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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED June 30, 2006

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

Commission File No. 000-28423

VALIDIAN CORPORATION
(Exact name of small business issuer as specified in its charter)

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

30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4
(Address of principal executive offices)

Issuer's telephone number: 613-230-7211

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 35,303,691 Shares of the issuer's Common Stock were outstanding as of August 11, 2006.

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

SEC 2334 (9-05) **Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2006	December 31, 2005
Assets		(restated)
Current assets:		
Cash and cash equivalents	$ 22,903	$ 71,193
Accounts receivable (note 12(b))	11,914	75,995
Prepaid expenses	182,308	246,917
	217,125	394,105
Property and equipment, net of accumulated depreciation of $167,663 (December 31, 2005 - $134,701)	63,906	96,868
Deferred consulting services	--	50,349
Deferred financing costs (note 3)	52,113	--
Total assets	$ 333,144	$541,322
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	$ 953,156	$ 509,768
Promissory notes payable (note 4)	541,521	296,321
Deferred revenue	155,000	25,000
Current portion of capital lease obligation (note 5)	4,712	4,031
10% Senior secured convertible notes payable (note 6)	27,618	--
Total current liabilities	1,682,007	835,120
10% Senior convertible notes payable (note 7)	--	--
Capital lease obligation (note 5)	4,325	6,547
Total liabilities	1,686,332	841,667
Stockholders' Deficiency:		
Common stock, ($0.001 par value. Authorized 50,000,000 shares; Issued and outstanding 34,303,691 and 32,883,691 shares at June 30, 2006 and December 31, 2005, respectively.)	34,303	32,883
Preferred stock ($0.001 par value. Authorized 5,000,000 shares; issued and outstanding Nil shares at June 30, 2006 and at December 31, 2005)	--	--
Additional paid in capital	21,471,038	20,951,097
Deficit accumulated during the development stage	(22,830,095)	(21,255,891)
Retained earnings prior to entering development stage	21,304	21,304
Treasury stock (7,000 shares at June 30, 2006 and December 31, 2005, at cost)	(49,738)	(49,738)
Total stockholders' equity (deficiency)	(1,353,188)	(300,345)
Basis of presentation (note 1)		
Guarantees and Commitments (note 12)		
Subsequent events (notes 6 and 14)		
Total liabilities and stockholders' deficiency	$333,144	$541,322

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

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Consolidated Condensed Statements of Operations
For the three and six months ended June 30, 2006 and 2005
And for the Period from August 3, 1999 to June 30, 2006
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Period from August 3, 1999 to June 30,
	2006	2005	2006	2005	2006
Operating expenses (income):		(restated)		(restated)	
Selling, general and administrative (note 12(b))	$444,064	$ 735,491	994,800	1,245,264	$10,478,251
Research and development	296,598	340,013	599,991	662,862	7,575,418
Depreciation	15,069	21,517	32,962	43,383	357,651
Gain on sale of property and equipment	--	--	--	--	(7,442)
Write-off of prepaid services	--	--	--	--	496,869
Write-off of deferred consulting services	--	--	--	--	1,048,100
Write-off of accounts receivable	--	--	--	--	16,715
Write-off of due from related party	--	--	--	--	12,575
Loss on cash pledged as collateral for operating lease	--	--	--	--	21,926
Write-down of property and equipment	--	--	--	--	14,750
	755,731	1,097,021	1,627,753	1,951,509	20,014,813
Loss before other income (expenses) and income taxes	(755,731)	(1,097,021)	(1,627,753)	(1,951,509)	(20,014,813)
Other income (expenses):					
Interest income	73	8,877	163	19,646	60,985
Gain on extinguishment of debt	--	--	--	--	93,507
Interest and financing costs (note 9)	(52,653)	(105,776)	(63,843)	(478,052)	(3,035,746)
Other	(5,487)	(1,748)	(229)	(2,390)	(51,486)
	(58,067)	(98,647)	(63,909)	(460,796)	(2,932,740)
Loss before income taxes	(813,798)	(1,195,668)	(1,691,662)	(2,412,305)	(22,947,553)
Deferred income tax provision (note 2(g))	117,458	(21,934)	117,458	(130,036)	117,458
Net loss	$(696,340)	$(1,217,602)	(1,574,204)	(2,542,341)	$(22,830,095)
Loss per share – basic and diluted (note 10)	$(0.02)	$(0.04)	$(0.05)	$(0.08)	
Weighted average number of common shares outstanding during period	33,530,284	31,176,543	33,236,951	31,327,558	

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

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss
For the period from December 31, 1998 to June 30, 2006
(Unaudited)

	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
			(restated)		(restated)			
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 unaudited interim period consolidated condensed financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss
For the period from December 31, 1998 to June 30, 2006
(Unaudited)

	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	(restated) $ 4,799,472	$ 21,304	(restated) $ (5,124,325)	$ 26,212	$ (49,738)	$ (311,689)
Shares issued in consideration of consulting services	340,500	340	245,810	–	–	–	–	246,150
Comprehensive loss:								
Net loss	–	–	–	–	(906,841)	–	–	(906,841)
Currency translation adjustment on liquidation of investment in foreign subsidiary	–	–	–	–	–	(26,212)	–	(26,212)
Comprehensive loss								(933,053)
Balances at December 31, 2002	15,727,786	15,726	5,045,282	21,304	(6,031,166)	–	(49,738)	(998,592)
Shares issued in exchange for debt	4,416,862	4,417	1,453,147	–	–	–	–	1,457,564
Shares issued in consideration of consulting and financing services	422,900	423	230,448	–	–	–	–	230,871
Fair value of warrants issued to unrelated parties for services	–	–	2,896,042	–	–	–	–	2,896,042
Fair value of stock purchase options issued to unrelated parties for services	–	–	597,102	–	–	–	–	597,102
Relative fair value of warrants issued to investors in conjunction with 4% senior 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
Deferred income taxes recognized on the temporary basis difference between accounting value and face value of the 4% senior subordinated debentures	–	–	(204,000)	–	–	–	–	(204,000)
Net loss and comprehensive loss	–	–	–	–	(2,797,900)	–	–	(2,797,900)
Balances at December 31, 2003	20,567,548	$ 20,566	$10,618,021	$ 21,304	$ (8,829,066)	$ –	$ (49,738)	$ 1,985,087

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

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss
For the period from December 31, 1998 to June 30, 2006
(Unaudited)

	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
			(restated)		(restated)			
Balances at December 31, 2003	20,567,548	$ 20,566	$10,618,021	$21,304	$(8,829,066)	$ –	$(49,738)	$1,781,087
Shares issued in exchange for debt	464,000	464	429,536	–	–	–	–	430,000
Shares issued on conversion of 4% senior subordinated convertible debentures	2,482,939	2,483	1,238,986	–	–	–	–	1,241,469
Deferred financing costs transferred to additional paid in capital on conversion of 4% senior subordinated convertible debentures into common shares	–	–	(721,097)	–	–	–	–	(721,097)
Shares issued pursuant to private placement of common shares and warrants	6,666,666	6,667	5,993,333	–	–	–	–	6,000,000
Cost of share issuance pursuant to private placement	–	–	(534,874)	–	–	–	–	(534,874)
Shares issued in consideration of consulting and financing services	70,000	70	72,730	–	–	–	–	72,800
Shares issued in consideration of penalties on late registration of shares underlying the 4% senior subordinated convertible debentures	184,000	184	110,216	–	–	–	–	110,400
Fair value of stock purchase warrants issued to unrelated parties for services	–	–	809,750	–	–	–	–	809,750
Relative fair value of warrants issued to investors in conjunction with 4% senior subordinated convertible debentures	–	$ –	$ 861,522	$ –	$ –	$ –	$ –	$ 861,522

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

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss
For the period from December 31, 1998 to June 30, 2006
(Unaudited)

	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
			(restated)		(restated)			
Intrinsic value of beneficial conversion feature on 4% convertible debentures issued to unrelated parties	–	–	538,478	–	–	–	–	538,478
Deferred income tax recovery recognized on the temporary basis difference between accounting value and face value of the 4% senior subordinated debentures	–	–	51,705	–	–	–	–	51,705
Net loss and comprehensive loss	–	–	–	–	(8,068,871)	–	–	(8,068,871)
Balances at December 31, 2004	30,435,153	30,434	19,468,306	21,304	(16,897,937)	–	(49,738)	2,572,369
Shares issued on conversion of 4% senior subordinated convertible debentures	1,157,866	1,158	577,774	–	–	–	–	578,932
Shares issued in settlement of 4% senior subordinated convertible debentures at maturity	485,672	486	242,349	–	–	–	–	242,835
Deferred financing costs transferred to additional paid in capital on conversion of 4% senior subordinated convertible debentures into common shares	–	–	(163,980)	–	–	–	–	(163,980)
Fair value of stock purchase options issued to unrelated parties for services rendered	–	–	211,496	–	–	–	–	211,496
Fair value of modifications to stock purchase warrants previously issued to unrelated parties	–	–	61,162	–	–	–	–	61,162
Shares issued on the exercise of stock purchase warrants	805,000	805	401,695	–	–	–	–	402,500
Deferred income tax recovery recognized on the temporary basis difference between accounting value and face value of the 4% senior subordinated debentures	–	–	152,295	–	–	–	–	152,295
Net loss and comprehensive loss	–	–	–	–	(4,357,954)	–	–	(4,357,954)
Balances at December 31, 2005	32,883,691	$ 32,883	$20,951,097	$ 21,304	$ (21,255,891)	$ -	$(49,738)	$ (300,345)

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

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss
For the period from December 31, 1998 to June 30, 2006
(Unaudited)

	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
			(restated)		(restated)			
Balances at December 31, 2005	32,883,691	$ 32,883	$20,951,097	$ 21,304	$ (21,255,891)	$ –	$(49,738)	$ (300,345)
Shares issued in consideration of consulting services (note 8(a))	300,000	300	59,700	–	–	–	–	60,000
Fair value of unvested employee stock options earned during period (note 8(d))	–	–	21,078	–	–	–	–	21,078
Reversal of fair value of unvested employee stock options recognized in the current and prior periods, on forfeiture of the options (note 8(d))	–	–	(2,259)	–	–	–	–	(2,259)
Shares issued on the exercise of stock purchase warrants (note 8(b))	20,000	20	9,980	–	–	–	–	10,000
Shares issued pursuant to the terms of the 10% senior secured convertible notes (note 6)	1,000,000	1,000	169,000	–	–	–	–	170,000
Shares issued pursuant to the terms of the 10% senior convertible notes (note 7)	100,000	100	13,900	–	–	–	–	14,000
Intrinsic value of beneficial conversion feature on the 10% senior secured convertible notes issued to unrelated parties (note 6)	–	–	330,000	–	–	–	–	330,000
Intrinsic value of beneficial conversion feature on the 10% senior convertible notes issued to unrelated parties (note 7)	–	–	36,000	–	–	–	–	36,000
Deferred income taxes recognized on the temporary basis difference between accounting value and face value of the 10% senior secured convertible notes and the 10% senior convertible Notes (note 2(g))	–	–	(117,458)	–	–	–	–	(117,458)
Net loss and comprehensive loss	–	–	–	–	(1,574,204)	–	–	(1,574,204)
Balances at June 30, 2006	34,303,691	$ 34,303	$21,471,038	$ 21,304	$ (22,830,095)	$ -	$(49,738)	$ (1,353,188)

See accompanying notes to unaudited interim period consolidated condensed financial

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2006 and 2005
And for the Period from August 3, 1999 to June 30, 2006
(Unaudited)

	Six Months Ended June 30,		Period from August 3, 1999 to June 30,
	2006	**2005**	**2006**
		(restated)	
Cash flows from operating activities:			
Net loss	$ (1,574,204)	$(2,542,341)	$ (22,830,095)
Adjustments to reconcile net loss to net cash used in Operating activities:			
Depreciation of property and equipment	32,962	43,383	357,651
Non-cash compensation expense	162,176	216,950	2,401,023
Non-cash interest and financing expense	62,634	476,514	3,033,127
Non-cash penalties	--	--	110,400
Write-off of prepaid services	--	--	496,869
Write-off of deferred consulting services	--	--	1,048,100
Currency translation adjustment on liquidation of investment in foreign subsidiary	--	--	(26,212)
Gain on sale of property and equipment	--	--	(7,442)
Loss (gain) on extinguishment of debt	--	--	(93,507)
Write-off of accounts receivable	--	--	16,715
Write-off of due to related party	--	--	12,575
Loss on cash pledged as collateral for operating lease	--	--	21,926
Write-down of property and equipment	--	--	14,750
Deferred income tax provision	(117,458)	130,036	(117,458)
Increase (decrease) in cash resulting from changes in:			
Accounts receivable	64,081	17,004	(151)
Prepaid expenses	31,601	50,234	(91,126)
Due to a related party	--	--	(5,178)
Accounts payable and accrued liabilities	366,259	13,125	2,430,149
Deferred revenue	130,000	--	155,000
Net cash used in operating activities	(841,949)	(1,595,095)	(13,072,884)
Cash flows from investing activities:			
Additions to property and equipment	--	(22,002)	(526,543)
Proceeds on sale of property and equipment	--	--	176,890
Cash pledged as collateral for operating lease	--	--	(21,926)
Net cash used in investing activities	--	(22,002)	(371,579)
Cash flows from financing activities:			
Capital lease repayments	(1,541)	(1,688)	(5,729)
Increase in due from related party	--	--	12,575
Issuance of common shares	--	--	8,030,000
Share issuance costs	--	--	(631,624)
Proceeds from exercise of stock purchase warrants	10,000	--	412,500
Redemption of common stock	--	--	(49,738)
Issuance of promissory notes	245,200	--	3,353,931
Issuance of 4% senior subordinated convertible debentures	--	--	2,000,000
Issuance of 10% senior secured convertible notes	500,000	--	500,000
Issuance of 10% senior convertible notes	50,000	--	50,000
Debt issuance costs	(10,000)	--	(241,779)
Repayment of promissory notes	--	--	(16,000)
Net cash provided by (used in) financing activities	793,659	(1,688)	13,414,136

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

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2006 and 2005
And for the Period from August 3, 1999 to June 30, 2006
(Unaudited)

	Six Months Ended June 30, 2006	2005 (restated)	Period from August 3, 1999 to June 30, 2006
Effects of exchange rates on cash and cash equivalents	--	--	18,431
Net increase (decrease) in cash and cash equivalents	(48,290)	(1,618,785)	(11,896)
Cash and cash equivalents:			
Beginning of period	71,193	2,747,975	34,799
End of period	$22,903	$ 1,129,190	$22,903

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

VALIDIAN CORPORATION AND SUBSIDIARIES
A DEVELOPMENT STAGE ENTERPRISE
Notes to Consolidated Condensed Financial Statements
June 30, 2006
(Unaudited)

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

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

1. Basis of Presentation

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

The interim financial statements contained herein are unaudited but, in the opinion of management, include all adjustments (consisting only of normal recurring entries) necessary for a fair presentation of the financial position and results of operations of the Company for the periods presented. The results of operations for the six months ended June 30, 2006 are not necessarily indicative of the operating results for the full fiscal year ending December 31, 2006. Moreover, these financial statements do not purport to contain complete disclosure in conformity with generally accepted accounting principles used in the United States of America and should be read in conjunction with the Company's audited financial statements at and for the year ended December 31, 2005.

The consolidated condensed financial statements have been prepared assuming that the Company will continue as a going concern. The Company has no revenues, has an accumulated deficit of $22,830,095 as at June 30, 2006, and has incurred a loss of $1,574,204 and negative cash flow from operations of $841,949 for the six months then ended. The Company also expects to continue to incur operating losses for the foreseeable future, and has no lines of credit or other financing facilities in place.

During July 2006, the Company received cash proceeds of $250,000 and $15,000 from the issuance of 10% promissory notes, and the issuance of 12% promissory notes, respectively. It expects to incur operating expenditures of approximately $3.2 million for the year ending December 31, 2006. In the event the Company cannot raise the additional funds necessary to finance its research and development and sales and marketing activities, it may have to cease operations.

All of the factors above raise substantial doubt about the Company's ability to continue as a going concern. Management's plans to address these issues include raising capital through the private placement of equity, the exercise of previously-issued equity instruments and through the issuance of additional promissory notes. The Company's ability to continue as a going concern is subject to management's ability to successfully implement these plans. Failure to do so could have a material adverse effect on the Company's position and or results of operations and could also result in the Company ceasing operations. The consolidated financial statements do not include adjustments that would be required if the assets are not realized and the liabilities settled in the normal course of operations.

1. Basis of Presentation (continued)

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

2. Significant Accounting Policies

(a) 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.

(b) 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 Company. 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.

(d) Deferred financing costs:

Deferred financing costs relate to the costs associated with arranging the 10% senior secured convertible notes and the 10% senior convertible notes. The costs are being amortized over the two year term of the notes.

(d) 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 are charged to expenses as the services are rendered. If for any reason circumstances arise which would indicate that the services will not be performed in the future, these prepaid non-cash consulting fees are charged to expense immediately.

(e) Revenue recognition:

For sales of product licenses, the Company recognizes revenue in accordance with Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-9, "Software Revenue Recognition with Respect to Certain Transactions", issued by the American Institute of Certified Public Accountants. Revenue from sale of product licenses is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable.

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

For contracts with multiple elements such as product licenses, product support and services, the Company follows the residual method. Under this method, the total fair value of the undelivered elements of the contract, as indicated by vendor specific objective evidence, is deferred and subsequently recognized in accordance with the provisions of SOP 97-2. The

2. Significant accounting policies (continued)

(e) Revenue recognition (continued):

difference between the total contract fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. Vendor specific objective evidence for support and consulting services is obtained from contracts where these elements have been sold separately. Where the Company cannot determine the fair value of all of the obligations, the revenue is deferred until such time as it can be determined or the element is delivered.

(f) New accounting policy - stock based compensation:

Effective January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 123R "Share-Based Payment – a revision of FAS 123" (SFAS 123R) to account for its stock-based payments. SFAS 123R requires all share-based payments, including stock options granted by the Company to its employees, to be recognized as expenses, based on the fair value of the share-based payments at the date of grant. For purposes of estimating the grant date fair value of stock-based compensation, the Company uses the Black Scholes option-pricing model, and has elected to treat awards with graded vesting as a single award. The fair value of awards granted is recognized as compensation expense on a straight-line basis over the requisite service period, which in the Company's circumstances is the stated vesting period of the award.

In adopting SFAS 123R, the Company has applied the modified-prospective transition method. Under this method, the Company will recognize compensation costs for all share-based payments granted, modified, or settled after January 1, 2006, as well as for any awards that were granted prior to January 1, 2006 for which the requisite service had not been provided as of that date (unvested awards). Under the modified prospective method, prior periods are not adjusted, and the Company continues to provide pro forma disclosure for these periods, as presented below.

For reporting periods ending on or before December 31, 2005, the Company applied 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 granted to employees. Under this method, compensation expense was recorded on the date of grant only if the then 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 were required to be applied to stock compensation granted to non-employees. As permitted by SFAS No. 123, the Company elected to apply the intrinsic value-based method of accounting described above for awards granted to employees, and adopted the disclosure requirements of SFAS No. 123, for reporting periods ending on or before December 31, 2005.

2. Significant accounting policies (continued)

(f) New accounting policy - stock based compensation (continued):

Had compensation costs in respect of options granted to employees been determined using the fair value based method at the grant date, the Company's pro forma net loss and basic and diluted loss per share for the three and six months ended June 30, 2005 would have been as follows:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net loss, as reported (restated)	$(1,217,602)	$(2,542,341)
Add stock-based employee compensation expense included in net loss	--	--
Deduct total stock-based employee compensation expense determined under the fair value-based method for all awards	(796,503)	(958,088)
Pro forma net loss	$(2,014,105)	$(3,500,429)
Loss per share:		
Basic and diluted - as reported	$(0.04)	$(0.08)
Basic and diluted – pro forma	$(0.06)	$(0.11)

(g) New accounting policy – income tax consequences of issuing convertible debt with a beneficial conversion feature:

In September 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue 05-8, "Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature" ("EITF 05-8"). The Task Force reached the following consensus:

- The issuance of convertible debt with a beneficial conversion feature results in a basis difference in applying FASB Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Recognition of such a feature effectively creates a debt instrument and a separate equity instrument for reporting purposes, whereas the convertible debt is treated entirely as a debt instrument for income tax purposes;
- The resulting basis difference should be deemed a temporary difference because it will result in a taxable amount when the recorded amount of the liability is recovered or settled;
- Recognition of deferred income tax for the temporary difference should be reported as an adjustment to additional paid-in capital.

The foregoing consensus is effective for reporting periods commencing after December 15, 2005, and is required to be applied retrospectively to all debt instruments containing beneficial conversion features that are subject to EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Debt Instruments," and thus is applicable to debt instruments converted or extinguished in prior periods but which are still presented in the financial statements.

2. Significant accounting policies (continued)

(g) New accounting policy – income tax consequences of issuing convertible debt with a beneficial conversion feature (continued):

The Company has accounted for the effect of applying the consensus retrospectively with respect to its 4% senior subordinated convertible debentures, which matured on December 31, 2005. The effects of this change on the comparative information presented in the current financial statements are an increase in deferred income tax expense and net loss for the three and six months ended June 30, 2005 of $21,934 and $130,036, respectively. Additional paid-in capital, net loss and comprehensive loss and deficit accumulated during the development stage presented in the consolidated statement of changes in stockholders' equity (deficiency) and comprehensive loss for the period from December 31, 1998 to June 30, 2006 have been adjusted as follows: additional paid-in capital for the years ended December 31, 2003, 2004 and 2005 has increased (decreased) by ($204,000), $51,705 and $152,295, respectively; net loss and comprehensive loss, and deficit accumulated during the development stage for the years ended December 31, 2003, 2004 and 2005 have been increased (decreased) by $(204,000), $51,705 and $152,295, respectively.

During the three months ended June 30, 2006, the Company issued $500,000 of its 10% senior secured convertible notes (note 6). At the date of issuance, the conversion feature of the notes was "in-the-money," and was valued at $330,000. The value of the beneficial conversion feature was allocated to additional paid in capital, and will be accreted to notes payable through periodic charges to interest expense over the term of the notes. The temporary basis difference between accounting value and income tax value of the notes which occurred as a result of this allocation, has been accounted for in accordance with the consensus. Accordingly, a deferred tax liability of $105,218 has been recorded through an adjustment to additional paid-in capital; and a deferred tax asset of $105,218 has been recognized, with a corresponding credit to deferred income tax expense on the income statement. The deferred tax liability and the deferred tax asset have been offset on the unaudited condensed balance sheet.

During the three months ended June 30, 2006, the Company also issued $50,000 of its 10% senior convertible notes (note 7). At the date of issuance, the conversion feature of the notes was "in-the-money," and was valued at $36,000. The value of the beneficial conversion feature was allocated to additional paid in capital, and will be accreted to notes payable through periodic charges to interest expense over the term of the notes. The temporary basis difference between accounting value and income tax value of the notes which occurred as a result of this allocation, has been accounted for in accordance with the consensus. Accordingly, a deferred tax liability of $12,240 has been recorded through an adjustment to additional paid-in capital; and a deferred tax asset of $12,240 has been recognized, with a corresponding credit to deferred income tax expense on the income statement. The deferred tax liability and the deferred tax asset have been offset on the unaudited condensed balance sheet.

The temporary basis difference relating to the above notes will result in periodic adjustments to reflect changes in the respective balances of accounting value and tax value of the notes, until the notes are repaid in full.

3. Deferred financing costs

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

	June 30, 2006	December 31, 2005
Balance deferred financing costs, beginning of period	$ --	$ 281,224
Additions	56,385	--
Amortization	(4,272)	(117,244)
Financing costs transferred to additional paid in capital on conversion of $555,000 in principal value of the 4% senior subordinated convertible debentures into common shares of the Company	--	(163,980)
Balance deferred financing costs, end of period	$ 52,113	$ --

During June 2006, the Company issued a total of $500,000 in principal amount of 10% senior secured convertible notes (note 6), and $50,000 in principal of 10% senior convertible notes (note 7). In connection with the placement of these notes, the Company incurred costs of $56,385. These costs are being amortized over the term of the notes.

During December 2003 and January 2004, the Company issued a total of $2,000,000 in principal amount of 4% senior subordinated convertible debentures. In connection with the placement of the debentures, the Company incurred costs of $1,486,279, of which $1,254,500 was financed through the issuance of the Company's Series H warrants and common shares. These costs were amortized over the term of the debentures, which matured on December 31, 2005.

4. Promissory Notes Payable

	June 30, 2006	December 31, 2005
Promissory notes payable, bearing interest at 12%, due on demand, unsecured	$ 541,521	$ 296,321

5. Capital Lease Obligation

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

Year ended December 31:	
2006	$ 3,235
2007	6,470
2008	1,617
Total minimum lease payments	11,322
Less amount representing interest, at 23.9%	2,285
Present value of net minimum lease payments	9,037
Current portion of capital lease obligation	4,712
	$ 4,325

6. 10% Senior secured convertible notes payable

On June 1, 2006, the Company issued a total of $500,000 of its 10% senior secured convertible notes. The notes are secured by a first position lien on all of the assets of the Company, and mature on June 1, 2007. Under the terms of the notes, the holders are permitted, at any time, to convert all or a portion of the outstanding principal plus accrued interest into common stock of the Company at a ratio of one common share for each $0.10 of debt converted; the Company may pre-pay all or any portion of the balance outstanding on the notes at any time, without penalty or bonus; and interest is payable quarterly, in arrears. Additionally, the holders may demand repayment of 50% of the principal value of the note, at such time as the Company completes an equity financing of $500,000 or more.

Holders of the notes were also granted 1,000,000 common shares of the Company upon issuance of the notes. In accordance with APB 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants,"$170,000, representing the market value of the shares at the issuance date, was allocated to the shares.

At the date of issuance, the conversion feature of the notes was "in-the-money". The intrinsic value of this beneficial conversion feature was $330,000. In accordance with EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," this amount was recorded as additional paid-in capital.

The 10% senior secured convertible notes are being accreted to their face value on an effective yield basis, through periodic charges to interest expense over the term of the notes.

During the three months ended June 30, 2006, the Company accreted the notes payable through charges to interest expense totaling $27,618**.**

The following table sets forth the financial statement presentation of the note proceeds on issuance:

Note proceeds	$ 500,000
Allocated to common stock and additional paid-in capital for market value of stock issued to holders of the notes:	
Allocated to common stock	(1,000)
Allocated to additional paid-in capital	(169,000)
	(170,000)
Allocated to additional paid-in capital for the intrinsic value of the beneficial conversion feature	(330,000)
Proceeds allocated to 10% senior secured convertible notes upon issuance	$ --

The following table sets forth the changes in the financial statement presentation of the balance allocated to 10% senior convertible notes at June 30, 2006:

Proceeds allocated to 10% senior secured convertible notes upon issuance	$ --
Accretion of the 10% senior secured convertible notes as a charge to interest and financing costs during the period	27,618
Balance allocated to 10% senior secured convertible notes, end of period	$ 27,618

6. 10% Senior secured convertible notes payable (continued)

On July 11, 2006, in conjunction with the issuance of $250,000 in promissory notes (note 14), the 10% senior secured convertible notes were amended and restated as follows: the first position lien on all of the assets of the Company was removed; the date of maturity was extended by one year, to June 1, 2008; the Company was given the option of paying the quarterly interest either in cash or in common shares of the Company; the provision allowing the holder to demand immediate repayment of 50% of the face value of the note in the event of an equity financing by the Company of at least $500,000, was removed.

7. 10% Senior convertible notes payable

On June 30, 2006, the Company issued $50,000 of its 10% senior convertible notes. The notes mature on July 1, 2008, and are unsecured. Under the terms of the notes, the holders are permitted, at any time, to convert all or a portion of the outstanding principal plus accrued interest into common stock of the Company at a ratio of one common share for each $0.10 of debt converted; the Company may pre-pay all or any portion of the balance outstanding on the notes at any time, without penalty or bonus; interest is payable quarterly, and may, at the Company's option, be paid either in cash or in common shares of the Company. If interest is paid in common shares, the number of shares required for settlement will be calculated using a 10% discount to the average closing price of the common stock, as listed on the exchange where the Company's common stock is traded, for the ten days prior to the date the interest is due to the holder.

Holders of the notes were also granted 100,000 common shares of the Company upon issuance of the notes. In accordance with APB 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants," $14,000, representing the market value of the shares at the issuance date, was allocated to the shares.

At the date of issuance, the conversion feature of the notes was "in-the-money". The intrinsic value of this beneficial conversion feature was $36,000. In accordance with EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," this amount was recorded as additional paid-in capital.

The 10% senior convertible notes are being accreted to their face value on an effective yield basis, through periodic charges to interest expense over the term of the notes.

The following table sets forth the financial statement presentation of the note proceeds on issuance:

Note proceeds	$ 50,000
Allocated to common stock and additional paid-in capital for market value of stock issued to holders of the notes:	
Allocated to common stock	(100)
Allocated to additional paid-in capital	(13,900)
	(14,000)
Allocated to additional paid-in capital for the intrinsic value of the beneficial conversion feature	(36,000)
Proceeds allocated to 10% senior convertible notes upon issuance	$ --

8. Stockholders' Equity

(a) Common stock transactions

During the six months ended June 30, 2006, the Company issued 300,000 shares of its common stock, valued at $60,000, to an unrelated party in consideration for consulting services rendered prior to June 30, 2006.

During the six months ended June 30, 2006, the Company issued 20,000 shares of its common stock in connection with the exercise of 20,000 Series H stock purchase warrants for cash proceeds of $10,000 (note 8(b)).

In connection with the issuance of the Company's 10% senior secured convertible notes on June 1 and June 30, 2006 (note 6), the Company issued a total of 1,000,000 of the Company's common shares to the holders of the notes.

In connection with the issuance of the Company's 10% senior secured convertible notes on June 1 and June 30, 2006 (note 7), the Company issued a total of 100,000 of the Company's common shares to the holders of the notes.

(b) Transactions involving stock purchase warrants

On April 20, 2006, holders of the Series H warrants exercised 20,000 warrants, and purchased 20,000 shares of the Company's common stock for cash proceeds of $10,000.

Following is a description of stock purchase warrants outstanding at June 30, 2006 and December 31, 2005:

	Exercise Price	Expiry	Outstanding June 30, 2006	Outstanding December 31, 2005
Series E	$0.33	December, 2007	2,155,000	2,155,000
Series F	0.50	May, 2007	3,146,000	3,146,000
Series G	0.75	December, 2006	400,000	400,000
Series H	0.50	December, 2006	2,652,500	2,672,500
Series I	0.90	March, 2009	3,513,333	3,513,333
			11,866,833	11,886,833

8. Stockholders' Equity (continued)

(c) Transactions involving stock options

The Company has two incentive equity plans, under which a maximum of 7,000,000 options to purchase 7,000,000 common shares may be granted to officers, employees and consultants of the Company. The granting of options, and the terms associated with them, occurs at the discretion of the board of directors, who administers the plan. As of June 30, 2006, there were a total of 4,902,302 options granted under these plans, with exercise prices ranging from $0.33 to $0.90, and expiry dates ranging from May 7, 2008 to January 1, 2011. 4,577,302 of these options vested immediately upon issuance; 325,000 vest on dates ranging from November 14, 2006 to January 1, 2009. 2,097,698 options remained available for grant under these plans as of June 30, 2006.

During the six months ended June 30, 2006, the Company granted 100,000 stock options to an employee as an incentive to enter into full-time employment with the Company. The options vest on various dates between January 1, 2007 and January 1, 2009; have an exercise price of $0.67; and an expiry date for unexercised options of January 12, 2011, with provision for early forfeiture in the event the holder ceases to be employed by the Company prior to the stated expiry date. The fair value of these options at date of grant was $19,556, determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 4.39%; expected volatility of 158%; an expected life of 5 years; and an expected forfeiture rate of 1.5%.

In accordance with the Company's policy in respect of stock options granted to employees (note 2(f)), the Company has included $3,094, representing the fair value of these options earned during the six month period ended June 30, 2006, in selling general and administrative expenses for the six month period then ended. $16,462, representing the fair value of the options attributable to the period remaining until the options are fully vested, will be recognized as expense on a straight-line basis over the period from July 1, 2006 to January 1, 2009.

During the six months ended June 30, 2006, the Company also included in expenses the following amounts related to options granted to employees during 2005, which were unvested as at December 31, 2005: $11,358 was included in selling, general and administrative expense; and $6,626 was included in research and development expense. $65,113, representing the fair value of the options attributable to the period remaining until the options are fully vested, will be recognized as expense on a straight-line basis over the remaining service periods, which range from April 1, 2006 to January 1, 2011. During the six months ended June 30, 2006, 100,000 of the options granted to employees during 2005, which were unvested as at December 31, 2005, were forfeited as a result of the termination of the related employment agreement. In order to reflect this forfeiture, the following amounts were reversed from selling, general and administrative expenses: $184 in respect of expense recognized during the three months ended June 30, 2006; and $2,075 in respect of expense recognized during the three months ended March 31, 2006.

During the six months ended June 30, 2006, 350,000 stock options granted to employees during 2005, which were fully vested as at December 31, 2005, expired as a result of the termination of the related employment agreements.

Following is a summary of stock options outstanding at June 30, 2006 and December 31, 2005:

	Six months ended June 30, 2006		Year ended December 31, 2005	
	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price
Options outstanding, beginning of period	5,252,302	$ 0.53	3,912,302	$ 0.33
Granted	100,000	0.67	2,750,000	0.73
Expired	(350,000)	0.67	(1,410,000)	0.37
Forfeited	(100,000)	0.74	--	--
Options outstanding, end of period	4,902,302	0.51	5,252,302	$ 0.53

8. Stockholders' Equity (continued)

(c) Transactions involving stock options (continued)

The following table summarizes information regarding stock options outstanding at June 30, 2006:

Options Outstanding				Options Exercisable	
Exercise price	Number outstanding At 06/30/06	Weighted average remaining contractual life	Weighted average exercise price	Number outstanding At 06/30/06	Weighted average exercise price
$ 0.33	2,602,302	2.9 years	$ 0.33	2,602,302	$ 0.33
0.50	375,000	4.4 years	0.50	225,000	0.50
0.67	400,000	4.5 years	0.67	225,000	0.67
0.76	1,475,000	4.0 years	0.76	1,475,000	0.76
0.90	50,000	2.9 years	0.90	50,000	0.90
	4,902,302		$ 0.51	4,577,302	$ 0.50

(d) Stock-based compensation

The following table presents the total of stock-based compensation included in the expenses of the Company for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Selling, general and administrative:				
Relating to the amortization of prepaid consulting fees recorded in 2003 and 2005 on the issuance of warrants and on the extension of the expiry date of previously-issued warrants, respectively, in exchange for services to be rendered	$ 41,679	$ 30,209	$ 83,357	$ 60,419
Relating to the issuance of common stock as compensation for services rendered	--	156,531	60,000	156,531
Fair value of unvested employee stock options earned during period	3,385	--	14,452	--
Reversal of fair value of unvested employee stock options recognized during the current and prior periods, in respect of unvested options forfeited during the period	(2,259)	--	(2,259)	--
Total stock-based compensation included in selling, general and administrative expenses	42,805	186,740	155,550	216,950
Research and development:				
Fair value of unvested employee stock options earned during period	3,313	--	6,626	--
Total stock-based compensation included in research and development expenses	3,313	--	6,626	--
Total stock-based compensation included in expenses	$ 46,118	$186,740	$162,176	$216,950

9. Interest and Financing Costs

The following table sets forth the charges to interest and financing costs during the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Interest and financing costs relating to 10% senior secured convertible notes:				
Accrued interest	$ 4,167	$ --	$ 4,167	$ --
Accretion of the notes payable (note 6)	27,618	--	27,618	--
Amortization of deferred financing costs (note 3)	4,272	--	4,272	--
	36,057	--	36,057	--
Interest and financing costs relating to 4% senior convertible debentures:				
Accrued interest	--	2,811	--	7,147
Accretion of the debentures payable	--	64,511	--	382,457
Amortization of deferred financing costs	--	28,845	--	69,285
	--	96,167	--	458,889
Accrued interest on 12% promissory notes	16,022	8,857	26,577	17,625
Interest portion of capital lease payments	574	752	1,209	1,538
Total interest and financing costs	$ 52,653	$ 105,776	$ 63,843	$ 478,052

10. Loss Per Share

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

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

	June 30, 2006	June 30, 2005
Stock options	4,902,302	4,877,302
Series E stock purchase warrants	2,155,000	2,155,000
Series F stock purchase warrants	3,146,000	3,896,000
Series G stock purchase warrants	400,000	400,000
Series H stock purchase warrants	2,652,500	2,727,500
Series I stock purchase warrants	3,513,333	3,513,333
	16,769,135	17,569,135

11. Related Party Transactions

As discussed further in note 12(b), the Company subleases excess office space to a related party.

12. Guarantees and Commitments

(a) Guarantees

The Company has entered into agreements which contain 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 Company to make payments (either in cash, financial instruments, other assets, common stock of the Company or through the provision of services) to a third party based on changes in an underlying economic characteristic (such as interest rates or market value) that is related to an asset, liability or an equity security of the other party.

The Company has the following guarantees which are subject to the disclosure requirements of FIN 45:

(i) In the normal course of business, the Company entered into a lease agreement for facilities. As the lessee, the Company 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 Company has liability insurance that relates to the indemnification described above.

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

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

12. Guarantees and Commitments (continued)

(b) Commitment

During April 2004, the Company entered into a lease agreement for office space. In July 2005, the option to extend the initial lease period for an additional year was exercised. Minimum annual rent payable under this contract is approximately as follows:

2006	$	37,349
2007		24,900
Total	$	62,249

Effective July 1, 2004, the Company 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 Validian Corporation being also an officer and director of the other company. Included in accounts receivable is $nil (December 31, 2005 - $5,508) in rent receivable pursuant to this sublease agreement. Rental expense for the period, which is included in selling, general and administrative expenses, has been reduced by sublease income of $15,785 (2005 - $14,604). The anticipated remaining sublease income is approximately as follows: 2006 - $16,076; and 2007 - $10,717. The transaction has been recorded at the exchange amount.

Rent expense incurred under the operating lease for the six months ended June 30, 2006, net of sublease income was $57,239 (2005 - $58,135).

13. Supplementary Cash Flow Information

The Company paid no income taxes during the six months ended June 30, 2006, nor during the six months ended June 30, 2005. Interest paid in cash during the six months ended June 30, 2006 and June 30, 2005 were $1,209 and $1,538, respectively.

Non-cash financing activities are excluded from the consolidated condensed statement of cash flows. The following is a summary of such activities for the six months ended June 30, 2006 and June 30, 2005:

	2006	2005
Conversion of 4% senior subordinated convertible debentures and accrued interest, net of deferred financing cost of $163,980	$ -	$ 414,952
Debt issuance costs	46,385	
Total	$ 46,385	$ 414,952

14. Subsequent Events

On July 11, 2006, in conjunction with the issuance of $250,000 in promissory notes (note 14), the 10% senior secured convertible notes (note 6) were amended and restated as follows: the first position lien on all of the assets of the Company was removed; the date of maturity was extended by one year, to June 1, 2008; the Company was given the option of paying the quarterly interest either in cash or in common shares of the Company; the provision allowing the holder to demand immediate repayment of 50% of the face value of the note in the event of an equity financing by the Company of at least $500,000, was removed.

On July 13, 2006, the Company received $250,000 in exchange for the issuance of a short-term promissory note. The promissory note bears interest at the rate of 10%, unless repaid in full on or before October 11, 2006, in which case the interest rate will be adjusted to 7%; matures on July 13, 2007, at which time the outstanding principal and accrued interest thereon will become payable in full; and provides for pre-payment in part or in full at any time, without penalty or bonus. The note and accrued interest thereon must be repaid immediately upon receipt by the Company of $500,000 in financing from a pre-identified source. Additionally, the Company issued 1,000,000 shares of its common stock to the holder pursuant to the terms of the note. In the event the Company has not repaid all of the outstanding principal plus accrued interest thereon on or before October 11, 2006, the holder is entitled to receive a further 500,000 shares of the Company's common stock.

On July 31, 2006, the Company received $15,000 under its 12% promissory notes.

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

FORWARD-LOOKING INFORMATION

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

- 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 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.

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

CRITICAL ACCOUNTING POLICIES

We prepare our financial statements in accordance with generally accepted accounting principles in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies and methods used in preparation of the financial statements are described in note 2 to our 2005 Consolidated Financial Statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2005, and updated in note 2 to our June 30, 2006 Interim Consolidated Condensed Financial Statements included in this Quarterly Report on Form 10-QSB. We evaluate our estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Actual results could differ materially from these estimates and assumptions. The following critical accounting policies are impacted by judgments, assumptions and estimates used in preparation of our June 30, 2006 Interim Consolidated Condensed Financial Statements.

Revenue recognition:

For sales of product licenses, we recognize revenue in accordance with Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-9, "Software Revenue Recognition with Respect to Certain Transactions", issued by the American Institute of Certified Public Accountants. Revenue from sale of product licenses is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable.

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

For contracts with multiple elements such as product licenses, product support and services, we follow the residual method. Under this method, the total fair value of the undelivered elements of the contract, as indicated by vendor specific objective evidence, is deferred and subsequently recognized in accordance with the provisions of SOP 97-2. The difference between the total contract fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. Vendor specific objective evidence for support and consulting services is obtained from contracts where these elements have been sold separately. Where we cannot determine the fair value of all of the obligations, the revenue is deferred until such time as it can be determined or the element is delivered.

Long-lived assets:

We perform impairment tests on our long-lived assets if events or changes in circumstances indicate that an impairment loss may have occurred. We estimate the useful lives of capital assets and deferred charges based on the nature of the asset, historical experience and the terms of any supplier contracts. The valuation of long-lived assets is based on the amount of future net cash flows these assets are estimated to generate. Revenue and expense projections are based on management's estimates, including estimates of current and future industry conditions. A significant change to these assumptions could impact the estimated useful lives or valuation of long-lived assets resulting in a change to depreciation or amortization expense and impairment charges.

Research and development expenses:

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

Stock based compensation:

Effective January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 123R "Share-Based Payment – a revision of FAS 123" (SFAS 123R) to account for its stock-based payments. SFAS 123R requires all share-based payments, including stock options granted by the Company to its employees, to be recognized as expenses, based on the fair value of the share-based payments at the date of grant. For purposes of estimating the grant date fair value of stock-based compensation, the Company uses the Black Scholes option-pricing model, and has elected to treat awards with graded vesting as a single award. The fair value of awards granted is recognized as compensation expense on a straight-line basis over the requisite service period, which in the Company's circumstances is the stated vesting period of the award.

In adopting SFAS 123R, the Company has applied the modified-prospective transition method. Under this method, the Company will recognize compensation costs for all share-based payments granted, modified, or settled after January 1, 2006, as well as for any awards that were granted prior to January 1, 2006 for which the requisite service had not been provided as of that date (unvested awards). Under the modified prospective method, prior periods are not adjusted, and the Company continues to provide pro forma disclosure for these periods, as presented below.

For reporting periods ending on or before December 31, 2005, the Company applied 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 granted to employees. Under this method, compensation expense was recorded on the date of grant only if the then 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 were required to be applied to stock compensation granted to non-employees. As permitted by SFAS No. 123, the Company elected to apply the intrinsic value-based method of accounting described above for awards granted to employees, and adopted the disclosure requirements of SFAS No. 123, for reporting periods ending on or before December 31, 2005.

Had compensation costs in respect of options granted to employees been determined using the fair value based method at the grant date, the Company's pro forma net loss and basic and diluted loss per share for the three and six months ended June 30, 2005 would have been as follows:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net loss, as reported (restated)	$(1,217,602)	$(2,542,341)
Add stock-based employee compensation expense included in net loss	--	--
Deduct total stock-based employee compensation expense determined under the fair value-based method for all awards	(796,503)	(958,088)
Pro forma net loss	$(2,014,105)	$(3,500,429)
Loss per share:		
Basic and diluted - as reported	$(0.04)	$(0.08)
Basic and diluted – pro forma	$(0.06)	$(0.11)

RESULTS OF OPERATIONS

The Three Months Ended June 30, 2006 Compared to the Three Months Ended June 30, 2005

Revenue: We completed our first commercial sale during the third quarter of 2005, however we were unable to recognize revenue in connection with this sale, as all of the criteria required for us to do so as set out in our accounting policies were not met. During April 2006 we determined that collection of the amount invoiced in connection with this sale was in jeopardy, and have recorded an allowance against the entire amount, as an offset against deferred revenue.

On January 1, 2006, we entered into an agreement with a Value Added Reseller ("VAR"), pursuant to which we granted the VAR a license to sell our software to the VAR's customers for a period of three years. Our fee for this license, excluding applicable sales taxes, was $155,000, of which $151,650 had been received as of the financial statement date. We will recognize revenue in connection with this sale once all of the criteria required for us to do so as set out in our accounting policies, have been met.

Since August 1999 we have directed all of our attention towards the completion, and sales and marketing of, our software applications. We believe that if we are successful in our development and sales and marketing efforts, we will generate a source of revenues in the future from sales and/or licensing of our software applications

Selling, general and administrative expenses: Selling, general and administrative expenses consist primarily of personnel costs, professional fees, insurance, communication expenses, occupancy costs and other miscellaneous costs associated with supporting our research and development and sales and marketing activities. During the three months ended June 30, 2006, we incurred a total of $444,064, including $401,259 in cash-based expenses and $42,805 in stock-based expenses, as compared to $735,491, of which $548,751 was cash-based and $186,740 was stock-based expense, during the three months ended June 30, 2005. There was an overall decrease in selling, general and administrative expenses of $291,427 (40%), comprised of a $147,492 (27%) decrease in the cash-based component, and a $143,935 (77%) decrease in the stock-based component of this expense. The decrease in the cash-based component of selling, general and administrative expenses occurred primarily as a result of a reduction in the level of activity of our sales and marketing departments, as compared to the level of activity of these departments during the three months ended June 30, 2005, during which we were in the process of scaling back our sales and marketing efforts in response to a delay in the expected release date of one of our products. During 2006 to date, we have made efforts to further reduce costs in these departments, through measures such as reducing the number of trade shows in which we participate, and delaying production of new promotional material. We will continue to carefully monitor these costs as we work within current budgetary limits leading up to the full commercial release of our products.

Cash-based administrative expenses also decreased significantly during the three months ended June 30, 2006 as compared with the three months ended June 30, 2005, primarily as a result of a reduction in professional fees, which occurred due to a shift in reporting costs relating to our private debt and equity placements which took place during the fourth quarter of 2003 and the first quarter of 2004, from the second quarter to the third quarter for 2006, and a reduction in administrative information technology consulting fees.

The stock-based component of selling, general and administrative expense for the three month period ended June 30, 2006 consisted of the amortization of prepaid consulting fees recognized on the issuance of warrants during 2003, and on the extension, during the three months ended September 30, 2005, of the expiry date of these warrants from August 31, 2005 to December 31, 2006; and the fair value of unvested employee stock options earned during the period, reduced by a reversal of the fair value of unvested employee stock options forfeited during the period. The stock-based component of this expense for the three-month period ended June 30, 2005 consisted of the amortization of prepaid consulting fees recognized on the issuance of warrants during 2003; and the fair value of common stock issued to consultants as compensation for services provided, for which there was no comparable expense during the three months ended June 30, 2006.

We began marketing our software applications during the third quarter of 2002, and, in anticipation of the commercial release of one of our products in the fourth quarter of 2004, we ramped up our marketing and sales efforts commencing during the second quarter of 2004. As a result of a delay in the expected release date for this software application, we 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 any 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 three months ended June 30, 2006, we incurred $296,598 developing our software applications, which represents a decrease of $43,415 (13%) from the $340,013 we incurred during the three months ended June 30, 2005. The overall decrease is due primarily to costs associated with external consultants engaged during the three months ended June 30, 2005, to perform technical writing and testing of our products, for which there were no comparable costs during the three months ended June 30, 2006. There was also a decrease in the size of the Europe-based contract development group from an average of 26 personnel during the three months ended June 30, 2005, to an average of 19 personnel during the three months ended June 30, 2006.

Interest and financing costs: Interest and financing costs during the three months ended June 30, 2006 consisted of interest and financing costs associated with our 10% senior secured convertible notes, interest on promissory notes payable and interest on the capital lease. For the three months ended June 30, 2005, these costs included interest and financing costs associated with our 4% senior convertible debentures, interest on promissory notes payable and interest on the capital lease. During the three months ended June 30, 2006, we incurred $52,563 in interest and financing costs, a decrease of $53,213 (50%) from the $105,776 in interest and financing costs incurred during the three months ended June 30, 2005.

Of the $52,563 in interest and financing costs we incurred during the three months ended June 30, 2006, $36,057 relates to our 10% senior secured convertible notes, $16,022 relates to our 12% promissory notes and $574 relates to the capital lease. The $36,057 in interest and financing costs relating to our 10% secured convertible notes is comprised of: $4,167 of accrued interest charges; $27,618 of accretion of the principal through charges to interest expenses; and $4,272 of amortization of deferred financing costs. The 10% senior secured convertible notes were issued during the three months ended June 30, 2006, therefore there is no comparable cost for the three months ended June 30, 2005.

Of the $105,776 in interest and financing costs we incurred during the three months ended June 30, 2005, $96,167 related to our 4% senior subordinated convertible debentures, which matured on December 31, 2005, resulting in there being no comparable cost during the three months ended June 30, 2006.

Interest on our 12% promissory notes increased by $7,165 (81%), from $8,857 during the three months ended June 30, 2005, to $16,022 during the three months ended June 30, 2006. This increase occurred as a result of an increase of $245,200 in the principal outstanding on the notes during the period from February to April, 2006, which increased the balance on which interest was charged during the three months ended June 30, 2006 as compared with the three months ended June 30, 2005. There was a decrease of $178 in the amount of interest incurred on our capital lease, as a result of a reduction in the principal outstanding.

Net Loss: We incurred a loss of $696,340 ($0.02 per share) for the three months ended June 30, 2006, compared to a loss of $1,217,602 ($0.04 per share) for the three months ended June 30, 2005. Our revenues and future profitability are substantially dependent on our ability to:

- license the software applications to a sufficient number of clients;
- be cash-flow positive on an ongoing basis;
- modify the successful software applications, over time, to provide enhanced benefits to then-existing users; and
- successfully develop related software applications.

The Six Months Ended June 30, 2006 Compared to the Six Months Ended June 30, 2005

Revenue: We completed our first commercial sale during the third quarter of 2005, however we were unable to recognize revenue in connection with this sale, as all of the criteria required for us to do so as set out in our accounting policies were not met. During April 2006 we determined that collection of the amount invoiced in connection with this sale was in jeopardy, and have recorded an allowance against the entire amount, as an offset against deferred revenue.

On January 1, 2006, we entered into an agreement with a Value Added Reseller ("VAR"), pursuant to which we granted the VAR a license to sell our software to the VAR's customers for a period of three years. Our fee for this license, excluding applicable sales taxes, was $155,000, of which $151,650 had been received as of the financial statement date. We will recognize revenue in connection with this sale once all of the criteria required for us to do so as set out in our accounting policies, have been met.

Since August 1999 we have directed all of our attention towards the completion, and sales and marketing of, our software applications. We believe that if we are successful in our development and sales and marketing efforts, we will generate a source of revenues in the future from sales and/or licensing of our software applications

Selling, general and administrative expenses: Selling, general and administrative expenses consist primarily of personnel costs, professional fees, insurance, communication expenses, occupancy costs and other miscellaneous costs associated with supporting our research and development and sales and marketing activities. During the six months ended June 30, 2006, we incurred a total of $994,800, including $839,250 in cash-based expenses and $155,550 in stock-based expenses, as compared to $1,245,264, of which $1,028,314 was cash-based and $216,950 was stock-based expense, during the six months ended June 30, 2005. There was an overall decrease in selling, general and administrative expenses of $250,464 (20%), comprised of a $189,064 (18%) decrease in the cash-based component, and a $61,400 (28%) decrease in the stock-based component of this expense. The decrease in the cash-based component of selling, general and administrative expenses occurred primarily as a result of a reduction in the level of activity of our sales and marketing departments, as compared to the level of activity of these departments during the six months ended June 30, 2005, during which we were in the process of scaling back our sales and marketing efforts in response to a delay in the expected release date of one of our products. During 2006 to date, we have made efforts to further reduce costs in these departments, through measures such as reducing the number of sales personnel, discontinuing the services of our public relations firm; reducing the number of trade shows in which we participate, and delaying production of new promotional material. We will continue to carefully monitor these costs as we work within current budgetary limits leading up to the full commercial release of our products.

The reduction in cash-based costs incurred by our sales and marketing departments was partially offset by a net increase in cash-based administrative expenses. This increase occurred primarily as a result of increases in cash-based investor relation consultants' fees and travel costs, due to our efforts to raise additional capital, which was partially offset by a decrease in professional fees. We also incurred $26,000 during the six months ended June 30, 2005 in relation to our annual general meeting, for which there was no comparable expense during the six months ended June 30, 2006, which further reduced the net increase in administrative expenses for the period.

The stock-based component of selling, general and administrative expense for the six month period ended June 30, 2006 consisted of the amortization of prepaid consulting fees recognized on the issuance of warrants during 2003, and on the extension, during the three months ended September 30, 2005, of the expiry date of these warrants from August 31, 2005 to December 31, 2006; and the fair value of unvested employee stock options earned during the period, reduced by a reversal of the fair value of unvested employee stock options forfeited during the period. The stock-based component of this expense for the six months ended June 30, 2005 consisted of the amortization of prepaid consulting fees recognized on the issuance of warrants during 2003; and the fair value of common stock issued to consultants as compensation for services provided, for which there was no comparable expense during the three months ended June 30, 2006.

We began marketing our software applications during the third quarter of 2002, and, in anticipation of the commercial release of one of our products in the fourth quarter of 2004, we ramped up our marketing and sales efforts commencing during the second quarter of 2004. As a result of a delay in the expected release date for this software application, we 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 any 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 six months ended June 30, 2006, we incurred $599,991 developing our software applications, which represents a decrease of $62,871 (9%) from the $662,862 we incurred during the six months ended June 30, 2005. The overall decrease is due primarily to costs associated with external consultants engaged during the six months ended June 30, 2005, to perform technical writing and testing of our products, for which there were no comparable costs during the six months ended June 30, 2006. There was also a decrease in the size of the Europe-based contract development group from an average of 26 personnel during the six months ended June 30, 2005, to an average of 24 personnel during the six months ended June 30, 2006.

Interest and financing costs: Interest and financing costs during the six months ended June 30, 2006 consisted of interest and financing costs associated with our 10% senior secured convertible notes, interest on promissory notes payable and interest on the capital lease. For the six months ended June 30, 2005, these costs included interest and financing costs associated with our 4% senior convertible debentures, interest on promissory notes payable and interest on the capital lease. During the six months ended June 30, 2006, we incurred $63,843 in interest and financing costs, a decrease of $414,209 (87%) from the $478,052 in interest and financing costs incurred during the six months ended June 30, 2005.

Of the $63,843 in interest and financing costs we incurred during the six months ended June 30, 2006, $36,057 relates to our 10% senior secured convertible notes, $26,577 relates to our 12% promissory notes and $1,209 relates to the capital lease. The $36,057 in interest and financing costs relating to our 10% secured convertible notes is comprised of: $4,167 of accrued interest charges; $27,618 of accretion of the principal through charges to interest expenses; and $4,272 of amortization of deferred financing costs. The 10% senior secured convertible notes were issued during the six months ended June 30, 2006, therefore there is no comparable cost for the six months ended June 30, 2005.

Of the $478,052 in interest and financing costs we incurred during the six months ended June 30, 2005, $458,889 related to our 4% senior subordinated convertible debentures, which matured on December 31, 2005, resulting in there being no comparable cost during the six months ended June 30, 2006.

Interest on our 12% promissory notes increased by $8,952 (51%), from $17,625 during the six months ended June 30, 2005, to $26,577 during the six months ended June 30, 2006. This increase occurred as a result of an increase of $245,200 in the principal outstanding on the notes during the period from February to April, 2006, which increased the balance on which interest was charged during the six months ended June 30, 2006 as compared with the six months ended June 30, 2005. There was a decrease of $329 in the amount of interest incurred on our capital lease, as a result of a reduction in the principal outstanding.

Net Loss: We incurred a loss of $1,574,204 ($0.05 per share) for the six months ended June 30, 2006, compared to a loss of $2,542,341 ($0.08 per share) for the six months ended June 30, 2005. Our revenues and future profitability are substantially dependent on our ability to:

- license the software applications to a sufficient number of clients;
- be cash-flow positive on an ongoing basis;
- modify the successful software applications, over time, to provide enhanced benefits to then-existing users; and
- successfully develop related software applications.

LIQUIDITY AND CAPITAL RESOURCES

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

At June 30, 2006, we had $22,903 in cash and cash equivalents, and at December 31, 2005, we had $71,193 in cash and cash equivalents. Our cash and cash equivalents decreased during the six months ended June 30, 2006 primarily as a result

of our net loss of $1,574,204, and resulting cash used in operations of $841,949, which was partially offset by an increase in cash resulting from the issuance of $245,200 in 12% promissory notes, $500,000 from the issuance 10% senior secured convertible notes, $50,000 from the issuance of 10% senior convertible notes and $10,000 from the exercise of stock purchase warrants . Our cash and cash equivalents also decreased during the six months ended June 30, 2005 primarily as a result of our net loss of $2,542,341, and resulting cash used in operations of $1,595,095. In July 2006, we raised an additional $250,000 through the issuance of short-term promissory notes, and $15,000 through the issuance of our 12% promissory notes.

Our independent registered public accountants included an explanatory paragraph to their audit opinion issued in connection with our consolidated financial statements for the year ended December 31, 2005. It states that the following conditions exist, which raise substantial doubt regarding our ability to continue as a going concern: our lack of revenues to date; our negative working capital of $441,014 and our accumulated deficit of $21,255,891 as at December 31, 2005; our loss of $4,205,659 and negative cash flow from operations of $3,035,255 for the year then ended; our expectation of continued operating losses for the foreseeable future; and the fact that we have no lines of credit or other financing facilities in place. At June 30, 2006, we had negative working capital of $1,464,882 and an accumulated deficit of $22,830,095; for the six months then ended we had a loss of $1,574,204 and negative cash flow from operations of $841,949; and note 1 to our unaudited interim condensed financial statements for the period ended June 30, 2006 also discusses the continuing substantial doubt regarding our ability to continue as a going concern.

We achieved our first commercial sale during the third quarter of 2005, however we were unable to recognize revenue in connection with this sale, as all of the criteria required for us to do so as set out in our accounting policies were not met. During April 2006 we determined that collection of the amount invoiced in connection with this sale was unlikely, and have recorded an allowance against the entire amount, as an offset against deferred revenue. On January 1, 2006 we entered into an agreement with a Value Added Reseller ("VAR"), pursuant to which we granted the VAR a license to sell our software to the VAR's customers for a period of three years. Our fee for this license, excluding applicable sales taxes, was $155,000, of which $151,650 had been received as of August 11, 2006. We will recognize revenue in connection with this sale once all of the criteria required for us to do so as set out in our accounting policies, have been met.

We anticipate additional commercial sales during the third quarter of 2006, however we cannot be assured that this will be the case. During the six months ended June 30, 2006, we hired one additional person in our sales department, and had one full-time employee and one part-time consultant leave the Company. While we expect to replace the two individuals who left during the period, we do not expect to add any additional personnel during the next 6 months. We have not made, nor do we expect to make, any material commitments for capital equipment expenditures during the next 12 months.

We have an immediate requirement for additional working capital in order to proceed with our business plan. We review our cash needs and sources on a month-to-month basis and we are currently pursuing appropriate opportunities to raise additional capital to fund operations. Additional sources of capital could involve issuing equity or debt. Since February 2006, we have engaged financial advisers to provide advice to us with respect to capital raising. However, additional funding may not be available to us on reasonable terms, if at all. The perceived risk associated with the possible sale of a large number of shares could cause some of our stockholders to sell their stock, thus causing the price of our stock to decline. In addition, actual or anticipated downward pressure on our stock price due to actual or anticipated issuance of stock could cause some institutions or individuals to engage in short sales of our common stock, which may itself cause the price of our stock to decline. We may be unable to raise additional capital if our stock price is too low. A sustained inability to raise capital could force us to limit or curtail our operations.

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

Sources of Capital: Our principal sources of capital for funding our business activities have been the private placements of debt and equity securities. During the six months ended June 30, 2006, we issued $245,200 of our 12% promissory notes, $500,000 of our 10% senior secured convertible notes, and $50,000 of our senior convertible notes, and we received $10,000 on the exercise of 20,000 Series H warrants, all of which generated cash for funding operations. In addition, we issued 300,000 common shares in consideration for consulting services rendered, which reduced our requirement for cash. During July 2006, we received $250,000 on the issuance of short-term promissory notes; and $15,000 on the issuance of our 12% promissory notes.

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

Uses of Capital: Over the past several years, we have scaled our development activities to the level of available cash resources. Research and development expenses for the six months ended June 30, 2006 decreased by approximately 9% as compared to the six months ended June 30, 2005, as a result of cash conservation efforts. Selling, general and administrative expenses for the six months ended June 30, 2006 decreased by approximately 20% as compared to the six months ended June 30, 2005, due to several factors, including a reduction in selling and marketing initiatives, and as explained more fully under "Results of Operation."

During 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. During the fourth quarter of 2004, and continuing through the latter part of the third quarter of 2005, we scaled back our sales and marketing program, in order to maintain a sustainable level for sales and marketing expenditures leading up to the first commercial release of our products. We began hiring additional personnel in our sales and marketing departments during the latter part of the third quarter of 2005, in anticipation of imminent commercial sales, the first of which took place during September 2005. We have not replaced the one full-time employee and one part-time consultant who left our Company during the first quarter of 2006, as we await completion of our current financing efforts. 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 2006.

ITEM 3. 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 our consolidated financial statements for the year ended December 31, 2005, 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. In particular, our independent registered public accounting firm identified the following weaknesses in our internal control system: (1) a lack of segregation of duties; and (2) the lack of timely preparation of certain back up schedules. 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. Notwithstanding the material weakness identified by our independent registered public accountants, we believe that the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operation and cash flows of the Company as of, and for, the periods represented in this report.

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. Of the five weaknesses identified by our independent registered public accountants in connection with the audit of our consolidated financial

statements for the year ended December 31, 2004, and as previously disclosed, we believe that three of the significant internal control deficiencies identified at that time have been remediated. The two significant internal control deficiencies that were identified in regards to the audit of our consolidated financial statements for the year ended December 31, 2004 that have not been remediated are those which were identified by our independent registered public accountants during the audit of our consolidated financial statements for the year ended December 31, 2005.

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

We were unable to implement improvements in all areas of concern with respect to the period covered by this report. However, we began to implement some of the steps identified below to remediate the material weakness to the extent that our size and resources allowed us, commencing during the second quarter of 2004. Set forth below is a discussion of the significant internal control deficiencies which have not been remediated.

Lack of segregation of duties. Since commencing the development phase of our operations in August 1999, our size has prevented us from being able to employ sufficient resources to enable us to have an adequate level of supervision and segregation of duties within our internal control system We have only three people involved with the processing of accounting entries: the Office Administrator, the Controller and the Chief Financial Officer. Therefore, it is difficult to effectively segregate accounting duties. During the fourth quarter of 2005, we retained the services of a part-time independent consultant to assist in performing routine, month end accounting procedures, however we later determined that this individual did not meet our requirements and his services were discontinued in March 2006. We are currently seeking, but cannot be assured that we will be able to find, a qualified part time person to replace this individual. While we strive to segregate duties as much as practicable, there is insufficient volume of transactions to justify additional full time staff. As a result, this significant internal control deficiency had not been remediated as of the end of the period covered by this report, nor do we know if we will be able to remediate this weakness in the foreseeable future. However, we will continue to monitor and assess the costs and benefits of additional staffing.

Lack of timely preparation of back up schedules. During the third and fourth quarters of 2004, we expanded our accounting system in order to facilitate the more timely preparation of financial reports, and we involved the Office Administrator in some of the data entry functions of the accounting department. Notwithstanding these measures and the more formal month end procedures implemented by us commencing in the second quarter of 2004, we continued to experience challenges in preparing our periodic external reports on a timely basis, primarily as a result of an increase in our internal and external reporting requirements due to the expansion of our operations.

When our independent registered public accountants' audit staff arrived to start their field work with respect to our 2004 financial statements, not all of the back up schedules had been prepared. Some of the back up schedules that we prepare to support the information in the financial statements and Form 10-KSB were not completed by us until the later stages of the field work. As we completed the back up schedules, we identified some adjusting entries that were required to provide complete, accurate disclosure. Our failure to timely prepare all of the relevant back up schedules resulted in a delay in the process, which contributed to our not being able to file our Form 10-KSB for the year ended December 31, 2004 until April 15, 2005. In fact, our inability to be prepared on time for our independent registered public accountants' periodic scheduled field work caused us difficulty in meeting our filing deadlines throughout 2004.

While we did not file our Form 10-QSB for the quarter ended March 31, 2005 until May 20, 2005, we did file our Forms 10-QSB for the periods ended June 30, 2005 and September 30, 2005 on August 15, 2005 and November 14, 2005, respectively. For the year ended December 31, 2005 we did not file our Form 10-KSB until the first week of April, 2006, and for the quarter ended March 31, 2006 we did not file our Form 10-QSB until May 22, 2006. For these reporting periods, we were able to complete most of our back up prior to the arrival of our independent registered public accountants' staff. As such, we believe this material weakness had not been remediated as of the end of the period covered by this report, although progress in remediation had been made. One of our objectives in seeking a qualified part time person to perform routine, month end accounting procedures, is to improve the timeliness of preparation of back up schedules and thus permit us to complete our financial reporting on a more timely basis.

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

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 the existence of the significant internal control deficiencies described above.

No change in our internal control over financial reporting occurred during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

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

On March 15, 2006, we issued 300,000 shares of the Company's common stock in consideration for consulting services rendered. On April 20, 2006, holders of the Series H warrants exercised a total of 20,000 warrants, and purchased 20,000 shares of the Company's common stock for cash proceeds of $10,000.

Effective June 1, 2006, the Company issued a total of $500,000 of its 10% senior secured convertible promissory notes to accredited investors. The 10% senior secured convertible promissory notes and accrued interest thereon are convertible, at the sole discretion of the holder, into shares of the Company's common stock, at any time, at a conversion rate of 1 common share for every $0.10 in principal converted. In addition, the Company issued 1,000,000 shares of its common stock pursuant to the terms of the notes.

On June 30, 2006, the Company issued $50,000 of its 10% senior convertible promissory notes to an accredited investor. The 10% senior secured promissory notes and accrued interest thereon are convertible, at the sole discretion of the holder, into shares of the Company's common stock, at any time, at a conversion rate of 1 common share for every $0.10 in principal converted. In addition, the Company issued 100,000 shares of its common stock pursuant to the terms of the note.

On July 13, 2006, the Company issued $250,000 of its 10% promissory notes to an accredited investor. Pursuant to the terms of the note, the Company issued 1,000,000 shares of its common stock to the holder at the date of issuance. In the event the note plus accrued interest thereon has not been fully repaid by October 11, 2006, the Company will issue a further 500,000 shares of its common stock to the accredited investor.

The foregoing securities were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act of 1933, as amended, and the rules promulgated thereunder.

Item 6. Exhibits

(a) Exhibits.

4.1	10% Senior secured convertible promissory notes dated June 1, 2006, in the aggregate original principal amount of $500,000
4.2	10% Senior convertible promissory note dated June 30, 2006, in the original principal amount of $50,000
4.3	10% Senior convertible promissory notes dated July 11, 2006, in the aggregate original principal amount of $500,000
4.4	10% Promissory Note dated July 13, 2006, in the original principal amount of $250,000
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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/ Bruce Benn
Bruce Benn

President and Chief Executive Officer
(principal executive officer)

Dated: August 21, 2006

By: /s/ Ronald Benn

Ronald Benn

Chief Financial Officer and Treasurer
(principal financial and accounting officer)

Dated: August 21, 2006

Exhibit 4.1

THE SALE AND ISSUANCE OF THE SECURITIES REPRESENTED BY THIS 10% CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE DISTRIBUTION THEREOF. THESE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED, OR TRANSFERRED UNLESS (I) A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO THESE SECURITIES AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION OR (II) AN EXEMPTION FROM THE ACT IS AVAILABLE AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION.

10% SENIOR SECURED CONVERTIBLE NOTE

$250,000 June 1, 2006

For value received, Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, promises to pay to Leon Frenkel (the "Holder") with an address at 1600 Flat Rock Road, Penn Valley, PA 19072, the principal amount of Two Hundred-Fifty Thousand Dollars ($250,000) and to pay interest thereon, all as hereinafter specified. This Note amends and restates that certain Convertible Note made by the Company in favor of Holder, dated May 11, 2006 (the "Former Note"), and renders the Former Note terminated, cancelled, void and without legal force and effect.

1. Identification of Note. This Note is issued as part of the Holder's investment into the Company.

2. Maturity.

2.1 Maturity Date. Unless earlier converted as provided in Section 3 hereof, this Note will automatically mature and be due and payable on the earlier of (a) the first (1st) anniversary of the date hereof (the "Maturity Date") or (b) the occurrence of an Event of Default (as defined in Section 7 hereof).

2.2 Interest. Interest shall accrue from the date of this Note on the unpaid principal amount at a rate equal to ten percent (10%) per annum, computed on the basis of the actual number of days elapsed and a year of 365 days from the date of this Note until the principal amount and all interest accrued thereon are paid (or converted, as provided in Section 3 hereof). Subject to Section 3, interest shall be due and paid to the Holder quarterly, with the first interest payment paid on September 1, 2006.

2.3 Prepayment. The Company shall have the right at its option at any time prior to the conversion described in Section 3, to prepay this Note, in whole or in part without premium or penalty, provided the Company provide written notice to the Holder within thirty (30) days of

the prepayment (the "Prepayment Notice") and permit the Holder to convert this Note, within ten (10) business days of receiving the Prepayment Notice, in accordance with Section 3.2. Any prepayment of this Note shall be accompanied by the interest on the prepaid principal amount accrued to the date of prepayment.

2.4 Security Agreement. This Note is secured by that certain Security Agreement, dated June 1, 2006, and attached hereto as Exhibit A.

2.5 Right of Holder to demand Payment of Note. If the Company raises Five Hundred Thousand Dollars ($500,000) or more from the date hereof, Holder shall have the right to demand payment of fifty percent (50%) of the Outstanding Amount of the Note, including the interest related thereto.

3. Conversion.

3.1 Voluntary Conversion. The holder may voluntarily convert the Note into Common Stock of the Company at any time.

3.2 Mechanics and Effect of Conversion.

(a) The principal and interest of this Note shall convert into shares of Common Stock at a conversion price of ten cents ($0.10) per share ("Conversion Price").

(b) No fractional shares will be issued upon conversion of this Note. In lieu of any fractional shares to which the Holder would otherwise be entitled, the Company will pay to the Holder in cash the unconverted amount that would otherwise be converted into such fractional shares.

(c) In the event that the Outstanding Amount under this Note is converted into Common Stock pursuant to Section 3.1 hereof, the Holder shall surrender this Note, duly endorsed, to the Company and the Note shall thereupon be canceled. At its expense, the Company will issue and deliver to such Holder, a certificate or certificates representing the number of duly authorized, validly issued, fully paid and non-assessable shares of Common Stock to which such Holder is entitled upon such conversion, together with a check payable to the Holder for any cash amounts payable pursuant to Section 3.2(b) hereof.

(d) Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock issued upon conversion of this Note has been filed with the Securities and Exchange Commission, each share issued upon conversion of this Note shall be stamped or otherwise imprinted with a legend substantially in the following form:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933

ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

(e) Upon conversion of this Note in accordance with Section 3 hereof, all rights with respect to this Note shall terminate, whether or not the Note has been surrendered for cancellation, and the Company will be forever released from all of its obligations and liabilities under this Note except its obligations pursuant to Section 3.2(c) hereof, except if Holder partially converts the Note pursuant to Section 3 hereof, whereby all rights with respect to the portion of the Note that has been converted will terminate pursuant to this Section 3.2 (e), but the remainder Note will possess all of the rights granted in this Note..

4. Registration Rights. After 120 days have elapsed from the date hereof, Holder shall have demand registration rights, enabling Holder to demand that the Company use commercially reasonable efforts to file a registration statement with the Securities and Exchange Commission, which includes the shares received by Holder pursuant to Section 3 hereof, as soon as reasonably practicable, but no later than 120 days after receipt of such demand registration rights, provided that from the date herof until the date Holder receives demand registration rights, Holder shall have piggy-back rights with respect to any registration statement filed by the Company. The Company shall bear the full cost of filing the registration statement pursuant to a demand by Holder.

5. Payment. Except as set forth herein, all payments shall be made in lawful money of the United States of America at the principal offices of the Holder. Payment shall be credited first to the accrued interest then due and payable and the remainder applied to principal.

6. Subordination. No indebtedness shall be senior in any respect to this Note without the prior written consent of the Holder. To the extent bankruptcy proceedings are initiated by the Company or a third party, the Holder shall receive the same percentage of ownership pari-passu as the Holder would have under Section 3 hereof, regardless of any bankruptcy protection afforded to the Company.

7. Events of Default. The entire unpaid Outstanding Amount shall become immediately due and payable upon the occurrence of an Event of Default. An "Event of Default" shall be deemed to have occurred if:

(a) the Company shall: (i) be unable, or admit in writing its inability, to pay its debts as they mature; (ii) make a general assignment for the benefit of creditors; (iii) be adjudicated a bankrupt or insolvent; (iv) file a voluntary petition in bankruptcy, or a petition or answer seeking reorganization or an arrangement with creditors to take advantage of any insolvency law, or an answer admitting the material allegations of a bankruptcy, reorganization or insolvency petition filed against it; (v) take corporate action for the purpose of effecting any of the foregoing; or (vi) have an order for relief entered against it in any proceeding under the United States Bankruptcy Code;

(b) an order, judgment or decree shall be entered, without the application, approval or consent of the Company by any court of competent jurisdiction, approving a petition seeking reorganization of the Company or appointing a receiver, trustee or liquidator of the

Company or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of thirty (30) consecutive days; or

(c) the Company shall fail to pay as and when due any principal or interest hereunder and such nonpayment shall continue uncured for a period of ten (10) business days after written notice by the Holder thereof.

8. Transfer; Successors and Assigns. This Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name, of, the transferee. Interest and principal are payable only to the registered holder of this Note. The terms and conditions of this Note shall inure to the benefit of and binding upon the respective successors and assigns of the parties.

9. Governing Law. This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

10. Notices. Whenever any notice is required to be given by the Company to a Holder, such notice shall be sent in writing via first class mail, postage prepaid, to the Holder at the Holder's last address appearing on the books maintained by the Company for registration, which notice shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice. Whenever any notice is required to be given by the Holder of this Note to the Company, such notice shall be sent in writing via first class mail, postage prepaid, to the Company at the Company's address above.

11. Amendments and Waivers. This Note and any term hereof may be amended, waived, discharged or terminated only by an instrument in writing signed by the party against whom enforcement of such amendment, waiver, discharge or termination is sought. No waivers of any term, condition or provision of this Note, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

12. Immunity of Members, Officers, Directors and Employees. No recourse shall be had for the payment of the principal or interest on this Note or for any claim based thereon or otherwise in any manner in respect thereof, to or against any subsidiary, member, officer, director or employee, as such, past, present or future, of the Company or any respective subsidiary, member, officer, director or employees, as such, past, present or future, of any predecessor or successor company, either directly or through the Company or such predecessor or successor company, whether by virtue of any constitutional provision or statute or rule of law, or by the enforcement of any assessment or penalty, or in any other manner, all such liability being expressly waived and released by the acceptance of this Note and as part of the consideration for the issuance thereof.

[Signature on Following Page]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and delivered by its authorized officer, as of the date first above written.

VALIDIAN CORPORATION

/s/ Bruce Benn
By:_____
Name: Bruce Benn
Title: Chief Executive Officer

/s/ Ronald I Benn
By:_____
Name: Ronald I Benn
Title: Chief Financial Officer

THE SALE AND ISSUANCE OF THE SECURITIES REPRESENTED BY THIS 10% CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE DISTRIBUTION THEREOF. THESE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED, OR TRANSFERRED UNLESS (I) A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO THESE SECURITIES AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION OR (II) AN EXEMPTION FROM THE ACT IS AVAILABLE AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION.

10% SENIOR SECURED CONVERTIBLE NOTE

$120,000 June 1, 2006

For value received, Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, promises to pay to Triage Capital Management, L.P. (the "Holder") with an address at 401 City Line Avenue, Bala Cynwyd, PA 19004, the principal amount of One Hundred Thirty Thousand Dollars ($120,000) and to pay interest thereon, all as hereinafter specified.

1. Identification of Note. This Note is issued as part of the Holder's investment into the Company.

2. Maturity.

2.1 Maturity Date. Unless earlier converted as provided in Section 3 hereof, this Note will automatically mature and be due and payable on the earlier of (a) the first (1st) anniversary of the date hereof (the "Maturity Date") or (b) the occurrence of an Event of Default (as defined in Section 7 hereof).

2.2 Interest. Interest shall accrue from the date of this Note on the unpaid principal amount at a rate equal to ten percent (10%) per annum, computed on the basis of the actual number of days elapsed and a year of 365 days from the date of this Note until the principal amount and all interest accrued thereon are paid (or converted, as provided in Section 3 hereof). Subject to Section 3, interest shall be due and paid to the Holder quarterly, with the first interest payment paid on September 1, 2006.

2.3 Prepayment. The Company shall have the right at its option at any time prior to the conversion described in Section 3, to prepay this Note, in whole or in part without premium or penalty, provided the Company provide written notice to the Holder within thirty (30) days of the prepayment (the "Prepayment Notice") and permit the Holder to convert this Note, within ten (10) business days of receiving the Prepayment Notice, in accordance with Section 3.2. Any

prepayment of this Note shall be accompanied by the interest on the prepaid principal amount accrued to the date of prepayment.

2.4 Security Agreement. This Note is secured by that certain Security Agreement, dated June 1, 2006, and attached hereto as Exhibit A.

2.5 Right of Holder to demand Payment of Note. If the Company raises Five Hundred Thousand Dollars ($500,000) or more from the date hereof, Holder shall have the right to demand payment of fifty percent (50%) of the Outstanding Amount of the Note, including the interest related thereto.

3. Conversion.

3.1 Voluntary Conversion. The holder may voluntarily convert the Note into Common Stock of the Company at any time.

3.2 Mechanics and Effect of Conversion.

(a) The principal and interest of this Note shall convert into shares of Common Stock at a conversion price of ten cents ($0.10) per share ("Conversion Price").

(b) No fractional shares will be issued upon conversion of this Note. In lieu of any fractional shares to which the Holder would otherwise be entitled, the Company will pay to the Holder in cash the unconverted amount that would otherwise be converted into such fractional shares.

(c) In the event that the Outstanding Amount under this Note is converted into Common Stock pursuant to Section 3.1 hereof, the Holder shall surrender this Note, duly endorsed, to the Company and the Note shall thereupon be canceled. At its expense, the Company will issue and deliver to such Holder, a certificate or certificates representing the number of duly authorized, validly issued, fully paid and non-assessable shares of Common Stock to which such Holder is entitled upon such conversion, together with a check payable to the Holder for any cash amounts payable pursuant to Section 3.2(b) hereof.

(d) Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock issued upon conversion of this Note has been filed with the Securities and Exchange Commission, each share issued upon conversion of this Note shall be stamped or otherwise imprinted with a legend substantially in the following form:

> "THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933 ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

(e) Upon conversion of this Note in accordance with Section 3 hereof, all rights with respect to this Note shall terminate, whether or not the Note has been surrendered for cancellation, and the Company will be forever released from all of its obligations and liabilities under this Note except its obligations pursuant to Section 3.2(c) hereof, except if Holder partially converts the Note pursuant to Section 3 hereof, whereby all rights with respect to the portion of the Note that has been converted will terminate pursuant to this Section 3.2 (e), but the remainder Note will possess all of the rights granted in this Note..

4. Registration Rights. After 120 days have elapsed from the date hereof, Holder shall have demand registration rights, enabling Holder to demand that the Company use commercially reasonable efforts to file a registration statement with the Securities and Exchange Commission, which includes the shares received by Holder pursuant to Section 3 hereof, as soon as reasonably practicable, but no later than 120 days after receipt of such demand registration rights, provided that from the date herof until the date Holder receives demand registration rights, Holder shall have piggy-back rights with respect to any registration statement filed by the Company. The Company shall bear the full cost of filing the registration statement pursuant to a demand by Holder.

5. Payment. Except as set forth herein, all payments shall be made in lawful money of the United States of America at the principal offices of the Holder. Payment shall be credited first to the accrued interest then due and payable and the remainder applied to principal.

6. Subordination. No indebtedness shall be senior in any respect to this Note without the prior written consent of the Holder. To the extent bankruptcy proceedings are initiated by the Company or a third party, the Holder shall receive the same percentage of ownership pari-passu as the Holder would have under Section 3 hereof, regardless of any bankruptcy protection afforded to the Company.

7. Events of Default. The entire unpaid Outstanding Amount shall become immediately due and payable upon the occurrence of an Event of Default. An "Event of Default" shall be deemed to have occurred if:

(a) the Company shall: (i) be unable, or admit in writing its inability, to pay its debts as they mature; (ii) make a general assignment for the benefit of creditors; (iii) be adjudicated a bankrupt or insolvent; (iv) file a voluntary petition in bankruptcy, or a petition or answer seeking reorganization or an arrangement with creditors to take advantage of any insolvency law, or an answer admitting the material allegations of a bankruptcy, reorganization or insolvency petition filed against it; (v) take corporate action for the purpose of effecting any of the foregoing; or (vi) have an order for relief entered against it in any proceeding under the United States Bankruptcy Code;

(b) an order, judgment or decree shall be entered, without the application, approval or consent of the Company by any court of competent jurisdiction, approving a petition seeking reorganization of the Company or appointing a receiver, trustee or liquidator of the Company or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of thirty (30) consecutive days; or

(c) the Company shall fail to pay as and when due any principal or interest hereunder and such nonpayment shall continue uncured for a period of ten (10) business days after written notice by the Holder thereof.

8. Transfer; Successors and Assigns. This Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name, of, the transferee. Interest and principal are payable only to the registered holder of this Note. The terms and conditions of this Note shall inure to the benefit of and binding upon the respective successors and assigns of the parties.

9. Governing Law. This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

10. Notices. Whenever any notice is required to be given by the Company to a Holder, such notice shall be sent in writing via first class mail, postage prepaid, to the Holder at the Holder's last address appearing on the books maintained by the Company for registration, which notice shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice. Whenever any notice is required to be given by the Holder of this Note to the Company, such notice shall be sent in writing via first class mail, postage prepaid, to the Company at the Company's address above.

11. Amendments and Waivers. This Note and any term hereof may be amended, waived, discharged or terminated only by an instrument in writing signed by the party against whom enforcement of such amendment, waiver, discharge or termination is sought. No waivers of any term, condition or provision of this Note, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

12. Immunity of Members, Officers, Directors and Employees. No recourse shall be had for the payment of the principal or interest on this Note or for any claim based thereon or otherwise in any manner in respect thereof, to or against any subsidiary, member, officer, director or employee, as such, past, present or future, of the Company or any respective subsidiary, member, officer, director or employees, as such, past, present or future, of any predecessor or successor company, either directly or through the Company or such predecessor or successor company, whether by virtue of any constitutional provision or statute or rule of law, or by the enforcement of any assessment or penalty, or in any other manner, all such liability being expressly waived and released by the acceptance of this Note and as part of the consideration for the issuance thereof.

[Signature on Following Page]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and delivered by its authorized officer, as of the date first above written.

VALIDIAN CORPORATION

/s/ Bruce Benn

By:_____

Name: Bruce Benn

Title: Chief Executive Officer

/s/ Ronald I Benn

By:_____

Name: Ronald I Benn

Title: Chief Financial Officer

THE SALE AND ISSUANCE OF THE SECURITIES REPRESENTED BY THIS 10% CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE DISTRIBUTION THEREOF. THESE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED, OR TRANSFERRED UNLESS (I) A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO THESE SECURITIES AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION OR (II) AN EXEMPTION FROM THE ACT IS AVAILABLE AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION.

10% SENIOR SECURED CONVERTIBLE NOTE

$130,000 June 1, 2006

For value received, Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, promises to pay to Triage Capital Management B, L.P. (the "Holder") with an address at 401 City Line Avenue, Bala Cynwyd, PA 19004, the principal amount of One Hundred Thirty Thousand Dollars ($130,000) and to pay interest thereon, all as hereinafter specified.

1. Identification of Note. This Note is issued as part of the Holder's investment into the Company.

2. Maturity.

2.1 Maturity Date. Unless earlier converted as provided in Section 3 hereof, this Note will automatically mature and be due and payable on the earlier of (a) the first (1st) anniversary of the date hereof (the "Maturity Date") or (b) the occurrence of an Event of Default (as defined in Section 7 hereof).

2.2 Interest. Interest shall accrue from the date of this Note on the unpaid principal amount at a rate equal to ten percent (10%) per annum, computed on the basis of the actual number of days elapsed and a year of 365 days from the date of this Note until the principal amount and all interest accrued thereon are paid (or converted, as provided in Section 3 hereof). Subject to Section 3, interest shall be due and paid to the Holder quarterly, with the first interest payment paid on September 1, 2006.

2.3 Prepayment. The Company shall have the right at its option at any time prior to the conversion described in Section 3, to prepay this Note, in whole or in part without premium or penalty, provided the Company provide written notice to the Holder within thirty (30) days of the prepayment (the "Prepayment Notice") and permit the Holder to convert this Note, within ten (10) business days of receiving the Prepayment Notice, in accordance with Section 3.2. Any

prepayment of this Note shall be accompanied by the interest on the prepaid principal amount accrued to the date of prepayment.

2.4 Security Agreement. This Note is secured by that certain Security Agreement, dated June 1, 2006, and attached hereto as Exhibit A.

2.5 Right of Holder to demand Payment of Note. If the Company raises Five Hundred Thousand Dollars ($500,000) or more from the date hereof, Holder shall have the right to demand payment of fifty percent (50%) of the Outstanding Amount of the Note, including the interest related thereto.

3. Conversion.

3.1 Voluntary Conversion. The holder may voluntarily convert the Note into Common Stock of the Company at any time.

3.2 Mechanics and Effect of Conversion.

(a) The principal and interest of this Note shall convert into shares of Common Stock at a conversion price of ten cents ($0.10) per share ("Conversion Price").

(b) No fractional shares will be issued upon conversion of this Note. In lieu of any fractional shares to which the Holder would otherwise be entitled, the Company will pay to the Holder in cash the unconverted amount that would otherwise be converted into such fractional shares.

(c) In the event that the Outstanding Amount under this Note is converted into Common Stock pursuant to Section 3.1 hereof, the Holder shall surrender this Note, duly endorsed, to the Company and the Note shall thereupon be canceled. At its expense, the Company will issue and deliver to such Holder, a certificate or certificates representing the number of duly authorized, validly issued, fully paid and non-assessable shares of Common Stock to which such Holder is entitled upon such conversion, together with a check payable to the Holder for any cash amounts payable pursuant to Section 3.2(b) hereof.

(d) Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock issued upon conversion of this Note has been filed with the Securities and Exchange Commission, each share issued upon conversion of this Note shall be stamped or otherwise imprinted with a legend substantially in the following form:

> "THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933 ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

(e) Upon conversion of this Note in accordance with Section 3 hereof, all rights with respect to this Note shall terminate, whether or not the Note has been surrendered for cancellation, and the Company will be forever released from all of its obligations and liabilities under this Note except its obligations pursuant to Section 3.2(c) hereof, except if Holder partially converts the Note pursuant to Section 3 hereof, whereby all rights with respect to the portion of the Note that has been converted will terminate pursuant to this Section 3.2 (e), but the remainder Note will possess all of the rights granted in this Note..

4. Registration Rights. After 120 days have elapsed from the date hereof, Holder shall have demand registration rights, enabling Holder to demand that the Company use commercially reasonable efforts to file a registration statement with the Securities and Exchange Commission, which includes the shares received by Holder pursuant to Section 3 hereof, as soon as reasonably practicable, but no later than 120 days after receipt of such demand registration rights, provided that from the date herof until the date Holder receives demand registration rights, Holder shall have piggy-back rights with respect to any registration statement filed by the Company. The Company shall bear the full cost of filing the registration statement pursuant to a demand by Holder.

5. Payment. Except as set forth herein, all payments shall be made in lawful money of the United States of America at the principal offices of the Holder. Payment shall be credited first to the accrued interest then due and payable and the remainder applied to principal.

6. Subordination. No indebtedness shall be senior in any respect to this Note without the prior written consent of the Holder. To the extent bankruptcy proceedings are initiated by the Company or a third party, the Holder shall receive the same percentage of ownership pari-passu as the Holder would have under Section 3 hereof, regardless of any bankruptcy protection afforded to the Company.

7. Events of Default. The entire unpaid Outstanding Amount shall become immediately due and payable upon the occurrence of an Event of Default. An "Event of Default" shall be deemed to have occurred if:

(a) the Company shall: (i) be unable, or admit in writing its inability, to pay its debts as they mature; (ii) make a general assignment for the benefit of creditors; (iii) be adjudicated a bankrupt or insolvent; (iv) file a voluntary petition in bankruptcy, or a petition or answer seeking reorganization or an arrangement with creditors to take advantage of any insolvency law, or an answer admitting the material allegations of a bankruptcy, reorganization or insolvency petition filed against it; (v) take corporate action for the purpose of effecting any of the foregoing; or (vi) have an order for relief entered against it in any proceeding under the United States Bankruptcy Code;

(b) an order, judgment or decree shall be entered, without the application, approval or consent of the Company by any court of competent jurisdiction, approving a petition seeking reorganization of the Company or appointing a receiver, trustee or liquidator of the Company or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of thirty (30) consecutive days; or

(c) the Company shall fail to pay as and when due any principal or interest hereunder and such nonpayment shall continue uncured for a period of ten (10) business days after written notice by the Holder thereof.

8. Transfer; Successors and Assigns. This Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name, of, the transferee. Interest and principal are payable only to the registered holder of this Note. The terms and conditions of this Note shall inure to the benefit of and binding upon the respective successors and assigns of the parties.

9. Governing Law. This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

10. Notices. Whenever any notice is required to be given by the Company to a Holder, such notice shall be sent in writing via first class mail, postage prepaid, to the Holder at the Holder's last address appearing on the books maintained by the Company for registration, which notice shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice. Whenever any notice is required to be given by the Holder of this Note to the Company, such notice shall be sent in writing via first class mail, postage prepaid, to the Company at the Company's address above.

11. Amendments and Waivers. This Note and any term hereof may be amended, waived, discharged or terminated only by an instrument in writing signed by the party against whom enforcement of such amendment, waiver, discharge or termination is sought. No waivers of any term, condition or provision of this Note, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

12. Immunity of Members, Officers, Directors and Employees. No recourse shall be had for the payment of the principal or interest on this Note or for any claim based thereon or otherwise in any manner in respect thereof, to or against any subsidiary, member, officer, director or employee, as such, past, present or future, of the Company or any respective subsidiary, member, officer, director or employees, as such, past, present or future, of any predecessor or successor company, either directly or through the Company or such predecessor or successor company, whether by virtue of any constitutional provision or statute or rule of law, or by the enforcement of any assessment or penalty, or in any other manner, all such liability being expressly waived and released by the acceptance of this Note and as part of the consideration for the issuance thereof.

[Signature on Following Page]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and delivered by its authorized officer, as of the date first above written.

VALIDIAN CORPORATION

/s/ Bruce Benn
By:_____
Name: Bruce Benn
Title: Chief Executive Officer

/s/ Ronald I Benn
By:_____
Name: Ronald I Benn
Title: Chief Financial Officer

SECURITY AGREEMENT

SECURITY AGREEMENT (this "Agreement"), dated as of June 1, 2006, by and among Validian Corporation, a Nevada corporation (the "Company"), and the secured parties signatory hereto and their respective endorsees, transferees and assigns (collectively, the "Secured Party").

W I T N E S S E T H:

WHEREAS, pursuant to a Convertible Note, dated the date hereof, between the Company and the Secured Party (the "Note"), the Company has agreed to issue to the Secured Party and the Secured Party has agreed to purchase from the Company a 10% Secured Convertible Note, due one year from the date of issue (the "Note"), which is convertible into shares of the Company's Common Stock (the "Common Stock"); and

WHEREAS, in order to induce the Secured Party to purchase the Note, the Company has agreed to execute and deliver to the Secured Party this Agreement for the benefit of the Secured Party and to grant to it a first priority security interest in certain property of the Company to secure the prompt payment, performance and discharge in full of all of the Company's obligations under the Note.

NOW, THEREFORE, in consideration of the agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the meanings set forth in this Section 1. Terms used but not otherwise defined in this Agreement that are defined in Article 9 of the UCC (such as "proceeds") shall have the respective meanings given such terms in Article 9 of the UCC.

(a) "Collateral" means the collateral in which the Secured Party is granted a security interest by this Agreement and which shall include the following, whether presently owned or existing or hereafter acquired or coming into existence, and all additions and accessions thereto and all substitutions and replacements thereof, and all proceeds, products and accounts thereof, including, without limitation, all proceeds from the sale or transfer of the Collateral and of insurance covering the same and of any tort claims in connection therewith:

(i) All Goods of the Company, including, without limitations, all machinery, equipment, computers, motor vehicles, trucks, tanks, boats, ships, appliances, furniture, special and general tools, fixtures, test and quality control devices and other equipment of every kind and nature and wherever situated, together with all documents of title and documents representing the same, all additions and accessions thereto, replacements therefor, all parts therefor, and all substitutes for any of the foregoing and all other items used and useful in connection with the Company's businesses and all improvements thereto (collectively, the "Equipment"); and

(ii) All Inventory of the Company; and

(iii) All of the Company's contract rights and general intangibles, including, without limitation, all partnership interests, stock or other securities, licenses, distribution and other agreements, computer software development rights, leases, franchises, customer lists, quality control procedures, grants and rights, goodwill, trademarks, service marks, trade styles, trade names, patents, patent applications, copyrights, deposit accounts, and income tax refunds (collectively, the "General Intangibles"); and

(iv) All Receivables of the Company including all insurance proceeds, and rights to refunds or indemnification whatsoever owing, together with all instruments, all documents of title representing any of the foregoing, all rights in any merchandising, goods, equipment, motor vehicles and trucks which any of the same may represent, and all right, title, security and guaranties with respect to each Receivable, including any right of stoppage in transit; and

(v) All of the Company's documents, instruments and chattel paper, files, records, books of account, business papers, computer programs and the products and proceeds of all of the foregoing Collateral set forth in clauses (i)-(iv) above.

(vi) All intellectual property, including but not limited to the following:

(1) Software Intellectual Property:

a. all software programs (including all source code, object code and all related applications and data files), whether now owned, upgraded, enhanced, licensed or leased or hereafter acquired by the Company, above;

b. all computers and electronic data processing hardware and firmware associated therewith;

c. all documentation (including flow charts, logic diagrams, manuals, guides and specifications) with respect to such software, hardware and firmware described in the preceding clauses (a) and (b); and

d. all rights with respect to all of the foregoing, including, without limitation, any and all upgrades, modifications, copyrights, licenses, options, warranties, service contracts, program services, test rights, maintenance rights, support rights, improvement rights, renewal rights and indemnifications and substitutions, replacements, additions, or model conversions of any of the foregoing.

(2) Copyrights:

a. all copyrights, registrations and applications for registration, issued or filed, including any reissues, extensions or renewals thereof, by or with the United States Copyright Office or any similar office or agency of the United States, any state thereof, or any other country or political subdivision thereof, or otherwise, including, all rights in and to the material constituting the subject matter thereof;

b. any rights in any material which is copyrightable or which is protected by common law, United States copyright laws or similar laws or any law of any State.

(3) Copyright License:

a. any agreement, written or oral, providing for a grant by the Company of any right in any Copyright.

(4) Patents:

a. all letters patent of the United States or any other country or any political subdivision thereof, and all reissues and extensions thereof;

b. all applications for letters patent of the United States and all divisions, continuations and continuations-in-part thereof or any other country or any political subdivision.

(5) Patent License:

a. all agreements, whether written or oral, providing for the grant by the Company of any right to manufacture, use or sell any invention covered by a Patent.

(6) Trademarks:

a. all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers, and the goodwill associated therewith, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state thereof or any other country or any political subdivision thereof;

b. all reissues, extensions or renewals thereof.

(7) Trademark License:

a. any agreement, written or oral, providing for the grant by the Company of any right to use any Trademark.

(8) Trade Secrets:

a. common law and statutory trade secrets and all other confidential or proprietary or useful information and all know-how obtained by or used in or contemplated at any time for use in the business of the Company (all of the foregoing being collectively called a "Trade Secret"), whether or not such Trade Secret has been reduced to a writing or other tangible form, including all documents and things embodying, incorporating or referring in any way to such Trade Secret, all Trade Secret licenses, and including the right to sue for and to enjoin and to collect damages for the actual or threatened misappropriation of any Trade Secret and for the breach or enforcement of any such Trade Secret license.

(b) "Company" shall mean, collectively, the Company and all of the subsidiaries of the Company.

(c) "Obligations" means all of the Company's obligations under this Agreement and the Note, in each case, whether now or hereafter existing, voluntary or involuntary, direct or indirect, absolute or contingent, liquidated or unliquidated, whether or not jointly owed with others, and whether or not from time to time decreased or extinguished and later decreased, created or incurred, and all or any portion of such obligations or liabilities that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from the Secured Party as a preference, fraudulent transfer or otherwise as such obligations may be amended, supplemented, converted, extended or modified from time to time.

(d) "UCC" means the Uniform Commercial Code, as currently in effect in the State of New York.

2. Grant of Security Interest. As an inducement for the Secured Party to purchase the Note and to secure the complete and timely payment, performance and discharge in full, as the case may be, of all of the Obligations, the Company hereby, unconditionally and irrevocably, pledges, grants and hypothecates to the Secured Party, a continuing security interest in, a continuing first lien upon, an unqualified right to possession and disposition of and a right of set-off against, in each case to the fullest extent permitted by law, all of the Company's right, title and interest of whatsoever kind and nature in and to the Collateral (the "Security Interest").

3. Representations, Warranties, Covenants and Agreements of the Company. The Company represents and warrants to, and covenants and agrees with, the Secured Party as follows:

(a) The Company has the requisite corporate power and authority to enter into this Agreement and otherwise to carry out its obligations thereunder. The execution, delivery and performance by the Company of this Agreement and the filings contemplated therein have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company. This Agreement constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditor's rights generally.

(b) The Company represents and warrants that it has no place of business or offices where its respective books of account and records are kept (other than temporarily at the offices of its attorneys or accountants) or places where Collateral is stored or located other than the Company's main facility listed in Section 13 of this Agreement;

(c) The Company is the sole owner of the Collateral (except for non-exclusive licenses granted by the Company in the ordinary course of business), free and clear of any liens, security interests, encumbrances, rights or claims, and is fully authorized to grant the Security Interest in and to pledge the Collateral. There is not on file in any governmental or regulatory authority, agency or recording office an effective financing statement, security agreement, license or transfer or any notice of any of the foregoing (other than those that have been filed in favor of the Secured Party pursuant to this Agreement) covering or affecting any of the Collateral. So long as this Agreement shall be in effect, the Company shall not execute and shall not knowingly permit to be on file in any such office or agency any such financing statement or other document or instrument (except to the extent filed or recorded in favor of the Secured Party pursuant to the terms of this Agreement).

(d) No part of the Collateral has been judged invalid or unenforceable. No written claim has been received that any Collateral or the Company's use of any Collateral violates the rights of any third party. There has been no adverse decision to the Company's claim of ownership rights in or exclusive rights to use the Collateral in any jurisdiction or to the Company's right to keep and maintain such Collateral in full force and effect, and there is no proceeding involving said rights pending or, to the best knowledge of the Company, threatened before any court, judicial body, administrative or regulatory agency, arbitrator or other governmental authority.

(e) The Company shall at all times maintain its books of account and records relating to the Collateral at its principal place of business and its Collateral at the locations set forth in Section 13 and may not relocate such books of account and records or tangible Collateral unless it delivers to the Secured Party at least 30 days prior to such relocation (i) written notice of such relocation and the new location thereof (which must be within the United States) and (ii) evidence that appropriate financing statements and other necessary documents have been filed and recorded and other steps have been taken to perfect the Security Interest to create in favor of the Secured Party valid, perfected and continuing first priority liens in the Collateral.

(f) This Agreement creates in favor of the Secured Party a valid security interest in the Collateral securing the payment and performance of the Obligations and, upon making the filings described in the immediately following sentence, a perfected first priority

security interest in such Collateral. Except for the filing of financing statements on Form-1 under the UCC, no authorization or approval of or filing with or notice to any governmental authority or regulatory body is required either (i) for the grant by the Company of, or the effectiveness of, the Security Interest granted hereby or for the execution, delivery and performance of this Agreement by the Company or (ii) for the perfection of or exercise by the Secured Party of its rights and remedies hereunder.

(g) On the date of execution of this Agreement, the Company will deliver to the Secured Party one or more executed UCC financing statements on Form-1 in the jurisdiction of Atlanta, Georgia and in such other jurisdictions as may be requested by the Secured Party.

(h) The execution, delivery and performance of this Agreement does not conflict with or cause a breach or default, or an event that with or without the passage of time or notice, shall constitute a breach or default, under any agreement to which the Company is a party or by which the Company is bound. No consent (including, without limitation, from stock holders or creditors of the Company) is required for the Company to enter into and perform its obligations hereunder.

(i) The Company shall at all times maintain the liens and Security Interest provided for hereunder as valid and perfected first priority liens and security interests in the Collateral in favor of the Secured Party until this Agreement and the Security Interest hereunder shall terminate pursuant to Section 11. The Company hereby agrees to defend the same against any and all persons. The Company shall safeguard and protect all Collateral for the account of the Secured Party. At the request of the Secured Party, the Company will sign and deliver to the Secured Party at any time or from time to time one or more financing statements pursuant to the UCC (or any other applicable statute) in form reasonably satisfactory to the Secured Party and will pay the cost of filing the same in all public offices wherever filing is, or is deemed by the Secured Party to be, necessary or desirable to effect the rights and obligations provided for herein. Without limiting the generality of the foregoing, the Company shall pay all fees, taxes and other amounts necessary to maintain the Collateral and the Security Interest hereunder, and the Company shall obtain and furnish to the Secured Party from time to time, upon demand, such releases and/or subordinations of claims and liens which may be required to maintain the priority of the Security Interest hereunder.

(j) The Company will not transfer, pledge, hypothecate, encumber, license (except for any Collateral disposed of in the ordinary course of business), sell or otherwise dispose of any of the Collateral without the prior written consent of the Secured Party.

(k) The Company shall keep and preserve its Equipment, Inventory and other tangible Collateral in good condition, repair and order and shall not operate or locate any such Collateral (or cause to be operated or located) in any area excluded from insurance coverage.

(l) The Company shall, within twenty (20) days of obtaining knowledge thereof, advise the Secured Party promptly, in sufficient detail, of any substantial change in the Collateral, and of the occurrence of any event which would have a material adverse effect on the value of the Collateral or on the Secured Party's security interest therein.

(m) The Company shall promptly execute and deliver to the Secured Party such further deeds, mortgages, assignments, security agreements, financing statements or other instruments, documents, certificates and assurances and take such further action as the Secured Party may from time to time request and may in its sole discretion deem necessary to perfect, protect or enforce its security interest in the Collateral.

(n) The Company shall permit the Secured Party and its representatives and agents to inspect the Collateral at any time, and to make copies of records pertaining to the Collateral as may be requested by the Secured Party from time to time.

(o) The Company will take all steps reasonably necessary to diligently pursue and seek to preserve, enforce and collect any rights, claims, causes of action and accounts receivable in respect of the Collateral.

(p) The Company shall promptly notify the Secured Party in sufficient detail upon becoming aware of any attachment, garnishment, execution or other legal process levied against any Collateral and of any other information received by the Company that may materially affect the value of the Collateral, the Security Interest or the rights and remedies of the Secured Party hereunder.

(q) All information heretofore, herein or hereafter supplied to the Secured Party by or on behalf of the Company with respect to the Collateral is accurate and complete in all material respects as of the date furnished.

4. Defaults. The following events shall be "Events of Default":

(a) The occurrence of an Event of Default (as defined in the Note) under the Note;

(b) Any representation or warranty of the Company in this Agreement shall prove to have been incorrect in any material respect when made;

(c) The failure by the Company to observe or perform any of its obligations hereunder for ten (10) days after receipt by the Company of notice of such failure from the Secured Party; and

5. Duty To Hold In Trust. Upon the occurrence of any Event of Default and at any time thereafter, the Company shall, upon receipt by it of any revenue, income or other sums subject to the Security Interest, whether payable pursuant to the Note or otherwise, or of any check, draft, note, trade acceptance or other instrument evidencing an obligation to pay any such sum, hold the same in trust for the Secured Party and shall forthwith endorse and transfer any such sums or instruments, or both, to the Secured Party for application to the satisfaction of the Obligations.

6. Rights and Remedies Upon Default. Upon occurrence of any Event of Default and at any time thereafter, the Secured Party shall have the right to exercise all of the remedies conferred hereunder and under the Note, and the Secured Party shall have all the rights and remedies of a secured party under the UCC and/or any other applicable law (including the

Uniform Commercial Code of any jurisdiction in which any Collateral is then located). Without limitation, the Secured Party shall have the following rights and powers:

(a) The Secured Party shall have the right to take possession of the Collateral and, for that purpose, enter, with the aid and assistance of any person, any premises where the Collateral, or any part thereof, is or may be placed and remove the same, and the Company shall assemble the Collateral and make it available to the Secured Party at places which the Secured Party shall reasonably select, whether at the Company's premises or elsewhere, and make available to the Secured Party, without rent, all of the Company's respective premises and facilities for the purpose of the Secured Party taking possession of, removing or putting the Collateral in saleable or disposable form.

(b) The Secured Party shall have the right to operate the business of the Company using the Collateral and shall have the right to assign, sell, lease or otherwise dispose of and deliver all or any part of the Collateral, at public or private sale or otherwise, either with or without special conditions or stipulations, for cash or on credit or for future delivery, in such parcel or parcels and at such time or times and at such place or places, and upon such terms and conditions as the Secured Party may deem commercially reasonable, all without (except as shall be required by applicable statute and cannot be waived) advertisement or demand upon or notice to the Company or right of redemption of the Company, which are hereby expressly waived. Upon each such sale, lease, assignment or other transfer of Collateral, the Secured Party may, unless prohibited by applicable law which cannot be waived, purchase all or any part of the Collateral being sold, free from and discharged of all trusts, claims, right of redemption and equities of the Company, which are hereby waived and released.

7. Applications of Proceeds. The proceeds of any such sale, lease or other disposition of the Collateral hereunder shall be applied first, to the expenses of retaking, holding, storing, processing and preparing for sale, selling, and the like (including, without limitation, any taxes, fees and other costs incurred in connection therewith) of the Collateral, to the reasonable attorneys' fees and expenses incurred by the Secured Party in enforcing its rights hereunder and in connection with collecting, storing and disposing of the Collateral, and then to satisfaction of the Obligations, and to the payment of any other amounts required by applicable law, after which the Secured Party shall pay to the Company any surplus proceeds. If, upon the sale, license or other disposition of the Collateral, the proceeds thereof are insufficient to pay all amounts to which the Secured Party is legally entitled, the Company will be liable for the deficiency, together with interest thereon, at the rate of 15% per annum (the "Default Rate"), and the reasonable fees of any attorneys employed by the Secured Party to collect such deficiency. To the extent permitted by applicable law, the Company waives all claims, damages and demands against the Secured Party arising out of the repossession, removal, retention or sale of the Collateral, unless due to the gross negligence or willful misconduct of the Secured Party.

8. Costs and Expenses. The Company agrees to pay all out-of-pocket fees, costs and expenses incurred in connection with any filing required hereunder, including without limitation, any financing statements, continuation statements, partial releases and/or termination statements related thereto or any expenses of any searches reasonably required by the Secured Party. The Company shall also pay all other claims and charges which in the reasonable opinion of the Secured Party might prejudice, imperil or otherwise affect the Collateral or the Security

Interest therein. The Company will also, upon demand, pay to the Secured Party the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, which the Secured Party may incur in connection with (i) the enforcement of this Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, or (iii) the exercise or enforcement of any of the rights of the Secured Party under the Note. Until so paid, any fees payable hereunder shall be added to the principal amount of the Note and shall bear interest at the Default Rate.

9. Responsibility for Collateral. The Company assumes all liabilities and responsibility in connection with all Collateral, and the obligations of the Company hereunder or under the Note shall in no way be affected or diminished by reason of the loss, destruction, damage or theft of any of the Collateral or its unavailability for any reason.

10. Security Interest Absolute. All rights of the Secured Party and all Obligations of the Company hereunder, shall be absolute and unconditional, irrespective of: (a) any lack of validity or enforceability of this Agreement, the Note or any agreement entered into in connection with the foregoing, or any portion hereof or thereof; (b) any change in the time, manner or place of payment or performance of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Note or any other agreement entered into in connection with the foregoing; (c) any exchange, release or nonperfection of any of the Collateral, or any release or amendment or waiver of or consent to departure from any other collateral for, or any guaranty, or any other security, for all or any of the Obligations; (d) any action by the Secured Party to obtain, adjust, settle and cancel in its sole discretion any insurance claims or matters made or arising in connection with the Collateral; or (e) any other circumstance which might otherwise constitute any legal or equitable defense available to the Company, or a discharge of all or any part of the Security Interest granted hereby. Until the Obligations shall have been paid and performed in full, the rights of the Secured Party shall continue even if the Obligations are barred for any reason, including, without limitation, the running of the statute of limitations or bankruptcy. The Company expressly waives presentment, protest, notice of protest, demand, notice of nonpayment and demand for performance. In the event that at any time any transfer of any Collateral or any payment received by the Secured Party hereunder shall be deemed by final order of a court of competent jurisdiction to have been a voidable preference or fraudulent conveyance under the bankruptcy or insolvency laws of the United States, or shall be deemed to be otherwise due to any party other than the Secured Party, then, in any such event, the Company's obligations hereunder shall survive cancellation of this Agreement, and shall not be discharged or satisfied by any prior payment thereof and/or cancellation of this Agreement, but shall remain a valid and binding obligation enforceable in accordance with the terms and provisions hereof. The Company waives all right to require the Secured Party to proceed against any other person or to apply any Collateral which the Secured Party may hold at any time, or to marshal assets, or to pursue any other remedy. The Company waives any defense arising by reason of the application of the statute of limitations to any obligation secured hereby.

11. Term of Agreement. This Agreement and the Security Interest shall terminate on the date on which all payments under the Note have been made in full and all other Obligations have been paid or discharged. Upon such termination, the Secured Party, at the request and at

the expense of the Company, will join in executing any termination statement with respect to any financing statement executed and filed pursuant to this Agreement.

12. Power of Attorney; Further Assurances.

(a) The Company authorizes the Secured Party, and does hereby make, constitute and appoint it, and its respective officers, agents, successors or assigns with full power of substitution, as the Company's true and lawful attorney-in-fact, with power, in its own name or in the name of the Company, to, after the occurrence and during the continuance of an Event of Default, (i) endorse any notes, checks, drafts, money orders, or other instruments of payment (including payments payable under or in respect of any policy of insurance) in respect of the Collateral that may come into possession of the Secured Party; (ii) to sign and endorse any UCC financing statement or any invoice, freight or express bill, bill of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts, and other documents relating to the Collateral; (iii) to pay or discharge taxes, liens, security interests or other encumbrances at any time levied or placed on or threatened against the Collateral; (iv) to demand, collect, receipt for, compromise, settle and sue for monies due in respect of the Collateral; and (v) generally, to do, at the option of the Secured Party, and at the Company's expense, at any time, or from time to time, all acts and things which the Secured Party deems necessary to protect, preserve and realize upon the Collateral and the Security Interest granted therein in order to effect the intent of this Agreement, the Note and the Warrants, all as fully and effectually as the Company might or could do; and the Company hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney is coupled with an interest and shall be irrevocable for the term of this Agreement and thereafter as long as any of the Obligations shall be outstanding.

(b) On a continuing basis, the Company will make, execute, acknowledge, deliver, file and record, as the case may be, in the proper filing and recording places in any jurisdiction, all such instruments, and take all such action as may reasonably be deemed necessary or advisable, or as reasonably requested by the Secured Party, to perfect the Security Interest granted hereunder and otherwise to carry out the intent and purposes of this Agreement, or for assuring and confirming to the Secured Party the grant or perfection of a security interest in all the Collateral.

(c) The Company hereby irrevocably appoints the Secured Party as the Company's attorney-in-fact, with full authority in the place and stead of the Company and in the name of the Company, for the sole purpose of taking any action and executing any instrument which the Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including the filing of one or more financing or continuation statements, relative to any of the Collateral without the signature of the Company where permitted by law.

13. Notices. All notices, requests, demands and other communications hereunder shall be in writing, with copies to all the other parties hereto, and shall be deemed to have been duly given when (i) if delivered by hand, upon receipt, (ii) if sent by facsimile, upon receipt of proof of sending thereof, (iii) if sent by nationally recognized overnight delivery service (receipt requested), the next business day or (iv) if mailed by first-class registered or certified mail, return

receipt requested, postage prepaid, four days after posting in the U.S. mails, in each case if delivered to the following addresses:

If to the Company:	Validian Corporation 30 Metcalfe Street Ottawa, Ontaria, Canada K1P 5L4 Attention: Bruce Benn Telephone: (613) 230-7211 Facsimile: (613) 230-6055
With a copy to:	Jennifer T. Wisinski Haynes and Boone, LLP 901 Main Street, Suite 3100 Dallas, Texas 75202 Telephone: (214) 651-5330 Fax: (214) 200-0768
If to the Secured Party:	Leon Frenkel 1600 Flat Rock Road Penn Valley, PA 19072 Facsimile: (610) 668-1919

14. Other Security. To the extent that the Obligations are now or hereafter secured by property other than the Collateral or by the guarantee, endorsement or property of any other person, firm, corporation or other entity, then the Secured Party shall have the right, in its sole discretion, to pursue, relinquish, subordinate, modify or take any other action with respect thereto, without in any way modifying or affecting any of the Secured Party's rights and remedies hereunder.

15. Miscellaneous.

(a) No course of dealing between the Company and the Secured Party, nor any failure to exercise, nor any delay in exercising, on the part of the Secured Party, any right, power or privilege hereunder or under the Note shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(b) All of the rights and remedies of the Secured Party with respect to the Collateral, whether established hereby or by the Note or by any other agreements, instruments or documents or by law shall be cumulative and may be exercised singly or concurrently.

(c) This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and is intended to supersede all prior negotiations, understandings and agreements with respect thereto. Except as specifically set forth in this Agreement, no

provision of this Agreement may be modified or amended except by a written agreement specifically referring to this Agreement and signed by the parties hereto.

(d) In the event that any provision of this Agreement is held to be invalid, prohibited or unenforceable in any jurisdiction for any reason, unless such provision is narrowed by judicial construction, this Agreement shall, as to such jurisdiction, be construed as if such invalid, prohibited or unenforceable provision had been more narrowly drawn so as not to be invalid, prohibited or unenforceable. If, notwithstanding the foregoing, any provision of this Agreement is held to be invalid, prohibited or unenforceable in any jurisdiction, such provision, as to such jurisdiction, shall be ineffective to the extent of such invalidity, prohibition or unenforceability without invalidating the remaining portion of such provision or the other provisions of this Agreement and without affecting the validity or enforceability of such provision or the other provisions of this Agreement in any other jurisdiction.

(e) No waiver of any breach or default or any right under this Agreement shall be considered valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any subsequent breach or default or right, whether of the same or similar nature or otherwise.

(f) This Agreement shall be binding upon and inure to the benefit of each party hereto and its successors and assigns.

(g) Each party shall take such further action and execute and deliver such further documents as may be necessary or appropriate in order to carry out the provisions and purposes of this Agreement.

(h) This Agreement shall be construed in accordance with the laws of the State of New York, except to the extent the validity, perfection or enforcement of a security interest hereunder in respect of any particular Collateral which are governed by a jurisdiction other than the State of New York in which case such law shall govern. Each of the parties hereto irrevocably submit to the exclusive jurisdiction of any New York State or United States Federal court sitting in Manhattan county over any action or proceeding arising out of or relating to this Agreement, and the parties hereto hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such New York State or Federal court. The parties hereto agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The parties hereto further waive any objection to venue in the State of New York and any objection to an action or proceeding in the State of New York on the basis of forum non conveniens.

(i) EACH PARTY HERETO HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS AGREEMENT, INCLUDING WITHOUT LIMITATION CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND

STATUTORY CLAIMS. EACH PARTY HERETO ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR EACH PARTY TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH PARTY HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH PARTY WILL CONTINUE TO RELY ON THIS WAIVER IN THEIR RELATED FUTURE DEALINGS. EACH PARTY FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY HAS KNOWINGLY AND VOLUNTARILY WAIVES ITS RIGHTS TO A JURY TRIAL FOLLOWING SUCH CONSULTATION. THIS WAIVER IS IRREVOCABLE, MEANING THAT, NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS AND SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. IN THE EVENT OF A LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

(j) This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed on the day and year first above written.

VALIDIAN CORPORATION

By: _____
Bruce Benn
Chief Executive Officer

By: _____
Ronald I. Benn
Chief Financial Officer

INDIVIDUAL

_____
Leon Frenkel

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed on the day and year first above written.

VALIDIAN CORPORATION

By: _____
Bruce Benn
Chief Executive Officer

By: _____
Ronald I. Benn
Chief Financial Officer

INDIVIDUAL

_____
Leon Frenkel

SECURITY AGREEMENT

SECURITY AGREEMENT (this "Agreement"), dated as of June 1, 2006, by and among Validian Corporation, a Nevada corporation (the "Company"), and the secured parties signatory hereto and their respective endorsees, transferees and assigns (collectively, the "Secured Party").

W I T N E S S E T H:

WHEREAS, pursuant to a Convertible Note, dated the date hereof, between the Company and the Secured Party (the "Note"), the Company has agreed to issue to the Secured Party and the Secured Party has agreed to purchase from the Company a 10% Secured Convertible Note, due one year from the date of issue (the "Note"), which is convertible into shares of the Company's Common Stock (the "Common Stock"); and

WHEREAS, in order to induce the Secured Party to purchase the Note, the Company has agreed to execute and deliver to the Secured Party this Agreement for the benefit of the Secured Party and to grant to it a first priority security interest in certain property of the Company to secure the prompt payment, performance and discharge in full of all of the Company's obligations under the Note.

NOW, THEREFORE, in consideration of the agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the meanings set forth in this Section 1. Terms used but not otherwise defined in this Agreement that are defined in Article 9 of the UCC (such as "proceeds") shall have the respective meanings given such terms in Article 9 of the UCC.

(a) "Collateral" means the collateral in which the Secured Party is granted a security interest by this Agreement and which shall include the following, whether presently owned or existing or hereafter acquired or coming into existence, and all additions and accessions thereto and all substitutions and replacements thereof, and all proceeds, products and accounts thereof, including, without limitation, all proceeds from the sale or transfer of the Collateral and of insurance covering the same and of any tort claims in connection therewith:

(i) All Goods of the Company, including, without limitations, all machinery, equipment, computers, motor vehicles, trucks, tanks, boats, ships, appliances, furniture, special and general tools, fixtures, test and quality control devices and other equipment of every kind and nature and wherever situated, together with all documents of title and documents representing the same, all additions and accessions thereto, replacements therefor, all parts therefor, and all substitutes for any of the foregoing and all other items used and useful in connection with the Company's businesses and all improvements thereto (collectively, the "Equipment"); and

(ii) All Inventory of the Company; and

(iii) All of the Company's contract rights and general intangibles, including, without limitation, all partnership interests, stock or other securities, licenses, distribution and other agreements, computer software development rights, leases, franchises, customer lists, quality control procedures, grants and rights, goodwill, trademarks, service marks, trade styles, trade names, patents, patent applications, copyrights, deposit accounts, and income tax refunds (collectively, the "General Intangibles"); and

(iv) All Receivables of the Company including all insurance proceeds, and rights to refunds or indemnification whatsoever owing, together with all instruments, all documents of title representing any of the foregoing, all rights in any merchandising, goods, equipment, motor vehicles and trucks which any of the same may represent, and all right, title, security and guaranties with respect to each Receivable, including any right of stoppage in transit; and

(v) All of the Company's documents, instruments and chattel paper, files, records, books of account, business papers, computer programs and the products and proceeds of all of the foregoing Collateral set forth in clauses (i)-(iv) above.

(vi) All intellectual property, including but not limited to the following:

(1) Software Intellectual Property:

a. all software programs (including all source code, object code and all related applications and data files), whether now owned, upgraded, enhanced, licensed or leased or hereafter acquired by the Company, above;

b. all computers and electronic data processing hardware and firmware associated therewith;

c. all documentation (including flow charts, logic diagrams, manuals, guides and specifications) with respect to such software, hardware and firmware described in the preceding clauses (a) and (b); and

d. all rights with respect to all of the foregoing, including, without limitation, any and all upgrades, modifications, copyrights, licenses, options, warranties, service contracts, program services, test rights, maintenance rights, support rights, improvement rights, renewal rights and indemnifications and substitutions, replacements, additions, or model conversions of any of the foregoing.

(2) Copyrights:

a. all copyrights, registrations and applications for registration, issued or filed, including any reissues, extensions or renewals thereof, by or with the United States Copyright Office or any similar office or agency of the United States, any state thereof, or any other country or political subdivision thereof, or otherwise, including, all rights in and to the material constituting the subject matter thereof;

b. any rights in any material which is copyrightable or which is protected by common law, United States copyright laws or similar laws or any law of any State.

(3) Copyright License:

a. any agreement, written or oral, providing for a grant by the Company of any right in any Copyright.

(4) Patents:

a. all letters patent of the United States or any other country or any political subdivision thereof, and all reissues and extensions thereof;

b. all applications for letters patent of the United States and all divisions, continuations and continuations-in-part thereof or any other country or any political subdivision.

(5) Patent License:

a. all agreements, whether written or oral, providing for the grant by the Company of any right to manufacture, use or sell any invention covered by a Patent.

(6) Trademarks:

a. all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers, and the goodwill associated therewith, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state thereof or any other country or any political subdivision thereof;

b. all reissues, extensions or renewals thereof.

(7) Trademark License:

a. any agreement, written or oral, providing for the grant by the Company of any right to use any Trademark.

(8) Trade Secrets:

a. common law and statutory trade secrets and all other confidential or proprietary or useful information and all know-how obtained by or used in or contemplated at any time for use in the business of the Company (all of the foregoing being collectively called a "Trade Secret"), whether or not such Trade Secret has been reduced to a writing or other tangible form, including all documents and things embodying, incorporating or referring in any way to such Trade Secret, all Trade Secret licenses, and including the right to sue for and to enjoin and to collect damages for the actual or threatened misappropriation of any Trade Secret and for the breach or enforcement of any such Trade Secret license.

(b) "Company" shall mean, collectively, the Company and all of the subsidiaries of the Company.

(c) "Obligations" means all of the Company's obligations under this Agreement and the Note, in each case, whether now or hereafter existing, voluntary or involuntary, direct or indirect, absolute or contingent, liquidated or unliquidated, whether or not jointly owed with others, and whether or not from time to time decreased or extinguished and later decreased, created or incurred, and all or any portion of such obligations or liabilities that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from the Secured Party as a preference, fraudulent transfer or otherwise as such obligations may be amended, supplemented, converted, extended or modified from time to time.

(d) "UCC" means the Uniform Commercial Code, as currently in effect in the State of New York.

2. Grant of Security Interest. As an inducement for the Secured Party to purchase the Note and to secure the complete and timely payment, performance and discharge in full, as the case may be, of all of the Obligations, the Company hereby, unconditionally and irrevocably, pledges, grants and hypothecates to the Secured Party, a continuing security interest in, a continuing first lien upon, an unqualified right to possession and disposition of and a right of set-off against, in each case to the fullest extent permitted by law, all of the Company's right, title and interest of whatsoever kind and nature in and to the Collateral (the "Security Interest").

3. Representations, Warranties, Covenants and Agreements of the Company. The Company represents and warrants to, and covenants and agrees with, the Secured Party as follows:

(a) The Company has the requisite corporate power and authority to enter into this Agreement and otherwise to carry out its obligations thereunder. The execution, delivery and performance by the Company of this Agreement and the filings contemplated therein have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company. This Agreement constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditor's rights generally.

(b) The Company represents and warrants that it has no place of business or offices where its respective books of account and records are kept (other than temporarily at the offices of its attorneys or accountants) or places where Collateral is stored or located other than the Company's main facility listed in Section 13 of this Agreement;

(c) The Company is the sole owner of the Collateral (except for non-exclusive licenses granted by the Company in the ordinary course of business), free and clear of any liens, security interests, encumbrances, rights or claims, and is fully authorized to grant the Security Interest in and to pledge the Collateral. There is not on file in any governmental or regulatory authority, agency or recording office an effective financing statement, security agreement, license or transfer or any notice of any of the foregoing (other than those that have been filed in favor of the Secured Party pursuant to this Agreement) covering or affecting any of the Collateral. So long as this Agreement shall be in effect, the Company shall not execute and shall not knowingly permit to be on file in any such office or agency any such financing statement or other document or instrument (except to the extent filed or recorded in favor of the Secured Party pursuant to the terms of this Agreement).

(d) No part of the Collateral has been judged invalid or unenforceable. No written claim has been received that any Collateral or the Company's use of any Collateral violates the rights of any third party. There has been no adverse decision to the Company's claim of ownership rights in or exclusive rights to use the Collateral in any jurisdiction or to the Company's right to keep and maintain such Collateral in full force and effect, and there is no proceeding involving said rights pending or, to the best knowledge of the Company, threatened before any court, judicial body, administrative or regulatory agency, arbitrator or other governmental authority.

(e) The Company shall at all times maintain its books of account and records relating to the Collateral at its principal place of business and its Collateral at the locations set forth in Section 13 and may not relocate such books of account and records or tangible Collateral unless it delivers to the Secured Party at least 30 days prior to such relocation (i) written notice of such relocation and the new location thereof (which must be within the United States) and (ii) evidence that appropriate financing statements and other necessary documents have been filed and recorded and other steps have been taken to perfect the Security Interest to create in favor of the Secured Party valid, perfected and continuing first priority liens in the Collateral.

(f) This Agreement creates in favor of the Secured Party a valid security interest in the Collateral securing the payment and performance of the Obligations and, upon making the filings described in the immediately following sentence, a perfected first priority

security interest in such Collateral. Except for the filing of financing statements on Form-1 under the UCC, no authorization or approval of or filing with or notice to any governmental authority or regulatory body is required either (i) for the grant by the Company of, or the effectiveness of, the Security Interest granted hereby or for the execution, delivery and performance of this Agreement by the Company or (ii) for the perfection of or exercise by the Secured Party of its rights and remedies hereunder.

(g) On the date of execution of this Agreement, the Company will deliver to the Secured Party one or more executed UCC financing statements on Form-1 in the jurisdiction of Atlanta, Georgia and in such other jurisdictions as may be requested by the Secured Party.

(h) The execution, delivery and performance of this Agreement does not conflict with or cause a breach or default, or an event that with or without the passage of time or notice, shall constitute a breach or default, under any agreement to which the Company is a party or by which the Company is bound. No consent (including, without limitation, from stock holders or creditors of the Company) is required for the Company to enter into and perform its obligations hereunder.

(i) The Company shall at all times maintain the liens and Security Interest provided for hereunder as valid and perfected first priority liens and security interests in the Collateral in favor of the Secured Party until this Agreement and the Security Interest hereunder shall terminate pursuant to Section 11. The Company hereby agrees to defend the same against any and all persons. The Company shall safeguard and protect all Collateral for the account of the Secured Party. At the request of the Secured Party, the Company will sign and deliver to the Secured Party at any time or from time to time one or more financing statements pursuant to the UCC (or any other applicable statute) in form reasonably satisfactory to the Secured Party and will pay the cost of filing the same in all public offices wherever filing is, or is deemed by the Secured Party to be, necessary or desirable to effect the rights and obligations provided for herein. Without limiting the generality of the foregoing, the Company shall pay all fees, taxes and other amounts necessary to maintain the Collateral and the Security Interest hereunder, and the Company shall obtain and furnish to the Secured Party from time to time, upon demand, such releases and/or subordinations of claims and liens which may be required to maintain the priority of the Security Interest hereunder.

(j) The Company will not transfer, pledge, hypothecate, encumber, license (except for any Collateral disposed of in the ordinary course of business), sell or otherwise dispose of any of the Collateral without the prior written consent of the Secured Party.

(k) The Company shall keep and preserve its Equipment, Inventory and other tangible Collateral in good condition, repair and order and shall not operate or locate any such Collateral (or cause to be operated or located) in any area excluded from insurance coverage.

(l) The Company shall, within twenty (20) days of obtaining knowledge thereof, advise the Secured Party promptly, in sufficient detail, of any substantial change in the Collateral, and of the occurrence of any event which would have a material adverse effect on the value of the Collateral or on the Secured Party's security interest therein.

(m) The Company shall promptly execute and deliver to the Secured Party such further deeds, mortgages, assignments, security agreements, financing statements or other instruments, documents, certificates and assurances and take such further action as the Secured Party may from time to time request and may in its sole discretion deem necessary to perfect, protect or enforce its security interest in the Collateral.

(n) The Company shall permit the Secured Party and its representatives and agents to inspect the Collateral at any time, and to make copies of records pertaining to the Collateral as may be requested by the Secured Party from time to time.

(o) The Company will take all steps reasonably necessary to diligently pursue and seek to preserve, enforce and collect any rights, claims, causes of action and accounts receivable in respect of the Collateral.

(p) The Company shall promptly notify the Secured Party in sufficient detail upon becoming aware of any attachment, garnishment, execution or other legal process levied against any Collateral and of any other information received by the Company that may materially affect the value of the Collateral, the Security Interest or the rights and remedies of the Secured Party hereunder.

(q) All information heretofore, herein or hereafter supplied to the Secured Party by or on behalf of the Company with respect to the Collateral is accurate and complete in all material respects as of the date furnished.

4. Defaults. The following events shall be "Events of Default":

(a) The occurrence of an Event of Default (as defined in the Note) under the Note;

(b) Any representation or warranty of the Company in this Agreement shall prove to have been incorrect in any material respect when made;

(c) The failure by the Company to observe or perform any of its obligations hereunder for ten (10) days after receipt by the Company of notice of such failure from the Secured Party; and

5. Duty To Hold In Trust. Upon the occurrence of any Event of Default and at any time thereafter, the Company shall, upon receipt by it of any revenue, income or other sums subject to the Security Interest, whether payable pursuant to the Note or otherwise, or of any check, draft, note, trade acceptance or other instrument evidencing an obligation to pay any such sum, hold the same in trust for the Secured Party and shall forthwith endorse and transfer any such sums or instruments, or both, to the Secured Party for application to the satisfaction of the Obligations.

6. Rights and Remedies Upon Default. Upon occurrence of any Event of Default and at any time thereafter, the Secured Party shall have the right to exercise all of the remedies conferred hereunder and under the Note, and the Secured Party shall have all the rights and remedies of a secured party under the UCC and/or any other applicable law (including the

Uniform Commercial Code of any jurisdiction in which any Collateral is then located). Without limitation, the Secured Party shall have the following rights and powers:

(a) The Secured Party shall have the right to take possession of the Collateral and, for that purpose, enter, with the aid and assistance of any person, any premises where the Collateral, or any part thereof, is or may be placed and remove the same, and the Company shall assemble the Collateral and make it available to the Secured Party at places which the Secured Party shall reasonably select, whether at the Company's premises or elsewhere, and make available to the Secured Party, without rent, all of the Company's respective premises and facilities for the purpose of the Secured Party taking possession of, removing or putting the Collateral in saleable or disposable form.

(b) The Secured Party shall have the right to operate the business of the Company using the Collateral and shall have the right to assign, sell, lease or otherwise dispose of and deliver all or any part of the Collateral, at public or private sale or otherwise, either with or without special conditions or stipulations, for cash or on credit or for future delivery, in such parcel or parcels and at such time or times and at such place or places, and upon such terms and conditions as the Secured Party may deem commercially reasonable, all without (except as shall be required by applicable statute and cannot be waived) advertisement or demand upon or notice to the Company or right of redemption of the Company, which are hereby expressly waived. Upon each such sale, lease, assignment or other transfer of Collateral, the Secured Party may, unless prohibited by applicable law which cannot be waived, purchase all or any part of the Collateral being sold, free from and discharged of all trusts, claims, right of redemption and equities of the Company, which are hereby waived and released.

7. Applications of Proceeds. The proceeds of any such sale, lease or other disposition of the Collateral hereunder shall be applied first, to the expenses of retaking, holding, storing, processing and preparing for sale, selling, and the like (including, without limitation, any taxes, fees and other costs incurred in connection therewith) of the Collateral, to the reasonable attorneys' fees and expenses incurred by the Secured Party in enforcing its rights hereunder and in connection with collecting, storing and disposing of the Collateral, and then to satisfaction of the Obligations, and to the payment of any other amounts required by applicable law, after which the Secured Party shall pay to the Company any surplus proceeds. If, upon the sale, license or other disposition of the Collateral, the proceeds thereof are insufficient to pay all amounts to which the Secured Party is legally entitled, the Company will be liable for the deficiency, together with interest thereon, at the rate of 15% per annum (the "Default Rate"), and the reasonable fees of any attorneys employed by the Secured Party to collect such deficiency. To the extent permitted by applicable law, the Company waives all claims, damages and demands against the Secured Party arising out of the repossession, removal, retention or sale of the Collateral, unless due to the gross negligence or willful misconduct of the Secured Party.

8. Costs and Expenses. The Company agrees to pay all out-of-pocket fees, costs and expenses incurred in connection with any filing required hereunder, including without limitation, any financing statements, continuation statements, partial releases and/or termination statements related thereto or any expenses of any searches reasonably required by the Secured Party. The Company shall also pay all other claims and charges which in the reasonable opinion of the Secured Party might prejudice, imperil or otherwise affect the Collateral or the Security

Interest therein. The Company will also, upon demand, pay to the Secured Party the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, which the Secured Party may incur in connection with (i) the enforcement of this Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, or (iii) the exercise or enforcement of any of the rights of the Secured Party under the Note. Until so paid, any fees payable hereunder shall be added to the principal amount of the Note and shall bear interest at the Default Rate.

9. Responsibility for Collateral. The Company assumes all liabilities and responsibility in connection with all Collateral, and the obligations of the Company hereunder or under the Note shall in no way be affected or diminished by reason of the loss, destruction, damage or theft of any of the Collateral or its unavailability for any reason.

10. Security Interest Absolute. All rights of the Secured Party and all Obligations of the Company hereunder, shall be absolute and unconditional, irrespective of: (a) any lack of validity or enforceability of this Agreement, the Note or any agreement entered into in connection with the foregoing, or any portion hereof or thereof; (b) any change in the time, manner or place of payment or performance of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Note or any other agreement entered into in connection with the foregoing; (c) any exchange, release or nonperfection of any of the Collateral, or any release or amendment or waiver of or consent to departure from any other collateral for, or any guaranty, or any other security, for all or any of the Obligations; (d) any action by the Secured Party to obtain, adjust, settle and cancel in its sole discretion any insurance claims or matters made or arising in connection with the Collateral; or (e) any other circumstance which might otherwise constitute any legal or equitable defense available to the Company, or a discharge of all or any part of the Security Interest granted hereby. Until the Obligations shall have been paid and performed in full, the rights of the Secured Party shall continue even if the Obligations are barred for any reason, including, without limitation, the running of the statute of limitations or bankruptcy. The Company expressly waives presentment, protest, notice of protest, demand, notice of nonpayment and demand for performance. In the event that at any time any transfer of any Collateral or any payment received by the Secured Party hereunder shall be deemed by final order of a court of competent jurisdiction to have been a voidable preference or fraudulent conveyance under the bankruptcy or insolvency laws of the United States, or shall be deemed to be otherwise due to any party other than the Secured Party, then, in any such event, the Company's obligations hereunder shall survive cancellation of this Agreement, and shall not be discharged or satisfied by any prior payment thereof and/or cancellation of this Agreement, but shall remain a valid and binding obligation enforceable in accordance with the terms and provisions hereof. The Company waives all right to require the Secured Party to proceed against any other person or to apply any Collateral which the Secured Party may hold at any time, or to marshal assets, or to pursue any other remedy. The Company waives any defense arising by reason of the application of the statute of limitations to any obligation secured hereby.

11. Term of Agreement. This Agreement and the Security Interest shall terminate on the date on which all payments under the Note have been made in full and all other Obligations have been paid or discharged. Upon such termination, the Secured Party, at the request and at

the expense of the Company, will join in executing any termination statement with respect to any financing statement executed and filed pursuant to this Agreement.

12. Power of Attorney; Further Assurances.

(a) The Company authorizes the Secured Party, and does hereby make, constitute and appoint it, and its respective officers, agents, successors or assigns with full power of substitution, as the Company's true and lawful attorney-in-fact, with power, in its own name or in the name of the Company, to, after the occurrence and during the continuance of an Event of Default, (i) endorse any notes, checks, drafts, money orders, or other instruments of payment (including payments payable under or in respect of any policy of insurance) in respect of the Collateral that may come into possession of the Secured Party; (ii) to sign and endorse any UCC financing statement or any invoice, freight or express bill, bill of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts, and other documents relating to the Collateral; (iii) to pay or discharge taxes, liens, security interests or other encumbrances at any time levied or placed on or threatened against the Collateral; (iv) to demand, collect, receipt for, compromise, settle and sue for monies due in respect of the Collateral; and (v) generally, to do, at the option of the Secured Party, and at the Company's expense, at any time, or from time to time, all acts and things which the Secured Party deems necessary to protect, preserve and realize upon the Collateral and the Security Interest granted therein in order to effect the intent of this Agreement, the Note and the Warrants, all as fully and effectually as the Company might or could do; and the Company hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney is coupled with an interest and shall be irrevocable for the term of this Agreement and thereafter as long as any of the Obligations shall be outstanding.

(b) On a continuing basis, the Company will make, execute, acknowledge, deliver, file and record, as the case may be, in the proper filing and recording places in any jurisdiction, all such instruments, and take all such action as may reasonably be deemed necessary or advisable, or as reasonably requested by the Secured Party, to perfect the Security Interest granted hereunder and otherwise to carry out the intent and purposes of this Agreement, or for assuring and confirming to the Secured Party the grant or perfection of a security interest in all the Collateral.

(c) The Company hereby irrevocably appoints the Secured Party as the Company's attorney-in-fact, with full authority in the place and stead of the Company and in the name of the Company, for the sole purpose of taking any action and executing any instrument which the Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including the filing of one or more financing or continuation statements, relative to any of the Collateral without the signature of the Company where permitted by law.

13. Notices. All notices, requests, demands and other communications hereunder shall be in writing, with copies to all the other parties hereto, and shall be deemed to have been duly given when (i) if delivered by hand, upon receipt, (ii) if sent by facsimile, upon receipt of proof of sending thereof, (iii) if sent by nationally recognized overnight delivery service (receipt requested), the next business day or (iv) if mailed by first-class registered or certified mail, return

receipt requested, postage prepaid, four days after posting in the U.S. mails, in each case if delivered to the following addresses:

If to the Company:	Validian Corporation 30 Metcalfe Street Ottawa, Ontaria, Canada K1P 5L4 Attention: Bruce Benn Telephone: (613) 230-7211 Facsimile: (613) 230-6055
With a copy to:	Jennifer T. Wisinski Haynes and Boone, LLP 901 Main Street, Suite 3100 Dallas, Texas 75202 Telephone: (214) 651-5330 Fax: (214) 200-0768
If to the Secured Party:	Triage Capital Management, L.P. Attn: Leon Frenkel 401 City Avenue, Suite 800 Bala Cynwyd, PA 19004 Facsimile: (610) 668-1919

14. Other Security. To the extent that the Obligations are now or hereafter secured by property other than the Collateral or by the guarantee, endorsement or property of any other person, firm, corporation or other entity, then the Secured Party shall have the right, in its sole discretion, to pursue, relinquish, subordinate, modify or take any other action with respect thereto, without in any way modifying or affecting any of the Secured Party's rights and remedies hereunder.

15. Miscellaneous.

(a) No course of dealing between the Company and the Secured Party, nor any failure to exercise, nor any delay in exercising, on the part of the Secured Party, any right, power or privilege hereunder or under the Note shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(b) All of the rights and remedies of the Secured Party with respect to the Collateral, whether established hereby or by the Note or by any other agreements, instruments or documents or by law shall be cumulative and may be exercised singly or concurrently.

(c) This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and is intended to supersede all prior negotiations, understandings and agreements with respect thereto. Except as specifically set forth in this Agreement, no

provision of this Agreement may be modified or amended except by a written agreement specifically referring to this Agreement and signed by the parties hereto.

(d) In the event that any provision of this Agreement is held to be invalid, prohibited or unenforceable in any jurisdiction for any reason, unless such provision is narrowed by judicial construction, this Agreement shall, as to such jurisdiction, be construed as if such invalid, prohibited or unenforceable provision had been more narrowly drawn so as not to be invalid, prohibited or unenforceable. If, notwithstanding the foregoing, any provision of this Agreement is held to be invalid, prohibited or unenforceable in any jurisdiction, such provision, as to such jurisdiction, shall be ineffective to the extent of such invalidity, prohibition or unenforceability without invalidating the remaining portion of such provision or the other provisions of this Agreement and without affecting the validity or enforceability of such provision or the other provisions of this Agreement in any other jurisdiction.

(e) No waiver of any breach or default or any right under this Agreement shall be considered valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any subsequent breach or default or right, whether of the same or similar nature or otherwise.

(f) This Agreement shall be binding upon and inure to the benefit of each party hereto and its successors and assigns.

(g) Each party shall take such further action and execute and deliver such further documents as may be necessary or appropriate in order to carry out the provisions and purposes of this Agreement.

(h) This Agreement shall be construed in accordance with the laws of the State of New York, except to the extent the validity, perfection or enforcement of a security interest hereunder in respect of any particular Collateral which are governed by a jurisdiction other than the State of New York in which case such law shall govern. Each of the parties hereto irrevocably submit to the exclusive jurisdiction of any New York State or United States Federal court sitting in Manhattan county over any action or proceeding arising out of or relating to this Agreement, and the parties hereto hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such New York State or Federal court. The parties hereto agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The parties hereto further waive any objection to venue in the State of New York and any objection to an action or proceeding in the State of New York on the basis of forum non conveniens.

(i) EACH PARTY HERETO HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS AGREEMENT, INCLUDING WITHOUT LIMITATION CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND

STATUTORY CLAIMS. EACH PARTY HERETO ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR EACH PARTY TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH PARTY HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH PARTY WILL CONTINUE TO RELY ON THIS WAIVER IN THEIR RELATED FUTURE DEALINGS. EACH PARTY FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY HAS KNOWINGLY AND VOLUNTARILY WAIVES ITS RIGHTS TO A JURY TRIAL FOLLOWING SUCH CONSULTATION. THIS WAIVER IS IRREVOCABLE, MEANING THAT, NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS AND SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. IN THE EVENT OF A LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

(j) This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed on the day and year first above written.

VALIDIAN CORPORATION

By: _____
Bruce Benn
Chief Executive Officer

By: _____
Ronald I. Benn
Chief Financial Officer

TRIAGE CAPITAL MANAGEMENT, L.P.

By: _____
Leon Frenkel
Senior Manager

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed on the day and year first above written.

VALIDIAN CORPORATION

By: _____
Bruce Benn
Chief Executive Officer

By: _____
Ronald I. Benn
Chief Financial Officer

TRIAGE CAPITAL MANAGEMENT, L.P.

By: _____
Leon Frenkel
Senior Manager

SECURITY AGREEMENT

SECURITY AGREEMENT (this "Agreement"), dated as of June 1, 2006, by and among Validian Corporation, a Nevada corporation (the "Company"), and the secured parties signatory hereto and their respective endorsees, transferees and assigns (collectively, the "Secured Party").

W I T N E S S E T H:

WHEREAS, pursuant to a Convertible Note, dated the date hereof, between the Company and the Secured Party (the "Note"), the Company has agreed to issue to the Secured Party and the Secured Party has agreed to purchase from the Company a 10% Secured Convertible Note, due one year from the date of issue (the "Note"), which is convertible into shares of the Company's Common Stock (the "Common Stock"); and

WHEREAS, in order to induce the Secured Party to purchase the Note, the Company has agreed to execute and deliver to the Secured Party this Agreement for the benefit of the Secured Party and to grant to it a first priority security interest in certain property of the Company to secure the prompt payment, performance and discharge in full of all of the Company's obligations under the Note.

NOW, THEREFORE, in consideration of the agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the meanings set forth in this Section 1. Terms used but not otherwise defined in this Agreement that are defined in Article 9 of the UCC (such as "proceeds") shall have the respective meanings given such terms in Article 9 of the UCC.

(a) "Collateral" means the collateral in which the Secured Party is granted a security interest by this Agreement and which shall include the following, whether presently owned or existing or hereafter acquired or coming into existence, and all additions and accessions thereto and all substitutions and replacements thereof, and all proceeds, products and accounts thereof, including, without limitation, all proceeds from the sale or transfer of the Collateral and of insurance covering the same and of any tort claims in connection therewith:

(i) All Goods of the Company, including, without limitations, all machinery, equipment, computers, motor vehicles, trucks, tanks, boats, ships, appliances, furniture, special and general tools, fixtures, test and quality control devices and other equipment of every kind and nature and wherever situated, together with all documents of title and documents representing the same, all additions and accessions thereto, replacements therefor, all parts therefor, and all substitutes for any of the foregoing and all other items used and useful in connection with the Company's businesses and all improvements thereto (collectively, the "Equipment"); and

(ii) All Inventory of the Company; and

(iii) All of the Company's contract rights and general intangibles, including, without limitation, all partnership interests, stock or other securities, licenses, distribution and other agreements, computer software development rights, leases, franchises, customer lists, quality control procedures, grants and rights, goodwill, trademarks, service marks, trade styles, trade names, patents, patent applications, copyrights, deposit accounts, and income tax refunds (collectively, the "General Intangibles"); and

(iv) All Receivables of the Company including all insurance proceeds, and rights to refunds or indemnification whatsoever owing, together with all instruments, all documents of title representing any of the foregoing, all rights in any merchandising, goods, equipment, motor vehicles and trucks which any of the same may represent, and all right, title, security and guaranties with respect to each Receivable, including any right of stoppage in transit; and

(v) All of the Company's documents, instruments and chattel paper, files, records, books of account, business papers, computer programs and the products and proceeds of all of the foregoing Collateral set forth in clauses (i)-(iv) above.

(vi) All intellectual property, including but not limited to the following:

(1) Software Intellectual Property:

a. all software programs (including all source code, object code and all related applications and data files), whether now owned, upgraded, enhanced, licensed or leased or hereafter acquired by the Company, above;

b. all computers and electronic data processing hardware and firmware associated therewith;

c. all documentation (including flow charts, logic diagrams, manuals, guides and specifications) with respect to such software, hardware and firmware described in the preceding clauses (a) and (b); and

d. all rights with respect to all of the foregoing, including, without limitation, any and all upgrades, modifications, copyrights, licenses, options, warranties, service contracts, program services, test rights, maintenance rights, support rights, improvement rights, renewal rights and indemnifications and substitutions, replacements, additions, or model conversions of any of the foregoing.

(2) Copyrights:

a. all copyrights, registrations and applications for registration, issued or filed, including any reissues, extensions or renewals thereof, by or with the United States Copyright Office or any similar office or agency of the United States, any state thereof, or any other country or political subdivision thereof, or otherwise, including, all rights in and to the material constituting the subject matter thereof;

b. any rights in any material which is copyrightable or which is protected by common law, United States copyright laws or similar laws or any law of any State.

(3) Copyright License:

a. any agreement, written or oral, providing for a grant by the Company of any right in any Copyright.

(4) Patents:

a. all letters patent of the United States or any other country or any political subdivision thereof, and all reissues and extensions thereof;

b. all applications for letters patent of the United States and all divisions, continuations and continuations-in-part thereof or any other country or any political subdivision.

(5) Patent License:

a. all agreements, whether written or oral, providing for the grant by the Company of any right to manufacture, use or sell any invention covered by a Patent.

(6) Trademarks:

a. all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers, and the goodwill associated therewith, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state thereof or any other country or any political subdivision thereof;

b. all reissues, extensions or renewals thereof.

(7) Trademark License:

a. any agreement, written or oral, providing for the grant by the Company of any right to use any Trademark.

(8) Trade Secrets:

a. common law and statutory trade secrets and all other confidential or proprietary or useful information and all know-how obtained by or used in or contemplated at any time for use in the business of the Company (all of the foregoing being collectively called a "Trade Secret"), whether or not such Trade Secret has been reduced to a writing or other tangible form, including all documents and things embodying, incorporating or referring in any way to such Trade Secret, all Trade Secret licenses, and including the right to sue for and to enjoin and to collect damages for the actual or threatened misappropriation of any Trade Secret and for the breach or enforcement of any such Trade Secret license.

(b) "Company" shall mean, collectively, the Company and all of the subsidiaries of the Company.

(c) "Obligations" means all of the Company's obligations under this Agreement and the Note, in each case, whether now or hereafter existing, voluntary or involuntary, direct or indirect, absolute or contingent, liquidated or unliquidated, whether or not jointly owed with others, and whether or not from time to time decreased or extinguished and later decreased, created or incurred, and all or any portion of such obligations or liabilities that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from the Secured Party as a preference, fraudulent transfer or otherwise as such obligations may be amended, supplemented, converted, extended or modified from time to time.

(d) "UCC" means the Uniform Commercial Code, as currently in effect in the State of New York.

2. Grant of Security Interest. As an inducement for the Secured Party to purchase the Note and to secure the complete and timely payment, performance and discharge in full, as the case may be, of all of the Obligations, the Company hereby, unconditionally and irrevocably, pledges, grants and hypothecates to the Secured Party, a continuing security interest in, a continuing first lien upon, an unqualified right to possession and disposition of and a right of set-off against, in each case to the fullest extent permitted by law, all of the Company's right, title and interest of whatsoever kind and nature in and to the Collateral (the "Security Interest").

3. Representations, Warranties, Covenants and Agreements of the Company. The Company represents and warrants to, and covenants and agrees with, the Secured Party as follows:

(a) The Company has the requisite corporate power and authority to enter into this Agreement and otherwise to carry out its obligations thereunder. The execution, delivery and performance by the Company of this Agreement and the filings contemplated therein have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company. This Agreement constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditor's rights generally.

(b) The Company represents and warrants that it has no place of business or offices where its respective books of account and records are kept (other than temporarily at the offices of its attorneys or accountants) or places where Collateral is stored or located other than the Company's main facility listed in Section 13 of this Agreement;

(c) The Company is the sole owner of the Collateral (except for non-exclusive licenses granted by the Company in the ordinary course of business), free and clear of any liens, security interests, encumbrances, rights or claims, and is fully authorized to grant the Security Interest in and to pledge the Collateral. There is not on file in any governmental or regulatory authority, agency or recording office an effective financing statement, security agreement, license or transfer or any notice of any of the foregoing (other than those that have been filed in favor of the Secured Party pursuant to this Agreement) covering or affecting any of the Collateral. So long as this Agreement shall be in effect, the Company shall not execute and shall not knowingly permit to be on file in any such office or agency any such financing statement or other document or instrument (except to the extent filed or recorded in favor of the Secured Party pursuant to the terms of this Agreement).

(d) No part of the Collateral has been judged invalid or unenforceable. No written claim has been received that any Collateral or the Company's use of any Collateral violates the rights of any third party. There has been no adverse decision to the Company's claim of ownership rights in or exclusive rights to use the Collateral in any jurisdiction or to the Company's right to keep and maintain such Collateral in full force and effect, and there is no proceeding involving said rights pending or, to the best knowledge of the Company, threatened before any court, judicial body, administrative or regulatory agency, arbitrator or other governmental authority.

(e) The Company shall at all times maintain its books of account and records relating to the Collateral at its principal place of business and its Collateral at the locations set forth in Section 13 and may not relocate such books of account and records or tangible Collateral unless it delivers to the Secured Party at least 30 days prior to such relocation (i) written notice of such relocation and the new location thereof (which must be within the United States) and (ii) evidence that appropriate financing statements and other necessary documents have been filed and recorded and other steps have been taken to perfect the Security Interest to create in favor of the Secured Party valid, perfected and continuing first priority liens in the Collateral.

(f) This Agreement creates in favor of the Secured Party a valid security interest in the Collateral securing the payment and performance of the Obligations and, upon making the filings described in the immediately following sentence, a perfected first priority

security interest in such Collateral. Except for the filing of financing statements on Form-1 under the UCC, no authorization or approval of or filing with or notice to any governmental authority or regulatory body is required either (i) for the grant by the Company of, or the effectiveness of, the Security Interest granted hereby or for the execution, delivery and performance of this Agreement by the Company or (ii) for the perfection of or exercise by the Secured Party of its rights and remedies hereunder.

(g) On the date of execution of this Agreement, the Company will deliver to the Secured Party one or more executed UCC financing statements on Form-1 in the jurisdiction of Atlanta, Georgia and in such other jurisdictions as may be requested by the Secured Party.

(h) The execution, delivery and performance of this Agreement does not conflict with or cause a breach or default, or an event that with or without the passage of time or notice, shall constitute a breach or default, under any agreement to which the Company is a party or by which the Company is bound. No consent (including, without limitation, from stock holders or creditors of the Company) is required for the Company to enter into and perform its obligations hereunder.

(i) The Company shall at all times maintain the liens and Security Interest provided for hereunder as valid and perfected first priority liens and security interests in the Collateral in favor of the Secured Party until this Agreement and the Security Interest hereunder shall terminate pursuant to Section 11. The Company hereby agrees to defend the same against any and all persons. The Company shall safeguard and protect all Collateral for the account of the Secured Party. At the request of the Secured Party, the Company will sign and deliver to the Secured Party at any time or from time to time one or more financing statements pursuant to the UCC (or any other applicable statute) in form reasonably satisfactory to the Secured Party and will pay the cost of filing the same in all public offices wherever filing is, or is deemed by the Secured Party to be, necessary or desirable to effect the rights and obligations provided for herein. Without limiting the generality of the foregoing, the Company shall pay all fees, taxes and other amounts necessary to maintain the Collateral and the Security Interest hereunder, and the Company shall obtain and furnish to the Secured Party from time to time, upon demand, such releases and/or subordinations of claims and liens which may be required to maintain the priority of the Security Interest hereunder.

(j) The Company will not transfer, pledge, hypothecate, encumber, license (except for any Collateral disposed of in the ordinary course of business), sell or otherwise dispose of any of the Collateral without the prior written consent of the Secured Party.

(k) The Company shall keep and preserve its Equipment, Inventory and other tangible Collateral in good condition, repair and order and shall not operate or locate any such Collateral (or cause to be operated or located) in any area excluded from insurance coverage.

(l) The Company shall, within twenty (20) days of obtaining knowledge thereof, advise the Secured Party promptly, in sufficient detail, of any substantial change in the Collateral, and of the occurrence of any event which would have a material adverse effect on the value of the Collateral or on the Secured Party's security interest therein.

(m) The Company shall promptly execute and deliver to the Secured Party such further deeds, mortgages, assignments, security agreements, financing statements or other instruments, documents, certificates and assurances and take such further action as the Secured Party may from time to time request and may in its sole discretion deem necessary to perfect, protect or enforce its security interest in the Collateral.

(n) The Company shall permit the Secured Party and its representatives and agents to inspect the Collateral at any time, and to make copies of records pertaining to the Collateral as may be requested by the Secured Party from time to time.

(o) The Company will take all steps reasonably necessary to diligently pursue and seek to preserve, enforce and collect any rights, claims, causes of action and accounts receivable in respect of the Collateral.

(p) The Company shall promptly notify the Secured Party in sufficient detail upon becoming aware of any attachment, garnishment, execution or other legal process levied against any Collateral and of any other information received by the Company that may materially affect the value of the Collateral, the Security Interest or the rights and remedies of the Secured Party hereunder.

(q) All information heretofore, herein or hereafter supplied to the Secured Party by or on behalf of the Company with respect to the Collateral is accurate and complete in all material respects as of the date furnished.

4. Defaults. The following events shall be "Events of Default":

(a) The occurrence of an Event of Default (as defined in the Note) under the Note;

(b) Any representation or warranty of the Company in this Agreement shall prove to have been incorrect in any material respect when made;

(c) The failure by the Company to observe or perform any of its obligations hereunder for ten (10) days after receipt by the Company of notice of such failure from the Secured Party; and

5. Duty To Hold In Trust. Upon the occurrence of any Event of Default and at any time thereafter, the Company shall, upon receipt by it of any revenue, income or other sums subject to the Security Interest, whether payable pursuant to the Note or otherwise, or of any check, draft, note, trade acceptance or other instrument evidencing an obligation to pay any such sum, hold the same in trust for the Secured Party and shall forthwith endorse and transfer any such sums or instruments, or both, to the Secured Party for application to the satisfaction of the Obligations.

6. Rights and Remedies Upon Default. Upon occurrence of any Event of Default and at any time thereafter, the Secured Party shall have the right to exercise all of the remedies conferred hereunder and under the Note, and the Secured Party shall have all the rights and remedies of a secured party under the UCC and/or any other applicable law (including the

Uniform Commercial Code of any jurisdiction in which any Collateral is then located). Without limitation, the Secured Party shall have the following rights and powers:

(a) The Secured Party shall have the right to take possession of the Collateral and, for that purpose, enter, with the aid and assistance of any person, any premises where the Collateral, or any part thereof, is or may be placed and remove the same, and the Company shall assemble the Collateral and make it available to the Secured Party at places which the Secured Party shall reasonably select, whether at the Company's premises or elsewhere, and make available to the Secured Party, without rent, all of the Company's respective premises and facilities for the purpose of the Secured Party taking possession of, removing or putting the Collateral in saleable or disposable form.

(b) The Secured Party shall have the right to operate the business of the Company using the Collateral and shall have the right to assign, sell, lease or otherwise dispose of and deliver all or any part of the Collateral, at public or private sale or otherwise, either with or without special conditions or stipulations, for cash or on credit or for future delivery, in such parcel or parcels and at such time or times and at such place or places, and upon such terms and conditions as the Secured Party may deem commercially reasonable, all without (except as shall be required by applicable statute and cannot be waived) advertisement or demand upon or notice to the Company or right of redemption of the Company, which are hereby expressly waived. Upon each such sale, lease, assignment or other transfer of Collateral, the Secured Party may, unless prohibited by applicable law which cannot be waived, purchase all or any part of the Collateral being sold, free from and discharged of all trusts, claims, right of redemption and equities of the Company, which are hereby waived and released.

7. Applications of Proceeds. The proceeds of any such sale, lease or other disposition of the Collateral hereunder shall be applied first, to the expenses of retaking, holding, storing, processing and preparing for sale, selling, and the like (including, without limitation, any taxes, fees and other costs incurred in connection therewith) of the Collateral, to the reasonable attorneys' fees and expenses incurred by the Secured Party in enforcing its rights hereunder and in connection with collecting, storing and disposing of the Collateral, and then to satisfaction of the Obligations, and to the payment of any other amounts required by applicable law, after which the Secured Party shall pay to the Company any surplus proceeds. If, upon the sale, license or other disposition of the Collateral, the proceeds thereof are insufficient to pay all amounts to which the Secured Party is legally entitled, the Company will be liable for the deficiency, together with interest thereon, at the rate of 15% per annum (the "Default Rate"), and the reasonable fees of any attorneys employed by the Secured Party to collect such deficiency. To the extent permitted by applicable law, the Company waives all claims, damages and demands against the Secured Party arising out of the repossession, removal, retention or sale of the Collateral, unless due to the gross negligence or willful misconduct of the Secured Party.

8. Costs and Expenses. The Company agrees to pay all out-of-pocket fees, costs and expenses incurred in connection with any filing required hereunder, including without limitation, any financing statements, continuation statements, partial releases and/or termination statements related thereto or any expenses of any searches reasonably required by the Secured Party. The Company shall also pay all other claims and charges which in the reasonable opinion of the Secured Party might prejudice, imperil or otherwise affect the Collateral or the Security

Interest therein. The Company will also, upon demand, pay to the Secured Party the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, which the Secured Party may incur in connection with (i) the enforcement of this Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, or (iii) the exercise or enforcement of any of the rights of the Secured Party under the Note. Until so paid, any fees payable hereunder shall be added to the principal amount of the Note and shall bear interest at the Default Rate.

9. Responsibility for Collateral. The Company assumes all liabilities and responsibility in connection with all Collateral, and the obligations of the Company hereunder or under the Note shall in no way be affected or diminished by reason of the loss, destruction, damage or theft of any of the Collateral or its unavailability for any reason.

10. Security Interest Absolute. All rights of the Secured Party and all Obligations of the Company hereunder, shall be absolute and unconditional, irrespective of: (a) any lack of validity or enforceability of this Agreement, the Note or any agreement entered into in connection with the foregoing, or any portion hereof or thereof; (b) any change in the time, manner or place of payment or performance of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Note or any other agreement entered into in connection with the foregoing; (c) any exchange, release or nonperfection of any of the Collateral, or any release or amendment or waiver of or consent to departure from any other collateral for, or any guaranty, or any other security, for all or any of the Obligations; (d) any action by the Secured Party to obtain, adjust, settle and cancel in its sole discretion any insurance claims or matters made or arising in connection with the Collateral; or (e) any other circumstance which might otherwise constitute any legal or equitable defense available to the Company, or a discharge of all or any part of the Security Interest granted hereby. Until the Obligations shall have been paid and performed in full, the rights of the Secured Party shall continue even if the Obligations are barred for any reason, including, without limitation, the running of the statute of limitations or bankruptcy. The Company expressly waives presentment, protest, notice of protest, demand, notice of nonpayment and demand for performance. In the event that at any time any transfer of any Collateral or any payment received by the Secured Party hereunder shall be deemed by final order of a court of competent jurisdiction to have been a voidable preference or fraudulent conveyance under the bankruptcy or insolvency laws of the United States, or shall be deemed to be otherwise due to any party other than the Secured Party, then, in any such event, the Company's obligations hereunder shall survive cancellation of this Agreement, and shall not be discharged or satisfied by any prior payment thereof and/or cancellation of this Agreement, but shall remain a valid and binding obligation enforceable in accordance with the terms and provisions hereof. The Company waives all right to require the Secured Party to proceed against any other person or to apply any Collateral which the Secured Party may hold at any time, or to marshal assets, or to pursue any other remedy. The Company waives any defense arising by reason of the application of the statute of limitations to any obligation secured hereby.

11. Term of Agreement. This Agreement and the Security Interest shall terminate on the date on which all payments under the Note have been made in full and all other Obligations have been paid or discharged. Upon such termination, the Secured Party, at the request and at

the expense of the Company, will join in executing any termination statement with respect to any financing statement executed and filed pursuant to this Agreement.

12. Power of Attorney; Further Assurances.

(a) The Company authorizes the Secured Party, and does hereby make, constitute and appoint it, and its respective officers, agents, successors or assigns with full power of substitution, as the Company's true and lawful attorney-in-fact, with power, in its own name or in the name of the Company, to, after the occurrence and during the continuance of an Event of Default, (i) endorse any notes, checks, drafts, money orders, or other instruments of payment (including payments payable under or in respect of any policy of insurance) in respect of the Collateral that may come into possession of the Secured Party; (ii) to sign and endorse any UCC financing statement or any invoice, freight or express bill, bill of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts, and other documents relating to the Collateral; (iii) to pay or discharge taxes, liens, security interests or other encumbrances at any time levied or placed on or threatened against the Collateral; (iv) to demand, collect, receipt for, compromise, settle and sue for monies due in respect of the Collateral; and (v) generally, to do, at the option of the Secured Party, and at the Company's expense, at any time, or from time to time, all acts and things which the Secured Party deems necessary to protect, preserve and realize upon the Collateral and the Security Interest granted therein in order to effect the intent of this Agreement, the Note and the Warrants, all as fully and effectually as the Company might or could do; and the Company hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney is coupled with an interest and shall be irrevocable for the term of this Agreement and thereafter as long as any of the Obligations shall be outstanding.

(b) On a continuing basis, the Company will make, execute, acknowledge, deliver, file and record, as the case may be, in the proper filing and recording places in any jurisdiction, all such instruments, and take all such action as may reasonably be deemed necessary or advisable, or as reasonably requested by the Secured Party, to perfect the Security Interest granted hereunder and otherwise to carry out the intent and purposes of this Agreement, or for assuring and confirming to the Secured Party the grant or perfection of a security interest in all the Collateral.

(c) The Company hereby irrevocably appoints the Secured Party as the Company's attorney-in-fact, with full authority in the place and stead of the Company and in the name of the Company, for the sole purpose of taking any action and executing any instrument which the Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including the filing of one or more financing or continuation statements, relative to any of the Collateral without the signature of the Company where permitted by law.

13. Notices. All notices, requests, demands and other communications hereunder shall be in writing, with copies to all the other parties hereto, and shall be deemed to have been duly given when (i) if delivered by hand, upon receipt, (ii) if sent by facsimile, upon receipt of proof of sending thereof, (iii) if sent by nationally recognized overnight delivery service (receipt requested), the next business day or (iv) if mailed by first-class registered or certified mail, return

receipt requested, postage prepaid, four days after posting in the U.S. mails, in each case if delivered to the following addresses:

If to the Company:	Validian Corporation 30 Metcalfe Street Ottawa, Ontaria, Canada K1P 5L4 Attention: Bruce Benn Telephone: (613) 230-7211 Facsimile: (613) 230-6055
With a copy to:	Jennifer T. Wisinski Haynes and Boone, LLP 901 Main Street, Suite 3100 Dallas, Texas 75202 Telephone: (214) 651-5330 Fax: (214) 200-0768
If to the Secured Party:	Triage Capital Management B, L.P. Attn: Leon Frenkel 401 City Avenue, Suite 800 Bala Cynwyd, PA 19004 Facsimile: (610) 668-1919

14. Other Security. To the extent that the Obligations are now or hereafter secured by property other than the Collateral or by the guarantee, endorsement or property of any other person, firm, corporation or other entity, then the Secured Party shall have the right, in its sole discretion, to pursue, relinquish, subordinate, modify or take any other action with respect thereto, without in any way modifying or affecting any of the Secured Party's rights and remedies hereunder.

15. Miscellaneous.

(a) No course of dealing between the Company and the Secured Party, nor any failure to exercise, nor any delay in exercising, on the part of the Secured Party, any right, power or privilege hereunder or under the Note shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(b) All of the rights and remedies of the Secured Party with respect to the Collateral, whether established hereby or by the Note or by any other agreements, instruments or documents or by law shall be cumulative and may be exercised singly or concurrently.

(c) This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and is intended to supersede all prior negotiations, understandings and agreements with respect thereto. Except as specifically set forth in this Agreement, no

provision of this Agreement may be modified or amended except by a written agreement specifically referring to this Agreement and signed by the parties hereto.

(d) In the event that any provision of this Agreement is held to be invalid, prohibited or unenforceable in any jurisdiction for any reason, unless such provision is narrowed by judicial construction, this Agreement shall, as to such jurisdiction, be construed as if such invalid, prohibited or unenforceable provision had been more narrowly drawn so as not to be invalid, prohibited or unenforceable. If, notwithstanding the foregoing, any provision of this Agreement is held to be invalid, prohibited or unenforceable in any jurisdiction, such provision, as to such jurisdiction, shall be ineffective to the extent of such invalidity, prohibition or unenforceability without invalidating the remaining portion of such provision or the other provisions of this Agreement and without affecting the validity or enforceability of such provision or the other provisions of this Agreement in any other jurisdiction.

(e) No waiver of any breach or default or any right under this Agreement shall be considered valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any subsequent breach or default or right, whether of the same or similar nature or otherwise.

(f) This Agreement shall be binding upon and inure to the benefit of each party hereto and its successors and assigns.

(g) Each party shall take such further action and execute and deliver such further documents as may be necessary or appropriate in order to carry out the provisions and purposes of this Agreement.

(h) This Agreement shall be construed in accordance with the laws of the State of New York, except to the extent the validity, perfection or enforcement of a security interest hereunder in respect of any particular Collateral which are governed by a jurisdiction other than the State of New York in which case such law shall govern. Each of the parties hereto irrevocably submit to the exclusive jurisdiction of any New York State or United States Federal court sitting in Manhattan county over any action or proceeding arising out of or relating to this Agreement, and the parties hereto hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such New York State or Federal court. The parties hereto agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The parties hereto further waive any objection to venue in the State of New York and any objection to an action or proceeding in the State of New York on the basis of forum non conveniens.

(i) EACH PARTY HERETO HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS AGREEMENT, INCLUDING WITHOUT LIMITATION CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND

STATUTORY CLAIMS. EACH PARTY HERETO ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR EACH PARTY TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH PARTY HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH PARTY WILL CONTINUE TO RELY ON THIS WAIVER IN THEIR RELATED FUTURE DEALINGS. EACH PARTY FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY HAS KNOWINGLY AND VOLUNTARILY WAIVES ITS RIGHTS TO A JURY TRIAL FOLLOWING SUCH CONSULTATION. THIS WAIVER IS IRREVOCABLE, MEANING THAT, NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS AND SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. IN THE EVENT OF A LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

(j) This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed on the day and year first above written.

VALIDIAN CORPORATION

By: _____
Bruce Benn
Chief Executive Officer

By: _____
Ronald I. Benn
Chief Financial Officer

TRIAGE CAPITAL MANAGEMENT B, L.P.

By: _____
Leon Frenkel
Senior Manager

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed on the day and year first above written.

VALIDIAN CORPORATION

By: _____
Bruce Benn
Chief Executive Officer

By: _____
Ronald I. Benn
Chief Financial Officer

TRIAGE CAPITAL MANAGEMENT B, L.P.

By: _____
Leon Frenkel
Senior Manager

AGREEMENT

This Agreement entered into on the 1st day of June 2006, between Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, and Leon Frenkel (the "Holder") with an address at 1600 Flat Rock Road, Penn Valley, PA 19072, agree as follows:

WHEREAS, on the date hereof, the Company issued a Senior Secured 10% Convertible Note pursuant to which the Company promised to pay the Holder a principal amount of Two Hundred-Fifty Thousand Dollars ($250,000) and to pay interest thereon at a rate of 10%;

NOW THEREFORE, BE IT RESOLVED, that the Company and Holder, intending to be legally bound, hereby agree as follows:

1. Grant of Common Stock

1.1. In consideration of the Holder's investment in the Company, the Company hereby agrees to grant Five Hundred Thousand (500,000) shares of the Company's common stock, par value $0.001 (the "Common Stock") to the Holder.

1.2 Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock granted pursuant to Section 1.1 hereof has been filed with the Securities and Exchange Commission, each share granted pursuant to Section 1.1 hereof shall be restricted and stamped or otherwise imprinted with a legend substantially in the following form:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933 ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

2. Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

[Signatures on the Following Page]

IN WITNESS WHEREOF, the parties hereby cause this Agreement to be duly executed and delivered by its authorized officers, as of the date first above written.

VALIDIAN CORPORATION

By: 
Name: Bruce Benn
Title: Chief Executive Officer

By: 
Name: Ronald I. Benn
Title: Chief Financial Officer

HOLDER

_____
Leon Frenkel

IN WITNESS WHEREOF, the parties hereby cause this Agreement to be duly executed and delivered by its authorized officers, as of the date first above written.

VALIDIAN CORPORATION

By:
Name: Bruce Benn
Title: Chief Executive Officer

By:
Name: Ronald I. Benn
Title: Chief Financial Officer

HOLDER

Leon Frenkel

AGREEMENT

This Agreement entered into on the 1st day of June 2006, between Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, and Triage Capital Management, L.P. (the "Holder") with an address at 401 City Avenue, Bala Cynwyd, PA 19004, agree as follows:

WHEREAS, on the date hereof, the Company issued a Senior Secured 10% Convertible Note pursuant to which the Company promised to pay the Holder a principal amount of One Hundred Twenty Thousand Dollars ($120,000) and to pay interest thereon at a rate of 10%;

NOW THEREFORE, BE IT RESOLVED, that the Company and Holder, intending to be legally bound, hereby agree as follows:

1. Grant of Common Stock

1.1. In consideration of the Holder's investment in the Company, the Company hereby agrees to grant Two Hundred Forty Thousand (240,000) shares of the Company's common stock, par value $0.001 (the "Common Stock") to the Holder.

1.2 Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock granted pursuant to Section 1.1 hereof has been filed with the Securities and Exchange Commission, each share granted pursuant to Section 1.1 hereof shall be restricted and stamped or otherwise imprinted with a legend substantially in the following form:

> "THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933 ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

2. Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

[Signatures on the Following Page]

IN WITNESS WHEREOF, the parties hereby cause this Agreement to be duly executed and delivered by its authorized officers, as of the date first above written.

VALIDIAN CORPORATION

By: _____
Name: Bruce Benn
Title: Chief Executive Officer

By: _____
Name: Ronald I. Benn
Title: Chief Financial Officer

HOLDER

By: _____
Name: Leon Frenkel
Title: Senior Manager

IN WITNESS WHEREOF, the parties hereby cause this Agreement to be duly executed and delivered by its authorized officers, as of the date first above written.

VALIDIAN CORPORATION

By: _____
Name: Bruce Benn
Title: Chief Executive Officer

By: _____
Name: Ronald I. Benn
Title: Chief Financial Officer

TRIAGE CAPITAL MANAGEMENT, LP

HOLDER

By: _____
Name: Leon Frenkel
Title: Senior Manager

AGREEMENT

This Agreement entered into on the 1st day of June 2006, between Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, and Triage Capital Management B, L.P. (the "Holder") with an address at 401 City Avenue, Bala Cynwyd, PA 19004, agree as follows:

WHEREAS, on the date hereof, the Company issued a Senior Secured 10% Convertible Note pursuant to which the Company promised to pay the Holder a principal amount of One Hundred Thirty Thousand Dollars ($130,000) and to pay interest thereon at a rate of 10%;

NOW THEREFORE, BE IT RESOLVED, that the Company and Holder, intending to be legally bound, hereby agree as follows:

1. Grant of Common Stock

1.1. In consideration of the Holder's investment in the Company, the Company hereby agrees to grant Two Hundred Sixty Thousand (260,000) shares of the Company's common stock, par value $0.001 (the "Common Stock") to the Holder.

1.2 Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock granted pursuant to Section 1.1 hereof has been filed with the Securities and Exchange Commission, each share granted pursuant to Section 1.1 hereof shall be restricted and stamped or otherwise imprinted with a legend substantially in the following form:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933 ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

2. Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

[Signatures on the Following Page]

IN WITNESS WHEREOF, the parties hereby cause this Agreement to be duly executed and delivered by its authorized officers, as of the date first above written.

VALIDIAN CORPORATION

By: _____
Name: Bruce Benn
Title: Chief Executive Officer

By: _____
Name: Ronald I. Benn
Title: Chief Financial Officer

HOLDER

By: _____
Name: Leon Frenkel
Title: Senior Manager

IN WITNESS WHEREOF, the parties hereby cause this Agreement to be duly executed and delivered by its authorized officers, as of the date first above written.

VALIDIAN CORPORATION

By: _____
Name: Bruce Benn
Title: Chief Executive Officer

By: _____
Name: Ronald I. Benn
Title: Chief Financial Officer

TRIAGE CAPITAL MANAGEMENT B, LP

HOLDER

By: _____
Name: Leon Frenkel
Title: Senior Manager

Exhibit 4.2

THE SALE AND ISSUANCE OF THE SECURITIES REPRESENTED BY THIS 10% CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE DISTRIBUTION THEREOF. THESE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED, OR TRANSFERRED UNLESS (I) A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO THESE SECURITIES AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION OR (II) AN EXEMPTION FROM THE ACT IS AVAILABLE AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION.

10% SENIOR CONVERTIBLE NOTE

$50,000 June 30, 2006

For value received, Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, promises to pay to Barry Honig (the "Holder") with an address at 595 S. Federal Highway, Suite 600, Boca Raton, FL 33432, the principal amount of Fifty Thousand Dollars ($50,000) and to pay interest thereon, all as hereinafter specified.

1. Identification of Note. This Note is issued as part of the Holder's investment into the Company.

2. Maturity.

2.1 Maturity Date. Unless earlier converted as provided in Section 3 hereof, this Note will automatically mature and be due and payable on the earlier of (a) July 1, 2008 (the "Maturity Date") or (b) the occurrence of an Event of Default (as defined in Section 8 hereof).

2.2 Interest. Interest shall accrue from the date of this Note on the unpaid principal amount at a rate equal to ten percent (10%) per annum, computed on the basis of the actual number of days elapsed and a year of 365 days from the date of this Note until the principal amount and all interest accrued thereon are paid (or converted, as provided in Section 3 hereof). Interest shall be due and paid to the Holder quarterly. The first quarterly payment shall be paid to the Holder on October 1, 2006. At the Company's option, interest can be paid in either (a) cash or (b) shares of common stock, calculated at a ten percent (10%) discount to the average closing price of the common stock, as listed on the exchange where the Company's Common Stock is traded, for the ten (10) trading days prior to the date the interest is due to the Holder. The stock referenced in this Section 2.2 shall be included in the registration rights provisions in Section 5 and be subject to the calculation for purposes of Section 4.

2.3 Prepayment. The Company shall not have the right to prepay this Note without first obtaining prior written consent from the Holder. Such consent shall not be unreasonably withheld.

3. Conversion.

3.1 Voluntary Conversion. The holder may voluntarily convert the Note, in whole or in part, into Common Stock of the Company at any time.

3.2 Mechanics and Effect of Conversion.

(a) The principal and any unpaid and accrued interest of this Note shall convert into shares of Common Stock at a conversion price of ten cents ($0.10) per share ("Conversion Price").

(b) No fractional shares will be issued upon conversion of this Note. In lieu of any fractional shares to which the Holder would otherwise be entitled, the Company will pay to the Holder in cash the unconverted amount that would otherwise be converted into such fractional shares.

(c) In the event that the Outstanding Amount under this Note is converted into Common Stock pursuant to Section 3.1 hereof, the Holder shall surrender this Note, duly endorsed, to the Company and the Note shall thereupon be canceled, provided that if Holder partially converts pursuant to Section 3.2(a) hereof, the Company shall issue a Note to Holder for the remaining amount of principal that was not converted. At its expense, the Company will issue and deliver to such Holder, a certificate or certificates representing the number of duly authorized, validly issued, fully paid and non-assessable shares of Common Stock to which such Holder is entitled upon such conversion, together with a check payable to the Holder for any cash amounts payable pursuant to Section 3.2(b) hereof.

(d) Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock issued upon conversion of this Note has been filed with the Securities and Exchange Commission, each share issued upon conversion of this Note shall be stamped or otherwise imprinted with a legend substantially in the following form:

> "THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933 ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

(e) Upon conversion of this Note in accordance with Section 3 hereof, all rights with respect to this Note shall terminate, whether or not the Note has been surrendered for cancellation, and the Company will be forever released from all of its obligations and liabilities under this Note except its obligations pursuant to Section 3.2(c) hereof, except if Holder partially

converts the Note pursuant to Section 3 hereof, whereby all rights with respect to the portion of the Note that has been converted will terminate pursuant to this Section 3.2(e), but the remainder Note will possess all of the rights granted in this Note.

4. Limitations on Conversion. In no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of the Notes or the unexercised or unconverted portion of any other security of the Borrower (including, without limitation, the warrants issued by the Borrower pursuant to the Purchase Agreement) subject to a limitation on conversion or exercise analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 9.9% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulations 13D-G thereunder, except as otherwise provided in clause (1) of such proviso. Holder may waive the limitations set forth herein by sixty-one (61) days prior written notice to the Company.

5. Registration Rights. The Company shall file a registration statement, and any amendments thereto, with the Securities and Exchange Commission (the "SEC") by September 29, 2006 and cooperate with the SEC to have such registration statement, and any amendments thereto, declared effective, which includes the shares underlying this Note and those shares issued pursuant to Section 2.2 hereof, as soon as reasonably practicable, provided that Holder shall have piggy-back rights with respect to any registration statement filed by the Company. If a registration statement covering the shares underlying this Note is not filed prior to September 29, 2006, then in addition to any rights the Holder may have hereunder or under applicable law, the Company shall pay to the Holder, as partial liquidated damages and not as a penalty, an amount in cash of 2% of the value of the shares underlying this Note for the first month the registration statement is not filed after September 29, 2006 and an amount in cash of 1% of the value of the shares underlying this Note for any month after the first month where a registration statement has not been filed. For purposes of calculating the liquidated damages in this Section 5, the calculation provided in Section 4 is not applicable. The Company shall bear the full cost of filing the registration statement pursuant to a demand by Holder.

6. Payment. Except as set forth herein, all payments shall be made in lawful money of the United States of America at the principal offices of the Holder. Payment shall be credited first to the accrued interest then due and payable and the remainder applied to principal.

7. Subordination. To the extent bankruptcy proceedings are initiated by the Company or a third party, the Holder shall receive the same percentage of ownership *pari passu* as the Holder would have under Section 3 hereof, regardless of any bankruptcy protection afforded to the Company.

8. Events of Default. The entire unpaid Outstanding Amount shall become immediately due and payable upon the occurrence of an Event of Default. An "Event of Default" shall be deemed to have occurred if:

(a) the Company shall: (i) be unable, or admit in writing its inability, to pay its debts as they mature; (ii) make a general assignment for the benefit of creditors; (iii) be adjudicated a bankrupt or insolvent; (iv) file a voluntary petition in bankruptcy, or a petition or answer seeking reorganization or an arrangement with creditors to take advantage of any insolvency law, or an answer admitting the material allegations of a bankruptcy, reorganization or insolvency petition filed against it; (v) take corporate action for the purpose of effecting any of the foregoing; or (vi) have an order for relief entered against it in any proceeding under the United States Bankruptcy Code;

(b) an order, judgment or decree shall be entered, without the application, approval or consent of the Company by any court of competent jurisdiction, approving a petition seeking reorganization of the Company or appointing a receiver, trustee or liquidator of the Company or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of thirty (30) consecutive days; or

(c) the Company shall fail to pay as and when due any principal or interest hereunder and such nonpayment shall continue uncured for a period of ten (10) business days after written notice by the Holder thereof.

9. Transfer; Successors and Assigns. This Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name, of, the transferee. Interest and principal are payable only to the registered holder of this Note. The terms and conditions of this Note shall inure to the benefit of and binding upon the respective successors and assigns of the parties.

10. Governing Law. This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

11. Notices. Whenever any notice is required to be given by the Company to a Holder, such notice shall be sent in writing via first class mail, postage prepaid, to the Holder at the Holder's last address appearing on the books maintained by the Company for registration, which notice shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice. Whenever any notice is required to be given by the Holder of this Note to the Company, such notice shall be sent in writing via first class mail, postage prepaid, to the Company at the Company's address above.

12. Amendments and Waivers. This Note and any term hereof may be amended, waived, discharged or terminated only by an instrument in writing signed by the party against whom enforcement of such amendment, waiver, discharge or termination is sought. No waivers of any term, condition or provision of this Note, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

13. Immunity of Members, Officers, Directors and Employees. No recourse shall be had for the payment of the principal or interest on this Note or for any claim based thereon or otherwise in any manner in respect thereof, to or against any subsidiary, member, officer, director or employee, as such, past, present or future, of the Company or any respective subsidiary, member, officer, director or employees, as such, past, present or future, of any predecessor or successor company, either directly or through the Company or such predecessor or successor company, whether by virtue of any constitutional provision or statute or rule of law, or by the enforcement of any assessment or penalty, or in any other manner, all such liability being expressly waived and released by the acceptance of this Note and as part of the consideration for the issuance thereof.

[Signatures on Following Page]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and delivered by its authorized officer, as of the date first above written.

VALIDIAN CORPORATION

/s/ Bruce Benn

By:_____

Name: Bruce Benn
Title: Chief Executive Officer

/s/ Ronald I Benn

By:_____

Name: Ronald I Benn
Title: Chief Financial Officer

AGREEMENT

This Agreement entered into on the 30th day of June 2006, between Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, and Barry Honig (the "Holder") with an address at 595 S. Federal Highway, Suite 600, Boca Raton, FL 33432, agree as follows:

WHEREAS, on the date hereof, the Company issued a Senior 10% Convertible Note pursuant to which the Company promised to pay the Holder a principal amount of Fifty Thousand Dollars ($50,000) and to pay interest thereon at a rate of 10%;

NOW THEREFORE, BE IT RESOLVED, that the Company and Holder, intending to be legally bound, hereby agree as follows:

1. Grant of Common Stock

1.1. In consideration of the Holder's investment in the Company, the Company hereby agrees to grant One Hundred Thousand (100,000) shares of the Company's common stock, par value $0.001 (the "Common Stock") to the Holder.

1.2 Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock granted pursuant to Section 1.1 hereof has been filed with the Securities and Exchange Commission, each share granted pursuant to Section 1.1 hereof shall be restricted and stamped or otherwise imprinted with a legend substantially in the following form:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933 ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

2. Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

[Signatures on the Following Page]

IN WITNESS WHEREOF, the parties hereby cause this Agreement to be duly executed and delivered by its authorized officers, as of the date first above written.

VALIDIAN CORPORATION

/s/ Bruce Benn

By:_____

Name: Bruce Benn

Title: Chief Executive Officer

/s/ Ronald I Benn

By:_____

Name: Ronald I Benn

Title: Chief Financial Officer

HOLDER

/s/ Barry Honig

By:_____

Name: Barry Honig

Exhibit 4.3

THE SALE AND ISSUANCE OF THE SECURITIES REPRESENTED BY THIS 10% SENIOR CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE DISTRIBUTION THEREOF. THESE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED, OR TRANSFERRED UNLESS (I) A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO THESE SECURITIES AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION OR (II) AN EXEMPTION FROM THE ACT IS AVAILABLE AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION.

10% SENIOR CONVERTIBLE NOTE

$250,000 July 11, 2006

For value received, Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, promises to pay to Leon Frenkel (the "Holder") with an address at 1600 Flat Rock Road, Penn Valley PA 19072, the principal amount of Two Hundred-Fifty Thousand Dollars ($250,000) and to pay interest thereon, all as hereinafter specified. This Note amends and restates that certain Convertible Note made by the Company in favor of Holder dated June 1, 2006 (the "Former Note") and renders the Former Note terminated, cancelled, void and without legal force or effect.

1. Identification of Note. This Note is issued as part of the Holder's investment into the Company.

2. Maturity.

2.1 Maturity Date. Unless earlier converted as provided in Section 3 hereof, this Note will automatically mature and be due and payable on the earlier of (a) June 1, 2008 (the "Maturity Date") or (b) the occurrence of an Event of Default (as defined in Section 8 hereof).

2.2 Interest. Interest shall accrue on this Note from June 1, 2006 (the date of the initial Note as referenced in the preamble) on the unpaid principal amount at a rate equal to ten percent (10%) per annum, computed on the basis of the actual number of days elapsed and a year of 365 days from the date of this Note until the principal amount and all interest accrued thereon are paid (or converted, as provided in Section 3 hereof). Interest shall be due and paid to the Holder quarterly. The first quarterly payment shall be paid to the Holder on October 1, 2006 and shall include the interest accrued from June 1, 2006. At the Company's option, interest can be paid in either (a) cash or (b) shares of common stock, calculated at a ten percent (10%) discount to the average closing price of the common stock, as listed on the exchange where the Company's Common Stock is traded, for the ten (10) trading days prior to the date the interest is

due to the Holder. The stock referenced in this Section 2.2 shall be included in the registration rights provisions in Section 5 and be subject to the calculation for purposes of Section 4.

2.3 Prepayment. The Company shall not have the right to prepay this Note without first obtaining prior written consent from the Holder. Such consent shall not be unreasonably withheld.

3. Conversion.

3.1 Voluntary Conversion. The holder may voluntarily convert the Note, in whole or in part, into Common Stock of the Company at any time.

3.2 Mechanics and Effect of Conversion.

(a) The principal and any unpaid and accrued interest of this Note shall convert into shares of Common Stock at a conversion price of ten cents ($0.10) per share ("Conversion Price").

(b) No fractional shares will be issued upon conversion of this Note. In lieu of any fractional shares to which the Holder would otherwise be entitled, the Company will pay to the Holder in cash the unconverted amount that would otherwise be converted into such fractional shares.

(c) In the event that the Outstanding Amount under this Note is converted into Common Stock pursuant to Section 3.1 hereof, the Holder shall surrender this Note, duly endorsed, to the Company and the Note shall thereupon be canceled, provided that if Holder partially converts pursuant to Section 3.2(a) hereof, the Company shall issue a Note to Holder for the remaining amount of principal that was not converted. At its expense, the Company will issue and deliver to such Holder, a certificate or certificates representing the number of duly authorized, validly issued, fully paid and non-assessable shares of Common Stock to which such Holder is entitled upon such conversion, together with a check payable to the Holder for any cash amounts payable pursuant to Section 3.2(b) hereof.

(d) Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock issued upon conversion of this Note has been filed with the Securities and Exchange Commission, each share issued upon conversion of this Note shall be stamped or otherwise imprinted with a legend substantially in the following form:

> "THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933 ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

(e) Upon conversion of this Note in accordance with Section 3 hereof, all rights with respect to this Note shall terminate, whether or not the Note has been surrendered for cancellation, and the Company will be forever released from all of its obligations and liabilities under this Note except its obligations pursuant to Section 3.2(c) hereof, except if Holder partially converts the Note pursuant to Section 3 hereof, whereby all rights with respect to the portion of the Note that has been converted will terminate pursuant to this Section 3.2(e), but the remainder Note will possess all of the rights granted in this Note.

4. Limitations on Conversion. In no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of the Notes or the unexercised or unconverted portion of any other security of the Borrower subject to a limitation on conversion or exercise analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 9.9% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulations 13D-G thereunder, except as otherwise provided in clause (1) of such proviso. Holder may waive the limitations set forth herein by sixty-one (61) days prior written notice to the Company.

5. Registration Rights. The Company shall file a registration statement, and any amendments thereto, with the Securities and Exchange Commission (the "SEC") by September 29, 2006 and cooperate with the SEC to have such registration statement, and any amendments thereto, declared effective, which includes the shares underlying this Note and those shares issued pursuant to Section 2.2 hereof, as soon as reasonably practicable, provided that Holder shall have piggy-back rights with respect to any registration statement filed by the Company. If a registration statement covering the shares underlying this Note is not filed prior to September 29, 2006, then in addition to any rights the Holder may have hereunder or under applicable law, the Company shall pay to the Holder, as partial liquidated damages and not as a penalty, an amount in cash of 2% of the value of the shares underlying this Note for the first month the registration statement is not filed after September 29, 2006 and an amount in cash of 1% of the value of the shares underlying this Note for any month after the first month where a registration statement has not been filed. For purposes of calculating the liquidated damages in this Section 5, the calculation provided in Section 4 is not applicable. The Company shall bear the full cost of filing the registration statement pursuant to a demand by Holder.

6. Payment. Except as set forth herein, all payments shall be made in lawful money of the United States of America at the principal offices of the Holder. Payment shall be credited first to the accrued interest then due and payable and the remainder applied to principal.

7. Subordination. No indebtedness shall be senior, equal or *pari passu* in any respect to this Note without the prior written consent of the Holder, except for the Notes between the Company and Leon Frenkel, Triage Capital Management, L.P., Triage Capital Management B, L.P. and Sun New Media, Inc. To the extent bankruptcy proceedings are initiated by the Company or a third party, the Holder shall receive the same percentage of ownership *pari passu* as the Holder would have under Section 3 hereof, regardless of any bankruptcy protection afforded to the Company.

8. Events of Default. The entire unpaid Outstanding Amount shall become immediately due and payable upon the occurrence of an Event of Default. An "Event of Default" shall be deemed to have occurred if:

(a) the Company shall: (i) be unable, or admit in writing its inability, to pay its debts as they mature; (ii) make a general assignment for the benefit of creditors; (iii) be adjudicated a bankrupt or insolvent; (iv) file a voluntary petition in bankruptcy, or a petition or answer seeking reorganization or an arrangement with creditors to take advantage of any insolvency law, or an answer admitting the material allegations of a bankruptcy, reorganization or insolvency petition filed against it; (v) take corporate action for the purpose of effecting any of the foregoing; or (vi) have an order for relief entered against it in any proceeding under the United States Bankruptcy Code;

(b) an order, judgment or decree shall be entered, without the application, approval or consent of the Company by any court of competent jurisdiction, approving a petition seeking reorganization of the Company or appointing a receiver, trustee or liquidator of the Company or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of thirty (30) consecutive days; or

(c) the Company shall fail to pay as and when due any principal or interest hereunder and such nonpayment shall continue uncured for a period of ten (10) business days.

9. Transfer; Successors and Assigns. This Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name, of, the transferee. Interest and principal are payable only to the registered holder of this Note. The terms and conditions of this Note shall inure to the benefit of and binding upon the respective successors and assigns of the parties.

10. Governing Law. This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

11. Notices. Whenever any notice is required to be given by the Company to a Holder, such notice shall be sent in writing via first class mail, postage prepaid, to the Holder at the Holder's last address appearing on the books maintained by the Company for registration, which notice shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice. Whenever any notice is required to be given by the Holder of this Note to the Company, such notice shall be sent in writing via first class mail, postage prepaid, to the Company at the Company's address above.

12. Amendments and Waivers. This Note and any term hereof may be amended, waived, discharged or terminated only by an instrument in writing signed by the party against whom enforcement of such amendment, waiver, discharge or termination is sought. No waivers of any term, condition or provision of this Note, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

13. Immunity of Members, Officers, Directors and Employees. No recourse shall be had for the payment of the principal or interest on this Note or for any claim based thereon or otherwise in any manner in respect thereof, to or against any subsidiary, member, officer, director or employee, as such, past, present or future, of the Company or any respective subsidiary, member, officer, director or employees, as such, past, present or future, of any predecessor or successor company, either directly or through the Company or such predecessor or successor company, whether by virtue of any constitutional provision or statute or rule of law, or by the enforcement of any assessment or penalty, or in any other manner, all such liability being expressly waived and released by the acceptance of this Note and as part of the consideration for the issuance thereof.

[Signatures on Following Page]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and delivered by its authorized officer, as of the date first above written.

VALIDIAN CORPORATION

/s/ Bruce Benn

By:_____

Name: Bruce Benn
Title: Chief Executive Officer

/s/ Ronald I Benn

By:_____

Name: Ronald I Benn
Title: Chief Financial Officer

THE SALE AND ISSUANCE OF THE SECURITIES REPRESENTED BY THIS 10% SENIOR CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE DISTRIBUTION THEREOF. THESE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED, OR TRANSFERRED UNLESS (I) A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO THESE SECURITIES AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION OR (II) AN EXEMPTION FROM THE ACT IS AVAILABLE AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION.

10% SENIOR CONVERTIBLE NOTE

$120,000 July 11, 2006

For value received, Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, promises to pay to Triage Capital Management, L.P. (the "Holder") with an address at 401 City Line Avenue, Bala Cynwyd, PA 19004, the principal amount of One Hundred Twenty Thousand Dollars ($120,000) and to pay interest thereon, all as hereinafter specified. This Note amends and restates that certain Convertible Note made by the Company in favor of Holder dated June 1, 2006 (the "Former Note") and renders the Former Note terminated, cancelled, void and without legal force or effect.

1. Identification of Note. This Note is issued as part of the Holder's investment into the Company.

2. Maturity.

2.1 Maturity Date. Unless earlier converted as provided in Section 3 hereof, this Note will automatically mature and be due and payable on the earlier of (a) June 1, 2008 (the "Maturity Date") or (b) the occurrence of an Event of Default (as defined in Section 8 hereof).

2.2 Interest. Interest shall accrue on this Note from June 1, 2006 (the date of the initial Note as referenced in the preamble) on the unpaid principal amount at a rate equal to ten percent (10%) per annum, computed on the basis of the actual number of days elapsed and a year of 365 days from the date of this Note until the principal amount and all interest accrued thereon are paid (or converted, as provided in Section 3 hereof). Interest shall be due and paid to the Holder quarterly. The first quarterly payment shall be paid to the Holder on October 1, 2006 and shall include the interest accrued from June 1, 2006. At the Company's option, interest can be paid in either (a) cash or (b) shares of common stock, calculated at a ten percent (10%) discount to the average closing price of the common stock, as listed on the exchange where the Company's Common Stock is traded, for the ten (10) trading days prior to the date the interest is

due to the Holder. The stock referenced in this Section 2.2 shall be included in the registration rights provisions in Section 5 and be subject to the calculation for purposes of Section 4.

2.3 Prepayment. The Company shall not have the right to prepay this Note without first obtaining prior written consent from the Holder. Such consent shall not be unreasonably withheld.

3. Conversion.

3.1 Voluntary Conversion. The holder may voluntarily convert the Note, in whole or in part, into Common Stock of the Company at any time.

3.2 Mechanics and Effect of Conversion.

(a) The principal and any unpaid and accrued interest of this Note shall convert into shares of Common Stock at a conversion price of ten cents ($0.10) per share ("Conversion Price").

(b) No fractional shares will be issued upon conversion of this Note. In lieu of any fractional shares to which the Holder would otherwise be entitled, the Company will pay to the Holder in cash the unconverted amount that would otherwise be converted into such fractional shares.

(c) In the event that the Outstanding Amount under this Note is converted into Common Stock pursuant to Section 3.1 hereof, the Holder shall surrender this Note, duly endorsed, to the Company and the Note shall thereupon be canceled, provided that if Holder partially converts pursuant to Section 3.2(a) hereof, the Company shall issue a Note to Holder for the remaining amount of principal that was not converted. At its expense, the Company will issue and deliver to such Holder, a certificate or certificates representing the number of duly authorized, validly issued, fully paid and non-assessable shares of Common Stock to which such Holder is entitled upon such conversion, together with a check payable to the Holder for any cash amounts payable pursuant to Section 3.2(b) hereof.

(d) Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock issued upon conversion of this Note has been filed with the Securities and Exchange Commission, each share issued upon conversion of this Note shall be stamped or otherwise imprinted with a legend substantially in the following form:

> "THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933 ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

(e) Upon conversion of this Note in accordance with Section 3 hereof, all rights with respect to this Note shall terminate, whether or not the Note has been surrendered for cancellation, and the Company will be forever released from all of its obligations and liabilities under this Note except its obligations pursuant to Section 3.2(c) hereof, except if Holder partially converts the Note pursuant to Section 3 hereof, whereby all rights with respect to the portion of the Note that has been converted will terminate pursuant to this Section 3.2(e), but the remainder Note will possess all of the rights granted in this Note.

4. Limitations on Conversion. In no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of the Notes or the unexercised or unconverted portion of any other security of the Borrower subject to a limitation on conversion or exercise analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 9.9% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulations 13D-G thereunder, except as otherwise provided in clause (1) of such proviso. Holder may waive the limitations set forth herein by sixty-one (61) days prior written notice to the Company.

5. Registration Rights. The Company shall file a registration statement, and any amendments thereto, with the Securities and Exchange Commission (the "SEC") by September 29, 2006 and cooperate with the SEC to have such registration statement, and any amendments thereto, declared effective, which includes the shares underlying this Note and those shares issued pursuant to Section 2.2 hereof, as soon as reasonably practicable, provided that Holder shall have piggy-back rights with respect to any registration statement filed by the Company. If a registration statement covering the shares underlying this Note is not filed prior to September 29, 2006, then in addition to any rights the Holder may have hereunder or under applicable law, the Company shall pay to the Holder, as partial liquidated damages and not as a penalty, an amount in cash of 2% of the value of the shares underlying this Note for the first month the registration statement is not filed after September 29, 2006 and an amount in cash of 1% of the value of the shares underlying this Note for any month after the first month where a registration statement has not been filed. For purposes of calculating the liquidated damages in this Section 5, the calculation provided in Section 4 is not applicable. The Company shall bear the full cost of filing the registration statement pursuant to a demand by Holder.

6. Payment. Except as set forth herein, all payments shall be made in lawful money of the United States of America at the principal offices of the Holder. Payment shall be credited first to the accrued interest then due and payable and the remainder applied to principal.

7. Subordination. No indebtedness shall be senior, equal or *pari passu* in any respect to this Note without the prior written consent of the Holder, except for the Notes between the Company and Leon Frenkel, Triage Capital Management, L.P., Triage Capital Management B, L.P. and Sun New Media, Inc. To the extent bankruptcy proceedings are initiated by the Company or a third party, the Holder shall receive the same percentage of ownership *pari passu* as the Holder would have under Section 3 hereof, regardless of any bankruptcy protection afforded to the Company.

8. Events of Default. The entire unpaid Outstanding Amount shall become immediately due and payable upon the occurrence of an Event of Default. An "Event of Default" shall be deemed to have occurred if:

(a) the Company shall: (i) be unable, or admit in writing its inability, to pay its debts as they mature; (ii) make a general assignment for the benefit of creditors; (iii) be adjudicated a bankrupt or insolvent; (iv) file a voluntary petition in bankruptcy, or a petition or answer seeking reorganization or an arrangement with creditors to take advantage of any insolvency law, or an answer admitting the material allegations of a bankruptcy, reorganization or insolvency petition filed against it; (v) take corporate action for the purpose of effecting any of the foregoing; or (vi) have an order for relief entered against it in any proceeding under the United States Bankruptcy Code;

(b) an order, judgment or decree shall be entered, without the application, approval or consent of the Company by any court of competent jurisdiction, approving a petition seeking reorganization of the Company or appointing a receiver, trustee or liquidator of the Company or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of thirty (30) consecutive days; or

(c) the Company shall fail to pay as and when due any principal or interest hereunder and such nonpayment shall continue uncured for a period of ten (10) business days.

9. Transfer; Successors and Assigns. This Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name, of, the transferee. Interest and principal are payable only to the registered holder of this Note. The terms and conditions of this Note shall inure to the benefit of and binding upon the respective successors and assigns of the parties.

10. Governing Law. This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

11. Notices. Whenever any notice is required to be given by the Company to a Holder, such notice shall be sent in writing via first class mail, postage prepaid, to the Holder at the Holder's last address appearing on the books maintained by the Company for registration, which notice shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice. Whenever any notice is required to be given by the Holder of this Note to the Company, such notice shall be sent in writing via first class mail, postage prepaid, to the Company at the Company's address above.

12. Amendments and Waivers. This Note and any term hereof may be amended, waived, discharged or terminated only by an instrument in writing signed by the party against whom enforcement of such amendment, waiver, discharge or termination is sought. No waivers of any term, condition or provision of this Note, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

13. Immunity of Members, Officers, Directors and Employees. No recourse shall be had for the payment of the principal or interest on this Note or for any claim based thereon or otherwise in any manner in respect thereof, to or against any subsidiary, member, officer, director or employee, as such, past, present or future, of the Company or any respective subsidiary, member, officer, director or employees, as such, past, present or future, of any predecessor or successor company, either directly or through the Company or such predecessor or successor company, whether by virtue of any constitutional provision or statute or rule of law, or by the enforcement of any assessment or penalty, or in any other manner, all such liability being expressly waived and released by the acceptance of this Note and as part of the consideration for the issuance thereof.

[Signatures on Following Page]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and delivered by its authorized officer, as of the date first above written.

VALIDIAN CORPORATION

/s/ Bruce Benn
By:_____
Name: Bruce Benn
Title: Chief Executive Officer

/s/ Ronald I Benn
By:_____
Name: Ronald I Benn
Title: Chief Financial Officer

THE SALE AND ISSUANCE OF THE SECURITIES REPRESENTED BY THIS 10% SENIOR CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE DISTRIBUTION THEREOF. THESE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED, OR TRANSFERRED UNLESS (I) A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO THESE SECURITIES AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION OR (II) AN EXEMPTION FROM THE ACT IS AVAILABLE AND SUCH OFFER, SALE, PLEDGE, OR TRANSFER IS IN COMPLIANCE WITH APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION.

10% SENIOR CONVERTIBLE NOTE

$130,000 July 11, 2006

For value received, Validian Corporation, a Nevada corporation (together with its successors and assigns, the "Company"), with an address at 30 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L4, promises to pay to Triage Capital Management B, L.P. (the "Holder") with an address at 401 City Line Avenue, Bala Cynwyd, PA 19004, the principal amount of One Hundred Thirty Thousand Dollars ($130,000) and to pay interest thereon, all as hereinafter specified. This Note amends and restates that certain Convertible Note made by the Company in favor of Holder dated June 1, 2006 (the "Former Note") and renders the Former Note terminated, cancelled, void and without legal force or effect.

1. Identification of Note. This Note is issued as part of the Holder's investment into the Company.

2. Maturity.

2.1 Maturity Date. Unless earlier converted as provided in Section 3 hereof, this Note will automatically mature and be due and payable on the earlier of (a) June 1, 2008 (the "Maturity Date") or (b) the occurrence of an Event of Default (as defined in Section 8 hereof).

2.2 Interest. Interest shall accrue on this Note from June 1, 2006 (the date of the initial Note as referenced in the preamble) on the unpaid principal amount at a rate equal to ten percent (10%) per annum, computed on the basis of the actual number of days elapsed and a year of 365 days from the date of this Note until the principal amount and all interest accrued thereon are paid (or converted, as provided in Section 3 hereof). Interest shall be due and paid to the Holder quarterly. The first quarterly payment shall be paid to the Holder on October 1, 2006 and shall include the interest accrued from June 1, 2006. At the Company's option, interest can be paid in either (a) cash or (b) shares of common stock, calculated at a ten percent (10%) discount to the average closing price of the common stock, as listed on the exchange where the Company's Common Stock is traded, for the ten (10) trading days prior to the date the interest is

due to the Holder. The stock referenced in this Section 2.2 shall be included in the registration rights provisions in Section 5 and be subject to the calculation for purposes of Section 4.

2.3 Prepayment. The Company shall not have the right to prepay this Note without first obtaining prior written consent from the Holder. Such consent shall not be unreasonably withheld.

3. Conversion.

3.1 Voluntary Conversion. The holder may voluntarily convert the Note, in whole or in part, into Common Stock of the Company at any time.

3.2 Mechanics and Effect of Conversion.

(a) The principal and any unpaid and accrued interest of this Note shall convert into shares of Common Stock at a conversion price of ten cents ($0.10) per share ("Conversion Price").

(b) No fractional shares will be issued upon conversion of this Note. In lieu of any fractional shares to which the Holder would otherwise be entitled, the Company will pay to the Holder in cash the unconverted amount that would otherwise be converted into such fractional shares.

(c) In the event that the Outstanding Amount under this Note is converted into Common Stock pursuant to Section 3.1 hereof, the Holder shall surrender this Note, duly endorsed, to the Company and the Note shall thereupon be canceled, provided that if Holder partially converts pursuant to Section 3.2(a) hereof, the Company shall issue a Note to Holder for the remaining amount of principal that was not converted. At its expense, the Company will issue and deliver to such Holder, a certificate or certificates representing the number of duly authorized, validly issued, fully paid and non-assessable shares of Common Stock to which such Holder is entitled upon such conversion, together with a check payable to the Holder for any cash amounts payable pursuant to Section 3.2(b) hereof.

(d) Unless a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock issued upon conversion of this Note has been filed with the Securities and Exchange Commission, each share issued upon conversion of this Note shall be stamped or otherwise imprinted with a legend substantially in the following form:

> "THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT HAS BEEN REGISTERED UNDER THE 1933 ACT AND SUCH LAWS OR AN EXCEPTION FROM REGISTRATION IS AVAILABLE."

(e) Upon conversion of this Note in accordance with Section 3 hereof, all rights with respect to this Note shall terminate, whether or not the Note has been surrendered for cancellation, and the Company will be forever released from all of its obligations and liabilities under this Note except its obligations pursuant to Section 3.2(c) hereof, except if Holder partially converts the Note pursuant to Section 3 hereof, whereby all rights with respect to the portion of the Note that has been converted will terminate pursuant to this Section 3.2(e), but the remainder Note will possess all of the rights granted in this Note.

4. Limitations on Conversion. In no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of the Notes or the unexercised or unconverted portion of any other security of the Borrower subject to a limitation on conversion or exercise analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 9.9% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulations 13D-G thereunder, except as otherwise provided in clause (1) of such proviso. Holder may waive the limitations set forth herein by sixty-one (61) days prior written notice to the Company.

5. Registration Rights. The Company shall file a registration statement, and any amendments thereto, with the Securities and Exchange Commission (the "SEC") by September 29, 2006 and cooperate with the SEC to have such registration statement, and any amendments thereto, declared effective, which includes the shares underlying this Note and those shares issued pursuant to Section 2.2 hereof, as soon as reasonably practicable, provided that Holder shall have piggy-back rights with respect to any registration statement filed by the Company. If a registration statement covering the shares underlying this Note is not filed prior to September 29, 2006, then in addition to any rights the Holder may have hereunder or under applicable law, the Company shall pay to the Holder, as partial liquidated damages and not as a penalty, an amount in cash of 2% of the value of the shares underlying this Note for the first month the registration statement is not filed after September 29, 2006 and an amount in cash of 1% of the value of the shares underlying this Note for any month after the first month where a registration statement has not been filed. For purposes of calculating the liquidated damages in this Section 5, the calculation provided in Section 4 is not applicable. The Company shall bear the full cost of filing the registration statement pursuant to a demand by Holder.

6. Payment. Except as set forth herein, all payments shall be made in lawful money of the United States of America at the principal offices of the Holder. Payment shall be credited first to the accrued interest then due and payable and the remainder applied to principal.

7. Subordination. No indebtedness shall be senior, equal or *pari passu* in any respect to this Note without the prior written consent of the Holder, except for the Notes between the Company and Leon Frenkel, Triage Capital Management, L.P., Triage Capital Management B, L.P. and Sun New Media, Inc. To the extent bankruptcy proceedings are initiated by the Company or a third party, the Holder shall receive the same percentage of ownership *pari passu* as the Holder would have under Section 3 hereof, regardless of any bankruptcy protection afforded to the Company.

8. Events of Default. The entire unpaid Outstanding Amount shall become immediately due and payable upon the occurrence of an Event of Default. An "Event of Default" shall be deemed to have occurred if:

(a) the Company shall: (i) be unable, or admit in writing its inability, to pay its debts as they mature; (ii) make a general assignment for the benefit of creditors; (iii) be adjudicated a bankrupt or insolvent; (iv) file a voluntary petition in bankruptcy, or a petition or answer seeking reorganization or an arrangement with creditors to take advantage of any insolvency law, or an answer admitting the material allegations of a bankruptcy, reorganization or insolvency petition filed against it; (v) take corporate action for the purpose of effecting any of the foregoing; or (vi) have an order for relief entered against it in any proceeding under the United States Bankruptcy Code;

(b) an order, judgment or decree shall be entered, without the application, approval or consent of the Company by any court of competent jurisdiction, approving a petition seeking reorganization of the Company or appointing a receiver, trustee or liquidator of the Company or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of thirty (30) consecutive days; or

(c) the Company shall fail to pay as and when due any principal or interest hereunder and such nonpayment shall continue uncured for a period of ten (10) business days.

9. Transfer; Successors and Assigns. This Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name, of, the transferee. Interest and principal are payable only to the registered holder of this Note. The terms and conditions of this Note shall inure to the benefit of and binding upon the respective successors and assigns of the parties.

10. Governing Law. This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law and choice of law that would cause the laws of any other jurisdiction to apply.

11. Notices. Whenever any notice is required to be given by the Company to a Holder, such notice shall be sent in writing via first class mail, postage prepaid, to the Holder at the Holder's last address appearing on the books maintained by the Company for registration, which notice shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice. Whenever any notice is required to be given by the Holder of this Note to the Company, such notice shall be sent in writing via first class mail, postage prepaid, to the Company at the Company's address above.

12. Amendments and Waivers. This Note and any term hereof may be amended, waived, discharged or terminated only by an instrument in writing signed by the party against whom enforcement of such amendment, waiver, discharge or termination is sought. No waivers of any term, condition or provision of this Note, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

13. Immunity of Members, Officers, Directors and Employees. No recourse shall be had for the payment of the principal or interest on this Note or for any claim based thereon or otherwise in any manner in respect thereof, to or against any subsidiary, member, officer, director or employee, as such, past, present or future, of the Company or any respective subsidiary, member, officer, director or employees, as such, past, present or future, of any predecessor or successor company, either directly or through the Company or such predecessor or successor company, whether by virtue of any constitutional provision or statute or rule of law, or by the enforcement of any assessment or penalty, or in any other manner, all such liability being expressly waived and released by the acceptance of this Note and as part of the consideration for the issuance thereof.

[Signatures on Following Page]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and delivered by its authorized officer, as of the date first above written.

VALIDIAN CORPORATION

/s/ Bruce Benn

By:_____

Name: Bruce Benn

Title: Chief Executive Officer

/s/ Ronald I Benn

By:_____

Name: Ronald I Benn

Title: Chief Financial Officer

Exhibit 4.4

VALIDIAN CORPORATION
Promissory Note

Atlanta, Georgia **July 13, 2006**

For value received, Validian Corporation, a Nevada Corporation whose principal registered office is in Atlanta, Georgia (hereinafter referred to as the "Borrower") promises to pay to the order of Leon Frenkel (hereinafter referred to as the "Holder") as repayment of the loan, the sum of $250,000 USD (the "Loan Amount") made by the Holder to the Borrower, in legal and lawful money of the United States of America, with interest on the principal outstanding from time to time which shall accrue until paid in full, both before and on the Maturity Date (as defined below), at the rate of ten percent (10%) per annum, unless the outstanding principal and all accrued interest is paid in full on or before October 11, 2006, whereupon the rate of interest will be at the rate of seven percent (7%) per annum. Except for otherwise provided below, the Borrower may repay all or part of any principal and/or interest before the Maturity Date at any time without penalty or bonus and any subsequent interest shall be calculated only on any remaining outstanding balance. Any payment first shall be credited to the accrued interest through the date of such payment and then the remainder of such payment shall be applied to the principal balance of this Note.

The principal and interest on this Note is due and payable on or before July 13, 2007 (the "Maturity Date").

The Borrower must repay this loan in full with accrued interest with the proceeds from Sun New Media's $500,000 investment (the "Sun Investment") within two (2) days of receipt of the Sun Investment. The Sun Investment is an investment by Sun New Media, Inc. or Dr. Bruno Wu. The Sun Investment is expected to be completed after the execution of this Note and the advancement of the Loan Amount by the Holder to the Borrower. Upon executing this Note, or in a reasonable time thereafter, the Borrower shall issue to the Holder One Million (1,000,000) shares of Common Stock of the Company. These shares shall have piggy back registration rights with respect to any registration statement filed by the Company. If the Borrower fails to repay all of the outstanding principal and all accrued interest thereon on or before October 11, 2006, then the Borrower shall issue to the Holder an additional two (2) shares of Common Stock of the Company for each dollar of principal advanced by the Holder under this Note that has not been repaid as of that date. These shares also shall have the same piggy back registration rights.

In the event this Note, or any part hereof, is collected through bankruptcy or other judicial proceedings, by an attorney or is placed in the hands of an attorney for collection after maturity, then the Borrower agrees and promises to pay reasonable attorneys' fees for collection.

The Holder, payee or other holder of this Note may at any time, from time to time and upon notice in writing to the Borrower, extend the terms of payment or the Maturity Date.

This Note may be assigned, pledged or hypothecated by the Holder upon notice to and without the consent of the Borrower and is made without recourse to any director, officer or employee of the Borrower.

Any notice, demand or request relating to any matter set forth in this Note shall be given in writing to the addresses provided by each party. This Note may not be amended, waived, discharged or terminated unless signed in writing by the party against whom enforcement of such

amendment, waiver, discharge or termination is sought. No waivers of any term, condition or provision of this Note, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

This Note shall be governed by and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, Validian Corporation has caused this Note to be duly executed on its behalf by its officers duly authorized thereunto.

Validian Corporation

/s/ Bruce Benn
By:_____
Bruce Benn
President & CEO

/s/ Ronald Benn
By:_____
Ronald Benn
CFO

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Bruce Benn, certify that:

(1) I have reviewed this report on Form 10-QSB 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 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 small business issuer'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 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.

Date: August 21, 2006

By: /s/ Bruce Benn
Bruce Benn
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Ronald Benn, certify that:

(1) I have reviewed this report on Form 10-QSB 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 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 small business issuer'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 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.

Date: August 21, 2006

By: /s/ Ronald Benn
Ronald Benn
Chief Financial Officer

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 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Executive Officer of Validian Corporation (the "Company"), hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-QSB of the Company for the period ended June 30, 2006 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company as of, and for, the periods presented in the Report. A signed original of this written statement required by Section 906 has been provided to the registrant and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished as an exhibit to the Form 10-QSB 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 the Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-QSB 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.

Date : August 21, 2006

By: /s/ Bruce Benn
Bruce Benn
Chief Executive Officer

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 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Financial Officer of Validian Corporation (the "Company"), hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-QSB of the Company for the period ended June 30, 2006 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company as of, and for, the periods presented in the Report. A signed original of this written statement required by Section 906 has been provided to the registrant and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished as an exhibit to the Form 10-QSB 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 the Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-QSB 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.

Date : August 21, 2006

By: /s/ Ronald Benn
Ronald Benn
Chief Financial Officer