayment of promissory notes

(16,000)

Increase in due from related party

12,575

Issuance of common stock

2,030,000

Share issuance costs

(96,750)

Acquisition of common stock

(49,738)

Net cash provided by financing activities

1,348,703

929,151

5,534,318

Effects of exchange rates on cash and cash equivalents

18,431

Net increase in cash and cash equivalents

389,773

155,946

511,624

Cash and cash equivalents, beginning of period

156,650

704

34,799

Cash and cash equivalents, end of period

$

546,423

$

156,650

$

546,423

==

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

1.

General:

Validian Corporation (the Corporation) was incorporated in the State of Nevada on April 12, 1989 as CCC Funding Corp. The Corporation underwent several name changes before being renamed to Validian Corporation on January 28, 2003.

Since August 3, 1999, the efforts of the Corporation have been devoted to the development of a high speed, highly secure method of transacting business using the internet, and to marketing initiatives designed to position the company within the marketplace. Prior to August 3, 1999, the Corporation provided consulting services for web site implementation, multimedia CD design, computer graphic publication, as well as implementation of dedicated software solutions used in connection with the French Minitel and the internet. As the Corporation commenced development activities on this date, it is considered for financial accounting purposes to be a development stage enterprise and August 3, 1999 is the commencement of the development stage.

2.

Summary of significant accounting policies:

(a)

Principles of consolidation:

The consolidated financial statements include the financial statements of the Corporation and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

(b)

Cash and cash equivalents:

Cash and cash equivalents include liquid investments with original maturity dates of three months or less.

(c)

Property and equipment:

Property and equipment held is stated at cost less accumulated depreciation, and includes computer hardware and software as well as furniture and equipment, which are depreciated on a straight-line basis over their estimated useful lives of three years.

(d)

Deferred financing costs:

Deferring financing costs represent the costs associated with arranging the 4% senior subordinated convertible debenture financing. The costs will be amortized over the two year term of the debentures.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(e)

Deferred consulting services:

Deferred consulting services represent the portion of prepaid non-cash consulting fees for services to be rendered in periods in excess of twelve months from the balance sheet date. These costs will be charged to expenses as the services are rendered. If circumstances arise which would indicate that the services will not be performed in the future, these deferred consulting fees will be charged to operations immediately.

(f)

Income taxes:

Deferred income taxes are determined using the asset and liability method, whereby deferred income tax is recognized on temporary differences using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Temporary differences between the carrying values of assets or liabilities used for tax purposes and those used for financial reporting purposes arise in one period and reverse in one or more subsequent periods. In assessing the realizability of deferred tax assets, management considers known and anticipated factors impacting whether some portion or all of the deferred tax assets will not be realized. To the extent that the realization of deferred tax assets is not considered to be more likely than not, a valuation allowance is provided.

(g)

Research and development:

Costs related to research, design and development of software products are charged to research and development expenses as incurred. Software development costs are capitalized beginning when a product s technological feasibility has been established, which generally occurs upon completion of a working model, and ending when a product is available for general release to customers, and is generating significant revenue.

(h)

Foreign currency translation:

The reporting currency for the financial statements of the Corporation is the United States dollar. The functional currency for the Corporation s wholly-owned subsidiary, Evolusys S.A., is the Swiss franc. Prior to 2002, the subsidiary s assets and liabilities were translated into U.S. dollars at the exchange rates applicable at the end of the reporting period. The statements of operations and cash flows were translated at the average monthly exchange rates during the year. The resulting translation gains or losses were accumulated as a separate component of stockholders deficiency.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(h)

Foreign currency translation (continued):

During 2002, Evolusys S.A. became an inactive subsidiary of the Corporation. As a result, it was reclassified as an integrated foreign operation and the temporal method was adopted commencing in the period of the change. As a result, the currency translation adjustment account was realized and has been reported in other income. The translated amounts for non-monetary items at the end of the prior period have become the historical basis for those items in the period of the change and subsequent periods. The resulting foreign exchange gains or losses for monetary items were included in the statement of operations.

(i)

Stock-based compensation:

The Corporation applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25 to account for its stock options for employees. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation , and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment to SFAS No. 123 , established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. These provisions are required to be applied to stock compensation granted to non-employees. As allowed by SFAS No. 123, the Corporation has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123, as amended, for employee stock option grants.

During 2003 and 2002, no options were granted to employees and therefore the Corporation s pro forma net loss and pro forma basic and diluted net loss per common share equal the net loss and basic and diluted net loss per common share recorded in the consolidated statements of operations.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(j)

Impairment or disposal of long-lived assets:

The Corporation accounts for long-lived assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(k)

Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

3.

Property and equipment:

2003	Cost	Accumulated depreciation	Net book value
Computer hardware and software	$ 12,741	$ 4,527	$ 8,214
Furniture and equipment	1,039	87	952
	$ 13,780	$ 4,614	

$

9,166

==

2002

Accumulated

Net book

Cost

depreciation

value

Computer hardware and software

$

10,106

$

281

$

9,825

==

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

4.

Promissory notes payable:

	2003	2002
Promissory notes payable, bearing interest at 12%, due on demand, unsecured	$ 466,285	$ 542,151
Promissory notes payable, bearing interest at 5%, maturing on October 7, 2003, convertible into common shares at any time, unsecured		500,000

$

466,285

$

1,042,151

==

Under the terms of the 5% promissory notes, the Holder was entitled to, at any time, convert all or part of the outstanding principal and accrued interest into common stock at the lesser of (i) the ratio of one common share for each $0.33 of obligation converted; or (ii) the ratio of shares with a value equal to the price per share at which common shares have last been issued to a third party dealing at arms length with the Corporation. During the year ended December 31, 2003, the Holder exercised the conversion feature, and converted a total of $500,000 in principal and $15,959 in accrued interest, which was included in accounts payable and accrued liabilities, into 1,563,512 common shares of the Corporation (note 6(a)).

During the year ended December 31, 2003, the Corporation issued an additional $803,203 12% promissory notes. The Corporation also settled 12% promissory notes in the amount of $864,151, plus accrued interest of $77,454, which was included in accounts payable and accrued liabilities, through the issuance of 2,853,350 common shares of the Corporation (note 6(a)), and transferred assets valued at $14,918 to the Holder of the 12% promissory notes, which amount was applied against the principal outstanding on the notes.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

5.

4% Senior subordinated convertible debentures:

On December 30, 2003 the Corporation issued $600,000 in 4% senior subordinated convertible debentures, which mature on December 31, 2005. Under the terms of the debentures, the holder may, at any time, convert all or a portion of the outstanding principal plus accrued interest into common stock of the Corporation at a ratio of one common share for each $0.50 of debt converted. At maturity, any principal plus accrued interest which has not been converted into common stock by the holder, may be repaid by the Corporation, at its option, either in cash or in common shares of the Corporation, at a ratio of one common share for each $0.50 of debt outstanding. The conversion ratio will change if the price of future equity issuances is below $0.50.

Holders of the debentures were also granted 420,000 Series H warrants to purchase common stock of the Corporation (note 6(c)), at the ratio of seven warrants granted for each ten dollars invested. In accordance with APB 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants , $355,186, representing the relative fair value of the Series H warrants at the issuance date, has been allocated to the warrants and recorded as additional paid-in capital. This amount will be accreted to debentures payable through periodic charges to interest expense over the two-year term of the debentures.

At the date of issuance, the conversion feature of the debentures was in-the-money. The intrinsic value of this beneficial conversion feature was $244,814. In accordance with EITF 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios and EITF00-27, Application of Issue No. 98-5 to Certain Convertible Instruments , this amount has been recorded as additional paid-in capital and will be accreted to debentures payable through periodic charges to interest expense over the two-year term of the debentures.

The following table sets forth the financial statement presentation of the proceeds of the debentures:

2003

2002

Proceeds 4% senior subordinated convertible debentures

$

600,000

$

Allocated to additional paid-in capital for:

420,000 Series H warrants

(355,186)

Beneficial conversion feature

(244,814)

$

$

==

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

6.

Stockholders equity (deficiency):

(a)

Common stock:

During the year ended December 31, 2003 the Corporation issued 110,400 shares of its common stock, valued at $84,621, to unrelated companies in consideration for consulting services rendered prior to December 31, 2003. In addition, the Corporation issued 300,000 shares of its common stock, valued at $135,000 to an unrelated company in consideration for consulting services rendered and to be rendered. As at December 31, 2003, the Corporation had received consulting services valued at $33,750 from this company. In relation to these transactions, an expense of $118,371 has been included in selling, general and administrative expenses for the year ended December 31, 2003. The remaining $101,250 is recorded as a prepaid expense, to be expensed over the remaining twelve months of the contract to which the cost applies.

In connection with the issuance of the 4% senior convertible debentures (note 5), the Corporation issued 12,500 shares of its common stock, valued at $11,250, to an unrelated company in consideration of financing fees, which has been included in deferred financing costs, to be expensed over the two years remaining to maturity of the debentures.

In addition, the Corporation issued 4,416,862 common shares in connection with the conversion of the 5% promissory notes and the settlement of the 12% promissory notes (note 4).

(b)

Stock options:

During the year ended December 31, 2003, the Corporation granted 3,912,302 stock options to non-employees in consideration for consulting services rendered. These stock options entitle the holders to purchase 3,912,302 common shares at an exercise price of $0.33 per share. The options vested immediately upon their issuance, and are exercisable until May 7, 2008. An expense of $93,098 and $504,004 has been included in research and development and selling, general and administrative, respectively, which reflects the fair value of the options. The expense was calculated using the Black Scholes option-pricing model with the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.64%; expected volatility of 139%; and expected life of 5 years.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

6.

Stockholders equity (deficiency) (continued):

(c)

Warrants:

During 1999, the Corporation issued 340,000 Series B warrants to directors, officers and employees and 390,000 Series B warrants to an unrelated party to purchase a total of 730,000 common shares at an exercise price of $3 per share. The Series B warrants are exercisable at any time and expire December 31, 2004. During 2003, 390,000 of the Series B warrants issued to an unrelated party were cancelled in exchange for the issuance of 400,000 Series F warrants. In addition, 20,000 of the Series B warrants issued to an employee and 500,000 of the Series D warrants issued to an employee were cancelled during 2003. At December 31, 2003, there are 320,000 Series B warrants outstanding.

During 2001, the Corporation issued 2,650,000 Series D warrants. The Series D warrants entitled the holders to purchase a total of 2,650,000 common shares at an exercise price of $1.00 per share. During 2003, 500,000 Series D warrants together with 20,000 Series B warrants were cancelled in exchange for 520,000 Series E warrants. The remaining 2,150,000 Series D warrants were cancelled during 2003.

During the year ended December 31, 2003, the Corporation issued 2,155,000 Series E warrants to non-employees in consideration for consulting services rendered. The Series E warrants entitle the holders to purchase a total of 2,155,000 common shares at an exercise price of $0.33 per share, are exercisable at any time, and expire on December 31, 2007. Expenses of $242,718 and $77,195 have been included in research and development and selling, general and administrative, respectively, representing the fair value of the Series E warrants issued. The expenses were calculated using the Black Scholes option-pricing model with the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.3%; expected volatility of 139%; and an expected life of 4.58 years.

In addition, during the year ended December 31, 2003, the Corporation issued 7,600,000 Series F warrants to an unrelated company in consideration for consulting services rendered and to be rendered, and 400,000 Series F warrants in exchange for the cancellation of 390,000 Series B warrants originally issued in 1999. The Series F warrants entitle the holders to purchase a total of 8,000,000 common shares of the Corporation at an exercise price of $0.50 per share, and are exercisable at any time. 4,000,000 of the Series F warrants expire on May 31, 2007, and 4,000,000 of the Series F warrants expire on December 31, 2007. $177,986, representing the fair value of the Series F warrants issued in exchange for consulting services rendered to December 31, 2003, has been included in selling, general and administrative expenses. The fair value of the Series F warrants issued in exchange for consulting services is $1,837,205. $443,332 of this amount has been included in prepaid expenses and $1,393,873 in deferred consulting services. The amounts will be charged to expense as the services are rendered over the next 53 months.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

6.

Stockholders equity (deficiency) (continued):

(c)

Warrants (continued):

The issuance of the 400,000 Series F warrants in exchange for the cancellation of 390,000 Series B warrants has been accounted for as a modification in accordance with SFAS 123. Accordingly, an expense of $44,873 has been included in selling, general and administrative expenses, which represents the incremental fair value of the new warrants.

The fair value of the Series F warrants was calculated using the Black Scholes option pricing model with the following weighted average assumptions: a) for 4,000,000 Series F warrants issued May 31, 2003: expected dividend yield 0%; risk-free interest rate of 2.3%; expected volatility of 139%; and an expected life of 4 years; b) for 4,000,000 Series F warrants issued September 3, 2003: expected dividend yield 0%; risk-free interest rate of 2.9%, expected volatility of 138%, and an expected life of 4.3 years.

During the year ended December 31, 2003, the Corporation also issued 400,000 Series G warrants to an unrelated company in consideration for consulting services rendered and to be rendered. The Series G warrants entitle the holders to purchase a total of 400,000 common shares of the Corporation at an exercise price of $0.75 per share, are exercisable at any time, and expire on September 3, 2005. $28,216, representing the fair value of the Series G warrants issued in exchange for investor relations services rendered to December 31, 2003, has been included in selling, general and administrative expenses, and $84,649, representing the fair value of the Series G warrants issued in exchange for investor relations services to be rendered, has been included in prepaid expenses and will be charged to expense as the services are rendered over the next 12 months. The fair value of the Series G warrants was calculated using the Black Scholes option pricing model with the following weighted average assumptions: expected dividend yield 0%;

risk-free interest rate of 1.86%; expected volatility of 147%, and an expected life of 2 years.

In connection with the placement of the 4% senior subordinated convertible debentures (note 5), the Corporation issued 900,000 Series H warrants, as follows: 480,000 Series H warrants were issued to unrelated parties in consideration for financing services rendered in connection with the placement of the debentures; and 420,000 Series H warrants were issued to the holders of the debentures. The Series H warrants entitle the holders to purchase a total of 900,000 common shares of the Company at an exercise price of $0.50 per share, are exercisable at any time, and expire on December 31, 2006. The exercise price will change if the price of future equity issuances is below $0.50. $403,200, representing the fair value of the Series H warrants issued in relation to financing services, has been included in deferred financing costs, and will be charged to expense over the two-year term of the debentures.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

6.

Stockholders equity (deficiency) (continued):

(c)

Warrants (continued):

As noted in note 5, $355,186, representing the relative fair value of the Series H warrants issued to the debenture holders, has been charged to additional paid-in capital. The fair value of the Series H warrants was calculated using the Black Scholes option pricing model with the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.44%; expected volatility of 191%, and an expected life of 3 years.

(d)

Summary of stock-based compensation:

The following table presents the total of stock-based compensation included in the expenses of the Corporation for the years 2003 and 2002.

2003

2002

Selling, general and administrative

$

950,645

$

71,775

Research and development

335,816

Total stock-based compensation included in expenses

$

1,286,461

$

71,775

==

7.

Net loss per share:

As the Corporation incurred a net loss during the years ended December 31, 2003 and 2002, the loss per common share is based on the weighted-average common shares outstanding. The following outstanding instruments could potentially dilute loss per share for the periods presented:

2003

2002

Stock options

3,912,302

Series B stock purchase warrants

320,000

730,000

Series D stock purchase warrants

2,650,000

Series E stock purchase warrants

2,155,000

Series F stock purchase warrants

8,000,000

Series G stock purchase warrants

400,000

Series H stock purchase warrants

900,000

8.

Financial instruments:

The carrying value of cash and cash equivalents, accounts payable and accrued liabilities and promissory notes payable approximates fair value due to the short term to maturity of these instruments.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

9.

Income taxes:

Deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities as reported for financial reporting purposes and such amounts as measured by tax laws. The tax effects of temporary differences that gave rise to significant portions of the deferred tax asset and deferred tax liability are as follows:

	2003	2002
Deferred tax asset:		
Net operating loss carryforwards	$ 1,873,000	$ 845,000
Capital loss carryforwards	1,050,000	1,050,000

Financing fees

20,000

28,000

Total gross deferred tax asset

2,943,000

1,923,000

Valuation allowance

2,943,000

1,923,000

Net deferred taxes

$

$

==

Income tax expense attributable to loss before income taxes was $Nil (2002 - $Nil) and differed from the amounts computed by applying the U.S. federal income tax rate of 34% (2002 - 34%) to the net loss as a result of the following:

2003

2002

Expected tax rate

34%

34%

Expected tax recovery applied to net

loss before income taxes

$

(1,020,646)

$

(308,326)

Increase (decrease) in taxes resulting from:

Change in valuation allowance

1,020,000

308,000

Other

646

326

$

$

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

9.

Income taxes (continued):

The Corporation has net operating losses of $5,510,000 (2002 - $2,484,000) which are available to reduce U.S. taxable income and which expire as follows:

2019	$	391,000
2020		675,000
2021		521,000
2022		897,000
2023		3,026,000
	$	

5,510,000

==

10.

Change in non-cash operating working capital:

	2003	2002
Prepaid expenses	$ 19,563	$ (40,197)
Accounts payable	449,884	70,112
Accrued liabilities	52,204	19,798
	$ 521,651	$ 49,713

==

11. Subsequent events:

(a)

Issuance of 4% senior subordinated convertible debentures:

On January 26 and January 30, 2004, the Corporation issued $650,000 and $750,000, respectively, in 4% senior subordinated convertible debentures, which mature on December 31, 2005 and have terms similar to those issued on December 30, 2003.

In connection with the placement of these debentures, the Corporation issued 30,000 common shares, and 847,500 Series H warrants, to unrelated parties, as partial consideration for financing services rendered in connection with the placement of the debentures. The Corporation issued a further 980,000 Series H warrants to the holders of the debentures. The Series H warrants entitle the holders to purchase a total of 1,827,500 common shares of the Corporation at an exercise price of $0.50 per share, are exercisable at any time, and expire on December 31, 2006.

(b)

Conversion of 12% promissory notes payable:

On January 31, 2004, the Corporation settled 12% promissory notes in the amount of $169,964, plus accrued interest of $10,036, through the issuance of 360,000 common shares of the Corporation.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(In U.S. dollars)

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11. Subsequent events (continued):

(c) Issuance of common shares:

During January and February 2004, the Corporation issued 20,000 common shares to an unrelated company in consideration for consulting services rendered.

On March 8, 2004, the Corporation completed a private placement for 6,666,666 common shares, for proceeds of $6,000,000. Investors participating in this placement received a total of 3,333,333 Series I warrants, which entitle the holders to purchase 3,333,333 common shares of the Corporation at an exercise price of $0.90 per share, are exercisable at any time, and expire on March 8, 2009.

In connection with this transaction, the Corporation also issued 180,000 Series I warrants to an unrelated party as partial consideration for financing services rendered in connection with the placement of the shares.

(d) Cancellation of warrants:

On February 27, 2004, the Corporation cancelled 4,000,000 of the Series F warrants, resulting in the write-off of prepaid services and deferred consulting services of $322,493 and $1,048,100 respectively as at February 17, 2004.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	March 31, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 6,414,111	$ 546,423
Prepaid expenses	342,687	635,960
	6,756,798	1,182,383
Property and equipment (note 2)	21,445	9,166
Deferred financing costs	1,309,609	491,450
Deferred consulting services	261,815	1,393,873
Total assets	$ 8,349,667	$3,076,872
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 687,975	$ 829,500
Promissory notes payable (note 3)	296,321	466,285
Total current liabilities	984,296	1,295,785
4% Senior subordinated convertible debentures (note 4)	141,869	--
Total liabilities	1,126,165	1,295,785
Stockholders Equity:		
Common stock, ($0.001 par value. Authorized 50,000,000 shares;		
Issued and outstanding 27,654,214 and 20,567,548 shares at		
March 31, 2004 and December 31, 2003, respectively.)	27,652	20,566

Preferred stock ($0.001 par value. Authorized 5,000,000 shares; issued and outstanding Nil shares at March 31, 2004 and at December 31, 2003)	--	--
Additional paid in capital	18,959,182	10,822,021
Deficit accumulated during the development stage	(11,734,898)	(9,033,066)
Retained earnings prior to entering development stage	21,304	21,304
Treasury stock (7,000 shares at March31, 2004 and December 31, 2003, at cost)	(49,738)	(49,738)
Total stockholders equity	7,223,502	1,781,087
Commitments (note 7)		
Total liabilities and stockholders equity	$8,349,667	$3,076,872

See accompanying notes to unaudited interim period consolidated condensed financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

For the three months ended March 31, 2004 and 2003

And for the Period from August 3, 1999 to March 31, 2004

(Unaudited)

	2004	2003	Period from August 3, 1999 to March 31, 2004 (note 1)
Operating expenses (income):			
Selling, general and administrative	$578,241	$ 254,170	$4,789,640
Research and development	222,299	163,144	4,656,201
Interest and financing costs	320,497	23,456	550,540
Other	10,337	(29)	32,065
Amortization	1,864	1,062	196,466
Gain on sale of property and equipment	--	--	(7,442)
Write-off of prepaid services (note 5(b))	322,494	--	496,869
Write-off of deferred consulting services (note 5(b))	1,048,100	--	1,048,100
Write-off of accounts receivable	--	--	16,715
Write-off of due from related party	--	--	12,575
Loss on cash pledged as collateral for operating lease	--	--	21,926
Write-down of property and equipment	--	--	14,750
Loss (gain) on extinguishments of debt	198,000	--	(93,507)
	2,701,832	441,803	11,734,898
Net loss	$(2,701,832)	$(441,803)	$(11,734,898)
Loss per share basic and diluted (note 6)	$(0.12)	$(0.03)	
Weighted average number of common shares outstanding during period	22,599,196	15,732,230	

See accompanying notes to unaudited interim period consolidated condensed financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2004 and 2003

And for the Period from August 3, 1999 to March 31, 2004

(Unaudited)

	Three Months Ended March 31,		Period from August 3, 1999 to March 31, 2004
	2004	2003	(note 1)
Cash flows from operating activities:			
Net loss	$ (2,701,832)	$(441,803)	$(11,734,898)
Adjustments to reconcile net loss to net cash used in			
Operating activities:			
Amortization of property and equipment	1,864	1,062	196,466
Non-cash compensation expense	163,933	2,000	1,652,169
Non-cash interest and financing expense	320,497	23,456	553,621
Write-off of prepaid services	322,494	--	496,869
Write-off of deferred consulting services	1,048,100	--	1,048,100
Currency translation adjustment on liquidation of			
investment in foreign subsidiary	--	--	(26,212)
Gain on sale of property and equipment	--	--	(7,442)
Loss (gain) on extinguishment of debt	198,000	--	(93,507)
Write-off of accounts receivable	--	--	16,715
Write-off of due to related party	--	--	12,575
Loss on cash pledged as collateral for operating lease	--	--	21,926
Write-down of property and equipment	--	--	14,750
Increase (decrease) in cash resulting from changes in:			
Accounts receivable	--	--	(16,715)
Prepaid expenses	(75,695)	8,365	(96,464)
Due to a related party	--	--	(5,178)
Accounts payable and accrued liabilities	(251,677)	129,138	2,120,340
Net cash used in operating activities	(974,316)	(277,782)	(5,846,885)

Cash flows from investing activities:

Additions to property and equipment	(14,144)	(2,636)	(337,664)
Proceeds on sale of property and equipment	--	--	176,890
Cash pledged as collateral for operating lease	--	--	(21,926)
Net cash used in investing activities	(14,144)	(2,636)	(182,700)
Cash flows from financing activities:			
Increase in due from related party	--	--	12,575
Issuance of common shares	6,000,000	--	8,030,000
Share issuance costs	(420,000)	--	(516,750)
Redemption of common stock	--	--	(49,738)
Issuance of promissory notes	--	125,000	3,108,731
Issuance of 4% senior subordinated convertible debentures	1,400,000	--	2,000,000
Debt issuance costs	(123,852)		(178,352)
Repayment of promissory notes	--	--	(16,000)
Net cash provided by financing activities	6,856,148	125,000	12,390,466
Effects of exchange rates on cash and cash equivalents	--	--	18,431
Net increase (decrease) in cash and cash equivalents	5,867,688	(155,418)	6,379,312
Cash and cash equivalents:			
Beginning of period	546,423	156,650	34,799
End of period	$6,414,111	$ 1,232	$6,414,111

See accompanying notes to unaudited interim period consolidated condensed financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Consolidated Condensed Financial Statements

March 31, 2004

(Unaudited)

Validian Corporation (the Company) was incorporated in the State of Nevada on April 12, 1989 as CCC Funding Corp. The Company underwent several name changes before being renamed to Validian Corporation on January 28, 2003.

Since August 3, 1999, the efforts of the Company have been devoted primarily to the development of a high speed, highly secure method of transacting business using the internet, and to marketing initiatives designed to position the Company within the marketplace. Prior to August 3, 1999, the Company provided consulting services for web site implementation, multimedia CD design, computer graphic publication, as well as implementation of dedicated software solutions used in connection with the French Minitel and the internet. As the Company commenced development activities on this date, it is considered for financial accounting purposes to be a development stage enterprise and August 3, 1999 is the commencement of the development stage.

1. Basis of Presentation

The accompanying consolidated condensed financial statements include the accounts of Validian Corporation and its wholly owned subsidiaries (collectively, the "Company") after elimination of all significant intercompany balances and transactions. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While management has based its assumptions and estimates on the facts and circumstances currently known, final amounts may differ from such estimates.

The interim financial statements contained herein are unaudited but, in the opinion of management, include all adjustments (consisting only of normal recurring entries) necessary for a fair presentation of the financial position and results of operations of the Company for the periods presented. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the operating results for the full fiscal year ending December 31, 2004. Moreover, these financial statements do not purport to contain complete disclosure in conformity with generally accepted accounting principles used in the United States of America and should be read in conjunction with the Company's audited financial statements at and for the year ended December 31, 2003.

2. Significant accounting policies:

(a) Property and equipment:

Property and equipment is stated at cost less accumulated depreciation, and includes computer hardware and software, and furniture and equipment. These assets are being depreciated on a straight-line basis over their estimated useful lives, as follows: computer hardware, furniture and equipment: 3 years; computer software: 1 year.

(b) Stock based compensation:

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25 issued in March 2000, to account for its stock options for employees. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. These provisions are required to be applied to stock compensation granted to non-employees. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123. During the three months ended March 31, 2004 and 2003, no options were granted to employees. Furthermore, there are no expenses on a fair value basis to be recognized in these quarterly periods as a result of previous option grants. As such, the pro forma net loss and basic and diluted net loss per share as calculated in accordance with SFAS 123 are equal to the net loss reported in the consolidated condensed statement of operations for both the three months ended March 31, 2004 and 2003.

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3. Promissory Notes Payable

	March 31, 2004	December 31, 2004
Promissory notes payable, bearing interest at 12%, due on demand, unsecured	$ 296,321	$ 466,285

During the three months ended March 31, 2004, the Company settled promissory notes in the amount of $169,964, plus accrued interest of $10,036, which was included in accounts payable and accrued liabilities, through the issuance of 360,000 common shares of the Company (note 5(a)). In connection with this transaction, the Company recorded a loss on the extinguishment of debt of $198,000.

4. 4% Senior Subordinated Convertible Debentures

On January 26 and January 30, 2004 the Company issued $650,000 and $750,000, respectively, in 4% senior subordinated convertible debentures, which mature on December 31, 2005. Under the terms of the debentures, the holder may, at any time, convert all or a portion of the outstanding principal plus accrued interest into common stock of the Company at a ratio of one common share for each $0.50 of debt converted. At maturity, any principal plus accrued interest which has not been converted into common stock by the holder, may be repaid by the Company, at its option, either in cash or in common shares of the Company, at a ratio of one common share for each $0.50 of debt outstanding. The conversion ratio will change if the price of future equity issuances is below $0.50.

Holders of the debentures were also granted 980,000 Series H warrants to purchase common stock of the Company (note 5(b)), at the ratio of seven warrants granted for each ten dollars invested. In accordance with APB 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants , $861,522, representing the relative fair value of the Series H warrants at the issuance date, has been allocated to the warrants and recorded as additional paid-in capital. This amount is being accreted to debentures payable through periodic charges to interest expense over the term of the debentures.

At the date of issuance, the conversion feature of the debentures was in-the-money . The intrinsic value of this beneficial conversion feature was $538,478. In accordance with EITF 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios and EITF 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments , this amount has been recorded as additional paid-in capital and is being accreted to debentures payable through periodic charges to interest expense over the term of the debentures.

The following table sets forth the financial statement presentation of the proceeds of the debentures issued during the three months ended March 31, 2004:

Proceeds 4% senior subordinated convertible debentures	$1,400,000
Allocated to additional paid-in capital for:	
980,000 Series H warrants	(861,522)
Beneficial conversion feature	(538,478)
	--

During the three months ended March 31, 2004, the Company recorded accretion to debentures payable of the fair value of Series H warrants and the beneficial conversion feature totaling $141,869, as a charge to interest expense.

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5. Stockholders Equity

a) Common stock transactions

On March 8, 2004, the Company completed a private placement for 6,666,666 common shares and 3,333,333 Series I warrants (note 5 (b)), for proceeds of $6,000,000. Share issuance costs of $747,591, of which$240,289 was incurred through the issuance of Series I warrants, were incurred with respect to the private placement. Cash payments of $420,000 were made during the three months ended March 31, 2004.

During the three months ended March 31, 2004 the Company issued 30,000 shares of its common stock, valued at $33,500, to an unrelated company in consideration for consulting services rendered prior to March 31, 2004.

In connection with the issuance of the 4% senior convertible debentures (note 4), the Company issued 30,000 shares of its common stock, valued at $30,300, to an unrelated company in consideration of financing fees, which has been included in deferred financing costs and is being expensed on a straight-line basis over the term to maturity of the debentures.

In addition, the Company issued 360,000 common shares in connection with the settlement of the 12% promissory notes (Note 3).

b) Transactions involving stock purchase warrants

In connection with the placement of the 4% senior subordinated convertible debentures (note 4), the Company issued 1,827,500 Series H warrants, as follows: 847,500 Series H warrants were issued to unrelated parties in consideration for financing services rendered in connection with the placement of the debentures; and 980,000 Series H warrants were issued to the holders of the debentures. The Series H warrants entitle the holders to purchase a total of 1,827,500 common shares of the Company at an exercise price of $0.50 per share, are exercisable at any time, and expire on December 31, 2006. The exercise price will change if the price of future equity issuances is below $0.50. $808,950, representing the fair value of the Series H warrants issued in relation to financing services, has been included in deferred financing costs, and is being charged to expense on a straight-line basis over the term of the debentures.

As stated in note 4, $861,522, representing the relative fair value of the Series H warrants issued to the debenture holders, has been charged to additional paid-in capital. The fair value of the Series H warrants was calculated using the Black Scholes option pricing model with the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.28%; expected volatility of 189%, and an expected life of 3 years.

In connection with the private placement of 6,666,666 common shares of the Company (note 5 (a)), the Company issued a total of 3,513,333 Series I warrants, as follows: 3,333,333 Series I warrants were issued to the investors in the private placement; and 180,000 Series I warrants were issued to an unrelated party in consideration for financing services rendered in connection with the private placement. The Series I warrants entitle the holders to purchase a total of 3,513,333 common shares of the Company at an exercise price of $0.90 per share, are exercisable at any time, and expire on March 8, 2009. The exercise price will change if the price of future equity issuances is below $0.90. The fair value of the Series I warrants issued in relation to financing services is $240,289, calculated using the Black Scholes option pricing model with the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.74%; expected volatility of 177%, and an expected life of 5 years.

During the three months ended March 31, 2004, 4,000,000 of the Series F warrants were cancelled in consideration for the termination of a long-term service agreement, resulting in the write-off of prepaid services and deferred consulting services of $322,494 and $1,048,100, respectively.

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6. Loss per share:

For the purposes of the loss per share computation, the weighted average number of common shares outstanding has been used. Had the treasury stock method been applied to the unexercised stock options and warrants, the effect on the loss per share would be anti-dilutive.

The following securities could potentially dilute basic earnings per share in the future but have not been included in diluted earnings per share because their effect was antidilutive:

	March 31, 2004	March 31, 2003
Stock options	3,912,302	--
Series B stock purchase warrants	320,000	730,000
Series D stock purchase warrants	--	2,650,000
Series E stock purchase warrants	2,155,000	--
Series F stock purchase warrants	4,000,000	--
Series G stock purchase warrants	400,000	--
Series H stock purchase warrants	2,727,500	--
Series I stock purchase warrants	3,513,333	--
	17,028,135	3,380,000

7. Commitments:

During April, 2004 the Company entered into lease agreements for office space and for equipment rental. Minimum annual rent payable under these contracts is as follows:

2004	$ 49,210
2005	68,973
2006	26,450
2007	5,189
2008	1,297
Total	$ 151,119

8. Supplementary cash flow information:

The Company paid no interest or income taxes during the quarter ended March 31, 2004, nor during the quarter ended March 31, 2003.

Non-cash financing activities are excluded from the consolidated condensed statement of cash flows. The following is a summary of such activities:

	March 31, 2004	March 31, 2003
Conversion of 12% promissory notes and accrued interest	$ 180,000	$ --
Debt issuance costs	868,964	
Share issuance costs	327,591	
Total	$1,376,555	$ --

10,591,250 Shares

Common Stock

VALIDIAN CORPORATION

Prospectus

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