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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FROM ___________ TO ____________

VALIDIAN CORPORATION

(Name of small business issuer 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)

30 Metcalfe St., Suite 620, Ottawa, Ontario, Canada	**K1P 5L4**
(Address of principal executive offices)	(Zip Code)

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

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-KSB or any amendment to this Form 10-KSB. [X]

State issuer's revenues for its most recent fiscal year. $ NIL

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 ($0.45) and asked ($0.45) price of the issuer's Common Stock as of March 11, 2005, was $10,751,737, based upon the average between the closing bid and asked price ($0.45) multiplied by the 23,892,749 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 issuer.)

The number of shares outstanding of each of the issuer's classes of common equity as of March 11, 2005: 31,434,537.

DOCUMENTS INCORPORATED BY REFERENCE: See Index to Exhibits, page 66.

Transitional Small Business Disclosure Format: Yes [ ] **No [X]**

SEC 2337 (8-04) **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-KSB
December 31, 2004

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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:

* trends affecting our financial condition or results of operations for our limited history;
* our business and growth strategies;
* our technology;
* the Internet; and
* our financing plans.

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

* our limited operating history;
* our lack of sales to date;
* our future requirements for additional capital funding;
* the failure of our technology and products to perform as specified;
* the discontinuance of growth in the use of the Internet;
* the enactment of new adverse government regulations; and
* 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:

* "Part I. Item 1. Description of Business" especially the disclosures set out under the heading "Risk Factors"; and
* "Part II. Item 6. Management's Discussion and Analysis or Plan of Operation"

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.

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 application security. Validian ASI™ is an application-security software system that protects the exchange of information at the application layer, where the majority of breaches occur, and protects mission-critical applications against hack attacks and unauthorized access, which often occur at the hardware and software perimeter. Validian ASI makes secure data exchange among applications, including distributed applications, straightforward and affordable for any organization, regardless of size and resources. Validian ASI facilitates security audit compliance and assurance, whether mandated by government, industry or internal policy; prevents 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 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.

Our technology provides benefits, by enabling users:

* to integrate security and transport in all communication and document exchanges through an integrated approach; and
* to develop and use existing interactive, distributed applications (like e-commerce, e-banking, e-health and e-loyalty) with an integrated security model.

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

Target Market

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

* corporate IT departments that serve their corporation with a variety of applications and implementation environments, according to the needs of the various internal departments. This implies writing applications to ensure the security of communication between applications and over distributed networks; and

* 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:

* manufacturers in supply management chains;
* health care providers and suppliers;
* governments;
* financial institutions and insurance companies; and
* 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 being identified based upon their ability to penetrate specific markets more easily than we can. We believe major customers also will act as VARs in their sector.

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

Currently, we have agreements with distribution partners in the U.S., Canada and Mexico.

Marketing Analysis

During the year ended December 31, 2004, we utilized the services of industry specialists in the health care, government and supply chain management sectors. Their mandate was to identify specific areas and a limited number of corporations where our products would facilitate secure communication and the implementation of a strong security infrastructure with ease of deployment and management.

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

* security;
* features and benefits;
* integration into current systems;
* openness of the architecture;
* future developments; and
* implementation procedures.

Estimated Sales Cycles

We expect that individual sales cycles will be from four to eight months in duration. The territory where most potential clients reside is expected to be in North America, Europe and Asia Pacific. We retained two sales representatives in the third quarter of 2002 and two sales agents in the fourth quarter of 2002. We added one sales representative and three sales agents during the second quarter of 2004. At March 11, 2005 we had a vice president of sales, two sales representatives, one sales agent and one sales support engineer.

Marketing Expenses

The main expense factors for our marketing campaign are for:

* personnel, both internal and outside specialists;
* buying or renting lists of potential customers for direct marketing campaigns;
* direct marketing to potential customers;
* banner advertising on vertical industry websites;
* participation in trade shows;
* travel and living expenses;
* Web site development and maintenance; and
* literature preparation and distribution.

For more information, please see "Part II. Item 6. Management's Discussion and Analysis or Plan of Operation; Plan of Operations."

Our Products

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

Our Application Security Infrastructure (ASI)

Our ASI is an application security framework for securing data transport between distributed applications and Web services. ASI is specifically designed to 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. ASI delivers messages and files to, and only to, the target destination, and data never travels "in the clear" at any time between applications.

Our Flash Communicator (FC)

Our Flash Communicator (FC) product provides a strong level of security for instant communication and file exchange between authenticated parties. FC creates "gated communities" of authenticated users. It offers real-time tools for collaboration between individuals and groups. FC performs encryption of both messages and attachments within its own operation, so that data never travels in the clear at any point in time. Within an FC exchange, all participants are authenticated and messages and large files of most types, including video and audio files, can be transferred encrypted. We believe that FC is currently the only secure instant messenger residing entirely on USB flash memory devices: the Validian "Flash Communicator™". FC operates over Validian's Application Security Infrastructure (ASI) and benefits from all the security features of ASI.

Our Software Development Kit (SDK)
We provide an SDK, for rapidly and simply securing data transport between applications through ASI. The SDK includes a complete, integrated and built-in set of control, transport and security features, which are automatically inherited by any applications linked to ASI through the SDK. Application developers who use the Validian SDK do not have to learn and master any of the various transport and security products or mechanisms to implement security on their applications. 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 ASI protection initiates from within the originating application and transports data to within the destination application. The SDK is offered free of charge to qualified developers and system integrators.

Competition

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

ASI competition

Our ASI product competes primarily with the products described below.

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

The main supplier of VPN is Check Point Software Technologies Ltd., but a number of suppliers are also offering competing products.

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

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

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

FC Competition

Our FC competes primarily with the following products:

Free Instant Messaging (“IM”)
The major suppliers of individual-class, free and unsecure IM systems are Yahoo!, Microsoft and AOL.

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

Research and Development

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

Year ended December 31, 2004	2003
$1,234,042	$997,822

For more information, see: "Part II. Item 6. Management's Discussion and Analysis or Plan of Operation - Plan of Operations.”

Intellectual Property Protection

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

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

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

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

Employees

As at December 31, 2004, we had thirteen full-time employees and contractual personnel, including three executive officers, six sales and marketing staff, two product development personnel, and two in administration. Eleven are located in Ottawa, Canada, one is located in Washington, DC, one is located in Memphis, Tennessee. In addition, we contract with an independent software development group in Europe, who had twenty-seven individuals deployed to our contract on a full-time basis as at December 31, 2004. We also regularly engage technical consultants and independent contractors to provide specific advice or to perform certain marketing or technical tasks.

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.

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 an operating loss of $5,709,516 and negative cash flow from operations of $4,323,111 during the year ended December 31, 2004. During the year ended December 31, 2003, we incurred an operating loss of $2,929,255 and negative cash flow from operations of $955,256. 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.

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

Our independent certified public accountants have added an explanatory paragraph to their audit opinion issued in connection with 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 will require additional working capital to proceed with our business plan. For a discussion of our capital requirements, see the disclosure in "Part II. Item 6. Management's Discussion and Analysis or Plan of Operation; Plan of Operations." 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 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 persons 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 services. Our competitors may develop new technologies in the future that are perceived as being more secure, effective or cost efficient than the technology underlying our security services. In particular, the Internet security market has historically been characterized by low financial entry barriers.

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

If we are unable to develop 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 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 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 develop 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.

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 registered trademarks in the United States, Canada and Europe and have filed two patent applications, one in Canada and the other in the U.S., for our technology. 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.

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 non-United States governments, particularly in response to the terrorist acts of September 11, 2001. If we do not obtain the required approvals, we may not be able to sell some of our products in international markets, which could materially adversely affect our results of operations.

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

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

* new technology or products introduced by us or by our competitors;
* the timing and uncertainty of sales cycles and seasonal declines in sales;
* our success in marketing and market acceptance of our products and services by our existing customers and by new customers;
* a decrease in the level of spending for information technology-related products and services by our existing and potential customers; and
* general economic conditions, as well as economic conditions specific to users of our products and technology.

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

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

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

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

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

* unexpected changes in regulatory requirements, export and import restrictions;
* controls relating to encryption technology that may limit sales sometime in the future;
* legal uncertainty regarding liability and compliance with foreign laws;
* competition with foreign companies or other domestic companies entering into the foreign markets in which we operate;
* tariffs and other trade barriers and restrictions;
* difficulties in staffing and managing foreign operations;
* longer sales and payment cycles;
* problems in collecting accounts receivable;
* political instability;
* fluctuations in currency exchange rates;
* software piracy;
* seasonal reductions in business activity during the summer months in Europe and elsewhere; and
* potentially adverse tax consequences.

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

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:

* our quarterly results of operations;
* the variance between our actual quarterly results of operations and predictions by stock analysts;
* financial predictions and recommendations by stock analysts concerning Internet companies and companies competing in our market in general, and concerning us in particular;
* 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;
* public reports concerning our products or technology or those of our competitors; and
* 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.

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

* investors may have difficulty buying and selling or obtaining market quotations;
* market visibility for our common stock may be limited; and
* a lack of visibility for our common stock may have a depressive effect on the market price for our common stock.

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

We have issued options and warrants to acquire common stock to our employees and certain other persons at various prices, some of which are, or may in the future have, exercise prices at or below the market price of our stock. As of March 11, 2005 we have outstanding options and warrants, to purchase a total of 17,054,135 shares of our common stock. Of these options and warrants, 10,986,833 have exercise prices above the recent market price of $0.45 per share (as of March 11, 2004), and 6,067,302 have exercise prices at or below this recent market price. If exercised, these options and warrants will cause immediate and possibly substantial dilution to our stockholders.

We have two existing stock option plans, one of which has no shares remaining for issuance as of March 11, 2005, the second of which has 2,637,698 shares remaining for issuance as of March 11, 2005. Future options issued under the plan may have further dilutive effects.

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

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

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

As of March 11, 2005, we had outstanding 31,434,537 shares of common stock of which approximately 11,310,512 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, including 3,963,512 shares which will become free trading effective June 1, 2005. No prediction can be made as to the effect, if any, that sales of shares of common stock or the availability of such shares for sale will have on the market prices prevailing from time to time. Nevertheless, the possibility that substantial amounts of our common stock may be sold in the public market may adversely affect prevailing market prices for the common stock and could impair our ability to raise capital through the sale of our equity securities.

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

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

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

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

* with a price of less than five dollars per share;
* that are not traded on a recognized national exchange;
* whose prices are not quoted on the NASDAQ automated quotation system ; or
* of issuers with net tangible assets less than:
    * $2,000,000 if the issuer has been in continuous operation for at least three years; or
    * $5,000,000 if in continuous operation for less than three years, or
    * of issuers with average revenues of less than $6,000,000 for the last three years.

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

* to obtain from the investor information concerning his or her financial situation, investment experience and investment objectives;
* 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 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 officers, directors and major shareholders own a significant percentage of our voting stock. As a result, they exercise significant control over our business affairs and policy.

As of March 11, 2005, our current executive officers, directors and holders of 5% or more of our outstanding common stock together beneficially owned approximately 35% of the outstanding common stock if they exercised all of the options and warrants held by them. These shareholders are able to significantly influence all matters requiring approval by shareholders, 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.

If we fail to maintain an effective system of internal controls, 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 about 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 could be harmed, which could have a negative effect on the trading price of our common stock.

In connection with the audit of our consolidated financial statements for the year ended December 31, 2004, our independent registered public accounting firm advised the Board of Directors and management of certain significant internal control deficiencies that they considered to be, in the aggregate, a material weakness. These consist of inadequate staffing and supervision leading to the untimely identification and resolution of certain accounting and disclosure matters and failure to perform timely and effective reviews. See "Item 8A. Controls and Procedures."

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 and for our registered public accountant to attest to this report. We are required to comply with Section 404 effective the fiscal year ending December 31, 2006. 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. We expect to devote substantial time and incur costs during fiscal 2005 and fiscal 2006 to implement appropriate controls and procedures to ensure compliance. 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. Description of Properties.

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

Our Ottawa office is leased from a non-affiliated party under a long-term operating lease. The lease provides shared access to and use of 5,576 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.

We are not presently a party to any material litigation.

Item 4. Submission of Matters to a Vote of Security holders.

No matters were submitted to a vote of our shareholders during the fourth quarter of the year ended December 31, 2004. On February 25, 2005 the holders of a majority of our common stock passed stockholders' resolutions approving the following:

(1) the election of three directors to hold office until the next Annual Meeting of Stockholders or until their successors have been duly qualified and elected;

(2) the adoption of our Amended and Restated Incentive Equity Plan;

(3) the adoption of our 2004 Incentive Equity Plan;

(4) the adoption of an amendment to our Restated Articles of Incorporation, to increase the number of shares of our common stock, par value $0.001 per share, authorized for issuance from 50,000,000 to 100,000,000, and to increase the number of shares of our preferred stock, par value $0.001 per share, authorized for issuance from 5,000,000 to 7,000,000; and

(5) the appointment of KPMG LLP as our independent certified public accountants for 2004.

As of January 4, 2005, the record date for the meeting, 30,435,153 shares of our common stock were issued and outstanding.

Andre Maisonneuve was elected as director and received 24,765,543 votes for his election, 506,556 votes against and 10,000 votes withheld. Bruce I. Benn was elected as director and received 24,765,543 votes for his election, 506,556 votes against and 10,000 votes withheld. Ronald I. Benn was elected as director and received 24,765,543 votes for his election 506,556 votes against, and 10,000 votes withheld.

The adoption of our Amended and Restated Incentive Equity Plan was approved by the holders of our common stock casting 19,470,988 votes in favor of approval, 684,531 votes against and 5,127,080 votes abstaining.

The adoption of our 2004 Incentive Equity Plan was approved by the holders of our common stock casting 19,468,988 votes in favor of approval, 686,531 votes against and 5,127,080 votes abstaining.

The adoption of an amendment to our Restated Articles of Incorporation, to increase the number of shares of our common stock, par value $0.001 per share, authorized for issuance from 50,000,000 to 100,000,000, and to increase the number of shares of our preferred stock, par value $0.001 per share, authorized for issuance from 5,000,000 to 7,000,000 was approved by the holders of our common stock casting 19,617,488 votes in favor of approval, 538,531 votes against and 5,126,580 votes abstaining.

The appointment of KPMG LLP as our independent certified public accountants was approved by the holders of our common stock casting 24,773,593 votes in favor of approval, 508,506 votes against and 500 votes abstaining.

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 per quarter for the past two fiscal years as reported by the OTC Bulletin Board. These quotes reflect inter-dealer prices without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

MARKET PRICE OF COMMON STOCK

	BID	
Quarter Ending	**High**	**Low**
2003		
January 1 to March 31	$0.27	$0.07
April 1 to June 30	1.02	0.09
July 1 to September 30	1.00	0.38
October 1 to December 31	1.12	0.80
2004		
January 1 to March 31	1.47	0.85
April 1 to June 30	1.35	0.57
July 1 to September 30	0.60	0.33
October 1 to December 31	0.55	0.33
2005		
January 1 to March 11	0.78	0.39

On March 11, 2005, the closing price of our common stock was $0.45 per share.

(b) Holders -- There were approximately 191 holders of record of our common stock as of January 4, 2005, 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 11, 2005 was 31,434,537 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: Risk Factors).

(d) Sales of Unregistered Securities--During the three months ended March 31, 2004, we issued the following:

* 60,000 shares of our common stock, valued at $63,800, to unrelated parties in consideration for consulting and financing services rendered;

* 6,666,666 shares of our common stock and 3,333,333 Series I warrants to accredited investors pursuant to a private placement. The Series I warrants are exercisable at $0.90 per share and expire on March 8, 2009;
* 360,000 shares of our common stock to holders of our 12% convertible promissory notes in connection with the settlement of $169,964 in principal amount of our 12% promissory notes, plus accrued interest of $10,036;
* 980,000 of our Series H warrants to holders of our 4% senior subordinated debentures, and 847,500 of our Series H warrants to unrelated parties in consideration for consulting services rendered in relation to the placement of the debentures. The Series H warrants entitle the holders to purchase a total of 1,827,500 common shares of the Company at an exercise price of $0.50 per share, are exercisable at any time, and expire on December 31, 2006; and
* 180,000 of our Series I warrants, valued at $240,289, to an unrelated party in consideration for financing services rendered in connection with the private placement;
* $1,400,000 of our 4% senior subordinated debentures to accredited investors. The 4% senior subordinated debentures mature on December 31, 2005 and are convertible into shares of our common stock at a ratio of one share of common stock for each $0.50 of debt converted;

During the three months ended June 30, 2004, we issued the following:

* 10,000 shares of our common stock, valued at $9,000, to an unrelated party in consideration for consulting services rendered;
* 1,974,072 shares of our common stock to holders of our 4% senior subordinated convertible debentures in connection with the conversion of $970,000 in principal amount of our 4% senior subordinated convertible debentures, plus accrued interest of $17,036.

During the three months ended September 30, 2004, we issued the following:

* 184,000 shares of our common stock, valued at $110,400 to holders of our 4% senior subordinated convertible debentures, in satisfaction of penalties incurred on late filing and late registration of common stock underlying the conversion feature of the 4% senior subordinated convertible debentures;
* 508,867 shares of our common stock to holders of our 4% senior subordinated convertible debentures in connection with the conversion of $250,000 in principal amount of our 4% senior subordinated convertible debentures, plus accrued interest of $4,433;
* 104,000 shares of our common stock, on the exercise of 104,000 of our Series F warrants as consideration for the cancellation of $52,000 in accounts payable.

During the three months ended December 31, 2004 there were no sales of unregistered securities.

During the period from January 1 to March 11, 2005, we issued the following:

* 999,384 shares of our common stock to holders of our 4% senior subordinated convertible debentures in connection with the conversion of $480,000 in principal amount of our 4% senior subordinated convertible debentures, plus accrued interest thereon of $19,692;
* 500,000 options to purchase an aggregate of 500,000 shares of our common stock, to employees and non-employees, in consideration of services rendered, and as an incentive to become engaged in full-time employment with the Corporation.

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.

Item 6. Management's Discussion and Analysis or Plan of Operations.

General

In this section, we explain our consolidated financial condition and results of operations for the years ended December 31, 2004 and December 31, 2003. As you read this section, you may find it helpful to refer to our Consolidated Financial Statements at the end 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.

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, 2005. Our major initiatives through December 31, 2005 are:

* obtaining commercial sales of our products, and continuing our current marketing program;
* developing and improving product agents to perform specialized functions common to many e-commerce sites; and
* furthering the development of our products.

For more information, please see “Part 1. Item 1: Description of Business - 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 - The 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. We plan on spending $630,000 on our marketing efforts during the year ended December 31, 2005.

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 licencing of our products. We expect to spend approximately $1,385,000 on our sales initiatives, including compensation and travel expenses, during the year ended December 31, 2005.

Our sales and marketing expenditures for the year ended December 31, 2005 are expected to total $2,015,000.

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 product licences. Depending on the success of our sales efforts, we expect to spend $530,000 on compensation, training and related activities during the year ended December 31, 2005.

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 cost associated with our product development activities are primarily those currently planned and thus are subject to a high degree of control. We estimate that the cost of our product development program during the year ended December 31, 2005 will be $1,185,000.

General and Administrative Expenses: We expect to spend $990,000 on general and administrative activities during the year ended December 31, 2005.

During the year ended December 31, 2005 we expect to spend a total of $4,720,000, 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 of a combination of debt offerings or equity offerings, including but not limited to:

* debt instruments, including demand notes and convertible debentures similar to those discussed below in "Liquidity and Capital Resources";
* private placements of common stock;
* exercise of stock options at an average exercise price of $0.38 per share;
* exercise of Series 'E' warrants at an exercise price of $0.33 per share;
* exercise of Series 'F' warrants at an exercise price of $0.50 per share;
* exercise of Series 'G' warrants at an exercise price of $0.75 per share;
* exercise of Series 'H' warrants at an exercise price of $0.50 per share;
* exercise of Series 'I' warrants at an exercise price of $0.90 per share; or
* funding from potential clientele or future industry partners.

Selected Financial Data

The selected financial data set forth below with respect to our consolidated statements of operations for each of the two fiscal years in the period ended December 31, 2004 and with respect to the consolidated balance sheets as at December 31, 2004 and 2003, are derived from our audited consolidated financial statements included at the end 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	
	2004	**2003**
Operations Data		
Selling, general and administrative	$ 3,058,649	$1,752,725
Research and development	1,234,042	997,822
Depreciation of property and equipment	46,231	4,333
Write-off of prepaid services	322,494	174,375
Write-off of deferred consulting services	1,048,100	--
Other expenses, net	2,307,650	72,645
Net loss	$ 8,017,166	$3,001,900

	Year Ended December 31 2004	2003
Flows Data		
Net cash used in operating activities	$(4,321,111)	$ (955,256)
Net cash used in investing activities	(161,749)	(3,674)
Net cash provided by financing activities	6,686,715	1,348,703
Net increase in cash and cash equivalents	$ 2,201,552	$ 389,773
Balance Sheet Data		
Cash	$ 2,747,975	$ 546,423
Total current assets	3,031,493	1,182,383
Property and equipment	139,450	9,166
Deferred financing costs	281,224	491,450
Deferred consulting services	171,187	1,393,873
Total assets	3,623,804	3,076,872
Total current liabilities	1,041,196	1,295,785
Capital lease obligation	10,239	--
Stockholders' equity	$ 2,572,369	$ 1,781,087

Results of Operations

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

The fiscal year ended December 31, 2004 compared to the fiscal year ended December 31, 2003

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

Selling, general and administrative expenses: Selling, general and administrative expenses consist primarily of personnel costs, professional fees, insurance, communications expenses, occupancy costs and other miscellaneous costs associated with supporting our research and development and sales and marketing activities. During the year ended December 31, 2004 we incurred a total of $3,058,649, including $2,494,680 in cash-based expenses and $563,969 in stock-based expenses, as compared to $1,752,725, of which $802,080 was cash-based and $950,645 was stock-based expenses, during the year ended December 31, 2003. There was an overall increase in selling, general and administrative expenses of $1,305,924 (75%), comprised of a $1,692,600 (211%) increase in the cash-based component of this expense, which was partially offset by a $386,676 (41%) decrease in stock-based expenses. The increase in the cash-based component of selling, general and administrative expenses occurred primarily as a result of the ramp-up of our sales and marketing efforts during the second and third quarters of 2004, which entailed the addition of seven new sales and marketing personnel, expansion of our leased office space, and increased travel and related costs. As a result of a delay in the expected release date of one of our products, our sales and marketing staff was reduced by five during the third and fourth quarters of 2004, with three positions being terminated and one position being redeployed to product development.

We also added two individuals to our administrative staff, one during the second quarter and one during the third quarter of 2004, and incurred higher professional fees, insurance premiums and investor relations costs. The decrease in the stock-based component of selling, general and administrative expenses occurred primarily as a result of an unusually large number of stock options and warrants being issued to consultants in recognition of their commitment to us in our early stages, during the year ended December 31, 2003, for which there was no comparable transaction during the year ended December 31, 2004. During the year ended December 31, 2004, the stock-based selling, general and administrative expenses consisted of amortization of prepaid consulting fees recognized on the issuance of warrants during 2003, accrued expense associated with the commitment to grant options, and $110,400 in penalties on the late registration of our common stock underlying our 4% senior convertible debentures.

During the third quarter of 2002 we began marketing our software applications, with the objective of increasing the number of beta sites and gaining market recognition for our software applications and for our company. We continued with this objective until the second quarter of 2004, at which time we began to expand our sales and marketing efforts in anticipation of one of our software applications becoming ready for commercial licensing during the fourth quarter of 2004. As a result of a delay in the expected release date for this software application, we have scaled back the ramp-up of our sales and marketing program during the fourth quarter of 2004. Notwithstanding this delay, our initiatives during this phase of our selling and marketing plan focus on the objective of obtaining future commercial sales of our products. The market for software applications is extremely competitive, and is dominated by well-known, established companies. Moreover, the sales cycle in our segment is typically long. For these reasons we have incurred, and will continue to incur, significant sales and marketing expenses in advance of our software applications reaching the stage of being ready for full commercial release.

Research and development expenses: Research and development expenses consist primarily of personnel costs and consulting expenses directly associated with the development of our software applications. During the year ended December 31, 2004, we spent $1,234,042, including $1,229,661 in cash-based expenses and $4,381 in stock-based compensation expense, as compared to $997,822, of which $662,006 was cash-based and $335,816 was stock-based compensation expense, during the year ended December 31, 2003, in research and development expenses. There was an overall increase in research and development expenses of $236,220 (24%), comprised of a $567,655 (86%) increase in the cash-based component of this expense, which was partially offset by a $331,435 (99%) decrease in stock-based expense. The increase in the cash-based portion of research and development expenses is due primarily to the expansion of the contract development group from an average of 9 personnel during the year ended December 31, 2003, to an average of 24 personnel during the year ended December 31, 2004. Additionally we redeployed from sales and marketing to product development, one consultant and two employees, one of whom was subsequently terminated, during the third and fourth quarters of 2004. The decrease in stock-based compensation expense occurred as a result of $335,816 in stock-based compensation on the issuance of options and warrants to consultants in recognition of their commitment to us in our early stages, being reflected in the expense for the year ended December 31, 2003, with no similar transaction occurring during the year ended December 31, 2004.

Interest and financing costs: Interest and financing costs consist of interest and financing costs associated with our 4% senior convertible debentures, interest on promissory notes payable and interest on the capital lease. During the year ended December 31, 2004, we incurred $2,126,574 in interest and financing costs, an increase of $2,066,750 (3,455%) over the $59,824 in interest and financing costs incurred during the year ended December 31, 2003. Of the $2,126,574 in interest and financing costs incurred during 2004, $2,087,594 relates to our 4% senior subordinated convertible debentures, $37,375 relates to the promissory notes payable, and $1,605 relates to the capital lease.

The $2,087,594 in interest and financing costs associated with our 4% senior subordinated convertible debentures for the year ended December 31, 2004 is comprised of $51,563 of accrued interest charges on the debentures outstanding during the period; $1,552,073 of accretion of debentures payable through charges to interest expense; and $483,958 of amortization of deferred financing costs. The accretion of debentures payable in the amount of $1,552,073 includes $1,076,151 which represents the unamortized discount that was recognized as interest expense during the year as a result of the conversion of $498,903 in principal of the 4% senior convertible debentures, net of deferred financing costs of $721,097.

During the year ended December 31, 2003 our $59,824 in interest and financing costs related solely to the 12% and 5% promissory notes payable. The decrease of $22,449 (38%) in interest on promissory notes payable reflects the lower principal balance outstanding during the year ended December 31, 2004 as compared with the year ended December 31, 2003, which occurred as a result of the conversion of promissory notes into common stock of the corporation during the second quarter of 2003 and the first quarter of 2004. As the transaction involving the issuance of $2,000,000 of 4% senior subordinated convertible debentures and 1,400,000 Series H warrants took place in December 2003 and January 2004, there were no comparable expenses during the year ended December 31, 2003.

Write-off of prepaid services and write-off of deferred consulting services: As a result of completing the $6,000,000 private equity placement, we cancelled a long-term service agreement with an unrelated company during the first quarter of 2004. The termination of this agreement resulted in the cancellation of 4,000,000 Series F warrants, which were issued by us during September 2003, which entailed the write-off of $322,494 of prepaid services and $1,048,100 of deferred consulting services. There was no comparable event during the year ended December 31, 2003.

Loss on extinguishment of debt: During the year ended December 31, 2004, we settled promissory notes and accrued interest totaling $180,000, through the issuance of 360,000 shares of our common stock. We recorded a loss in connection with this transaction, representing the difference between the market value of the shares issued at the time of the settlement, and the amount which would have been paid had the debt been settled in cash.

Depreciation of property and equipment: Depreciation of property and equipment was $46,231 during the year ended December 31, 2004, an increase of $41,898 (967%), over the $4,333 charged to depreciation expense during the year ended December 31, 2003. This increase occurred as a result of the addition of $176,515 in new capital assets during the year ended December 31, 2004.

Net Loss: We incurred a loss of $8,017,166 ($0.29 per share) for the year ended December 31, 2004, compared to a loss of $3,001,900 ($0.16 per share) for the year ended December 31, 2003. 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;
* to 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 cash from the issuance of debt securities, the exercise of existing warrants and the placements of additional equity securities will be sufficient to fund our long-term research and development and selling, general and administrative expenses.

We do not expect to generate commercial revenues during the three months ended March 31, 2005. We anticipate commercial revenues commencing during the second quarter of 2005, however we cannot be assured that this will be the case. Our initial revenues are expected to come from pilot projects which demonstrate the benefits of our software applications. During the year ended December 31, 2004 our contract software application development group was expanded by 17, and we added two employees to the product development department in order to engage in more in-depth testing of our applications. We also added seven sales and marketing personnel, of which two were terminated in November 2004 as a result of a delay in the expected release date of one of our software applications. In addition, we added two administrative personnel to our staff. We do not expect to add any additional personnel during the next 6 months. We have not made any material commitments for capital equipment expenditures during the next 12 months.

We have sufficient cash reserves, based on our current level of expenditures, to fund operations until the middle of the third quarter of 2005. In the event that we are not successful in raising sufficient additional capital by approximately the end of the second quarter of 2005 we will have to severely reduce all of our expenditures. This may result in significant delays in, or possibly precluding, the generation of sufficient revenues from the licensing of our products to generate positive cash flows from operations.

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

During the year ended December 31, 2004, we issued 4% convertible debentures and 980,000 Series H warrants, for gross proceeds of $1,400,000, and we completed a private placement of 6,666,666 common shares and 3,333,333 Series I warrants for gross proceeds of $6,000,000, in order to fund current and future operations. Also during the year ended December 31, 2004, we issued 70,000 shares of our common stock, valued at $72,800 (average of $1.04 per common share) to an unrelated company in consideration for consulting and financial services rendered, and we agreed to grant 150,000 stock option to consultants for services rendered. In respect of these options, $54,965 has been included in accrued liabilities, and $50,584 and $4,381 has been included in selling, general and administrative expense and research and development expense, respectively. A total of 104,000 Series F warrants were exercised for gross proceeds of $52,000 during the year ended December 31, 2004. These funds were used to cancel an account payable owing to the holder of the exercised warrants. We have not entered into any off-balance sheet arrangements which would have provided the Corporation with a source of capital.

Uses of Capital: Since August 1999 we have directed our efforts towards the development and marketing of our software applications. In May 2000, we started to actively market our software applications. We commenced our current marketing program during the third quarter of 2002, and have since engaged additional personnel to assist in, and to expand the scope of, this effort. The objective of this program is to secure pilot projects and to gain market recognition for our company and our products, in order to generate future commercial sales of our products in the earliest time-frame possible. During the year ended December 31, 2004, we added a total of five people to our sales and marketing team, in order to accelerate our efforts to generate future commercial sales of our products. We also added two administrative employees, increased the area of our leased premises, and acquired new property and equipment. Additionally, we increased the size of our contract software application development group, and hired two employees in the product development department, in order to implement revisions and enhancements to those of our products currently in use as they are identified, while continuing to develop additional products. We have not entered into any off-balance sheet arrangements 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 2005.

Item7. Financial Statements.

Consolidated Financial Statements of

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Years ended December 31, 2004 and 2003

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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, 2004 and 2003, 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, 2004 and the period from August 3, 1999 to December 31, 2004. 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 as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years then ended and the period from August 3, 1999 to December 31, 2004, in conformity with U.S. generally accepted accounting principles.

The accompanying 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, 2004, and has incurred a loss for the year, as well as negative cash flow from operating activities in the same period. The Company has accumulated a deficit and its economic viability is dependent on its ability to finalize the development of its principal products, generate sales and finance operational expenses which 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.

KPMG LLP

Chartered Accountants

Ottawa, Canada

March 24, 2005

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Consolidated Balance Sheets

December 31, 2004 and 2003
(In U.S. dollars)

	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 2,747,975	$ 546,423
Accounts receivable (note 12(b))	42,518	–
Prepaid expenses	283,968	635,960
	3,031,493	1,182,383
Property and equipment (note 3)	139,450	9,166
Deferred financing costs (note 4)	281,224	491,450
Deferred consulting services	171,187	1,393,873
	$ 3,623,804	$ 3,076,872
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 154,621	$ 630,793
Accrued liabilities (note 8(c))	255,089	198,707
Promissory notes payable (note 5)	296,321	466,285
4% Senior subordinated convertible debentures (note 6)	332,073	–
Current portion of capital lease obligation (note 7)	3,092	–
	1,041,196	1,295,785
Capital lease obligation (note 7)	10,239	–
Stockholders' equity:		
Common stock ($0.001 par value. Authorized 50,000,000 shares; Issued and outstanding 30,435,153 shares in 2004 and 20,567,548 shares in 2003 (note 8(a))	30,434	20,566
Preferred stock ($0.001 par value. Authorized 5,000,000 shares; issued and outstanding Nil shares in 2004 and 2003)	–	–
Additional paid-in capital	19,620,601	10,822,021
Deficit accumulated during the development stage	(17,050,232)	(9,033,066)
Retained earnings prior to entering development stage	21,304	21,304
Treasury stock (7,000 shares in 2004 and 2003 at cost)	(49,738)	(49,738)
	2,572,369	1,781,087
Guarantees and commitments (note 12)		
Subsequent events (note 17)		
	$ 3,623,804	$ 3,076,872

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Consolidated Statements of Operations

Years ended December 31, 2004 and 2003 and the period from August 3, 1999 to December 31, 2004
(In U.S. dollars)

	2004	2003	Period from August 3, 1999 to December 31, 2004
Expenses:			
Selling, general and administrative (note 11)	$ 3,058,649	$ 1,752,725	$ 7,270,048
Research and development	1,234,042	997,822	5,667,944
Depreciation of property and equipment	46,231	4,333	240,833
Write-off of prepaid services	322,494	174,375	496,869
Write-off of deferred consulting services	1,048,100	–	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
	5,709,516	2,929,255	14,782,318
Loss before the undernoted	(5,709,516)	(2,929,255)	(14,782,318)
Other income (expenses):			
Interest income	34,831	–	34,831
Gain (loss) on extinguishment of debt (note 5)	(198,000)	–	93,507
Interest and financing costs (notes 4 and 9)	(2,126,574)	(59,824)	(2,356,617)
Other	(17,907)	(12,821)	(39,635)
	(2,307,650)	(72,645)	(2,267,914)
Net loss	$(8,017,166)	$ (3,001,900)	$(17,050,232)
Loss per common share before extraordinary item - basic and diluted (note 10)	$ (0.29)	$ (0.16)	
Loss per common share after extraordinary item - basic and diluted (note 10)	$ (0.29)	$ (0.16)	
Weighted average common shares outstanding	27,779,177	18,461,267	

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss

For the six years ended December 31, 2004
(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.

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss

For the six years ended December 31, 2004
(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 (note 2(j))	–	–	–	–	–	(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 subordinated convertible debentures	–	–	355,186	–	–	–	–	355,186
Intrinsic value of beneficial conversion feature on 4% convertible debentures issued to unrelated parties	–	–	244,814	–	–	–	–	244,814
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.

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss

For the six years ended December 31, 2004
(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 (notes 5 and 8(a))	464,000	464	429,536	–	–	–	–	430,000
Shares issued on conversion of 4% senior subordinated convertible debentures (notes 6 and 8(a))	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 (note 6)	–	–	(721,097)	–	–	–	–	(721,892)
Shares issued pursuant to private placement of common shares and warrants (note 8(a) and 8(b))	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 (note 8(a))	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 (note 8(a))	184,000	184	110,216	–	–	–	–	110,400
Fair value of stock purchase warrants issued to unrelated parties for services (note 8(b))	–	–	809,750	–	–	–	–	809,750

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss

For the six years ended December 31, 2004
(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 (notes 6 and 8(b))	–	–	861,522	–	–	–	–	861,522
Intrinsic value of beneficial conversion feature on 4% convertible debentures issued to unrelated parties (note 6)	–	–	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

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Consolidated Statements of Cash Flows

Years ended December 31, 2004 and 2003 and the period from August 3, 1999 to December 31, 2004
(In U.S. dollars)

	2004	2003	Period from August 3, 1999 to December 31, 2004
Cash flows from operating activities:			
Net loss	$ (8,017,166)	$ (3,001,900)	$(17,050,232)
Items not involving cash:			
Depreciation of property and equipment	46,231	4,333	240,833
Non-cash consulting fees (note 8)	457,950	1,286,461	1,946,186
Non-cash interest expense	2,124,969	59,824	2,58,093
Non-cash penalties	110,400	–	110,400
Write-off of prepaid services	322,494	174,375	496,869
Write-off of deferred consulting services	1,048,100	–	1,048,100
Currency translation adjustment on liquidation of investment in foreign subsidiary	–	–	(26,212)
Gain on sale of property and equipment	–	–	(7,442)
Loss (gain) on extinguishment of debt	198,000	–	(93,507)
Write-off of accounts receivable	–	–	16,715
Write-off of due 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 15)	(614,089)	521,651	1,715,266
Net cash used in operating activities	(4,323,111)	(955,256)	(9,195,680)
Cash flows from investing activities:			
Additions to property and equipment	(161,749)	(3,674)	(485,269)
Proceeds on sale of property and equipment	–	–	176,890
Cash pledged as collateral for operating lease	–	–	(21,926)
Net cash used in investing activities	(161,749)	(3,674)	(330,305)
Cash flows from financing activities:			
Issuance of promissory notes	–	803,203	3,108,731
Repayment of promissory notes	–	–	(16,000)
Capital lease repayments	(1,435)	–	(1,435)
Issuance of 4% senior subordinated convertible debentures (note 6)	1,400,000	600,000	2,000,000
Debt issuance costs	(177,279)	(54,500)	(231,779)
Increase in due from related party	–	–	12,575
Issuance of common stock	6,000,000	–	8,030,000
Share issuance costs	(534,874)	–	(631,624)
Acquisition of common stock	–	–	(49,738)
Net cash provided by financing activities	6,686,715	1,348,703	12,220,730
Effects of exchange rates on cash and cash equivalents	–	–	18,431
Net increase in cash and cash equivalents	2,201,552	389,773	2,713,176
Cash and cash equivalents, beginning of period	546,423	156,650	34,799
Cash and cash equivalents, end of period	$ 2,747,975	$ 546,423	$ 2,747,975

See accompanying notes to consolidated financial statements.

1. General:

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

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

2. Summary of significant accounting policies:

(a) Basis of presentation:

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.

The consolidated financial statements have been prepared assuming that the Corporation will continue as a going concern. The Corporation has no revenues, has an accumulated deficit of $17,050,232 as at December 31, 2004, and has incurred a loss of $8,017,166 and negative cash flow from operations of $4,323,111 for the year then ended, and, as of December 31, 2005, the 4% senior subordinated convertible debentures will have reached maturity, at which time any unconverted balance plus accrued interest thereon, will become payable. 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 $4.7 million for the year ending December 31, 2005. 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 and the exercise of previously-issued equity instruments. The

2. Summary of significant accounting policies (continued):

(a) Basis of presentation (continued):

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.

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 favourable to the Corporation.

(b) Principles of consolidation:

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

(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, equipment under capital lease and leasehold improvements. 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; leasehold improvements: over the term of the lease, being 2 years.

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 on a straight-line basis over the term of the lease, being 4 years. 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) Deferred financing costs:

Deferred financing costs represent the costs associated with arranging the 4% senior subordinated convertible debenture financing. The costs are being amortized over the two year term of the debentures.

(g) Deferred consulting services:

Deferred consulting services represent the portion of prepaid non-cash consulting fees for services to be rendered in periods in excess of twelve months from the balance sheet date. Prepaid non-cash consulting fees related to services to be rendered within twelve months are included in prepaid expenses on the balance sheet. These costs will be 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, these prepaid non-cash consulting fees will be charged to expenses immediately.

(h) Income taxes:

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

2. Summary of significant accounting policies (continued):

(i) Research and development:

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

(j) Foreign currency translation:

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

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

2. Summary of significant accounting policies (continued):

(k) Stock-based compensation:

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

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

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

(In U.S. dollars)

2. Summary of significant accounting policies (continued):

(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.

3. Property and equipment:

	Cost	Accumulated depreciation	2004 Net book value
Computer hardware and software	$ 99,826	$ 32,084	$ 67,742
Furniture and equipment	65,071	12,756	52,315
Leasehold improvements	10,632	3,236	7,396
Equipment under capital lease	14,766	2,769	11,997
	$ 190,295	$ 50,845	$ 139,450

	Cost	Accumulated depreciation	2003 Net book value
Computer hardware and software	$ 12,741	$ 4,527	$ 8,214
Furniture and equipment	1,039	87	952
	$ 13,780	$ 4,614	$ 9,166

During the year ended December 31, 2004, property and equipment were acquired at an aggregate cost of $176,515 (2003 - $3,674) of which $14,766 (2003 – $nil) was acquired by means of a capital lease and $161,749 (2003 - $3,674) was acquired through cash purchases.

(In U.S. dollars)

4. Deferred financing costs:

The following table sets forth the cost and accumulated amortization of the deferred financing costs:

	2004	2003
Balance, beginning of year	$ 491,450	$ --
Additions	994,829	491,450
Amortization	(483,958)	--
Financing costs transferred to additional paid in capital on conversion of $1,120,000 in principal value of the 4% senior subordinated convertible debentures into common shares of the Corporation (note 6)	(721,097)	--
Balance, end of year	$ 281,224	$ 491,450

During January 2004, the Corporation issued a total of $1,400,000 in principal amount of 4% senior subordinated convertible debentures, as a continuation of the $600,000 in 4% senior subordinated convertible debentures issued during December 2003 (note 6). In connection with the placement of the debentures, the Corporation incurred costs of $994,829 during the year ended December 31, 2004 (2003 - $491,450) of which $840,050 (2003 - $414,450) was financed through the issuance of the Corporation's Series H warrants and common shares.

Amortization of the deferred financing costs is included in interest and financing costs on the consolidated condensed statement of operations.

5. Promissory notes payable:

	2004	2003
Promissory notes payable, bearing interest at 12%, due on demand, unsecured	$ 296,321	$ 466,285
	$ 296,321	$ 466,285

During the year ended December 31, 2004, the Corporation settled promissory notes in the amount of $169,964, plus accrued interest of $10,036, which was included in accrued liabilities, through the issuance of 360,000 common shares of the Corporation (note 8(a)). In connection with this transaction, the Corporation recorded a loss on the extinguishment of debt of $198,000.

6. 4% Senior subordinated convertible debentures:

On January 26 and January 30, 2004, the Corporation issued $650,000 and $750,000, respectively (2003 - $600,000), in 4% senior subordinated convertible debentures, which mature on December 31, 2005. Under the terms of the debentures, the holder may, at any time, convert all or a portion of the outstanding principal plus accrued interest into common stock of the Corporation at a ratio of one common share for each $0.50 of debt converted. At maturity, any principal plus accrued interest which has not been converted into common stock by the holder, may be repaid by the Corporation, at its option, either in cash or in common shares of the Corporation, at a ratio of one common share for each $0.50 of debt outstanding. The conversion ratio will change if the price of future equity issuances is below $0.50.

Holders of the debentures were also granted 980,000 Series H warrants to purchase common stock of the Corporation (note 8(b)), at the ratio of seven warrants granted for each ten dollars invested. In accordance with APB 14, “Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants”, $861,522, representing the relative fair value of the Series H warrants at the issuance date, has been allocated to the warrants and recorded as additional paid-in capital.

At the date of issuance, the conversion feature of the debentures was “in-the-money”. The intrinsic value of this beneficial conversion feature was $538,478. In accordance with EITF 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios” and EITF00-27, “Application of Issue No. 98-5 to Certain Convertible Instruments”, this amount has been recorded as additional paid-in capital.

The 4% senior subordinated convertible debentures are being accreted to their face value through periodic charges to interest expense over the term of the debentures.

During the year ended December 31, 2004, holders of the debentures exercised the conversion feature and converted a total of $1,220,000 in principal, and $21,469 in accrued interest which was included in accrued liabilities, into 2,482,939 common shares of the Corporation (Note 8(a)). Deferrred financing costs of $721,097 (note 4) were charged to additional paid-in capital in respect of the debentures converted, resulting in a net credit to stockholders’ equity of $520,372. Of the original principal of $2,000,000, the remaining principal outstanding on the debentures at December 31, 2004 is $780,000.

During the year ended December 31, 2004, the Corporation accreted the debentures payable through charges to interest expense totaling $1,552,073 (2003 – $nil). Included in this amount is $1,076,151, which represents the unamortized discount that was recognized as interest expense during the year ended December 31, 2004 as a result of the conversion of debentures into common shares of the Corporation.

(In U.S. dollars)

6. 4% Senior subordinated convertible debentures (continued):

The following table sets forth the financial statement presentation of the debentures issued at December 31, 2004 and 2003, the accretion of the 4% senior subordinated convertible debentures, the principal converted into common shares of the Corporation, and the balance allocated to 4% senior subordinated convertible debentures:

	2004	2003
Cumulative proceeds 4% senior subordinated convertible debentures	$ 2,000,000	$ 600,000
Allocated to additional paid-in capital for:		
980,000 Series H warrants	(1,216,708)	(355,186)
Beneficial conversion feature	(783,292)	(244,814)
Proceeds allocated to 4% senior subordinated convertible debentures upon issuance	–	–
Accretion of the 4% senior subordinated convertible debentures as a charge to interest and financing costs	1,552,073	–
Principal converted into common shares of the Corporation	(1,220,000)	–
Balance allocated to 4% senior subordinated convertible debentures, end of year	$ 332,073	$ –

As the 4% senior subordinated convertible debentures will reach maturity and become payable effective December 31, 2005, they have been classified as a current liability at December 31, 2004.

(In U.S. dollars)

7. Capital lease obligation:

During April, 2004, the Corporation entered into a capital lease arrangement in respect of office equipment. Future minimum payments remaining under this agreement are approximately as follows:

	2004	2003
Year ended December 31:		
2005	$ 6,015	$ --
2006	6,015	--
2007	6,015	--
2008	1,504	--
Total minimum lease payments	19,549	--
Less amount representing interest, at 23.9%	(6,218)	--
Present value of net minimum lease payments	13,331	--
Current portion of capital lease obligation	3,092	--
	$ 10,239	$ --

8. Stockholders' equity:

(a) Common stock transactions:

On March 8, 2004, the Corporation completed a private placement for 6,666,666 common shares and 3,333,333 Series I warrants (note 8(b)), for proceeds of $6,000,000. Share issuance costs of $775,163, of which $240,289 were incurred through the issuance of Series I warrants, were incurred with respect to the private placement.

During the year ended December 31, 2004, the Corporation issued 40,000 shares of its common stock, valued at $42,500, to an unrelated company in consideration for consulting services rendered prior to December 31, 2004.

In connection with the issuance of the 4% senior convertible debentures (note 6), the Corporation issued 30,000 shares of its common stock, valued at $30,300, to an unrelated company in consideration of financing fees, which has been included in deferred financing costs and is being expensed on a straight-line basis over the term to maturity of the debentures.

8. Stockholders' equity (continued):

(a) Common stock transactions (continued):

During the year ended December 31, 2004, the Corporation issued 2,482,939 shares of its common stock to holders of its 4% senior subordinated convertible debentures, in connection with the conversion of $1,241,469 of debenture principal and accrued interest (note 6). Deferred financing costs of $721,097 (note 4), were charged to additional paid-in capital in respect of the debentures converted, resulting in a net credit to stockholders' equity of $520,372.

Also during the year ended December 31, 2004, the Corporation issued 184,000 shares of its common stock, valued at $110,400, in satisfaction of penalties incurred on late filing and late registration of common stock underlying the conversion feature of the 4% senior subordinated convertible debentures.

In addition, the Corporation issued 360,000 shares of its common stock in connection with the settlement of $169,964 of its 12% promissory notes plus accrued interest of $10,036 (note 5).

During the year ended December 31, 2004, the Corporation issued 104,000 shares of its common stock in connection with the exercise of 104,000 of the Series F warrants (note 8(b)) in consideration for the cancellation of $52,000 in accounts payable.

(b) Transactions involving stock purchase warrants:

In connection with the placement of its 4% senior subordinated convertible debentures (note 6), the Corporation issued 1,827,500 Series H warrants, as follows: 847,500 Series H warrants were issued to unrelated parties in consideration for financing services rendered in connection with the placement of the debentures; and 980,000 Series H warrants were issued to the holders of the debentures. The Series H warrants entitle the holders to purchase a total of 1,827,500 common shares of the Corporation at an exercise price of $0.50 per share, are exercisable at any time, and expire on December 31, 2006. The exercise price will change if the price of future equity issuances is below $0.50. $809,750, representing the fair value of the Series H warrants issued in relation to financing services, has been included in deferred financing costs, and is being charged to expense on a straight-line basis over the term of the debentures.

As stated in note 6, $861,522, representing the relative fair value of the Series H warrants issued to the debenture holders, has been charged to additional paid-in capital. The fair value of the Series H warrants was calculated using the Black Scholes option pricing model with the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.28%; expected volatility of 189%, and an expected life of 3 years.

(In U.S. dollars)

8. Stockholders' equity (continued):

(b) Transactions involving stock purchase warrants (continued):

In connection with the private placement of 6,666,666 common shares of the Corporation (note 8(a)), the Corporation issued a total 3,513,333 Series I warrants during the year ended December 31, 2004, as follows: 3,333,333 Series I warrants were issued to the investors in the private placement; and 180,000 Series I warrants were issued to an unrelated party in consideration for financing services rendered in connection with the private placement. The Series I warrants entitle the holders to purchase a total of 3,513,333 common shares of the Corporation at an exercise price of $0.90 per share, are exercisable at any time, and expire on March 8, 2009. The exercise price will change if the price of future equity issuances is below $0.90. The fair value of the Series I warrants issued in relation to financing services is $240,289, calculated using the Black Scholes option pricing model with the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.74%; expected volatility of 177%, and expected life of 5 years.

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

Also during the year ended December 31, 2004, 104,000 of the Series F warrants were exercised, for 104,000 shares of the Corporation's common stock (note 8(a)), in consideration for the cancellation of $52,000 in accounts payable.

On December 31, 2004, 320,000 Series B warrants expired.

Following is a description of stock purchase warrants outstanding at December 31, 2004 and 2003:

	Exercise Price	Expiry	Outstanding 2004	Outstanding 2003
Series B	$3.00	December, 2004	--	320,000
Series E	0.33	December, 2007	2,155,000	2,155,000
Series F	0.50	May, 2007	3,896,000	8,000,000
Series G	0.75	September, 2005	400,000	400,000
Series H	0.50	December, 2006	2,727,500	900,000
Series I	0.90	March, 2009	3,513,333	--
			12,691,833	11,775,000

8. Stockholders' equity (continued):

(c) Transactions involving stock options:

During the year ended December 31, 2004, the Corporation agreed to grant 150,000 stock options to non-employees to purchase 150,000 common shares, at exercise prices as follows: 75,000 at $0.90, and 75,000 at $0.95. The options vested on various dates ranging from October 1, 2004 to November 24, 2004, and will be exercisable for a period of five years commencing from the grant date, subject to early forfeiture in the event the holder ceases to be engaged by the Corporation prior to the stated expiry date. These options were issued in March, 2005 (note 17).

A liability in the amount of $54,965 has been included in accrued liabilities at December 31, 2004 based on the fair value of the options granted as consideration for services rendered in connection with these agreements. Related expenses of $50,584 and $4,381 have been included in selling, general and administrative expenses, and research and development, respectively, for the year ended December 31, 2004. The fair value was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 3.77%; expected volatility of 167%; and an average expected life of 4.14 years. On March 8, 2005, 150,000 stock options were issued in settlement of this liability.

During the year ended December 31, 2003, the Corporation granted 3,912,302 stock options to non-employees in consideration for consulting services rendered. These stock options entitle the holders to purchase 3,912,302 common shares of the Corporation at an exercise price of $0.33 per share. The options vested immediately upon their issuance, and are exercisable until May 7, 2008. An expense of $93,098 and $504,004 was included in research and development and selling, general and administrative expense, respectively, which reflected the fair value of the options, which was calculated using the Black Scholes option-pricing model with the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.64%; expected volatility of 139%; and expected life of 5 years. At December 31, 2004, all of these options remain outstanding.

(In U.S. dollars)

8. Stockholders' equity (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 2004 and 2003.

	2004	2003
Selling, general and administrative	$ 453,569	$ 950,645
Research and development	4,381	335,816
Total stock-based compensation included in expenses	$ 457,950	$ 1,286,461

In addition to the above, $110,400 in stock-based expense incurred in relation to penalties on late filing and late registration of common stock underlying the conversion feature of the 4% senior subordinated convertible debentures (note 8(a)), has been included in selling, general and administrative expenses for the year ended December 31, 2004 (2003 - $nil).

9. Interest and financing costs:

The following table sets forth the charges to interest and financing costs during the years ended December 31, 2004 and 2003:

	2004	2003
Interest and financing costs relating to 4% senior convertible debentures:		
Accrued interest	$ 51,563	$ –
Accretion of the debentures payable (note 6)	1,552,073	–
Amortization of deferred financing costs (note 4)	483,958	–
	2,087,594	–
Accrued interest on 12% promissory notes	37,375	49,482
Accrued interest on 5% promissory notes	–	10,342
Interest portion of capital lease payments	1,605	–
Total interest and financing costs	$ 2,126,574	$ 59,824

(In U.S. dollars)

10. Loss per share:

As the Corporation incurred a net loss during the years ended December 31, 2004 and 2003, 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 potentially dilute loss per share for the periods presented:

	2004	2003
Stock options	3,912,302	3,912,302
Series B stock purchase warrants	--	320,000
Series E stock purchase warrants	2,155,000	2,155,000
Series F stock purchase warrants	3,896,000	8,000,000
Series G stock purchase warrants	400,000	400,000
Series H stock purchase warrants	2,727,500	900,000
Series I stock purchase warrants	3,513,333	--
	16,604,135	15,687,302

11. Related party transactions:

Included in selling, general and administrative expenses for the year ended December 31, 2004, is $10,000 in administrative charges and $6,229 in reimbursable expenses paid to a company controlled by two of the Corporation's officers and directors.

As discussed in note 12(b), the Corporation also entered into an agreement to sublease excess office space to a related company.

12. Guarantees and Commitments:

a) Guarantee

The Corporation has entered into an agreement that contains features which meet the definition of a guarantee under FASB Interpretation No. 45 ("FIN 45"). FIN 45 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.

(In U.S. dollars)

12. Guarantees and Commitments (continued):

The Corporation has the following guarantee that is subject to the disclosure requirements of FIN 45: 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. The maximum amount potentially payable under the foregoing indemnity cannot be reasonably estimated. The Corporation has liability insurance that relates to the indemnification described above.

Historically, the Corporation has not made any significant payments related to the above-noted indemnity and accordingly, no liability has been accrued in the financial statements.

b) Commitment

During April, 2004, the Corporation entered into a lease agreement for office space. Minimum annual rent payable under this contract is approximately as follows:

2005	$ 69,450
2006	23,150
Total	$ 92,600

Effective July 1, 2004, the Corporation also entered into an agreement to sublease excess office space to a related company. The companies are related by virtue of an officer and director of the Corporation being also an officer and director of the other company. Included in accounts receivable is $14,181 (2003 - $nil) in rent receivable pursuant to this sublease agreement. The transaction has been recorded at the exchange amount.

Rent expense incurred under the operating lease for the year ended December 31, 2004 was $95,816 (2003 - $nil).

13. Financial instruments:

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

The carrying value of the capital lease obligation approximates fair value due to the fact that it was negotiated close to the year end.

(In U.S. dollars)

14. 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:

	2004	2003
Deferred tax asset:		
Net operating loss carryforwards	$ 2,842,000	$ 1,413,000
Capital loss carryforwards	1,050,000	1,050,000
Financing fees	12,000	20,000
Total gross deferred tax asset	3,904,000	2,483,000
Valuation allowance	3,904,000	2,483,000
Net deferred taxes	$ –	$ –

Income tax expense attributable to loss before income taxes was $Nil (2003 - $Nil) and differed from the amounts computed by applying the U.S. federal income tax rate of 34% (2003 - 34%) to the net loss as a result of the following:

	2004	2003
Expected tax rate	34%	34%
Expected tax recovery applied to net loss before income taxes	$(2,725,836)	$(1,020,646)
Increase (decrease) in taxes resulting from:		
Change in valuation allowance	1,421,000	560,000
Compensation expense	107,000	397,000
Interest and financing costs	663,000	--
Write-off of prepaid services	110,000	59,000
Write-off of deferred consulting services	356,000	--
Loss on extinguishment of debt	67,000	--
Other	1,836	4,646
	$ –	$ –

(In U.S. dollars)

14. Income taxes (continued):

The Corporation has net operating losses of $8,360,000 (2003 - $4,155,000) 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
2004	4,205,000
	$ 8,360,000

15. Change in non-cash operating working capital:

	2004	2003
Accounts receivable	$ (42,518)	$ --
Prepaid expenses	(113,883)	19,563
Accounts payable	(424,172)	449,884
Accrued liabilities	(33,516)	52,204
	$ (614,089)	$ 521,651

(In U.S. dollars)

16. Supplementary cash flow information:

The Corporation paid no income taxes during the year ended December 31, 2004, nor during the year ended December 31, 2003. Interest paid in cash during the years ended December 31, 2004 and December 31, 2003 were $1,605 and $nil, respectively.

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

	2004	2003
Conversion of 4% senior subordinated convertible debentures and accrued interest, net of deferred financing costs of $721,097	$ 520,372	$ --
Conversion of promissory notes and accrued interest	180,000	1,457,564
Debt issuance costs	840,050	436,950
Share issuance costs	240,289	--
Issuance of 104,000 shares of the Corporation's common stock on the exercise of 104,000 Series F warrants, in consideration for the cancellation of $52,000 in accounts payable	52,000	--
Increase in capital lease obligation	14,766	--
Total	$ 1,847,477	$ 1,894,514

17. Subsequent events:

During January and February, 2005, holders of the 4% senior subordinated convertible debentures converted a total of $331,341 in principal and $19,692 in accrued interest, net of deferred financing costs of $148,659, into 999,384 common shares of the Corporation. In connection with these conversions, the Corporation will record interest and financing costs of $259,823, which represents the unamortized discount at the time of conversion.

On March 8, 2005 the Board of Directors gave approval for the granting of 500,000 stock options to employees and consultants under the Corporation's 2004 Incentive Equity Plan. 150,000 of these options were granted to consultants in respect of services provided during 2004, and the related expense, based on the fair value of the options, was accrued at December 31, 2004 (note 8(c)). 50,000 of the options were forfeited effective March 8, 2005 as a result of the termination of the related consulting agreement on November 30, 2004. The remaining 350,000 options were granted to employees, and include the following provisions: all of the options vested immediately upon issuance; 250,000 had an exercise price of $0.90; 100,000 had an exercise price of $0.50; the expiry dates for unexercised options range from March 31, 2009 to December 31, 2009. All of the options granted under the Corporation's 2004 Incentive Equity Plan contain a provision for early forfeiture in the event the holder ceases to be engaged by the Corporation prior to the stated expiry date.

On March 21, 2005, the Corporation's Restated Articles of Incorporation were amended to increase the number of shares of common stock, par value $0.001 per share, authorized for issuance from 50,000,000 to 100,000,000, and to increase the number of shares of preferred stock, par value $0.001 per share, authorized for issuance from 5,000,000 to 7,000,000.

Item 8. 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 8A. 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.

In connection with the audit of the our consolidated financial statements for the year ended December 31, 2004, our independent registered public accounting firm advised the Board of Directors and management of certain significant internal control deficiencies that they considered to be, in the aggregate, a material weakness. These consist of inadequate staffing and supervision leading to the untimely identification and resolution of certain accounting and disclosure matters and failure to perform timely and effective reviews. The independent registered public accounting firm indicated that they considered these deficiencies to be reportable conditions as that term is defined under 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.

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.

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 management, including the President and Chief Executive Officer and Chief Financial Officer and Treasurer. Based upon that evaluation, our President and Chief Executive Officer and Chief Financial Officer and Treasurer have concluded that our controls and procedures were not effective as of the end of the period covered by this Report due to inadequate supervision and segregation of duties.

Item 8B. Other Information.

None.

PART III

Item 9. 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 directors and executive officers:

Name	Age	Position
Dr. André Maisonneuve	63	Director, Chairman, President and Chief Executive Officer

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

Bruce I. Benn	51	Director, Executive Vice President and Secretary

Bruce Benn joined the Company in 1999 and has been a Director, Executive Vice President and Secretary since February 2004. He oversees all aspects of corporate finance and has been principally responsible for arranging the $16 million of capital investment for the Company from 1999 to date. Since 1989, he is the President, Director and co-founder of Capital House, 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.

Ronald I. Benn	50	Director, Chief Financial Officer and Treasurer

Ron Benn was appointed a Director, Chief Financial Officer and Treasurer of the Company in February 2004. He is a co-founder, Officer and Director of Capital House Corporation since 1989. He was recently Chief Financial Officer of Coast Software Inc., a position he held from September 2000 to February 2004 and where he was directly involved in raising more than $7 million in capital. Since 1995, he also has been a Director of Telemus Electronics. From 1995 until 2000 he was Chief Financial Officer of DevX Energy, Inc., a publicly traded company on the NASDAQ exchange. He has 22 years' experience in senior finance positions, having begun his career in 1980 with Clarkson Gordon (now Ernst & Young) in the audit department. He holds a Chartered Accountant designation with the Institute of Chartered Accountants of Ontario (1982), and Bachelor of Commerce (Honours) degree from the University of Windsor, in Windsor, Canada and Bachelor of Science degree from Carleton University in Ottawa, Canada. Ron Benn is the brother of Bruce Benn.

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

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. Our board of directors has not yet established an audit committee and as a result provides the functions of an audit committee. As such, our board has not yet appointed an audit committee financial expert. We believe that our board of directors, taken as a whole, has the financial, accounting and other relevant education and experience necessary to qualify as an audit committee financial expert under Item 401(e) of Regulation S-B At this time, our board of directors believes it would be desirable to have an audit committee, and for the audit committee to have an audit committee financial expert serving on the committee. While informal discussions as to potential candidates have occurred, at this time no formal search process has commenced.

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 stock 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, 2004.

Item 10. 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 No other executive officer serving at the end of the past fiscal year 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

	Annual Compensation					Long Term Compensation		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensa-tion ($)**	**Restricted Stock Award ($)**	**Securities Underlying Options/ SARs ($)**	**LTIP Payouts ($)**	**All Other Compensa-tion**
Maisonneuve, André	2004	100,353	0	0	0	0	0	0
Director, Chairman,	2003	79,500	0	0	0	230,578	0	0
President and Chief Executive Officer *	2002	70,375				0		

* 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.

There were no grants of options and Stock Appreciation Rights ("SAR") during the past fiscal year to the executive officer listed above.

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

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

(a)	(b)	(c)	(d)	(e)
Name	**Shares Acquired on Exercise (#)**	**Value Realized ($)**	**Number of Securities Underlying Unexercised Options/SARs at FY-End (#) Exerciseable/ Unexercisable**	**Value of Unexercised In-The-Money Options/SARs at FY-End ($) (1) Exercisable/ Unexercisable**
Maisonneuve, André	0	0	1,005,000/0	$100,500/0

(1) Calculated based on $0.43 per share of common stock, the closing bid price of our common stock on December 31, 2004.

Long-Term Incentive Plans – Awards In Last Fiscal Year

There were no awards under our long-term incentive plans during the last fiscal year to the executive officer listed above.

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.

In April, 2004, we entered into an employment agreement with Andre Maisonneuve, our chief executive officer. Pursuant to the agreement, Mr. Maisonneuve receives a base salary of Cdn $135,000 per annum. Annual performance bonuses may be paid at the discretion of management, and are subject to the achievement of pre-established performance criteria. The term of the agreement continues indefinitely until terminated in accordance with the terms of the agreement.

The employment agreement provides that we may terminate the employment agreement for any reason upon providing Mr. Maisonneuve six months' notice, or a payment in lieu of notice in an amount equal to six months of base salary plus unused vacation. Any payments are deemed to be inclusive of all entitlements under the Ontario Employment Standards Act. We may terminate the employment agreement at any time without notice, or payment in lieu of notice, for just cause. In addition, Mr. Maisonneuve may terminate the employment agreement at any time upon providing six weeks' notice.

Following a triggering event, Mr. Maisonneuve may, within 30 days after his actual knowledge of a change of control, consider himself terminated and be entitled to a payment of 12 months' base salary. A triggering event includes (1) any person becoming the beneficial owner of more than 50% of our voting shares; (2) any resolution being passed or any action or proceeding being taken with respect to the liquidation, dissolution or winding up of our company; or (3) our amalgamation, consolidation or merger with another corporation.

The agreement includes a noncompetition covenant pursuant to which for a period of one year from the effective date of termination of the employment agreement, howsoever caused, Mr. Maisonneuve may not (1) be directly or indirectly engaged in any company or firm who competes in the business of secure data transfer; (2) intentionally act in any manner that is detrimental to the relations between us and our dealers, distributors, VARs, IMRs, customers, employees or others; or (3) directly or indirectly solicit any of our customers, distributors, VARs, IMRs, or be connected with any person, firm or corporation soliciting or servicing any of our customers.

Item 11. **Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table sets forth information as of March 11, 2005, 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)
Bruce Benn* (2) (6) (7)	3,080,000	10.0%
Waycross Corp. (3) 29 Rue des Deux Communes 1226 Thonex-Geneva Switzerland	3,400,000	11.2%
Valdosta Corp. (2) P.O. Box 30592 Cayside, 2nd Floor, Harbour Drive Georgetown, Grand Cayman Cayman Islands, BWI	3,400,000	11.2%
Echo Technologies S.A. (4) Rte. de St. Cergue 297-1260 Nyon-Switzerland	2,183,788	6.8%
Henrik Olsen*(4)	2,183,788	6.8%
André Maisonneuve* (5)	1,662,500	5.4%
Ron Benn* (6)	575,500	1.8%
All Executive Officers and Directors As a Group	8,506,788 (7)	25.6%

*Executive Officer and/or a Director.

(1) Based upon 31,434,537 shares of common stock issued and outstanding as of March 11, 2005 and includes for each person the shares issuable upon exercise of the options and warrants owned by them.

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

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

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

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

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

(7) Includes (a) 2,650,000 shares owned of record by Valdosta Corporation, (b) 100,000 shares of common stock issuable pursuant to warrants held of record by Capital House Corporation, and (c) 300,000 shares issuable upon exercise of warrants held directly by Bruce Benn. See footnotes (2) and (6).

The following table sets forth details regarding our common stock authorized for issuance under equity compensation plans as at March 11, 2005:

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	7,000,000	$ 0.38	2,637,698
Equity compensation plans not approved by security holders	--	--	--
Total	7,000,000	$ 0.38	2,637,698

We have issued 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 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 3,912,302 shares of our common stock to non-employees in consideration for consulting services rendered. These options entitle the holders to purchase shares of common stock at an exercise price of $0.33 per share. The options vested immediately upon their issuance, and are exercisable until May 7, 2008, provided the holder remains engaged by us as of that date, with provision for early forfeiture in the event the holder ceases to be engaged by us prior to the stated expiry date. Of the 3,912,302 options originally granted under this plan, none were exercised as of March 2, 2005, and 1,310,000 will be forfeited if not exercised on or before March 30, 2005.

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. A total of 3,087,698 shares of common stock are reserved for issuance under the terms of the 2004 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 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 150,000 shares of our common stock to non-employees in consideration for consulting services rendered, entitling the holders to purchase shares of our common stock at exercise prices as follows: 75,000 at $0.90, and 75,000 at $0.95. These options vested on various dates between October 1, 2004 and November 24, 2004, and will be exercisable for a period of five years commencing from the grant date In March, 2005, we also granted options to purchase a further 350,000 shares of our common stock to employees. These options entitle holders to purchase shares of our common stock at exercise prices as follows: 100,000 at $0.50; and 250,000 at $0.90. These options vested immediately upon issuance, and are exercisable until various dates between March 31, 2009 and December 31, 2009. All options granted under our 2004 Incentive Equity Plan include provision for early forfeiture in the event the holder ceases to be engaged by us prior to the stated expiry date.

Item 12. Certain Relationships and Related Transactions.

Included in selling, general and administrative expenses for the year ended December 31, 2004, is $10,000 in administrative charges and $6,229 in reimbursable expenses paid to a company controlled by two of our officers and directors. During the year ended December 31, 2004, we also recorded $14,181 in sublease payments receivable pursuant to a sublease arrangement with a company for which one of our officers and directors is also an officer and director. During the year ended December 31, 2003, there were no related party transactions.

Item 13. Exhibits

Exhibit No.	Document Description
3.1	Restated Articles of Incorporation (1)
3.2	Amendment to Articles of Incorporation
3.3	By-Laws (2)
3.4	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 12% Promissory Note (1)
4.8	Form of 4% Convertible Debenture (1)
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	Commercial Lease dated April 15, 2004 between Validian Corporation and National Capital Commission
10.8	Employment Agreement with Andre Maisonneuve *
21.1	List of Subsidiaries
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

* 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.

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

Statements contained in this Form 10-KSB 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.

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 2004 fiscal year	Fees billed for 2003 fiscal year
Audit fees	$ 28,110	$ 14,326
Audit-related fees	$ 43,538	$ 14,350

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.

Audit-related fees were incurred in relation to our quarterly reports on Form 10-QSB and our Forms SB2, which were filed in connection with the registration of the common stock underlying our 4% senior subordinated convertible debentures and our private placement of common stock and warrants.

SIGNATURES

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

VALIDIAN CORPORATION

By: /s/ André Maisonneuve
André Maisonneuve
President, and Chief Executive Officer

Dated: April 13, 2005.

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

/s/ André Maisonneuve
André Maisonneuve
President, Chief Executive Officer and Director
(principal executive officer)

Dated: April 13, 2005.

/s/ Ronald Benn
Ronald Benn
Chief Financial Officer, Treasurer and Director
(principal financial and accounting officer)

Dated: April 13, 2005

/s/ Bruce Benn
Bruce Benn
Executive Vice President, Secretary and Director

Dated: April 13, 2005

Exhibits.

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4.8	Form of 4% Convertible Debenture (1)
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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)
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EXHIBIT 21.1

SUBSIDIARIES OF VALIDIAN CORPORATION

Entity Name	State or Province of Incorporation
Sochrys Technologies Inc.	Canada
Evolusys S.A.	Switzerland

Exhibit 3.2

DEAN HELLER
Secretary of State
204 North Carson Street, Suite 1
Carson City, Nevada 89701-4299
(775) 684 5708
Website: secretaryofstate.biz

Entity #
C3107-1989
Document Number:
20050060875-53

Date Filed:
3/21/2005 11:00:13 AM
In the office of

Dean Heller
Secretary of State

Certificate of Amendment
(PURSUANT TO NRS 78.385 and 78.390)

Important: Read attached instructions before completing form.

ABOVE SPACE IS FOR OFFICE USE ONLY

Certificate of Amendment to Articles of Incorporation For Nevada Profit Corporations
(Pursuant to NRS 78.385 and 78.390 - After Issuance of Stock)

1. Name of corporation: Validian Corporation

2. The articles have been amended as follows (provide article numbers, if available):

The first sentence of Article IV of the Charter is hereby amended to read as follows: "The Corporation is authorized to issue a total of 107,000,000 shares consisting of 7,000,000 shares of Preferred Stock having a par value of $.001 per share (hereinafter the "Preferred Stock"), and 100,000,000 shares of Common Stock, par value $.001 per share (hereinafter the "Common Stock")."

3. The vote by which the stockholders holding shares in the corporation entitling them to exercise at least a majority of the voting power, or such greater proportion of the voting power as may be required in the case of a vote by classes or series, or as may be required by the provisions of the articles of incorporation have voted in favor of the amendment is: 19,617,488 out of 30,121,624 of Common Stock.*

4. Effective date of filing (optional): ______ (must not be later than 90 days after the certificate is filed)

5. Officer Signature (required): Bruce Benn

*If any proposed amendment would alter or change any preference or any relative or other right given to any class or series of outstanding shares, then the amendment must be approved by the vote, in addition to the affirmative vote otherwise required, of the holders of shares representing a majority of the voting power of each class or series affected by the amendment regardless of limitations or restrictions on the voting power thereof.

IMPORTANT: Failure to include any of the above information and submit the proper fees may cause this filing to be rejected.

SUBMIT IN DUPLICATE

This form must be accompanied by appropriate fees. See attached fee schedule.

Exhibit 10.7

BETWEEN:

NATIONAL CAPITAL COMMISSION

AND:

VALIDIAN CORPORATION

COMMERCIAL LEASE

NATIONAL CAPITAL COMMISSION
202-40 Elgin Street
Ottawa, Ontario
K1F 1C7

PROPERTY NO. 340778
LEASE NO. 3191

COMMERCIAL LEASE
TABLE OF CONTENTS

THIS LEASE dated as of the 14th day of April, 2004.

BETWEEN:

NATIONAL CAPITAL COMMISSION
(Hereinafter called the "Commission")

-OF THE FIRST PART-

AND:

VALIDIAN CORPORATION
(Hereinafter called the "Lessee")

-OF THE SECOND PART-

WITNESSETH THAT in consideration of the rents, covenants and agreements hereinafter reserved and contained on the part of the Lessee and the Commission, the Commission and the Lessee agree as follows:

ARTICLE I - DEMISE AND TERM

1. DEMISE

The Commission hereby leases unto the Lessee, a portion of the lands and premises, municipally known as 30 Metcalfe Street, containing approximately 5,576 per square foot of office space located on the 6th Floor, in the city of Ottawa.

(hereinafter called the "Leased Premises").

2. TERM

The Lessee shall have and hold the said Leased Premises for and during a term of two (2) years plus sixteen (16) days to be computed from the 15th day of April, 2004 and to be fully completed and ended on the 30th day of April, 2006.

(hereinafter called the "Term").

ARTICLE II - RENT AND ADDITIONAL CIIARGES

1. RENT

The Lessee hereby covenants with the Commission that the Lessee shall, during the Term, pay to the Commission, in lawful money of Canada without any deduction, defalcation or set-off whatsoever, except as provided in this Lease, the Rent hereby reserved.

1.1 Base Rent

For the Period of April 15, 2004 to April 30, 2004, the Lessee shall pay to the Commission a base rent in the amount of Three Thousand Six Hundred Sixty Six Dollars and Forty-One Cents ($3,666.41). Such payment to be made on the 15th day of April, 2004.

For the Period of May 1, 2004 to April 30, 2006, the Lessee shall pay to the Commission an annual base rent in the amount of Eighty Three Thousand Six Hundred Forty Dollars ($83,640.00). in equal monthly installments of Six Thousand Nine Hundred Seventy Dollars ($6,970.00) ($15.00 psf.). The first payment to he made on the 1st day of May, 2004, and thereafter, in advance on the first day of each calendar month during the remainder of the Term, GST on all the above-mentioned Base Rent amounts is payable at the same time as set out above,

1.2 Additional Rent

Any sums, costs, expenses or other amounts from time to time due and payable by the Lessee to the Commission under the provisions of this Lease, including sums payable by way of indemnity and whether expressed to be rents or not (the 'Additional Rent") may, at the option of the Commission, he treated as and be deemed to be rent, in which event the Commission shall have all remedies for the collection of such sums when in arrears, as are available to the Commission for the collection of rent in arrears.

hereinafter called Base Rent, and Additional Rent shall be referred to collectively as "Rent").

1.2.1 Property Taxes

The Lessee's Proportionate Share of annual taxes is estimated to be Thirty Two Thousand Six Dollars and Twenty-Four Cents ($32,006.24) ($5.74 psf).

The Lessee shall pay to the Commission the sum of One Thousand Four Hundred Three Dollars ($1,403.00) for the period of April 15, 2004 to April 30, 2004 and the amount of Two Thousand Six Hundred Sixty Seven Dollars and Nineteen Cents ($2,667.19), for each and every month thereafter, commencing May 1, 2004.

1.2.2 Operating Costs

The Lessee's Proportionate Share of Operating Costs is estimated to be Fifty Five Thousand Two Hundred Fifty Eight Dollars and Sixteen Cents ($55,258.16) ($9.9! psf).

The Lessee shall pay to the Commission the sum of Two Thousand Four Hundred Twenty Two Dollars and Twenty Eight Cents (52,422.28) for the period of April 1.5, 2004 to April 30, 2004 and the amount of Four Thousand Six Hundred Pour Dollars and Eighty Five Cents *($4,604.85),* for each and every month thereafter, commencing May 1, 2004;

1.3 Payment of Taxes. Operating Costs and Management Fee Based Upon Commissions' Estimates and Subject to Adjustment

1.3.1 Prior to the Commencement Date and the beginning of each Accounting Period thereafter, the Commission shall deliver to the Lessee a bona fide estimate of the Lessee's Share of Taxes, its Proportionate Share of Operating Costs and the Management Fee for the appropriate Accounting Period and, without further notice, the Lessee shall pay to the Commission in monthly installments in advance one-twelfth (1/12) of such estimate simultaneously with the Lessee's payments of Base Rent during such Accounting Period.

1.3.2 The Commission shall deliver to the Lessee within one hundred and fifty (150) days after the end of each Accounting Period a statement (the 'Statement") setting out (i) the total amount of Operating Costs and Taxes and (ii) the Lessee's Share of Taxes and its Proportionate Share of Operating Costs which are payable by the Lessee for such Accounting Period. If the Lessee has paid less than a Statement specifies, the Lessee will pay the deficiency with the next monthly payment of Base rent. If the Lessee has paid more than a Statement specifies, the Commission will have the option to apply the excess in payment of amounts owing by the Lessee, apply the excess in reduction of future Rent due under this

Lease or refund the excess to the Lessee within reasonable time after delivery of the Statement.

1.3.3 If an Accounting Period is less than twelve (12) calendar months, the Lessee's Share of Taxes and the Lessee's Proportionate Share of Operating Costs will be adjusted on a per diem basis, based on three hundred sixty five (365) days.

1.3.4 The Lessee may claim a readjustment in respect of all or any of the Taxes, Operating Costs or the Management Fee for an Accounting Period only by giving written notice to the Commission within twelve (12) months after its receipt of the Statement in respect of that Accounting Period, which notice must specify the error of computation or allocation. In any event, the Lessee will pay the Rent in accordance with the Statement until the dispute is resolved.

1.4 Past Rent Due And Additional Charges

If the Lessee shall fail to pay, when the same is due and payable, any Rent or additional charges, such unpaid amounts shall bear interest from the due date thereof to the date of payment at the rate of One and a Half Percent (1 ½%) per month. Eighteen Percent (18%) per annum.

2. DEFINITION OF LEASE YEAR

Lease Year means, in the case of the first Lease Year, the twelve (12) month period beginning May 1, 2004, and terminating on the last day of April, 2005. Each subsequent Lease Year shall mean the period of twelve consecutive months commencing on April l~ and terminating twelve (12) months thereafter or on the termination of this Lease, whichever is the earlier.

ARTICLE III- LESSEE'S COVENANTS

THE LESSEE COVENANTS WITH THE COMMISSION:

1. RENT

The Lessee hereby covenants with the Commission that the Lessee shall, during the Term, pay to the Commission the Rent hereby reserved, in the manner herein stipulated. The Lessee further covenants and agrees that this covenant to pay Rent is an independent covenant, and that unless expressly provided to the contrary herein, the Lessee shall pay Rent without notice or demand, and without counterclaim, set-off, deduction, abatement, suspension, deferral, diminution or reduction, except as may be expressly provided in this Lease, and that the obligation to pay Rent under this Lease shall not be affected by any circumstance whatsoever, unless otherwise expressly provided in this Lease.

2. TAXES

2.1 In this Lease:

"Taxes" means (i) all taxes, rates, levies , fees, duties, charges (including local improvement charges) and assessments whatsoever, imposed, assessed, levied, rated or charged by any lawful taxing authority against the Building or any part of it from time to time (including, but not limited to, the Common Elements), whether school, municipal, regional, provincial, federal or otherwise, and any taxes (including, without limitation, Business Taxes) or other amounts which are imposed in lieu of, or in addition, to, any of the foregoing, whether or not similar to or of the foregoing character, and whether or not in existence at the Commencement Date, and any taxes levied or assessed against the Commission, or the Owners on account of its or their ownership of or interest in the Building, but excluding taxes on the income or profits of the Commission or the Owners except to the extent they are levied in lieu of the foregoing, and (ii) the costs and expenses incurred for consultation, appraisal, legal and other fees and expenses to the extent they are incurred in an attempt to minimize, verity or reduce amounts mentioned in Article III Section 2.1(i); and

2.2. "Business Taxes" means all taxes, rates, duties, levies and assessments whatsoever, whether municipal, parliamentary or otherwise, levied, imposed or assessed against any Person in respect of the use or occupancy of, or any business carried on, by the Lessee or other occupants of the Building, or against the Commission or Owners on account of its or their ownership of the Building or in respect of individual Leased Premises in the Building, or in respect of the leasehold improvements, equipment and facilities of the Lessee or other occupants on or in the Building or any part thereof or on the Commission or the Owners on account of its or their ownership of or interest in any of them.

2.3 Taxes Payable the Commission

The Commission, will, subject to Article III, Sections 2.4, 2.5 and 3, pay all Taxes but the Commission may defer such payment or compliance with applicable Laws in connection with the levying of Taxes to the fullest extent permitted by law so long as it pursues any contest or appeal of any such Taxes with reasonable diligence.

2.4 Taxes Payable by the Lessee

2.4.1 In each Accounting Period throughout the Term the Lessee will pay to the Commission the "Lessee's Share of Taxes", in the manner and at the time set out in Article II, Section 1.3.1. The Lessee's Share of Taxes means the Lessee's Proportionate Share of Taxes, subject however to Article III, Sections 2.4.2 and 2.5, or, at the Commission's option in the event that the Premises are separately assessed, the Taxes which are separately assessed against the Premises.

2.4.2 The Commission shall be entitled but not obligated to allocate Taxes amongst categories of Leased Premises in the Building on the basis of such factors as the Commission determines to be relevant, such as, by way of example, the types of business or activity carried on therein, the locations in the Building, costs of construction, relative benefits derived by Leased Premises, relative assessment values, non-public school support designations, and vacancies. The Commission shall be entitled to adjust the Lessee's Proportionate Share of Taxes having regard to the category in which the Lessee is placed by the Commission.

2.5 Business Taxes and other Taxes of the Lessee

The Lessee will pay, before delinquency, to the taxing authorities, or if payable by the Commission to the taxing authorities, then to the Commission, all Business Taxes for which a separate bill in respect of the Lessee or the Premises is issued by the taxing authorities in respect of the use of occupancy of, the business conducted on, or equipment or facilities within the Premises or owned by the Lessee or occupants of the Premises. If there is no such separate bill issued by the relevant authority in respect of a Business Tax, then Business Tax will be included in Taxes.

2.6 Lessee's Responsibility

The Lessee will, (a) on the Commission's request, promptly deliver to the Commission (i) receipts for payment of all Business Taxes payable by the Lessee; (ii) notices of any assessments for Taxes or Business Taxes or other assessments received by the Lessee that relate to the Premises or the Building; and (iii) whatever other information relating to Taxes and Business Taxes the Commission reasonably requests from time to time; and (b) deliver to the Commission, at least ten (10) days before the last date for filing appeals, notice of any appeal or contest that the Lessee intends to institute with respect to Taxes or Business Taxes payable by the Lessee and obtain the prior written consent of the Commission for the appeal or contest which consent will not be unreasonably withheld. If the Lessee obtains the Commission's consent the Lessee will (1) deliver to the Commission whatever security for the payment of the Taxes or Business Taxes the Commission reasonably requires; (2) promptly and diligently pursue the appeal or contest; and (3) keep the Commission informed on all aspects of it.

The Lessee will indemnify and save the Commission harmless from all losses, costs, charges and expenses arising from Taxes or Business Taxes as well as any taxes that are imposed in place of Taxes or Business Taxes or which are assessed against rentals payable under this Lease in place of Taxes or Business Taxes, whether against the Commission or the Lessee including, but not limited to, increases in Taxes or Business Taxes arising directly or indirectly out of an appeal or contest by the Lessee. The Lessee will deliver to the Commission any security for such an increase in Taxes or Business Taxes that the Commission reasonably requires.

3. LESSEE'S PAYMENT OF OPERATING COSTS

3.1 To each Accounting Period throughout the Term the Lessee will pay to the Commission, in the manner and at the time set out in Article II, Section 1.3.1, its Proportionate Share of the costs and expenses of maintaining, operating, repairing and administering the Building (such costs and expenses referred to as "Operating Costs"), subject, however, to Article III, Sections 3.1.4. 3.1.5 and 3.1.6. Operating Costs will be calculated as if the Building were one hundred percent (100%) leased and occupied by Lessees of the Building.

3.1.1 Operating Costs include, but are not limited to, those listed below, none of which is to be a duplication of another cost or expense:

(i) salaries, wages, pension plan contributions, contributions and premiums for unemployment insurance and workers compensation insurance, and similar premiums and contributions, fringe benefits, severance pay and termination payments paid to or with respect to all personnel, including management and other supervisory personnel, employed or retained to carry out the operation, management, cleaning, maintenance and repair of the Building;

(ii) costs of policing, security, supervision, and traffic control;

(iii) costs of cleaning, pest control, recycling, snow removal, garbage and waste collection and disposal and landscaping;

(iv) costs of electricity, gas, lighting, fuel, water, steam, public utilities, loudspeakers, public address and musical broadcasting systems, energy conservation equipment and systems and telecommunications and information systems used in or serving the Common Elements, and, if the Commission elects to include them in Operating Costs in accordance with provisions identical or similar to Article III, Section 3.3.3 of this Lease, costs of electricity, water, fuel, power, steam and other utilities provided to Leased Premises in the Building in such quantities as the Commission reasonably determines constitutes normal use from time to time for Lessees in the Building;

(v) to the extent not included in Taxes under Article III, Section 2.4.1 and provisions similar or identical to such provisions in leases of other Lessees of Leased Premises in the Building, the Business Taxes and other Taxes, if any, payable by the Commission or the Owners with respect to or reasonably allocated by the Commission to the Building other than Leased Premises located within it and costs incurred by the Commission in contesting, resisting. verifying or appealing any such Business Taxes or Taxes;

(vi) Capital tax;

(vii) rental costs of equipment and signs, and the cost (including rental) of building supplies and tools used in the maintenance, cleaning, repair and operation of the Building;

(viii) auditing, accounting, legal and other professional and consulting fees and disbursements;

(ix) costs of repairs (including major repairs) and replacements to the Building (except for repairs or replacements of inherent structural defects or weaknesses) and costs (including repair or replacement) of the maintenance, cleaning and operating equipment, master utility meters and all other fixtures, equipment and facilities that are part of the Common Elements (including, without limitation, fixtures, equipment and facilities made or added for the greater comfort or convenience of the public or the Lessees);

(x) depreciation or amortization of the costs referred to in Article III, Section 3.l.t(ix) unless they are under Article III, Section 3.1.1(ix) charged fully in the Accounting Period in which they are incurred, all in accordance with mates and for periods determined by the Commission from time to time in accordance with accepted practices in the commercial real estate industry, but the Commission shall be entitled to charge the remaining undepreciated or unamortized balance of any of the foregoing costs of repairs and replacements over one or more Accounting Periods as determined by the Commission;

(xi) interest calculated on the unamortized or undepreciated part of the costs referred to in Article III, Section 3.1.l(x), calculated monthly, from the date on which the relevant costs were incurred, at an annual rate of interest that is designated by the Commission from time to lime; and

(xii) the fair market rental value of premises and storage areas in or on the Building used by the Commission or by its Property Manager in connection with the maintenance, repair, operation, administration and management of the Building (having regard to base rent and additional rent (including, without limitation, Operating Costs, Taxes and utilities being charged for similar space).

3.1.2 the following costs and expenses will not be included in the calculation of Operating Costs:

aa) initial capital costs of constructing the Building;

bb) ground rent (if any), depreciation and amortization (except as otherwise specifically set out in this Lease), and interest on any capital retirement of debt affecting all or any part of the Building;

cc) costs incurred by the Commission in leasing and preparing Leased Premises in the Building for lease, including brokerage commissions, legal costs, advertising costs and Lessee inducement or allowance payments; and dd) the cost of any additional service provided to the Lessee pursuant to Article HI, Section 3.4 of this Lease or to other Lessees of the Building pursuant to lease provisions similar or identical to such provision.

3.1.3 From the total of the costs referred to in Article III, Section 3.1.1(i) to (xii) (inclusive) there is deducted:

(a) net recoveries that reduce the expenses incurred by the Commission in operating and maintaining the Building and the Common Elements which are received by the Commission from Lessees as a result of any act, omission, default or negligence of Lessees or as the result of breaches by Lessees of the provisions on their leases (but not recoveries from Lessees under clauses similar to Article III, Section 3;

(b) net proceeds from insurance policies taken out by the Commission, but only to the extent that such proceeds represent recoveries on account of costs which were previously included in Operating Costs; and

(c) contributions, if any, to the total cost of operating and maintaining the Common Elements made by owners or occupants of neighboring properties and others who benefit from the use of the Common Elements.

3.1.4 If the Building is comprised of different categories of Leased Premises, the Commission shall be entitled but not obligated to allocate Operating Costs among the various categories on the basis of such factors as the Commission determines to be relevant, such as by way of example, the relative uses of each category and the benefits derived by them. In such event, the Commission shall be entitled -to adjust the Lessee's Proportionate Share of Operating Costs having regard to the category in which the Premises is included -

3.1.5 Notwithstanding Article III, Section 3.1:

(i) if any service which is normally provided by the Commission to some Lessees of the Building in their Leased Premises is not provided by the Commission to the Lessee under the specific terms of this lease, or to a lesser extent than avenge, then in determining the Lessee's Proportionate Share of Operating Costs the cost of such service (except as it relates to the Common Elements) shall be excluded or reduced, as appropriate; and

(ii) if any service which is normally provided by the Commission to some Lessees of the Building in their Leased Premises is provided by the Commission to the Lessee but not to all Lessees of Leased Premises in the Building or is provided by the Commission to the Lessee to a greater extent than average, then in determining the Lessee's Proportionate Share of Operating Costs, the cost of such service shall be attributed by the Commission to the Leased Premises to which such service is provided and according to the extent to which it is provided.

3.1.6 If any facilities, services, system or utilities:

(i) for the operation, repair, maintenance, administration or management of the Building are provided from another building or other buildings owned or operated by the Commission or agent: or

(ii) for the operation, repair maintenance, administration or management of another building or other buildings owned or operated by the Commission or agent are provided from the Building, then the costs, charges and expenses therefore shall be allocated by the Commission between the Building and the other building or buildings on a fair and equitable basis and the amount so allocated to the Building sb-all be included in Operating Costs.

3.2 Utilities, Heating, Ventilating and Air-Conditioning and Commission Services

3.2.1 In accordance with the Operation Standard, the Commission shall provide:

(i) heat, ventilating and air-conditioning by means of the HVAC System during Business Hours to the Premises and to those Common Elements requiring such services as designated by the Commission to maintain a temperature adequate for normal occupancy;

(ii) the use of the electricity, water, fuel, power, steam and other utilities (the "Utilities") serving the Building in nominal quantities as are generally made available to other Lessees of the Building by the Commission together with Utilities for those Common Elements requiring such Utilities as designated by the Commission;

(iii) necessary supplies in public washrooms sufficient for normal use by Lessees in the Building;

(iv) janitorial services to the Building (including the Premises, it being agreed to by the Lessee that it will not arrange for its own janitorial services to the Premises) as reasonably required to keep same in a clean condition and interior and exterior window washing, at reasonable intervals, provided that all curtains, carpets, rugs, drapes or window coverings shall be cleaned and maintained by the Lessee. The Lessee will permit access to the Premises necessary for the performance of the janitorial services; and

(v) subject to the Rules and Regulations, elevator service in the Building during Business Hours.

3.2.2 The Commission shall have the exclusive right to replace bulbs, tubes and ballasts (collectively the "Bulbs") in the lighting system in the Premises, on either an individual or a group basis. The cost of such replacement will be paid by the Lessee upon demand, or where the replacement involves Building standard Bulbs, the Commission may, at its option, include the cost of replacing such Bulbs in the Premises and in other Leased Premises in the Building in the Operating Costs of the Building. The Commission may request that the Lessee replace non-building standard Bulbs in the Premises;

3.2.3 The Commission is not liable for interruption or cessation of, or failure in, the supply of any Utilities, services or systems in, to or serving the Building or the Premises, whether they are supplied by the Commission or by others and whether or not the interruption or cessation is caused by the Commission's negligence, nor will the Commission be liable for any act or omission of any Person employed or engaged by the Commission or its Property Manager to provide the services set out in Article III, Section 3.2.1(iv).

3.2.4 The following provisions apply with respect to the Lessee's use of and obligations with respect to the HVAC System:

(i) The Lessee shall not, without the Commission's prior written consent, install equipment in the Premises which would affect the temperature otherwise maintained in the Premises by the ED/AC System as normally operated. The Commission, acting reasonably, may direct the Lessee to install supplementary air-conditioning units, facilities or services in the Premises, as may in the Commission's reasonable opinion be required to (1) maintain proper temperature levels in the Building and the Premises, or (2) ensure that the ED/AC System continues to operate efficiently, and the Lessee shall do so as soon as is reasonably possible failing which the Commission may install them and the Lessee shall pay to the Commission, on demand, the costs thereof together with fifteen percent (15%) of such costs for the Commission's overhead. The maintenance, repair and replacement of all such supplementary air-conditioning units, facilities, or services in the Premises will he performed by the Commission at the Lessee's expense or, at the Commission's option, by the Lessee;

(ii) the interior layout or partitioning of the Premises shall be modified by the Lessee, if necessary, in accordance with the reasonable requirements of the Commission to secure maximum efficiency of the HVAC System servicing the Premises. The Lessee shall comply with the Commission's reasonable requests and directions pertaining to the operation and regulation of those portions of the HVAC System within and serving the Premises, failing which the Commission shall be entitled to take such steps as it deems advisable including, without limitation, entering upon the Premises and taking the necessary corrective action, and the Lessee will pay to the Commission, on demand as Additional Rent, all costs incurred by the Commission in so doing together with a sum equal to fifteen percent (15%) of such costs for the Commission's overhead; and

(iii) the Lessee will ensure that all heating, ventilation and air-conditioning vents, ducts and units in the Premises are kept free from obstructions at all times and will comply with the Commission's directions with respect to the Commission's required clearance, if any, between such vents and units and any furniture or other article or fixture located in the Premises.

3.3 Charges for Utilities

3.3.1 if there are separate meters in the Premises which permit direct payment of Utilities to the supplier of such Utilities, then the Lessee will pay for all utilities consumed in the Premises directly to such suppliers.

3.3.2 if Utilities are not so separately metered in the Premises, the cost to the Lessee of such Utilities to the Premises which constitutes normal use for other Lessees in the Balding, as determined by the Commission, acting reasonably, will, at the Commission's option, form part of Operating Costs or be paid by the Lessee to the Commission in equal consecutive monthly installments in advance simultaneously with the Lessee's payment of Base Rent based upon estimates of the Commission and subject to final adjustment within a reasonable time after the period for which the estimate has been made.

3.3.3 If the Commission reasonably determines that the Lessee is consuming disproportionate quantities of any Utility in excess of typical consumption of that Utility by other Lessees in the Building, then the Commission may install, at the Lessee's expense, separate check meters or other measuring devices in the Premises or elsewhere and may use an Expert to assist it in determining the cost of such Utilities. All costs incurred by the Commission in providing such excess quantity of the Utility (including all costs incurred in making the allocation) will be paid for by the Lessee in accordance with Article III, Section 3.4.1.

3.4 Additional Services to the Premises

If from time to time requested in writing by the Lessee and to the extent that it is reasonably able to do so, the Commission shall provide in the Premises services in addition to those set out in Article Ill, Section 3.2.1, provided that the Lessee shall pay to the Commission, upon demand, the costs of those additional services at such reasonable rates as the Commission may from time to time establish. Without limiting the generality of the foregoing, such services shall include:

3.4.1 services performed at the Lessee's request including, without limitation, heating, ventilating and air-conditioning services outside Business Hours, excess quantities of Utilities, maintenance, repair, special janitorial or cleaning services and construction of Leasehold Improvements after the Commencement Date.

3.4.2 services provided at the Commission's reasonable discretion including, without limitation, supervising and approving any Premises Work performed pursuant to Article III, Section 18 and supervising the movement of furniture, equipment, freight and supplies for the Lessee; and

3.4.3 performance by the Commission on behalf of the Lessee of any of the Lessee's obligations set out in this Lease which the Lessee fails to perform, provided that nothing herein shall obligate the Commission to perform any such obligations.

4. USE

The Leased Premises shall be used only for the purpose of general office use. No other use can be made of the Leased Premises without the prior written consent of the Commission, which consent may be arbitrarily withheld. Without limiting the generality of the foregoing, the Lessee shall not permit any of the following practices to be carried on, in, or about the Leased Premises or any part thereof:

(i) storage or office purposes other than such areas as are approved therefore by the Commission and as may be auxiliary to the use of the Leased Premises for the purposes of the Use;

(ii) sleeping, apartment, or lodging rooms;

(iii) any unlawful purposes; and

(iv) any activity which is a nuisance or which damages the Leased Premises.

The Lessee shall not permit any business to be operated in, on, or from the Leased Premises by any subtenant, concessionaire, licensee or others without the prior written consent of the Commission.

5. RELEASE AND INDEMNITY

A) Release of the Commission

The Lessee agrees that the Commission and those for whom the Commission is, in law responsible, shall not be liable to any extent for any personal injury or death of, or loss or damage to any property belonging to the Lessee or its employees, invitees or licensees or any other person in, on or about the Leased

Premises unless resulting from the actual gross negligence of the Commission f7ut only to the extent of such actual gross negligence) or unless resulting from a breach of the obligations of the Commission under this Lease. In addition, in no event shall the Commission be liable for:

i) any damage which is caused by steam, water, rain or snow which may leak into, issue or flow from any part of the Leased Premises or from the pipes of plumbing works, including the sprinkler system, thereof, or from any other place or quarter, or for any damage caused by or attributable to the condition or arrangement of any electrical or other wiring or of sprinkler heads, or for any damage caused by anything done or omitted by any other person.

ii) any act or omission (including theft, malfeasance or negligence) on the part of any agent, contractor or person from time to time employed by the Commission to perform janitorial services, security services, supervision or any other work in or about the Leased Premises;

iii) loss or damage, however caused, to money, securities, negotiable instruments, papers or other valuable of the Lessee;

iv) indirect or consequential loss or damage suffered by the Lessee; or

v) claims, liabilities, loss or damage for which the Lessee is required to carry insurance.

B) Indemnification of Commission

Both during and after the Term, the Lessee shall and does hereby indemnify and save harmless the Commission, its successors and assigns, and all of its and their servants, agents, employees, contractors and persons for whom they are in law responsible, in respect of any and all actions, cause of actions, suits, debts, costs (including all legal fees and disbursements on a solicitor and client basis), expenses, claims or demands whatsoever, at law or in equity, arising from:

(i) any breach, violation, non-observance or non-performance of any covenant, obligation or agreement of the Lessee under this Lease; or

(ii) injury to or death of any person or damage to property occurring on the Leased Premises; or

(iii) any act or omission of the Lessee or its employees, servants, agents, contractors or any other person for whom the Lessee is responsible in law; or

(v) any loss or damage caused at any time during the Term by any of the perils against which the Lessee shall have insured or is under an obligation hereunder to insure, whether or not the loss or damage arises out of the negligence of the Commission.

C) Commission's Employees

It is agreed that every indemnity, release and exclusion of liability in favour of subrogation contained for the benefit of the Commission in this Lease or in any insurance policy required to be maintained by the Lessee hereunder, or otherwise maintained by the Lessee, shall extend to and benefit all of the Commission's servants, agents, employees, contractors and other persons for whom the Commission is in law responsible and solely for such purpose. And to the extent that the Commission expressly chooses to enforce the benefits of this Article III Section 6C for such persons, it is agreed that the Commission is the agent or trustee for such persons.

6. INSURANCE

A) The Lessee shall forthwith, at its expense, effect and shall keep in force during the Term of this Lease insurance protecting both the Commission and itself and naming the Commission as an additional insured against claims for personal injury, death, property damage, or third party or public liability claims arising from any accident or occurrence upon or in the Leased Premises from any cause, to an amount of not less than Two Million Dollars ($2,000,000) for personal injury or death to any one person in respect of any one accident or occurrence and, to the limit of not less than Five Million Dollars ($5,000,000) in respect of any one accident or occurrence involving two or more persons and to the limit of not less than Two Million Dollars ($2,000,000) for property damage in respect of any one accident or occurrence.

B) The Lessee shall insure and keep insured to its own requirements (with a minimum coverage for fire with extended coverage endorsement) all its own trade and Lessee's fixtures, installations, stock-in-trade merchandise, furniture, equipment and supplies, and the Commission will not be liable for any damages to same for any reason whatsoever, the Lessee hereby waiving any such claims.

C) If any insurance policy shall be cancelled or shall be threatened by the insurer to be cancelled, or the coverage thereunder reduced in any way by the insurer by reason of the use and occupation of the Leased Premises or any part thereof by the Lessee or by any assignee or subtenant of the Lessee, or by anyone permitted by the Lessee to be upon the Leased Premises, and if the Lessee fails to remedy the condition giving rise to cancellation, threatened cancellation, reduction or threatened reduction of coverage within twenty-four (24) hours after notice thereof by the Commission, the Commission may enter upon the Leased Premises and remedy the condition giving rise to such cancellation or reduction or threatened cancellation or reduction and the Lessee shall forthwith pay the cost thereof to the Commission, which cost may be collected by the Commission in the same manner as Rent and the Commission shall not be liable for any damage or injury caused to any property of the Lessee or of others located on the Leased Premises as a result of such re-entry.

D) Waiver of Subrogation

All insurance policies written on behalf of the Lessee shall contain a waiver of any subrogation rights which the Lessee's insurer's may have against the Commission, its employees, officers and directors, and against those for whom the Commission is, in law, responsible, whether any such property damage is caused by the act, omission or negligence of the Commission, its employees, officers and directors, or by those for whom the Commission is responsible in law.

E) The Lessee shall, upon the request of the Commission, deliver to the Commission a certified copy or certified copies of the said policies or Certificates of Insurance, which said policies or Certificates of Insurance shall contain clauses or endorsements prohibiting their cancellation or reduction in coverage or alteration, with respect to the limits outlined in Article III, Clause 6(A). in any way without at least fifteen (15) days written notice of such cancellation, reduction, or alteration being given to the Commission by registered mall or by hand and each policy of insurance written on behalf of the Lessee shall contain a waiver of any subrogation rights which the Lessee's insurers may have against the Commission and against those for whom the Commission is, in law, responsible whether any such damage is caused by the act, omission or negligence of the Commission or by those for whom the Commission is, in law, responsible.

F) The Lessee shall provide the Commission from time to time as the Commission may require evidence that the premiums on any policy or policies have been paid and that such insurance is in force during the Term of the Lease hereby created.

G) in the event that the Lessee shall fail to perform its obligations of providing such insurance coverage referred to herein, the Commission may (but shall not be obligated to), from time to time in its discretion, perform or cause to be performed any of such covenants or obligations, or any part thereof, and charge the cost of same to the Lessee.

7. MAINTENANCE AND REPAIR

A) Maintenance

The Lessee shall, at its own cost and expense, maintain the Leased Premises in such good order and condition as would a careful and prudent owner thereof and in accordance with any applicable law. Without limiting the generality of the foregoing, the Lessee shall perform at its expense all repairs and replacements required from time to time, to plate glass and electrical systems serving the Leased Premises exclusively. The Commission shall perform, or cause to be performed, all repairs and replacements to structural, mechanical or electrical systems servicing the Building. The Lessee acknowledges and agrees that the Commission shall not be obliged to bear the cost of making such repairs or furnishing such replacements, in or to the Building, such costs comprising, subject to the provisions of this Lease, part of the Operating Costs. The Lessee further covenants and agrees that it shall not call upon the Commission at any time to make any alterations, changes, substitutions, or improvements to the Building or Leased Premises, whether structural or otherwise.

B) Plate glass

The Lessee shall be responsible for any breakage or damage to any glass or plate glass in and about the Leased Premises, from whatever cause, and in the event of any such damage or breakage, the Lessee shall forthwith repair or replace same at its own expense.

C) Cleanliness

The Lessee will regularly keep the Leased Premises clean and in good repair and condition as herein provided and that it will immediately on the expiration or termination of this Lease, remove all rubbish from the Leased Premises and in the event of its neglecting or refusing to do so the Commission may, on giving to the Lessee one (1) day’s notice in writing, have the said rubbish removed or carted away and collect the cost thereof forthwith as Rent from the said Lessee.

D) Refuse

The Lessee will provide, at its sole cost and expense, for the proper and adequate collection and disposal of all garbage and refuse from the Leased Premises on a daily basis, as would a reasonably prudent owner of similar premises.

8. INSPECTION AND REPAIR

The Lessee will permit the Commission or its agents to enter upon the Leased Premises and view the state of repair and that it will perform at its own expense any repairs requested by the Commission, after giving the Lessee Forty Eight (48) hours prior written notice, except in the event of an emergency, in which no notice shall be required, which are the obligation of the Lessee. The Commission may, in the event of the Lessee refusing or neglecting to repair after being called upon so to do, enter upon the Leased Premises and execute such repairs and recover the cost thereof as rent from the Lessee.

9. LESSEE’S OPERATIONS

The Lessee will operate and conduct its operation in the Leased Premises in a good and business-like manner so as to comply with all requirements of health authorities and of Provincial, Municipal and Federal authorities and using good management practices and in this regard, the Lessee shall:

(i) maintain, renew and replace the Lessee’s fixtures in or on the Leased Premises so that they shall be suitable for the operation of the Lessee’s business;

(ii) continuously, actively and diligently operate its business in an up-to-date, first class and reputable manner befitting a facility of the nature of the Leased Premises;

(iii) be open for business during the regular customary days and hours for such type of business in the trade area where the Leased Premises are located, provided further that, with the Commission’s approval, the Lessee may remain open for such additional hours as it deems desirable provided, however, that such additional hours are not prohibited by law. The Lessee shall not carry on or permit any business practice which, whether through advertising, selling procedures or otherwise, may harm the Leased Premises or reputation of the Commission or reflect unfavorably on the Leased Premises or the Commission or which may confuse, mislead or deceive the public, in the Commission’s sole discretion;

(iv) maintain on the Leased Premises an adequate staff of employees to provide service to the public in both official languages of Canada; and

(vi) all signs and promotional material and any promotional materials shall be in both official languages of Canada.

10. POWER INTERRUPTIONS

In no way shall the Commission be responsible to the Lessee for providing any electricity, water or services to the Leased Premises or for any damages for an interruption or failure in the supply of any such utilities or services.

11. ASSIGNMENT

A) Assignment

The Lessee will not assign this Lease or sublet the whole or any part of the Premises without the prior written consent of the Commission, which consent shall not be unreasonably withheld, provided that:

(i) the Lessee is not and has not habitually been in default of any of the terms of the Lease;

(ii) the proposed assignee or subtenant (together the Transferee”) enters into an agreement in a form satisfactory to the Commission and covenants to undertake the obligations of the Lessee hereunder;

(iii) the proposed Transferee is financially capable of assuming the obligations of the Lessee contained in this Lease.

B) Remain Liable

In the event that said assignment or sublet is approved by the Commission, the Lessee shall remain jointly and severally liable for the performance of all covenants of the Lessee under this Lease, including but not restricted to, the covenant to pay Rent.

C) Corporate Assignment

In the event the Lease is assigned to a corporate body, then, for the purposes of Article III, Section 12. any subsequent sale or other disposition of whatsoever nature and kind or any issue of shares, merger or statutory amalgamation resulting in a change in the beneficial ownership, whether directly or indirectly, of the shares of the Lessee (the Change in Control"), shall be deemed to be an assignment of this Lease, The Lessee shall make available to the Commission, all corporate books and records of the Lessee for inspection in order to ascertain whether there has in fact been a Change of Control.

12. SURRENDER OF LEASED PREMISES

A) Upon the expiration or early termination of this Lease, the Lessee will peaceably yield up to the Commission the Leased Premises together with all improvements made to the Leased Premises in good repair and condition, reasonable wear and tear only excepted.

B) The Lessee covenants and agrees not to make any claim for, nor will the Commission be responsible for, any loss, damage, or business disturbances occasioned by the termination of this Lease or for any compensation for any improvements made to the Leased Premises.

13. DAMAGE AND DESTRUCTION

If and whenever the Leased Premises or any part thereof shall be damaged by fire or other cause to such an extent that the Leased Premises shall not, in the opinion of the Commission, be capable with due diligence of being repaired, restored or rebuilt within a period of one hundred and eighty (180) days after the occurrence of such damage or if the Commission decides that it will not rebuild the Leased Premises, the Commission may terminate this Lease upon thirty (30) days notice given within forty-five (45) days after the occurrence of such damage and the Lessee shall thereupon immediately surrender the Leased Premises and this Lease to the Commission and Rent shall be apportioned to the date of such termination, unless the Leased Premises shall also have been damaged to the extent of rendering them completely unsuitable for the purpose for which they were leased in which event Rent shall be apportioned to the date of such damage. If the damage is such that the Leased Premises can be partially used by the Lessee, the Rent payable hereunder shall abate in proportion to the nature and extent of the damage from the time of the occurrence thereof until the completion of such repairs to the Leased Premises by the Commission. TI the Commission does not elect to terminate this Lease as aforesaid, then the Commission shall proceed with due diligence to repair the Building and/or Leased Premises and upon completion of such repairs by the Commission the Rent shall recommence fifteen (15) days after such completion or at the re-opening of the Leased Premises for business, whichever shall first occur.

14. WATER DAMAGE

The Commission shall not be liable for any damage caused by water from breakage of or leakage from plumbing, heating or cooking apparatus in any part of the Leased Premises or any other premises in the same building, or from the leakage through the roof, wells or foundation and in addition shall not be liable for any damage that may he caused by the other occupants of the same building, the Lessee hereby waiving all of the above claims.

15. COMPLIANCE WITH LAWS

The Lessee shall, without cost or expense to the Commission, observe and fulfill the provisions and requirements of all Statutes, Orders-in-Council, Orders, By-laws, Municipal. Provincial or Federal Rules and Regulations, including the Municipal and Federal Commissions affecting the Lessee's occupancy and/or use of the Leased Premises or any part thereof; and upon request being made or notice being given by the official charged with the enforcement of the said provisions and requirements to the Lessee or to the Commission requiring performance or in respect of any non-performance or infraction of any such provisions and requirements, the Lessee shall immediately comply with any lawful demand contained in such request or notice, and in default thereof the Commission may, at its option, terminate this Lease or procure to be done any work necessary to comply therewith and may charge the cost thereof against the Lessee and shall have, the same right to recover the money so paid as of the same were arrears of Rent reserved hereby in respect of the said Leased Premises.

16. AERIALS ETC.

A) Aerials

No aerial shall be erected on the roof or exterior walls of the Leased Premises without the prior written consent of the Commission. The noise level should not cause nuisance to other lessees in the Building.

B) Other devices

No loudspeakers, television, phonographs, radios or other devices shall be used in a manner so as to be materially heard or seen outside of the Leased Premises without the prior written consent of the Commission.

17. DEFAULT

If the Lessee:

(i) defaults in the payment of Rent and such default continues for ten (10) days after the Commission has given notice thereof to the Lessee;

(ii) fails to keep, perform or observe any of the covenants, agreements, conditions or provisions contained in this Lease on the part of the Lessee lobe kept, performed or observed (other than as provided for in (i) above) and such failure shall continue for, or shall not be remedied within the period of thirty (30) days after notice of such failure is given to the Lessee or, in the event such failure cannot reasonably be remedied within such thirty (30) day period then, such longer period after notice of such default is given to the Lessee as would reasonably be required to remedy such default, proceeding diligently, provided that within such thirty (30) day period the Lessee commences remedying the default and thereafter diligently proceeds to complete the remedying of the default and, at the request of the Commission from to time to time, provides the Commission with reasonable evidence satisfactory to the Commission as to the steps being taken by the Lessee toward remedying the default;

(iii) suffers an Event of Insolvency, which, for the purposes of this Lease shall mean:

a) the Lessee institutes any proceeding or takes any corporate action or executes any agreement to authorize its participation in or commencement of any proceeding, or any proceeding is commenced against it which remains outstanding, undismissed and unstayed more than thirty (30) days from its institution:

i) seeking to adjudicate it a bankrupt or insolvent;

ii) seeking liquidation, dissolution, winding up, reorganization, arrangement, protection, relief or composition of it or any of its property or debt, or making a proposal with respect to it under any law relating to bankruptcy, insolvency, reorganization or compromise of debts or other similar laws (including, without limitation, any application under the Companies Creditors Arrangement Act (Canada) or any reorganization, arrangement or compromise of debt under the laws of the jurisdiction of incorporation of such Person); or

iii) seeking to amalgamate or merge it with any other entity without prior written consent of the Commission; or

iv) seeking the appointment of a receiver, trustee, agent, custodian or other similar official for it or for any substantial part of its properties and assets; or

b) a creditor has privately appointed a receiver, trustee or similar official for any substantial part of the Lessee's properties and assets; or

c) an execution, distress or other enforcement process, whether by court order or otherwise, becomes enforceable against a substantial part of the Lessee's property or assets;

iv) purports to make any transfer or assignment of this Lease other than in compliance with the terms of this Lease;

then the full amount of the current months Rent, together with the next three (3) months' installments of Rent, shall immediately become due and payable as accelerated Rent and the Commission shall have the following rights and remedies, which are cumulative and not alternative, and are in addition to and not in substitution for any rights or remedies that the Commission may have pursuant to applicable law:

(i) to terminate this Lease in whole or in part by five (5) days notice in writing to the Lessee;

ii) to enter the Leased Premises as agent of the Lessee and to re-let the Leased Premises, or any part or parts thereof, for whatever term, and on such terms and conditions as the Commission in its discretion may determine, and to receive the rent therefore, and as agent of the Lessee, to take possession of any property of the Lessee in the Leased Premises, to store such property at the expense and risk of the Lessee, to re-let such property or to sell or otherwise dispose of such property in such manner as the Commission may see fit, without notice to the Lessee;

(iii) to make alterations to the Leased Premises to facilitate their re-letting;

(iv) to apply the proceeds of any re-letting of the Leased Premises or sale of the Lessee's property:

a) first to the payment of any expenses incurred by the Commission with respect to such re-letting;

b) second to the payment of any indebtedness of the Lessee to the Commission other than Rent in arrears;

c) third to the payment of Rent in arrears;

d) fourth to the payment of any accrued interest on amounts in arrears; with the residue to held by the Commission and applied in payment of future rent as it becomes due and payable. The Lessee shall remain liable for any deficiency to the Commission;

(v) to remedy or attempt to remedy any default of the Lessee under this Lease for the account of the Lessee and to enter upon the Leased Premises for such purposes without such actions constituting re-entry or termination. The Commission shall not be liable to the Lessee for any loss, injury or damage caused by acts of the Commission in remedying or attempting to remedy such default and the Lessee shall pay to the Commission all expenses incurred by the Commission in connection with remedying or attempting to remedy such default, together with all of the Commission's reasonable administrative expenses; and

(vi) to recover from the Lessee all damages and expenses incurred by the Commission as a result of any breach by the Lessee including, if the Commission terminates this Lease, any deficiency between those amounts which would have been payable by the Lessee for the portion of the Term following such termination and the net amounts actually received by the Commission during such period of time with respect to the Leased Premises.

18. IMPROVEMENTS

A) The Lessee shall not make any alterations or improvements whatsoever upon the said Leased Premises without the prior written consent of the Commission, such consent not be unreasonably withheld or delayed. Any alterations or improvements shall, at the end of the Term, become the property of the Commission without payment being made therefore, provided, nevertheless, that the Commission, at its option, may, at the end of the Term require the Lessee to remove any such alterations and put the Leased Premises in the same structural condition as at the commencement of this Lease, reasonable wear and tear excepted, and provided that the Lessee may remove his trade fixtures and equipment not affixed to the Leased Premises provided he can do so without damaging the Leased Premises. All such alterations improvements and interior renovations shall be carried out at the sole cost of the Lessee.

B) At any time during the Term, the Lessee shall, subject to obtaining the prior written approval of the plans by the Commission and such other permits or approvals that may he required by applicable la'v, have the right to make, at its own expense, such alterations and improvements to the Leased Premises as the Lessee may deem advisable; provided that no such alteration or improvement shall reduce the value of the Leased Premises or impair the safety of the structural, mechanical and electrical systems servicing the Leased Premises.

C) Before requesting the Commission's approval, the Lessee shall submit, in duplicate, to the Commission detailed drawings, elevations, specifications (including materials to be used and colors), location, cost estimates and proposed construction schedule of the proposed alterations or improvements and evidence that construction of the alterations is economically feasible and that the Lessee has the required funds to complete the alterations or improvements. Any alterations and improvements which are strictly interior or are minor changes to the Leased Premises will not be subject to the Commission's approval. The Lessee shall deliver to the Commission copies of all tender documentation, construction documents and permit applications for any improvements or alterations on or before issuing the said documents.

D) The Commission, its architects, agents and employees, may enter the Leased Premises at all reasonable times on reasonable notice during construction of all replacements, alterations, additions, changes, substitutions or improvements thereto for the purpose of inspection and ascertaining whether the work conforms with the approved drawings and plans and the stipulations contained in them and to protect the Commission's interest.

E) It is understood and agreed that, whenever in this Lease any plans and/or drawings are subject to the approval of the Commission, or the Commission has the right to inspect the Commission's review and approval of such plans and/or drawings, any inspection is not for regulatory or technical purposes and is only to protect its interest as Commission. In addition, the Commission, in approving any plans and/or drawings or carrying out any inspections, is not making any representations, nor is the Commission undertaking any responsibility of an engineering, architectural or any nature whatsoever, in respect of the improvements contemplated thereby, the Lessee hereby assuming all such liability and risk. The Lessee hereby covenants to hold the Commission harmless in respect of all claims, demands, expenses, and costs made or advanced against the Commission having reviewed and approved any plans and/or any drawings and/or carried out any inspections, in respect of the improvements contemplated thereby.

19. SIGNAGE

All signage of the Lessee affixed to the exterior of the Leased Premises and any window signage visible to the passing public, must be in both official languages of Canada and all such signage shall be submitted to the Commission for its written approval prior to erection. All signage, including construction hoarding and signage identifying a construction or a reconstruction project, must receive the prior approval in writing of the Commission. Approval of window displays or messages relating to such displays is not required.

29. COMMISSION REPAIRS

The Lessee agrees that the Commission may, at its sole discretion, make any alterations or improvements to the exterior of the Building, including structural changes for the erection or removal of signs, without the consent of the Lessee. The Lessee further agrees that if the Commission shall undertake to make such alterations or improvements, the Lessee will not look to the Commission for compensation for business loss or any other claim of any nature or kind whatsoever, the Lessee hereby waiving any such claim.

21. LEASEHOLD MORTGAGES

If the Lessee mortgages its interest in the Lease, the Lessee covenants and agrees that it will obtain from the mortgagee an undertaking and a covenant that in the event of default under the terms of the mortgage that the mortgagee who, in this event, would stand in the place of the Lessee, shall use the Leased Premises for the use set out as herein and shall not sublet or assign to any other person or corporation without the consent of the Commission to such assignee or subtenant and as to the use of the Leased Premises and further, the said Lessee will obtain an undertaking from the mortgagee to withhold, during the construction of renovations, a holdback provided for under the Construction Lien Act in the Province of Ontario. The consent to assignment or subletting herein may be unreasonably withheld if the use is to be anything other than as set out herein. In this event this Lease shall be surrendered by the mortgagee forthwith.

22. OPTION TO RENEW

Provided that the Lessee has not been in default during the Term, the Lessee upon giving the Commission written notice thereof not less than nine (9) months and not more than one (1) year before the date of expiry of the Term, shall have the option to renew the initial Term for a further term of One (1) year ("Renewal Tern") on the Commission's then current Standard Lease Form:

a) there shall be no additional right of renewal;

the Net Rent payable by the Lessee during the Renewal Term shall be $15.00 per square foot of Rentable Ama of the Leased Premises per year.

23. RENTAL DEPOSIT

The Lessee hereby delivers with this Lease, a cheque payable to the National Capital Commission in the amount of Fifteen Thousand Two Hundred Thirty Nine Dollars ($15,239.00) to be held without interest for application against Base Rent and Additional Rent due in the first and last months of the Term.

24. SECURITY DEPOSIT

The Lessee will deliver to the Commission with the Lease a cheque in the amount of Fifteen Thousand Five Hundred Dollars ($15,500.00) to be held by the Commission without interest for the full and faithful performance by the Lessee of all the terms and conditions of the Lease.

25. OVERHOLDING

lf the Lessee remains in possession of the Leased Premises after the end of the Term and without the execution and delivery of a new lease or a written renewal or extension of this Lease, there is no tacit or other renewal of this Lease, and the Lessee will be considered to be occupying the Leased Premises as a Lessee from month to month at a monthly rental payable in advance on the first day of each month equal to the sum of:

(i) twice the monthly installment of the fixed Base Rent payable for the last month of the Tern; and

(ii) one-sixth (1/6) of the amount of Additional Rent and charges payable by the Lessee for the Year immediately preceding the last Lease Year of this Lease;

and otherwise upon the terms and conditions set forth in this Lease, so far as applicable.

ARTICLE IV GENERAL PROVISIONS

1. NOTICE

Wherever in this Lease it shall be required or permitted that notice or demand be given or served by either party to this Lease to or on the other, such notice or demand shall be given or served and shall not be deemed to have been duly given or served unless in writing and forwarded by registered mail, facsimile or personal service to the Commission as follows:

National Capital Commission
C\O Minto Properties Limited
1051 Baxter Road
Unit 22-B
Ottawa, Ontario
K2C 3P2

ATTN: Michael Ring, General Manager
Facsimile: (613) 782-2424

and to the Lessee's as follows:

Validian Corporation
Suite #620
30 Metcalfe Street
Ottawa, Ontario
K1P 5L4

ATTN: Mr. Ron Benn

Such addresses may be changed from time to time by either party serving notices as above provided.

2. ENUREMENT

In this Lease the words "Commission", and "Lessee" shall include their respective successors and assigns. No rights however shall ensure to the benefit of an assignee of the Lessee unless the assignment to such assignee has been consented to by the Commission in writing.

3. NO PARTNERSHIP

It is understood and agreed that neither the provision contained herein nor any acts of the parties hereto will be deemed to create any relationship between the parties hereto other than that of Commission and Lessee.

4. WAIVER

A) The waiver by the Commission of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition or of any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent hereunder by the Commission shall not be deemed to he a waiver of any preceding breach by the Lessee of any term, covenant or condition of this Lease, other than the failure of the Lessee to pay the particular Rent so accepted, regardless of the Commissions knowledge of such preceding breach at the time of acceptance of such Rent. No covenant, term or condition of this Lease shall be deemed to have been waived by the Commission unless such waiver be in writing by the Commission.

B) No payment by the Lessee or receipt by the Commission of a lesser amount than the monthly Rent herein stipulated shall be deemed to be other than on account of the earliest stipulated Rent, nor shall any endorsement or statement on any cheque or any letter accompanying any cheque or payment as Rent he or be deemed to be an accord and satisfaction, and the Commission may accept such cheque or payment without prejudice to the Commission's right to recover the balance of such Rent or pursue any other remedy contained in this Lease. -

5. PARAMOUNTCY OF FEDERAL AUTHORITY

Notwithstanding anything contained in this Lease relating to any provincial or municipal statute, by-law, regulation or other enactment, the Commission hereby declares that no such reference shall be interpreted or implied as recognition by the Commission that the Province of Ontario, the Region or any municipality, or any other provincial or municipal statute, by-law, regulation or other enactment, has any jurisdiction over the Commission or the Leased Premises, provided, however, that nothing in this Section shall release the Lessee from any provincial or municipal law as it applies to the Lessee.

6. TIME OF THE ESSENCE

Time is of the essence of this Lease.

7. SEVERAL LIABILITY

If the Lessee comprises more than one person or entity, the liability of each such person or entity shall be joint and several.

S. MEMBERS OF HOUSE OF COMMONS NOT TO BENEFIT

As required by the *Parliament of Canada Act* (Canada), it is an express condition of this Lease that no Member of the House of Commons shall be admitted to any share or part of this Lease or to any benefit arising therefrom.

9. NO OFFER

No contractual or other rights will exist between the Commission and the Lessee as a result of the negotiation of this Lease until all parties have executed and delivered this Lease, notwithstanding that the Commission may have delivered to the Lessee an unexecuted copy of this Lease. Such delivery will be for examination purposes only and does not and will not create any interest by the Lessee in the Leased Premises, or raise any estoppel against the Commission. Execution of this Lease by the Lessee and its return to the Commission will not create any obligation on the Commission, notwithstanding any time interval until the Commission has in fact executed and delivered this Lease to the Lessee.

10. ENTIRE AGREEMENT

This Lease and the Appendices attached hereto contain all of the covenants, promises, assurance, agreements. representations, conditions, warranties, statements and understandings (together the "Representations") between the Commission and the Lessee concerning the Leased Premises and the Building, and there are no Representations, either oral or written, between them other than those set forth in this Lease.

11. DISPUTES

It is the non-binding intention of the parties that where a dispute arises between the parties in connection with this Lease, the parties shall attempt to resolve the dispute by negotiating in good faith and where possible by retaining an expert in the context of the dispute, provided that failure to do so shall in no way affect the jurisdiction of an arbitrator to arbitrate such a dispute. Notwithstanding the intention of the parties to negotiate, any *bona fide* dispute or question arising over any of the provisions of this Lease, its interpretation or effects shall be submitted to arbitration and not to any other forum. Any arbitration proceeding initiated in relation to this Lease shall be held in Ottawa, in accordance with the provisions of the *Commercial Arbitrations Act* (Canada) as it may be amended from time to time, and any legislation in replacement thereof. The arbitrators shall determine the process of the arbitration having due regard to the intention of the Commission and the Lessee that the arbitration be completed as expeditiously as possible in all the circumstances. An award by the sole arbitrator or panel of arbitrators, as the case may be, shall be final and binding upon the parties and shall determine and apportion any costs of the arbitration.

12. FURTHER ASSURANCES

The Lessee and the Commission covenant to execute such further assurances as may reasonably be required to give effect to any provision of this Lease.

13. CONFIDENTIALITY

Except as required by law, each of the parties hereto agrees to use reasonable efforts to prevent the disclosure or communication of this Lease and its terms, or of any reports, audits of financial information or any agreements arising out of this Lease to any Person. Notwithstanding the foregoing, the Lessee acknowledges that the Commission is subject to the provisions of the *Access* to *Information Act* (Canada) and may therefore be required to release information pertaining to this Lease which is the subject of a formal request under that Act and which is not exempt from disclosure under the provisions of that Act.

14. SEVERABILITY

Should any provision of this Lease become invalid, void, illegal or not enforceable, it shall be considered separate and severable from this Lease and the remaining provisions shall remain in full force and be binding upon the parties hereto as though such provision had not been included.

15. AMENDMENT OR MODIFICATIONS

Unless specifically provided to the contrary, no amendment, modification of supplement to this Lease shall be binding unless set out in writing and executed by the parties hereto in the same manner as the execution of this Lease.

16. EXTENDED MEANINGS

The words "hereof", "herein", "hereunder" and similar expressions used in any Section or Subsection of this Lease relate to the whole of this Lease and not to that Section or Subsection on]y, unless otherwise expressly provided. The use of the neuter singular pronoun to refer to the Commission or the Lessee is deemed a proper reference even though the Commission or the Lessee is an individual, a partnership, a corporation or a group of two or more individuals, partnership or corporations, The necessary grammatical changes required to make the provisions of this Lease apply in the plural sense where there is more than one Commission or Lessee and to either corporations, associations, partnerships or individuals, males or females, shall in all instances be assumed as though in each case fully expressed.

17. HEADINGS AND CAPTIONS

The table of contents, Article numbers, Article headings, Sections numbers and Section headings are inserted for convenience of reference only and are not tube considered when interpreting this Lease.

18. CURRENCY

All Rent and other amounts of money in this Lease are expressed and referred to in Canadian dollars and shall be paid in lawful currency of Canada.

19. UNAVOIDABLE DELAY

In the event that either the Commission or the Lessee shall be delayed, hindered or prevented from the performance of any covenant hereunder by reason of any Delay not the fault of the party delayed, the performance of such covenant shall be excused for the period during which such performance is rendered impossible, and the time for the performance thereof shall be extended accordingly but this shall not excuse the Lessee from the prompt payment of Rent or any other amount required to be paid by the Lessee under any provision of this Lease.

"Delay" means a delay caused by fire, strike or other casualty or contingency beyond the reasonable control of a party who is, by reason thereof, delayed in the performance of such party's covenants and obligations under this Lease in circumstances where it is not within the reasonable control of such party to avoid such delay, but does not include any insolvency, lack of funds or other financial cause of delay

ARTICLE V COMMISSION'S COVENANTS

THE COMMISSION COVENANTS:

1. QUIET ENJOYMENT

Provided the Lessee pays the Rent when due and performs all of its obligations under this Lease, the Lessee shall peacefully possess and enjoy the Leased Premises for the Term without any disturbance or interruption from the Commission or any other person lawfully claimed by, from or under the Commission, except as otherwise provided in this Lease.

IN WITNESS WHEREOF the parties hereto have executed this Lease as of the date first written above.

NATIONAL CAPITAL COMMISSION

Vice-President
Capital Planning and Real Asset Management Branch

VALIDIAN CORPORATION
I have authority to bind the corporation.

Lessee

Witness

Exhibit 10.8

THIS AGREEMENT made as of the 1st day of April, 2004

BETWEEN
Validian Corporation
Having a place of business at
30 Metcalfe St. Suite 620
Ottawa Canada K1P 5L4

(hereinafter referred to as “the Company")

- and -

Andre Maisonneuve
residing at
504-1500 Riverside Drive
Ottawa, Ontario K1G 4J4

(hereinafter referred to as the "Executive")

WHEREAS:

The Executive has agreed to accept the position of Chief Executive Officer, and the Company desires to engage the Executive in this capacity on the terms and conditions hereinafter set forth which the Executive hereby agrees to.

THIS AGREEMENT witnesses that the parties have agreed that the terms and conditions of the relationship shall be as follows:

1. Duties

(1) The Company shall confirm the Executive’s appointment as Chief Executive Officer, reporting to the Board of Directors. The Executive shall undertake those duties and tasks associated with the said position, as assigned and approved by the Company. The parties acknowledge that there is no defined job description associated with the said position, and the parties agree that the Company shall retain the ability to change the duties and tasks associated with the said position, as dictated by the Company’s operational and/or business requirements.

(2) The Executive agrees that he will at all times faithfully, industriously, and to the best of his skill, ability, experience and talents, perform all of the duties required in the position of Chief Executive Officer, and that he will not engage in any activities that will conflict with the Executive’s performance of such duties.

2. Term and Service

The appointment shall commence on April 1, 2004, following the execution of this Agreement, and shall continue indefinitely, or until such time as the appointment is terminated in accordance with the provisions of this Agreement.

3. Compensation

The Executive shall receive a base salary of C$135,000 per year, paid in accordance with the Company's standard payroll practices. The Executive shall also be eligible for an annual performance bonus, at the discretion of the Company, based upon successfully meeting the goals and objectives established by the Company.

4. Stock Options

The Executive shall be eligible to receive additional stock options at the sole discretion of the Board of Directors of the Company.

5. Benefits

The Executive shall be entitled to participate in the Company's group benefits package, should he chose to do so.

6. Vacation

The Executive shall be entitled to four (4) weeks' paid vacation per annum, to be taken at times approved by the Company, plus all statutory holidays set out in the ***Employment Standards Act***. If the Executive elects not to take or take only a portion of those vacation weeks during the current calendar year, the unused weeks will automatically add to the weeks available for vacation during the following year.

7. Termination

The parties understand and agree that this Agreement may be terminated in the following manner in the specified circumstances:

(1) By the Company, for any reason, upon providing the Executive with notice, or a payment of base salary in lieu of notice, in an amount equal to six (6) months plus the portion of the vacation weeks not used by the Executive at the time of termination . The entitlements set out in this provision shall be deemed to be inclusive of all entitlements under the ***Employment Standards Act***, as amended from time to time. Regardless of whether the requirements of this provision are met by notice and/or a payment in lieu of notice, the Company shall ensure that benefit coverage is continued in accordance with the ***Employment Standards Act***. In the event that there are severance requirements under section 58 of the ***Employment Standards Act***, or its successor provision, the Company shall ensure that the required portion of the entitlement set out in this provision is paid in lump-sum form.

(2) By the Company, at any time, without notice or payment in lieu of notice, for just cause.

(3) By the Executive, at any time, upon providing the Company with six (6) weeks' notice. In such circumstances, the Executive agrees to make every effort to assist the Company with transition issues during the said notice period. This notice requirement may be waived at the discretion of the Company.

8. Change in Control

If at any time after the date hereof:

(1) any person, association, or entity acquires or becomes the beneficial owner of, either directly or indirectly, more than 50% of the voting shares, or

(2) any resolution is passed or any action or proceeding is taken with respect to the liquidation, dissolution or winding-up of the Company; or

(3) the Company amalgamates, consolidates or merges with another body corporate,

the Employee shall have the option, exercisable for 30 days following his actual knowledge of the triggering event set out in (1) to (3) above, to consider himself terminated in accordance with paragraph 7(1) above, and shall be entitled to an immediate payment in lieu of the notice requirements set out in the said paragraph, plus an additional payment equivalent to a further six (6) months' base salary, for a total of twelve (12) months' base salary.

9. Privacy

The Executive hereby authorizes and expressly consents to the Company's collecting, using and disclosing selected personal information of the Executive as required for the purposes of obtaining, maintaining, renewing and administering services including, but not limited to a full range of business insurance coverage and health, disability and/or life insurance, between the Company and the providers of these services, and to meet all regulatory disclosure requirements of the Company or to provide as part of normal disclosure to the SEC by the Company.

10. Non-Competition

(1) For a period of one year from the effective date of termination of employment, howsoever caused, the Executive agrees that he shall not:

- (a) be directly or indirectly engaged in any company or firm who competes in the business of secure data transfer;
- (b) intentionally act in any manner that is detrimental to the relations between the Company and its dealers, distributors, VARs, IMRs, customers, employees or others; and/or,
- (c) directly or indirectly solicit any of the customers distributors, VARs, IMRs, of the Company or be connected with any person, firm or corporation soliciting or servicing any of the customers of the Company

(2) The Executive acknowledges that, without prejudice to any and all rights of the Company, an injunction is the only effective remedy to protect the Company's rights and property as set out in paragraph (1).

11. Confidential/Proprietary Information

(1) The Executive acknowledges that as Chief Executive Officer, and in any other position to which he is appointed, the Executive will acquire information about certain matters and things which are confidential and/or proprietary to the Company, and which information is the exclusive property of the Company including:

(a) lists of present and prospective customers, distributors, VARs, IMRs, and information related to the types of technology employed by these customers distributors, VARs, IMRs,;
(b) pricing and sales policies, techniques and concepts;
(c) revenue, financial and accounting information; and,
(d) intellectual property and trade secrets.

(2) The Executive acknowledges that the information referred to in paragraph (1) could be used to the detriment of the Company. Accordingly, the Executive undertakes to treat confidentially all information and agrees not to disclose same to any third party either during the term of his employment, except as may be necessary in the proper discharge of his employment under this Agreement, or after the date of termination of the Executive's employment, however caused, except with the written permission of the President of the Company.

(3) The Executive acknowledges that, without prejudice to any and all rights of the Company, an injunction is the only effective remedy to protect the Company's rights and property as set out in paragraphs (1) and (2).

12. Inventions, Discoveries & Industrial Designs

If, during the term of this Agreement or any renewal thereof, the Executive should (a) conceive or make any invention or discovery whether patentable or not; (b) become the author of any design capable of being protected as an industrial design, design patent or other design protection; (c) become the author of any work in which copyright may exist; or, (d) develop any confidential information which may be capable of being protected as a trade secret; and if such invention, discovery, industrial design, work or confidential information has been requested or has been developed as part of a request for the Company or its affiliated corporations (hereinafter collectively referred to as "the Company"), then such invention, discovery, industrial design, work or confidential information shall be the sole and exclusive property of the Company, and the Company shall enjoy a waiver of any and all moral rights in the work. The Executive agrees that, during the term of his employment with the Company and thereafter, he shall execute on demand any applications, transfers, assignments, waivers and/or other documents as the Company may consider necessary or advisable for the purpose of giving effect to such waivers of moral rights in favour of the Company, or vesting in the Company full title to such inventions, discovery, industrial design, work or confidential information, and to assist in every way possible in the prosecution thereof.

13. Severability

The validity or unenforceability of any provision or part of any provision of this Agreement or any covenant contained herein shall not affect the validity or enforceability of any other provision or part of any provision and any such invalid or unenforceable provision or part thereof or covenant shall be deemed to be severable.

14. Entire Agreement

This Agreement constitutes the understanding of the parties and supersedes and replaces all oral and written representations.

15. Modification of Agreement

This Agreement cannot be amended, modified or supplemented in any respect except by subsequent written agreement signed by both parties hereto. Any modification to this Agreement must be in writing and signed by the parties or it shall have no effect and shall be void.

16. Headings

The headings used in this Agreement are for convenience only and are not to be construed in any way as additions to or limitations of the covenants and agreements contained in it.

17. Governing Law

This Agreement shall be construed and interpreted in accordance with the laws of the Province of Ontario.

18. Independent Legal Advice

The Executive has been advised to obtain independent legal advice from his solicitors with respect to this Agreement and he acknowledges that he has done so and has received advice from his solicitors prior to executing this Agreement and that the terms and conditions of his employment are as set forth in this Agreement, and there are no other terms and conditions of that employment or representations or promises made with respect to that employment other than as set forth herein.

IN WITNESS WHEREOF the parties hereto have executed this Agreement this day of April, 2004.

VALIDIAN CORPORATION
per:

_________________________ _________________________

Andre Maisonneuve

____

Exhibit 31.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Andre Maisonneuve, Chief Executive Officer of Validian Corporation, certify that:

(1) I have reviewed this report on Form 10-KSB of Validian Corporation;
(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
(3) Based on my knowledge, 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 small business issuer as of, and for, the periods represented in this report;
(4) The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the small business issuer's internal control over financial reporting; and
(5) The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.

/s/Andre Maisonneuve
Andre Maisonneuve
Chief Executive Officer
Date: April 13, 2005

Exhibit 31.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronald Benn, Chief Financial Officer of Validian Corporation, certify that:

(1) I have reviewed this report on Form 10-KSB of Validian Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, 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 small business issuer as of, and for, the periods represented in this report;

(4) The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the small business issuer's internal control over financial reporting; and

(5) The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.

/s/Ronald Benn
Ronald Benn
Chief Financial Officer
Date: April 13, 2005

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Validian Corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-KSB for the year ended December 31, 2003 (the "Form 10-KSB") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-KSB fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-KSB.

Dated: April 13, 2005

/s/Andre Maisonneuve
Andre Maisonneuve
Chief Executive Officer

The foregoing certification is being furnished as an exhibit to the Form 10-KSB pursuant to Item 601(b)(32) of Regulation S-B and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-KSB for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Validian Corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-KSB for the year ended December 31, 2003 (the "Form 10-KSB") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-KSB fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-KSB.

Dated: April 13, 2005

/s/Ronald Benn
Ronald Benn
Chief Financial Officer

The foregoing certification is being furnished as an exhibit to the Form 10-KSB pursuant to Item 601(b)(32) of Regulation S-B and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-KSB for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.