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OMB Number: 3235-0416 Expires: March 31, 2007 Estimated average burden hours per response 182.00

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-QSB

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED June 30, 2007

☐ **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

(State or other jurisdiction of
incorporation or organization)

58-2541997

(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 ☒ No ☐

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:
47,567,597 Shares of the issuer's Common Stock were outstanding as of August 10, 2007.

Transitional Small Business Disclosure Format: Yes ☐ No ☒

SEC 2334 (9-05)

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 49,785	\$ 7,780
Accounts receivable	17,900	14,628
Prepaid expenses	170,224	154,674
	<u>237,909</u>	<u>177,082</u>
Property and equipment, net of accumulated depreciation of \$219,007 (December 31, 2006 - \$196,598)	13,446	34,971
Deferred financing costs, net of accumulated amortization of \$110,527 (December 31, 2006 - \$50,528) (note 2)	138,970	169,403
	<u>390,325</u>	<u>381,456</u>
Total assets		
	<u>\$ 390,325</u>	<u>\$ 381,456</u>
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 1,555,940	\$ 1,215,514
Promissory notes payable (note 3)	37,934	603,928
Deferred revenue	155,000	155,000
Current portion of capital lease obligation	4,572	5,084
Current portion of 10% Senior convertible notes (note 4)	535,773	--
Total current liabilities	<u>2,289,219</u>	<u>1,979,526</u>
10% Senior convertible notes (note 4)	1,718,807	706,803
Capital lease obligation	--	1,466
Total liabilities	<u>4,008,026</u>	<u>2,687,795</u>
Stockholders' Deficiency (note 7):		
Common stock, (\$0.001 par value. Authorized 100,000,000 shares; issued and outstanding 46,995,403 and 39,212,069 shares at June 30, 2007 and December 31, 2006, respectively.)	46,995	39,212
Preferred stock (\$0.001 par value. Authorized 7,000,000 shares; issued and outstanding Nil shares at June 30, 2007 and at December 31, 2006)	--	--
Additional paid in capital	23,125,485	22,326,065
Deficit accumulated during the development stage	(26,761,747)	(24,643,182)
Retained earnings prior to entering development stage	21,304	21,304
Treasury stock (7,000 shares at June 30, 2007 and December 31, 2006, at cost)	(49,738)	(49,738)
Total stockholders' deficiency	<u>(3,617,701)</u>	<u>(2,306,339)</u>
Basis of presentation (note 1)		
Commitments (note 10)		
Subsequent events (note 12)		
Total liabilities and stockholders' deficiency	<u>\$390,325</u>	<u>\$381,456</u>

See accompanying notes to unaudited interim 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, 2007 and 2006
And for the Period from August 3, 1999 to June 30, 2007
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Period from August 3, 1999 to June 30, 2007
	2007	2006	2007	2006	
Operating expenses (income):					
Selling, general and administrative (note 10(b))	\$502,101	\$ 444,064	\$ 930,233	\$ 994,800	\$12,304,571
Research and development	347,762	296,598	590,986	599,991	8,691,698
Depreciation of property and equipment	9,339	15,069	22,409	32,962	408,996
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
	<u>859,202</u>	<u>755,731</u>	<u>1,543,628</u>	<u>1,627,753</u>	<u>23,008,758</u>
Loss before other income (expenses)	(859,202)	(755,731)	(1,543,628)	(1,627,753)	(23,008,758)
Other income (expenses):					
Interest income	194	73	194	163	61,429
Gain (loss) on extinguishment of debt (note 7)	--	--	(102,893)	--	69,917
Interest and financing costs (note 6)	(241,326)	(52,653)	(426,577)	(63,843)	(3,781,297)
Other	(41,304)	(5,487)	(45,661)	(229)	(103,038)
	<u>(282,436)</u>	<u>(58,067)</u>	<u>(574,937)</u>	<u>(63,309)</u>	<u>(3,752,989)</u>
Net loss	<u>\$(1,141,638)</u>	<u>\$(813,798)</u>	<u>\$(2,118,565)</u>	<u>\$(1,691,662)</u>	<u>\$(26,761,747)</u>
Loss per share – basic and diluted (note 8)	<u>\$(0.02)</u>	<u>\$(0.02)</u>	<u>\$(0.05)</u>	<u>\$(0.05)</u>	
Weighted average number of common shares outstanding during period	<u>46,243,775</u>	<u>33,530,284</u>	<u>45,395,529</u>	<u>33,236,951</u>	

See accompanying notes to unaudited interim 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, 2007
(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
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 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, 2007
(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	\$ 4,799,472	\$ 21,304	\$ (5,124,325)	\$ 26,212	\$ (49,738)	\$ (311,689)
Shares issued in consideration of consulting services	340,500	340	245,810	—	—	—	—	246,150
Comprehensive loss:								
Net loss	—	—	—	—	(906,841)	—	—	(906,841)
Currency translation adjustment on liquidation of investment in foreign subsidiary	—	—	—	—	—	(26,212)	—	(26,212)
Comprehensive loss								(933,053)
Balances at December 31, 2002	15,727,786	15,726	5,045,282	21,304	(6,031,166)	—	(49,738)	(998,592)
Shares issued in exchange for debt	4,416,862	4,417	1,453,147	—	—	—	—	1,457,564
Shares issued in consideration of consulting and financing services	422,900	423	230,448	—	—	—	—	230,871
Fair value of warrants issued to unrelated parties for services	—	—	2,896,042	—	—	—	—	2,896,042
Fair value of stock purchase options issued to unrelated parties for services	—	—	597,102	—	—	—	—	597,102
Relative fair value of warrants issued to investors in conjunction with 4% senior subordinated convertible debentures	—	—	355,186	—	—	—	—	355,186
Intrinsic value of beneficial conversion feature on 4% convertible debentures issued to unrelated parties	—	—	244,814	—	—	—	—	244,814
Net loss and comprehensive loss	—	—	—	—	(3,001,900)	—	—	(3,001,900)
Balances at December 31, 2003	20,567,548	\$ 20,566	\$10,822,021	\$ 21,304	\$ (9,033,066)	\$ —	\$ (49,738)	\$ 1,781,087

See accompanying notes to unaudited interim 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, 2007
(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
Balances at December 31, 2003	20,567,548	\$ 20,566	\$10,822,021	\$21,304	\$(9,033,066)	\$ —	\$(49,738)	\$1,781,087
Shares issued in exchange for debt	464,000	464	429,536	—	—	—	—	430,000
Shares issued on conversion of 4% senior subordinated convertible debentures	2,482,939	2,483	1,238,986	—	—	—	—	1,241,469
Deferred financing costs transferred to additional paid in capital on conversion of 4% senior subordinated convertible debentures into common shares	—	—	(721,097)	—	—	—	—	(721,097)
Shares issued pursuant to private placement of common shares and warrants	6,666,666	6,667	5,993,333	—	—	—	—	6,000,000
Cost of share issuance pursuant to private placement	—	—	(534,874)	—	—	—	—	(534,874)
Shares issued in consideration of consulting and financing services	70,000	70	72,730	—	—	—	—	72,800
Shares issued in consideration of penalties on late registration of shares underlying the 4% senior subordinated convertible debentures	184,000	184	110,216	—	—	—	—	110,400
Fair value of stock purchase warrants issued to unrelated parties for services	—	—	809,750	—	—	—	—	809,750
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 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, 2007
(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
Intrinsic value of beneficial conversion feature on 4% convertible debentures issued to unrelated parties	—	—	538,478	—	—	—	—	538,478
Net loss and comprehensive loss	—	—	—	—	(8,017,166)	—	—	(8,017,166)
Balances at December 31, 2004	30,435,153	30,434	19,620,601	21,304	(17,050,232)	—	(49,738)	2,572,369
Shares issued on conversion of 4% senior subordinated convertible debentures	1,157,866	1,158	577,774	—	—	—	—	578,932
Shares issued in settlement of 4% senior subordinated convertible debentures at maturity	485,672	486	242,349	—	—	—	—	242,835
Deferred financing costs transferred to additional paid in capital on conversion of 4% senior subordinated convertible debentures into common shares	—	—	(163,980)	—	—	—	—	(163,980)
Fair value of stock 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
Net loss and comprehensive loss	—	—	—	—	(4,205,659)	—	—	(4,205,659)
Balances at December 31, 2005	32,883,691	\$ 32,883	\$20,951,097	\$ 21,304	\$ (21,255,891)	\$ -	\$(49,738)	\$ (300,345)

See accompanying notes to unaudited interim 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, 2007
(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
Balances at December 31, 2005	32,883,691	\$ 32,883	\$20,951,097	\$ 21,304	\$ (21,255,891)	\$ —	\$(49,738)	\$ (300,345)
Shares issued in consideration of consulting services	800,000	800	106,700	—	—	—	—	107,500
Fair value of unvested employee stock options earned during period	—	—	28,689	—	—	—	—	28,689
Reversal of fair value of unvested employee stock options recognized in the current and prior periods, on forfeiture of the options	—	—	(9,939)	—	—	—	—	(9,939)
Shares issued on the exercise of stock purchase warrants	20,000	20	9,980	—	—	—	—	10,000
Shares issued pursuant to the terms of the 10% senior convertible notes	2,800,000	2,800	401,602	—	—	—	—	404,402
Shares issued pursuant to the terms of the 10% promissory note	1,000,000	1,000	149,000	—	—	—	—	150,000
Shares issued pursuant to the terms of an agreement to extend the payment terms of finance fees payable	100,000	100	11,400	—	—	—	—	11,500
Shares issued in satisfaction of finance fees payable, which were included in accounts payable and accrued liabilities	250,000	250	28,500	—	—	—	—	28,750
Intrinsic value of beneficial conversion feature on the 10% senior convertible notes	—	—	515,297	—	—	—	—	515,297
Shares issued in satisfaction of interest payable	118,378	119	13,518	—	—	—	—	13,637
Shares issued in satisfaction of penalty for non-timely payment of the 10% promissory note	500,000	500	44,500	—	—	—	—	45,000
Shares issued in consideration for finance fees related to the issuance of convertible and promissory notes	740,000	740	75,720	—	—	—	—	76,460
Net loss and comprehensive loss	—	—	—	—	(3,387,291)	—	—	(3,387,291)
Balances at December 31, 2006	39,212,069	\$ 39,212	\$22,326,065	\$ 21,304	\$ (24,643,182)	\$ —	\$(49,738)	\$ (2,306,339)

See accompanying notes to unaudited interim 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, 2007
(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
Balances at December 31, 2006	39,212,069	\$ 39,212	\$22,326,065	\$ 21,304	\$ (24,643,182)	\$ -	\$(49,738)	\$ (2,306,339)
Shares issued in consideration of consulting services rendered and to be rendered	4,025,000	4,025	172,125	—	—	—	—	176,150
Shares issued in consideration of finance fees relating to the issuance of 10% senior convertible notes (note 5(a))	149,333	149	6,510	—	—	—	—	6,659
Shares issued in settlement of accrued liabilities (note 5(a))	1,275,000	1,275	45,900	—	—	—	—	47,175
Shares issued in settlement of accrued interest on the 10% senior convertible notes	659,001	659	39,228	—	—	—	—	39,887
Fair value of unvested employee stock options earned during the period	—	—	2,727	—	—	—	—	2,727
Incremental value of stock options issued during the period in exchange for the repurchase and cancellation of options previously issued (note 5(c))	—	—	106,933	—	—	—	—	106,933
Shares issued pursuant to the terms of the 10% senior convertible notes (note 5(a))	1,675,000	1,675	105,991	—	—	—	—	107,666
Intrinsic value of the beneficial conversion feature of the 10% senior convertible notes (note 4)	—	—	87,846	—	—	—	—	87,846
Relative fair value of warrants issued pursuant to the terms of the 10% senior convertible notes (note 5(b))	—	—	102,515	—	—	—	—	102,515
Fair value of warrants issued in consideration of consulting services rendered and to be rendered (note 5(b))	—	—	108,675	—	—	—	—	108,675
Fair value of options issued in consideration of consulting services rendered and to be rendered (note 5(c))	—	—	20,970	—	—	—	—	20,970
Net loss and comprehensive loss	—	—	—	—	(2,118,565)	—	—	(2,118,565)
Balances at June 30, 2007	46,995,403	\$46,995	\$23,125,485	\$21,304	\$(26,761,747)	—	\$(49,738)	\$(3,617,701)

See accompanying notes to unaudited interim 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, 2007 and 2006
And for the Period from August 3, 1999 to June 30, 2007
(Unaudited)

	Six Months Ended June 30,	2006	Period from August 3, 1999 to June 30, 2007
Cash flows from operating activities:			
Net loss	\$ (2,118,565)	\$(1,691,662)	\$ (26,761,747)
<i>Adjustments to reconcile net loss to net cash used in</i>			
<i>Operating activities:</i>			
Depreciation of property and equipment	22,409	32,962	408,996
Stock-based compensation	330,975	162,176	2,870,549
Non-cash interest and financing expense	425,893	62,634	3,776,610
Loss (gain) on extinguishment of debt and accrued liabilities (note 7)	102,893	--	(69,917)
Non-cash penalties	--	--	166,900
Write-off of prepaid services	--	--	496,869
Write-off of deferred consulting services	--	--	1,048,100
Currency translation adjustment on liquidation of investment in foreign subsidiary	--	--	(26,212)
Gain on sale of property and equipment	--	--	(7,442)
Write-off of accounts receivable	--	--	16,715
Write-off of due to related party	--	--	12,575
Loss on cash pledged as collateral for operating lease	--	--	21,926
Write-down of property and equipment	--	--	14,750
<i>Increase (decrease) in cash resulting from changes in:</i>			
Accounts receivable	(3,270)	64,081	(6,135)
Prepaid expenses	40,071	31,601	(83,022)
Accounts payable and accrued liabilities	554,658	366,259	3,118,770
Deferred revenue	--	130,000	155,000
Due to a related party	--	--	(5,178)
Net cash used in operating activities	(644,936)	(841,949)	(14,851,893)
Cash flows from investing activities:			
Additions to property and equipment	(884)	--	(527,427)
Proceeds on sale of property and equipment	--	--	176,890
Cash pledged as collateral for operating lease	--	--	(21,926)
Net cash used in investing activities	(884)	--	(372,463)
Cash flows from financing activities:			
Capital lease repayments	(1,978)	(1,541)	(10,194)
Issuance of promissory notes payable	70,413	245,200	3,765,606
Issuance of 10% senior convertible notes	625,000	550,000	2,025,000
Debt issuance costs	(5,610)	(10,000)	(288,359)
Proceeds from exercise of stock purchase warrants	--	10,000	412,500
Increase in due from related party	--	--	12,575
Issuance of common shares	--	--	8,030,000
Redemption of common stock	--	--	(49,738)
Issuance of 4% senior subordinated convertible debentures	--	--	2,000,000
Debt issuance costs	--	--	(631,624)
Repayment of promissory notes	--	--	(44,855)
Net cash provided by financing activities	687,825	793,659	15,220,911
Effects of exchange rates on cash and cash equivalents	--	--	18,431
Net increase (decrease) in cash and cash equivalents	41,699	(48,290)	14,680
Cash and cash equivalents:			
Beginning of period	7,780	71,193	34,799
End of period	\$ 49,785	\$ 22,903	\$ 49,785

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, 2007
(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 conducted business in an unrelated field. 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, 2007 are not necessarily indicative of the operating results for the full fiscal year ending December 31, 2007. 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, 2006.

The consolidated condensed financial statements have been prepared assuming that the Company will continue as a going concern. The Company has no revenues, has a stockholders deficiency of \$3,617,701 as at June 30, 2007, and has incurred a loss of \$2,118,565 and negative cash flow from operations of \$644,936 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.

The Company expects to incur operating expenditures of approximately \$3.1 million for the year ending December 31, 2007. In the event the Company cannot raise the additional funds necessary to finance its research and development and sales and marketing activities, it may have to cease operations.

All of the factors above raise substantial doubt about the Company's ability to continue as a going concern. Management's plan to address these issues includes raising capital through the private placement of equity, the exercise of previously-issued equity instruments and through the issuance of additional promissory notes. However, in order to raise additional capital involving the issuance of shares of the Company's common stock or other securities that are convertible into or exchanged for the Company's common stock, the authorized capital of the Company must be increased over the current 100,000,000 common shares. 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.

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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. Deferred financing costs

During the six months ended June 30, 2007 the Company issued \$625,000 in principal amount of its 10% senior convertible notes (note 4). In connection with the placement of these notes, the Company incurred costs totaling \$29,570, of which \$20,610 was paid or payable in cash and \$8,960 was paid through the issuance of 149,333 common shares of the Company. These costs are being amortized on an effective interest-rate basis over the term of the respective notes.

Amortization of the deferred financing costs is included in interest and financing costs.

3. Promissory notes payable

The promissory notes payable bear interest at 12%, are due on demand, and are unsecured.

During the six months ended June 30, 2007, the Company issued \$70,413 in principal amount of its promissory notes. Also during the six months ended June 30, 2007 the Company issued \$810,000 principal amount of its 10% senior convertible notes in consideration for the cancellation of \$636,407 in principal of and \$173,593 in accrued interest on its promissory notes (note 4).

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4. 10% Senior convertible notes

The following table sets forth the financial statement presentation of the note proceeds on issuance, and the changes in financial statement presentation of the balance allocated to the notes at June 30, 2007 and December 31, 2006:

	Six months Ended June 30, 2007	Year Ended December 31, 2006
Balance beginning of period	\$ 706,803	\$ --
Note proceeds on issuance	1,435,000	1,400,000
Allocated to common stock and additional paid-in capital for market value of stock issued to holders of the notes:		
Allocated to common stock	(1,675)	(2,800)
Allocated to additional paid-in capital	(105,991)	(401,402)
	(107,666)	(404,402)
Allocated to additional paid-in capital for the relative fair value of warrants issued to holders of the notes	(102,515)	--
Allocated to additional paid-in capital for the intrinsic value of the beneficial conversion feature	(87,846)	(515,297)
Proceeds allocated to 10% senior secured convertible notes on issuance	1,136,973	480,301
Accretion recorded as a charge to interest and financing costs	233,570	164,599
Loss on extinguishment of debt at date of modification (note 7)	177,234	--
Modification of the 10% promissory note	--	100,000
Gain on extinguishment of debt at date of modification	--	(38,097)
Balance end of period	2,254,580	706,803
Current portion of 10% Senior convertible notes	535,773	--
	\$ 1,718,807	\$ 706,803

During the six months ended June 30, 2007, the Company issued an aggregate of \$1,435,000 of its 10% senior convertible notes. \$625,000 of the notes were issued for cash; \$810,000 of the notes were issued as consideration for the cancellation of \$636,407 in principal of and \$173,593 in accrued interest on its promissory notes (note 4). 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. The rate of conversion for \$400,000 of the notes is one common share for each \$0.03 of debt converted; the rate of conversion for \$1,035,000 of the notes is one common share for each \$0.06 of debt converted. Holders of \$835,000 of the notes may not exercise their conversion feature until such time as the authorized capital of the Company has been increased to at least 120,000,000 common shares.

The Company has the option of pre-paying all or any portion of the balance outstanding on the notes at any time, without penalty or bonus, with the permission of the holders. Interest is payable quarterly, in arrears, at such time as the holder requests payment, 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

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4. 10% Senior convertible notes (continued)

the ten days prior to the date the interest is due to the holder. \$350,000 of the notes issued during this period are secured by a first position lien on all of the assets of the Company; the remaining \$1,085,000 of the notes are unsecured.

Holders of the \$625,000 notes issued for cash were granted 1,675,000 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," \$107,666, representing the relative fair value of the common shares at the issuance date, was allocated to the common shares par value and additional paid in capital.

Holders of the \$810,000 notes issued in consideration for the cancellation of 12% promissory notes were granted 810,000 common shares of the Company, such grant to take effect only if and when the authorized capital of the Company has been increased to at least 120,000,000 common shares. Accordingly, the contingent share grant relating to these notes was not recorded at the date of issuance, and will be recorded at such time as the contingency is resolved.

Holders of the \$810,000 notes issued in consideration for the cancellation of 12% promissory notes were also granted 1,620,000 Series K warrants, which entitle the holders to purchase 1,620,000 common shares of the Company at an exercise price of \$0.03 per share, and expire on June 21, 2011. In accordance with APB 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants," \$102,515, representing the relative fair value of the warrants at the issuance date, was allocated to additional paid in capital.

At the date of issuance of \$600,000 of the notes issued for cash, the conversion feature of the notes was "in-the-money". The intrinsic value of this beneficial conversion feature was \$87,846. In accordance with EITF 98-05, "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.

\$25,000 of the notes issued for cash, as well as the \$810,000 face value of notes issued as consideration for the cancellation of principal and accrued interest on its 12% promissory notes are not convertible until such time as the authorized capital of the Company has been increased to at least 120,000,000 common shares. Accordingly, the contingent conversion feature of these notes was not recorded at the date of issuance, and will be recorded at such time as the contingency has been resolved.

On March 9, 2007, in conjunction with the issuance of \$200,000 10% senior convertible notes, \$900,000 of 10% senior convertible notes issued during 2006 were amended as follows: the ratio at which the outstanding principal plus accrued interest thereon could be converted into common stock of the Company was changed from \$0.10 to \$0.06; interest on the notes shall be accrued until such time as the holder requests payment. These amendments resulted in the terms of the amended notes being "substantially different" from the terms of the original notes, as that term is defined in EITF 96-19: "Debtor's Accounting for a Modification or Exchange of Debt Instruments". Accordingly the Company accounted for the modification as an extinguishment of the original debt, which resulted in a loss on the extinguishment of debt of \$177,234.

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The following table summarizes information regarding the 10% senior convertible notes outstanding at June 30, 2007:

	Face Value	Unamortized Discount	Carrying Value	Conversion Rate	Maturity Date
Maturing within one year	\$ 775,000	\$ 239,227	\$ 535,773	\$0.06	Oct 2007 – June 2008
Long term	400,000	110,831	289,169	0.03	July 2008 – May 2009
	1,160,000	217,283	942,717	0.06	July 2008 – June 2009
	750,000	263,079	486,921	0.10	July 2008 – Oct 2008
	2,310,000	591,193	1,718,807		
Total	\$ 3,085,000	\$ 830,420	\$2,254,580		

At June 30, 2007, \$1,250,000 face value of the 10% Senior Convertible notes were secured by a first position lien on all of the assets of the Company. The remaining \$1,835,000 was unsecured.

5. Stockholders' Equity

(a) Common stock transactions

During the six months ended June 30, 2007, the Company issued an aggregate of 659,001 shares of its common stock, valued at \$39,887, to the holders of the 10% senior convertible notes, in satisfaction of \$31,603 of accrued interest on the notes. A loss on settlement of accrued interest payable in the amount of \$8,283 (note 8) was recognized in connection with this transaction.

During the six months ended June 30, 2007, the Company issued an aggregate of 3,025,000 shares of its common stock, valued at \$139,150, for services rendered and to be rendered. \$130,989, representing the value of services rendered under these contracts as at June 30, 2007 has been included in selling, general and administrative expenses for the period then ended; \$8,161 has been included in prepaid expenses, and will be recognized as expense over the remaining term of the contracts.

During the six months ended June 30, 2007, the Company issued 1,000,000 shares of its common stock, valued at \$37,000, in consideration for consulting services rendered during the period from October 1, 2006 to January 16, 2007. \$31,519, representing the value of services rendered prior to December 31, 2006, was included in accrued liabilities at December 31, 2006 and in selling, general and administrative expenses for the year then ended. \$5,481, representing the value of services rendered during the six months ended June 30, 2007, has been included in selling, general and administrative expense for the period then ended.

During the six months ended June 30, 2007, the Company issued an aggregate of 1,275,000 shares of its common stock, valued at \$47,175, in settlement of accrued liabilities totaling \$127,500. A gain on settlement of debt in the amount of \$80,324 was recognized in connection with this transaction.

In connection with the issuance of the Company's 10% senior secured convertible notes during the six months ended June 30, 2007 (note 4), the Company issued a total of 1,675,000 of the Company's common shares, valued at \$107,666, to the holders of the notes.

In connection with the issuance of the Company's 10% senior secured convertible notes during the six months ended June 30, 2007 (note 4), the Company also granted holders of the notes an additional 810,000 common shares of the Company, which shares were not issued during the period, but will be issued at such time as the authorized capital of the Company has been increased to at least 120,000,000 common shares, in accordance with the terms of the notes.

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During the six months ended June 30, 2007, the Company issued 149,333 shares of its common stock, valued at \$6,659, in consideration for finance fees relating to the issuance of the Company's 10% senior secured convertible notes (note 4). 100,000 of the shares were prepaid, which resulted in a gain on the transaction of \$2,300.

(b) Transactions involving stock purchase warrants

During the six months ended June 30, 2007, the Company issued an aggregate of 3,120,000 series K warrants. The Series K warrants entitle the holders to purchase a total of 3,120,000 common shares of the Company at an exercise price of \$0.03 per share, are exercisable at any time, and expire on June 21, 2011. The fair value of the warrants at date of issuance was calculated using the Black Scholes option pricing model with the following assumptions: expected dividend yield 0%; risk-free interest rate of 5%; expected volatility of 134%; and an expected life of 4 years.

1,620,000 of the Series K warrants were granted in connection with the issuance of the Company's 10% Senior Convertible notes on June 21, 2007 (note 4). \$102,515, representing the relative fair value of the warrants at the issuance date, was allocated to additional paid in capital.

1,500,000 of the Series K warrants, valued at \$108,675, were issued as partial consideration for consulting services rendered and to be rendered. In relation to this transaction, \$6,937 has been included in selling, general and administrative expenses for the six months ended June 30, 2007. The remaining \$101,738 has been included in prepaid expenses, and will be expensed over the remaining twenty-two months of the contract term.

Effective May 15, 2007, the exercise price of the Company's Series I warrants was adjusted from \$0.10 to \$0.03, in accordance with the terms of the warrant agreements, which provide for the conversion rate to be adjusted at such time as the Company issues debt or equity instruments having a conversion rate lower than the rate then in effect for the Series I warrants. On May 15, 2007, the Company issued 10% senior convertible notes (note 4) having a conversion rate of \$0.03.

On May 31, 2007, the 3,146,000 Series F warrants expired.

Following is a summary of stock purchase warrants outstanding at June 30, 2007 and December 31, 2006:

	Exercise Price	Expiry	Outstanding June 30, 2007	Outstanding December 31, 2006
Series E	\$0.33	December, 2007	1,635,000	1,635,000
Series F	0.50	May, 2007	--	3,146,000
Series I	0.03	March, 2009	3,513,333	3,513,333
Series J	0.15	June, 2008	650,000	650,000
Series K	0.15	June, 2011	3,120,000	--
			8,918,333	8,944,833

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5. 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, 2007, there were a total of 6,305,000 options granted under these plans, with exercise prices ranging from \$0.04 to \$0.33, and expiry dates ranging from May 7, 2008 to June 19, 2012. All of these options are fully vested. 695,000 options remained available for grant under these plans as of June 30, 2007.

On June 11, 2007, the Company effected a cancellation of 2,667,302 options previously issued to employees and consultants, through a repurchase of the options from the holders for aggregate consideration of \$2,661 to be settled in cash, and 5,100,000 newly issued options. The newly issued options vested immediately; have an exercise price of \$0.04; and an expiry date of June 10, 2012, with provision for early forfeiture in the event the holder ceases to be engaged by the Company prior to the stated expiry date. The incremental fair value of these options at the date of grant was \$106,933, determined using the following weighted average assumptions: expected dividend yield 9%; risk-free interest rate of 5.06%; expected volatility of 168%; and an expected life of 5 years.

Also on June 11, 2007, the Company granted 900,000 options as partial consideration for consulting services rendered and to be rendered. \$1,149, representing the value of services rendered under this contract as at June 30, 2007 has been included in selling, general and administrative expenses for the period then ended; \$19,821 has been included in prepaid expenses, and will be recognized as expense over the remaining term of the contract. The fair value of these options at the date of grant was \$20,970, determined using the following weighted average assumptions: expected dividend yield 9%; risk-free interest rate of 5.06%; expected volatility of 168%; and an expected life of 5 years.

Following is a summary of stock options outstanding at June 30, 2007 and December 31, 2006:

	Six months ended June 30, 2007	Weighted Average Exercise Price	Year ended December 31, 2006	Weighted Average Exercise Price
	# of Options		# of Options	
Options outstanding, beginning of period	3,447,302	\$ 0.50	5,252,302	\$ 0.50
Granted	6,000,000	0.04	100,000	0.67
Cancelled	(2,667,302)	0.50	--	--
Expired	(408,000)	0.60	(1,655,000)	0.51
Forfeited	(67,000)	0.67	(250,000)	0.57
Options outstanding, end of period	6,305,000	\$ 0.05	3,447,302	\$ 0.50
Options exercisable, end of period	6,305,000	\$ 0.05	3,297,302	\$ 0.49

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5. Stockholders' Equity (continued)

(c) Transactions involving stock options (continued)

The following table summarizes information regarding stock options outstanding at June 30, 2007:

Options Outstanding			Options Exercisable		
Exercise price	Number outstanding At 06/30/07	Weighted average remaining contractual life	Weighted average exercise price	Number outstanding At 06/30/07	Weighted average exercise price
\$ 0.33	305,000	0.9 years	\$ 0.33	305,000	\$ 0.33
0.04	6,000,000	5.0 years	0.04	6,000,000	0.04
	6,305,000		\$ 0.05	6,305,000	\$ 0.05

(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, 2007 and 2006:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Selling, general and administrative	188,597	42,805	311,517	155,550
Research and development	19,458	3,313	19,458	6,626
Total stock-based compensation included in expenses	\$ 208,055	\$46,118	\$330,975	\$162,176

6. Interest and Financing Costs

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

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7. Loss on extinguishment of debt and accrued liabilities

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Loss on settlement of \$31,603 of accrued interest on 10% senior secured convertible notes (note 7(a))	\$ --	\$ --	\$ 8,283	\$ --
Gain on issuance of 1,275,000 common shares, valued at \$47,175, in settlement of accrued liabilities totaling \$127,500 (note 5(a))	--	--	(80,324)	--
Gain on issuance of 100,000 common shares, valued at \$3,700, as partial consideration for finance fees payable in connection with \$200,000 in principal amount of the 10% senior convertible notes	--	--	(2,300)	--
Loss recognized on the modification of the 10% senior convertible notes (note 6)	--	--	177,234	--
	\$ --	\$ --	\$ 102,893	\$ --

8. 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 anti-dilutive:

	June 30, 2007	June 30, 2006
Stock options	6,305,000	4,902,302
Series E stock purchase warrants	1,635,000	2,155,000
Series F stock purchase warrants	--	3,146,000
Series G stock purchase warrants	--	400,000
Series H stock purchase warrants	--	2,652,500
Series I stock purchase warrants	3,513,333	3,513,333
Series J stock purchase warrants	650,000	--
Series K stock purchase warrants	3,120,000	--
	<u>15,223,333</u>	<u>16,769,135</u>

9. Related Party Transactions

Included in promissory notes payable is \$7,723 payable to a company controlled by a director of the Company, and \$18,020 payable to a director. \$1,840 in accrued interest charges relating to these notes is included in accrued liabilities at June 30, 2007 (December 31, 2006: \$221); \$1,619 is included in interest and finance charges for the period then ended (June 30, 2006: \$nil).

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10. Commitments

In April 2007, the lease period of the agreement for office space was extended for a period of three years. Minimum annual rent payable under this contract, including operating costs, is approximately as follows:

2007	\$ 37,247
2008	74,494
2009	74,494
2010	24,831
Total	<u>\$ 211,066</u>

Rental expense for the period, which is included in selling, general and administrative expenses, has been reduced by sublease income of \$15,796 (2006 - \$15,785). The anticipated remaining sublease income is approximately as follows: 2007 - \$2,833. The transaction has been recorded at the exchange amount.

Rent expense incurred under the operating lease for the six months ended June 30, 2007, net of sublease income was \$49,449 (2006 - \$57,239).

11. Supplementary Cash Flow Information

The Company paid no income taxes during the six months ended June 30, 2007, nor during the six months ended June 30, 2006. Interest paid in cash during the six months ended June 30, 2007 and June 30, 2006 was \$684 and \$1,209, 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, 2007 and June 30, 2006:

	2007	2006
Debt issuance costs	\$ 23,960	\$ 46,385
Issuance of 659,001 shares of the Company's common stock, valued at \$39,887, in settlement of interest payable in the amount of \$31,603	39,887	--
Issuance of 1,275,000 shares of the Company's common stock, valued at \$47,175, in settlement of accrued liabilities totaling \$127,500	47,175	--
Issuance of 1,025,000 shares of the Company's common stock, valued at \$38,150, in satisfaction of consulting fees payable, \$31,519 of which was included in accrued liabilities at December 31, 2006	38,150	--
Issuance of 3,000,000 shares of the Company's common stock, valued at \$138,000, in respect of consulting services rendered and to be rendered	138,000	--
Payable to employees and consultants with respect to the repurchase of options issued in prior periods	2,661	--
	<u>\$ 289,833</u>	<u>\$ 46,385</u>

12. Subsequent events

On July 9, 2007 the Company purchased for cancellation all 1,635,000 of its outstanding Series E warrants, for cash consideration of \$1,000.

Also on July 9, 2007 a holder of the Company's 10% Senior Convertible notes exercised the conversion option and converted \$50,000 in principal and \$3,027 in accrued interest in exchange for 572,194 shares of common stock.

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 and operational 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 2006 Consolidated Financial Statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2006. 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, 2007 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 undelivered elements, revenue is deferred until such time as it can be determined or until all of the elements are 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.

RESULTS OF OPERATIONS

The Three Months Ended June 30, 2007 Compared to the Three Months Ended June 30, 2006

Revenue: We had no revenue during the three months ended June 30, 2007, nor during the three months ended June 30, 2006. 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, 2007, we incurred a total of \$502,101, including \$313,504 in cash-based expenses and \$188,597 in stock-based expenses, as compared to \$444,064, of which \$401,259 was cash-based and \$42,805 was stock-based expense, during the three months ended June 30, 2006. There was an overall increase in selling, general and administrative expenses of \$58,037 (13%), comprised of a \$145,792 (341%) increase in the stock-based component of this expense, which was partially offset by a \$87,755 (22%) decrease in the cash-based component.

The majority of the decrease in the cash-based component of selling, general and administrative expenses occurred 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, 2006. We have made efforts to reduce costs in these departments, through measures such as reducing the number of personnel, 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 and investor relations expenses also decreased significantly during the three months ended June 30, 2007 as compared with the three months ended June 30, 2006, primarily as a result of a reduction in fees paid to investor relations consultants, a reduction in salaries due to the retirement of a director and officer on December 31, 2006, and lower occupancy costs due to the reduction in size of leased premises. These reductions were partially offset by additional legal fees relating to the action brought against the Company by a former director, and costs associated with our ongoing efforts to reinstate our stock listing on the Nasdaq OTC bulletin board.

The stock-based component of selling, general and administrative expense for the three month period ended June 30, 2007 consisted of the amortization of prepaid consulting fees recognized on the issuance of warrants during 2003; amortization of prepaid consulting fees recorded during first quarter of 2007 on the issuance of common stock in consideration for services rendered and to be rendered; amortization of prepaid consulting fees recorded during the three months ended June 30, 2007 on the issuance of options and warrants in consideration for consulting services rendered and to be rendered; the incremental value of stock options issued during the three months ended June 30, 2007 in exchange for the repurchase and cancellation of options issued in prior years; and the fair value of unvested employee stock options earned during the period. The stock-based component of this 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 the fair value of unvested employee stock options earned during the period, which was partially offset by the reversal of the fair value of unvested employee stock options previously recognized, in respect of unvested options forfeited during the period.

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, 2007, we incurred \$347,762, including \$328,304 in cash-based expenses and \$19,458 in stock-based expenses, developing our software applications, compared to \$296,598, of which \$293,285 was cash-based and \$3,313 was stock-based expense, during the three months ended June 30, 2006. Total research and development expenses increased by \$51,164 (17%), comprised of a \$35,019 (12%) increase in the cash-based component, and a \$16,145 (487%) increase in the stock-based component of this expense. The increase in the cash-based component is due primarily to the costs incurred during the period for the development of a software component by another software development contractor, designed to assist a customer in implementing our software, for which there was no comparable cost during the three months ended June 30, 2006. This increase was partially offset by a reduction in consulting fees paid to the Europe-based contract development group as a result of a decrease in the number of personnel deployed to our development activities from an average of 19 personnel during the three months ended June 30, 2006, to an average of 5 personnel during the three months ended June 30, 2007.

Stock-based research and development expenses for the three months ended June 30, 2007 consisted of the incremental value of options issued to a consultant in exchange for the repurchase and cancellation of options previously issued, for

which there was no comparable transaction during the three months ended June 30, 2006. Stock-based expenses for the three months ended June 30, 2006 consisted of the fair value of unvested employee stock options earned during the period, for which there was no comparable transaction during the three months ended June 30, 2007.

Interest and financing costs: Interest and financing costs during the three months ended June 30, 2007 and 2006 consisted of costs associated with our 10% senior convertible notes, our promissory notes payable and interest on the capital lease. During the three months ended June 30, 2007, we incurred \$241,326 in interest and financing costs, an increase of \$188,673 (358%) over the \$52,653 in interest and financing costs incurred during the three months ended June 30, 2006.

Of the \$241,326 in interest and financing costs we incurred during the three months ended June 30, 2007, \$222,826 relates to our 10% senior convertible notes, \$18,189 relates to our promissory notes and \$311 relates to the capital lease. Of the \$52,653 in interest and financing costs we incurred during the three months ended June 30, 2006, \$36,057 relates to our 10% senior convertible notes, \$16,022 relates to our promissory notes and \$574 relates to the capital lease.

The \$222,826 in interest and financing costs relating to our 10% senior convertible notes for the three months ended June 30, 2007 is comprised of: \$52,804 of accrued interest charges; \$137,288 of accretion of the principal through charges to interest expenses; and \$32,734 of amortization of deferred financing costs. The \$36,057 in interest and financing costs relating to our 10% senior convertible notes for the three months ended June 30, 2006 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 increase of \$186,769 (518%) in interest and financing costs relating to our 10% senior convertible notes is a result of an increase of \$2,535,000 in the principal balance of the notes during the period from July 2006 to June 2007, which increased the balance on which interest was charged during the three months ended June 30, 2007.

Interest on our promissory notes increased by \$2,167 (14%), from \$16,022 during the three months ended June 30, 2006, to \$18,189 during the three months ended June 30, 2007. This increase occurred as a result of an increase of \$374,511 in the principal outstanding on the notes during the period from July 2006 to June 2007, which increased the balance on which interest was charged during the three months ended June 30, 2007 as compared with the three months ended June 30, 2006.

Net loss: We incurred a loss of \$1,141,638 (\$0.02 per share) for the three months ended June 30, 2007, compared to a loss of \$813,798 (\$0.02 per share) for the three months ended June 30, 2006. Our revenues and future profitability are substantially dependent on our ability to:

- raise additional capital to fund operations;
- 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, 2007 Compared to the Six Months Ended June 30, 2006

Revenue: We had no revenue during the six months ended June 30, 2007, nor during the six months ended June 30, 2006. 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, 2007, we incurred a total of \$930,233, including \$618,716 in cash-based expenses and \$311,517 in stock-based expenses, as compared to \$994,800, of which \$839,250 was cash-based and \$155,550 was stock-based expense, during the six months ended June 30, 2006. There was an overall decrease in selling, general and administrative expenses of \$64,567 (6%), comprised of a \$220,534 (26%) decrease in the cash-based component, which was partially offset by a \$155,967 (100%) increase in the stock-based component of this expense.

The majority of the decrease in the cash-based component of selling, general and administrative expenses occurred 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, 2006. We have made efforts to reduce costs in these departments, through measures such as reducing the number of personnel, 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 and investor relations expenses also decreased significantly during the six months ended June 30, 2007 as compared with the six months ended June 30, 2006, primarily as a result of a reduction in fees paid to investor relations consultants, a reduction in salaries due to the retirement of a director and officer on December 31, 2006, and lower occupancy costs due to the reduction in size of leased premises. These reductions were partially offset by additional legal fees relating to the action brought against the Company by a former director, and costs associated with our ongoing efforts to reinstate our stock listing on the Nasdaq OTC bulletin board.

The stock-based component of selling, general and administrative expense for the six month period ended June 30, 2007 consisted of the amortization of prepaid consulting fees recognized on the issuance of warrants during 2003; amortization of prepaid consulting fees recorded during first quarter of 2007 on the issuance of common stock in consideration for services rendered and to be rendered; amortization of prepaid consulting fees recorded during the six months ended June 30, 2007 on the issuance of options and warrants in consideration for consulting services rendered and to be rendered; the incremental value of stock options issued during the six months ended June 30, 2007 in exchange for the repurchase and cancellation of options issued in prior years; the fair value of common stock issued as compensation for services rendered during the period; and the fair value of unvested employee stock options earned during the period. The stock-based component of this 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; the fair value of common stock issued as compensation for services rendered during the period; and the fair value of unvested employee stock options earned during the period, which was partially offset by the reversal of the fair value of unvested employee stock options previously recognized, in respect of unvested options forfeited during the period.

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, 2007, we incurred \$590,986, including \$571,528 in cash-based expenses and \$19,458 in stock-based expenses, developing our software applications, compared to \$599,991, of which \$593,365 was cash-based and \$6,626 was stock-based expense, during the six months ended June 30, 2006. Total research and development expenses decreased by \$9,005 (2%), comprised of a \$21,837 (4%) decrease in the cash-based component, which was partially offset by a \$12,832 (194%) increase in the stock-based component of this expense. The decrease in the cash-based component is due primarily to a reduction in consulting fees paid to the Europe-based contract development group as a result of a decrease in the number of personnel deployed to our development activities from an average of 19 personnel during the six months ended June 30, 2006, to an average of 13 personnel during the six months ended June 30, 2007. This decrease was partially offset by costs incurred during the period for the development of a software component by another software development contractor, designed to assist a customer in implementing our software, for which there was no comparable cost during the six months ended June 30, 2006.

Stock-based research and development expenses for the six months ended June 30, 2007 consisted of the incremental value of options issued to a consultant in exchange for the repurchase and cancellation of options previously issued, for which there was no comparable transaction during the six months ended June 30, 2006. Stock-based expenses for the six months ended June 30, 2006 consisted of the fair value of unvested employee stock options earned during the period, for which there was no comparable transaction during the six months ended June 30, 2007.

Interest and financing costs: Interest and financing costs during the six months ended June 30, 2007 and 2006 consisted of costs associated with our 10% senior convertible notes, our promissory notes payable and interest on the capital lease. During the six months ended June 30, 2007, we incurred \$426,577 in interest and financing costs, an increase of \$362,734 (568%) over the \$63,843 in interest and financing costs incurred during the six months ended June 30, 2006.

Of the \$426,577 in interest and financing costs we incurred during the six months ended June 30, 2007, \$388,810 relates to our 10% senior convertible notes, \$37,083 relates to our promissory notes and \$684 relates to the capital lease. 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 convertible notes, \$26,577 relates to our 12% promissory notes and \$1,209 relates to the capital lease.

The \$388,810 in interest and financing costs relating to our 10% senior convertible notes for the six months ended June 30, 2007 is comprised of: \$95,237 of accrued interest charges; \$233,570 of accretion of the principal through charges to interest expenses; and \$60,003 of amortization of deferred financing costs. The \$36,057 in interest and financing costs relating to our 10% senior convertible notes for the six months ended June 30, 2006 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 increase of \$352,753 (978%) in interest and financing costs relating to our 10% senior

convertible notes is a result of an increase of \$2,535,000 in the principal balance of the notes during the period from July 2006 to June 2007, which increased the balance on which interest was charged during the six months ended June 30, 2007.

Interest on our promissory notes increased by \$10,506 (40%), from \$26,577 during the six months ended June 30, 2006, to \$37,083 during the six months ended June 30, 2007. This increase occurred as a result of an increase of \$374,511 in the principal outstanding on the notes during the period from July 2006 to June 2007, which increased the balance on which interest was charged during the six months ended June 30, 2007 as compared with the six months ended June 30, 2006.

Loss on extinguishment of debt and accrued liabilities: During the six months ended June 30, 2007, we recorded a net loss on extinguishment of debt in the amount of \$102,893. This total is comprised of a number of transactions involving the restructuring of our debt securities. The terms of our 10% senior secured convertible notes were modified. A loss of \$177,234 was recorded on this transaction. We also incurred a loss of \$8,283 on the settlement of accrued interest on our 10% senior secured convertible notes and our 10% senior secured notes, as a result of the difference in market value of the stock issued in settlement, and the actual amount of the liability settled. These losses were partially offset by a gain of \$80,324 on the issuance of 1,275,000 common shares, valued at \$47,175, in settlement of accrued liabilities totaling \$127,500, and a gain of \$2,300 on the issuance of 100,000 common shares, valued at \$3,700, as partial consideration for finance fees payable. There were no comparable transactions during the six months ended June 30, 2006.

Net loss: We incurred a loss of \$2,118,565 (\$0.05 per share) for the six months ended June 30, 2007, compared to a loss of \$1,691,662 (\$0.05 per share) for the six months ended June 30, 2006. Our revenues and future profitability are substantially dependent on our ability to:

- raise additional capital to fund operations;
- 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. Moreover, in order to raise additional capital involving the issuance of shares of the Company's common stock or other securities that are convertible into or exchanged for the Company's common stock, the authorized capital of the Company must be increased over the current 100,000,000 common shares.

At June 30, 2007, we had \$49,785 in cash and cash equivalents, and at December 31, 2006, we had \$7,780 in cash and cash equivalents. Our cash and cash equivalents increased by \$42,005 during the six months ended June 30, 2007. Our net loss during the period of \$2,118,565, and resulting cash used in operations of \$644,936, were partially offset by an increase in cash resulting from the issuance of \$625,000 of 10% senior convertible notes, and \$70,413 from the issuance of promissory notes. Our cash and cash equivalents decreased by \$48,290 during the six months ended June 30, 2006 primarily as a result of our net loss of \$1,691,662, and resulting cash used in operations of \$841,949, which were partially offset by an increase in cash resulting from the issuance of \$550,000 10% senior convertible notes, and \$245,200 in 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, 2006. It states that our economic viability is dependent on our ability to finalize the development of our principal products, generate sales and finance operational expenses, and that these factors, together with our lack of revenues to date; our negative working capital; our loss for the year, as well as negative cash flow from operating activities in the same period; and our accumulated deficit raise substantial doubt regarding our ability to continue as a going concern. At June 30, 2007, we had negative working capital of \$2,051,310 and an accumulated deficit during the development stage of \$26,761,747; for the six months then ended we had a net loss of \$2,118,565, and negative cash flow from operations of \$644,936; and note 1 to our unaudited interim condensed financial statements for the period ended June 30, 2007 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 has been collected. We will recognize revenue in connection with this sale once all of the criteria required for us to do so as set out in our accounting policies, have been met.

We anticipate additional commercial sales during the third quarter of 2007, however we cannot be assured that this will be the case. During the six months ended June 30, 2007 one of our full-time employees left the Company. We have no plans to hire 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. However, in order to raise additional capital involving the issuance of shares of the Company’s common stock or other securities that are convertible into or exchanged for the Company’s common stock, the authorized capital of the Company must be increased over the current 100,000,000 common shares. Since February 2006, we have engaged financial advisers to provide advice to us with respect to the raising of capital. However, additional funding may not be available to us on reasonable terms, if at all. The perceived risk associated with the possible sale of a large number of shares 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, 2007, we issued \$70,413 of promissory notes and \$625,000 of 10% senior secured convertible notes, which generated cash for funding operations. During this period we issued a further \$810,000 in 10% senior convertible notes in consideration for the cancellation of \$810,000 of principal and accrued interest on our 12% promissory notes, which will reduce the overall cash-based interest charges on our debt. In addition, we issued 4,025,000 common shares in consideration for consulting services rendered and to be rendered, 149,333 common shares in consideration for finance fees, 1,275,000 common shares in settlement of accrued liabilities, 900,000 options and 1,500,000 Series K warrants in consideration of consulting services rendered and to be rendered; and 659,001 common shares issued in settlement of accrued interest on our 10% senior secured convertible notes and our 10% senior convertible notes, all of which reduced our requirement for cash. We also issued 5,100,000 new options as partial consideration for the cancellation of 2,667,302 options previously issued, as an incentive to current personnel, which also reduced our requirement for cash.

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. Cash-based research and development expenses for the six months ended June 30, 2007 decreased by approximately 4% as compared to the six months ended June 30, 2006, as a result of cash conservation efforts. Cash-based selling, general and administrative expenses for the six months ended June 30, 2007 decreased by approximately 26% as compared to the six months ended June 30, 2006, due to several factors, including a reduction in selling and marketing initiatives, and as explained more fully under “Results of Operations.”

During the year ended December 31, 2006, we hired one new full-time employee and had three full-time employees and two full-time consultants leave the Company. Our plans with respect to future staffing will be dependant upon our ability to raise additional capital. We have not entered into any off-balance sheet arrangements which would have resulted in our use of capital.

The cost to implement appropriate controls and procedures to ensure compliance with Section 404 of the Act is included in our budget for 2007.

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 years ended December 31, 2006 and 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.

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

We were unable to eliminate the identified weaknesses with respect to the period covered by this report. 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. Until the beginning of the fourth quarter of 2005, we had only three people involved with the processing of accounting entries: the Office Administrator, the Controller and the Chief Financial Officer. It was therefore difficult to effectively segregate accounting duties. During the fourth quarter of 2005, we retained the services of a part-time independent consultant to assist in performing routine, month end accounting procedures. This consultant left the Company effective May 2006, however, and has not been replaced. 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. Throughout 2005 and until the third quarter of 2006, we were able to complete most of our back up schedules prior to the arrival of our independent registered public accountants’ audit staff. However, we did not file our quarterly report on Form 10-QSB for the quarter ended September 30, 2006 until November 24, 2006, nor did we file our annual report on form 10-KSB for the year ended December 31, 2006 until May 18, 2007, which late filings were partially the result of our lack of timely preparedness. As such, we believe that this material weakness had not been remediated as of the end of the period covered by this report. One of our objectives in hiring the part-time consultant during the fourth quarter of 2005 to perform routine, month end accounting procedures, was to improve the timeliness of preparation of back up schedules and thus permit us to complete our financial reporting on a more timely basis. This individual provided some assistance in these areas, however the arrangement did not work out as anticipated, and the consultant was no longer engaged by us as of May 2006. Effective during the latter part of the quarter ended March 31, 2007, we commenced the process of reviewing and expanding our formal month-end procedures, with the objective of improving the timeliness of the preparation of future quarterly reports and related back up schedules.

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, 2007 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 May 15 and June 5, 2007, the Company issued an aggregate of \$450,000 of its 10% senior convertible notes to accredited investors. The 10% senior convertible 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 \$0.03 in principal converted. In addition, the Company issued 1,200,000 shares of its common stock pursuant to the terms of the notes.

On June 11, 2007, the Company effected a cancellation of 2,667,302 options previously issued to employees and consultants, through a repurchase of the options from the holders for aggregate consideration of \$2,661 plus 5,100,000 newly issued options. The newly issued options are fully vested; have an exercise price of \$0.04; and an expiry date of June 10, 2012, with provision for early forfeiture in the event the holder ceases to be engaged by the Company prior to the stated expiry date.

On June 11 and June 21, the Company issued 900,000 options and 1,500,000 warrants, respectively, to an unrelated accredited investor, in consideration for consulting services rendered and to be rendered. The 900,000 options are fully vested; have an exercise price of \$0.04; and an expiry date of June 10, 2012, with provision for early forfeiture in the event the holder ceases to be engaged by the Company prior to the stated expiry date. The 1,500,000 warrants entitle the holder to purchase 1,500,000 shares of the Company's common stock at an exercise price of \$0.03 per share, are exercisable at any time, and expire on June 21, 2011.

On June 21, 2007, the Company issued \$810,000 of its 10% senior convertible notes to accredited investors, in consideration for the cancellation of \$636,407 in principal of and \$173,593 in accrued interest on its 12% promissory notes. The 10% senior convertible 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, subject to the authorized capital of the Company being increased to at least 120,000,000 common shares; such conversion will be at the rate of 1 common share for every \$0.06 in principal converted. In addition, the Company granted 810,000 shares of its common stock pursuant to the terms of the notes, such shares becoming issuable to the investor only at such time as the authorized capital of the Company is increased to at least 120,000,000 common shares. The investors also received 1,620,000 warrants to purchase 1,620,000 shares of the Company's common stock at an exercise price of \$0.03 per share. The warrants are exercisable at any time, and expire on June 21, 2011.

On June 22, 2007, the Company issued \$25,000 of its 10% senior convertible notes to an accredited investor. The 10% senior convertible 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, subject to the authorized capital of the Company being increased to at least 120,000,000 common shares; such conversion will be at the rate of 1 common share for every \$0.06 in principal converted. In addition, the Company issued 75,000 shares of its common stock pursuant to the terms of the notes.

On July 9, 2007 the Company purchased for cancellation, from an accredited investor, all 1,635,000 of its outstanding Series E warrants, for cash consideration of \$1,000.

On July 9, 2007 the Company issued 572,194 shares of its common stock to an accredited investor in relation to the conversion of \$50,000 in principal of and \$3,027 in accrued interest on the 10% Senior Convertible notes.

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	Form of Series J warrant
4.2	Form of Series K warrant
4.3	Form of 10% Senior Convertible Notes
4.4	Form of 10% Senior Convertible Notes
4.5	Form of 10% Senior Convertible Notes
4.6	Form of 10% Senior Secured Convertible Notes
4.7	Form of Security Agreement
10.1	Nonqualified Stock Option Agreement (Bruce Benn)
10.2	Nonqualified Stock Option Agreement (Ronald Benn)
10.3	Option Relinquishment and Release Agreement (Bruce Benn)
10.4	Option Relinquishment and Release Agreement (Ronald Benn)
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 16, 2007

By: /s/ Ronald Benn

Ronald Benn

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

Dated: August 16, 2007

Exhibit 4.1

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (THE "ACT") OR ANY STATE SECURITIES LAW, AND MAY NOT BE OFFERED FOR SALE, SOLD OR TRANSFERRED UNLESS A REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS SHALL BE EFFECTIVE WITH RESPECT THERETO, OR AN OPINION OF COUNSEL, IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE COMPANY, THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS IS AVAILABLE OR UNLESS SOLD PURSUANT TO RULE 144 UNDER THE SAID ACT.

VALIDIAN CORPORATION

COMMON STOCK PURCHASE WARRANT

Warrant No.: ____

Number of Warrant Shares: _____

Series J

Date of Issuance: _____

Validian Corporation, a Nevada corporation (the "**Company**"), hereby certifies that, for value received, _____ (the "**Holder**") is entitled, subject to the terms set forth below, to purchase from the Company upon surrender of this Warrant, at any time or times on or after the date hereof, but not after 11:59 P.M. Eastern Time on the Expiration Date (as defined herein) _____ (_____) fully paid nonassessable **shares** of Common Stock (as defined in Section 1(a)) of the Company (the "**Warrant Shares**") at the purchase price per share provided in Section 1(a) below (the "**Exercise Price**"); provided, however, that in no event shall the Holder be entitled to exercise this Warrant for a number of Warrant Shares in excess of that number of Warrant Shares which, upon giving effect to such exercise, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its affiliates to exceed 4.99% of the outstanding shares of the Common Stock following such exercise. For purposes of the foregoing proviso, the aggregate number of shares of Common Stock beneficially owned by the Holder and its affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which the determination of such proviso is being made, but shall exclude shares of Common Stock which would be issuable upon (i) exercise of the remaining, unexercised Warrants beneficially owned by the Holder and its affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any Other Securities of the Company beneficially owned by the Holder and its affiliates (including, without limitation, any convertible notes, convertible preferred stock, warrants or rights to receive shares of Common Stock) subject to a limitation on conversion or exercise analogous to the limitation contained herein. Except as set forth in the preceding sentence, for purposes of this paragraph, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. The Holder may waive the foregoing limitations by written notice to the Company upon not less than 61 days prior notice (with such waiver taking effect only upon the expiration of such 61 day notice period).

Section 1.

(a) Definitions. The following words and terms as used in this Warrant shall have the following meanings:

"Business Day" means any day except Saturday, Sunday and any day which is designated in the State of New York as a legal holiday or a day on which banking institutions are authorized or legally required by other government action to close.

"Common Stock" means (i) the Company's common stock, par value \$.001 per share, and (ii) any capital stock into which such Common Stock shall have been changed or any capital stock resulting from a reclassification of such Common Stock.

"Escrow Agent" means Alan R. Turem, P.C. having an office at 4651 Roswell Road, Suite B-105 Atlanta, Georgia 30342.

"Exercise Price" shall be \$0.15 USD, subject to adjustment as hereinafter provided.

"Expiration Date" means _____.

"Holder" includes the Person in whose name this Warrant has been issued or any transferee or assignee provided that such transferee or assignee has become a Holder in accordance with the provisions of this Warrant.

"Other Securities" means (i) those securities, convertible securities, options and warrants of the Company issued prior to, and outstanding on, the date of issuance of this Warrant, (ii) shares of Common Stock, and warrants or other securities that are convertible into or exchangeable for shares of Common Stock, issuable in connection with the subsequent acquisitions by the Company.

"Person" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, a government or any department or agency thereof, or any other entity or organization.

"Securities Act" means the Securities Act of 1933, as amended.

"Warrant" means this Warrant and all Warrants issued in exchange, transfer or replacement thereof.

"Warrant Shares" means the shares of Common Stock issuable upon the exercise of this Warrant.

(b) Other Definitional Provisions.

(i) Except as otherwise specified herein, all references herein (A) to the Company shall be deemed to include the Company's successors and (B) to any applicable law defined or referred to herein, shall be deemed references to such applicable law as the same may have been or may be amended or supplemented from time to time.

(ii) When used in this Warrant, the words "**herein**," "**hereof**," and "**hereunder**," and words of similar import, shall refer to this Warrant as a whole and not to any provision of this Warrant, and the words "**Section**," "**Schedule**," and "**Exhibit**" shall refer to Sections of, and Schedules and Exhibits to, this Warrant unless otherwise specified.

(iii) Whenever the context so requires, the neuter gender includes the masculine or feminine, and the singular number includes the plural, and vice versa.

Section 2. Exercise of Warrant.

(a) Exercise may be done at any time during normal business hours on any Business Day on or after the opening of business on the date hereof and prior to 11:59 P.M. Eastern Time on the Expiration Date by delivery to the Escrow Agent and the Company in the manner specified below of (i) a written notice of such Holder's election to exercise this Warrant which notice shall be in the form attached as Exhibit A hereto, (the "**Exercise Notice**"), and shall specify the number of Warrant Shares to be purchased and the other information set out therein, (ii) payment to the Company of an amount equal to the Exercise Price multiplied by the number of Warrant Shares as to which the Warrant is being exercised (the "**Aggregate Exercise Price**") in cash or by check or wire transfer payable to the Company in immediately available funds, and (iii) the surrender of this Warrant. Provided, that if such Warrant Shares are to be issued in any name other than that of the registered Holder of this Warrant, such issuance shall be deemed a transfer and the provisions of Section 7 shall be applicable and the Exercise Notice shall be accompanied by such additional documentation as may be required by that Section. Such Exercise Notice, payment, Warrant and other documentation required for exercise shall be delivered to the Escrow Agent at the address set out in Section 1 with a copy of the Exercise Notice being delivered simultaneously to the Company.

(b) In the event of any exercise of the rights represented by this Warrant in compliance with Section 2(a), a certificate or certificates for the Warrant Shares so purchased, in such denominations as may be requested by the Holder hereof and registered in the name of, or as directed by, the Holder, shall be delivered at the Company's expense to, or as directed by, such Holder as soon as practicable after such rights shall have been so exercised, and in any event no later than five (5) Business Days after delivery of the Exercise Notice to the Escrow Agent. In the case of a dispute as to the determination of the Exercise Price of a security or the arithmetic calculation of the Warrant Shares, the Company shall promptly issue to the Holder the number of shares of Common Stock that is not disputed and shall submit the disputed determinations or arithmetic calculations to the Holder via facsimile within one Business Day of receipt of the Holder's Exercise Notice. If the Holder and the Company are unable to agree upon the determination of the Exercise Price or

arithmetic calculation of the Warrant Shares within one day of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall immediately submit via facsimile (i) the disputed determination of the Exercise Price to an independent, reputable investment banking firm or (ii) the disputed arithmetic calculation of the Warrant Shares to its independent, outside accountant. The Company shall cause the investment banking firm or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than two (2) Business Days from receipt of the disputed determinations or calculations. Such investment banking firm's or accountant's determination or calculation, as the case may be, shall be deemed conclusive absent manifest error.

(c) Unless the rights represented by this Warrant shall have expired or shall have been fully exercised, the Company shall, as soon as practicable and in no event later than five Business Days after any exercise and at its own expense, issue a new Warrant identical in all respects to the Warrant exercised except (i) it shall represent rights to purchase the number of Warrant Shares purchasable immediately prior to such exercise under the Warrant exercised, less the number of Warrant Shares with respect to which such Warrant is exercised, and (ii) the Holder thereof shall be deemed for all corporate purposes to have become the Holder of record of such Warrant Shares immediately prior to the close of business on the date on which the Warrant is surrendered and payment of the amount due in respect of such exercise and any applicable taxes is made, irrespective of the date of delivery of certificates evidencing such Warrant Shares, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are properly closed, such Person shall be deemed to have become the Holder of such Warrant Shares at the opening of business on the next succeeding date on which the stock transfer books are open.

(d) No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but rather the number of shares of Common Stock issued upon exercise of this Warrant shall be rounded up or down to the nearest whole number.

(e) If at any time from the date of issuance of this Warrant there is no effective registration statement registering the resale of the Warrant Shares by the Holder at such time, this Warrant may also be exercised at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing $[(A-B) (X)]$ by (A), where:

(A) = the VWAP, as defined below, on a trading day from 9:30 a.m. to 4:02 p.m. Eastern Time ("Trading Day") immediately preceding the date of such election;

(B) = the Exercise Price of this Warrant, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

“VWAP” means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on Nasdaq, Amex or the N.Y. Stock Exchange (a “Principal Market”), the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Principal Market on which the Common Stock is then listed or quoted as reported by Bloomberg Financial L.P.; (b) if the Common Stock is not then listed or quoted on a Principal Market and if prices for the Common Stock are then quoted on the OTC Bulletin Board, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the OTC Bulletin Board; (c) if the Common Stock is not then listed or quoted on a Principal Market and if prices for the Common Stock are then reported in the “Pink Sheets” published by the National Quotation Bureau Incorporated (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (d) in all other cases, the fair market value of a share of Common Stock as determined by a nationally recognized-independent appraiser selected in good faith by shareholders holding a majority of the principal amount of shares of Common Stock of the Company then outstanding.

Section 3. Covenants as to Common Stock; Certain Registrations. The Company hereby covenants and agrees as follows:

- (a) This Warrant is, and any Common Stock Warrants issued in substitution for or replacement of this Warrant will upon issuance be, duly authorized and validly issued.
- (b) All Warrant Shares which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof.
- (c) During the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved at least 100% of the number of shares of Common Stock needed to provide for the exercise of the rights then represented by this Warrant and the par value of said shares will at all times be less than or equal to the applicable Exercise Price.
- (d) The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, and (ii) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

- (e) This Warrant will be binding upon any entity succeeding to the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets.

Section 4. Taxes. The Company shall pay any and all issue or transfer taxes or other incidental expenses (but not including any income or capital taxes) which may be payable with respect to the issuance and delivery of Warrant Shares upon exercise of this Warrant.

Section 5. Warrant Holder Deemed Not a Stock Holder. Except as otherwise specifically provided herein, no Holder, as such, of this Warrant shall be entitled to vote or receive dividends or be deemed the Holder of shares of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of this Warrant of the Warrant Shares which he or she is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on such Holder to purchase any securities or as a stockholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company. Notwithstanding this Section 5, the Company will provide the Holder of this Warrant with copies of the same notices and other information given to the stockholders of the Company generally, contemporaneously with the giving thereof to the stockholders.

Section 6. Representations of Holder. The Holder of this Warrant, by the acceptance hereof, represents that it is acquiring this Warrant and the Warrant Shares for its own account for investment and not with a view to, or for sale in connection with, any distribution hereof or of any of the shares of Common Stock or other securities issuable upon the exercise thereof, and not with any present intention of distributing any of the same. The Holder of this Warrant further represents, by acceptance hereof, that, as of this date, such Holder is an accredited investor as such term is defined in Rule 501(a) of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act (an "**Accredited Investor**"). Upon exercise of this Warrant, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the Warrant Shares so purchased are being acquired solely for the Holder's own account and not as a nominee for any other party, for investment, and not with a view toward distribution or resale other than pursuant to an effective registration statement or an exemption under the Securities Act and that such Holder is an Accredited Investor. Notwithstanding the foregoing, by making the representations herein, the Holder does not agree to hold the Warrant or the Warrant Shares for any minimum or other specified term and reserves the right to dispose of the Warrant and the Warrant Shares at any time in accordance with or pursuant to a registration statement or an exemption under the Securities Act. If such Holder cannot make such representations because they would be factually incorrect, it shall be a condition to such Holder's exercise of the Warrant that the Company receive such other representations as the Company considers reasonably necessary to assure the Company that the issuance of its securities upon exercise of the Warrant shall not violate any United States or state securities laws.

Section 7. Ownership and Transfer.

(a) The Company shall maintain at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holder hereof), a register for this Warrant, in which the Company shall record the name and address of the Person in whose name this Warrant has been issued, as well as the name and address of each transferee. The Company may treat the Person in whose name any Warrant is registered on the register as the owner and Holder thereof for all purposes, notwithstanding any notice to the contrary, but in all events recognizing any transfers made in accordance with the terms of this Warrant.

(b) The Holder of this Warrant understands that this Warrant has not been and is not expected to be, registered under the Securities Act or any state securities laws, and may not be offered for sale, sold, assigned or transferred unless (a) subsequently registered thereunder, or (b) such Holder shall have delivered to the Company an opinion of counsel, reasonably satisfactory in form, scope and substance to the Company, to the effect that the securities to be sold, assigned or transferred may be sold, assigned or transferred pursuant to an exemption from such registration; provided that (i) any sale of such securities made in reliance on Rule 144 promulgated under the Securities Act may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any resale of such securities under circumstances in which the seller (or the Person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the Securities Act) may require compliance with some other exemption under the Securities Act or the rules and regulations of the Securities and Exchange Commission thereunder; and (ii) except as provided below, neither the Company nor any other Person is under any obligation to register the Common Stock Warrants under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder except as may be expressly set out herein.

(c) Subject to compliance with any applicable securities laws and the conditions set forth in Section 7 hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto as Exhibit B duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new Holder for the purchase of Warrant Shares without having a new Warrant issued.

(d) This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 7, as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

(e) The Company shall prepare, issue and deliver at its own expense (other than transfer taxes) the new Warrant or Warrants under this Section 7.

(f) The Company agrees to maintain, at its aforesaid office, books for the registration and the registration of transfers of the Warrants.

(g) If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, and/or (ii) that the Holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and/or (iii) that the transferee be an “accredited investor” as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7), or (a)(8) promulgated under the Securities Act or a qualified institutional buyer as defined in Rule 144A(a) under the Securities Act.

Section 8. Adjustment of Exercise Price and Number of Shares. In order to prevent dilution of the rights granted under this Warrant, the Exercise Price and the number of shares of Common Stock issuable upon exercise of this Warrant shall be adjusted from time to time as follows:

(a) Adjustment of Exercise Price upon Subdivision or Combination of Common Stock. If the Company at any time after the date of issuance of this Warrant subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of shares of Common Stock obtainable upon exercise of this Warrant will be proportionately increased. If the Company at any time after the date of issuance of this Warrant combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination will be proportionately increased and the number of shares of Common Stock obtainable upon exercise of this Warrant will be proportionately decreased.

(b) Reorganization, Reclassification, Consolidation, Merger or Sale. Any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets to another Person (as defined in Section 1(a)) or other transaction which is effected in such a way that Holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock is referred to herein as "**Organic Change.**" Prior to the consummation of any Organic Change, the Company will make appropriate provision to ensure that each of the Holders of the Common Stock Warrants will thereafter have the right to acquire and receive in lieu of or addition to (as the case may be) the shares of Common Stock immediately theretofore acquirable and receivable upon the exercise of such Holder's Common Stock Warrants, such shares of stock, securities or assets as may be issued or payable in the Organic Change with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon the exercise of such Holder's Common Stock Warrants had such Organic Change not taken place (without taking into account any limitations or restrictions on exercise). In any such case, the Company will make appropriate provision with respect to such Holders' rights and interests to insure that the provisions of this Section 8 will thereafter be applicable to the Common Stock Warrants (including, in the case of any such consolidation, merger or sale in which the successor entity or purchasing entity is other than the Company, an immediate adjustment of the Exercise Price to the value for the Common Stock reflected by the terms of such consolidation, merger or sale, and a corresponding immediate adjustment in the number of shares of Common Stock acquirable and receivable upon exercise of the Common Stock Warrants, if the value so reflected is less than the Exercise Price in effect immediately prior to such consolidation, merger or sale). The terms of any documents evidencing an Organic Change shall include such terms as to give effect to the tenor of this provision and evidencing the obligation to deliver to each Holder of Common Stock Warrants such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Holder may be entitled to acquire.

(c) Distribution of Assets. If the Company shall declare or make any distribution of its assets (or rights to acquire its assets) to the Company's stockholders as a partial liquidating dividend, by way or return of capital or otherwise (including any dividend or distribution to the Company's stockholders of cash or shares (or rights to acquire shares) of capital stock of a subsidiary) (a "**Distribution**"), at any time after the issuance of this Warrant, then the Holder of this Warrant shall be entitled upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, after the record date for determining shareholders entitled to receive such Distribution, to receive the amount of such assets (or rights) which would have been payable to the Holder had such Holder been the Holder of such shares of Common Stock on the record date for determination of stockholders entitled to such Distribution.

(d) Notices.

(i) Immediately upon any adjustment of the Exercise Price, the Company will give written notice thereof to the Holder of this Warrant, setting forth in reasonable detail and certifying the calculation of such adjustment.

(ii) The Company will give written notice to the Holder of this Warrant prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Common Stock, (B) with respect to any pro rata subscription offer to Holders of Common Stock or (C) for determining rights to vote with respect to any Organic Change, dissolution or liquidation and in no event shall such notice be provided to such Holder prior to such information being made known to the public.

(iii) The Company will also give written notice to the Holder of this Warrant prior to the date on which any Organic Change, dissolution or liquidation will take place and in no event shall such notice be provided to such Holder prior to such information being made known to the public.

Section 9. Lost, Stolen, Mutilated or Destroyed Warrant. If this Warrant is lost, stolen, mutilated or destroyed, the Company shall, on receipt of an indemnification undertaking, issue a new Warrant of like denomination and tenor as the Warrant so lost, stolen, mutilated or destroyed.

Section 10. Notice. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Warrant must be in writing and will be deemed to have been delivered (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) upon receipt, when delivered by a delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company:

Validian Corporation
30 Metcalfe Street
Suite 620
Ottawa, Canada K1P 5L4
Telephone: (613) 230-7211
Telefax: (404) 230-6055

If to the Holder of this Warrant:

Each party shall provide five days' prior written notice to the other party of any change in address or facsimile number.

Section 11. Miscellaneous.

(a) No Voting Rights; Limitation of Liability - Prior to exercise, this Warrant will not entitle the Holder to any voting rights or other rights as a stockholder of the Company. No provision hereof, in the absence of affirmative action by the Holder to exercise this Warrant, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of the Warrant Shares pursuant to the exercise hereof.

(b) Waiver and Modification This Warrant and any term hereof may be changed, waived, discharged, or terminated only by an instrument in writing signed by the party or Holder hereof against which enforcement of such change, waiver, discharge or termination is sought.

(c) Headings - The headings in this Warrant are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(d) Governing Law - THIS WARRANT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEVADA. The Holder hereby submits to the jurisdiction of the State of Nevada and agrees that service of all writs, process and summonses in any such suit, action or proceeding brought in the United States against the Company may be made upon the Escrow Agent and shall be governed by and interpreted under the laws of the State of Nevada without regard to principles of conflicts of law thereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first indicated above.

VALIDIAN CORPORATION

By: _____
Name: Bruce Benn
Title: President & CEO

By: _____
Name: Ronald Benn
Title: CFO

EXHIBIT A

EXERCISE NOTICE

To: Validian Corporation

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

☐ in lawful money of the United States; or

☐ the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(e), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(e).

(3) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following:

(4) Accredited Investor. The undersigned is an “accredited investor” as defined in Regulation D under the Securities Act of 1933, as amended.

[PURCHASER]

By: _____

Name:

Title:

Dated: _____

EXHIBIT B

ASSIGNMENT FORM

(To assign the foregoing Warrant, execute
this form and supply required information.
Do not use this form to exercise the Warrant.)

FOR VALUE RECEIVED, the foregoing Warrant for the purchase of
_____ Warrant Shares of Common stock of Validian Corporation and all
rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

A new Warrant for the balance of the Warrant Shares not assigned is to be reissued to the
Holder.

Dated: _____, _____

Holder's Signature: _____

Holder's Address: _____

Signature Guaranteed or Notarized:

NOTE: The signature to this Assignment Form must correspond with the name as it
appears on the face of the Warrant, without alteration or enlargement or any change
whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations
and those acting in a fiduciary or other representative capacity should file proper evidence
of authority to assign the foregoing Warrant.

Exhibit 4.2

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (THE "ACT") OR ANY STATE SECURITIES LAW, AND MAY NOT BE OFFERED FOR SALE, SOLD OR TRANSFERRED UNLESS A REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS SHALL BE EFFECTIVE WITH RESPECT THERETO, OR AN OPINION OF COUNSEL, IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE COMPANY, THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS IS AVAILABLE OR UNLESS SOLD PURSUANT TO RULE 144 UNDER THE SAID ACT.

VALIDIAN CORPORATION

COMMON STOCK PURCHASE WARRANT

Warrant No.: _____ **Number of Warrant Shares:** _____
Series K
Date of Issuance: _____

Validian Corporation, a Nevada corporation (the "**Company**"), hereby certifies that, for value received, _____ (the "**Holder**") is entitled, subject to the terms set forth below, to purchase from the Company upon surrender of this Warrant, at any time or times on or after the date hereof, but not after 11:59 P.M. Eastern Time on the Expiration Date (as defined herein) _____ (_____) fully paid nonassessable **shares** of Common Stock (as defined in Section 1(a)) of the Company (the "**Warrant Shares**") at the purchase price per share provided in Section 1(a) below (the "**Exercise Price**"); provided, however, that in no event shall the Holder be entitled to exercise this Warrant for a number of Warrant Shares in excess of that number of Warrant Shares which, upon giving effect to such exercise, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its affiliates to exceed 4.99% of the outstanding shares of the Common Stock following such exercise. For purposes of the foregoing proviso, the aggregate number of shares of Common Stock beneficially owned by the Holder and its affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which the determination of such proviso is being made, but shall exclude shares of Common Stock which would be issuable upon (i) exercise of the remaining, unexercised Warrants beneficially owned by the Holder and its affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any Other Securities of the Company beneficially owned by the Holder and its affiliates (including, without limitation, any convertible notes, convertible preferred stock, warrants or rights to receive shares of Common Stock) subject to a limitation on conversion or exercise analogous to the limitation contained herein. Except as set forth in the preceding sentence, for purposes of this paragraph, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. The Holder may waive the foregoing limitations by written notice to the Company upon not less than 61 days prior notice (with such waiver taking effect only upon the expiration of such 61 day notice period).

Section 1.

(a) Definitions. The following words and terms as used in this Warrant shall have the following meanings:

"Business Day" means any day except Saturday, Sunday and any day which is designated in the State of New York as a legal holiday or a day on which banking institutions are authorized or legally required by other government action to close.

"Common Stock" means (i) the Company's common stock, par value \$.001 per share, and (ii) any capital stock into which such Common Stock shall have been changed or any capital stock resulting from a reclassification of such Common Stock.

"Escrow Agent" means Alan R. Turem, P.C. having an office at 4651 Roswell Road, Suite B-105 Atlanta, Georgia 30342.

"Exercise Price" shall be \$0.03 USD, subject to adjustment as hereinafter provided.

"Expiration Date" means _____.

"Holder" includes the Person in whose name this Warrant has been issued or any transferee or assignee provided that such transferee or assignee has become a Holder in accordance with the provisions of this Warrant.

"Other Securities" means (i) those securities, convertible securities, options and warrants of the Company issued prior to, and outstanding on, the date of issuance of this Warrant, (ii) shares of Common Stock, and warrants or other securities that are convertible into or exchangeable for shares of Common Stock, issuable in connection with the subsequent acquisitions by the Company.

"Person" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, a government or any department or agency thereof, or any other entity or organization.

"Securities Act" means the Securities Act of 1933, as amended.

"Warrant" means this Warrant and all Warrants issued in exchange, transfer or replacement thereof.

"Warrant Shares" means the shares of Common Stock issuable upon the exercise of this Warrant.

(b) Other Definitional Provisions.

(i) Except as otherwise specified herein, all references herein (A) to the Company shall be deemed to include the Company's successors and (B) to any applicable law defined or referred to herein, shall be deemed references to such applicable law as the same may have been or may be amended or supplemented from time to time.

(ii) When used in this Warrant, the words "**herein**," "**hereof**," and "**hereunder**," and words of similar import, shall refer to this Warrant as a whole and not to any provision of this Warrant, and the words "**Section**," "**Schedule**," and "**Exhibit**" shall refer to Sections of, and Schedules and Exhibits to, this Warrant unless otherwise specified.

(iii) Whenever the context so requires, the neuter gender includes the masculine or feminine, and the singular number includes the plural, and vice versa.

Section 2. Exercise of Warrant.

(a) Exercise may be done at any time during normal business hours on any Business Day on or after the opening of business on the date hereof and prior to 11:59 P.M. Eastern Time on the Expiration Date by delivery to the Escrow Agent and the Company in the manner specified below of (i) a written notice of such Holder's election to exercise this Warrant which notice shall be in the form attached as Exhibit A hereto, (the "**Exercise Notice**"), and shall specify the number of Warrant Shares to be purchased and the other information set out therein, (ii) payment to the Company of an amount equal to the Exercise Price multiplied by the number of Warrant Shares as to which the Warrant is being exercised (the "**Aggregate Exercise Price**") in cash or by check or wire transfer payable to the Company in immediately available funds, and (iii) the surrender of this Warrant. Provided, that if such Warrant Shares are to be issued in any name other than that of the registered Holder of this Warrant, such issuance shall be deemed a transfer and the provisions of Section 7 shall be applicable and the Exercise Notice shall be accompanied by such additional documentation as may be required by that Section. Such Exercise Notice, payment, Warrant and other documentation required for exercise shall be delivered to the Escrow Agent at the address set out in Section 1 with a copy of the Exercise Notice being delivered simultaneously to the Company.

(b) In the event of any exercise of the rights represented by this Warrant in compliance with Section 2(a), a certificate or certificates for the Warrant Shares so purchased, in such denominations as may be requested by the Holder hereof and registered in the name of, or as directed by, the Holder, shall be delivered at the Company's expense to, or as directed by, such Holder as soon as practicable after such rights shall have been so exercised, and in any event no later than five (5) Business Days after delivery of the Exercise Notice to the Escrow Agent. In the case of a dispute as to the determination of the Exercise Price of a security or the arithmetic calculation of the Warrant Shares, the Company shall promptly issue to the Holder the number of shares of Common Stock that is not disputed and shall submit the disputed determinations or arithmetic calculations to the Holder via facsimile within one Business Day of receipt of the Holder's Exercise Notice. If the Holder and the Company are unable to agree upon the determination of the Exercise Price or

arithmetic calculation of the Warrant Shares within one day of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall immediately submit via facsimile (i) the disputed determination of the Exercise Price to an independent, reputable investment banking firm or (ii) the disputed arithmetic calculation of the Warrant Shares to its independent, outside accountant. The Company shall cause the investment banking firm or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than two (2) Business Days from receipt of the disputed determinations or calculations. Such investment banking firm's or accountant's determination or calculation, as the case may be, shall be deemed conclusive absent manifest error.

(c) Unless the rights represented by this Warrant shall have expired or shall have been fully exercised, the Company shall, as soon as practicable and in no event later than five Business Days after any exercise and at its own expense, issue a new Warrant identical in all respects to the Warrant exercised except (i) it shall represent rights to purchase the number of Warrant Shares purchasable immediately prior to such exercise under the Warrant exercised, less the number of Warrant Shares with respect to which such Warrant is exercised, and (ii) the Holder thereof shall be deemed for all corporate purposes to have become the Holder of record of such Warrant Shares immediately prior to the close of business on the date on which the Warrant is surrendered and payment of the amount due in respect of such exercise and any applicable taxes is made, irrespective of the date of delivery of certificates evidencing such Warrant Shares, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are properly closed, such Person shall be deemed to have become the Holder of such Warrant Shares at the opening of business on the next succeeding date on which the stock transfer books are open.

(d) No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but rather the number of shares of Common Stock issued upon exercise of this Warrant shall be rounded up or down to the nearest whole number.

(e) If at any time from the date of issuance of this Warrant there is no effective registration statement registering the resale of the Warrant Shares by the Holder at such time, this Warrant may also be exercised at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing $[(A-B) (X)]$ by (A), where:

(A) = the VWAP, as defined below, on a trading day from 9:30 a.m. to 4:02 p.m. Eastern Time ("Trading Day") immediately preceding the date of such election;

(B) = the Exercise Price of this Warrant, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

“VWAP” means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on Nasdaq, Amex or the N.Y. Stock Exchange (a “Principal Market”), the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Principal Market on which the Common Stock is then listed or quoted as reported by Bloomberg Financial L.P.; (b) if the Common Stock is not then listed or quoted on a Principal Market and if prices for the Common Stock are then quoted on the OTC Bulletin Board, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the OTC Bulletin Board; (c) if the Common Stock is not then listed or quoted on a Principal Market and if prices for the Common Stock are then reported in the “Pink Sheets” published by the National Quotation Bureau Incorporated (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (d) in all other cases, the fair market value of a share of Common Stock as determined by a nationally recognized-independent appraiser selected in good faith by shareholders holding a majority of the principal amount of shares of Common Stock of the Company then outstanding.

Section 4. Covenants as to Common Stock; Certain Registrations. The Company hereby covenants and agrees as follows:

- (a) This Warrant is, and any Common Stock Warrants issued in substitution for or replacement of this Warrant will upon issuance be, duly authorized and validly issued.
- (b) All Warrant Shares which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof.
- (c) During the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved at least 100% of the number of shares of Common Stock needed to provide for the exercise of the rights then represented by this Warrant and the par value of said shares will at all times be less than or equal to the applicable Exercise Price.
- (d) The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, and (ii) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

- (e) This Warrant will be binding upon any entity succeeding to the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets.

Section 4. Taxes. The Company shall pay any and all issue or transfer taxes or other incidental expenses (but not including any income or capital taxes) which may be payable with respect to the issuance and delivery of Warrant Shares upon exercise of this Warrant.

Section 5. Warrant Holder Deemed Not a Stock Holder. Except as otherwise specifically provided herein, no Holder, as such, of this Warrant shall be entitled to vote or receive dividends or be deemed the Holder of shares of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of this Warrant of the Warrant Shares which he or she is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on such Holder to purchase any securities or as a stockholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company. Notwithstanding this Section 5, the Company will provide the Holder of this Warrant with copies of the same notices and other information given to the stockholders of the Company generally, contemporaneously with the giving thereof to the stockholders.

Section 6. Representations of Holder. The Holder of this Warrant, by the acceptance hereof, represents that it is acquiring this Warrant and the Warrant Shares for its own account for investment and not with a view to, or for sale in connection with, any distribution hereof or of any of the shares of Common Stock or other securities issuable upon the exercise thereof, and not with any present intention of distributing any of the same. The Holder of this Warrant further represents, by acceptance hereof, that, as of this date, such Holder is an accredited investor as such term is defined in Rule 501(a) of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act (an "**Accredited Investor**"). Upon exercise of this Warrant, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the Warrant Shares so purchased are being acquired solely for the Holder's own account and not as a nominee for any other party, for investment, and not with a view toward distribution or resale other than pursuant to an effective registration statement or an exemption under the Securities Act and that such Holder is an Accredited Investor. Notwithstanding the foregoing, by making the representations herein, the Holder does not agree to hold the Warrant or the Warrant Shares for any minimum or other specified term and reserves the right to dispose of the Warrant and the Warrant Shares at any time in accordance with or pursuant to a registration statement or an exemption under the Securities Act. If such Holder cannot make such representations because they would be factually incorrect, it shall be a condition to such Holder's exercise of the Warrant that the Company receive such other representations as the Company considers reasonably necessary to assure the Company that the issuance of its securities upon exercise of the Warrant shall not violate any United States or state securities laws.

Section 7. Ownership and Transfer.

(a) The Company shall maintain at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holder hereof), a register for this Warrant, in which the Company shall record the name and address of the Person in whose name this Warrant has been issued, as well as the name and address of each transferee. The Company may treat the Person in whose name any Warrant is registered on the register as the owner and Holder thereof for all purposes, notwithstanding any notice to the contrary, but in all events recognizing any transfers made in accordance with the terms of this Warrant.

(b) The Holder of this Warrant understands that this Warrant has not been and is not expected to be, registered under the Securities Act or any state securities laws, and may not be offered for sale, sold, assigned or transferred unless (a) subsequently registered thereunder, or (b) such Holder shall have delivered to the Company an opinion of counsel, reasonably satisfactory in form, scope and substance to the Company, to the effect that the securities to be sold, assigned or transferred may be sold, assigned or transferred pursuant to an exemption from such registration; provided that (i) any sale of such securities made in reliance on Rule 144 promulgated under the Securities Act may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any resale of such securities under circumstances in which the seller (or the Person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the Securities Act) may require compliance with some other exemption under the Securities Act or the rules and regulations of the Securities and Exchange Commission thereunder; and (ii) except as provided below, neither the Company nor any other Person is under any obligation to register the Common Stock Warrants under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder except as may be expressly set out herein.

(c) Subject to compliance with any applicable securities laws and the conditions set forth in Section 7 hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto as Exhibit B duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new Holder for the purchase of Warrant Shares without having a new Warrant issued.

(d) This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 7, as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

(e) The Company shall prepare, issue and deliver at its own expense (other than transfer taxes) the new Warrant or Warrants under this Section 7.

(d) The Company agrees to maintain, at its aforesaid office, books for the registration and the registration of transfers of the Warrants.

(e) If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, and/or (ii) that the Holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and/or (iii) that the transferee be an "accredited investor" as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7), or (a)(8) promulgated under the Securities Act or a qualified institutional buyer as defined in Rule 144A(a) under the Securities Act.

Section 8. Adjustment of Exercise Price and Number of Shares. In order to prevent dilution of the rights granted under this Warrant, the Exercise Price and the number of shares of Common Stock issuable upon exercise of this Warrant shall be adjusted from time to time as follows:

(a) Adjustment of Exercise Price upon Subdivision or Combination of Common Stock. If the Company at any time after the date of issuance of this Warrant subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of shares of Common Stock obtainable upon exercise of this Warrant will be proportionately increased. If the Company at any time after the date of issuance of this Warrant combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination will be proportionately increased and the number of shares of Common Stock obtainable upon exercise of this Warrant will be proportionately decreased.

(b) Reorganization, Reclassification, Consolidation, Merger or Sale. Any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets to another Person (as defined in Section 1(a)) or other transaction which is effected in such a way that Holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock is referred to herein as "**Organic Change.**" Prior to the consummation of any Organic Change, the Company will make appropriate provision to ensure that each of the Holders of the Common Stock Warrants will thereafter have the right to acquire and receive in lieu of or addition to (as the case may be) the shares of Common Stock immediately theretofore acquirable and receivable upon the exercise of such Holder's Common Stock Warrants, such shares of stock, securities or assets as may be issued or payable in the Organic Change with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon the exercise of such Holder's Common Stock Warrants had such Organic Change not taken place (without taking into account any limitations or restrictions on exercise). In any such case, the Company will make appropriate provision with respect to such Holders' rights and interests to insure that the provisions of this Section 8 will thereafter be applicable to the Common Stock Warrants (including, in the case of any such consolidation, merger or sale in which the successor entity or purchasing entity is other than the Company, an immediate adjustment of the Exercise Price to the value for the Common Stock reflected by the terms of such consolidation, merger or sale, and a corresponding immediate adjustment in the number of shares of Common Stock acquirable and receivable upon exercise of the Common Stock Warrants, if the value so reflected is less than the Exercise Price in effect immediately prior to such consolidation, merger or sale). The terms of any documents evidencing an Organic Change shall include such terms as to give effect to the tenor of this provision and evidencing the obligation to deliver to each Holder of Common Stock Warrants such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Holder may be entitled to acquire.

(c) Distribution of Assets. If the Company shall declare or make any distribution of its assets (or rights to acquire its assets) to the Company's stockholders as a partial liquidating dividend, by way or return of capital or otherwise (including any dividend or distribution to the Company's stockholders of cash or shares (or rights to acquire shares) of capital stock of a subsidiary) (a "**Distribution**"), at any time after the issuance of this Warrant, then the Holder of this Warrant shall be entitled upon exercise of this Warrant for the purchase of any or all of the shares of Common Stock subject hereto, after the record date for determining shareholders entitled to receive such Distribution, to receive the amount of such assets (or rights) which would have been payable to the Holder had such Holder been the Holder of such shares of Common Stock on the record date for determination of stockholders entitled to such Distribution.

(d) Notices.

(i) Immediately upon any adjustment of the Exercise Price, the Company will give written notice thereof to the Holder of this Warrant, setting forth in reasonable detail and certifying the calculation of such adjustment.

(ii) The Company will give written notice to the Holder of this Warrant prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Common Stock, (B) with respect to any pro rata subscription offer to Holders of Common Stock or (C) for determining rights to vote with respect to any Organic Change, dissolution or liquidation and in no event shall such notice be provided to such Holder prior to such information being made known to the public.

(iii) The Company will also give written notice to the Holder of this Warrant prior to the date on which any Organic Change, dissolution or liquidation will take place and in no event shall such notice be provided to such Holder prior to such information being made known to the public.

Section 9. Lost, Stolen, Mutilated or Destroyed Warrant. If this Warrant is lost, stolen, mutilated or destroyed, the Company shall, on receipt of an indemnification undertaking, issue a new Warrant of like denomination and tenor as the Warrant so lost, stolen, mutilated or destroyed.

Section 10. Notice. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Warrant must be in writing and will be deemed to have been delivered (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) upon receipt, when delivered by a delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company:

Validian Corporation
30 Metcalfe Street
Suite 620
Ottawa, Canada K1P 5L4
Telephone: (613) 230-7211
Telefax: (404) 230-6055

If to the Holder of this Warrant:

Each party shall provide five days' prior written notice to the other party of any change in address or facsimile number.

Section 11. Miscellaneous.

(a) No Voting Rights; Limitation of Liability - Prior to exercise, this Warrant will not entitle the Holder to any voting rights or other rights as a stockholder of the Company. No provision hereof, in the absence of affirmative action by the Holder to exercise this Warrant, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of the Warrant Shares pursuant to the exercise hereof.

(b) Waiver and Modification This Warrant and any term hereof may be changed, waived, discharged, or terminated only by an instrument in writing signed by the party or Holder hereof against which enforcement of such change, waiver, discharge or termination is sought.

(c) Headings - The headings in this Warrant are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(d) Governing Law - THIS WARRANT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEVADA. The Holder hereby submits to the jurisdiction of the State of Nevada and agrees that service of all writs, process and summonses in any such suit, action or proceeding brought in the United States against the Company may be made upon the Escrow Agent and shall be governed by and interpreted under the laws of the State of Nevada without regard to principles of conflicts of law thereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first indicated above.

VALIDIAN CORPORATION

By: _____

Name: Bruce Benn

Title: President & CEO

By: _____

Name: Ronald Benn

Title: CFO

EXHIBIT A

EXERCISE NOTICE

To: Validian Corporation

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

☐ in lawful money of the United States; or

☐ the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(e), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(e).

(3) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following:

(4) Accredited Investor. The undersigned is an “accredited investor” as defined in Regulation D under the Securities Act of 1933, as amended.

[PURCHASER]

By: _____

Name:

Title:

Dated: _____

EXHIBIT B

ASSIGNMENT FORM

(To assign the foregoing Warrant, execute
this form and supply required information.
Do not use this form to exercise the Warrant.)

FOR VALUE RECEIVED, the foregoing Warrant for the purchase of
_____ Warrant Shares of Common stock of Validian Corporation and all
rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

A new Warrant for the balance of the Warrant Shares not assigned is to be reissued to the
Holder.

Dated: _____, _____

Holder's Signature: _____

Holder's Address: _____

Signature Guaranteed or Notarized:

NOTE: The signature to this Assignment Form must correspond with the name as it
appears on the face of the Warrant, without alteration or enlargement or any change
whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations
and those acting in a fiduciary or other representative capacity should file proper evidence
of authority to assign the foregoing Warrant.

Exhibit 4.3

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% CONVERTIBLE NOTE

\$ _____

(Date)

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 _____ (the “Holder”) with an address at _____ the principal amount of _____ (\$ _____) 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 “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 _____. 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 (\$____) 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. 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. 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.

[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

By:_____

Name: Bruce Benn

Title: Chief Executive Officer

By:_____

Name: Ronald I. Benn

Title: Chief Financial Officer

Schedule to Exhibit 4.3 “Form of 10% Senior Convertible Notes”

The following notes in the form set out above, were outstanding at June 30, 2006:

Principal	Conversion Price	Maturity Date
\$ 50,000	\$ 0.10	July 1, 2008
25,000	0.10	July 1, 2008
25,000	0.10	July 1, 2008
150,000	0.10	July 1, 2008
<u>\$ 250,000</u>		

Exhibit 4.4

THE SALE AND ISSUANCE OF THE SECURITIES REPRESENTED BY THIS 10% SENIOR SECURED 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% CONVERTIBLE NOTE

\$_____

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 _____ (the “Holder”) with an address at _____, the principal amount of _____ (\$_____) and to pay interest thereon, all as hereinafter specified.

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

1. Maturity.

1.1 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 “Maturity Date”) or (b) the occurrence of an Event of Default (as defined in Section 7 hereof).

1.2 Interest. Interest shall accrue on this Note from _____ (the date from which interest accrues under the Former 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, until the principal amount and all interest accrued thereon are paid (or converted, as provided in Section 3 hereof). Interest shall not be paid to the Holder until such a time that the Holder requests payment thereof in writing, whereupon the Company shall pay the interest accrued to the end of the Company’s fiscal quarter immediately preceding such request. 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 subject to the calculation for purposes of Section 4.

1.3 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.

2. Conversion.

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

2.2 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.____) 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. Notices. Whenever any notice is required to be given by the Company to a Holder, such notice shall be sent in writing via telefacsimile with a copy by email to the Holder. 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 telefacsimile with a copy by email to the Company.

10. 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.

11. 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

By:_____

Name: Bruce Benn

Title: Chief Executive Officer

By:_____

Name: Ronald I. Benn

Title: Chief Financial Officer

Schedule to Exhibit 4.4 “Form of 10% Senior Convertible Notes”

The following notes in the form set out above, were outstanding at June 30, 2006:

Principal	Conversion Price	Maturity Date
\$ 500,000	\$ 0.10	October 1, 2008
250,000	0.03	May 31, 2009
150,000	0.03	July 1, 2008
<u>\$ 900,000</u>		

Exhibit 4.5

THE SALE AND ISSUANCE OF THE SECURITIES REPRESENTED BY THIS 10% SENIOR SECURED 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% CONVERTIBLE NOTE

\$ _____

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 _____ (the “Holder”) with an address at _____ the principal amount of _____ - (\$ _____) and to pay interest thereon, all as hereinafter specified.

1. Identification of Note. This Note is issued in consideration for _____
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 “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, until the principal amount and all interest accrued thereon are paid (or converted, as provided in Section 3 hereof). Interest shall not be paid to the Holder until such a time that the Holder requests payment thereof in writing, whereupon the Company shall pay the interest accrued to the end of the Company’s fiscal quarter immediately preceding such request. 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 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 six cents (\$____) 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 4.99% 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.

Regardless of the above, in no event shall the Holder be entitled to convert any portion of the principle or interest of this Note until the authorized capital of the Company has been increased from 100,000,000 common shares to at least 120,000,000 common shares.

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. 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 telefacsimile with a copy by email to the Holder. 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 telefacsimile with a copy by email to the Company.

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.

[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

By:_____

Name: Bruce Benn

Title: Chief Executive Officer

By:_____

Name: Ronald I. Benn

Title: Chief Financial Officer

Schedule to Exhibit 4.5 “Form of 10% Senior Convertible Notes”

The following notes in the form set out above, were outstanding at June 30, 2006:

Principal	Conversion Price	Maturity Date
\$ 100,000	\$ 0.06	June 21, 2009
710,000	0.06	June 21, 2009
25,000	0.06	October 22, 2007
<u>\$ 835,000</u>		

Exhibit 4.6

THE SALE AND ISSUANCE OF THE SECURITIES REPRESENTED BY THIS 10% SENIOR SECURED 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

\$ _____

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 _____ (the “Holder”) with an address at _____, the principal amount of _____ (\$ _____) 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 “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 _____. At the written request of Holder, interest may be accrued by the Company and not actually paid to Holder. Any accrued interest shall be paid to Holder at such a time specified by Holder in writing. 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.

2.4 Security Agreement. This Note is secured by that certain Security Agreement, dated December 21, 2006, and attached hereto as Exhibit A.

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 six cents (\$0.____) 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. 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, 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 Periscope Partners, L.P. 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.

13. Approval of Reverse Stock Split. Prior to the Company authorizing any reverse stock split of the Common Stock, the Company must receive prior written approval from Holder and such prior written approval shall not be unreasonably withheld by Holder.

[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

By: _____

Name: Bruce Benn

Title: Chief Executive Officer

By: _____

Name: Ronald I. Benn

Title: Chief Financial Officer

Schedule to Exhibit 4.6 “Form of 10% Senior Convertible Notes”

The following notes in the form set out above, were outstanding at June 30, 2006:

Principal	Conversion Price	Maturity Date
\$ 250,000	\$ 0.06	June 1, 2008
120,000	0.06	June 1, 2008
130,000	0.06	June 1, 2008
150,000	0.06	July 1, 2008
250,000	0.06	June 1, 2008
200,000	0.06	July 1, 2008
<u>\$1,100,000</u>		

SECURITY AGREEMENT

SECURITY AGREEMENT (this "Agreement"), dated as of March 9, 2007, by and among Validian Corporation, a Nevada corporation (the "Company"), and the secured party signatory hereto and his respective endorsees, transferees and assigns (collectively, the "Secured Party").

WITNESSETH:

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 "general intangibles" and "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, including, without limitation, any referred to in Schedule I hereto;

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, including, without limitation, any thereof referred to in Schedule I hereto.

(3) Copyright License:

a. any agreement, written or oral, providing for a grant by the Company of any right in any Copyright, including, without limitation, any thereof referred to in Schedule I hereto.

(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, including, without limitation, any thereof referred to in Schedule I hereto;

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, including, without limitation, any thereof referred to in Schedule I hereto.

(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, including, without limitation, any thereof referred to in Schedule I hereto.

(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, or otherwise, including, without limitation, any thereof referred to in Schedule I hereto;

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, including, without limitation, any thereof referred to in Schedule I hereto.

(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, including each Trade Secret license referred to in Schedule I hereto, 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, a list of which is contained in Schedule A, attached hereto.

(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, except as set forth on Schedule A attached hereto;

(c) Except as disclosed in Schedule C, attached hereto, 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 on Schedule A attached hereto 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 with the jurisdictions indicated on Schedule B, attached hereto, 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 with respect to the Security Interest for filing with the jurisdictions indicated on Schedule B, attached hereto 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 non-exclusive licenses granted by the Company 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.

(r) Schedule A attached hereto contains a list of all of the subsidiaries of Company.

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 or from payments made on account of any insurance policy insuring any portion of the Collateral 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 applicable Secured Party in enforcing the Secured Party's rights hereunder and in connection with collecting, storing and disposing of the Collateral, and then to satisfaction of the Obligations pro rata among each Secured Party (based on then-outstanding principal amounts of Notes at the time of any such determination), 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 or the lesser amount permitted by applicable law (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 solely to the gross negligence or willful misconduct of the Secured Party as determined by a final judgment (not subject to further appeal) of a court of competent jurisdiction.

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, including, without limitation, the jurisdictions indicated on Schedule B, attached hereto, 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, from time to time in the Secured Party's discretion, to take any action and to execute any instrument which the Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including the filing, in its sole discretion, of one or more financing or continuation statements and amendments thereto, 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
Suite 600
Ottawa, Ontario, Canada K1P 5L4
Attention: Bruce Benn
Telephone: (613) 230-7211 ext 226
Facsimile: (613) 230-6055

With a copy to: Jennifer T. Wisinski
Haynes and Boone, LLP
901 Main Street, Suite 1300
Dallas, Texas 75202
Telephone: (214) 651-5330
Facsimile: (214) 200-0768

If to the Secured Party:

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 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 Benn
Chief Financial Officer

By: _____

SCHEDULE A

Locations of Books and Records

30 Metcalfe Street

Suite 600

Ottawa, Ontario

Canada K1P 5L4

SCHEDULE B

Jurisdiction of Filing

State of Georgia, USA

SCHEDULE I

U.S. Patent Application Number: 10/869,357

IDENTIFICATION AND
AUTHENTICATION SYSTEM AND
METHOD FOR A SECURE DATA
EXCHANGE

VALIDIAN CORPORATION
NONQUALIFIED STOCK OPTION AGREEMENT

1. **Grant of Option.** Pursuant to the Validian Corporation Amended and Restated Incentive Equity Plan (the "Plan"), for employees, consultants and outside directors of Validian Corporation, a Nevada corporation (the "Company"), the Company grants to:

Bruce Benn

Residing at 20 Inverness Avenue, Ottawa ON K2E 6N7

Engaged by the Company

According to an agreement

Between Bruce Benn and the Company.

(the "*Participant*")

an option to purchase shares of Common Stock, par value \$0.001 per share ("Common Stock"), of the Company as follows:

On the date hereof, the Company grants to the Participant an option (the "Option" or "Stock Option") to purchase **900,000 (nine hundred thousand)** full shares (the "Optioned Shares") of Common Stock at an Option Price equal to \$0.04 U.S. (four cents of United States Dollars) per share. The effective Date of Grant of this Stock Option is June 19, 2007.

The "Option Period" shall commence on the Date of Grant and shall expire on the date immediately preceding the fifth (5th) anniversary of the Date of Grant. The Stock Option is a Nonqualified Stock Option.

2. ***Subject to Plan.*** The Plan is a separate legal document that contains the general terms and conditions applicable to this Stock Option. This Stock Option and its exercise are subject to the terms and conditions of the Plan, but the terms of the Plan shall not be considered an enlargement of any benefits under this Agreement. The terms of the Plan shall control to the extent not otherwise inconsistent with the provisions of this Agreement. This Stock Option is subject to any rules promulgated from time to time hereafter pursuant to the Plan by the Board or the Committee and communicated to the Participant in writing. In addition, if the Plan previously has not been approved by the Company's stockholders, the Stock Option is granted subject to such stockholder approval.

3. ***Definitions.*** The capitalized terms used herein that are defined in the Plan shall have the same meanings assigned to them in the Plan. For the purpose of this Stock Option Agreement, "*Cause*" means, with respect to Participant (i) acts of fraud or dishonesty in the course of his employment with or service to the Company or any of its Subsidiaries, (ii) substance abuse causing harm to the Company or any of its Subsidiaries or impairing the Participant's performance of his regular duties, (iii) conviction of a felony involving moral turpitude, or (iv) insubordination, dereliction of duties, habitual absenteeism, materially deficient performance after (solely in the case of this clause (iv)) notice to Participant and Participant's failure

to correct same within the time period specified in the notice, which time period shall be not less than 10 business days, or (v) any event described as "cause" (or in any other term or phrase having similar import) in any written employment agreement between the Option Holder and the Company (or any Subsidiary).

4. *Vesting; Time of Exercise.* Except as specifically provided in this Agreement and subject to certain restrictions and conditions set forth in the Plan, this Stock Option is vested and exercisable on the Date of Grant and until the date specified in Section 5 herein.

5. *Term; Forfeiture.* This Stock Option, and all unexercised Optioned Shares granted to the Participant hereunder, will terminate and be forfeited at the first of the following to occur:

- (a) 5:00 p.m. (ET) on June 19, 2012;
- (b) 5:00 p.m. (ET) on the date which is three hundred and sixty five (365) days following the date on which the Participant is no longer engaged by the Company or any of its subsidiaries except where such engagement was terminated voluntarily by the Participant or by the Company for Cause in which case forfeiture shall occur at 5:00 p.m. (ET) on the date which is one hundred and twenty (120) days following the date on which the Participant is no longer engaged by the Company or any of its subsidiaries.

6. *Who May Exercise.* Subject to the terms and conditions set forth in Sections 4 and 5 above, during the lifetime of the Participant, the Stock Option may be exercised only by the Participant, or by the Participant's guardian or personal or legal representative. If the Participant's Termination of Service is due to his death prior to the date specified in Section 5 hereof, or Participant dies prior to the termination dates specified in Section 5 hereof, and the Participant has not exercised the Stock Option as to the maximum number of vested Optioned Shares as set forth in Section 6 hereof as of the date of death, the following persons may exercise the exercisable portion of the Stock Option on behalf of the Participant at any time prior to the earliest of the dates specified in Section 5 hereof: the personal representative of his estate, or the person who acquired the right to exercise the Stock Option by bequest or inheritance or by reason of the death of the Participant; provided that the Stock Option shall remain subject to the other terms of this Agreement, the Plan, and applicable laws, rules, and regulations.

7. *No Fractional Shares.* The Stock Option may be exercised only with respect to full shares, and no fractional share of stock shall be issued.

8. *Manner of Exercise.* Subject to such administrative regulations as the Committee may from time to time adopt, the Stock Option may be exercised by the delivery of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the Stock Option is to be exercised, the date of exercise thereof (the "Exercise Date") which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. On the Exercise Date, the Participant shall deliver to the Company consideration with a value equal to the total Option Price of the shares to be purchased, payable as follows (but in each instance, only if permitted by applicable law): (a) cash, check, bank draft, or money order payable to the order of the Company, (b) Common Stock (including Restricted Stock) owned by the Participant on the Exercise Date, valued at its Fair Market Value on the Exercise Date, (c) by delivery to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the Participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the Stock Option or to pledge such shares as collateral for a loan and promptly deliver to the Company the amount of sale or loan proceeds necessary to pay such purchase price, and/or (d) in any other form of valid consideration that is acceptable to the Committee in its sole discretion.

Upon payment of all amounts due from the Participant, the Company shall cause certificates for the Optioned Shares then being purchased to be delivered to the Participant (or the person exercising the Participant's Stock Option in the event of his death) at its principal business office promptly after the Exercise Date. The obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that if at any time the Company shall determine in its discretion that the listing, registration, quotation or qualification of the Stock Option or the Optioned Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the Stock Option or the issuance or purchase of shares of Common Stock thereunder, then the Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not reasonably acceptable to the Committee.

If the Participant fails to pay for any of the Optioned Shares specified in such notice or fails to accept delivery thereof, then the Stock Option, and right to purchase such Optioned Shares may be forfeited by the Company.

9. *Nonassignability.* The Stock Option is not assignable or transferable by the Participant except by will or by the laws of descent and distribution.

10. *Rights as Stockholder.* The Participant will have no rights as a stockholder with respect to any shares covered by the Stock Option until the issuance of a certificate or certificates to the Participant for the Optioned Shares. The Optioned Shares shall be subject to the terms and conditions of this Agreement regarding such Shares. Except as otherwise provided in Section 11 hereof, no adjustment shall be made for dividends or other rights for which the record date is prior to the issuance of such certificate or certificates.

11. *Adjustment of Number of Optioned Shares and Related Matters.* The number of shares of Common Stock covered by the Stock Option, and the Option Prices thereof, shall be subject to adjustment in accordance with Articles 13 - 15 of the Plan.

12. *Nonqualified Stock Option.* The Stock Option shall not be treated as an Incentive Stock Option.

13. *Voting.* The Participant, as record holder of some or all of the Optioned Shares following exercise of this Stock Option, has the exclusive right to vote, or consent with respect to, such Optioned Shares until such time as the Optioned Shares are transferred in accordance with this Agreement; provided, however, that this Section shall not create any voting right where the holders of such Optioned Shares otherwise have no such right.

14. *Community Property.* Each spouse individually is bound by, and such spouse's interest, if any, in any Optioned Shares is subject to, the terms of this Agreement. Nothing in this Agreement shall create a community property interest where none otherwise exists.

15. *Participant's Representations.* Notwithstanding any of the provisions hereof, the Participant hereby agrees that he will not exercise the Stock Option granted hereby, and that the Company will not be obligated to issue any shares to the Participant hereunder, if the exercise thereof or the issuance of such shares shall constitute a violation by the Participant or the Company of any provision of any law or regulation of any governmental authority. Any determination in this connection by the Company shall be final, binding, and

conclusive. The obligations of the Company and the rights of the Participant are subject to all applicable laws, rules, and regulations.

16. *Investment Representation.* Unless the Common Stock is issued to him in a transaction registered under applicable federal and state securities laws, by his execution hereof, the Participant represents and warrants to the Company that all Common Stock which may be purchased hereunder will be acquired by the Participant for investment purposes for his own account and not with any intent for resale or distribution in violation of federal or state securities laws. Unless the Common Stock is issued to him in a transaction registered under the applicable federal and state securities laws, all certificates issued with respect to the Common Stock shall bear an appropriate restrictive investment legend and shall be held indefinitely, unless they are subsequently registered under the applicable federal and state securities laws or the Participant obtains an opinion of counsel, in form and substance satisfactory to the Company and its counsel, that such registration is not required.

17. *Legend.* The following legend shall be placed on all certificates representing Optioned Shares:

On the face of the certificate:

"Transfer of this stock is restricted in accordance with conditions printed on the reverse of this certificate."

On the reverse:

"The shares of stock evidenced by this certificate are subject to and transferable only in accordance with that certain Validian Corporation Amended and Restated Incentive Equity Plan, a copy of which is on file at the principal office of the Company in Atlanta, Georgia. No transfer or pledge of the shares evidenced hereby may be made except in accordance with and subject to the provisions of said Plan. By acceptance of this certificate, any holder, transferee or pledge hereof agrees to be bound by all of the provisions of said Plan."

The following legend shall be inserted on a certificate evidencing Common Stock issued under the Plan if the shares were not issued in a transaction registered under the applicable federal and state securities laws:

"Shares of stock represented by this certificate have been acquired by the holder for investment and not for resale, transfer or distribution, have been issued pursuant to exemptions from the registration requirements of applicable state and federal securities laws, and may not be offered for sale, sold or transferred other than pursuant to effective registration under such laws, or in transactions otherwise in compliance with such laws, and upon evidence satisfactory to the Company of compliance with such laws, as to which the Company may rely upon an opinion of counsel satisfactory to the Company."

All Optioned Shares and shares into which Optioned Shares may be converted owned by the Participant shall be subject to the terms of this Agreement and shall be represented by a certificate or certificates bearing the foregoing legend.

18. *Lock-up Agreement.* The Participant agrees that in connection with any underwritten public offering of Common Stock, including the Company's initial public offering, the Optioned Shares may not be sold, offered for sale, pledged or otherwise disposed of or transferred except in accordance with the terms of the Registration Rights Agreement. In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company's outstanding securities without receipt of consideration, any new, substituted or additional securities which are by reason of such transaction distributed with respect to any Optioned Shares subject to this Section 18 or into which such Optioned Shares thereby become convertible shall immediately be subject to this Section 18.

19. *Participant's Acknowledgments.* The Participant acknowledges receipt of a copy of the Plan, which is annexed hereto, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all the terms and provisions thereof. The Participant hereby agrees to accept as binding, conclusive, and final all decisions or interpretations of the Committee or the Board, as appropriate, upon any questions arising under the Plan or this Agreement.

20. *Law Governing.* This Agreement shall be governed by, construed, and enforced in accordance with the laws of the Province of Ontario.

21. *No Right to Continue Service or Employment.* Nothing herein shall be construed to confer upon the Participant the right to continue in the employ or to provide services to the Company or any Subsidiary, whether as an employee or as a consultant or as an Outside Director, or interfere with or restrict in any way the right of the Company or any Subsidiary to discharge the Participant as an employee, consultant or Outside Director at any time.

22. *Legal Construction.* In the event that any one or more of the terms, provisions, or agreements that are contained in this Agreement shall be held by a Court of competent jurisdiction to be invalid, illegal, or unenforceable in any respect for any reason, the invalid, illegal, or unenforceable term, provision, or agreement shall not affect any other term, provision, or agreement that is contained in this Agreement and this Agreement shall be construed in all respects as if the invalid, illegal, or unenforceable term, provision, or agreement had never been contained herein.

23. *Covenants and Agreements as Independent Agreements.* Each of the covenants and agreements that is set forth in this Agreement shall be construed as a covenant and agreement independent of any other provision of this Agreement. The existence of any claim or cause of action of the Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants and agreements that are set forth in this Agreement.

25. *Entire Agreement.* This Agreement together with the Plan supersede any and all other prior understandings and agreements, either oral or in writing, between the parties with respect to the subject matter hereof and constitute the sole and only agreements between the parties with respect to the said subject matter. All prior negotiations and agreements between the parties with respect to the subject matter hereof are merged into this Agreement. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party or by anyone acting on behalf of any party, which are not embodied in this Agreement or the Plan and that any agreement, statement or promise that is not contained in this Agreement or the Plan shall not be valid or binding or of any force or effect.

26. *Parties Bound.* The terms, provisions, and agreements that are contained in this Agreement shall apply to, be binding upon, and inure to the benefit of the parties and their respective heirs, executors, administrators, legal representatives, and permitted successors and assigns.

27. *Modification.* No change or modification of this Agreement shall be valid or binding upon the parties unless the change or modification is in writing and signed by the parties. Notwithstanding the preceding sentence, the Company may amend the Plan or revoke this Stock Option to the extent permitted by the Plan.

28. *Headings.* The headings that are used in this Agreement are used for reference and convenience purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement.

29. *Gender and Number.* Words of any gender used in this Agreement shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, and vice versa, unless the context requires otherwise.

30. *Notice.* Any notice required or permitted to be delivered hereunder shall be deemed to be delivered only when actually received by the Company or by the Participant, as the case may be, at the addresses set forth below, or at such other addresses as they have theretofore specified by written notice delivered in accordance herewith:

- a. Notice to the Company shall be addressed and delivered as follows:

Validian Corporation
30 Metcalfe Street, Suite 600
Ottawa, Ontario K1P 5L4

- b. Notice to the Participant shall be addressed and delivered as follows:

Bruce Benn
20 Inverness Avenue
Ottawa, ON K2E 6N7

31. *Tax Requirements.* The Participant is hereby advised to consult immediately with his or her own tax advisor regarding the tax consequences of this Agreement, the availability, method, and timing for filing an election to include income arising from this Agreement into the Participant's gross income under Section 83(b) of the Code, and the tax consequences of such election. By execution of this Agreement, the Participant agrees that if the Participant makes such an election, the Participant shall provide the Company with written notice of such election in accordance with the regulations promulgated under Code Section 83(b). The Company or, if applicable, any Subsidiary (for purposes of this Section 32, the term "*Company*" shall be deemed to include any applicable Subsidiary), shall have the right to deduct from all amounts hereunder paid in cash or other form, any Federal, state, local, or other taxes required by law to be withheld in connection with this Award. The Company may, in its sole discretion, also require the Participant receiving shares of Common Stock issued under the Plan to pay the Company the amount of any taxes that the Company is required to withhold in connection with the Participant's income arising with respect to this Award. Such payments shall be required to be made when requested by the Company and may be required to be made prior to the delivery of any certificate representing shares of Common Stock. Such payment may be made (i) by the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding obligations of the Company; (ii) if the Company, in its sole discretion, so consents in writing, the actual delivery by the exercising Participant to the Company of shares of Common Stock other

than (A) Restricted Stock, (B) Callable Shares, or (C) Common Stock that the Participant has not acquired from the Company within six (6) months prior to the date of exercise, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding payment; (iii) if the Company, in its sole discretion, so consents in writing, the Company's withholding of a number of shares to be delivered upon the exercise of the Stock Option other than shares that will constitute Restricted Stock or Callable Shares, which shares so withheld have an aggregate fair market value that equals (but does not exceed) the required tax withholding payment; or (iv) any combination of (i), (ii), or (iii). The Company may, in its sole discretion, withhold any such taxes from any other cash remuneration otherwise paid by the Company to the Participant.

* * * * *

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Participant, to evidence his consent and approval of all the terms hereof, has duly executed this Agreement, as of the date specified in Section 1 hereof.

COMPANY:

VALIDIAN CORPORATION

By: _____
Bruce Benn, President & CEO

By: _____
Ronald Benn, CFO

Date: June 19, 2007

Participant:

Bruce Benn
Date: June 19, 2007

VALIDIAN CORPORATION
NONQUALIFIED STOCK OPTION AGREEMENT

1. Grant of Option. Pursuant to the Validian Corporation Amended and Restated Incentive Equity Plan (the "Plan"), for employees, consultants and outside directors of Validian Corporation, a Nevada corporation (the "Company"), the Company grants to:

Ronald Benn

Residing at 22 Saddlebrook Street, Ottawa ON K2G 5N7

Engaged by the Company

According to an agreement

Between Ronald Benn and the Company.

(the "*Participant*")

an option to purchase shares of Common Stock, par value \$0.001 per share ("Common Stock"), of the Company as follows:

On the date hereof, the Company grants to the Participant an option (the "Option" or "Stock Option") to purchase **900,000 (nine hundred thousand)** full shares (the "Optioned Shares") of Common Stock at an Option Price equal to \$0.04 U.S. (four cents of United States Dollars) per share. The effective Date of Grant of this Stock Option is June 19, 2007.

The "Option Period" shall commence on the Date of Grant and shall expire on the date immediately preceding the fifth (5th) anniversary of the Date of Grant. The Stock Option is a Nonqualified Stock Option.

2. *Subject to Plan.* The Plan is a separate legal document that contains the general terms and conditions applicable to this Stock Option. This Stock Option and its exercise are subject to the terms and conditions of the Plan, but the terms of the Plan shall not be considered an enlargement of any benefits under this Agreement. The terms of the Plan shall control to the extent not otherwise inconsistent with the provisions of this Agreement. This Stock Option is subject to any rules promulgated from time to time hereafter pursuant to the Plan by the Board or the Committee and communicated to the Participant in writing. In addition, if the Plan previously has not been approved by the Company's stockholders, the Stock Option is granted subject to such stockholder approval.

3. *Definitions.* The capitalized terms used herein that are defined in the Plan shall have the same meanings assigned to them in the Plan. For the purpose of this Stock Option Agreement, "*Cause*" means, with respect to Participant (i) acts of fraud or dishonesty in the course of his employment with or service to the Company or any of its Subsidiaries, (ii) substance abuse causing harm to the Company or any of its Subsidiaries or impairing the Participant's performance of his regular duties, (iii) conviction of a felony involving moral turpitude, or (iv) insubordination, dereliction of duties, habitual absenteeism, materially deficient performance after (solely in the case of this clause (iv)) notice to Participant and Participant's failure

to correct same within the time period specified in the notice, which time period shall be not less than 10 business days, or (v) any event described as "cause" (or in any other term or phrase having similar import) in any written employment agreement between the Option Holder and the Company (or any Subsidiary).

4. *Vesting; Time of Exercise.* Except as specifically provided in this Agreement and subject to certain restrictions and conditions set forth in the Plan, this Stock Option is vested and exercisable on the Date of Grant and until the date specified in Section 5 herein.

5. *Term; Forfeiture.* This Stock Option, and all unexercised Optioned Shares granted to the Participant hereunder, will terminate and be forfeited at the first of the following to occur:

- (a) 5:00 p.m. (ET) on June 19, 2012;
- (b) 5:00 p.m. (ET) on the date which is three hundred and sixty five (365) days following the date on which the Participant is no longer engaged by the Company or any of its subsidiaries except where such engagement was terminated voluntarily by the Participant or by the Company for Cause in which case forfeiture shall occur at 5:00 p.m. (ET) on the date which is one hundred and twenty (120) days following the date on which the Participant is no longer engaged by the Company or any of its subsidiaries.

6. *Who May Exercise.* Subject to the terms and conditions set forth in Sections 4 and 5 above, during the lifetime of the Participant, the Stock Option may be exercised only by the Participant, or by the Participant's guardian or personal or legal representative. If the Participant's Termination of Service is due to his death prior to the date specified in Section 5 hereof, or Participant dies prior to the termination dates specified in Section 5 hereof, and the Participant has not exercised the Stock Option as to the maximum number of vested Optioned Shares as set forth in Section 6 hereof as of the date of death, the following persons may exercise the exercisable portion of the Stock Option on behalf of the Participant at any time prior to the earliest of the dates specified in Section 5 hereof: the personal representative of his estate, or the person who acquired the right to exercise the Stock Option by bequest or inheritance or by reason of the death of the Participant; provided that the Stock Option shall remain subject to the other terms of this Agreement, the Plan, and applicable laws, rules, and regulations.

7. *No Fractional Shares.* The Stock Option may be exercised only with respect to full shares, and no fractional share of stock shall be issued.

8. *Manner of Exercise.* Subject to such administrative regulations as the Committee may from time to time adopt, the Stock Option may be exercised by the delivery of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the Stock Option is to be exercised, the date of exercise thereof (the "Exercise Date") which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. On the Exercise Date, the Participant shall deliver to the Company consideration with a value equal to the total Option Price of the shares to be purchased, payable as follows (but in each instance, only if permitted by applicable law): (a) cash, check, bank draft, or money order payable to the order of the Company, (b) Common Stock (including Restricted Stock) owned by the Participant on the Exercise Date, valued at its Fair Market Value on the Exercise Date, (c) by delivery to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the Participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the Stock Option or to pledge such shares as collateral for a loan and promptly deliver to the Company the amount of sale or loan proceeds necessary to pay such purchase price, and/or (d) in any other form of valid consideration that is acceptable to the Committee in its sole discretion.

Upon payment of all amounts due from the Participant, the Company shall cause certificates for the Optioned Shares then being purchased to be delivered to the Participant (or the person exercising the Participant's Stock Option in the event of his death) at its principal business office promptly after the Exercise Date. The obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that if at any time the Company shall determine in its discretion that the listing, registration, quotation or qualification of the Stock Option or the Optioned Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the Stock Option or the issuance or purchase of shares of Common Stock thereunder, then the Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not reasonably acceptable to the Committee.

If the Participant fails to pay for any of the Optioned Shares specified in such notice or fails to accept delivery thereof, then the Stock Option, and right to purchase such Optioned Shares may be forfeited by the Company.

9. *Nonassignability.* The Stock Option is not assignable or transferable by the Participant except by will or by the laws of descent and distribution.

10. *Rights as Stockholder.* The Participant will have no rights as a stockholder with respect to any shares covered by the Stock Option until the issuance of a certificate or certificates to the Participant for the Optioned Shares. The Optioned Shares shall be subject to the terms and conditions of this Agreement regarding such Shares. Except as otherwise provided in Section 11 hereof, no adjustment shall be made for dividends or other rights for which the record date is prior to the issuance of such certificate or certificates.

11. *Adjustment of Number of Optioned Shares and Related Matters.* The number of shares of Common Stock covered by the Stock Option, and the Option Prices thereof, shall be subject to adjustment in accordance with Articles 13 - 15 of the Plan.

12. *Nonqualified Stock Option.* The Stock Option shall not be treated as an Incentive Stock Option.

13. *Voting.* The Participant, as record holder of some or all of the Optioned Shares following exercise of this Stock Option, has the exclusive right to vote, or consent with respect to, such Optioned Shares until such time as the Optioned Shares are transferred in accordance with this Agreement; provided, however, that this Section shall not create any voting right where the holders of such Optioned Shares otherwise have no such right.

14. *Community Property.* Each spouse individually is bound by, and such spouse's interest, if any, in any Optioned Shares is subject to, the terms of this Agreement. Nothing in this Agreement shall create a community property interest where none otherwise exists.

15. *Participant's Representations.* Notwithstanding any of the provisions hereof, the Participant hereby agrees that he will not exercise the Stock Option granted hereby, and that the Company will not be obligated to issue any shares to the Participant hereunder, if the exercise thereof or the issuance of such shares shall constitute a violation by the Participant or the Company of any provision of any law or regulation of any governmental authority. Any determination in this connection by the Company shall be final, binding, and conclusive. The obligations of the Company and the rights of the Participant are subject to all applicable laws, rules, and regulations.

16. *Investment Representation.* Unless the Common Stock is issued to him in a transaction registered under applicable federal and state securities laws, by his execution hereof, the Participant represents and warrants to the Company that all Common Stock which may be purchased hereunder will be acquired by the Participant for investment purposes for his own account and not with any intent for resale or distribution in violation of federal or state securities laws. Unless the Common Stock is issued to him in a transaction registered under the applicable federal and state securities laws, all certificates issued with respect to the Common Stock shall bear an appropriate restrictive investment legend and shall be held indefinitely, unless they are subsequently registered under the applicable federal and state securities laws or the Participant obtains an opinion of counsel, in form and substance satisfactory to the Company and its counsel, that such registration is not required.

17. *Legend.* The following legend shall be placed on all certificates representing Optioned Shares:

On the face of the certificate:

"Transfer of this stock is restricted in accordance with conditions printed on the reverse of this certificate."

On the reverse:

"The shares of stock evidenced by this certificate are subject to and transferable only in accordance with that certain Validian Corporation Amended and Restated Incentive Equity Plan, a copy of which is on file at the principal office of the Company in Atlanta, Georgia. No transfer or pledge of the shares evidenced hereby may be made except in accordance with and subject to the provisions of said Plan. By acceptance of this certificate, any holder, transferee or pledge hereof agrees to be bound by all of the provisions of said Plan."

The following legend shall be inserted on a certificate evidencing Common Stock issued under the Plan if the shares were not issued in a transaction registered under the applicable federal and state securities laws:

"Shares of stock represented by this certificate have been acquired by the holder for investment and not for resale, transfer or distribution, have been issued pursuant to exemptions from the registration requirements of applicable state and federal securities laws, and may not be offered for sale, sold or transferred other than pursuant to effective registration under such laws, or in transactions otherwise in compliance with such laws, and upon evidence satisfactory to the Company of compliance with such laws, as to which the Company may rely upon an opinion of counsel satisfactory to the Company."

All Optioned Shares and shares into which Optioned Shares may be converted owned by the Participant shall be subject to the terms of this Agreement and shall be represented by a certificate or certificates bearing the foregoing legend.

18. *Lock-up Agreement.* The Participant agrees that in connection with any underwritten public offering of Common Stock, including the Company's initial public offering, the Optioned Shares may not be sold,

offered for sale, pledged or otherwise disposed of or transferred except in accordance with the terms of the Registration Rights Agreement. In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company's outstanding securities without receipt of consideration, any new, substituted or additional securities which are by reason of such transaction distributed with respect to any Optioned Shares subject to this Section 18 or into which such Optioned Shares thereby become convertible shall immediately be subject to this Section 18.

19. *Participant's Acknowledgments.* The Participant acknowledges receipt of a copy of the Plan, which is annexed hereto, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all the terms and provisions thereof. The Participant hereby agrees to accept as binding, conclusive, and final all decisions or interpretations of the Committee or the Board, as appropriate, upon any questions arising under the Plan or this Agreement.

20. *Law Governing.* This Agreement shall be governed by, construed, and enforced in accordance with the laws of the Province of Ontario.

21. *No Right to Continue Service or Employment.* Nothing herein shall be construed to confer upon the Participant the right to continue in the employ or to provide services to the Company or any Subsidiary, whether as an employee or as a consultant or as an Outside Director, or interfere with or restrict in any way the right of the Company or any Subsidiary to discharge the Participant as an employee, consultant or Outside Director at any time.

22. *Legal Construction.* In the event that any one or more of the terms, provisions, or agreements that are contained in this Agreement shall be held by a Court of competent jurisdiction to be invalid, illegal, or unenforceable in any respect for any reason, the invalid, illegal, or unenforceable term, provision, or agreement shall not affect any other term, provision, or agreement that is contained in this Agreement and this Agreement shall be construed in all respects as if the invalid, illegal, or unenforceable term, provision, or agreement had never been contained herein.

23. *Covenants and Agreements as Independent Agreements.* Each of the covenants and agreements that is set forth in this Agreement shall be construed as a covenant and agreement independent of any other provision of this Agreement. The existence of any claim or cause of action of the Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants and agreements that are set forth in this Agreement.

24. *Entire Agreement.* This Agreement together with the Plan supersede any and all other prior understandings and agreements, either oral or in writing, between the parties with respect to the subject matter hereof and constitute the sole and only agreements between the parties with respect to the said subject matter. All prior negotiations and agreements between the parties with respect to the subject matter hereof are merged into this Agreement. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party or by anyone acting on behalf of any party, which are not embodied in this Agreement or the Plan and that any agreement, statement or promise that is not contained in this Agreement or the Plan shall not be valid or binding or of any force or effect.

25. *Parties Bound.* The terms, provisions, and agreements that are contained in this Agreement shall apply to, be binding upon, and inure to the benefit of the parties and their respective heirs, executors, administrators, legal representatives, and permitted successors and assigns.

26. *Modification.* No change or modification of this Agreement shall be valid or binding upon the parties unless the change or modification is in writing and signed by the parties. Notwithstanding the preceding sentence, the Company may amend the Plan or revoke this Stock Option to the extent permitted by the Plan.

27. *Headings.* The headings that are used in this Agreement are used for reference and convenience purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement.

28. *Gender and Number.* Words of any gender used in this Agreement shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, and vice versa, unless the context requires otherwise.

29. *Notice.* Any notice required or permitted to be delivered hereunder shall be deemed to be delivered only when actually received by the Company or by the Participant, as the case may be, at the addresses set forth below, or at such other addresses as they have theretofore specified by written notice delivered in accordance herewith:

- a. Notice to the Company shall be addressed and delivered as follows:

Validian Corporation
30 Metcalfe Street, Suite 600
Ottawa, Ontario K1P 5L4

- b. Notice to the Participant shall be addressed and delivered as follows:

Ron Benn
22 Saddlebrook Street
Ottawa ON K2G 5N7

30. *Tax Requirements.* The Participant is hereby advised to consult immediately with his or her own tax advisor regarding the tax consequences of this Agreement, the availability, method, and timing for filing an election to include income arising from this Agreement into the Participant's gross income under Section 83(b) of the Code, and the tax consequences of such election. By execution of this Agreement, the Participant agrees that if the Participant makes such an election, the Participant shall provide the Company with written notice of such election in accordance with the regulations promulgated under Code Section 83(b). The Company or, if applicable, any Subsidiary (for purposes of this Section 32, the term "*Company*" shall be deemed to include any applicable Subsidiary), shall have the right to deduct from all amounts hereunder paid in cash or other form, any Federal, state, local, or other taxes required by law to be withheld in connection with this Award. The Company may, in its sole discretion, also require the Participant receiving shares of Common Stock issued under the Plan to pay the Company the amount of any taxes that the Company is required to withhold in connection with the Participant's income arising with respect to this Award. Such payments shall be required to be made when requested by the Company and may be required to be made prior to the delivery of any certificate representing shares of Common Stock. Such payment may be made (i) by the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding obligations of the Company; (ii) if the Company, in its sole discretion, so consents in writing, the actual delivery by the exercising Participant to the Company of shares of Common Stock other than (A) Restricted Stock, (B) Callable Shares, or (C) Common Stock that the Participant has not acquired

from the Company within six (6) months prior to the date of exercise, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding payment; (iii) if the Company, in its sole discretion, so consents in writing, the Company's withholding of a number of shares to be delivered upon the exercise of the Stock Option other than shares that will constitute Restricted Stock or Callable Shares, which shares so withheld have an aggregate fair market value that equals (but does not exceed) the required tax withholding payment; or (iv) any combination of (i), (ii), or (iii). The Company may, in its sole discretion, withhold any such taxes from any other cash remuneration otherwise paid by the Company to the Participant.

* * * * *

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Participant, to evidence his consent and approval of all the terms hereof, has duly executed this Agreement, as of the date specified in Section 1 hereof.

COMPANY:

VALIDIAN CORPORATION

By: _____
Bruce Benn, President & CEO

By: _____
Ronald Benn, CFO

Date: June 19, 2007

Participant:

Ronald Benn
Date: June 19, 2007

OPTION RELINQUISHMENT AND RELEASE AGREEMENT

THIS OPTION RELINQUISHMENT AND RELEASE AGREEMENT, dated this 15th day of June, 2007 (this "Release"), is made and entered into by and between Validian Corporation, a Nevada corporation ("Company"), and Bruce Benn, a resident of Ottawa, Ontario, Canada ("Holder").

WITNESSETH:

WHEREAS, Company and Holder entered into one or more Stock Option Agreements, so referenced on Exhibit A to this Release (the "Option Agreements"), under the 2004 Incentive Equity Plan, pursuant to which Holder was granted rights to purchase a specified number of shares of common stock, par value \$0.001 per share ("Company Common Stock");

WHEREAS, the parties to this Release desire that in consideration for the total cash consideration set forth on Exhibit A to this Release (such cash consideration, net of applicable withholdings, being the "Option Consideration") payable to Holder, Holder will (i) transfer to Company all of Holder's rights under the Option Agreements to acquire Company Common Stock, and (ii) release all existing or potential claims under the Option Agreements and the related stock option plans.

NOW, THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Relinquishment.

In consideration for and pursuant to the terms of this Release, Holder does hereby relinquish any and all rights of Holder under the Option Agreements and any other agreement or plan to acquire (i) Company Common Stock or (ii) any other equity security of Company or any affiliate thereof, except as otherwise indicated on Exhibit A. The receipt by Holder of the Option Consideration shall constitute complete and full payment for the relinquishment of all rights of Holder under the Option Agreements and any other agreement and plan to acquire (i) Company Common Stock or (ii) any other equity security of Company or any affiliate thereof, except as otherwise indicated on Exhibit A. Holder hereby represents and warrants to Company that, except as otherwise indicated on Exhibit A, the Option Agreements are the only agreements or understandings between Holder and Company or any affiliate of Company pertaining to the grant by Company (or any affiliate of Company) of any right, option or warrant to acquire (i) Company Common Stock or (ii) any other equity security of Company or any affiliate thereof; provided, however, that nothing in this Release shall be deemed a release or termination of any other agreement between Company and Holder or any other rights under policies and benefits of Company applicable to Holder. All payments of Option Consideration hereunder shall be subject to withholding for federal income taxes and FICA taxes.

2. Release.

Holder for himself and his successors and assigns hereby releases, acquits, and forever discharges Company and Company's respective past and future subsidiaries, affiliates, employees, officers, directors, stockholders, agents, representatives, successors and assigns (collectively, the "Released Parties") of and from any and all actions, causes of action, suits, claims, demands, judgments, damages, obligations and liabilities of any kind, at law or in equity, known or unknown, which Holder had, now has, or hereafter may have against the Released Parties, or any of them, under the Option Agreements or any other agreement or plan to acquire (i) Company Common Stock or (ii) any other equity security of Company or any affiliate thereof, except as otherwise indicated on Exhibit A; provided, however, that nothing in this Release shall be deemed a release or termination of any other agreement between Company and Holder or any other rights under policies and benefits of Company applicable to Holder.

3. CHOICE OF LAW.

THE VALIDITY OF THIS RELEASE, THE CONSTRUCTION OF ITS TERMS AND THE DETERMINATION OF THE RIGHTS AND DUTIES OF THE PARTIES HERETO SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE SUBSTANTIVE LAWS OF THE STATE OF NEVADA, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAWS THERETO.

4. Binding Nature.

This Release shall bind and inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.

5. Counterparts.

This Release may be executed in multiple counterparts, each of which shall be deemed an original for all purposes and all of which shall be deemed collectively to be one agreement, but in making proof hereof it shall only be necessary to exhibit one such counterpart.

* * * * *

IN WITNESS WHEREOF, each of the parties hereto has caused this Release to be executed effective as of the date first above written.

Validian Corporation

By: _____
Bruce Benn, CEO & President and Director

By: _____
Ronald I. Benn, CFO & Director

HOLDER:

Bruce Benn

SPOUSAL RELEASE

I, Terry Lynne White, am the spouse of Holder. I have read and understand this Release and the documents referred to herein, and I hereby agree to all of the terms of this Release and release any and all claims that I may have against Company or any affiliate thereof arising from the Option Agreements or any other agreement or plans to acquire (i) Company Common Stock or (ii) any other equity security of Company or any affiliate thereof (except as otherwise indicated on Exhibit A).

SPOUSE:

Terry Lynne White

EXHIBIT A

Name of Holder: **Bruce Benn**

Number of Options Outstanding	Expiry Date	Exercise Price		Consideration Payable to Holder
500,000	30-June-2010	\$ 0.67	\$[___]	\$ 795.00
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$

TOTAL	\$ 795.00*
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* Assumes the “Per Share Amount” paid in the tender offer is \$0.00159, which amount is subject to increase.

Other agreements or understandings between Holder and Company or any affiliate of Company pertaining to the grant by Company (or any affiliate of Company) of any right, option or warrant to acquire Common Stock or any other equity security of Company or any affiliate of Company:
[NONE]

OPTION RELINQUISHMENT AND RELEASE AGREEMENT

THIS OPTION RELINQUISHMENT AND RELEASE AGREEMENT, dated this 15th day of June, 2007 (this "Release"), is made and entered into by and between Validian Corporation, a Nevada corporation ("Company"), and Ronald Benn, a resident of Ottawa, Ontario, Canada ("Holder").

WITNESSETH:

WHEREAS, Company and Holder entered into one or more Stock Option Agreements, so referenced on Exhibit A to this Release (the "Option Agreements"), under the 2004 Incentive Equity Plan, pursuant to which Holder was granted rights to purchase a specified number of shares of common stock, par value \$0.001 per share ("Company Common Stock");

WHEREAS, the parties to this Release desire that in consideration for the total cash consideration set forth on Exhibit A to this Release (such cash consideration, net of applicable withholdings, being the "Option Consideration") payable to Holder, Holder will (i) transfer to Company all of Holder's rights under the Option Agreements to acquire Company Common Stock, and (ii) release all existing or potential claims under the Option Agreements and the related stock option plans.

NOW, THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Relinquishment.

In consideration for and pursuant to the terms of this Release, Holder does hereby relinquish any and all rights of Holder under the Option Agreements and any other agreement or plan to acquire (i) Company Common Stock or (ii) any other equity security of Company or any affiliate thereof, except as otherwise indicated on Exhibit A. The receipt by Holder of the Option Consideration shall constitute complete and full payment for the relinquishment of all rights of Holder under the Option Agreements and any other agreement and plan to acquire (i) Company Common Stock or (ii) any other equity security of Company or any affiliate thereof, except as otherwise indicated on Exhibit A. Holder hereby represents and warrants to Company that, except as otherwise indicated on Exhibit A, the Option Agreements are the only agreements or understandings between Holder and Company or any affiliate of Company pertaining to the grant by Company (or any affiliate of Company) of any right, option or warrant to acquire (i) Company Common Stock or (ii) any other equity security of Company or any affiliate thereof; provided, however, that nothing in this Release shall be deemed a release or termination of any other agreement between Company and Holder or any other rights under policies and benefits of Company applicable to Holder. All payments of Option Consideration hereunder shall be subject to withholding for federal income taxes and FICA taxes.

2. Release.

Holder for himself and his successors and assigns hereby releases, acquits, and forever discharges Company and Company's respective past and future subsidiaries, affiliates, employees, officers, directors, stockholders, agents, representatives, successors and assigns (collectively, the "Released Parties") of and from any and all actions, causes of action, suits, claims, demands, judgments, damages, obligations and liabilities of any kind, at law or in equity, known or unknown, which Holder had, now has, or hereafter may have against the Released Parties, or any of them, under the Option Agreements or any other agreement or plan to acquire (i) Company Common Stock or (ii) any other equity security of Company or any affiliate thereof, except as otherwise indicated on Exhibit A; provided, however, that nothing in this Release shall be deemed a release or termination of any other agreement between Company and Holder or any other rights under policies and benefits of Company applicable to Holder.

3. CHOICE OF LAW.

THE VALIDITY OF THIS RELEASE, THE CONSTRUCTION OF ITS TERMS AND THE DETERMINATION OF THE RIGHTS AND DUTIES OF THE PARTIES HERETO SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE SUBSTANTIVE LAWS OF THE STATE OF NEVADA, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAWS THERETO.

4. Binding Nature.

This Release shall bind and inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.

5. Counterparts.

This Release may be executed in multiple counterparts, each of which shall be deemed an original for all purposes and all of which shall be deemed collectively to be one agreement, but in making proof hereof it shall only be necessary to exhibit one such counterpart.

* * * * *

IN WITNESS WHEREOF, each of the parties hereto has caused this Release to be executed effective as of the date first above written.

Validian Corporation

By: _____
Bruce Benn, CEO & President and Director

By: _____
Ronald I. Benn, CFO & Director

HOLDER:

Ronald Benn

SPOUSAL RELEASE

I, Linda Benn, am the spouse of Holder. I have read and understand this Release and the documents referred to herein, and I hereby agree to all of the terms of this Release and release any and all claims that I may have against Company or any affiliate thereof arising from the Option Agreements or any other agreement or plans to acquire (i) Company Common Stock or (ii) any other equity security of Company or any affiliate thereof (except as otherwise indicated on Exhibit A).

SPOUSE:

Linda Benn

EXHIBIT A

Name of Holder: Ronald Benn

Number of Options Outstanding	Expiry Date	Exercise Price		Consideration Payable to Holder
400,000	30-June-2010	\$ 0.67	\$[___]	\$ 636.00
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$

TOTAL	\$ 636.00*
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* Assumes the “Per Share Amount” paid in the tender offer is \$0.00159, which amount is subject to increase.

Other agreements or understandings between Holder and Company or any affiliate of Company pertaining to the grant by Company (or any affiliate of Company) of any right, option or warrant to acquire Common Stock or any other equity security of Company or any affiliate of Company:
[NONE]

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 16, 2007

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

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 16, 2007

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

**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, 2007 (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 16, 2007

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

**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, 2007 (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 16, 2007

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