

VALIDIAN CORP
Form 10-Q
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission File No. 000-28423

VALIDIAN CORPORATION

(Exact name of Registrant as specified in its charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

58-2541997
(I.R.S. Employer
Identification No.)

6 Gurdwara St., Suite 100, Ottawa, Ontario, Canada K2E 5A3

(Address of principal executive offices)

Registrant's telephone number: 613-230-7211

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

At November 14, 2011, 127,988,630 shares of the registrant's common stock were outstanding.

SEC 2334 (9-05)

Potential persons who 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.

PART I FINANCIAL INFORMATION**Item 1. Financial Statements****VALIDIAN CORPORATION AND SUBSIDIARIES****A DEVELOPMENT STAGE ENTERPRISE****Unaudited Interim Consolidated, Condensed Balance Sheets****(In United States dollars)**

	Sept 30, 2011	Dec 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,529	\$ --
Value added taxes recoverable	21,760	40,499
Prepaid consulting fees	41,400	--
Deferred finance charges	4,607	--
Total Current assets	90,296	40,499
Property and equipment, net of accumulated depreciation of \$35,438		
(December 31, 2010 - \$32,850)	7,137	7,873
Total assets	\$ 97,433	\$ 48,372
Liabilities and Stockholders Deficiency		
Current liabilities:		
Bank overdraw	\$ --	\$ 1,877
Accounts payable and accrued liabilities (note 10)	2,618,031	2,160,116
Accrued interest on promissory notes and 10% senior convertible notes		
payable to related parties (note 10)	133,737	84,698
Deferred revenue	320,000	320,000
Promissory notes payable (notes 2, 10)	130,184	120,253
Promissory notes payable to related parties (notes 2,10)	62,363	90,754
Current portion of capital lease obligation (note 6)	2,952	3,908
10% Senior convertible notes (notes 3, 10)	5,565,690	5,581,631
10% Senior convertible notes payable to related parties (notes 3, 10)	651,519	651,519
12% convertible notes (note 4)	177,227	--
Convertible promissory notes (note 5)	25,349	--
Total current liabilities	9,687,052	9,014,756
Capital lease obligation (note 6)	--	2,052
Total liabilities	9,687,052	9,016,808
Stockholders deficiency (note 7):		

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Preferred stock (\$0.001 par value. Authorized 50,000,000 shares;
issued

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and outstanding Nil shares at September 30, 2011 and at December
31,

2010)

Common stock, (\$0.001 par value. Authorized 700,000,000 shares;

issued and outstanding 125,163,888 and 106,554,038 shares at

September 30, 2011 and December 31, 2010, respectively.)	125,163	106,554
Additional paid in capital	27,017,395	26,301,990
Deficit accumulated during the development stage	(36,703,743)	(35,348,546)
Retained earnings prior to entering development stage	21,304	21,304
Treasury stock (7,000 shares at September 30, 2011 and		

December 31, 2010, at cost)	(49,738)	(49,738)
Total stockholders' deficiency	(9,589,619)	(8,968,436)

Basis of presentation (note 1)

Contingent liabilities (note 11)

Subsequent events (note 15)

Total liabilities and stockholders' deficiency	\$ 97,433	\$ 48,372
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See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Unaudited Interim Consolidated, Condensed Statements of Operations

For the three and nine months ended September 30, 2011 and 2010

And for the Period from August 3, 1999 to September 30, 2011

(In United States dollars)

	Three Months Ended September 30,		Nine Months Ended September 30		Period from August 3, 1999 To Sept 30, 2011
	2011	2010	2011	2010	
Expenses:					
Selling, general and administrative	\$ 173,474	\$ 120,911	\$ 448,547	\$ 374,363	\$15,777,581
Research and development	24,711	16,596	67,662	100,007	10,043,890
Depreciation of property and equipment	1,268	1,242	3,856	3,725	445,764
Gain on sale of property and equipment	--	--	--	--	(7,442)
Write-off of prepaid services	--	--	--	--	496,869
Write-off of deferred consulting services	--	--	--	--	1,048,100
Write-off of accounts receivable	--	--	--	--	16,715
Write-off of due from related party	--	--	--	--	12,575
Loss on cash pledged as collateral for operating lease	--	--	--	--	21,926
Write-down of property and equipment	--	--	--	--	14,750
	199,453	138,749	520,065	478,095	27,870,728
Loss before other income (expenses)	(199,453)	(138,749)	(520,065)	(478,095)	(27,870,728)
Other income (expenses):					
Interest income	--	--	--	--	61,728
Gain (loss) on extinguishment of debt, accounts payable and accrued liabilities (note 7)	--	--	5,725	--	310,520
Interest and financing costs (notes 8 and 10)	(337,123)	(165,920)	(872,432)	(514,081)	(9,089,005)
Foreign exchange gain (loss)	70,164	(21,100)	31,575	(23,672)	(116,258)
	(266,959)	(187,020)	(835,132)	(537,753)	(8,883,015)
Net loss	\$(466,412)	\$(325,769)	\$(1,355,197)	\$(1,015,848)	\$(36,703,743)
Loss per common share basic and diluted (note 10)	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.01)	

Weighted average number of common shares outstanding during period	120,139,801	105,935,560	115,066,767	105,644,042
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See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Unaudited Interim Consolidated, Condensed, Statements of Cash Flow

For the nine months ended September 30, 2011 and 2010

And for the Period from August 3, 1999 to September 30, 2011

(In United States dollars)

	Nine Months		
	Ended	Period from	
	September 30,	August 3, 1999	
	2011	2010	to
			September 30,
			2011
Cash flows from operating activities:			
Net loss	\$ (1,355,197)	\$ (1,015,848)	\$ (36,703,743)
Adjustments to reconcile net loss to net cash used in <i>operating activities</i> :			
Depreciation of property and equipment	3,856	3,725	445,764
Stock-based compensation	61,162	2,832	3,603,981
Non-cash interest and financing expense	865,374	513,439	9,057,242
Loss (gain) on extinguishment of debt and accrued liabilities	(5,725)	--	(310,520)
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 to related party	--	--	12,575
Loss on cash pledged as collateral for operating lease	--	--	21,926
Write-down of property and equipment	--	--	14,750
<i>Increase (decrease) in cash resulting from changes in:</i>			
Value added taxes recoverable	18,739	(2,206)	4,042
Prepaid expenses	--	(2,500)	(61,557)
Accounts payable and accrued liabilities	181,785	96,315	4,464,867
Deferred revenue	--	165,000	320,000
Due to a related party	--	--	(5,178)
Net cash used in operating activities	(230,006)	(239,243)	(17,441,001)
Cash flows from investing activities:			
Additions to property and equipment	(3,120)	(1,216)	(542,163)
Proceeds on sale of property and equipment	--	--	176,890
Cash pledged as collateral for operating lease	--	--	(21,926)
Net cash used in investing activities	(3,120)	(1,216)	(387,199)

Cash flows from financing activities:

Capital lease repayments	(3,008)	(3,195)	(27,537)
Issuance of promissory notes	10,000	79,397	4,862,272
Issuance of 10% senior convertible notes	161,500	200,000	3,635,500
Issuance of convertible promissory notes	125,500	--	125,500
Debt and equity issuance costs	(8,000)	--	(940,983)
Repayment of promissory notes	(32,767)	(59,869)	(258,714)
Proceeds from exercise of stock purchase warrants	--	--	412,500
Increase in due from related party	--	--	12,575
Issuance of common shares	--	--	8,030,000
Redemption of common stock	--	--	(49,738)
Issuance of 4% senior subordinated convertible debentures	--	--	2,000,000
Net cash provided by financing activities	153,225	216,333	17,801,375
Effects of exchange rates on cash and cash equivalents	4,307	141	14,555
Net increase (decrease) in cash and cash equivalents	14,406	(23,985)	(12,270)
Cash and cash equivalents:			
Beginning of period	(1,877)	36,689	34,799
End of period	\$ 22,529	\$ 12,704	\$ 22,529

Supplementary information (note 12)

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

September 30, 2011

(In United States dollars)

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

Since August 3, 1999, the efforts of the Company have been devoted primarily to the development of a high speed, highly secure method of transacting business using the Internet, and to the sale and marketing of the Company's products.

1. Basis of presentation

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

The interim financial statements are unaudited but, in the opinion of management, include all adjustments (consisting only of normal recurring entries) necessary for a fair presentation of the financial position and results of operations of the Company for the periods presented. The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the operating results for the full fiscal year ending December 31, 2011. These unaudited interim financial statements have been prepared following accounting principles consistent with those used in the annual audited financial statements and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2010.

Going concern

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has no revenues, has negative working capital of \$9,596,756, and stockholders' deficiency of \$9,589,619 as at September 30, 2011, and has incurred a loss of \$1,355,197 and negative cash flow from operations of \$230,006 for the nine months then ended. Furthermore, the Company failed to settle certain 10% senior convertible notes and promissory notes plus accrued interest when they matured on various dates between October 2008 and December 2010. As a result of these non-payment defaults, all of the 10% senior convertible notes, as well as \$36,250 of the promissory notes were in default at September 30, 2011, in accordance with the default provisions of the respective notes, and consequently are due and payable on demand. In addition, the Company expects to continue to incur operating losses for the foreseeable future, and has no lines of credit or other financing facilities in place.

The Company expects to incur operating expenses of approximately \$657,000 for the year ending December 31, 2011, subject to the availability of adequate funding. In the event the Company cannot raise the additional 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 Company's ability to continue as a going concern. Management's plan to address these issues includes raising capital through the private placement of equity, the exercise of previously-issued equity instruments and through the issuance of additional promissory notes. The Company'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 Company's position and or results of operations and could also result in the Company 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.

Even if successful in obtaining financing in the near term, the Company 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 Company'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 Company.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

September 30, 2011

(In United States dollars)

2. 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 periods ended September 30, 2011 and December 31, 2010:

	Nine months ended September 30, 2011 (unaudited)	Year ended December 31, 2010
Balance beginning of period	\$ 211,007	\$ 112,428
Notes issued	10,000	161,397
Principal repaid	(32,767)	(65,878)
Adjustment for foreign currency translation	4,307	3,060
	\$ 192,547	\$ 211,007
Due on demand, interest at 12%, unsecured, repayable in Canadian dollars	\$ 64,297	\$ 174,757
Due on demand, interest at 12%, unsecured, repayable in United States dollars	128,250	36,250
	192,547	211,007
Payable to related parties (note 10)	(62,363)	(90,754)
	\$ 130,184	\$ 120,253

Included in interest and financing costs for the three and nine months ended September 30, 2011 is \$6,253 (2010: \$3,700) and \$19,027 (2010: \$7,018), respectively, of interest on the promissory notes. Interest on the promissory notes paid in cash during the three and nine months ended September 30, 2011 and 2010 were \$5,615 (2010: \$nil) and \$6,803 (2010: \$203), respectively.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

September 30, 2011

(In United States dollars)

3. 10% Senior convertible notes

The following table sets forth the financial statement presentation of the note proceeds on issuance, and the changes in financial statement presentation of the balance allocated to the 10% senior convertible notes for the periods ended September 30, 2011 and December 31, 2010:

	Nine months Ended September 30, 2011 (unaudited)	Year Ended December 31, 2010
Balance beginning of period	\$ 6,233,150	\$ 5,978,407
Note proceeds on issuance	609,157	591,198
Allocated to common stock and additional paid-in capital for the relative fair value of stock issued to holders of the notes:		
Allocated to common stock par value	(3,638)	(1,437)
Allocated to additional paid-in capital	(59,003)	(28,064)
	(62,641)	(29,501)
Allocated to additional paid-in capital for the intrinsic value of the beneficial conversion feature	(130,760)	(20,897)
Proceeds allocated to 10% senior convertible notes on issuance	415,756	540,800
Accretion recorded as a charge to interest and financing costs	193,401	50,398
Principal converted pursuant to the terms of the notes	(120,173)	--
Principal matured and repaid through the issuance of new 10% senior convertible notes	(93,810)	(336,455)
Principal matured and repaid through the issuance of 12%		

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convertible promissory notes (note 4)	(411,115)	--
	6,217,209	6,233,150
Payable to related parties (note 10)	(651,519)	(651,519)
	\$ 5,565,690	\$ 5,581,631

During the nine months ended September 30, 2011, the Company issued of \$161,500 of its 10% senior convertible notes for cash, \$50,000 of the notes in settlement of accounts payable, \$93,810 of the notes in settlement of \$93,810 in previously issued 10% senior convertible notes, and \$303,847 of the notes in settlement of \$289,658 in 12% convertible notes and \$14,189 in accrued interest thereon. During this period the Company also settled \$411,115 of the notes, and \$55,769 in accrued interest thereon through the issuance of 12% convertible promissory notes. As well, holders of the notes exercised the conversion feature of the notes, and converted \$120,173 in principal and \$32,071 in accrued interest thereon into 5,074,775 common shares of the Company during the nine months ended September 30, 2011.

Under the terms of the notes issued during the nine months ended September 30, 2011, 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 company, at a rate of one common share for each \$0.03 of debt converted. The Company 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 holder; holders of \$60,000 of the notes issued during the period are also entitled to receive payment of accrued interest on submission to the Company of a written request. At the Company's option, interest may be paid either in cash or in common shares of the Company. 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. \$131,500 of the notes issued during the period are payable on demand; \$303,849 mature on December 31, 2011; and \$173,808 mature on December 31, 2012.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

September 30, 2011

(In United States dollars)

3. 10% Senior convertible notes (continued)

Holder of the notes issued during the nine months ended September 30, 2011 were granted 3,638,468 common shares of the Company upon issuance of the notes; \$6,241, 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.

\$130,760, representing the relative fair value of the beneficial conversion feature of the notes issued during the nine months ended September 30, 2011 was allocated to additional paid in capital.

The Company failed to settle certain of its 10% senior convertible notes plus accrued interest thereon when they matured on various dates between October 1, 2008 and December 31, 2010. At September 30, 2011, 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 September 30, 2011, in accordance with the default provisions of the notes, and consequently are payable on demand. Interest is accrued at the coupon rate on all notes outstanding past the maturity date.

The following table summarizes information regarding the 10% senior convertible notes outstanding at September 30, 2011:

Note Principal	Conversion Rate
\$ 5,205,702	\$0.03
511,507	0.038
500,000	0.10
\$ 6,217,209	

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At September 30, 2011, \$2,865,025 of the 10% senior convertible notes were secured by a first position lien on all of the assets of the Company. The remaining \$3,352,184 were unsecured. As a result of the event of default noted above, holders of secured notes have the right to exercise their lien on all of the assets of the Company.

Included in interest and financing costs for the nine months ended September 30, 2011 is \$452,862 (2010: \$457,271) in coupon rate interest accrued on the 10% senior convertible notes, and \$193,401 (2010: \$45,059) in accretion related to the relative fair value of the equity components of the 10% senior convertible notes at issuance. Included in interest and financing costs for the three months ended September 30, 2011 is \$153,709 (2010: \$157,560) in coupon rate interest accrued on the 10% senior convertible notes, and \$128,760 (2010: \$4,535) in accretion related to the relative fair value of the equity components of the 10% senior convertible notes at issuance.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

September 30, 2011

(In United States dollars)

4. 12% Convertible notes

During the nine months ended September 30, 2011, the Company issued an aggregate of \$446,884 of its 12% convertible notes in settlement of \$411,115 of its 10% senior convertible notes which matured on December 31, 2010, plus \$55,769 in accrued interest thereon. The notes permit the holders, at any time, to convert all or a portion of the outstanding principal plus accrued interest into common stock of the Company at a ratio of one common share for each \$0.03 of debt converted. The Company may pre-pay all or any portion of the balance outstanding on the note at any time without penalty or bonus. Interest is payable either on payment of the principal amount, or on conversion, pro rata on the converted principal amount. At the holder's option, interest may be paid in either cash or in common shares of the Company at the rate in effect for conversion of the principal. The notes are payable on demand.

Holders of the notes were granted 4,668,845 common shares of the Company upon issuance of the note; \$94,503, 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.

\$33,111, representing the relative fair value of the beneficial conversion feature of the notes was allocated to additional paid in capital.

Also during the nine months ended September 30, 2011, \$289,658 of the notes and \$14,189 in accrued interest thereon were settled through the issuance of \$303,847 in 10% senior convertible notes.

Included in interest and financing costs for the three and nine months ended September 30, 2011 is \$5,468 (2010: \$nil) and \$23,212 (2010: \$nil), respectively, relating to accrued coupon-rate interest on the 12% convertible notes; also included in interest and financing costs for the three and nine months ended September 30, 2011 is \$60,027 (2010: \$nil) and \$127,614 (2010: \$nil), respectively, relating to the accretion of the relative fair value of the equity components of the 12% convertible notes at issuance.

5. Convertible promissory notes

During the nine months ended September 30, 2011, the Company issued \$125,500 of its convertible promissory notes for cash. The notes bear interest at the rate of 8% until they mature, or until there is an event of default; thereafter, any portion of the principal or interest which has not been settled will be subject to interest at the rate of 22% per annum.

\$40,000 of the convertible promissory notes had a maturity date of November 18, 2011, and could be prepaid during the period from issuance to August 15, 2011, in whole or in part, at various rates ranging from 130% to 145% of the principal balance plus accrued interest to the date of prepayment. The holder had the option to convert any balance of principal and interest which was unpaid at August 15, 2011 or thereafter, into common stock of the Company. The rate of conversion was calculated as the average of the lowest three trading prices during the ten day period immediately preceding such conversion, discounted by 42%. The holder of these notes exercised the conversion feature, and converted \$40,000 of principal plus \$1,600 of interest into an aggregate of 2,461,098 common shares of the Company.

\$32,500 of the convertible promissory notes mature on January 30, 2012, and may be prepaid during the period from issuance to October 24, 2011, in whole or in part, at various rates ranging from 130% to 145% of the principal balance plus accrued interest to the date of prepayment. The holder has the option to convert any balance of principal and interest which is unpaid at October 24, 2011 or thereafter, into common stock of the Company. The rate of conversion is to be calculated as the average of the lowest three trading prices during the ten day period immediately preceding such conversion, discounted by 42%.

\$53,000 of the convertible promissory notes mature on June 19, 2012, and may be prepaid during the period from issuance to March 13, 2012, in whole or in part, at various rates ranging from 130% to 145% of the principal balance plus accrued interest to the date of prepayment. The holder has the option to convert any balance of principal and interest which is unpaid at March 13, 2012 or thereafter, into common stock of the Company. The rate of conversion is to be calculated as the average of the lowest three trading prices during the ten day period immediately preceding such conversion, discounted by 42%.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

September 30, 2011

(In United States dollars)

5. Convertible promissory notes (continued)

The convertible promissory notes contain penalty provisions relating to events of default, pursuant to which the Company could be required not only to pay interest at the rate of 22% following such an event, but also to pay immediately 150% of the principal outstanding plus accrued interest and penalty interest; alternatively, the Company could be required, at the discretion of the holder, to issue stock in satisfaction of the value determined under such penalty provisions, at the rate of conversion in effect at such time as the holder so elects. In addition to non-payment of the note principal and interest at maturity or failure to transfer stock on receipt of a notice of conversion from the holder, events of default include making an assignment or appointment of a receiver or trustee, ceasing operations, liquidating assets or entering into bankruptcy proceedings; certain money judgments filed against the Company; breach of covenants, representations or warranties under the note; delisting of the Company's stock or failure to comply with the exchange act; failure to maintain property or rights which are necessary to the Company's business; certain restatements of the Company's financial statements as filed with the SEC during the preceding two years; effectuating a reverse stock split without first providing the holder with 20 days' notice of such occurrence; replacing the Company's transfer agent without first providing to the successor transfer agent, the necessary instructions to effect a transfer of stock to the holder pursuant to the terms of the note.

\$109,942, representing the relative fair value of the beneficial conversion feature of the notes, was allocated to additional paid in capital. The convertible promissory notes are being accreted to their face value over the term of the notes, through periodic charges to interest expense, using the effective interest rate method. During the three and nine months ended September 30, 2011, accretion of \$39,009 (2010: \$nil) and \$49,791 (2010: \$nil), respectively, was recognized, through charges to interest and financing costs, leaving a balance of \$60,151 to be accreted over the remaining term of the notes.

\$8,000 in finance fees were incurred in relation to the convertible promissory notes, and are being charged to interest and financing costs over the term of the notes, using the effective interest rate method. During the three and nine months ended September 30, 2011, \$2,606 (2010: \$nil) and \$3,393 (2010: \$nil), respectively, was charged to interest and financing costs in relation to these finance fees, leaving a balance of \$4,607 to be amortized to expense over the remaining term of the note.

Also during the three and nine months ended September 30, 2011, \$1,246 (2010: \$nil) and \$2,877 (2010: \$nil), respectively, in coupon rate interest relating to the convertible promissory notes was charged to interest and financing costs.

The discount to market conversion feature of the convertible promissory notes causes a theoretical possibility that the Company may be required to settle the notes by issuing more shares than are authorized. Furthermore, this feature causes the notes to fall within the FAS 133 definition of a derivative liability. Management has calculated that the maximum number of shares required to convert the principal plus accrued interest on the convertible notes at September 30, 2011 was 4,987,188, which represents less than 1% of the authorized, unissued shares at that date, and has also estimated that the fair value of the notes at September 30, 2011 approximates face value, therefore no adjustment for fair value restatement has been made.

6. Capital lease obligation:

The Company has entered into a long-term lease arrangement for office equipment. Future minimum payments remaining under this obligation are due approximately as follows:

Twelve months ending September 30:	
2012	\$ 3,050
Less amount representing interest, at 6.61%	98
Present value of minimum lease payments	2,952
Current portion of capital lease obligation	2,952
	\$ --

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

September 30, 2011

(In United States dollars)

7. Stockholders' deficiency

(a) Common stock transactions

During the nine months ended September 30, 2011, the Company issued an aggregate of 2,500,000 shares of its common stock as incentives for consultants to enter into consulting agreements with the company. 500,000 shares issued on March 21, 2011, and 1,000,000 shares issued on September 1, 2011, were in respect of service contracts for indefinite service periods. As such, \$17,200, representing the aggregate fair value of the stock at issuance, was allocated to shares and additional paid in capital, and was charged to expense. A further 1,000,000 shares were issued on September 1, 2011 in respect of a service contract for a two-year term. \$42,200, representing the fair value of the shares at issuance, was allocated to shares and additional paid in capital, and was charged to prepaid expense, and will be amortized over the two year term of the contract.

On various dates during the nine months ended September 30, 2011, holders of the 10% senior convertible notes exercised the conversion feature of the notes, and converted an aggregate of \$120,173 in principal and \$32,071 in accrued interest thereon, in exchange for 5,074,775 common shares of the Corporation (note 3). \$152,244 has been allocated to the stock and additional paid in capital to reflect this transaction.

On March 21, 2011, the Company issued 266,666 shares of its common stock in settlement of \$8,000 in accounts payable. A gain of \$1,348 was recognized on this transaction.

In connection with the issuance of the Company's 12% convertible notes during the nine months ended September 30, 2011, the Company issued 4,668,845 shares of its common stock, with a relative fair value of \$94,503, to the holders of the notes (note 3).

In connection with the issuance of the Company's 10% senior convertible notes during the nine months ended September 30, 2011, the Company issued 3,638,468 shares of its common stock, with a relative fair value of \$94,503, to the holders of the notes (note 3).

(b)

Transactions involving stock options

The Company 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 Company. 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 September 30, 2011, there were a total of 7,700,000 options granted under these plans, all of which are fully vested and have 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. 2,300,000 options remained available for grant under these plans as of September 30, 2011.

\$1,162, representing the fair value of 75,000 options issued during 2009, and earned by non-employees during the current period, has been included in expense during the nine months ended September 30, 2011. The fair value of these options was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 1.02%; expected volatility of 178%; and an expected life of 3.0 years.

(c)

Transactions involving stock purchase warrants

The Company's 3,120,000 stock purchase warrants expired on June 21, 2011.

(d)

Changes to authorized share capital

On November 4, 2011, the authorized share capital of the Company was amended as follows: authorized common shares was increased from 300,000,000 to 700,000,000.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

September 30, 2011

(In United States dollars)

7. Stockholders' deficiency (continued)

e)

Stock-based compensation

The following table presents the total of stock-based compensation included in the expenses of the Company for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	2010	September 30, 2011	2010
Selling, general and administrative	\$ 45,000	\$ --	\$ 60,000	\$ --
Research and development	1,162	1,327	1,162	2,832
Total stock-based compensation included in expenses	\$ 46,162	\$ 1,327	\$ 61,162	\$ 2,832

8. Interest and financing costs

Interest and financing costs include accrued and paid coupon rate interest; accretion and financing costs relating to the 10% senior convertible notes, 12% convertible notes, promissory notes, and convertible promissory notes; and the interest portion of capital lease payments.

9. Loss per share

As the Company incurred a net loss during the nine months ended September 30, 2011, and during the nine months ended September 30, 2010, the loss and diluted loss per common share are based on the weighted-average common shares outstanding during the period. The following outstanding instruments could have a dilutive effect in the future:

	September 30, 2011 (unaudited)	September 30, 2010
Shares issuable on conversion of 10% senior convertible notes	191,984,154	191,348,839
Shares issuable on conversion of 12% convertible notes and accrued interest thereon	6,208,308	--
Shares issuable on conversion of convertible promissory notes and accrued interest thereon	4,987,188	--
Stock options	7,700,000	7,700,000
Series K stock purchase warrants	--	3,120,000
	210,879,650	202,168,839

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

September 30, 2011

(In United States dollars)

10. Related party transactions

Included in 10% senior convertible notes payable (note 3) is \$611,887 (December 31, 2010 \$611,887) payable to a director and to a company controlled by a director, and \$39,632 (December 31, 2010 \$39,632) payable to an individual related to a director and a company controlled by an individual related to a director.

Included in promissory notes payable (note 2) is \$62,363 (December 31, 2010 - \$90,754) payable to the director and to a company controlled by a director.

\$133,737 (December 31 \$84,698) in accrued interest charges relating to the 10% senior convertible notes and promissory notes is included in accrued liabilities at September 30, 2011. \$18,770 (2010: \$17,688) and \$56,607 (2010: \$48,188) is included in interest and financing costs for the three and nine months ended September 30, 2011, respectively.

11. Contingent liabilities

Effective March 1, 2011, the Company entered into a contract for consulting services, pursuant to which part of the remuneration is contingent upon the Company achieving certain funding goals, whereupon the contingent amount will become immediately due and payable. As of September 30, 2011, the accumulated contingent liability under this arrangement was \$21,000.

On or around August 3, 2010, an agent of the Company was served notice of the commencement of legal action against the Company by a former consultant of the Company. The plaintiff is seeking approximately \$171,900 in

unpaid fees relating to a service contract entered into by the Company and the consultant in January of 2007, plus legal and other costs. The Company has retained legal counsel in order to contest this action, and to make a counter claim against the plaintiff, as it is the opinion of management that the work agreed to under the terms of the contract was not delivered by the consultant and that furthermore, the non-performance resulted in the Company not being able to deliver its product to potential customers at the time.

Neither the amount nor the likelihood of any liability that may arise as a result of this action is determinable at this time; accordingly, no amount in respect of this claim has been reflected in the financial statements for the period ended September 30, 2011.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

September 30, 2011

(In United States dollars)

12. Supplementary cash flow information

The Company paid no income taxes during the nine months ended September 30, 2011, nor during the nine months ended September 30, 2010. Interest paid in cash during the nine months ended September 30, 2011 was \$7,058.

Non-cash financing activities are excluded from the consolidated statements of cash flows. The following is a summary of such activities for the nine months ended September 30, 2011 and 2010:

	2011	2010
Issuance of the Company's 12% convertible notes in settlement of previously issued 10% senior convertible notes, plus accrued interest thereon	\$ 466,884	\$ 355,600
Issuance of the Company's 10% senior convertible notes in settlement of accounts payable and accrued liabilities	50,000	597
Issuance of the Company's 10% senior convertible notes in settlement of previously issued 12% convertible notes and accrued interest thereon	303,847	--
Issuance of the Company's 10% senior convertible notes in settlement of previously issued 10% senior convertible notes and accrued interest thereon	93,810	--
Issuance of the Company's common stock on conversion of the 10% senior convertible notes plus accrued interest thereon	152,244	--
Issuance of the Company's common stock on conversion of convertible promissory notes plus accrued interest thereon	41,600	--
Issuance of the Company's common stock as incentive for entering into consulting services agreements	101,400	--
Issuance of the Company's common stock in settlement of accounts payable and accrued liabilities	6,652	--
Release of unused furniture in settlement of storage charges included in accounts payable and accrued liabilities	4,376	--
	\$ 1,220,813	\$ 356,197

13. 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 10% senior convertible, 12% convertible, promissory, and convertible promissory notes approximate fair value, due to the issuance of new debt instruments having similar terms and conditions subsequent to the period ended September 30, 2011. The fair value of the obligation under capital lease at September 30, 2011 was approximately \$2,952, based on the present value of future cash flows, discounted at market rates, as of the balance sheet date.

14. Recent accounting pronouncements

Management does not believe that any recently issued but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

15. Subsequent events

On November 4, 2011, holders of the convertible promissory notes exercised the conversion feature, and converted \$8,000 of note principal into 824,742 common shares of the Company.

On November 11, 2011, the Company issued 2,000,000 shares of its common stock as bonuses to consultants.

Management has evaluated subsequent events through the date that the financial statements were issued, and has determined there are no other subsequent events to be reported.

Item 2. Management's Discussion and Analysis or Plan of Operations

FORWARD-LOOKING INFORMATION

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, 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 which are:

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

·
our business and growth strategies;

·
our technology;

·
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:

our limited operating history;

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our lack of sales to date;

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our requirements for additional capital and operational 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.

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.

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 2010 Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. 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 September 30, 2011 Interim 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 product is 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 product resulting in a change to amortization expense and impairment charges.

Stock based compensation:

The Company accounts for its stock-based payments in accordance with FASB Accounting Standards Codification Topic 718 Compensation Stock Compensation, which requires all share-based payments, including stock options granted by the Company 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 Company 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 Company's circumstances is the stated vesting period of the award.

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.

RESULTS OF OPERATIONS

The Three Months Ended September 30, 2011 compared to the Three Months Ended September 30, 2010

Revenue: We had no revenue during the three months ended September 30, 2011, nor during the three months ended September 30, 2010. 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, travel and other miscellaneous costs associated with supporting our research and development, sales and marketing and investor relations activities. During the three months ended September 30, 2011, we incurred a total of \$173,474, as compared to \$120,911, during the three months ended September 30, 2010. There was an overall increase in selling, general and administrative expenses of \$52,563 (43%) during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010.

The increase in selling, general and administrative expense occurred primarily as a result of recognizing the fair value of common stock issued as signing bonuses in connection with two new consulting agreements for investor relations and financing services; there were also monthly fees recognized pursuant to one of these contracts, as well as monthly fees relating to other investor relations consultants. During the three months ended September 30, 2010, there was no comparable expense.

This increase in consulting fees was partially offset by a reduction in audit and related fees, and also a decrease in legal fees as the legal activities relating to our continuing defense against a claim brought by a former consultant of the Company were reduced during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010.

We have made efforts to minimize selling, general and administrative expenses wherever possible, through measures such as reducing the number of personnel, postponing our Annual General Meeting, reducing the number of trade shows in which we participate, reducing travel costs, delaying production of new promotional material, and reducing our occupancy costs. 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 directly associated with the development of our software applications. During the three months ended September 30, 2011, we incurred a total of \$24,711, as compared to \$16,596 during the three months ended September 30, 2010 on research and development activities. There was an overall increase in research and development expenses of \$8,115 (49%) during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010.

The increase in research and development expenses is due primarily to an increase in fees paid to consultants for development work during the period. During the three months ended September 30, 2010, our research and development activities were focused on evaluating and testing the results of development work undertaken during the preceding three months, and on the feedback received as a result of installations under evaluation licenses. This work involved fewer resources than we engaged during the three months ended September 30, 2011, during which time we focused on achieving several specific development initiatives, and on evaluating, testing and debugging the development work undertaken during the preceding period.

Interest and financing costs: Interest and financing costs during the three months ended September 30, 2011 consisted of costs associated with our 10% senior convertible notes, our promissory notes, our 12% convertible notes, our convertible promissory notes, and interest on the capital lease. Interest and financing costs during the three months ended September 30, 2010 consisted of costs associated with our 10% senior convertible notes, our promissory notes and interest on the capital lease. During the three months ended September 30, 2011, we incurred \$337,123 in interest and financing costs, an increase of \$171,203 (103%) over the \$165,920 in interest and financing costs incurred during the three months ended September 30, 2010.

The \$337,123 in interest and financing costs we incurred during the three months ended September 30, 2011 is comprised of \$166,677 of interest paid and payable to the holders of our debt; \$128,760 of accretion of our 10% senior convertible notes; \$39,009 of accretion of our convertible promissory notes; \$2,606 of amortized deferred finance fees relating to the convertible promissory notes; and \$71 in interest on the capital lease. The \$165,920 in interest and financing costs we incurred during the three months ended September 30, 2010 is comprised of \$161,260 of interest paid and payable to the holders of our debt; \$4,535 of accretion of our 10% senior convertible notes; and \$125 in interest on the capital lease.

We failed to settle certain of our promissory notes and 10% senior convertible notes, and accrued interest thereon, when they became due on various dates between October 1, 2008 and December 31, 2010, and a significant portion of these notes remain in default as at September 30, 2011. In accordance with the default provision of the 10% senior convertible notes, and certain of the promissory notes, this has resulted in all of these notes becoming due and payable on demand as of the date of the default, or in the case of notes issued subsequent to the default, on the date of issuance, notwithstanding any differing stated maturity date. Consequently, the accretion relating to the equity components of either of these instruments issued since the initial event of default, and the amortization of any finance charges incurred thereon, has occurred in the period of issuance.

As a result of the above, the accretion and finance charge components of interest and financing costs relating to the 10% senior convertible notes for the three months ended September 30, 2011, and for the three months ended September 30, 2010 relate only to notes issued during these periods. The fair value of the equity components relating to these classes of notes issued during the three months ended September 30, 2011 was greater than the fair value of equity components relating to similar notes issued during the three months ended September 30, 2010, which resulted in an increase of \$124,225 (274%) in accretion related to these classes of notes.

There is no comparable expense for the \$39,009 of accretion of our convertible promissory notes, nor the \$2,606 of amortized deferred finance fees relating to the convertible promissory notes incurred during the three months ended September 30, 2011, as we issued these classes of notes for the first time during the period ended September 30, 2011.

Interest paid and payable to the holders of our debt increased by \$5,415 (3%), as a result of a net increase of \$341,457 in principal outstanding on our interest-bearing debt during the period from September 30, 2010 to September 30, 2011.

Foreign exchange gain (loss): Foreign exchange gain (loss) 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 three months ended September 30, 2011, the United States dollar gained strength in relation to the Canadian dollar, resulting in an overall gain on foreign currency translations of \$70,164. During the three months ended September 30, 2010, the Canadian dollar gained strength in relation to the United States dollar, resulting in an overall loss on foreign currency translations of \$21,100.

Net loss: We incurred a loss of \$466,412 (rounded to \$0.00 per share) for the three months ended September 30, 2011, compared to a loss of \$325,769 (rounded to \$0.00 per share) for the three months ended September 30, 2010. Our revenues and future profitability are substantially dependent on our ability to:

.
raise additional capital to fund operations;

.
license 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 then-existing users; and

.
successfully develop related software applications.

The Nine Months Ended September 30, 2011 compared to the Nine Months Ended September 30, 2010

Revenue: We had no revenue during the nine months ended September 30, 2011, nor during the nine months ended September 30, 2010. 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, travel and other miscellaneous costs associated with supporting our research and development, sales and marketing and investor relations activities. During the nine months ended September 30, 2011, we incurred a total of \$448,547, as compared to \$374,363, during the nine months ended September 30, 2010. There was an overall increase in selling, general and administrative expenses of \$74,184 (20%) during the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

The increase in selling, general and administrative expense occurred primarily as a result of increased fees paid to investor relations consultants, including \$60,000 with respect to the issuance of common shares as incentive for the consultants to enter into contracts with the Company; these increases were partially offset by reduced expenditure for audit and related fees.

We have made efforts to minimize selling, general and administrative expenses wherever possible, through measures such as reducing the number of personnel, postponing our Annual General Meeting, reducing the number of trade shows in which we participate, reducing travel costs, delaying production of new promotional material, and reducing our occupancy costs. 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 directly associated with the development of our software applications. During the nine months ended September 30, 2011, we incurred a total of \$67,662, as compared to \$100,007 during the nine months ended September 30, 2010 on research and development activities. There was an overall decrease in research and development expenses of \$32,345 (32%) during the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

The decrease in research and development expenses is due primarily to a reduction in fees paid to consultants for development work during the period. This decrease occurred as a result of additional development activities undertaken during the first and second quarters of 2010, during which time we hired an additional software developer in order to meet the testing and evaluation objectives set for that period. During the nine months ended September 30, 2009, we engaged fewer resources to achieve several specific development initiatives, including the evaluation, testing and debugging of our software in order to generate new versions in anticipation of installations in subsequent quarters.

Interest and financing costs: Interest and financing costs during the nine months ended September 30, 2011 consisted of costs associated with our 10% senior convertible notes, our promissory notes, our 12% convertible notes, our convertible promissory notes, and interest on the capital lease. Interest and financing costs during the nine months ended September 30, 2010 consisted of costs associated with our 10% senior convertible notes, our promissory notes and interest on the capital lease. During the nine months ended September 30, 2011, we incurred \$872,432 in interest and financing costs, an increase of \$358,351 (70%) over the \$514,081 in interest and financing costs incurred during the nine months ended September 30, 2010.

The \$872,432 in interest and financing costs we incurred during the nine months ended September 30, 2011 is comprised of \$497,978 of interest paid and payable to the holders of our debt; \$193,401 of accretion of our 10% senior convertible notes; \$127,614 of accretion of our 12% convertible notes; \$49,791 of accretion of our convertible promissory notes; \$3,393 of amortized deferred finance fees relating to the convertible promissory notes; and \$255 in interest on the capital lease. The \$514,081 in interest and financing costs we incurred during the nine months ended September 30, 2010 is comprised of \$467,986 of interest paid and payable to the holders of our debt; \$45,059 of accretion of our 10% senior convertible notes; \$597 in finance fees relating to the issuance of new notes during the period; and \$439 in interest on the capital lease.

We failed to settle certain of our promissory notes and 10% senior convertible notes, and accrued interest thereon, when they became due on various dates between October 1, 2008 and December 31, 2010, and a significant portion of these notes remain in default as at September 30, 2011. In accordance with the default provision of the 10% senior convertible notes, and certain of the promissory notes, this has resulted in all of these notes becoming due and payable on demand as of the date of the default, or in the case of notes issued subsequent to the default, on the date of issuance, notwithstanding any differing stated maturity date. Consequently, the accretion relating to the equity components of either of these instruments issued since the initial event of default, and the amortization of any finance charges incurred thereon, has occurred in the period of issuance.

As a result of the above, the accretion and finance charge components of interest and financing costs relating to the 10% senior convertible notes for the nine months ended September 30, 2011, and for the nine months ended September 30, 2010 relate only to notes issued during these periods. The fair value of the equity components relating to this class of notes issued during the nine months ended September 30, 2011 was greater than the fair value of equity components relating to similar notes issued during the nine months ended September 30, 2010, which resulted in an increase of \$148,342 (329%) in accretion related to these classes of notes.

There is no comparable expense for the \$127,614 of accretion on our 12% convertible notes, the \$49,791 of accretion of our convertible promissory notes, nor the \$3,393 of amortized deferred finance fees relating to the convertible promissory notes, as we issued these classes of notes for the first time during the period ended September 30, 2011.

Interest paid and payable to the holders of our debt increased by \$29,992 (6%), as a result of a net increase of \$341,457 in principal outstanding on our interest-bearing debt during the period from September 30, 2010 to September 30, 2011.

Foreign exchange gain (loss): Foreign exchange gain (loss) 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 nine months ended September 30, 2011 the United States dollar gained strength in relation to the Canadian dollar, resulting in an overall gain on foreign currency translations of \$31,575. During the nine months ended September 30, 2010, the Canadian dollar gained strength in relation to the United States dollar, resulting in an overall loss on foreign currency translations of \$23,762.

Net loss: We incurred a loss of \$1,015,848 (rounded to \$0.01 per share) for the nine months ended September 30, 2011, compared to a loss of \$1,123,067 (rounded to \$0.01 per share) for the nine months ended September 30, 2010. Our revenues and future profitability are substantially dependent on our ability to:

.
raise additional capital to fund operations;

.
license 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 then-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. We have also received an aggregate of \$316,650 in proceeds relating to VAR licensing agreements. 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 increased by \$24,406 during the nine months ended September 30, 2011, from a balance of \$(1,877) at December 31, 2010, to \$22,529 at September 30, 2011. Our net loss of \$1,355,197 during the period, and resulting cash used in operations of \$230,006, were offset by an increase in cash resulting from the issuance of \$10,000 of our promissory notes, \$161,500 of our 10% senior convertible notes, and \$117,500, net of issuance costs, of our convertible promissory notes during the period.

We added an explanatory paragraph to our interim consolidated financial statements for the nine months ended September 30, 2011. It states that our economic viability is 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 in the same period; and our accumulated deficit, raise substantial doubt regarding our ability to continue as a going concern. At September 30, 2011, we had negative working capital of \$9,596,756 and an accumulated deficit during the development stage of \$36,703,743; for the nine months then ended we had a net loss of \$1,355,197, and negative cash flow from operations of \$230,006. Furthermore, the Company failed to settle certain of its 10% senior convertible notes and promissory notes, plus accrued interest thereon when they matured on various dates from October 1, 2008 to December 31, 2010. A substantial amount of these notes remain unpaid as of September 30, 2011. All of the 10% senior convertible notes, as well as \$36,250 of the promissory notes were in default at September 30, 2011 in accordance with the default provisions of the respective notes, and as a result are due and payable on demand.

We anticipate commercial sales during the first quarter of 2012, however we cannot be assured that this will be the case. During the nine months ended September 30, 2011, we did not retain any new personnel. During the next six months we expect to engage one officer and director; we do not expect to hire additional personnel unless we are successful in raising significant funds through the issuance of our debt or equity securities. We do not 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 securities. We have engaged consultants to provide advice to us with respect to the raising of capital. 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 of our common stock 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 issuance 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 taken steps 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 nine months ended September 30, 2011, we issued \$10,000 of our promissory notes, \$161,500 of 10% senior convertible notes, and \$117,500, net of issuance costs, of convertible promissory notes, which generated cash to fund operations. During this period, we also issued \$466,884 of our 12% convertible notes in settlement of \$411,115 previously issued 10% senior convertible notes which matured on December 31, 2010, plus accrued interest thereon; \$303,847 of our 10% senior convertible notes in settlement of \$289,658 12% convertible notes plus accrued interest thereon; 5,074,775 shares of our common stock in settlement of \$120,173 10% senior convertible notes and \$32,071 in accrued interest thereon; \$93,810 of our 10% senior convertible notes in settlement of \$93,810 of previously issued 10% senior convertible notes which matured on December 31, 2010; 2,461,096 shares of our common stock in settlement of \$40,000 convertible promissory notes and \$1,600 in accrued interest thereon; \$50,000 10% senior convertible notes in settlement of \$50,000 of accounts payable; and 266,666 shares of our common stock in settlement of accounts payable, which reduced the cash which would otherwise have been required to settle these liabilities. We also issued 2,500,000 shares of our common stock as signing bonuses for consultants entering into service contracts with the Company, which also reduced the amount of cash which would otherwise have been required for the related consulting services.

Uses of Capital: Over the past several years, we have scaled our development activities to the level of available cash resources. 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 arrangements which would have resulted in our use of capital.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

N/A

ITEMS 4 AND 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer has concluded that our disclosure controls and procedures were not effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information required to be disclosed is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no change in our internal control over financial reporting that occurred during the nine months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Controls over Financial Reporting

At December 31, 2010, management of the Company provided a report on internal controls over financial reporting. Reference should be made to our annual report on Form 10-K for that report, wherein we reported that management's assessment at December 31, 2010 was that the Company's internal control over financial reporting was not effective 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.

In connection with the preparation of the consolidated financial statements for the year ended December 31, 2010, our management identified the existence of certain significant internal control deficiencies that they considered to be material weaknesses. In particular, the following weaknesses in our internal control system were identified at December 31, 2010: (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. 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.

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.

We were unable to eliminate the identified weaknesses with respect to the period covered by this report. Set forth below is a discussion of the significant internal control deficiencies which 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. Our controller is the only person involved in the data entry function, and since the departure of our chief financial officer in 2008, our chief executive officer has assumed the role of chief financial officer. We 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 2010, we were able to complete most of our back up schedules in a timely manner, however, during this time we consistently experienced a lack of complete preparedness at the time our external independent accountants commenced their field work on a quarterly basis. 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 interim procedures, and to make changes wherever practicable to 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 preceding 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.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

On or around August 3, 2010, an agent of the Company was served notice of the commencement of legal action against the Company by a former consultant of the Company. The plaintiff is seeking approximately \$171,900 in unpaid fees relating to a service contract entered into by the Company and the consultant in January of 2007, plus legal and other costs. The Company has retained legal counsel in order to contest this action, and to make a counter claim against the plaintiff, as it is the opinion of management that the work agreed to under the terms of the contract was not delivered by the consultant and that furthermore, the non-performance resulted in the Company not being able to deliver its product to potential customers at the time.

Neither the amount nor the likelihood of any liability that may arise as a result of this action is determinable at this time; accordingly, no amount in respect of this claim has been reflected in the financial statements for the period ended September 30, 2011.

Item 1a. Risk Factors

In addition to other information set forth in this Report, you should carefully consider the risk factors previously disclosed in Item 1A. to Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2010. There were no material changes to these risk factors during the three months ended September 30, 2011.

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

On November 4, 2011, holders of the convertible promissory notes exercised the conversion feature and converted \$8,000 of note principal into 824,742 common shares of the Company.

On November 11, 2011, the Company issued 2,000,000 shares of its common stock as bonuses to consultants.

Item 3. Defaults upon Senior Securities

We failed to settle certain of our 10% senior convertible notes and our promissory notes, plus accrued interest thereon when they matured on various dates between October 1, 2008 and December 31, 2010. A significant amount of these notes remained unpaid as of September 30, 2011, and were therefore in default and due and payable on demand. Additionally, in accordance with the default provisions of the notes, this failure to settle the matured notes resulted in the remaining 10% senior convertible notes and accrued interest thereon becoming also due and payable on demand. Notwithstanding our obligation to repay these amounts immediately, the note holders have verbally communicated to management their willingness to continue holding the notes until new terms are negotiated. We will accrue interest on these unpaid balances at the coupon rate until a settlement is reached.

Until such time as the matured notes plus accrued interest thereon are settled, all of the 10% senior convertible notes, and \$36,250 of the promissory notes will remain in default.

Item 4. Removed and Reserved

Item 5. Other Information

On November 4, 2011, a majority of the Company's shareholders voted to increase the authorized common shares from 300,000,000 to 700,000,000.

Item 6. Exhibits

(a) Exhibits.

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101* The following financial information from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in Extensible Business Reporting Language (XBRL): (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Cash Flows, and (iv) Notes to Financial Statements

*

In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as

amended (Exchange Act), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

In accordance with requirements 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

By: /s/ Bruce Benn

Bruce Benn

President, Chief Executive Officer

and Chief Financial officer

(principal executive officer)

Dated: November 17, 2011

In accordance with the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Bruce Benn

Bruce Benn

President, Chief Executive Officer

and Chief Financial officer

(principal financial and accounting officer)

Dated: November 17, 2011