VALIDIAN CORP
Form 10-K
April 15, 2010

OMB APPROVAL
OMB Number: 3235-0420
Expires: April 30, 2012
Estimated average burden hours
per response: 2100

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

VALIDIAN CORPORATION

(Name of registrant as specified in its charter)

NEVADA	**000-28423**	**58-2541997**
(State or other jurisdiction of incorporation or organization)	Commission File No.	(I.R.S. Employer Identification Number)

6 Gurdwara St., Suite 100, Ottawa, Ontario, Canada K2E 5A3
(Address of principal executive offices) (Zip Code)

Registrant s telephone number: 613-230-7211

Securities registered under Section 12(b) of the Exchange Act: none

Securities registered under Section 12(g) of the Exchange Act: Common Stock, par value $.001 per share

Check whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes [ ] No [X]

Check whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act [ ]

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactice Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [ ] Yes [ ] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average between the closing bid ($0.012) and asked ($0.012) price of the registrant s Common Stock as of June 30, 2009, the last business day of the registrant s most recently completed second fiscal quarter, was $987,117, based upon the average between the closing bid and asked price ($0.012) multiplied by the 82,259,739 shares of the issuer s Common Stock held by non-affiliates. (In computing this number, issuer has assumed all record holders of greater than 5% of the common equity and all directors and officers are affiliates of the registrant.)

The number of shares outstanding of each of registrant s classes of common equity as of March 31, 2010: 104,884,231.

DOCUMENTS INCORPORATED BY REFERENCE: None.

SEC 2337 (3-10)	**Persons who potentially are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

VALIDIAN CORPORATION

Form 10-K

December 31, 2009

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

We caution readers that certain important factors may affect our actual results and could cause such results to differ materially from any forward-looking statements that we make in this report. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements. This report 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 report and include statements regarding our intent, belief or current expectations with respect to many things. Some of these things are:

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

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our business and growth strategies;

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our technology;

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the Internet; and

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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 discontinuance 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.

The information contained in the following sections of this report identify important additional factors that could materially adversely affect actual results and performance:

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"Part I. Item 1. Description of Business" especially the disclosures set out under the heading "Risk Factors"; and

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"Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations"

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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PART I

Item 1. Description of Business.

Summary

Validian Corporation provides software products to assist public and private enterprises address the increasingly complex issues surrounding the protection of digital information and application security. Validian Protect is a software only system that enables secure remote storage, access and transfer of digital information with variable compression on wired or wireless networks over the Internet, and helps to protect mission-critical applications against hack attacks and unauthorized access, which often occur at the application. Validian Protect makes secure data exchange among applications, including distributed applications, straightforward and affordable for any organization, regardless of size and resources. Validian Protect facilitates security audit compliance and assurance, whether mandated by government, industry or internal policy; helps to prevent impersonation through application authentication and authorization; delivers confidentiality through application authentication and authorization; and delivers confidentiality through end-to-end encryption of all exchanges, so that data never travels in the clear . Incorporated in the United States, Validian has offices in the United States and Canada.

Our Technology

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

Our Intellectual Property

Our intellectual property includes an addressing scheme, an authentication process and a key exchange process for all parties and end points to a communication, thus offering an authentication model for secure data 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. It also enables IT managers on demand to change encryption algorithms, keys, key life time and level of compression and to distribute these automatically, immediately and transparently to all end points without having to re-develop or re-install the software.

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) with an integrated security model; and

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to dynamically change and distribute to all end points encryption algorithms, keys, key life time and level of compression, without having to re-develop or re-install the software.

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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IT departments that serve their organization with a variety of applications and implementation environments, according to the needs of the various internal departments. This implies writing applications to ensure 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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health care providers and suppliers;

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governments;

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post-production houses, studios and production companies in the digital media industry;

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transportation industry;

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manufacturers in supply management chains;

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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 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, and the presentation of the benefits of our products in technical seminars attended by personnel with a mandate for application security.

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 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 and IMRs in the U.S.

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Marketing Analysis

During the year ended December 31, 2009, we utilized the services of industry specialists in the health care, government and entertainment sectors. Their mandate was to identify specific areas and a limited number of organizations where our products would facilitate secure communication and the implementation of a strong security infrastructure with ease of deployment and management.

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 territories where most potential customers reside are expected to be in North America, Europe and Asia Pacific. At March 31, 2010 we had two sales representatives.

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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direct marketing to potential customers;

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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 "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Products

Currently, we offer four main products on a commercial basis.

Validian Protect (previously known as Application Security Infrastructure (ASI))

Our Validian Protect is an application security middleware for securing data transport between distributed applications and Web services. Validian Protect is specifically designed to enable secure storage, access and transfer of digital information on wired and wireless networks over the Internet, including secure communication between 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. Validian Protect delivers messages and files to, and only to, the target destination, and data never travels in the clear at any time between applications.

Supplemental to our Validian Protect product, we offer a Software Development Kit (SDK), for rapidly and simply securing data transport between applications through Validian Protect. The SDK includes a

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complete, integrated and built-in set of control, transport and security features, which are automatically inherited by any applications linked to Validian Protect 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. Our SDK establishes low-level IP addresses and ports, and implements complex security features automatically. This provides the application with a complete communication security chain, as the Validian Protect 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.

Validian ShareProtect (previously known as Secure Send and Receive (SSR))

Our ShareProtect product transforms a user s desktop or mobile PC into a secure communication facility for uploading sensitive, proprietary information to a shared repository. The solution also transforms any server into an efficient download manager that simplifies the distribution of proprietary files to authorized users. Our ShareProtect protects file exchanges against malicious interference, interception by rogue applications and unwanted leaks.

Validian MedicalProtect

Our MedicalProtect product is designed and developed specifically to provide secure remote storage, access and transfer of digital medical health and medical records, information and files and thereby prevent hacking, theft and improper access of this digital information.

Our MedicalProtect solution enables the eHealth industry including hospitals, clinics, emergency responders, laboratories, research facilities and their professionals and administrators to handle health and medical digital information securely, including storage, remote access, transfer of large files and sharing across communities, including:

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to authenticate health, medical and insurance professionals and staff using fingerprint

signatures;

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to store health and medical records, information and files in encrypted form on portable

media storage drives;

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to transfer encrypted media files of any size and any format between

authenticated doctors, workers and/or personnel across the Internet;

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to track health and medical file activity such as create, rename, modify, transfer and

delete, transparently and in real-time over the Internet; and

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to set universal policies which govern security and tracking levels applied on a

per patient or project basis.

Validian MediaProtect (previously known as Biometric Media Seal (BMS))

Our MediaProtect product is designed and developed specifically to prevent hacking, theft and piracy of digital media including films, videos, television programs and music during the production and post-production process.

Our MediaProtect solution enables post-production houses, studios and production companies:

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to authenticate project workers using fingerprint signatures;

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to store media files in encrypted form on portable media storage drives;

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to transfer encrypted media files of any size and any format between

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authenticated workers and/or reviewers across the Internet;

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to track media file activity such as create, rename, modify, transfer and

delete, transparently and in real-time over the Internet; and

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to set universal policies which govern security and tracking levels applied on a

per project basis.

Competition

There are different competitors for the Validian Protect, ShareProtect, MedicalProtect and MediaProtect markets.

Validian Protect competition

Our Validian Protect 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.

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 no-one 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. The main suppliers of PKI include Entrust 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 an industry standard widely used across a large number of platforms and systems. However, we believe that it relies on a rather weak authentication model, because the browser is not authenticated by the server, which introduces a risk of impersonation.

ShareProtect Competition

File transfer protocol (FTP) is freeware available to organizations that don t require security controls. Secure FTP provides minimal file protection. A number of companies compete in the growing secure file transfer market space, including Tumbleweed Communications, Proginet Corporation, Aspera, Inc. and Radiance Technologies.

MedicalProtect Competition

We are not aware of an integrated solution featuring biometric access control and file tracking and logging.

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MediaProtect Competition

To date, the only productized competition we are aware of in the digital media industry is the Aspera solution, which focuses on file transfer speed for large files. We are not aware of an integrated solution featuring biometric access control and file tracking and logging.

Research and Development

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

Year ended December 31,	
2009	**2008**
$168,361	$742,728

For more information, see: "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results 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, and have registered several trademarks in North America and in Europe.

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 have filed a patent application covering certain aspects of our products in the U.S., Canada and the European Union. Further patent applications may be made in other countries, as and when we penetrate new markets. We may also file additional patent applications as we extend the development of our current technologoy, or as we develop new technology. 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. and Claims by third parties that we infringe upon their proprietary technology could hurt our financial condition, below.

Employees

As at December 31, 2009, we had nine employees and contractual personnel, including one executive

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officer, three sales and marketing staff, one in operations, three in research and development and one in administration. Six are located in Ottawa, Canada, two are located in Toronto, Canada and one is located in Memphis, TN. We also regularly engage technical consultants and independent contractors to provide specific advice or to perform certain marketing or technical tasks.

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Item 1A. Risk Factors

Our business operations and our securities are subject to a number of substantial risks, including those described below. 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.

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. The commercial acceptance of our products is unproven and therefore we may not be able to generate a sufficient number of revenue-paying customers to sustain 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 a net loss of $1,655,667 and negative cash flow from operations of $627,388 during the year ended December 31, 2009. During the year ended December 31, 2008, we incurred a net loss of $3,964,963 and negative cash flow from operations of $971,085. We expect operating losses and negative cash flow from operations to continue for the foreseeable future.

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. See Part II. Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

We have drawn readers attention to the uncertainty of our ability to continue as a going concern.

We have added an explanatory paragraph in our consolidated financial statements. It states that our ability to continue as a going concern is uncertain due to our history of operating losses and difficulty in generating operating cash flows. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. These adjustments might include changes in the possible future recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

We will require additional capital to proceed with our business plan. If we are unable to obtain such capital, we will be unable to proceed with our business plan and we will be forced to limit or curtail our operations.

We have an immediate requirement for additional working capital in order to proceed with our business plan. We are currently pursuing alternatives regarding the raising of additional capital to fund operations. For a discussion of our capital requirements, see the disclosure in "Part II. Item 7. Management's Discussion of Financial Condition and Results of Operation. We do not currently have a commitment from any third party to provide financing and may be unable to obtain financing on reasonable terms or at all. Furthermore, if we raise additional working capital through equity, our shareholders will experience dilution. If we are unable to raise additional financing in the immediate future, and thereafter as required, we will be unable to grow or maintain our current level of business operations and, in fact, we will be forced to limit or curtail our 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 personnel. Our loss of any of these key people most likely would have an adverse effect on our business. Competition for personnel throughout the industry is intense and we may be unable to retain our current personnel or attract, integrate or retain other highly qualified personnel in the future. If we do not succeed in retaining our current personnel 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 products and 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 products and 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 market 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 market identity and increase public awareness of our technology and products. To increase market awareness of our technology and our products, we will continue to make significant expenditures for 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

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market recognition. Moreover, despite these efforts, we may not be able to increase public awareness of our technology and our products, which would have a material adverse effect on our results of operations.

We must establish and maintain strategic and other relationships.

One of our significant business strategies has been to enter into strategic or other similar collaborative relationships in order to reach a larger customer base than we could reach through our direct sales and marketing efforts. We may need to enter into additional relationships to execute our business plan. We may not be able to enter into additional, or maintain our existing, strategic relationships on commercially reasonable terms. If we fail to enter into additional relationships, or maintain our existing relationships, we would have to devote substantially more resources to the distribution, sale and marketing of our security services and communications services than we would otherwise.

Our success in obtaining results from these relationships will depend both on the ultimate success of the other parties to these relationships and on the ability of these parties to market our products successfully.

Furthermore, our ability to achieve future growth will also depend on our ability to continue to establish direct seller channels and to develop multiple distribution channels. Failure of one or more of our strategic relationships to result in the development and maintenance of a market for our products and services could harm our business. If we are unable to maintain our relationships or to enter into additional relationships, this could harm our business.

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.

New products and services developed or introduced by us may not result in any significant revenues.

We must commit significant resources to developing new products and services before knowing whether our investments will result in products and services the market will accept. The success of new products and services depends on several factors, including proper new definition and timely completion, introduction and market acceptance. There can be no assurance that we will successfully identify new product and service opportunities, develop and bring new products and services to market in a timely manner, or achieve market acceptance of our products and services, or that products, services and technologies developed by others will not render our products, services or technologies obsolete or non-competitive. Our inability to successfully market new products and services may harm our business.

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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 rely on 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 filed a patent application covering certain aspects of our products in the United States, Canada and the European Union. 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, this 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 technology 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.

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

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 other 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, a significant portion of our operating expenses are incurred outside of the United States, and we expect that this will continue to be the case. 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;

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controls relating to encryption technology that may limit sales 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;

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seasonal reductions in business activity during the summer months in Europe and elsewhere; and

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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

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 shareholders' ability to sell their shares may be materially and adversely affected.

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Our common stock trades 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 have, or may in the future have, exercise prices at or below the market price of our stock. As of March 31, 2010, we have outstanding options and warrants to purchase a total of 10,820,000 shares of our common stock, all of which have exercise prices at or above the recent market price of $0.03 per share (as of March 31, 2010). If exercised, these options and warrants will cause immediate and possibly substantial dilution to our stockholders.

We have two existing stock option plans, one of which had 7,302 shares remaining for issuance as of March 31, 2010, the second of which had 2,292,698 shares remaining for issuance as of March 31, 2010. Future options issued under these plans may have further dilutive effects.

Issuance of shares pursuant to the exercise of options, warrants, or anti-dilution provisions, 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 March 31, 2010, we had outstanding 104,884,231 shares of common stock, of which approximately 46,226,869 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, upon the expiry of the applicable holding period. 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.

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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 shareholders' ability to resell their shares.

Our common stock may be deemed to be a "penny stock" as that term is defined in Rule 3a51-1 of the Securities and Exchange Commission. Penny stocks include stocks:

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that are not traded on a national securities exchange that has been continuously registered since April 20, 1992 and has maintained quantitative initial and continued listing standards that are substantially similar to or stricter than the listing standards in place at January 8, 2004;

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that are not traded on a securities exchange, a junior tier of an exchange or an automated quotation system sponsored by a registered national securities association that has established initial listing standards that meet or exceed specified criteria an maintains similar quantitative continued listing standards; or:

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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:

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

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

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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 not less than two business days before a transaction is effected, 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;

*

to provide, not less than two business days before a transaction is effected, the investor with a written statement setting forth the basis on which the broker-dealer made the determination in the second bullet above; and

*

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 executive officer and director, 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, 2010, our current executive officer and director, and holders of 5% or more of our outstanding common stock together beneficially owned approximately 23% of the outstanding common stock if they exercised all of the options and 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 shareholders.

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.

Certain of our debt instruments are secured.

Certain of our 10% senior convertible notes are secured by a general assignment of all of the assets of the Company, and also provide collateral to the note holder. The security agreements further provide that in the event of a default, the secured party would have the right to take possession of the collateral and operate the Company. As of March 31, 2010, all of the 10% senior convertible notes are in default. If the secured parties were to choose to exercise their rights in accordance with the security agreements, we could lose ownership and or control over our assets, which could have a negative effect on our business operations and the trading price of our common stock.

We currently do not have an effective system of internal controls, and therefore we may not be able to detect fraud or report our financial results accurately, which could harm our business.

Effective internal controls are necessary for us to provide reliable financial reports and to detect and prevent fraud. We periodically assess our system of internal controls to review their effectiveness and identify potential areas of improvement. These assessments may conclude that enhancements, modifications or changes to our system of internal controls are necessary. Performing assessments of internal controls, implementing necessary changes, and maintaining an effective internal controls process is expensive and requires considerable management attention. Internal control systems are designed in part upon assumptions regarding the likelihood of future events, and all such systems, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. A consequence of these and other inherent limitations of control systems is that there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. If we fail to implement and maintain an effective system of internal controls or prevent fraud, we could suffer losses, could be subject to costly litigation, investors could lose confidence in our reported financial information, and our image and operating results could be harmed, which could have a negative effect on the trading price of our common stock.

We performed an assessment of our internal controls and our assessment has identified the existence of material weakness in internal controls. In particular, the following weaknesses in our internal control system were identified: (1) a lack of segregation of duties; (2) the lack of timely preparation of certain back up schedules; (3) finance staff s lack of sufficient technical accounting knowledge; (4) a lack of independent Board oversight; and (5) signing authority with respect to corporate bank accounts. Due to the size and resources of our company we may not be able to remediate in the foreseeable future all of the deficiencies identified. If we are unable to remediate the identified material weaknesses, there is a more than remote likelihood that a material misstatement to our SEC reports will not be prevented or detected, in

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which case investors could lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our ability to raise additional capital and could also have an adverse effect on our stock price.

Material weakness in our internal control over financial reporting require Validian to perform additional analyses and post-closing procedures that, if not performed effectively, may prevent Validian from reporting its financial results in an accurate and timely manner.

We may have difficulty implementing in a timely manner the internal controls procedures necessary to allow our management to report on the effectiveness of our internal controls, and we may incur substantial costs in order to comply with the requirements of the Sarbanes-Oxley Act of 2002.

The Sarbanes-Oxley Act of 2002 has introduced many new requirements applicable to us regarding corporate governance and financial reporting. Among many other requirements is the requirement under Section 404 of the Act for management to report on our internal controls over financial reporting. Although our management has begun the necessary processes and procedures for issuing its report on our internal controls, we cannot be certain that we will be successful in complying with Section 404, due to the limitations imposed by our size and resultant inadequate staffing, as is more fully described under Item 9a. Controls and Procedures . We expect to devote substantial time and to incur costs to implement appropriate controls and procedures to ensure compliance, at such time as our size permits us to do so. If we are not able to timely comply with the requirements set forth in Section 404, we might be subject to sanctions or investigations by regulatory authorities. Any such action could adversely affect our business and financial results.

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.

Item 2. <u>Description of Properties.</u>

Our Canadian office is located at 6 Gurdwara Rd., Suite 100, Ottawa, Canada, K2E 8A3. The telephone number is (613) 230-7211. Our United States office is located at 4651 Roswell Road, Suite B-106, Atlanta, Georgia 30342, telephone number (404) 256-1963.

Our Ottawa 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 2,500 square feet. 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.

Item 3. Legal Proceedings.

The Corporation was not involved in any legal proceedings during 2009.

Item 4. Reserved

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PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

(a)

Market Information -- 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 for the periods noted 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.

MARKET PRICE OF COMMON STOCK

	BID	
Quarter Ending	**High**	**Low**
2008		
January 1 to March 31	0.08	0.012
April 1 to June 30	0.68	0.02
July 1 to September 30	0.065	0.02
October 1 to December 31	0.034	0.006
2009		
January 1 to March 31	0.02	0.003
April 1 to June 30	0.04	0.01
July 1 to September 30	0.041	0.01
October 1 to December 31	0.045	0.022

2010		
January 1 to March 26	0.04	0.023

On March 31, 2010, the closing price of our common stock was $0.03 per share.

(b)

Holders -- There were approximately 205 holders of record of our common stock as of March 31, 2010, 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 March 31, 2010 was 104,884,231 shares.

(c)

Dividends -- 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 (see Part I. Item 1. Description of Business: Risk Factors).

(d)

Sales of Unregistered Securities--During the three months ended December 31, 2010, we issued the following:

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200,000 shares of our common stock in settlement of $6,000 in accrued interest on our 10% senior convertible notes;

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375,000 shares of our common stock pursuant to the terms of $75,000 in principal amount of our 10% senior convertible notes, which were issued October 5, 2009 to an accredited investor;

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200,000 shares of our common stock pursuant to the terms of $55,000 in principal amount of our 10% senior convertible notes, which were issued October 27, 2009 to an accredited investor;

*

400,000 shares of our common stock pursuant to the terms of $10,000 in principal amount of our 10% senior convertible notes, which were issued November 6, 2009 to an accredited investor;

*

262,500 shares of our common stock pursuant to the terms of $87,500 in principal amount of our 10% senior convertible notes, which were issued November 30, 2009 to accredited investors;

*

80,000 shares of our common stock pursuant to the terms of $4,000 in principal amount of our 10% senior convertible notes, which were issued December 4, 2009 to an accredited investor;

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1,085,000 shares of our common stock pursuant to the terms of $155,000 in principal amount of our 10% senior convertible notes, which were issued December 8, 2009 to an accredited investor;

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1,309,554 shares of our common stock pursuant to the terms of $2,491,025 in principal amount of our 10% senior convertible notes, which were issued December 31, 2009 to accredited investors;

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1,300,000 shares of our common stock to accredited investors as consideration for consulting services rendered.

During the period from January 1 to March 31, 2010, we issued the following:

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75,000 shares of our common stock pursuant to the terms of $75,000 in principal amount of our promissory notes, which were issued to an accredited investor on March 4, 2010;

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23,696 shares of our common stock to an accredited investor pursuant to the terms of $164,354 in principal amount of our 10% senior convertible notes, which were issued March 31, 2010.

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The foregoing securities were issued in reliance upon the exemption provided by Sections 3(a)(9) or 4(2) under the Securities Act of 1933 and the rules promulgated thereunder

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Item 6. Selected Financial Data.

The selected financial data set forth below with respect to our consolidated statements of operations and cash flows for each of the two fiscal years ended December 31, 2009 and with respect to the consolidated balance sheets as at December 31, 2009 and 2008, are derived from our audited consolidated financial statements included in Item 8 of this report. The following selected financial data should be read in conjunction with our consolidated financial statements and the notes thereto.

	Year Ended December 31	
	2009	**2008**
Operations Data		
Selling, general and administrative	$ 572,705	$ 1,282,969
Research and development	168,361	742,728
Depreciation of property and equipment	11,054	8,309
Other expenses, net	903,547	1,930,957
Net loss	$ 1,655,667	$ 3,964,963

Cash Flows Data		
Net cash used in operating activities	$ (627,388)	$ (971,085)
Net cash used in investing activities	(1,054)	(9,346)
Net cash provided by financing activities	590,904	1,060,781
Effects of exchange rates on cash and cash equivalents	14,809	(26,052)
Net increase (decrease) in cash and cash equivalents	$(22,729)	$54,298

	December 31	
Balance Sheet Data	**2009**	**2008**

Cash	$ 36,689	$ 59,418
Total current assets	70,867	85,105
Property and equipment (net)	12,263	22,263
Total assets	83,130	107,368
Total current liabilities, including current portion of 10% senior convertible notes and capital lease obligation	7,741,638	6,729,924
Capital lease obligation	6,127	8,489
Stockholders deficiency	$ (7,664,635)	$ (6,631,045)

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

In this section, we explain our consolidated financial condition and results of operations for the years ended December 31, 2009 and December 31, 2008. As you read this section, you may find it helpful to refer to our Consolidated Financial Statements in Item 8 of this annual report.

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 " Part I, Item 1: Description of Business". Accordingly, in this section we focus solely on the historical business operations of the subsidiary and our current business plan and operations.

Critical Accounting Policies

We prepare our financial statements in accordance with generally accepted accounting principles in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies and methods used in preparation of the financial statements are described in note 2 to our 2009 Consolidated Financial Statements included with this Annual Report on Form 10-K for the year ended December 31, 2009. We evaluate our estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Actual results could differ materially from these estimates and assumptions. The following critical accounting policies are impacted by judgments, assumptions and estimates used in preparation of our December 31, 2009 Consolidated Financial Statements.

Research and development expenses:

We expense all of our research and development expenses in the period in which they are incurred. At such time as our products are determined to be commercially available, we will capitalize those development expenditures that are related to the maintenance of the commercial products, and amortize these capitalized expenditures over the estimated life of the commercial product. The estimated life of the commercial product will be based on management s estimates, including estimates of current and future industry conditions. A significant change to these assumptions could impact the estimated useful life of our commercial products resulting in a change to amortization expense and impairment charges.

Stock-based compensation:

The Corporation accounts for stock-based compensation in accordance with the provisions of ASC Topic 718 Compensation stock compensation). ASC Topic 718 requires all share-based payments, including stock options granted by the Corporation to its employees, to be recognized as expenses, based on the fair value of the share-based payments at the date of grant. For purposes of estimating the grant date fair value of stock-based compensation, the Corporation uses the Black Scholes option-pricing model, and has elected to treat awards with graded vesting as a single award. The fair value of awards granted is recognized as compensation expense on a straight-line basis over the requisite service period, which in the Corporation s circumstances is the stated vesting period of the award.

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Financial instruments:

We have issued convertible notes and convertible notes with common shares. The fair value of the convertible notes is required to be estimated as well as the fair value of the convertible notes issued with common shares. There are significant assumptions and management estimates used in determining these amounts. A significant change to these assumptions could result in a significant change to the fair value of the convertible notes.

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 December 31, 2010. Our major initiatives through December 31, 2010 are:

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

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

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furthering the development of our products.

For more information, please see Part 1. Item 1: Description of Business Our Technology.

Sales and Marketing Plans: We started our marketing process during 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 Part 1. Item 1: Description of Business - Target Market.

We will continue to focus our marketing efforts on identifying potential customers by presenting technical seminars, participating in trade shows, using the services of public relations firms, market research, the creation and dissemination of technical and commercial collateral materials, the maintenance and periodic re-design of our website, and the placement of advertisements in print and electronic publications. Subject to our ability to obtain adequate funding, we plan on spending $110,000 on our marketing efforts during the year ending December 31, 2010.

Our sales representatives, who are compensated on a base compensation plus commission basis, will follow up with potential customers identified through our marketing efforts, with the objective of more fully explaining the benefits of our products and negotiating the terms of the licensing of our products. Subject to our ability to obtain adequate funding, we expect to spend approximately $213,000 on our sales initiatives, including compensation and travel expenses, during the year ending December 31, 2010.

Subject to our ability to obtain adequate funding, our sales and marketing expenditures for the year ending December 31, 2010 are expected to total $323,000.

Cost of Sales and Services: In the event that our sales efforts are successful, we will need to assist our customers in the implementation of our products. Depending on the success of our sales efforts, and subject to our ability to obtain adequate funding, we expect to spend $30,000 on training and related activities during the year ending December 31, 2010.

Product Development: We plan on continuing to fund third parties to develop our key technology and related products, under the direction and management of our product management group and our senior management. For more information please see Part 1. Item 1. Description of Business - Our Technology .

We will improve and further develop our products based on responses from potential customers. The costs associated with our product development activities are primarily those currently planned and thus are subject to a high degree of control. Subject to our ability to obtain adequate funding, we estimate that the cost of our product development program during the year ending December 31, 2010 will be $350,000.

General and Administrative Expenses: Subject to our ability to obtain adequate funding, we expect to spend $426,000 on general and administrative activities during the year ending December 31, 2010.

In summary, provided we are able to obtain adequate funding, we expect to spend a total of $1,129,000 for all expenses during the year ending December 31, 2010, subject to our ability to generate revenues from the licensing of our products and our ability to raise additional capital.

Since entering the development stage, we have obtained financing through the private placement of debt, convertible debentures, common stock and warrants, and through the exercise of some of these warrants. 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 or a combination of debt offerings or equity offerings, including but not limited to:

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debt instruments, including demand notes and convertible notes 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 a weighted average exercise price of $0.04 per share;

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exercise of Series K warrants at an exercise price of $0.03 per share; or

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funding from potential clientele or future industry partners.

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Results of Operations

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

The fiscal year ended December 31, 2009 compared to the fiscal year ended December 31, 2008

Revenue: On January 1, 2006 we entered into an agreement with a Value Added Reseller (VAR), pursuant to which we granted the VAR a license to sell our software to the VAR s customers for a period of three years. As a result of subsequent delays in completing certain of our software products to a market ready stage, and in consideration of the general market decline during 2009, we have agreed to extend the expiry of this agreement, with terms to be negotiated upon completion of our current development initiatives. Our fee for this license, excluding applicable sales taxes, was $155,000, of which $151,650 has been collected. We will recognize revenue in connection with this sale once all of the criteria required for us to do so as set out in our accounting policies, have been met.

We did not make any commercial sales during the year ended December 31, 2009.

Since August 1999, we have directed all of our attention towards the completion, and sales and marketing of our software applications. We believe that if we are successful in our development and sales and marketing efforts, we will generate a source of revenue 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, communication expenses, occupancy costs and other miscellaneous costs associated with supporting our research and development, sales and marketing and investor relations activities. During the year ended December 31, 2009 we incurred a total of $572,705, including $483,275 in cash-based expenses and $89,430 in stock-based expenses, as compared to $1,282,969, of which $893,263 was cash-based and $389,706 was stock-based expenses, during the year ended December 31, 2008. There was an overall decrease in selling, general and administrative expenses of $710,264 (55%).

The decrease in this expense is due primarily to the departure of three full-time employees in our sales and administrative departments, and a reduction in the number of consultants engaged during the year ended December 31, 2009 as compared with the year ended December 31, 2008.

The stock-based component of selling, general and administrative expenses for the year ended December 31, 2009 consisted of the fair value of options earned by employees and consultants during the period, and the fair value of common stock issued as partial consideration for services rendered by consultants. The stock-based component of this expense for the year ended December 31, 2008 consisted of the amortization of prepaid consulting fees recorded during the period on the issuance of common stock as partial consideration for consulting services rendered and to be rendered, the fair value of options earned by employees and consultants during the period, and the fair value of common stock issued as partial consideration for services rendered by consultants

We have made efforts to reduce these costs wherever possible, through measures such as reducing the number of personnel; decreasing the size of our leased premises; postponing our Annual General Meeting; reducing the number of trade shows in which we participate; reducing travel costs; and delaying production of new promotional material. We will continue to carefully monitor our selling, general and administrative expenses as we work within current budgetary limits leading up to the full commercial release of our products.

Research and development expenses: Research and development expenses consist primarily of personnel costs, consulting fees and travel expenses directly associated with the development of our software applications. During the year ended December 31, 2009, we spent $168,361, including $138,294 in cash-based expenses and $30,067 in stock-based expenses, developing our software applications, compared to $742,723, of which $721,604 was cash-based and $21,124 was stock-based, during the year ended December 31, 2007. There was an overall decrease in research and development expenses of $574,362 (77%).

Until January 2009, the majority of the development work was being performed by a Europe-based consulting group, for a fixed fee for deliverables which were set and reviewed monthly. Effective January 2009, this development work has been performed by several consultants working in Ottawa, Canada, who are engaged under variable-fee contracts. This change was implemented in order to provide greater control over the development being undertaken, while allowing flexibility in scaling the volume of work to our available funding and periodic development goals.

The decrease in research and development expense is primarily a result of our scaling this activity to available funding; additionally, there were unusually high expenses incurred during 2008, including $125,000 for a software build system and delivery bonus, as the Europe-based development group

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undertook to meet target delivery dates for product upgrades, including those made in response to comments received from beta trial users, which were critical to our moving forward with our operational plans.

During 2009, we conducted market research to assist in setting development priorities for our software products. We also continued to receive feedback from our beta test sites initiated during 2008, and we carried out several new test installations, which provided us with additional feedback as to changes required in developing fully saleable versions of our software products. This information will allow us to conduct our development work with greater efficiency, while introducing potential customers to our products.

The stock-based component of research and development expenses for the years ended December 31, 2009 and December 31, 2008, consisted of the amortization of the fair value of options earned during the year, and the fair value of stock issued to a consultant as a performance bonus.

Depreciation of property and equipment: Depreciation of property and equipment was $11,054 during the year ended December 31, 2009, an increase of $2,745 (33%), over the $8,309 charged to depreciation expense during the year ended December 31, 2008. This increase occurred as a result of there being a higher value on which depreciation was calculated for the year ended December 31, 2009 as compared to the year ended December 31, 2008, due to the acquisition of assets having a total cost of $25,068 during the last half of 2008, for which a full year of depreciation was charged during the year ended December 31, 2009, compared to a partial year of depreciation during the year ended December 31, 2008.

Interest and financing costs: Interest and financing costs during the years ended December 31, 2009 and 2008 consisted of interest and financing costs associated with our 10% senior convertible notes, our promissory notes and interest on the capital lease. During the year ended December 31, 2009, we incurred $779,286 in interest and financing costs, a decrease of $1,569,775 (67%) over the $2,349,061 in interest and financing costs incurred during the year ended December 31, 2008.

The $779,286 in interest and financing costs we incurred during the year ended December 31, 2009 is comprised of $554,024 of interest paid and payable to the holders of our debt; $211,384 of accretion on our promissory notes and our 10% senior convertible notes; $13,150 of financing costs; and $728 in interest on the capital lease. The $2,349,061 in interest and financing costs we incurred during the year ended December 31, 2008 is comprised of $400,830 of interest payable to the holders of our debt; $1,844,503 of accretion on our promissory notes and our 10% senior convertible notes; $103,422 of amortization of deferred financing costs; and $306 in interest on the capital lease.

In accordance with the terms of the 10% senior convertible notes and certain of the promissory notes, all of these notes became due and payable when we failed to settle certain of the notes and accrued interest thereon when they matured in June and July 2008. This resulted in the immediate accretion of the notes to their face value, and the full amortization of deferred finance costs relating to these notes, resulting in unusually high accretion charges during the year ended December 31, 2008. The resulting decrease in the accretion portion of interest expense for the year ended December 31, 2009 as compared to the year ended December 31, 2008 is the primary reason for the decrease in interest and finance costs. This decrease was partially offset by an increase in coupon rate interest charges, which occurred as a result of a net increase of $947,698 in the principal balance of our 10% senior convertible notes during the year, offset by a net decrease of $9,109 in the principal outstanding on our promissory notes during the same period.

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Gain on extinguishment of debt and accrued liabilities: During the year ended December 31, 2009, we recorded a net gain on extinguishment of debt and accrued liabilities in the amount of $6,000, on the issuance of our common stock in settlement of accounts payable and accrued liabilities.

During the year ended December 31, 2008, we recorded a net gain on extinguishment of debt and accrued liabilities in the amount of $228,878. This total is comprised of a number of transactions involving the settlement of accrued liabilities for amounts less than the accrual, and the issuance of our common stock in settlement of accounts payable and accrued liabilities.

Other income (expense): Other income (expense) is comprised of realized and unrealized gains and losses on foreign currency translations, the majority of which relate to accounts payable and accrued liabilities, and obligations under our promissory notes, denominated in Canadian dollars. During the year ended December 31, 2009 the Canadian dollar gained strength in relation to the United States dollar, resulting in a $130,261 net loss on foreign currency translations. During the year ended December 31, 2008, the United States dollar gained strength in relation to the Canadian dollar, resulting in a $189,074 net gain on foreign currency translations.

Net loss: We incurred a loss of $1,655,776 ($0.02 per share) for the year ended December 31, 2009, compared to a loss of 3,964,963 ($0.06 per share) for the year ended December 31, 2008. Our revenues and future profitability and future rate of growth are substantially dependent on our ability to:

*

license the software applications to a sufficient number of clients;

*

be cash-flow positive on an ongoing basis;

*

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 securities. 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 we will be successful in raising additional capital, or that cash from the issuance of debt securities, the exercise of existing warrants and options, and the placements of additional equity securities, if any, will be sufficient to fund our long-term research and development and selling, general and administrative expenses.

Our cash and cash equivalents decreased by $22,729 during the year ended December 31, 2009, from a balance of $59,418 at December 31, 2008, to $36,689 at December 31, 2009, primarily as a result of our net loss of $1,655,667 for the year, and resulting cash used in operations of $627,388, which was substantially offset by an increase in cash resulting from the issuance of $504,000 of 10% senior convertible notes and $88,529, net of repayments, in promissory notes. Our cash and cash equivalents increased by $54,298 during the year ended December 31, 2008, from a balance of $5,120 at December 31, 2007, to $59,418 at December 31, 2008, primarily as a result of an increase in cash resulting from the issuance of $590,000 of 10% senior convertible notes and $530,619 in promissory notes, which were substantially offset by our net loss of $3,964,963 for the year, and resulting cash used in operations of $971,085.

As discussed elsewhere in this report, we have added an explanatory paragraph to our consolidated financial statements for the year ended December 31, 2009. It states that our economic viability is

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dependent on our ability to finalize the development of our principal products, generate sales and finance operational expenses, and that these factors, together with our lack of revenues to date, our negative working capital, our loss for the year, as well as negative cash flow from operating activities, and our accumulated deficit, raise substantial doubt regarding our ability to continue as a going concern. At December 31, 2009, we had negative working capital of $7,670,771 and an accumulated deficit during the development stage of $33,990,205; we incurred a net loss of $1,655,667, and negative cash flow from operations of $627,388 for the year then ended; and note 2(a) to our consolidated financial statements for the year ended December 31, 2009 also discusses the continuing substantial doubt regarding our ability to continue as a going concern.

We anticipate commercial sales during the second or third quarter of 2010, however we cannot be assured that this will be the case. During the year ended December 31, 2009, one of our full-time employees, and one individual who had been providing consulting services on a par-time basis, left the Corporation, and we retained the services of two part-time consultants. During the next six months we expect to retain the services of one or two part-time consultants. We do not expect to hire any additional personnel during the next six months unless we are successful in raising significant funds through the issuance of our debt or equity securities. We have not made, nor do we expect to make, any material commitments for capital equipment expenditures during the next twelve months.

We have an immediate requirement for additional working capital in order to proceed with our business plan. We review our cash needs and sources on a month-to-month basis and we are currently pursuing appropriate opportunities to raise additional capital to fund operations. Additional sources of capital could involve issuing equity or debt. However, additional funding may not be available to us on reasonable terms, if at all. The perceived risk associated with the possible sale of a large number of shares could cause some of our stockholders to sell their stock, thus causing the price of our stock to decline. In addition, actual or anticipated downward pressure on our stock price due to actual or anticipated sales of stock could cause some institutions or individuals to engage in short sales of our common stock, which may itself cause the price of our stock to decline. We may be unable to raise additional capital if our stock price is too low. A sustained inability to raise capital could force us to limit or curtail our operations.

We expect the level of our future operating expenses to be driven by the needs of our research and development and marketing programs offset by the availability of funds. In addition, we have since inception made an effort to keep our expenses relatively low and conserve available cash until we begin generating sufficient operating cash flow.

Sources of Capital: Our principal sources of capital for funding our business activities have been the private placements of debt and equity securities. During the year ended December 31, 2009, we issued $88,529, net of repayments, of promissory notes and $504,000 of 10% senior convertible notes, which generated cash for funding operations. We issued a further $132,926 in 10% senior convertible notes in consideration for the cancellation of $132,926 of principal and accrued interest on our promissory notes, which will reduce the overall cash-based interest charges on our debt; $4,575,315 in 10% senior convertible notes in settlement of previously issued 10% senior convertible notes and accrued interest thereon, which reduced the cash required to settle the original notes at maturity; and $11,750 in 10% senior convertible notes in settlement of issuance costs relating to the 10% senior convertible notes, which reduced the cash which would have been required to settle these costs. We also issued 4,235,151 common shares on the redemption of $108,100 in principal of our 10% senior convertible notes and $18,955 in accrued interest thereon, which will reduce future cash-based interest charges, and will also reduce the amount of cash which would have become payable on maturity of the notes; 7,461,508 common shares in settlement of $160,287 in accrued interest on the 10% convertible notes, which reduced the amount of cash which would have become payable on maturity of the notes; 333,333 common shares in settlement of $10,000 in accounts payable and accrued liabilities, and 100,000 common shares in settlement of $1,400 in finance

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fees relating to promissory notes issued, which reduced the amount of cash which would have been required to satisfy these obligations. In addition, we issued 2,600,000 common shares in consideration for consulting services rendered and to be rendered, 2,300,000 common shares as incentives under consulting contracts entered into during the year, and 600,000 stock options, all of which reduced the amount of cash required to retain the services of employees and consultants. 7,437,054 common shares were issued pursuant to the terms of 10% senior convertible notes issued during the year, and 366,250 common shares were issued pursuant to the terms of the promissory notes issued during the year, which reduced the rate of coupon interest which would otherwise have been reflected in these transactions.

During the period from January 1 to March 31, 2010, we issued $75,000 in 10% senior convertible notes, the proceeds of which were used to fund operations, and we repaid $2,366 in promissory notes. During this period we also issued $164,354 in 10% convertible notes in settlement of previously issued 10% convertible notes, accrued interest thereon and fees relating to issuance of the notes, which reduced our requirement for cash settlement. In connection with these financing transactions, we issued 398,696 common shares to the holders of the notes, which reduced the rate of coupon interest which would otherwise have been required.

The Corporation has not entered into any off-balance sheet arrangement which would have provided the Corporation with a source of capital.

Uses of Capital: Over the past several years, we have scaled our development activities to the level of available cash resources. Cash-based research and development expenses for the year ended December 31, 2009 decreased by approximately 81% as compared to the year ended December 31, 2008. Cash-based selling, general and administrative expenses for the year ended December 31, 2009 decreased by approximately 24% as compared to the year ended December 31, 2008, due to several factors, including the reduction of our sales and marketing efforts, and as explained more fully under Results of Operation.

Our plans with respect to future staffing will be dependant upon our ability to raise additional capital. We have not entered into any off-balance sheet arrangement which would have resulted in our use of capital.

The cost to implement appropriate controls and procedures to ensure compliance with Section 404 of the Act is included in our budget for 2010.

Commitments: We are not currently a party to any operating lease agreement. At December 31, 2009, we had a contingent liability under a consulting services agreement, to pay $24,000 in the event certain financing milestones are met.

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Item 8. Financial Statements.

Consolidated Financial Statements of

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Years ended December 31, 2009 and 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Validian Corporation

We have audited the accompanying consolidated balance sheets of Validian Corporation and subsidiaries (a Development Stage Enterprise) as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders equity (deficiency) and comprehensive loss and cash flows for each of the years in the two-year period ended December 31, 2009 and for the period from inception on August 3, 1999 to December 31, 2009. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Validian Corporation and subsidiaries (a Development Stage Enterprise) as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years then ended and the period from inception on August 3, 1999 to December 31, 2009, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 2(a) to the consolidated financial statements, the Corporation has no revenues, has negative working capital at December 31, 2009, has incurred recurring losses and recurring negative cash flow from operating activities, and has an accumulated deficit that raises substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

April 15, 2010

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Balance Sheets

December 31, 2009 and 2008

(In U.S. dollars)

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$36,689	$59,418
Amounts receivable	22,714	5,823
Prepaid expenses	11,464	19,864
	70,867	85,105
Property and equipment (note 3)	12,263	22,263
	$83,130	$107,368
Liabilities and Stockholders Deficiency		
Current liabilities:		
Accounts payable	$372,080	$365,762
Accrued liabilities (note 11)	1,119,961	1,053,891
Deferred revenue	155,000	155,000
Promissory notes payable (notes 4 and 11)	112,428	121,537
Current portion of capital lease obligation (note 6)	3,762	3,025
10% Senior convertible notes (note 5)	5,978,407	5,030,709
	7,741,638	6,729,924

Capital lease obligation (note 6)	6,127	8,489
Stockholders deficiency:		
Common stock ($0.001 par value. Authorized 300,000,000 shares; Issued and outstanding 105,117,353 shares in 2009 and 80,284,057 shares in 2008 (note 7(a))	105,117	80,284
Preferred stock ($0.001 par value. Authorized 50,000,000 shares; issued and outstanding Nil shares in 2009 and 2008)		
Additional paid-in capital	26,248,887	25,651,643
Deficit accumulated during the development stage	(33,990,205)	(32,334,538)
Retained earnings prior to entering development stage	21,304	21,304
Treasury stock (7,000 shares in 2008 and 2007 at cost)	(49,738)	(49,738)
	(7,664,635)	(6,631,045)
Future operations (note 2(a))		
Guarantees and commitments (note 12)		
Contingent liability (note 13)		
Subsequent events (note 18)		
	$83,130	$107,368

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Operations

Years ended December 31, 2009 and 2008 and the period from August 3, 1999 to December 31, 2009

(In U.S. dollars)

	2009	2008	Period from August 3, 1999 to December 31, 2009
Expenses:			
Selling, general and administrative (note 11)	$572,705	$1,282,969	$14,828,254
Research and development	168,361	742,728	9,860,821
Depreciation of property and equipment	11,054	8,309	436,302
Write-off of prepaid services			496,869
Write-off of deferred consulting services			1,048,100
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
	752,120	2,034,006	26,728,870
Loss before the undernoted	(752,120)	(2,034,006)	(26,728,870)

Other income (expenses):			
Interest income		152	61,728
Gain on extinguishment of debt and accrued liabilities (note 9)	6,000	228,878	304,795
Interest and financing costs (notes 8 and 11)	(779,286)	(2,349,061)	(7,536,898)
Other	(130,261)	189,074	(90,960)
	(903,547)	(1,930,957)	(7,261,335)
Net loss	$(1,655,667)	$(3,964,963)	$(33,990,206)
Loss per common share basic and diluted (note 10)	$(0.02)	$(0.06)	
Weighted average number of common shares outstanding	89,462,595	61,487,461	

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

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

For the eleven years ended December 31, 2009

(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 compre-hensive 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			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

Fair value of warrants issued to unrelated parties			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.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

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

For the eleven years ended December 31, 2009

(In U.S. dollars)

	Number	Common stock amount	Additional paid-in capital	Retained earnings prior to entering develop- ment stage	Deficit accumulated during development stage	Accumulated other compre- hensive 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	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						(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	4,416,862	4,417	1,453,147					1,457,564
Shares issued in consideration of consulting and financing services	422,900	423	230,448					230,871
Fair value of warrants issued to unrelated parties for services			2,896,042					2,896,042
Fair value of stock purchase options issued to unrelated parties for services			597,102					597,102
Relative fair value of warrants issued to investors in conjunction with 4% senior			355,186					355,186

subordinated convertible debentures			244,814					244,814
Intrinsic value of beneficial conversion feature on 4% convertible debentures issued to unrelated parties								
Net loss and comprehensive loss					(3,001,900)			(3,001,900)
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.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

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

For the eleven years ended December 31, 2009

(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 compre-hensive income (loss)	Treasury stock	Total
Balances at December 31, 2003	20,567,548	$ 20,566	$10,822,021	$ 21,304	$ (9,033,066)	$	$ (49,738)	$ 1,781,087
Shares issued in exchange for debt	464,000	464	429,536					430,000
Shares issued on conversion of 4% senior subordinated convertible debentures	2,482,939	2,483	1,238,986					1,241,469

Deferred financing costs transferred to additional paid in capital on conversion of 4% senior subordinated convertible debentures into common shares			(721,097)	(721,097)
Shares issued pursuant to private placement of common shares and warrants	6,666,666	6,667	5,993,333	6,000,000
Cost of share issuance pursuant to private placement			(534,874)	(534,874)
Shares issued in consideration of consulting and financing services	70,000	70	72,730	72,800
Shares issued in consideration of penalties on late registration of shares				

underlying the 4% senior subordinated convertible debentures	184,000	184	110,216	110,400
Fair value of stock purchase warrants issued to unrelated parties for services			809,750	809,750

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

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

For the eleven years ended December 31, 2009

(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
Relative fair value of warrants issued to investors in conjunction with 4% senior subordinated convertible debentures		$	$ 861,522	$	$	$	$	$ 861,522
Intrinsic value of beneficial								

conversion feature on 4% convertible debentures issued to unrelated parties			538,478					538,478
Net loss and comprehensive loss					(8,017,166)			(8,017,166)
Balances at December 31, 2004	30,435,153	30,434	19,620,601	21,304	(17,050,232)	-	(49,738)	2,572,369
Shares issued on conversion of 4% senior subordinated convertible debentures	1,157,866	1,158	577,774					578,932
Shares issued in settlement of 4% senior subordinated convertible debentures at maturity	485,672	486	242,349					242,835
Deferred financing costs transferred to additional paid in capital on conversion of 4% senior								

subordinated convertible debentures into common shares			(163,980)	(163,980)
Fair value of stock options issued to consultants for services rendered			211,496	211,496
Fair value of modifications to stock purchase warrants previously issued to unrelated parties			61,162	61,162
Shares issued on the exercise of stock purchase warrants	805,000	805	401,695	402,500

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

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

For the eleven years ended December 31, 2009

(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
Net loss and comprehensive loss					(4,205,659)			(4,205,659)
Balances at December 31, 2005	32,883,691	32,883	20,951,097	21,304	(21,255,891)		(49,738)	(300,345)
Shares issued in consideration of consulting services	800,000	800	106,700					107,500
Fair value of unvested								

employee stock options earned during period			28,689	28,689
Reversal of fair value of unvested employee stock options recognized in the current and prior periods, on forfeiture of the options			(9,939)	(9,939)
Shares issued on the exercise of stock purchase warrants	20,000	20	9,980	10,000
Shares issued pursuant to the terms of the 10% senior secured convertible notes	1,600,000	1,600	213,202	214,802
Shares issued pursuant to the terms of the 10% senior convertible notes	1,200,000	1,200	188,400	189,600
Shares issued pursuant to the terms of the 10% promissory note	1,000,000	1,000	149,000	150,000
Shares issued pursuant to the terms of an agreement to extend the payment				

terms of finance fees payable	100,000	100	11,400	11,500
Intrinsic value of the beneficial conversion feature on the 10% senior convertible notes			465,850	465,850

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

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

For the eleven years ended December 31, 2009

(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
Intrinsic value of the beneficial conversion feature on the 10% senior convertible notes		$	$ 49,447	$	$	$	$	$ 49,447
Shares issued in satisfaction of interest payable	118,378	119	13,519					13,638
Shares issued in satisfaction of finance fees payable, which were included in								

accrued liabilities	250,000	250	28,500					28,750
Shares issued in satisfaction of penalty for non-timely payment of the 10% promissory note	500,000	500	44,500					45,000
Shares issued in consideration for finance fees related to the issuance of convertible and promissory notes	740,000	740	75,720	--	--	--	--	76,460
Net loss and comprehensive loss					(3,387,291)			(3,387,291)
Balances at December 31, 2006	39,212,069	39,212	22,326,065	21,304	(24,643,182)		(49,738)	(2,306,339)
Shares issued in consideration of consulting services rendered and to be rendered	4,105,000	4,105	180,045					184,150
Shares issued in consideration of finance fees relating to the issuance of 10% senior convertible notes	149,333	149	6,511					6,660
Shares issued in settlement								

of accrued liabilities	1,275,000	1,275	45,900	47,175
Shares issued in settlement				
of accrued interest on the				
10% senior convertible notes	659,001	659	39,228	39,887
Fair value of employee stock				
options earned during the				
year			2,727	2,727
Incremental value of stock				
options issued during the				
year in exchange for the				
repurchase and cancellation				
of options previously issued			106,933	106,933
Shares issued pursuant to				
the terms of the 10% senior				
convertible notes at issuance	2,790,566	2,791	180,132	182,923

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

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

For the eleven years ended December 31, 2009

(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
Shares issued pursuant to the terms of the 10% senior convertible notes on resolution of the contingency	810,000	$ 810	$ 98,418	$	$	$	$	$ 99,228
Intrinsic value of the beneficial conversion feature of the 10% senior senior convertible notes			188,767					188,767

at date of issuance				
Relative fair value of warrants issued pursuant to the terms of the 10% senior convertible notes			102,515	102,515
Intrinsic value of the beneficial conversion feature of the 10% senior senior convertible notes on resolution of the contingency			540,031	540,031
Adjustment to the relative fair value of warrants issued pursuant to the terms of the 10% senior convertible notes on resolution of the contingency			77,222	77,222
Shares issued on conversion of 10% senior convertible notes	572,194	572	52,455	53,027
Fair value of warrants issued in consideration of consulting				

services rendered			108,675					108,675
Fair value of options issued in consideration of consulting services rendered and to be rendered			20,969					20,969
Net loss and comprehensive loss					(3,726,393)			(3,726,393)
Balances at December 31, 2007	49,573,163	$ 49,573	$24,076,593	$ 21,304	$ (28,369,575)	$	$(49,738)	$(4,271,843)

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

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

For the eleven years ended December 31, 2009

(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, 2007	49,573,163	$ 49,573	$24,076,593	$ 21,304	$(28,369,575)	$	$(49,738)	$(4,271,843)
Shares issued in consideration of consulting contract incentive payment (note 7(a))	3,000,000	3,000	237,000					240,000
Shares issued as partial consideration for consulting services rendered and to								

be rendered (note 7(a))	2,250,000	2,250	51,950	54,200
Shares issued pursuant to the terms of the promissory notes at issuance (note 4)	766,667	767	20,291	21,058
Shares issued in connection with the conversion of 10% senior convertible notes (note 5)	6,404,818	6,405	361,897	368,302
Shares issued pursuant to the terms of the 10% senior convertible notes at issuance (note 5)	4,910,852	4,911	160,233	165,144
Shares issued in settlement of accounts payable and accrued liabilities (note 7(a))	11,293,396	11,293	250,662	261,955
Shares issued in settlement of accrued interest on the 10% senior convertible notes	2,085,161	2,085	45,557	47,642
Intrinsic value of the beneficial conversion feature of the				

10% senior convertible notes at date of issuance (note 5)			329,282					329,282
Fair value of vested options issued to employees and consultants in consideration for services rendered and to be rendered (note 7(b))			113,459					113,459
Fair value of unvested stock options earned during the year (note 7(a))			4,719					4,719
Net loss and comprehensive loss					(3,964,963)			(3,964,963)
Balances at December 31, 2008	80,284,057	$ 80,284	$25,651,643	$ 21,304	$(32,334,538)	$	$(49,738)	$(6,631,045)

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

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

For the eleven years ended December 31, 2009

(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, 2008	80,284,057	$ 80,284	$25,651,643	$ 21,304	$(32,334,538)	$	$(49,738)	$(6,631,045)
Shares issued in consideration of consulting Contract incentive payments (note 7(a))	2,300,000	2,300	42,300					44,600
Shares issued as partial consideration for consulting services rendered and to								

be rendered (note 7(a))	2,600,000	2,600	57,400	60,000
Shares issued pursuant to the terms of the promissory notes at issuance (note 4)	366,250	366	4,221	4,587
Shares issued in connection with the conversion of 10% senior convertible notes (note 5)	4,235,151	4,235	122,820	127,055
Shares issued pursuant to the terms of the 10% senior convertible notes at issuance (note 5)	7,437,054	7,437	141,033	148,470
Shares issued in settlement of accounts payable and accrued liabilities (note 7(a))	333,333	333	3,667	4,000
Shares issued in settlement of accrued interest on the 10% senior convertible notes	7,461,508	7,462	152,826	160,288
Shares issued in consideration of finance fees (note 7(a))	100,000	100	1,300	1,400

Intrinsic value of the beneficial conversion feature of the 10% senior convertible notes at date of issuance (note 5)			58,327					58,327
Fair value of stock options earned during the year (note 7(c))			13,350					13,350
Net loss and comprehensive loss					(1,655,667)			(1,655,667)
Balances at December 31, 2009	105,117,353	$ 105,117	$26,248,887	$ 21,304	$(33,990,205)	$	$(49,738)	$(7,664,635)

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008 and the period from August 3, 1999 to December 31, 2009

(In U.S. dollars)

	2009	2008	Period from August 3, 1999 to December 31, 2009
Cash flows from operating activities:			
Net loss	$ (1,655,667)	$ (3,964,963)	$ (33,990,205)
Items not involving cash:			
Depreciation of property and equipment	11,054	8,309	436,302
Stock-based compensation expense (note 7(d))	119,497	410,830	3,538,597
Non-cash interest expense	764,568	2,345,756	7,513,849
Gain on extinguishment of debt and accrued liabilities	(6,000)	(228,878)	(3)
Non-cash penalties			166,900
Write-off of prepaid services			496,869
Write-off of deferred consulting services			1,048,100
Currency translation adjustment on liquidation of investment in foreign subsidiary			(26,212)
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
Change in non-cash operating working capital (note 16)	139,160	457,861	4,218,076

Net cash used in operating activities	(627,388)	(971,085)	(16,843,995)
Cash flows from investing activities:			
Additions to property and equipment	(1,054)	(9,346)	(537,827)
Proceeds on sale of property and equipment			176,890
Cash pledged as collateral for operating lease			(21,926)
Net cash used in investing activities	(1.054)	(9,346)	(382,863)
Cash flows from financing activities:			
Issuance of promissory notes	162,743	530,619	4,690,875
Capital lease obligation repayments	(1,625)	(5,838)	(20,600)
Issuance of 10% senior convertible notes	504,000	590,000	3,239,000
Debt issuance costs		(13,000)	(301,359)
Repayment of promissory notes	(74,214)	(41,000)	(160,069)
Exercise of stock purchase warrants			412,500
Issuance of 4% senior subordinated convertible debentures			2,000,000
Increase in due from related party			12,575
Issuance of common stock			8,030,000
Share issuance costs			(631,624)
Acquisition of common stock			(49,738)
Net cash provided by financing activities	590,904	1,060,781	17,221,560
Effects of exchange rates on cash and cash equivalents	14,809	(26,052)	7,188
Net increase (decrease) in cash and cash equivalents	(22,729)	54,298	1,890
Cash and cash equivalents, beginning of period	59,418	5,120	34,799
Cash and cash equivalents, end of period	$ 36,689	$ 59,418	$ 36,689

Supplementary information (note 17)

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(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 the sale and marketing of the Corporation s products.

2.

Summary of significant accounting policies:

(a)

Future operations:

The consolidated financial statements have been prepared assuming that the Corporation will continue as a going concern. The Corporation has no revenues, has negative working capital of $7,670,771, has accumulated a deficit of $33,990,205 as at December 31, 2009, and has incurred a loss of $1,655,667 and negative cash flow from operations of $627,388 for the year then ended. Furthermore, the Corporation failed to settle certain of its promissory notes and 10% senior convertible notes when they matured during 2007, 2008 and 2009, resulting in a condition of default for all of the 10% senior convertible notes and $100,000 of the promissory notes; a significant portion of these notes remain in default as at December 31, 2009. In addition, the Corporation expects to continue to incur operating losses for the foreseeable future, and has no lines of credit or other financing facilities in place.

If the Corporation obtains further financing and generates revenue, it expects to incur operating expenditures of approximately $1,129,000 for the year ending December 31, 2010. In the event the Corporation cannot raise the funds necessary to finance its research and development and sales and marketing activities, it may have to cease operations.

All of the factors above raise substantial doubt about the Corporation s ability to continue as a going concern. Management s plans to address these issues include raising capital through the private placement of equity, the exercise of previously-issued equity instruments and through the issuance of additional promissory notes and convertible notes.

The Corporation s ability to continue as a going concern is subject to management s ability to successfully implement these plans. Failure to do so could have a material adverse effect on the Corporation s position and or results of operations and could also result in the Corporation s ceasing operations. The consolidated financial statements do not include adjustments that would be required if the assets are not realized and the liabilities settled in the normal course of operations.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(a)

Future operations (continued):

Even if successful in obtaining financing in the near term, the Corporation cannot be certain that cash generated from its future operations will be sufficient to satisfy its liquidity requirements in the longer term, and it may need to continue to raise capital by issuing additional equity or by obtaining credit facilities. The Corporation s future capital requirements will depend on many factors, including, but not limited to, the market acceptance of its products and the level of its promotional activities and advertising required to generate product sales. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favorable to the Corporation.

(b)

Principles of consolidation:

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America and include the accounts of Validian Corporation and its wholly-owned subsidiaries, Sochrys Technologies Inc. and Evolusys S.A. All intercompany balances and transactions have been eliminated.

(c)

Cash and cash equivalents:

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

(d)

Property and equipment:

Property and equipment is stated at cost less accumulated depreciation, and includes computer hardware and software, furniture and equipment and equipment under capital lease. These assets are being depreciated on a straight-line basis over their estimated useful lives, as follows: computer hardware, furniture and equipment: 3 years; equipment under capital lease: over the term of the lease, being 4 years; computer software: 1 year.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(e)

Leases:

Leases are classified as either capital or operating in nature. Capital leases are those which substantially transfer the benefits and risk of ownership to the Corporation. Assets acquired under capital leases are depreciated as described in note 1(d). Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to expense.

(f)

Prepaid expenses:

Prepaid consulting fees related to services to be rendered within twelve months from the balance sheet date are included in prepaid expenses. These costs are charged to expenses as the services are rendered. If for any reason circumstances arise which would indicate that the services will not be performed in the future, any remaining balance included in prepaid expenses will be charged to expense immediately.

(g)

Income taxes:

Deferred income taxes are determined using the asset and liability method, whereby deferred income tax is recognized based 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.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(h)

Revenue recognition:

Revenue from sale of product licenses is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable.

Revenue from product support contracts is recognized ratably over the life of the contract. Revenue from services is recognized at the time such services are rendered.

For contracts with multiple elements such as product licenses, product support and services, the Corporation follows the residual method. Under this method, the total fair value of the undelivered elements of the contract, as indicated by vendor specific objective evidence, is deferred and subsequently recognized when all criteria for recognizing revenue have been met. The difference between the total contract fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. Vendor specific objective evidence for support and consulting services is obtained from contracts where these elements have been sold separately. Where the Corporation cannot determine the fair value of all of the undelivered elements, revenue is deferred until such time as it can be determined, or until all of the elements are delivered.

Revenues that have been prepaid but for which all elements have not been delivered, are reflected as deferred revenue on the consolidated balance sheet.

(i)

Research and development:

Costs related to research, design and development of software products are charged to research and development expenses as incurred unless they meet the generally accepted criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria and are expensed as incurred. To date the Corporation has not capitalized any software development costs.

(j)

Foreign currency translation:

The functional currency for the financial statements of the Corporation is the United States dollar. Exchange gains or losses are realized due to differences in the exchange rate at the transaction date versus the rate in effect at the settlement or balance sheet date. Exchange gains and losses are recorded in the statement of operations.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(k) Stock-based compensation:

The Corporation accounts for stock-based compensation in accordance with the provisions of ASC Topic 718 Compensation stock compensation (ASC Topic 718). ASC Topic 718 requires all share-based payments, including stock options granted by the Corporation to its employees, to be recognized as expenses, based on the fair value of the share-based payments at the date of grant. For purposes of estimating the grant date fair value of stock-based compensation, the Corporation uses the Black Scholes option-pricing model, and has elected to treat awards with graded vesting as a single award. The fair value of awards granted is recognized as compensation expense on a straight-line basis over the requisite service period, which in the Corporation s circumstances is the stated vesting period of the award.

In adopting ASC Topic 718, the Corporation applied the modified-prospective transition method. Under this method, the Corporation has recognized compensation costs for all share-based payments granted, modified, or settled after January 1, 2006, as well as for any awards that were granted prior to January 1, 2006 for which the requisite service had not been provided as of that date (unvested awards).

(l) Impairment or disposal of long-lived assets:

The Corporation accounts for long-lived assets in accordance with ASC Topic 360-10   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 in 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.

(m) 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. Significant management estimates include assumptions used in estimating the fair value of convertible notes issued with common stock.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(n) Accounting for uncertainty in income taxes:

The Corporation does not recognize adjustments in the liability for unrecognized income tax benefits. As of December 31, 2009, the Corporation had approximately $8,200,000 of unrecognized tax benefits, all of which would affect the Corporation s effective tax rate if recognized.

3.

Property and equipment:

	Cost	Accumulated depreciation	2009 Net book value
Computer hardware and software	$ 147,877	$ 145,769	$ 2,108

Equipment under capital lease	15,723	5,568	10,155
	$ 230,803	$ 218,540	$ 12,263

			2008
	Cost	Accumulated depreciation	Net book value
Computer hardware and software	$ 146,823	$ 138,756	$ 8,067
Furniture and equipment	67,203	67,092	111
Equipment under capital lease	15,723	1,638	14,085
	$ 229,749	$ 207,486	$ 22,263

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(In U.S. dollars)

4.

Promissory notes payable:

The following table sets forth the financial statement presentation of the promissory note proceeds on issuance, and the changes in the financial statement presentation of the balance allocated to the notes as at and for the years ended December 31, 2009 and 2008:

	2009	2008
Balance at beginning of year	$ 121,537	$ 87,308
Note principal on issuance	166,023	532,708
Allocated to common stock and additional paid-in capital for market value of stock issued to holders of the notes:		
Allocated to common stock	(366)	(767)
Allocated to additional paid-in capital	(4,221)	(20,291)
	(4,587)	(21,058)

Proceeds allocated to promissory notes on issuance	161,436	511,650
Accretion recorded as a charge to interest and financing costs	4,587	21,058
Principal repaid	(74,214)	(41,000)
Principal settled through the issuance of the Corporation s 10% senior convertible notes (note 5)	(115,727)	(431,427)
Adjustment for foreign currency translation	14,809	(26,052)
Balance at end of year	$ 112,428	$ 121,537

Due on demand, interest at 12%, unsecured, repayable in Canadian dollars	$ 76,178	$ 21,537
Due on demand, interest at 12%, unsecured, repayable in United States dollars	36,250	--
Due on demand, interest at 10%, unsecured, repayable in United States dollars	--	100,000
	$ 112,428	$ 121,537

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(In U.S. dollars)

5.

10% Senior convertible notes:

The following table sets forth the financial statement presentation of the 10% senior convertible note proceeds on issuance, and the changes in the financial statement presentation of the balance allocated to the notes as at and for the years ended December 31, 2009 and 2008:

	2009	2008
Balance at beginning of year	$ 5,030,709	$ 2,053,344
Note principal on issuance	5,243,991	3,265,248
Allocated to common stock and additional paid-in capital for market value of stock issued to holders of the notes:		
Allocated to common stock	(7,437)	(4,911)
Allocated to additional paid-in capital	(141,033)	(160,233)
	(148,470)	(165,144)
Allocated to additional paid-in capital for the intrinsic value of the beneficial conversion feature	(58,327)	(329,282)
Proceeds allocated to 10% senior convertible notes on issuance	5,037,194	2,770,822
Accretion recorded as a charge to interest and financing costs	206,797	1,838,815

Principal converted pursuant to the terms of the note	(108,100)	(332,272)
Principal matured and repaid through the issuance of new notes	(4,188,193)	(1,300,000)
Balance at end of year	$ 5,978,407	$ 5,030,709

During the year ended December 31, 2009, the Corporation issued an aggregate of $5,243,991 of its 10% senior convertible notes, and settled an aggregate of $4,296,293 of these notes. $499,000 of the notes issued during the year, net of $5,000 in discounts, were issued for cash; $132,926 were issued in settlement of $115,727 in principal amount of the Corporation s promissory notes, plus $17,199 in accrued interest thereon; $20,000 were issued in settlement of $20,000 in accounts payable; $11,750 were issued in settlement of finance fees; and $4,575,315 of the notes were issued as consideration for the repayment of $4,188,193 in previously issued 10% senior convertible notes, plus $387,121 in accrued interest thereon.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(In U.S. dollars)

5.

10% Senior convertible notes (continued):

Under the terms of the notes issued during the year ended December 31, 2009, the holders are permitted, at any time, to convert all or a portion of the outstanding principal plus accrued interest thereon into common stock of the company, at a rate of one common share for each $0.03 of debt converted. The Corporation has the option of pre-paying all or any portion of the balance outstanding on the notes at any time, without penalty or bonus, with the permission of the holders. Interest on the notes is accrued until the notes are either repaid by the Company or converted by the holders; holders of $3,830,514 of the notes are also entitled to receive payment of accrued interest on submission to the Corporation of a written request. At the Corporation s option, interest may be paid either in cash or in common shares of the Corporation. If interest is paid in common shares, the number of shares required for settlement will be calculated at the rate of conversion in effect for the conversion of the note principal. $4,607,771 mature or matured on dates between December 8, 2009 and December 31, 2010; 636,221 of the notes are payable on demand. Notwithstanding the stated maturity dates, all of the notes issued during the year ended December 31, 2009 are payable on demand, pursuant to the default provisions of the notes, as described below.

Holders of the notes issued during the year ended December 31, 2009 were granted 7,437,054 common shares of the Corporation upon issuance of the notes; $148,470, representing the relative fair value of the common shares at the issuance date, was allocated to the common shares par value and additional paid in capital.

At the date of issuance, the conversion feature of $309,000 of the notes was in-the-money. $58,327, representing the relative fair value of the beneficial conversion feature, was allocated to additional paid in capital.

Also during the year ended December 31, 2009, holders of the Corporation s 10% senior convertible notes exercised their conversion option and converted $108,100 in principal, and $18,955 in accrued interest thereon, in exchange 4,235,151 shares of common stock.

The Corporation failed to settle $1,800,000 in 10% senior convertible notes plus accrued interest thereon of $277,082 when they matured in 2008, and $3,448,412 in 10% senior convertible notes plus accrued interest thereon of $372,112 when they matured during the year ended December 31, 2009. At December 31, 2009, a significant portion of these notes remained in default for non payment. As a result of these non-payment defaults, all of the 10% senior convertible notes are in default at December 31, 2009, in accordance with the default provisions of the notes, and consequently are payable on demand, notwithstanding stated maturity dates ranging from on demand to December 31, 2010. Interest is accrued at the coupon rate on all notes outstanding past the maturity date.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(In U.S. dollars)

5.

10% Senior convertible notes (continued):

During the year ended December 31, 2008, the Corporation issued an aggregate of $3,280,618 of its 10% senior convertible notes, including $15,370 issued as consideration for $15,370 of issuance costs related to the notes, resulting in net proceeds of $3,265,248. $590,000 of the notes were issued for cash; $708,065 of the notes were issued as consideration for the repayment of $708,065 in accounts payable; $456,758 of the notes were issued as consideration for the repayment of $431,427 of promissory notes payable, plus $25,331 in accrued interest thereon; $15,370 of the notes were issued as consideration for $15,370 of issuance costs related to 10% senior convertible notes issued during the period; and $1,510,425 of the notes were issued as consideration for the repayment of $1,300,000 in previously issued 10% senior convertible notes, plus $210,425 in accrued interest thereon.

Under the terms of the notes issued during 2008, the holders are permitted, at any time, to convert all or a portion of the outstanding principal plus accrued interest into common stock of the Corporation. The rate of conversion for $15,000 of the notes is one common share for each $0.06 of debt converted; the rate of conversion for $511,507 of the notes is one common share for each $0.038 of debt converted; the rate of conversion for $2,754,111 of the notes is one common share for each $0.03 of debt converted. The Corporation has the option of pre-paying all or any portion of the balance outstanding on the notes at any time, without penalty or bonus, with the permission of the holders. Interest on the notes is accrued until the notes are either repaid by the Corporation or converted by the holder; holders of $2,020,795 of the notes are also entitled to payment of interest at such time as the holder requests payment in writing. At the Corporation s option, interest may be paid either in cash or in common shares of the Corporation. If interest is paid in common shares, the number of shares required for settlement will be calculated at the rate of conversion in effect for the conversion of the note principal. $70,000 of the notes issued during 2008, of which $50,000 was settled during the year, are payable on demand. Notwithstanding stated maturity dates between August

29, 2009 and December 31, 2010, the remaining $3,210,618 of notes issued during 2008 are payable on demand as a result of certain of the notes issued in prior periods falling into default during the year ended December 31, 2008.

Holders of the notes were granted 4,910,852 common shares of the Corporation upon issuance of the notes; $165,144, representing the relative fair value of the common shares at the issuance date, was allocated to the common shares par value and additional paid in capital.

At the date of issuance, the conversion feature of $986,290 of the notes was in-the-money; $329,282, representing the intrinsic value of the beneficial conversion feature, was recorded as additional paid-in capital.

Also during the year ended December 31, 2008, certain holders of the Corporation s 10% senior convertible notes exercised the conversion option and converted $322,272 in principal and $36,029 in accrued interest, in exchange for 6,404,818 shares of common stock.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(In U.S. dollars)

5.

10% Senior convertible notes (continued):

The following table summarizes information regarding the 10% senior convertible notes outstanding at December 31, 2009:

Note Principal	Conversion Rate
$ 4,966,901	$ 0.030
511,506	0.038
500,000	0.100
$ 5,978,407	

At December 31, 2009, $2,556,397 of the 10% senior convertible notes were secured by a first position lien on all of the assets of the Corporation; the remaining $3,422,010 were unsecured. As a result of the event of default noted above, holders of the secured notes have the right to exercise their lien on all of the assets of the Corporation.

6. Capital lease obligation:

Future minimum payments remaining under a long-term lease arrangement for office equipment are approximately as follows:

Year ending December 31:	
2010	$ 4,324
2011	4,324
2012	2,162
Total minimum lease payments	10,810
Less amount representing interest, at 6.61%	921
Present value of minimum lease payments	9,889
Current portion of capital lease obligation	3,762
	$ 6,127

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7.

Stockholders deficiency:

(a)

Common stock transactions:

During the year ended December 31, 2009, the Corporation issued an aggregate of 2,300,000 shares of its common stock, valued at $44,600, as incentives in connection with three consulting services agreements, under which services are to be provided to the Corporation for an indefinite period of time. $44,600, representing the fair value of the stock issued, has been included in selling, general and administrative expenses.

Also during the year ended December 31, 2009, the Corporation issued an aggregate of 2,600,000 shares of its common stock, valued at $60,000, as bonuses to consultants for services provided. $40,000 and $20,000, representing the fair value of the stock issued, has been included in selling, general and administrative expenses, and research and development expenses, respectively.

In connection with the issuance of the Corporation s promissory notes during the year ended December 31, 2009, the Corporation issued 366,250 of its common shares, with a relative fair value of $4,587, to the holders of the notes (note 4).

Also during the year ended December 31, 2009, holders of the Corporation s 10% senior convertible notes exercised their conversion option and converted $108,100 in principal in exchange for 3,603,333 shares of common stock.

In connection with the issuance of the Corporation s 10% senior convertible notes during the year ended December 31, 2009, the Corporation issued 7,437,054 of its common shares, with a relative fair value of $148,470, to the holders of the notes (note 5).

During the year ended December 31, 2009, the Corporation issued 333,333 shares of its common stock, valued at $4,000, in settlement of $10,000 in accounts payable. A gain of $6,000 on the settlement of accounts payable was recognized in connection with this transaction.

Also during the year ended December 31, 2009, the Corporation issued an aggregate of 7,461,508 shares of its common stock, valued at $98,321, to holders of the 10% senior convertible notes, in satisfaction of $160,288 of accrued interest on the notes. A gain of $61,067 on the settlement of accrued interest was recognized in connection with this transaction.

Also during the year ended December 31, 2009, the Corporation issued 100,000 shares of its common stock, valued at $1,400, as consideration for finance fees incurred on the placement of its promissory notes.

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7.

Stockholders deficiency:

(a)

Common stock transactions (continued):

During the year ended December 31, 2008, the Corporation issued 3,000,000 shares of its common stock, valued at $240,000 as an incentive in connection with a consulting services agreement, under which services are to be provided to the Corporation for an unspecified period of time, until the contract is cancelled by either party. $240,000, representing the fair value of the stock issued, has been included in selling, general and administrative expenses.

On February 1, 2008, the Corporation issued 200,000 shares of its common stock, valued at $15,600, as partial consideration for consulting services which were to have been rendered over a one-year period. On June 1, 2008, the service contract for which the shares were issued was cancelled and replaced by a new contract. Accordingly, $15,600 has been included in selling, general and administrative expenses for the year ended December 31, 2008.

On September 3, 2008, the Corporation issued 250,000 shares of its common stock, valued at $10,000, in consideration for consulting services provided over a four-month period. $10,000, representing the fair value of the stock issued, is included in selling, general and administrative expenses.

On September 30, 2008, the Corporation issued 800,000 shares of its common stock, valued at $17,600 as compensation to a consultant for achieving a performance deliverable in accordance with the terms of the consulting agreement. Accordingly, $17,600 has been included in research and development expense.

On December 31, 2008, the Corporation issued 1,000,000 shares of its common stock as a bonus to consultants. $11,000, representing the fair value of the stock issued, is included in selling, general and administrative expenses.

In connection with the issuance of the Corporation s promissory notes during the year ended December 31, 2008, the Corporation issued 766,667 of its common shares, with a relative fair value of $21,058, to the holders of the notes (note 5).

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7.

Stockholders deficiency:

(a)

Common stock transactions (continued):

During the year ended December 31, 2008, holders of the Corporation s 10% senior convertible notes exercised the conversion option and converted $332,272 in principal of, and $36,029 in accrued interest on the notes, in exchange for 6,404,818 shares of common stock (note 6).

In connection with the issuance of the Corporation s 10% senior convertible notes during the year ended December 31, 2008, the Corporation issued 4,910,852 of its common shares, with a relative fair value of $165,144, to the holders of the notes (note 5).

During the year ended December 31, 2008, the Corporation issued an aggregate of 11,293,396 shares of its common stock, valued at $261,955, in settlement of $423,149 in accounts payable. A gain of $161,194 on the settlement of accounts payable was recognized in connection with these transactions.

During the year ended December 31, 2008, the Corporation issued an aggregate of 2,085,161 shares of its common stock, valued at $47,642, to the holders of the 10% senior convertible notes, in satisfaction of $51,331 of accrued interest on the notes. A gain of $3,689 on the settlement of accrued interest was recognized in connection with these transactions.

(b)

Transactions involving stock purchase warrants:

On March 8, 2009, the 3,513,333 Series I warrants expired.

On June 30, 2008, the 650,000 Series J warrants expired.

Following is a summary of stock purchase warrants outstanding at December 31, 2009 and 2008:

	Exercise Price	Expiry	Outstanding 2009	Outstanding 2008
Series I	$ 0.03	March, 2009	--	3,513,333
Series K	0.03	June, 2011	3,120,000	3,120,000
			3,120,000	6,633,333

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7.

Stockholders deficiency (continued):

(c)

Transactions involving stock options:

The Corporation has two incentive equity plans, under which a maximum of 10,000,000 options to purchase 10,000,000 common shares may be granted to officers, employees and consultants of the Corporation. The granting of options, and the terms associated with them, occurs at the discretion of the board of directors, who administers the plan. As of December 31, 2009, a total of 7,700,000 options were granted under these plans, all with an exercise price of $0.04. 2,975,000 of the options expire on June 19, 2012; 4,725,000 expire on dates between May 12, 2013 and December 31, 2013. 7,325,000 of the options are fully vested; 375,000 vest on various dates between June 21, 2010 and June 21, 2011. 2,300,000 options remained available for grant under these plans as of December 31, 2009.

On August 17, 2009, the Corporation granted 300,000 options to a consultant in consideration for services rendered and to be rendered. 75,000 of these options vested immediately; 75,000 vested on December 1, 2009; 75,000 vest on August 17, 2010; and 75,000 vest on December 1, 2010. The options have an exercise price of $0.04, and an expiry date of September 30, 2013, with provision for early expiration in the event the holder ceases to be engaged by the Corporation prior to the stated expiry date. $4,254, representing the fair value of options earned to December 31, 2009, has been included in expense. The fair value of options which vested at issuance was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.0%; expected volatility of 194%; and an expected life of 4.1 years. The fair value of options which vested on December 1, 2009, and the fair value of unvested options earned during the period were determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2%; expected volatility of 195%; and an expected life of 3.8 years.

On December 21, 2009, the Corporation granted 300,000 options to a consultant in consideration for services rendered and to be rendered. 75,000 of these options vested immediately; the remaining 225,000 options vest on various dates between June 21, 2010 and June 21, 2011. The options have an exercise price of $0.04, and an expiry date of December 31, 2013, with provision for early expiration in the event the holder ceases to be engaged by the Corporation prior to the stated expiry date. $2,531, representing the fair value of options earned to December 31, 2009, has been included in expense. The fair value of options which vested at issuance was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.0%; expected volatility of 191%; and an expected life of 4 years. The fair value of unvested options earned during the period were determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2%; expected volatility of 192%; and an expected life of 4 years.

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7.

Stockholders deficiency (continued):

(c)

Transactions involving stock options (continued):

$6,565, representing the fair value of 300,000 options issued during 2008, and earned by non-employees during the year ended December 31, has been included in expense. The fair value of 150,000 of these options was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2%; expected volatility of 195%; and an expected life of 4 years. The fair value of the remaining 150,000 of these options was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 1.6%; expected volatility of 196%; and an expected life of 3.5 years.

In accordance with the terms of a stock option agreement, 900,000 options expired during the year ended December 31, 2009, upon the termination of the related employment agreement.

On May 12, 2008, the Corporation granted 2,925,000 options to employees and consultants of the Corporation, in consideration for past service. The options vested immediately, have an exercise price of $0.04, and an expiry date of May 12, 2013, with provision for early expiration in the event the holder ceases to be engaged by the Corporation prior to the stated expiry date. $92,650, representing the fair value of the options at the date of issuance, has been included in selling, general and administrative expenses. The fair value of 1,800,000 of the options was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.42%; expected volatility of 189%; and an expected life of 2.5 years. The fair value of the remaining 1,125,000 of these options was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 3.0%; expected volatility of 150%; and an expected life of 5 years.

On June 1, 2008, the Corporation granted 900,000 options to consultants in consideration for services rendered and to be rendered. 225,000 of the options vested immediately; 675,000 options vest or vested on various dates between December 1, 2008 and December 1, 2009. The options have an exercise price of $0.04, and an expiry date of May 14, 2013, with provision for early expiration in the event the holder ceases to be engaged by the Corporation prior to the stated expiry date. $3,524, and $6,931, representing the fair value of options earned to December 31, 2008, has been included in research and development, and selling, general and administrative expense, respectively. 150,000 of the options were forfeited, and 150,000 of the options expired in accordance with the terms of the options, on the termination of the related consulting contract. The fair value of options which vested at issuance was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 3.28%; expected volatility of 151%; and an expected life of 5 years. The fair value of 225,000 of the options which vested in December 2008 was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 1.44%; expected volatility of 157%; and expected life of 4.54 years. The fair value of unvested options earned during the year was determined using the following weighted average assumptions:

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7.

Stockholders deficiency (continued):

(c)

Transactions involving stock options (continued):

expected dividend yield 0%; risk-free interest rate of 1.28%; expected volatility of 164%; and expected life of 4.46 years.

On June 2, 2008, the Corporation granted 300,000 options to a consultant in consideration for entering into a service agreement, and a further 300,000 options to a consultant as partial consideration for services to be rendered over a one-year period. The 300,000 options granted in consideration for entering into a service agreement vested immediately. 75,000 of the options granted in consideration for services to be rendered over a one-year period vested immediately; the remaining 225,000 options vested on December 31, 2008. All of these options have an exercise price of $0.04, and an expiry date of June 2, 2013, with provision for early expiration in the event the holder ceases to be engaged by the Company prior to the stated expiry date. $13,526, representing the fair value of options earned to December 31, 2008, has been included in selling, general and administrative expense. $1,547, representing the fair value of vested options awarded for services to be rendered, is included in prepaid expenses, and is being amortized on a straight-line basis over the service period for which the options were awarded.

The fair value of options which vested at issuance was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 3.28%; expected volatility of 151%; and an expected life of 5 years. The fair value of the 225,000 options which vested in December 2008 was determined using the following weighted average assumptions:

expected dividend yield 0%; risk-free interest rate of 1.28%; expected volatility of 164%; and expected life of 4.46 years.

During the year ended December 31, 2008, 1,680,000 options issued during prior periods expired in accordance with the terms of the options, on the termination of the related employment and consulting contracts.

The fair value of unvested options are determined periodically and included in expense over the vesting period.

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7.

Stockholders deficiency (continued):

(c)

Transactions involving stock options (continued):

Following is a summary of stock options outstanding at December 31, 2009 and 2008:

	2009		2008	
	# of Options	Weighted Average Exercise price	# of Options	Weighted Average Exercise price
Options outstanding, beginning of year	8,000,000	$ 0.04	5,405,000	$ 0.06
Granted	600,000	0.04	4,425,000	0.04
Expired	(900,000)	0.04	(1,680,000)	0.09
Forfeited	--	0.04	(150,000)	0.04
Options outstanding, end of year	7,700,000	$ 0.04	8,000,000	$ 0.04
Options exercisable, end of year	7,325,000	$ 0.04	7,700,000	$ 0.04

The following table summarizes information regarding stock options outstanding and exercisable at December 31, 2009:

	Options Outstanding			Options Exercisable	
Exercise price	Number outstanding at 12/31/09	Weighted average remaining contractual life	Weighted average exercise price	Number outstanding at 12/31/09	Weighted average exercise price
$ 0.04	7,700,000	3.1 years	$ 0.04	7,325,000	$ 0.04

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7.

Stockholders deficiency (continued):

(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 ended December 31, 2009 and 2008:

	2009	2008
Selling, general and administrative	$ 89,430	$ 389,706
Research and development	30,067	21,124
Total stock-based compensation included in expenses	$ 119,497	$ 410,830

8.

Interest and financing costs:

Interest and financing costs include accrued interest, accretion and amortization of deferred financing costs relating to the 10% senior convertible notes; accrued interest and accretion on the promissory notes; and the interest portion of capital lease payments.

9.

Gain on extinguishment of debt and accrued liabilities:

	2009	2008
Gain on issuance of common shares in settlement of accounts payable	$ 6,000	$ 161,194
Gain on settlement of accrued interest on 10% senior convertible notes	--	3,689
Gain on settlement of $50,950 in accrued liabilities and $878 in accounts payable to a former director of the Corporation, pursuant to the settlement of a legal action brought by the former director against the Corporation	--	17,094
Gain on settlement in December 2008 of $8,462 in accrued liabilities through the issuance of $2,008 in cash and $2,088 in promissory notes	--	4,366
Accrued gain on settlement of $47,803 in accrued liabilities and $472 in accounts payable through the issuance of $2,460 in cash and $3,280 in promissory notes	--	42,535
	$ 6,000	$ 228,878

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10.

Loss per share:

As the Corporation incurred a net loss during the years ended December 31, 2009 and 2008, the loss and diluted loss per common share are based on the weighted-average common shares outstanding during the year. The following outstanding instruments could have a dilutive effect in the future:

	2009	2008
Stock issuable on conversion of the 10% senior convertible notes	184,024,051	139,184,144
Stock options	7,700,000	8,000,000
Series I stock purchase warrants	--	3,513,333
Series K stock purchase warrants	3,120,000	3,120,000
	194,844,051	153,817,477

11.

Related party transactions:

Included in 10% senior convertible notes (note 5) is $584,387 (2008 - $513,484) payable to the director and to a company controlled by the director, and $39,632 (2008 - $24,956) payable to an individual related to the director and a company controlled by an individual related to the director.

Included in promissory notes payable (note 4) is $71,888 (2008 - $17,797) payable to companies controlled by the director and an individual related to the director of the Corporation, and $2,383 (2008 - $nil) payable to the director.

$9,460 (2008 - $22,071) in accrued interest charges relating to these notes is included in accrued liabilities; $79,836 (2008 - $38,043) in coupon-rate interest on these notes is included in interest and finance costs; $nil (2008 - $88,916) in accretion of the 10% senior convertible notes is also included in interest and finance costs.

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12.

Guarantees and Commitments:

a)

Guarantees

The Corporation has entered into agreements which contain features which meet the definition of a guarantee under ASC Topic 460   Guarantees   (Topic 460). Topic 460 defines a guarantee to be a contract that contingently requires the Corporation to make payments (either in cash, financial instruments, other assets, common stock of the Corporation or through the provision of services) to a third party based on changes in an underlying economic characteristic (such as interest rates or market value) that is related to an asset, liability or an equity security of the other party.

The Corporation has the following guarantees which are subject to the disclosure and measurement requirements of Topic 460:

(i) In the normal course of business, the Corporation entered into a lease agreement for facilities. As the lessee, the Corporation agreed to indemnify the lessor for liabilities that may arise from the use of the leased facility. This lease agreement was terminated effective September 8, 2009. The Corporation has included in expense all amounts for which it is liable under the terms of this agreement.

(ii) The Corporation includes standard intellectual property indemnification clauses in its software license and service agreements. Pursuant to these clauses, the Corporation holds harmless and agrees to defend the indemnified party, generally the Corporation s business partners and customers, in connection with certain patent, copyright or trade secret infringement claims by third parties with respect to the Corporation s products. The term of the indemnification clauses is generally perpetual from the date of execution of the software license and service agreement. In the event an infringement claim against the Corporation or an indemnified party is successful, the Corporation, at its sole option, agrees that it will do one of the following: (i) procure for the indemnified party the right to continue use of the software; (ii) provide a modification to the software so that its use becomes non-infringing; (iii) replace the software with software which is substantially similar in functionality and performance; or (iv) refund the residual value of the software license fees paid by the indemnified party for the infringing software. The Corporation believes the estimated fair value of these intellectual property indemnification clauses is minimal.

Historically, the Corporation has not made any significant payments related to the above-noted indemnities and accordingly, no liability related to the contingent features of these guarantees has been accrued in the financial statements.

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12.

Guarantees and Commitments (continued):

b)

Commitment

All rent payable under a lease agreement for office space, including operating costs, were satisfied by the Corporation on termination of the lease agreement on September 8, 2009.

Rental expense for the year, which is included in selling, general and administrative expenses, was $77,679 (2008 - $93,979).

13. Contingent liability:

Effective May 1, 2009, the Corporation entered into a contract for consulting services, pursuant to which part of the remuneration is contingent upon the Corporation achieving certain funding goals, whereupon the contingent amount will become immediately due and payable. As of December 31, 2009, the cumulative contingent liability under this arrangement was $24,000.

14. Fair value measurements:

The carrying value of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities approximates fair value due to the short term to maturity of these instruments. The carrying value of the promissory notes and 10% senior convertible notes is equal to fair value due to the issuance of new debt instruments having similar terms and conditions subsequent to December 31, 2009. The fair value of the obligation under capital lease at December 31, 2009 was approximately $9,890, based on the present value of future cash flows as of the balance sheet date, discounted at market rates.

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15.

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:

	2009	2008
Deferred tax asset:		
Net operating loss carryforwards	$ 7,130,000	$ 6,690,000
Capital loss carryforwards	1,050,000	1,050,000
Total gross deferred tax asset	8,180,000	7,740,000
Valuation allowance	(8,180,000)	(7,740,000)
Net deferred taxes	$ --	$ --

Income tax expense attributable to loss before income taxes was $nil (2008 - $nil) and differed from the amounts computed by applying the U.S. federal income tax rate of 34% (2008 - 34%) to the net loss as a result of the following:

	2009	2008
Expected tax rate	34%	34%
Expected tax recovery applied to net loss before income taxes	$ (562,927)	$ (1,348,087)
Increase (decrease) in taxes resulting from:		
Change in valuation allowance	440,000	817,000
Compensation expense	5,000	40,000
Interest and financing costs	72,000	628,000
Loss (gain) on extinguishment of debt	--	(78,000)
Other	45,927	58,913
	$ --	$ --

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15.

Income taxes (continued):

The Corporation has net operating losses of $21,152,000 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		1,671,000
2024		4,205,000
2025		3,381,000
2026		3,088,000
2027		2,623,000
2028		2,401,000
2029		1,299,000
	$	21,152,000

The losses noted above are estimates, as the related tax returns have not been filed by the Corporation.

16.

Change in non-cash operating working capital:

	2009	2008
Amounts receivable	$ (16,891)	$ 10,957
Prepaid expenses	6,852	11,168
Accounts payable	36,318	337,006
Accrued liabilities	112,881	98,730
	$ 139,160	$ 457,861

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17. Supplementary cash flow information:

The Corporation paid no income taxes during the year ended December 31, 2009, nor during the year ended December 31, 2008. Interest paid in cash during the years ended December 31, 2009 and December 31, 200 were $14,718 and $3,306, respectively.

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

	2009	2008
Debt issuance costs	$ 13,150	$ 20,370
Issuance of the Corporation s common stock in settlement of interest payable on the 10% senior convertible notes	160,287	47,642
Issuance of the Corporation s common stock in settlement of accounts payable and accrued liabilities	10,000	261,955
Issuance of the Corporation s common stock as incentives under consulting services contracts	44,600	--
Issuance of the Corporation s common stock as partial consideration for Services rendered	60,000	--
Issuance of the Corporation s common stock in settlement of 10% senior convertible notes and accrued interest, on the holders exercise of the conversion feature	108,100	368,302

Issuance of the Corporation s 10% senior convertible notes in settlement of promissory notes, and accrued interest thereon	132,926	456,758
Issuance of the Corporation s 10% senior convertible notes in settlement of previously issued 10% senior convertible notes and accrued interest thereon	4,575,315	1,510,425
Issuance of the Corporation s 10% senior convertible notes in settlement of accounts payable and accrued liabilities	--	708,065
Issuance of the Corporation s promissory notes in settlement of accrued liabilities	--	2,088
Payable to employees and consultants with respect to the		
Acquisition of office equipment through a capital lease arrangement	--	15,723
Total	$ 5,104,378	$ 3,391,328

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18.

Subsequent events:

On January 26, 2010, the Corporation repaid $2,366 in principal of its promissory note, plus $203 in accrued interest thereon.

On March 4, 2010, the Corporation issued $75,000 of its 10% senior convertible notes for cash. The note permits the holder, at any time, to 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 $0.03 of debt converted; the Corporation may pre-pay all or any portion of the balance outstanding on the note at any time without penalty or bonus, with permission from the holder; interest is payable at such times as the holder requests payment in writing, and may, at the Corporation s option, be paid in either cash, or in common shares of the Corporation at the rate of one common share for each $0.03 of interest paid. The Corporation issued 375,000 shares of its common stock to the holder pursuant to the terms of the note.

On March 31, 2010, the Corporation issued $164,354 of its 10% senior convertible notes in settlement of $156,455 previously issued 10% senior convertible notes which matured on that date, plus $7,802 in accrued interest thereon, and $97 in finance fees. The note permits the holder, at any time, to 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 $0.03 of debt converted; the Corporation may pre-pay all or any portion of the balance outstanding on the note at any time without penalty or bonus, with permission from the holder; interest is payable at such times as the holder requests payment in writing, and may, at the Corporation s option, be paid in either cash, or in common shares of the Corporation at the rate of one common share for each $0.03 of interest paid. The Corporation issued 23,696 shares of its common stock to the holder pursuant to the terms of the note.

In May 2009, the FASB issued ASC Topic 855 Subsequent Events , which establishes general standards of accounting and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. We adopted ASC Topic 855 for the year ended December 31, 2009 and its adoption did not result in any significant or material changes to our reporting of subsequent events.

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Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosures.

There have been no changes in or disagreements with accountants with respect to accounting and/or financial statements.

Item 9A(T). Controls and Procedures.

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission.

Management of Validian Corporation (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company s principal executive and principal financial officers and effected by the Company s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

The Company s internal control over financial reporting is not supported by written policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company s transactions and dispositions of the Company s assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In connection with the preparation of the Company s annual consolidated financial statements, management undertook an assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. Management s assessment included an evaluation of the design of the Company s internal control over financial reporting but did not include testing of the operational effectiveness of those controls because our evaluation concluded that our system of internal controls was not effective in preventing or detecting misstatements.

Based on this assessment, management has concluded that as of December 31, 2009, the Company s internal control over financial reporting was not effective enough to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. KPMG LLP, our independent registered public accounting firm, which audited our financial statements included in this annual report on

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Form 10-K, has not audited the effectiveness of our internal control over financial reporting as of December 31, 2009.

In connection with the audit of our consolidated financial statements for the year ended December 31, 2009, our management identified the existence of certain significant internal control deficiencies that they considered to be material weaknesses. In particular, we identified the following weaknesses in our internal control system at December 31, 2009: (1) a lack of segregation of duties; (2) the lack of timely preparation of certain back up schedules; (3) finance staff s lack of sufficient technical accounting knowledge; (4) a lack of independent Board oversight; and (5) signing authority with respect to corporate bank accounts. The independent registered public accounting firm indicated that they considered these deficiencies to be reportable conditions as that term is defined under the standards established by the American Institute of Certified Public Accountants. A material weakness is a significant deficiency in one or more of the internal control components that alone or in the aggregate precludes our internal controls from reducing to an appropriately low level of risk that material misstatements in our financial statements will not be prevented or detected on a timely basis. We considered these matters in connection with the period-end closing of accounts and preparation of the related consolidated financial statements and determined that no prior period financial statements were materially affected by such matters. Notwithstanding the material weakness identified by our independent registered public accountants, we believe that the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operation and cash flows of the Corporation as of, and for, the periods represented in this report.

Our size has prevented us from being able to employ sufficient resources at this time to enable us to have an adequate level of supervision and segregation of duties within our internal control system. We will continue to monitor and assess the costs and benefits of additional staffing within the Company.

Set forth below is a discussion of the significant internal control deficiencies that have not been remediated.

Lack of segregation of duties. Since commencing the development phase of our operations in August 1999, our size has prevented us from being able to employ sufficient resources to enable us to have an adequate level of supervision and segregation of duties within our internal control system. Until February 2008 we had only three people involved in the processing of accounting entries: the Office Administrator, the Controller and the Chief Financial Officer. It was therefore difficult to effectively segregate accounting duties. During this period, we made attempts to segregate duties as much as practicable, however there was insufficient volume of transactions to justify additional full time staff. The office administrator and the Chief Financial Officer resigned effective February 15, 2008 and July 10, 2008, respectively. While our Chief Executive Officer has assumed the roll of the Chief Financial Officer on an interim basis, we nonetheless are inadequately staffed at this time to ensure a sufficient level of segregation of duties. As a result, this significant internal control deficiency had not been remediated as of the end of the period covered by this report, nor do we know if we will be able to remediate this weakness in the foreseeable future. However, we will continue to monitor and assess the costs and benefits of additional staffing.

Lack of timely preparation of back up schedules. Throughout 2009 and 2008, we were able to complete most of our back up schedules prior to the arrival of our independent registered public accountants audit staff, however, during this time we consistently experienced a lack of complete preparedness. As such, we believe that this material weakness had not been remediated as of the end of the period covered by this report. Inasmuch as this deficiency is related to our lack of adequate staffing, which is a condition which our size prohibits us from remediating, we do not know if we will be able to remediate this weakness in the foreseeable future. We will continue to review our procedures, and to make changes wherever practicable which will assist in remediating this deficiency.

Finance staff s lack of sufficient technical accounting knowledge. Due to the limited number of personnel, our finance staff does not have sufficient technical accounting knowledge to address all complex and non-routine accounting transactions that may arise. These transactions are sometimes extremely technical in nature and require an in-depth understanding of generally accepted accounting principles. As a result of this pervasive deficiency, these types of transactions may not be recorded correctly, potentially resulting in material misstatements of the financial statements of the Company. To address this risk, the Company has a control whereby it consults with its auditors and advisors, as needed, in conjunction with the recording and reporting of complex and non-routine accounting transactions. Management has concluded that this control was not operating effectively during the year, as the Company did not consult with external advisors on certain complex and non-routine transactions and on certain of these transactions, errors were identified by our auditors. All material misstatements detected by the audit have been corrected by the Company. Any changes in the staff complement will be dependant upon the growth of our operations and the number of our staff to allow further technical accounting knowledge to address all complex and non-routine accounting transactions. Management will continue to review existing consultation controls and, if appropriate, implement changes to its current internal control processes whereby more effective consultation will be performed.

Lack of independent Board oversight. Our Board of Directors consists of only one individual who is also the Company s sole signing officer. We have experienced difficulties in identifying suitable candidates to serve as independent Board members because of our size, the perceived additional liability to the public by prospective candidates and the excessive additional costs associated with the selection of a candidate including director fees and director liability insurance. As such, our Board lacks the controls, depth of knowledge and perspective that such independence would provide.

Signing authority with respect to corporate bank accounts. Since the departure of our Chief Financial Officer and Treasurer in July 2008, the positions of Director, President, Chief Executive Officer, Chief Financial Officer, Executive Vice President, Secretary and Treasurer have been held by one person. This individual has sole signing authority for the Company s bank accounts. Our Controller monitors our bank accounts on a regular basis, however there can be no assurance that unauthorized or unsupported transactions will not occur.

If we are unable to remediate the identified material weakness, there is a more than remote likelihood that a material misstatement to our SEC reports will not be prevented or detected, in which case investors could lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our ability to raise additional capital and could also have an adverse effect on our stock price. We have not been as successful in this initiative as we had hoped.

As required by the SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Report. This evaluation was performed under the supervision and with the participation of our President and Chief Executive Officer, who is also the Chief Financial Officer and Treasurer. Based upon that evaluation, our President and Chief Executive Officer has concluded that our controls and procedures were not effective as of the end of the period covered by this Report due to existence of the significant internal control deficiencies described above.

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There has been no change in internal control over financial reporting during the year ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10.

Directors, Executive Officers, Promoters and Control Persons: Compliance with Section 16(a) of the Exchange Act.

The following table sets forth certain information concerning our director and executive officer as of December 31, 2009:

Name	Age	Position
Bruce I. Benn	56	Director, President, Chief Executive Officer, Chief Financial Officer, Executive Vice President, Secretary and Treasurer

Effective May 6, 2005, the Board of Directors of the Company appointed Bruce I. Benn to the positions of President and Chief Executive Officer of the Company. Effective July 11, 2008, the Board of Directors of the Company appointed Bruce I. Benn also to the positions of Chief Financial Officer and Treasurer of the Company. Mr. Benn has served as a Director, Executive Vice President and Secretary of the Company since February 2004. From 1999 until February 2004, he provided services to the Company through Capital House Corporation. Mr. Benn plays a major role in making key management and strategic decisions and oversees all aspects of corporate finance for the Company.

He has been principally responsible for arranging in excess of $20 million of capital investment for the Company from 1999 to date. Since 1989, Mr. Benn has been 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 October 2000. 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.

Audit Committee Financial Expert

The SEC has adopted rules to implement certain requirements of the Sarbanes-Oxley Act of 2002 pertaining to public company audit committees. One of the rules adopted by the SEC requires a company to disclose whether it has an audit committee financial expert serving on its audit committee. We do not have an audit committee financial expert. The Company and its Board of Directors have experienced difficulties in identifying a suitable candidate to serve as its audit committee financial expert because of the size of the Company, the perceived additional liability to the public by prospective candidates and the excessive additional costs associated with the selection of a candidate, including director fees for the audit committee financial expert and director liability insurance.

Code of Ethics Policy

We have not yet adopted a code of ethics policy because we are a development stage company, in the early stages of operations. We intend to adopt a code of ethics policy in the future.

Compliance with Section 16(a) of The Securities Exchange Act of 1934

To our knowledge, based solely on a review of such materials as are required by the Securities and Exchange Commission, none of our officers, directors or beneficial holders of more than ten percent of our issued and outstanding shares of common stck failed to timely file with the Securities and Exchange Commission any form or report required to be so filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, during the year ended December 31, 2009.

Item 11.

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 other executive officers who received total annual salary and bonus in excess of $100,000 during the past fiscal year in all capacities in which the person served.

Summary Compensation Table

(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	**(g)**	**(h)**	**(i)**	**(j)**
						Non-Equity	**Nonqualified**		

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Incentive Plan Compen-sation ($)	Deferred Compen-sation Earnings($)	All Other Compensa-tion	Total $
Benn, Bruce	2009	105,579	0	0	0	0	0	0	105,579
(1)(4)	2008	113,292	0	0	27,910	0	0	0	141,202
	2007	112,278	0	0	17,681	0	0	0	129,959
	2006	105,847	0	0	0	0	0	0	105,847
	2005	99,146	0	0	500,000	0	0	0	599,146
Benn, Ronald	2007	98,243			18,339				116,582
(2)(5)	2006	105,847	0	0	0	0	0	0	105,847
Maisonneuve,	2006	105,847	0	0	0	0	0	0	105,847
Andre (3)	2005	103,848	0	0	0	0	0	0	103,848
	2004	100,353	0	0	0	0	0	0	100,353

(1) Became Director, President, Chief Executive Officer, Executive Vice President and Secretary in May 2005 and Chief Financial Officer in July, 2008. In addition, Mr. Benn served as Executive Vice President and Secretary from February 2004 to May 2005.

(2) Became Director, Chief Financial Officer and Treasurer in February 2004, until his resignation in July 2008

(3) 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; as Chairman, President, Chief Executive Officer from January 2002 until May 2005; and as Chairman and Vice-President Strategic Marketing from May 2005 until his retirement effective December 31, 2006.

(4) Reported salary for August 2006 to December 2009 has been accrued but not paid.

(5) Reported salary for August 2006 to July 2008 has been accrued but not paid.

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Outstanding Equity Awards at Fiscal Year-End

	Option/SSAR Awards					Stock Awards			
(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	**(g)**	**(h)**	**(i)**	**(j)**
	Number of Securities Underlying Unexercised Options Exercisble	**Number of Securities Underlying Unexercised Option Unexercisable**	**Equity Incentive plan awards: Number of securities underlying unexercised unearned options**	**Option Exercise Price**	**Option Expiration**	**Number of Shares or Units of Stock That Have not Vested**	**Market Value of Shares or Units of Stock That have not vested**	**Equity Incentive Plan Awards: Number of unearned=**	**Equity Incentive Plan Awards Market Payout Value of Unearned Shares, Units or other Rights that have not vested**
Name	(#)	**(#)**	(#)	**($)**	**Date**	**(#)**	**($)**	**(#)**	**$**
Benn, Bruce	900,000	0	0	$0.04	2013/05/12	0	0	0	0
	900,000	0	0	$0.04	2012/06/19	0	0	0	0
Benn, Ronald	900,000	0	0	$0.04	2013/05/12	0	0	0	0
	900,000	0	0	$0.04	2012/06/19	0	0	0	0
Maisonneuve, André	0	0	0	0	0	0	0	0	0

(1) Calculated based on $0.03 per share of common stock, the closing bid price of our common stock on December 31, 2009.

Long-Term Incentive Plans Awards In Last Fiscal Year

There were no incentive awards granted to our officer and director during the year ended December 31, 2009.

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.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth information as of March 31, 2010, 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 and directors named in Item 10; and the amount of common stock beneficially owned by our officers and directors as a group.

Name & Address of Beneficial Owner	Number of Shares Beneficially Owned	Approximate Percent of Common Stock Outstanding (1)
Henrik Olsen (2) Rte De St. Cergue 297 CH 1260 Nyon Switzerland	8,460,604	7.9%
Leonid Frenkel (3) 401 City Avenue Suite 800 Bala Cynwyd, PA 19004	9,992,222	9.4%
Bruce Benn* (4)	6,020,454	5.6%
All Executive Officers and Directors As a Group	6,020,454	5.6%

*Executive Officer and/or a Director.

(1) Based upon 104,884,231 shares of common stock issued and outstanding as of March 31, 2010 and includes for each person the shares issuable upon exercise of the options and warrants owned by them.

(2) Includes (a) 7,911,816 shares held directly by Henrik Olsen; and (b) 548,788 shares owned of record by Echo Technologies S.A.

(3) Based on information contained in Schedule 13G as filed by Mr. Frenkel on February 16, 2010.

(4) Includes (a) 330,860 shares held directly by Bruce Benn, (b) 2,650,000 shares owned of record by Valdosta Corporation; and (c) 1,239,594 shares owned of

record by White Haven Capital Inc.; and (d) 1,800,000 shares issuable upon exercise of options held directly by Bruce Benn.

The following table sets forth details regarding our common stock authorized for issuance under equity compensation plans as at March 31, 2010:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	7,700,000	$ 0.04	2,300,000
Equity compensation plans not approved by security holders	--	--	--
Total	7,700,000	$ 0.04	2,300,000

We have granted options pursuant to our Amended and Restated Incentive Equity Plan, which was adopted by our board of directors and became effective on May 30, 2003. The plan, as amended and restated, was approved by our stockholders on February 25, 2005. The amended and restated plan is administered by the board of directors, who has the authority to grant stock options and stock appreciation rights to our officers, employees and consultants. A total of 3,912,302 shares of common stock were reserved for issuance under the terms of the Amended and Restated Incentive Equity Plan. In the event of certain mergers, sales of assets, reorganizations, consolidations, recapitalizations, stock dividends or other changes in corporate structure affecting our common stock, the committee administering the plan must

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make an equitable substitution or adjustment in the aggregate number of shares reserved for issuance under the plan and in the number of shares exercisable under, and the exercise price of, outstanding options under the plan.

In respect of our Amended and Restated Incentive Equity Plan, we have granted options to purchase an aggregate of 3,905,000 shares of our common stock to employees and non-employees in consideration for services rendered. These options entitle the holders to purchase shares of common stock at an exercise price of $0.04 per share. The options vested immediately upon their issuance; 2,700,000 of the options are exercisable until June 19, 2012; 1,205,000 of the options are exercisable until May 12, 2013, provided the holder remains engaged by us as of that date, with provision for early expiry in the event the holder ceases to be engaged by us prior to the stated expiry date. Of the 5,117,302 options originally granted under this plan, none were exercised as of March 31, 2010, and 2,212,302 expired during periods prior to January 1, 2009, leaving 3,905,000 currently outstanding.

On December 15, 2004, the board of directors adopted the 2004 Incentive Equity Plan, which was approved by our stockholders on February 25, 2005. The 2004 Incentive Equity Plan is administered by the board of directors, who has the authority to grant stock options and stock appreciation rights to our officers, employees and consultants, and to establish the option vesting schedule. The total number of shares of common stock reserved for issuance under the terms of the 2004 Incentive Equity Plan was increased to 6,087,698 as approved by our stockholders at our Annual General Meeting on October 4, 2007. In the event of certain mergers, sales of assets, reorganizations, consolidations, recapitalizations, stock dividends or other changes in corporate structure affecting our common stock, the committee administering the plan must make an equitable substitution or adjustment in the aggregate number of shares reserved for issuance under the plan and in the number of shares exercisable under, and the exercise price of, outstanding options under the plan.

In respect of our 2004 Incentive Equity Plan, we have granted options to purchase 3,795,000 shares of our common stock to employees and non-employees in consideration for services rendered and as incentives, entitling the holders to purchase shares of our common stock at an exercise price of $0.04. 2,670,000 of the options vested immediately upon their issuance; 1,125,000 of the options vest or vested on various dates between December 1, 2008 and December 27, 2010. The options are exercisable until various dates between June 19, 2012 and December 31, 2013, provided the holder remains engaged by us as of that date, with provision for early expiry in the event the holder ceases to be engaged by us prior to the stated expiry date. Of the 6,212,698 options originally granted under this plan, none were exercised as of March 31, 2010, 1,367,698 expired during periods prior to January 1, 2009; 150,000 were forfeited, and 900,000 expired during the year ended December 31, 2009 on termination of the related employment agreement, leaving 3,795,000 currently outstanding.

Item 13. Certain Relationships and Related Transactions.

Included in 10% senior convertible notes at December 31, 2009 is $584,387 payable to the director and to a company controlled by the director, and $39,632 payable to an individual related to the director and to a company controlled by an individual related to the director.

Included in promissory notes payable at December 31, 2009 is $71,888 payable to companies controlled by the director and an individual related to the director of the Corporation, and $2,383 payable to the director.

$9,460 in accrued interest charges relating to these notes is included in accrued liabilities; $79,836 in interest on these notes is included in interest and finance costs for the year.

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Item 14.

Principal Accountant Fees and Services

The following table sets out fees billed by the Company s principal accountant for audit and related services for each of the previous two fiscal years:

Description of services	Fees billed for 2009 fiscal year	Fees billed for 2008 fiscal year
Audit fees	$ 100,780	$ 134,164

We do not currently have an audit committee, however it is our policy to have all audit and audit-related fees pre-approved by the board of directors. All of the above fees were pre-approved by the board of directors.

There were no tax-related, audit-related or other fees incurred during the year.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1)

The List of Financial Statements are filed as Item 8 of Part II of this Form 10-K

(2)

List of Financial Statement Schedules None - see Notes to Financial Statements included in Item 8 of Part II of this Form 10-K

(3)

List of Exhibits follows

The exhibits listed in the accompanying Index to Exhibits are filed as part of this Form 10-K

Exhibit No.	Document Description
3.1	Restated Articles of Incorporation (1)
3.2	Amendment to Articles of Incorporation (5)
3.3	Amendment to Articles of Incorporation
3.4	By-Laws (2)
3.5	Amendment to By-Laws (1)
4.1	Form of Class B Warrants (2)
4.2	Form of Class E Warrants (1)
4.3	Form of Class F Warrants (1)
4.4	Form of Class G Warrants (1)
4.5	Form of Class H Warrants (1)
4.6	Form of Class I Warrants (3)
4.7	Form of Class J Warrants (6)

4.8	Form of 12% Promissory Note (1)
4.9	Form of 4% Convertible Debenture (1)
4.10	Form of 10% senior secured convertible note and security agreement (6)
10.1	Registration Rights Agreement, dated as of March 8, 2004 by and among the Company and each entity named on the signature page thereto (3)
10.2	Securities Purchase Agreement, dated as of March 8, 2004 by and among the Company and each entity named on the signature page thereto (3)
10.3	Securities Purchase Agreement in respect of the 4% Convertible Debenture, dated as of December 30, 2003 by and between Validian Corporation and each individual or entity named on a signature page thereto (1)
10.4	Registration Rights Agreement, dated as of December 30, 2004 by and between the Company and each entity named on the signature page thereto (1)
10.5	Amended and Restated Incentive Equity Plan (4)
10.6	Validian Corporation 2004 Incentive Equity Plan (4)
10.7	Validian Corporation 2004 Amended Incentive Equity Plan
10.8	Commercial Lease dated April 15, 2004 between Validian Corporation and National Capital Commission (5)
10.9	Commercial Renewal Lease dated March 20, 2007 (6)
10.10	Employment Agreement with Andre Maisonneuve * (5)
10.11	Employment Agreement with Bruce Benn * (5)
10.12	Employment Agreement with Ronald Benn * (5)
21.1	List of Subsidiaries (5)
31.1	Certification of Chief Executive Officer Pursuant to Section 302
31.2	Certification of Chief Financial Officer Pursuant to Section 302
32.1	Certification of Chief Executive Officer Pursuant to Section 906
32.2	Certification of Chief Financial Officer Pursuant to Section 906

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*

Denotes management contract

(1)

Previously filed as an exhibit to our Annual Report on Form 10-KSB, SEC File No. 0-28423, filed with the Commission on March 30, 2004 and incorporated herein by reference.

(2)

Previously filed as an Exhibit to our Registration Statement on Form 10-SB, SEC File No. 0-28423, filed with the Commission on December 9, 1999 and incorporated herein by reference.

(3)

Previously filed as an Exhibit to our Current Report on Form 8-K, SEC File No. 0-28423, filed with the Commission on March 8, 2004 and incorporated herein by reference.

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(4)

Previously filed as an Exhibit to our Amended Proxy Statement, filed with the Commission on January 12, 2005 and incorporated herein by reference.

(5)

Previously filed as an Exhibit to our Annual Report on Form 10-KSB for the year ended December 31, 2004, filed with the Commission on April 14, 2005 and incorporated herein by reference.

(6)

Previously filed as an Exhibit to our Annual Report on Form 10-KSB for the year ended December 31, 2006, filed with the Commission on May 18, 2007 and incorporated herein by reference.

Statements contained in this Form 10-K as to the contents of any agreement or other document referred to are not complete, and where such agreement or other document is an exhibit to this Report or is included in any forms indicated above, each such statement is deemed to be qualified and amplified in all respects by such provisions.

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SIGNATURES

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

VALIDIAN CORPORATION

(Registrant)

By: /s/ Bruce Benn

Bruce Benn

President, Chief Executive Officer and director

(principal executive officer)

Dated: April 15, 2010

By: /s/ Bruce Benn

Bruce Benn

Chief Financial Officer and Treasurer

(principal financial and accounting officer)

Dated: April 15, 2010

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