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

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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

VALIDIAN CORPORATION

(Name of small business issuer in its charter)

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

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

Issuer's telephone number: 613-230-7211

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average between the closing bid ($0.03) and asked ($0.03) price of the issuer's Common Stock as of March 31, 2008, was $1,376,768, based upon the average between the closing bid and asked price ($0.03) multiplied by the 45,892,278 shares of the issuer's Common Stock held by non-affiliates. (In computing this number, issuer has assumed all record holders of greater than 5% of the common equity and all directors and officers are affiliates of the issuer.)

The number of shares outstanding of each of the issuer's classes of common equity as of March 31, 2008: 54,231,943.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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

VALIDIAN CORPORATION
Form 10-KSB
December 31, 2007

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

PART I

Item 1. <u>Description of Business.</u>

Summary

Validian Corporation provides software products to assist public and private enterprises address the increasingly complex issues surrounding application security. Validian ASI™ is an application-security software system that helps to protect the exchange of information at the application layer, where the majority of breaches occur, and helps to protect mission-critical applications against hack attacks and unauthorized access, which often occur at the application. Validian ASI makes secure data exchange among applications, including distributed applications, straightforward and affordable for any organization, regardless of size and resources. Validian ASI facilitates security audit compliance and assurance, whether mandated by government, industry or internal policy; helps to prevent impersonation through application authentication and authorization; delivers confidentiality through application authentication and authorization; and delivers confidentiality through end-to-end encryption of all exchanges, so that data never travels "in the clear". Incorporated in the United States, Validian has offices in the United States and Canada.

Our Technology

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

<u>Our Intellectual Property</u>

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

Our technology provides benefits, by enabling users:

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

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

Target Market

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

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

* independent software vendors and developers serving a relatively large group of customers, on a regional or national basis and who must respond to a variety of conditions and platforms, as imposed by their customers in specific industrial sectors and secure the exchanges between their customers' partners, suppliers and other participants.

Potential customer industrial sectors include, among others:

* post-production houses, studios and production companies in the digital media industry;
* transportation industry;
* manufacturers in supply management chains;
* health care providers and suppliers;
* governments;
* financial institutions and insurance companies; and
* software distribution services.

Marketing Strategy and Distribution Channels

We have initiated a marketing program in North America to bring our products to the marketplace. This program has two components: direct and channel sales.

Direct Sales

The direct sales approach entails making high-level contacts within the organizations of target customers to present the benefits and competitive advantages of our products. Leads to such presentations are generated through existing contacts of management and sales representatives, and through attendance at and participation in specialized e-commerce and computer security trade shows, and the presentation of the benefits of our products in technical seminars attended by personnel with a mandate for application security.

Channel Sales

In order to penetrate the market for our products, we are attempting to partner with value-added resellers ("VARs"), independent marketing representatives (“IMRs”), system integrators (“SIs”), independent software vendors (“ISVs”) and application service providers (“ASPs”). Potential partners are identified based upon their ability to penetrate specific markets more easily than we can. We believe major customers also will act as VARs in their sector.

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

Currently, we have agreements with VARs and IMRs in the U.S.

Marketing Analysis

During the year ended December 31, 2007, we utilized the services of industry specialists in the health care, government and entertainment sectors. Their mandate was to identify specific areas and a limited number of organizations where our products would facilitate secure communication and the implementation of a strong security infrastructure with ease of deployment and management.

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

* security;
* features and benefits;
* integration into current systems;

* openness of the architecture;
* future developments; and
* implementation procedures.

Estimated Sales Cycles

We expect that individual sales cycles will be from four to eight months in duration. The territories where most potential customers reside are expected to be in North America, Europe and Asia Pacific. We retained two sales representatives during the third quarter of 2002. At March 30, 2008 we had one sales representative.

Marketing Expenses

The main expense factors for our marketing campaign are for:

* personnel, both internal and outside specialists;
* direct marketing to potential customers;
* participation in trade shows;
* travel and living expenses;
* web site development and maintenance; and
* literature preparation and distribution.

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

Our Products

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

Our Application Security Infrastructure (ASI)

Our ASI is an application security framework for securing data transport between distributed applications and Web services. ASI is specifically designed to secure communication between distributed applications and distributed networks. It automatically manages all critical security functions for any application, including authentication, encryption, key generation, key distribution, addressing and data transport. ASI delivers messages and files to, and only to, the target destination, and data never travels "in the clear" at any time between applications.

Supplemental to our ASI product, we offer a Software Development Kit (SDK), for rapidly and simply securing data transport between applications through ASI. The SDK includes a complete, integrated and built-in set of control, transport and security features, which are automatically inherited by any applications linked to ASI through the SDK. Application developers who use the Validian SDK do not have to learn and master any of the various transport and security products or mechanisms to implement security on their applications. Our SDK establishes low-level IP addresses and ports, and implements complex security features automatically. This provides the application with a complete communication security chain, as the ASI protection initiates from within the originating application and transports data to within the destination application. The SDK is offered free of charge to qualified developers and system integrators.

Our Secure Send & Receive (SSR)

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

Our Biometric Media Seal (BMS)

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

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

* to authenticate project workers using fingerprint signatures;
* to store media files in encrypted form on portable media storage drives;
* to transfer encrypted media files of any size and any format between authenticated workers and/or reviewers across the Internet;
* to track media file activity such as create, rename, modify, transfer and delete, transparently and in real-time over the Internet; and
* to set universal policies which govern security and tracking levels applied on a per project basis.

Competition

There are different competitors for the ASI, SSR and BMS markets.

ASI competition

Our ASI product competes primarily with the products described below.

VPN

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

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

PKI

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

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

SSL

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

SSR Competition

File transfer protocol (FTP) is freeware available to organizations that don't require security controls. Secure FTP provides minimal file protection. A number of companies compete in the growing secure file transfer market space, including Tumbleweed Communications, Proginet Corporation, Aspera, Inc. and Radiance Technologies.

BMS Competition

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

Research and Development

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

Year ended December 31, 2007	2006
$849,020	$1,125,285

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

Intellectual Property Protection

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

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

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

We cannot assure that we will be able to obtain or to maintain the foregoing intellectual property protection. We also cannot assure that our technology does not infringe upon the intellectual property rights of others. In the event that we are unable to obtain the foregoing protection or our technology infringes intellectual property rights of others, our business and results of operations could be materially and adversely affected. For more information please see "Risk Factors - We may not be able to protect and enforce our intellectual property rights, which could result in the loss of our rights, loss of business or increased costs." and "Claims by third parties that we infringe upon their proprietary technology could hurt our financial condition," below.

Employees

As at December 31, 2007, we had four full-time, and 2 part-time employees and contractual personnel, including two executive officers, two sales and marketing staff, and two in administration. Five are located in Ottawa, Canada, and one is located in Washington, DC. In addition, we contract with an independent software development group in Europe, which had four individuals deployed to our contract on a full-time basis as at December 31, 2007. We also regularly engage technical consultants and independent contractors to provide specific advice or to perform certain marketing or technical tasks.

Risk Factors

Our business operations and our securities are subject to a number of substantial risks, including those described below. If any of these or other risks actually occur, our business, financial condition and operating results, as well as the trading price or value of our securities could be materially adversely affected.

Risks relating to our Business

We are a development stage company, and our limited operating history makes evaluating our business and prospects difficult.

We are a development stage company, and our limited operating history makes it difficult to evaluate our current business and prospects or to accurately predict our future revenues or results of operations. The commercial acceptance of our products is unproven and therefore we may not be able to generate a sufficient number of revenue-paying customers to sustain operations. Our revenue and income potential are unproven, and our business plan is constantly evolving. The Internet is constantly changing and software technology is constantly improving, therefore we may need to continue to modify our business plan to adapt to these changes. As a result of our being in the early stages of development, particularly in the emerging technology industry, we are more vulnerable to risks, uncertainties, expenses and difficulties than more established companies. As a result, we may never achieve profitability and we may not be able to continue operations if we cannot successfully address the risks associated with early stage development companies in emerging technologies.

We have a history of operating losses and we anticipate losses and negative cash flow for the foreseeable future. Unless we are able to generate profits and positive cash flow we may not be able to continue operations.

We incurred a net loss of $3,726,393 and negative cash flow from operations of $1,038,565 during the year ended December 31, 2007. During the year ended December 31, 2006, we incurred a net loss of

$3,387,291 and negative cash flow from operations of $1,976,022. We expect operating losses and negative cash flow from operations to continue for the foreseeable future.

We will need to generate significant revenues to achieve profitability. Consequently, we may never achieve profitability. Even if we do achieve profitability, we may not sustain or increase profitability on a quarterly or annual basis in the future. If we are unable to achieve or sustain profitability in the future, we may be unable to continue our operations. See "Part II. Item 6. Management's Discussion and Analysis or Plan of Operations – Liquidity and Capital Resources."

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

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

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

We have an immediate requirement for additional working capital in order to proceed with our business plan. We are currently pursuing alternatives regarding the raising of additional capital to fund operations. For a discussion of our capital requirements, see the disclosure in "Part II. Item 6. Management's Discussion and Analysis or Plan of Operations; Plan of Operations." We do not currently have a commitment from any third party to provide financing and may be unable to obtain financing on reasonable terms or at all. Furthermore, if we raise additional working capital through equity, our shareholders will experience dilution. If we are unable to raise additional financing in the immediate future, and thereafter as required, we will be unable to grow or maintain our current level of business operations and, in fact, we will be forced to limit or curtail our operations.

The loss of any of our key personnel would likely have an adverse effect on our business.

Our future success depends, to a significant extent, on the continued services of our key personnel. Our loss of any of these key people most likely would have an adverse effect on our business. Competition for personnel throughout the industry is intense and we may be unable to retain our current personnel or attract, integrate or retain other highly qualified personnel in the future. If we do not succeed in retaining our current personnel or in attracting and motivating new personnel, our business could be materially adversely affected.

The business environment is highly competitive and, if we do not compete effectively, we may experience material adverse effects on our operations.

The market for Internet security products and services is intensely competitive and we expect competition to increase in the future. We compete with large and small companies that provide products and services that are similar to some aspects of our security services. Our competitors may develop new technologies in the future that are perceived as being more secure, effective or cost efficient than the technology underlying our security services. In particular, the Internet security market has historically been characterized by low financial entry barriers.

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

If we are unable to develop market recognition, we may be unable to generate significant revenues and our results of operations may be materially adversely affected.

To attract customers we may have to develop a market identity and increase public awareness of our technology and products. To increase market awareness of our technology and our products, we will continue to make significant expenditures for marketing initiatives. However, these activities may not result in significant revenue and, even if they do, any revenue may not offset the expenses incurred in building market recognition. Moreover, despite these efforts, we may not be able to increase public awareness of our technology and our products, which would have a material adverse effect on our results of operations.

We must establish and maintain strategic and other relationships.

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

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

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

If we are unable to respond to rapid technological change and improve our products and services, our business could be materially adversely affected.

The Internet security industry is characterized by rapid technological advances, changes in customer requirements, frequent new product introductions and enhancements and evolving industry standards in computer hardware and software technology. As a result, we must continually change and improve our products in response to changes in operating systems, application software, computer and communications hardware, networking software, programming tools and computer language technology. The introduction of products embodying new technologies and the emergence of new industry standards may render existing products obsolete or unmarketable. In particular, the market for Internet and intranet applications is relatively new and is rapidly evolving. Our future operating results will depend upon our ability to enhance our current products and to develop and introduce new products on a timely basis that address the increasingly sophisticated needs of our end-users and that keep pace with technological developments, new competitive product offerings and emerging industry standards. If we do not respond adequately to the need to develop and introduce new products or enhancements of existing products in a timely manner in response to changing market conditions or customer requirements, our operating results may be materially diminished.

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

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

We may not be able to protect and enforce our intellectual property rights, which could result in the loss of our rights, loss of business or increased costs.

Our success depends to a significant degree upon the protection of our software and other proprietary technology. The unauthorized reproduction or other misappropriation of our proprietary technology would enable third parties to benefit from our technology without paying us for it. We rely on a combination of patent, trademark, trade secret and copyright laws, license agreements and non-disclosure and other contractual provisions to protect proprietary and distribution rights of our products. We have registered trademarks in the United States, Canada and the European Union, and we have filed one patent application for our technology in each of these jurisdictions. Although we have taken steps to protect our proprietary technology, they may be inadequate and the unauthorized use thereof could have a material adverse effect on our business, results of operations and financial condition. Existing trade secret, copyright and trademark laws offer only limited protection. Moreover, the laws of other countries in which we market our products may afford little or no effective protection of our intellectual property. If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive, even if we were to prevail.

Claims by third parties that we infringe upon their proprietary technology could hurt our financial condition.

If we discover that any of our products or technology we license from third parties violates third party proprietary rights, we may not be able to reengineer our product or obtain a license on commercially reasonable terms to continue offering the product without substantial reengineering. In addition, product development is inherently uncertain in a rapidly evolving technology environment in which there may be numerous patent applications pending for similar technologies, many of which are confidential when filed. Although we sometimes may be indemnified by third parties against claims that licensed third party technology infringes proprietary rights of others, this indemnity may be limited, unavailable or, where the third party lacks sufficient assets or insurance, ineffective. We currently do not have liability insurance to protect against the risk that our technology or future licensed third party technology infringes the proprietary rights of others. Any claim of infringement, even if invalid, could cause us to incur substantial costs defending against the claim and could distract our management from our business. Furthermore, a party making such a claim could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from selling our products. Any of these events could have a material adverse effect on our business, operating results and financial condition.

If our electronic security technology were breached, our business would be materially adversely affected.

A key element of our technology and products is our Internet security feature. If anyone is able to circumvent our security measures, they could misappropriate proprietary information or cause interruptions or problems with hardware and software of customers using our products. Any such security breaches could significantly damage our reputation. In addition, we could be liable to our customers for the damages caused by such breaches or we could incur substantial costs as a result of defending claims for those damages. We may need to expend significant capital and other resources to protect against such security breaches or to address problems caused by such breaches. Security measures taken by us may not prevent disruptions or security breaches. In the event that future events or developments result in a compromise or breach of the technology we use to protect a customer's personal information, our financial condition and business could be materially adversely affected.

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

Some of our Internet security products utilize and incorporate encryption technology. Exports of software products utilizing encryption technology are generally restricted by the United States and various other governments, particularly in response to the terrorist acts of September 11, 2001. If we do not obtain the required approvals, we may not be able to sell some of our products in international markets, which could materially adversely affect our results of operations.

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

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

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

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

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

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

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

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

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

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

Risks relating to our Common Stock

Our common stock price may be volatile.

The market prices of securities of Internet and technology companies are extremely volatile and sometimes reach unsustainable levels that bear no relationship to the past or present operating performance of such companies. Factors that may contribute to the volatility of the trading price of our common stock include, among others:

* our quarterly results of operations;
* the variance between our actual quarterly results of operations and predictions by stock analysts;
* financial predictions and recommendations by stock analysts concerning Internet companies and companies competing in our market in general, and concerning us in particular;
* public announcements of technical innovations relating to our business, new products or technology by us or our competitors, or acquisitions or strategic alliances by us or our competitors;
* public reports concerning our products or technology or those of our competitors; and
* the operating and stock price performance of other companies that investors or stock analysts may deem comparable to us.

In addition to the foregoing factors, the trading prices for equity securities in the stock market in general, and of Internet-related companies in particular, have been subject to wide fluctuations that may be unrelated to the operating performance of the particular company affected by such fluctuations. Consequently, broad market fluctuations may have an adverse effect on the trading price of our common stock, regardless of our results of operations.

There is a limited market for our common stock. If a substantial and sustained market for our common stock does not develop, our shareholders' ability to sell their shares may be materially and adversely affected.

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

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

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

We have issued options and warrants to acquire common stock to our employees and certain other persons at various prices, some of which have, or may in the future have, exercise prices at or below the market price of our stock. As of March 31, 2008, we have outstanding options and warrants to purchase a total of 11,483,333 shares of our common stock, of which 4,850,000 have exercise prices above the recent market price of $0.03 per share, and 6,633,333 have exercise prices at or below that price (as of March 31, 2008). If exercised, these options and warrants will cause immediate and possibly substantial dilution to our stockholders.

We have two existing stock option plans, one of which had 1,205,000 shares remaining for issuance as of March 31, 2008, the second of which had 4,595,000 shares remaining for issuance as of March 31, 2008. Future options issued under these plans may have further dilutive effects.

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

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

As of March 31, 2008, we had outstanding 54,231,943 shares of common stock, of which approximately 16,771,115 shares were "restricted securities" as that term is defined under Rule 144 promulgated under the Securities Act of 1933. These restricted shares are eligible for sale under Rule 144 at various times, upon the expiry of the applicable holding period. No prediction can be made as to the effect, if any, that sales of shares of common stock or the availability of such shares for sale will have on the market prices prevailing from time to time. Nevertheless, the possibility that substantial amounts of our common stock may be sold in the public market may adversely affect prevailing market prices for the common stock and could impair our ability to raise capital through the sale of our equity securities.

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

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

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

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

* that are not traded on a national securities exchange that has been continuously registered since April 20, 1992 and has maintained quantitative initial and continued listing standards that are substantially similar to or stricter than the listing standards in place at January 8, 2004;
* that are not traded on a securities exchange, a “junior tier” of an exchange or an automated quotation system sponsored by a registered national securities association that has established initial listing standards that meet or exceed specified criteria an maintains similar quantitative continued listing standards; or:
* whose prices are not quoted on the NASDAQ automated quotation system ; or
* of issuers with net tangible assets less than:
    * $2,000,000 if the issuer has been in continuous operation for at least three years; or
    * $5,000,000 if in continuous operation for less than three years, or
    * of issuers with average revenues of less than $6,000,000 for the last three years.

Section 15(g) of the Exchange Act, and Rule 15g-2 of the Securities and Exchange Commission, require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks not less than two business days before a transaction is effected, and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Moreover, Rule 15g-9 of the Securities and Exchange Commission requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer:

* to obtain from the investor information concerning his or her financial situation, investment experience and investment objectives;
* to determine reasonably, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions;
* to provide, not less than two business days before a transaction is effected, the investor with a written statement setting forth the basis on which the broker-dealer made the determination in the second bullet above; and
* to receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives.

Compliance with these requirements may make it more difficult for holders of our common stock to resell their shares to third parties or to otherwise dispose of them.

Our current executive officers, directors and major stockholders own a significant percentage of our voting stock. As a result, they exercise significant control over our business affairs and policy.

As of March 31, 2008, our current executive officers, directors and holders of 5% or more of our outstanding common stock together beneficially owned approximately 18% of the outstanding common stock if they exercised all of the options and warrants held by them. These stockholders are able to significantly influence all matters requiring approval by stockholders, including the election of directors and the approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying, deterring or preventing a change in control and may make some transactions more difficult or impossible to complete without the support of these shareholders.

Our restated articles of incorporation contain provisions that could discourage an acquisition or change of control of our company.

Our restated articles of incorporation authorize our board of directors to issue preferred stock without stockholder approval. Provisions of our certificate of incorporation, such as the provision allowing our board of directors to issue preferred stock with rights more favorable than our common stock, could make it more difficult for a third party to acquire control of us, even if that change of control might benefit our stockholders.

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

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

In connection with the audit of our consolidated financial statements for the year ended December 31, 2007, our independent registered public accounting firm advised the Board of Directors and management of certain significant internal control deficiencies that they consider to be, in 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. Due to the size and resources of our company we may not be able to remediate in the foreseeable future all of the deficiencies identified. If we are unable to remediate the identified material weaknesses, there is a more than remote likelihood that a material misstatement to our SEC reports will not be prevented or detected, in which case investors could lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our ability to raise additional capital and could also have an adverse effect on our stock price.

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

The Sarbanes-Oxley Act of 2002 has introduced many new requirements applicable to us regarding corporate governance and financial reporting. Among many other requirements is the requirement under Section 404 of the Act for management to report on our internal controls over financial reporting. We are required to comply with Section 404 effective the fiscal year ending December 31, 2007. Although our management has begun the necessary processes and procedures for issuing its report on our internal controls, we cannot be certain that we will be successful in complying with Section 404. We expect to devote substantial time and incur costs during fiscal 2007 and 2008 to implement appropriate controls and procedures to ensure compliance. If we are not able to timely comply with the requirements set forth in Section 404, we might be subject to sanctions or investigations by regulatory authorities. Any such action could adversely affect our business and financial results.

Our Corporate History

We were incorporated in Nevada on April 12, 1989 as CCC Funding Corp. to seek out one or more potential business ventures. On January 28, 2003, we changed our name from Sochrys.com Inc. to Validian Corporation.

Item 2. Description of Properties.

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

Our Ottawa office is leased from a non-affiliated party under a long-term operating lease. The lease provides shared access to and use of 3,287 square feet. Our Atlanta office is leased from a non-affiliated party per oral arrangement on a month-by-month basis. The lease provides shared access to and use of 1,000 square feet.

Item 3. Legal Proceedings.

On December 31, 2006, Dr. Andre Maisonneuve retired from the Corporation. On December 21, 2006, Dr. Maisonneuve commenced legal action against the Corporation at Ontario Superior Court of Justice in Ottawa, Canada, seeking approximately $51,732 in unpaid salary claimed to be owed to him at the date of his retirement, plus costs with respect to collecting the amount due. We contested this action, and on January 29, 2008, an out of court settlement for $34,727 was reached. Legal fees of $10,238 relating to this action have been included in selling, general and administrative expenses for the year ended December 31, 2007. Additional costs of $1,476 relating to this action were incurred in January 2008. A liability for unpaid salary of $50,950, and employee expense reimbursements of $782 have been included in accrued liabilities and accounts payable, respectively, at December 31, 2007.

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

We held our 2006 Annual General Meeting of the Stockholders on October 4, 2007. At that meeting we submitted the following matters to a vote of our stockholders.

Election of two directors of the Corporation. Mr. Bruce Benn and Mr. Ronald Benn were elected as directors of the Corporation.

To consider and vote upon a proposal to amend the Corporation's Restated Articles of Incorporation, to increase the number of shares of the Corporation's common stock, par value $0.001 per share, authorized for issuance from 100,000,000 to 300,000,000, and to increase the number of the Corporation's preferred stock from 7,000,000 to 50,000,000. This matter was passed by a majority of the shares eligible to vote.

To consider and vote upon a proposal to approve the Corporation's 2004 Amended Incentive Equity Plan, which amends and restates the Corporation's 2004 Incentive Equity Plan to, among other things, increase the maximum number of stock options that may be granted from 3,087,698 to 6,087,698, and to increase the maximum number of stock options that may be granted to any one participant from 2,000,000 to 3,000,000. There are additional amendments that will bring the 2004 Amended Incentive Equity Plan into compliance with current regulations. This matter was passed by a majority of the shares eligible to vote.

To consider and act upon a proposal to ratify the appointment of KPMG LLP as independent certified public accountants of the Corporation for 2007. This matter was passed by a majority of the shares eligible to vote.

PART II

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

(a) Market Information -- The principal U.S. market in which our common stock, all of which are of one class, $.001 par value per share, is traded is in the over-the-counter market. Our stock is quoted on the OTC Bulletin Board under the symbol "VLDI".

The following table sets forth the range of high and low bid quotes of our common stock for the periods noted as reported by the OTC Bulletin Board. These quotes reflect inter-dealer prices without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

MARKET PRICE OF COMMON STOCK

	BID	
Quarter Ending	**High**	**Low**
2006		
January 1 to March 31	0.37	0.11
April 1 to June 30	0.30	0.11
July 1 to September 30	0.17	0.08
October 1 to December 31	0.10	0.07
2007		
January 1 to March 31	0.12	0.04
April 1 to June 30	0.09	0.02
July 1 to September 30	0.06	0.02
October 1 to December 31	0.07	0.01
2008		
January 1 to March 31	0.08	0.02

On March 31, 2008, the closing price of our common stock was $0.03 per share.

(b) Holders -- There were approximately 186 holders of record of our common stock as of March 31, 2008, inclusive of those brokerage firms and/or clearing houses holding our securities for their clientele, with each such brokerage house and/or clearing house being considered as one holder. The aggregate number of shares of common stock outstanding as of March 31, 2008 was 54,231,943 shares.

(c) Dividends -- We have not paid or declared any dividends upon our common stock since inception and, by reason of our present financial status and our contemplated financial requirements, we do not contemplate or anticipate paying any dividends in the foreseeable future (see Part I. Item 1. Description of Business: Risk Factors).

(d) Sales of Unregistered Securities--During the three months ended December 31, 2007, we issued the following:

* 810,000 shares of our common stock to an accredited investor pursuant to the terms of $810,000 in principal amount of our 10% senior convertible notes, which were issued June 21, 2007 with the provision that the issuance of common stock in relation to the notes was

conditional upon the authorized capital of the Corporation being increased to at least 200,000,000 common shares. This condition was satisfied on October 4, 2007, when the increase in the Corporation's authorized common stock from 100,000,000 to 300,000,000 was approved at the Corporation's Annual General Meeting;

* 333,329 shares of our common stock, pursuant to the terms of $111,110 in principal amount of our 10% senior convertible notes, which were issued November 30, 2007 to accredited investors;
* 135,000 shares of our common stock pursuant to the terms of $45,000 in principal amount of our 10% senior convertible notes, which were issued December 18, 2007 to an accredited investor;
* 15,000 shares of our common stock to an accredited investor pursuant to the terms of $5,000 in principal amount of our 10% senior convertible notes, which were issued December 27, 2007;
* 95,290 shares of our common stock to an accredited investor pursuant to the terms of $32,272 in principal amount of our 10% senior convertible notes, which were issued December 27, 2007;
* 506,947 shares of our common stock to an accredited investor pursuant to the terms of $168,982 in principal amount of our 10% senior convertible notes, which were issued December 31, 2007.

During the period from January 1 to March 31, 2008, we issued the following:

* 1,058,780 shares of our common stock in relation to the conversion of $31,763 in principal of our 10% senior convertible notes;
* 300,000 shares of our common stock to an accredited investor pursuant to the terms of $50,000 in principal amount of our 10% senior convertible notes, which were issued January 10, 2008;
* 3,000,000 shares of our common stock to accredited investors in consideration for consulting services to be rendered over an indefinite period;
* 200,000 shares of our common stock to an accredited investor pursuant to an agreement to provide consulting services over a one year period;
* 100,000 shares of our common stock to an accredited investor pursuant to the terms of $30,000 in principal amount of our promissory notes, which were issued March 5, 2008.

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

Item 6. <u>Management's Discussion and Analysis or Plan of Operations.</u>

General

In this section, we explain our consolidated financial condition and results of operations for the years ended December 31, 2007 and December 31, 2006. As you read this section, you may find it helpful to refer to our Consolidated Financial Statements in Item 7 of this annual report.

Until we acquired our former subsidiary, Graph-O-Logic, S.A. in August 1999, we had no material or substantive business operations. Since then, our business has been as more fully described in " Part I, Item 1: Description of Business". Accordingly, in this section we focus solely on the historical business operations of the subsidiary and our current business plan and operations.

Critical Accounting Policies

We prepare our financial statements in accordance with generally accepted accounting principles in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies and methods used in preparation of the financial statements are described in note 2 to our 2007 Consolidated Financial Statements included with this Annual Report on Form 10-KSB for the year ended December 31, 2007. We evaluate our estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Actual results could differ materially from these estimates and assumptions. The following critical accounting policies are impacted by judgments, assumptions and estimates used in preparation of our December 31, 2007 Consolidated Financial Statements.

Revenue recognition:

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

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

For contracts with multiple elements such as product licenses, product support and services, the Corporation follows the residual method. Under this method, the total fair value of the undelivered elements of the contract, as indicated by vendor specific objective evidence, is deferred and subsequently recognized 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 the Corporation cannot determine the fair value of all of the undelivered elements, revenue is deferred until such time as it can be determined, or until all of the elements are delivered.

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

Stock-based compensation:

Effective January 1, 2006, the Corporation 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 Corporation to its employees, to be recognized as expenses, based on the fair value of the share-based payments at the date of grant. For purposes of estimating the grant date fair value of stock-based compensation, the Corporation uses the Black Scholes option-pricing model, and has elected to treat awards with graded vesting as a single award. The fair value of awards granted is recognized as compensation expense on a straight-line basis over the requisite service period, which in the Corporation's circumstances is the stated vesting period of the award. Black Scholes is an approximation model.

Plan of Operations

We are a development stage enterprise. As such, our historical results of operations are unlikely to provide a meaningful understanding of the activities expected to take place during the period through December 31, 2008. Our major initiatives through December 31, 2008 are:

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

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

Sales and Marketing Plans: We started our marketing process during the second quarter of 2000, with our original focus being potential customers located in the United States and Western Europe. The potential customers and our current marketing program are more fully described in "Part 1. Item 1: Description of Business - Target Market."

We will continue to focus our marketing efforts on identifying potential customers by presenting technical seminars, participating in trade shows, using the services of public relations firms, market research, the creation and dissemination of technical and commercial collateral materials, the maintenance and periodic re-design of our website, and the placement of advertisements in print and electronic publications. Subject to our ability to obtain adequate funding, we plan on spending $530,000 on our marketing efforts during the year ending December 31, 2008.

Our sales representatives, who are compensated on a base compensation plus commission basis, will follow up with potential customers identified through our marketing efforts, with the objective of more fully explaining the benefits of our products and negotiating the terms of the licensing of our products. Subject to our ability to obtain adequate funding, we expect to spend approximately $635,000 on our sales initiatives, including compensation and travel expenses, during the year ending December 31, 2008.

Subject to our ability to obtain adequate funding, our sales and marketing expenditures for the year ending December 31, 2008 are expected to total $1,165,000.

Cost of Sales and Services: In the event that our sales efforts are successful, we will need to assist our customers in the implementation of our products. Depending on the success of our sales efforts, and subject to our ability to obtain adequate funding, we expect to spend $310,000 on compensation, training and related activities during the year ending December 31, 2008.

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

We will improve and further develop our products based on responses from potential customers. The costs associated with our product development activities are primarily those currently planned and thus are subject to a high degree of control. Subject to our ability to obtain adequate funding, we estimate that the cost of our product development program during the year ending December 31, 2008 will be $875,000.

General and Administrative Expenses: Subject to our ability to obtain adequate funding, we expect to spend $1,100,000 on general and administrative activities during the year ending December 31, 2008.

In summary, provided we are able to obtain adequate funding, we expect to spend a total of $3,450,000 for all expenses during the year ending December 31, 2008, subject to our ability to generate revenues from the licensing of our products and our ability to raise additional capital.

Since entering the development stage, we have obtained financing through the private placement of debt, convertible debentures, common stock and warrants, and through the exercise of some of these warrants. Until such time as we generate sufficient revenues from the licensing of our software applications, we will continue to be dependent on raising substantial amounts of additional capital through any one or a combination of debt offerings or equity offerings, including but not limited to:

* debt instruments, including demand notes and convertible notes similar to those discussed below in “Liquidity and Capital Resources”;
* private placements of common stock;
* exercise of stock options at an average exercise price of $0.06 per share;
* exercise of Series ‘I’ warrants at an exercise price of $0.03 per share;
* exercise of Series “J” warrants at an exercise price of $0.15 per share;
* exercise of Series “K” warrants at an exercise price of $0.03 per share; or
* funding from potential clientele or future industry partners.

Selected Financial Data

The selected financial data set forth below with respect to our consolidated statements of operations for each of the two fiscal years ended December 31, 2007 and with respect to the consolidated balance sheets as at December 31, 2007 and 2006, are derived from our audited consolidated financial statements included at the end of this report. The following selected financial data should be read in conjunction with our consolidated financial statements and the notes thereto.

	Year Ended December 31	
	2007	**2006**
Operations Data		
Selling, general and administrative	$ 1,598,242	$ 1,890,887
Research and development	849,020	1,125,285
Depreciation of property and equipment	30,353	61,897
Other expenses, net	1,248,778	309,222
Net loss	$ 3,726,393	$ 3,387,291

	Year Ended December 31	
	2007	**2006**
Cash Flows Data		
Net cash used in operating activities	$ (1,038,565)	$ (1,976,022)
Net cash used in investing activities	(884)	--
Net cash provided by financing activities	1,036,789	1,912,609
Net decrease in cash and cash equivalents	$ (2,660)	$ (63,413)
Balance Sheet Data		
Cash	$ 5,120	$ 7,780
Total current assets	56,384	177,082
Property and equipment (net)	5,503	34,971
Deferred financing costs	70,052	169,403
Total assets	131,939	381,456
Total current liabilities, including current portion of 10% senior convertible notes	3,956,182	1,979,526
10% senior convertible notes - long term	447,600	706,803
Capital lease obligation	1,629	6,550
Stockholders' deficiency	$ (4,271,843)	$ (2,306,339)

Results of Operations

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

The fiscal year ended December 31, 2007 compared to the fiscal year ended December 31, 2006

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

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

We did not make any commercial sales during the year ended December 31, 2007.

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

Selling, general and administrative expenses: Selling, general and administrative expenses consist primarily of personnel costs, professional fees, insurance, communication expenses, occupancy costs and other miscellaneous costs associated with supporting our research and development and sales and marketing activities. During the year ended December 31, 2007 we incurred a total of $1,598,242, including $1,153,918 in cash-based expenses and $444,324 in stock-based expenses, as compared to $1,890,887, of which $1,533,660 was cash-based and $357,227 was stock-based expenses, during the year ended December 31, 2006. There was an overall decrease in selling, general and administrative expenses of $292,645 (15%), comprised of a $379,742 (25%) decrease in the cash-based component of this expense, which was partially offset by a $87,097 (24%) increase in stock-based expenses.

We have made efforts to reduce these costs, through measures such as reducing the number of personnel, including not replacing an officer and director on his retirement in December of 2006; reducing cash-based fees to investor relations consultants; decreasing the size of our leased premises; reducing the number of trade shows in which we participate; and delaying production of new promotional material. These reductions were partially offset by an increase of 5% in the average exchange rate for the Canadian dollar in relation to the United States dollar for the year ended December 31, 2007 as compared to the year ended December 31, 2006. Many of our selling, general and administrative expenses are incurred in Canadian dollars and reported in United States dollars; consequently, this fluctuation has resulted in an overall increase in reported expenses. We will continue to carefully monitor the costs of these departments as we work within current budgetary limits leading up to the full commercial release of our products.

The stock-based component of selling, general and administrative expense for the year ended December 31, 2007 consisted of the amortization of prepaid consulting fees recognized on the issuance of warrants during 2003; amortization of prepaid consulting fees recorded during the first quarter of 2007 on the issuance of common stock in consideration for services rendered and to be rendered; the incremental value of stock options issued in June 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 year; the fair value of employee stock options earned during the year; and the amortization of the remaining balance of prepaid consulting fees recorded during the second quarter of 2007 on the issuance of options and warrants in consideration for consulting services which were to have been rendered over the two-year contract period. The remaining prepaid balance was expensed in full when the contract was terminated in August 2007. The stock-based component of this expense for the year ended December 31, 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 year; and the fair value of employee stock options earned during the year.

Research and development expenses: Research and development expenses consist primarily of personnel costs, consulting fees and travel expenses directly associated with the development of our software applications. During the year ended December 31, 2007, we spent $849,020, including $824,648 in cash-based expenses and $24,372 in stock-based expenses, developing our software applications, compared to $1,125,285, all of which was cash-based expense, during the year ended December 31, 2006. This overall decrease of $276,265 (25%) is due primarily to a reduction in the size of the Europe-based contract development group from an average of 20 personnel during the year ended December 31, 2006, to an average of 4 personnel during the year ended December 31, 2007. Additionally, the work being performed by this group was suspended altogether during the period from July 1 to September 30, 2007, in order to allow time to plan the direction and focus of future development activities within our more limited budget. As another cost-cutting measure, the development management position was contracted on a part-time basis during the year ended December 31, 2007, whereas this was a full-time position during the year ended December 31, 2006. These decreases were partially offset by a significant increase in costs incurred during the year for the development of a software component by another software development contractor, as compared with similar costs incurred during the year ended December 31, 2006. We also incurred costs to develop software which would allow one of our products to work in conjunction with another company's software during the year ended December 31, 2007, for which there was no comparable expense during the year ended December 31, 2006.

Stock-based research and development expenses for the year ended December 31, 2007 consisted of the incremental value of options issued to personnel in exchange for the repurchase and cancellation of options previously issued, for which there was no comparable transaction during the year ended December 31, 2006.

Interest and financing costs: Interest and financing costs during the years ended December 31, 2007 and 2006 consisted of interest and financing costs associated with our 10% senior convertible notes, our promissory notes and interest on the capital lease. During the year ended December 31, 2007, we incurred $1,053,831 in interest and financing costs, an increase of $671,014 (175%) over the $382,817 in interest and financing costs incurred during the year ended December 31, 2006.

The $1,053,831 in interest and financing costs we incurred during the year ended December 31, 2007 is comprised of $296,257 of interest payable to the holders of our debt; $627,629 of accretion on our 10% senior convertible notes; $128,922 of amortization of deferred financing costs; and $1,023 in interest on the capital lease. The $382,817 in interest and financing costs we incurred during the year ended December 31, 2006 is comprised of $120,530 of interest payable to the holders of our debt; $209,555 of accretion on our 10% senior convertible notes and our promissory notes; $50,528 of amortization of deferred financing costs; and $2,204 in interest on the capital lease.

The increase in interest and financing costs is a result of a net increase of $1,782,364 in the principal outstanding on our 10% senior convertible notes during the year ended December 31, 2007, which was partially offset by a net decrease of $521,405 in the principal outstanding on our promissory notes. This net increase in principal outstanding on our debt instruments resulted in a higher balance on which coupon based interest was charged; there was also an increase in value of the equity-based components of our 10% senior convertible notes, relating to new notes issued during the year, which resulted in higher accretion charges; and additional financing costs relating to these new notes resulted in an increase in amortization of deferred finance charges.

Loss on extinguishment of debt and accrued liabilities: During the year ended December 31, 2007, we recorded a net loss on extinguishment of debt and accrued liabilities in the amount of $102,893. This total is comprised of a number of transactions involving the restructuring of our debt securities, and the issuance of our common stock in settlement of accounts payable and accrued liabilities.

During the year ended December 31, 2006, we recorded a net gain on extinguishment of debt and accrued liabilities in the amount of $79,303. This total is comprised of several transactions involving the restructuring of our debt securities, and the issuance of our common stock in settlement of accounts payable.

Depreciation of property and equipment: Depreciation of property and equipment was $30,353 during the year ended December 31, 2007, a decrease of $31,544 (51%), over the $61,897 charged to depreciation expense during the year ended December 31, 2006. This decrease occurred as a result of there being a lower value on which depreciation was charged during 2007, due to some of our property and equipment becoming fully depreciated during 2007 and 2006, with no offsetting acquisitions during the year.

Net loss: We incurred a loss of $3,726,393 ($0.08 per share) for the year ended December 31, 2007, compared to a loss of 3,387,291 ($0.09 per share) for the year ended December 31, 2006. Our revenues and future profitability and future rate of growth are substantially dependent on our ability to:

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

Liquidity and Capital Resources

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

Our cash and cash equivalents decreased by $2,660 during the year ended December 31, 2007, from a balance of $7,780 at December 31, 2006, to $5,120 at December 31, 2007, primarily as a result of our net loss of $3,726,393 for the year, and resulting cash used in operations of $1,038,565, which were substantially offset by an increase in cash resulting from the issuance of $745,000 of 10% senior convertible notes, and $302,320 from the issuance of promissory notes. Our cash and cash equivalents decreased by $63,413 during the year ended December 31, 2006 primarily as a result of our net loss of $3,387,291, and resulting cash used in operations of $1,976,022, which were partially offset by an increase in cash resulting from the issuance of $1,400,000 in 10% senior convertible notes, the issuance of $586,597 in promissory notes, and the exercise of stock purchase warrants.

As discussed elsewhere in this report, we have added an explanatory paragraph to our consolidated financial statements for the year ended December 31, 2007. 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, and our accumulated deficit, raise substantial doubt regarding our ability to continue as a going concern. At December 31, 2007, we had negative working capital of $3,899,798 and an accumulated deficit during the development stage of $28,369,575; we incurred a net loss of $3,726,393, and negative cash flow from operations of $1,038,565 for the year then ended; and note 2(a) to our consolidated financial statements for the year ended December 31, 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 contract 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 did not make any commercial sales during the year ended December 31, 2007.

We anticipate additional commercial sales during the second quarter of 2008, however we cannot be assured that this will be the case. During the year ended December 31, 2007, three of our full-time employees left the Corporation, and one of our full-time employees became part-time; another of our full-time employees left the Corporation in March 2008. We do not expect to hire any additional personnel during the next six months unless we are successful in raising significant funds through the issuance of our debt or equity securities. We have not made, nor do we expect to make, any material commitments for capital equipment expenditures during the next twelve months.

We have an immediate requirement for additional working capital in order to proceed with our business plan. We review our cash needs and sources on a month-to-month basis and we are currently pursuing appropriate opportunities to raise additional capital to fund operations. Additional sources of capital could involve issuing equity or debt. In January 2008, we engaged advisers to provide advice to us with respect to capital raising. However, additional funding may not be available to us on reasonable terms, if at all. The perceived risk associated with the possible sale of a large number of shares could cause some of our stockholders to sell their stock, thus causing the price of our stock to decline. In addition, actual or anticipated downward pressure on our stock price due to actual or anticipated sales of stock could cause some institutions or individuals to engage in short sales of our common stock, which may itself cause the price of our stock to decline. We may be unable to raise additional capital if our stock price is too low. A sustained inability to raise capital could force us to limit or curtail our operations.

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

Sources of Capital: Our principal sources of capital for funding our business activities have been the private placements of debt and equity securities. During the year ended December 31, 2007, we issued $302,320 of promissory notes and $745,000 of 10% senior convertible notes, which generated cash for funding operations. We issued a further $998,982 in 10% senior convertible notes in consideration for the cancellation of $998,982 of principal and accrued interest on our promissory notes, which will reduce the overall cash-based interest charges on our debt; $26,110 in 10% senior convertible notes in settlement of previously issued 10% senior convertible notes, which reduced the cash required to settle the original notes at maturity; and $37,273 in 10% senior convertible notes in settlement of accounts payable, which reduced the cash required to immediately settle the liability. We also issued 572,194 common shares on the redemption of $53,027 in principal and accrued interest on our 10% senior convertible notes, which will further reduce future cash-based interest charges, and will also reduce the amount of cash which would have become payable on maturity of the notes. In addition, we issued 4,105,000 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 659,001 common shares in settlement of accrued interest on 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 2,667,302 options previously issued, as an incentive to current personnel, which reduced our requirement for cash.

During the period from January 1 to April 4, 2008, we issued an aggregate of $321,512 in promissory notes, and $50,000 in 10% senior convertible notes, the proceeds of which were used to fund operations. During this period we also issued 3,200,000 common shares as partial consideration for services rendered and to be rendered under consulting contracts, which reduced our requirement for cash payments under these contracts. On January 7, 2008, we issued 1,058,780 common shares on the redemption of $31,763 in principal and accrued interest on our 10% senior convertible notes, which will reduce future cash-based interest charges, and will also reduce the amount of cash which would have become payable on maturity of the notes.

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

Uses of Capital: Over the past several years, we have scaled our development activities to the level of available cash resources. Cash-based research and development expenses for the year ended December 31, 2007 decreased by approximately 27% as compared to the year ended December 31, 2006, as a result of cash conservation efforts. Cash-based selling, general and administrative expenses for the year ended December 31, 2007 decreased by approximately 25% as compared to the year ended December 31, 2006, due to several factors, including the reduction of our sales and marketing efforts, and as explained more fully under "Results of Operation."

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

The cost to implement appropriate controls and procedures to ensure compliance with Section 404 of the Act is included in our budget for 2008.

Commitments: We have entered into an operating lease agreement for office space which expires on April 30, 2010. Future minimum lease payments including operating costs are approximately as follows:

Year	Amount
2008	$ 80,387
2009	80,387
2010	26,796
	$ 187,570

Item7. Financial Statements.

Consolidated Financial Statements of

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Years ended December 31, 2007 and 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Validian Corporation

We have audited the accompanying consolidated balance sheets of Validian Corporation and subsidiaries (a Development Stage Enterprise) as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity (deficiency) and comprehensive loss and cash flows for each of the years in the two-year period ended December 31, 2007 and for the period from August 3, 1999 to December 31, 2007. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Validian Corporation and subsidiaries (a Development Stage Enterprise) as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years then ended and the period from August 3, 1999 to December 31, 2007, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 2(a) to the consolidated financial statements, the Corporation has no revenues, has negative working capital at December 31, 2007, and has incurred recurring losses, as well as recurring negative cash flow from operating activities and has an accumulated deficit. Its economic viability is dependent on its ability to finalize the development of its principal products, generate sales and finance operational expenses which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

Chartered Accountants

Ottawa, Canada

April 14, 2008

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Consolidated Balance Sheets

December 31, 2007 and 2006
(In U.S. dollars)

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 5,120	$ 7,780
Accounts receivable	16,780	14,628
Prepaid expenses	34,484	154,674
	56,384	177,082
Property and equipment (note 3)	5,503	34,971
Deferred financing costs (note 4)	70,052	169,403
	$ 131,939	$ 381,456
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable	$ 1,159,970	$ 590,233
Accrued liabilities (note 11)	946,531	625,281
Deferred revenue	155,000	155,000
Promissory notes payable (notes 5 and 11)	87,308	603,928
Current portion of capital lease obligation	1,629	5,084
Current portion of 10% Senior convertible notes (note 6)	1,605,744	–
	3,956,182	1,979,526
10% Senior convertible notes (note 6)	447,600	706,803
Capital lease obligation	–	1,466
Stockholders' deficiency:		
Common stock ($0.001 par value. Authorized 300,000,000 shares; Issued and outstanding 49,573,163 shares in 2007 and 39,212,069 shares in 2006 (note 7(a))	49,573	39,212
Preferred stock ($0.001 par value. Authorized 50,000,000 shares; issued and outstanding Nil shares in 2007 and 2006)	–	–
Additional paid-in capital	24,076,593	22,326,065
Deficit accumulated during the development stage	(28,369,575)	(24,643,182)
Retained earnings prior to entering development stage	21,304	21,304
Treasury stock (7,000 shares in 2007 and 2006 at cost)	(49,738)	(49,738)
	(4,271,843)	(2,306,339)
Future operations (note 2(a))		
Guarantees and commitments (note 12)		
Subsequent events (note 17)		
	$ 131,939	$ 381,456

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Consolidated Statements of Operations

Years ended December 31, 2007 and 2006 and the period from August 3, 1999 to December 31, 2007
(In U.S. dollars)

	2007	2006	Period from August 3, 1999 to December 31, 2007
Expenses:			
Selling, general and administrative (note 11)	$ 1,598,242	$ 1,890,887	$12,972,580
Research and development	849,020	1,125,285	8,949,732
Depreciation of property and equipment	30,353	61,897	416,939
Write-off of prepaid services	–	–	496,869
Write-off of deferred consulting services	–	–	1,048,100
Gain on sale of property and equipment	–	–	(7,442)
Write-off of accounts receivable	–	–	16,715
Write-off of due from related party	–	–	12,575
Loss on cash pledged as collateral for operating lease	–	–	21,926
Write-down of property and equipment	–	–	14,750
	2,477,615	3,078,069	23,942,744
Loss before the undernoted	(2,477,615)	(3,078,069)	(23,942,744)
Other income (expenses):			
Interest income	341	413	61,576
Gain (loss) on extinguishment of debt and accrued liabilities (note 9)	(102,893)	79,303	69,917
Interest and financing costs (notes 8 and 11)	(1,053,831)	(382,817)	(4,408,551)
Other	(92,395)	(6,121)	(149,773)
	(1,248,778)	(309,222)	(4,426,831)
Net loss	$ (3,726,393)	$ (3,387,291)	$ (28,369,575)
Loss per common share – basic and diluted (note 10)	$ (0.08)	$ (0.09)	
Weighted average number of common shares outstanding	46,787,907	35,141,775	

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

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

For the nine years ended December 31, 2007
(In U.S. dollars)

	Number	Common stock amount	Additional paid-in capital	Retained earnings prior to entering development stage	Deficit accumulated during development stage	Accumulated other compre-hensive income (loss)	Treasury stock	Total
Balances at December 31, 1998	61,333	$ 61	$ 23,058	$ 30,080	$ –	$ (7,426)	$ –	$ 45,773
Issued for mining claims	92,591	92	27,408	–	–	–	–	27,500
Issued for cash	3,000,000	3,000	27,000	–	–	–	–	30,000
Reverse acquisition	8,459,000	8,459	21,541	–	–	–	–	30,000
Fair value of warrants issued to unrelated parties	–	–	130,000	–	–	–	–	130,000
Shares issued upon exercise of warrants	380,000	380	759,620	–	–	–	–	760,000
Share issuance costs	–	–	(34,750)	–	–	–	–	(34,750)
Comprehensive loss:							–	
Net loss	–	–	–	(8,776)	(743,410)	–	–	(752,186)
Currency translation adjustment	–	–	–	–	–	11,837	–	11,837
Comprehensive loss								(740,349)
Balances at December 31, 1999	11,992,924	11,992	953,877	21,304	(743,410)	4,411	–	248,174
Shares issued upon exercise of warrants	620,000	620	1,239,380	–	–	–	–	1,240,000
Share issuance costs	–	–	(62,000)	–	–	–	–	(62,000)
Acquisition of common stock	–	–	–	–	–	–	(49,738)	(49,738)
Comprehensive loss:								
Net loss	–	–	–	–	(2,932,430)	–	–	(2,932,430)
Currency translation adjustment	–	–	–	–	–	(40,401)	–	(40,401)
Comprehensive loss								(2,972,831)
Balances at December 31, 2000	12,612,924	12,612	2,131,257	21,304	(3,675,840)	(35,990)	(49,738)	(1,596,395)
Shares issued in exchange for debt	2,774,362	2,774	2,216,715	–	–	–	–	2,219,489
Fair value of warrants issued to unrelated parties	–	–	451,500	–	–	–	–	451,500
Comprehensive loss:								
Net loss	–	–	–	–	(1,448,485)	–	–	(1,448,485)
Currency translation adjustment	–	–	–	–	–	62,202	–	62,202
Comprehensive loss								(1,386,283)
Balances at December 31, 2001	15,387,286	$15,386	$4,799,472	$21,304	$(5,124,325)	$26,212	$(49,738)	$(311,689)

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

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

For the nine years ended December 31, 2007
(In U.S. dollars)

	Number	Common stock amount	Additional paid-in capital	Retained earnings prior to entering develop-ment stage	Deficit accumulated during development stage	Accumulated other compre-hensive income (loss)	Treasury stock	Total
Balances at December 31, 2001	15,387,286	$ 15,386	$ 4,799,472	$ 21,304	$ (5,124,325)	$ 26,212	$ (49,738)	$ (311,689)
Shares issued in consideration of consulting services	340,500	340	245,810	–	–	–	–	246,150
Comprehensive loss:								
Net loss	–	–	–	–	(906,841)	–	–	(906,841)
Currency translation adjustment on liquidation of investment in foreign subsidiary	–	–	–	–	–	(26,212)	–	(26,212)
Comprehensive loss								(933,053)
Balances at December 31, 2002	15,727,786	15,726	5,045,282	21,304	(6,031,166)	–	(49,738)	(998,592)
Shares issued in exchange for debt	4,416,862	4,417	1,453,147	–	–	–	–	1,457,564
Shares issued in consideration of consulting and financing services	422,900	423	230,448	–	–	–	–	230,871
Fair value of warrants issued to unrelated parties for services	–	–	2,896,042	–	–	–	–	2,896,042
Fair value of stock purchase options issued to unrelated parties for services	–	–	597,102	–	–	–	–	597,102
Relative fair value of warrants issued to investors in conjunction with 4% senior subordinated convertible debentures	–	–	355,186	–	–	–	–	355,186
Intrinsic value of beneficial conversion feature on 4% convertible debentures issued to unrelated parties	–	–	244,814	–	–	–	–	244,814
Net loss and comprehensive loss	–	–	–	–	(3,001,900)	–	–	(3,001,900)
Balances at December 31, 2003	20,567,548	$ 20,566	$10,822,021	$ 21,304	$ (9,033,066)	$ –	$ (49,738)	$ 1,781,087

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

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

For the nine years ended December 31, 2007
(In U.S. dollars)

	Number	Common stock amount	Additional paid-in capital	Retained earnings prior to entering development stage	Deficit accumulated during development stage	Accumulated other compre-hensive income (loss)	Treasury stock	Total
Balances at December 31, 2003	20,567,548	$ 20,566	$10,822,021	$ 21,304	$ (9,033,066)	$ –	$ (49,738)	$ 1,781,087
Shares issued in exchange for debt	464,000	464	429,536	–	–	–	–	430,000
Shares issued on conversion of 4% senior subordinated convertible debentures	2,482,939	2,483	1,238,986	–	–	–	–	1,241,469
Deferred financing costs transferred to additional paid in capital on conversion of 4% senior subordinated convertible debentures into common shares	–	–	(721,097)	–	–	–	–	(721,097)
Shares issued pursuant to private placement of common shares and warrants	6,666,666	6,667	5,993,333	–	–	–	–	6,000,000
Cost of share issuance pursuant to private placement	–	–	(534,874)	–	–	–	–	(534,874)
Shares issued in consideration of consulting and financing services	70,000	70	72,730	–	–	–	–	72,800
Shares issued in consideration of penalties on late registration of shares underlying the 4% senior subordinated convertible debentures	184,000	184	110,216	–	–	–	–	110,400
Fair value of stock purchase warrants issued to unrelated parties for services	–	–	809,750	–	–	–	–	809,750

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

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

For the nine years ended December 31, 2007
(In U.S. dollars)

	Number	Common stock amount	Additional paid-in capital	Retained earnings prior to entering development stage	Deficit accumulated during development stage	Accumulated other comprehensive income (loss)	Treasury stock	Total
Relative fair value of warrants issued to investors in conjunction with 4% senior subordinated convertible debentures	–	$ –	$ 861,522	$ –	$ –	$ –	$ –	$ 861,522
Intrinsic value of beneficial conversion feature on 4% convertible debentures issued to unrelated parties	–	–	538,478	–	–	–	–	538,478
Net loss and comprehensive loss	–	–	–	–	(8,017,166)	–	–	(8,017,166)
Balances at December 31, 2004	30,435,153	30,434	19,620,601	21,304	(17,050,232)	-	(49,738)	2,572,369
Shares issued on conversion of 4% senior subordinated convertible debentures	1,157,866	1,158	577,774	–	–	–	–	578,932
Shares issued in settlement of 4% senior subordinated convertible debentures at maturity	485,672	486	242,349	–	–	–	–	242,835
Deferred financing costs transferred to additional paid in capital on conversion of 4% senior subordinated convertible debentures into common shares	–	–	(163,980)	–	–	–	–	(163,980)
Fair value of stock options issued to consultants for services rendered	–	–	211,496	–	–	–	–	211,496
Fair value of modifications to stock purchase warrants previously issued to unrelated parties	–	–	61,162	–	–	–	–	61,162
Shares issued on the exercise of stock purchase warrants	805,000	805	401,695	–	–	–	–	402,500

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

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

For the nine years ended December 31, 2007
(In U.S. dollars)

	Number	Common stock amount	Additional paid-in capital	Retained earnings prior to entering development stage	Deficit accumulated during development stage	Accumulated other comprehensive income (loss)	Treasury stock	Total
Net loss and comprehensive loss	–	–	–	–	(4,205,659)	–	–	(4,205,659)
Balances at December 31, 2005	32,883,691	32,883	20,951,097	21,304	(21,255,891)	–	(49,738)	(300,345)
Shares issued in consideration of consulting services (note 7(a))	800,000	800	106,700	–	–	–	–	107,500
Fair value of unvested employee stock options earned during period (note 7(c))	–	–	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 (note 7(c))	–	–	(9,939)	–	–	–	–	(9,939)
Shares issued on the exercise of stock purchase warrants (note 7(a))	20,000	20	9,980	–	–	–	–	10,000
Shares issued pursuant to the terms of the 10% senior secured convertible notes (note 7(a))	1,600,000	1,600	213,202	–	–	–	–	214,802
Shares issued pursuant to the terms of the 10% senior convertible notes (note 7(a))	1,200,000	1,200	188,400	–	–	–	–	189,600
Shares issued pursuant to the terms of the 10% promissory note (note 7(a))	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 (note 7(a))	100,000	100	11,400	–	–	–	–	11,500
Intrinsic value of the beneficial conversion feature on the 10% senior convertible notes (note 6)	–	–	465,850	–	–	–	–	465,850

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

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

For the nine years ended December 31, 2007
(In U.S. dollars)

	Number	Common stock amount	Additional paid-in capital	Retained earnings prior to entering development stage	Deficit accumulated during development stage	Accumulated Other comprehensive income (loss)	Treasury stock	T
Intrinsic value of the beneficial conversion feature on the 10% senior convertible notes (note 6)	–	$ –	$ 49,447	$ –	$ –	$ –	$ –	$ 49
Shares issued in satisfaction of interest payable (note 7(a))	118,378	119	13,519	–	–	–	–	13
Shares issued in satisfaction of finance fees payable, which were included in accrued liabilities (note 7(a))	250,000	250	28,500	–	–	–	–	28
Shares issued in satisfaction of penalty for non-timely payment of the 10% promissory note (notes 5 and 7(a))	500,000	500	44,500	–	–	–	–	45
Shares issued in consideration for finance fees related to the issuance of convertible and promissory notes (note 7(a))	740,000	740	75,720	--	--	--	--	76
Net loss and comprehensive loss	–	–	–	–	(3,387,291)	–	–	(3,387
Balances at December 31, 2006	39,212,069	39,212	22,326,065	21,304	$ (24,643,182)	–	(49,738)	(2,306
Shares issued in consideration of consulting services rendered and to be rendered (note 7(a))	4,105,000	4,105	180,045	–	–	–	–	184
Shares issued in consideration of finance fees relating to the issuance of 10% senior convertible notes (note 7(a))	149,333	149	6,511	–	–	–	–	6
Shares issued in settlement of accrued liabilities (note 7(a))	1,275,000	1,275	45,900	–	–	–	–	47
Shares issued in settlement of accrued interest on the 10% senior convertible notes	659,001	659	39,228	–	–	–	–	39
Fair value of employee stock options earned during the year	–	–	2,727	–	–	–	–	2
Incremental value of stock options issued during the year in exchange for the repurchase and cancellation of options previously issued (note 7(c))	–	–	106,933	–	–	–	–	106
Shares issued pursuant to the terms of the 10% senior convertible notes at issuance	2,790,566	2,791	180,132	–	–	–	–	182

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

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

For the nine years ended December 31, 2007
(In U.S. dollars)

	Number	Common stock amount	Additional paid-in capital	Retained earnings prior to entering development stage	Deficit accumulated during development stage	Accumulated Other comprehensive income (loss)	Treasury stock	T
Shares issued pursuant to the terms of the 10% senior convertible notes on resolution of the contingency (note 6)	$ 810,000	$ 810	$ 98,418	$ –	$ –	$ –	$ –	$ 99
Intrinsic value of the beneficial conversion feature of the 10% senior senior convertible notes at date of issuance (note 6)	–	–	188,767	–	–	–	–	188
Relative fair value of warrants issued pursuant to the terms of the 10% senior convertible notes (note 7(b))	–	–	102,515	–	–	–	–	102
Intrinsic value of the beneficial conversion feature of the 10% senior senior convertible notes on resolution of the contingency (note 6)	–	–	540,031	–	–	–	–	540
Adjustment to the relative fair value of warrants issued pursuant to the terms of the 10% senior convertible notes on resolution of the contingency (note 6)	–	–	77,222	–	–	–	–	77
Shares issued on conversion of 10% senior convertible notes (note 6)	572,194	572	52,455	–	–	–	–	53
Fair value of warrants issued in consideration of consulting services rendered (note 7(b))	–	–	108,675	–	–	–	–	108
Fair value of options issued in consideration of consulting services rendered and to be rendered (note 7(c))	–	–	20,969	–	–	–	–	20
Net loss and comprehensive loss	–	–	–	–	(3,726,393)	–	–	(3,726
Balances at December 31, 2007	49,573,163	$ 49,573	$24,076,593	$ 21,304	$ (28,369,575)	$ –	$(49,738)	$(4,271

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006 and the period from August 3, 1999 to December 31, 2007
(In U.S. dollars)

	2007	2006	Period from August 3, 1999 to December 31, 2007
Cash flows from operating activities:			
Net loss	$ (3,726,393)	$ (3,387,291)	$ (28,369,575)
Items not involving cash:			
Depreciation of property and equipment	30,353	61,897	416,939
Non-cash compensation expense (note 7(d))	468,696	300,727	3,008,270
Non-cash interest expense	1,052,808	380,224	4,403,525
Non-cash penalties	–	56,500	166,900
Loss (gain on extinguishment of debt)	102,893	(79,303)	(69,917)
Write-off of prepaid services	–	–	496,869
Write-off of deferred consulting services	–	–	1,048,100
Currency translation adjustment on liquidation of investment in foreign subsidiary	–	–	(26,212)
Gain on sale of property and equipment	–	–	(7,442)
Write-off of accounts receivable	–	–	16,715
Write-off of due from related party	–	–	12,575
Loss on cash pledged as collateral for operating lease	–	–	21,926
Write-down of property and equipment	–	–	14,750
Change in non-cash operating working capital (note 15)	1,033,078	691,224	3,621,055
Net cash used in operating activities	(1,038,565)	(1,976,022)	(15,245,522)
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:			
Issuance of promissory notes	302,320	586,597	3,997,513
Capital lease repayments	(4,921)	(4,028)	(13,137)
Issuance of 10% senior convertible notes (note 6)	745,000	1,400,000	2,145,000
Debt issuance costs	(5,610)	(50,970)	(288,359)
Repayment of promissory notes	–	(28,990)	(44,855)
Exercise of stock purchase warrants	–	10,000	412,500
Issuance of 4% senior subordinated convertible debentures	–	–	2,000,000
Increase in due from related party	–	–	12,575
Issuance of common stock	–	–	8,030,000
Share issuance costs	–	–	(631,624)
Acquisition of common stock	–	–	(49,738)
Net cash provided by financing activities	1,036,789	1,912,609	15,569,875
Effects of exchange rates on cash and cash equivalents	–	–	18,431
Net decrease in cash and cash equivalents	(2,660)	(63,413)	(29,679)
Cash and cash equivalents, beginning of period	7,780	71,193	34,799
Cash and cash equivalents, end of period	$ 5,120	$ 7,780	$ 5,120

See accompanying notes to consolidated financial statements.

VALIDIAN CORPORATION

(A Development Stage Enterprise)
Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006
(In U.S. dollars)

1. General:

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

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

2. Summary of significant accounting policies:

(a) Future operations:

The consolidated financial statements have been prepared assuming that the Corporation will continue as a going concern. The Corporation has no revenues, has negative working capital of $3,899,798, has accumulated a deficit of $28,369,575 as at December 31, 2007, and has incurred a loss of $3,726,393 and negative cash flow from operations of $1,038,565 for the year then ended. In addition, the Corporation expects to continue to incur operating losses for the foreseeable future, and has no lines of credit or other financing facilities in place.

If the Corporation obtains further financing and generates revenue, it expects to incur operating expenditures of approximately $3.1 million for the year ending December 31, 2008. In the event the Corporation cannot raise the funds necessary to finance its research and development and sales and marketing activities, it may have to cease operations.

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

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

2. Summary of significant accounting policies (continued):

(a) Future operations (continued):

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

(b) Principles of consolidation:

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

(c) Cash and cash equivalents:

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

(d) Property and equipment:

Property and equipment is stated at cost less accumulated depreciation, and includes computer hardware and software, furniture and equipment, equipment under capital lease and leasehold improvements. These assets are being depreciated on a straight-line basis over their estimated useful lives, as follows: computer hardware, furniture and equipment: 3 years; equipment under capital lease: over the term of the lease, being 4 years; computer software: 1 year; leasehold improvements: over the term of the lease, being 2 years.

2. Summary of significant accounting policies (continued):

(e) Leases:

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

(f) Deferred financing costs:

Deferred financing costs represent the costs associated with arranging the 10% senior convertible notes. The costs are being amortized over the term of the notes.

(g) Prepaid expenses:

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

(h) Income taxes:

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

2. Summary of significant accounting policies (continued):

(i) Revenue recognition:

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

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

For contracts with multiple elements such as product licenses, product support and services, the Corporation follows the residual method. Under this method, the total fair value of the undelivered elements of the contract, as indicated by vendor specific objective evidence, is deferred and
subsequently recognized 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 the Corporation cannot determine the fair value of all of the undelivered elements, revenue is deferred until such time as it can be determined, or until all of the elements are delivered.

(j) Research and development:

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

(k) Foreign currency translation:

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

2. Summary of significant accounting policies (continued):

(l) Stock-based compensation:

Effective January 1, 2006, the Corporation 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 Corporation to its employees, to be recognized as expenses, based on the fair value of the share-based payments at the date of grant. For purposes of estimating the grant date fair value of stock-based compensation, the Corporation uses the Black Scholes option-pricing model, and has elected to treat awards with graded vesting as a single award. The fair value of awards granted is recognized as compensation expense on a straight-line basis over the requisite service period, which in the Corporation’s circumstances is the stated vesting period of the award.

In adopting SFAS 123R, the Corporation applied the modified-prospective transition method. Under this method, the Corporation has recognized compensation costs for all share-based payments granted, modified, or settled after January 1, 2006, as well as for any awards that were granted prior to January 1, 2006 for which the requisite service had not been provided as of that date (unvested awards). Under the modified prospective method, periods ending prior to January 1, 2006 were not adjusted.

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

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

(n) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates. Significant management estimates include assumptions used in estimating the fair value of convertible notes issued with common stock.

(o) New accounting developments:

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157 (“FAS 157”), “Fair Value Measures”. FAS 157 defines fair value and establishes a framework for measuring fair value in accordance with generally accepted accounting principles. This statement also applies to other accounting pronouncements that require or permit a fair value measure. As defined by this statement, the fair value of an asset or liability would be based on an “exit price” basis rather than an “entry price” basis. Additionally, the fair value should be market-based and not an entity-based measurement. FAS 157 is effective for fiscal years beginning after November 15, 2007 (our fiscal 2008). We have not completed our evaluation of adopting FAS 157.

(In U.S. dollars)

3. Property and equipment:

	Cost	Accumulated depreciation	2007 Net book value
Computer hardware and software	$ 137,478	$ 133,450	$ 4,028
Furniture and equipment	67,203	66,651	552
Leasehold improvements	13,006	13,006	--
Equipment under capital lease	14,766	13,843	923
	$ 232,453	$ 226,950	$ 5,503

	Cost	Accumulated depreciation	2006 Net book value
Computer hardware and software	$ 137,478	$ 116,336	$ 21,142
Furniture and equipment	66,319	57,104	9,215
Leasehold improvements	13,006	13,006	--
Equipment under capital lease	14,766	10,152	4,614
	$ 231,569	$ 196,598	$ 34,971

4. Deferred financing costs:

	2007	2006
Deferred financing costs	$ 249,500	$ 219,930
Accumulated amortization	(179,448)	(50,527)
	$ 70,052	$ 169,403

During the year ended December 31, 2007, the Corporation issued $1,807,364 in principal amount of its 10% senior convertible notes (note 6). In connection with the placement of these notes, the Corporation 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 Corporation. 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.

(In U.S. dollars)

5. Promissory notes payable:

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

During the year ended December 31, 2007, the Corporation issued $297,535 in principal amount of its promissory notes. Also during the year ended December 31, 2007, the Corporation issued $998,982 principal amount of its 10% senior convertible notes (note 6) in consideration for the cancellation of $818,940 in principal of and $180,042 in accrued interest on its promissory notes.

6. 10% Senior convertible notes:

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

	Year Ended December 31, 2007	Year Ended December 31, 2006
Balance at beginning of year	$ 706,803	$ --
Note principal on issuance	1,807,365	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	(2,791)	(2,800)
Allocated to additional paid-in capital	(180,132)	(401,602)
	(182,923)	(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	(188,767)	(515,297)
Proceeds allocated to 10% senior convertible notes on issuance	1,333,160	480,301
Accretion recorded as a charge to interest and financing costs	627,628	164,599
Principal converted pursuant to the terms of the note	(50,000)	--
Principal matured and repaid through the issuance of new notes	(25,000)	--
Loss on extinguishment of debt at date of modification	177,234	--
Modification of the 10% senior convertible notes	(716,481)	100,000
Gain on extinguishment of debt at date of modification	--	(38,097)
Balance at end of year	2,053,344	706,803
Current portion of 10% senior convertible notes	1,605,744	--
	$ 447,600	$ 706,803

6. 10% Senior convertible notes (continued):

During the year ended December 31, 2007, the Corporation issued an aggregate of $1,807,365 of its 10% senior convertible notes. $745,000 of the notes were issued for cash; $998,982 of the notes were issued in consideration for the cancellation of $818,940 in principal of and $180,042 in accrued interest on the promissory notes (note 5); $26,110 of the notes were issued as repayment of $25,000 in principal of and $1,110 in accrued interest on previously issued 10% senior convertible notes at maturity; $37,273 of the notes were issued in satisfaction of $37,273 in accounts payable.

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 $772,365 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 were not able to exercise their conversion feature until such time as the authorized capital of the Corporation was increased to at least 120,000,000 common shares. On October 4, 2007, at the Corporation’s Annual General Meeting, an increase in the Corporation’s authorized capital from 100,000,000 to 300,000,000 common shares, was approved; as such, the contingent conversion feature of the notes was resolved, and accounted for as a modification on that date.

The Corporation has the option of pre-paying all or any portion of the balance outstanding on the notes at any time, without penalty or bonus, with the permission of the holders. Interest on $1,435,000 of the notes is payable quarterly, in arrears, at such time as the holder requests payment; interest on $372,365 of the notes is accrued until the notes are either repaid by the Corporation or converted by the holder. At the Corporation’s option, interest may be paid either in cash or in common shares of the Corporation. If interest is paid in common shares, the number of shares required for settlement will be calculated using a 10% discount to the average closing price of the common stock, as listed on the exchange where the Corporation’s common stock is traded, for the ten days prior to the date the interest is due to the holder.

Holders of the $745,000 notes issued for cash, the $26,110 of notes issued as repayment of $25,000 in principal of and $1,110 in accrued interest on previously issued 10% senior convertible notes, and the $37,273 of notes issued in satisfaction of $37,273 in accounts payable, were granted an aggregate of 2,223,619 common shares of the Corporation upon issuance of the notes. In accordance with APB 14, “Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants,” $148,179, 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.

6. 10% Senior convertible notes (continued):

Holders of the $998,982 notes issued in consideration for the cancellation of promissory notes and accrued interest were granted an aggregate of 1,376,947 common shares of the Corporation. The grant of 566,947 of these common shares took place immediately upon issuance of the notes; granting of the remaining 810,000 common shares was conditional upon an increase in the authorized capital of the Corporation to at least 120,000 common shares. In accordance with APB 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants," $34,744, representing the relative fair value of the 566,947 common shares granted immediately at the issuance date, was allocated to the common shares par value and additional paid in capital. On October 4, 2007, at the Corporation's Annual General Meeting, an increase in the Corporation's authorized capital from 100,000,000 to 300,000,000 common shares, was approved. Accordingly, the $99,228 relative fair value of the 810,000 contingent share grant was not recorded at the date of issuance of the related note, but was recorded as a reclassification from notes payable to share capital and additional paid in capital on October 4, 2007, being the date on which the contingency was resolved.

Holders of $810,000 of the notes issued in consideration for the cancellation of promissory notes were also granted 1,620,000 Series K warrants, which entitle the holders to purchase 1,620,000 common shares of the Corporation at an exercise price of $0.30 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. The notes were modified on October 4, 2007, at which time the contingent features of the notes, relating to the grant of common shares on issuance and the conversion feature, were resolved. This modification resulted in an increase of $77,222 in the relative fair value allocated to the warrants.

At the date of issuance, the conversion feature of each of the following was "in-the-money": i) $720,000 of the notes issued for cash; ii) $188,982 of the notes issued in consideration for the cancellation of promissory notes and accrued interest; iii) the $26,110 notes issued as repayment of 10% senior convertible notes previously issued; and iv) the $37,272 notes issued in settlement of accounts payable. The intrinsic value of this beneficial conversion feature was $188,767. In accordance with EITF 98-05, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ration" 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 $810,000 of the notes issued in consideration for the cancellation of promissory notes and accrued interest, were not convertible until such time as the authorized capital of the Corporation was increased to at least 120,000,000 common shares. On October 4, 2007, at the Company's Annual General Meeting, and increase in the Company's authorized capital from 100,000,000 to 300,000,000 common shares, was approved. Accordingly, the $540,031 intrinsic value of the contingent conversion feature of these notes was not recorded at the date of issuance, but was recorded as a reclassification from notes payable to additional paid in capital on October 4, 2007, being the date on which the contingency was resolved.

(In U.S. dollars)

6. 10% Senior convertible notes (continued):

On March 9, 2007, in conjunction with the issuance of $200,000 of the 10% senior convertible notes, $900,000 of the 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 Corporation 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.

On July 9, 2007, a holder of the 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.

On October 22, 2007, $25,000 of the 10% senior convertible notes matured. This note, plus accrued interest of $1,110, was settled through the issuance of a new 10% senior convertible note in the amount of $26,110.

The following table summarizes information regarding the 10% senior convertible notes outstanding at December 31, 2007:

	Face Value	Unamortized Discount	Carrying Value	Conversion Rate	Maturity Date
Maturing within one year	$ 150,000	$ 10,258	$ 139,742	$0.03	July 2008
	1,100,000	180,869	919,131	0.06	June-July 2008
	700,000	153,129	546,871	0.10	July-Oct 2008
	1,950,000	344,256	1,605,744		
Long term	622,364	243,072	379,292	$0.03	May-Dec 2009
	810,000	741,692	68,308	0.06	June 2009
	1,432,364	984,764	447,600		
Total	$ 3,382,364	$ 1,329,020	$ 2,053,344		

At December 31, 2007, $1,250,000 face value of the 10% senior convertible notes was secured by a first position lien on all of the assets of the Company. The remaining $2,132,364 was unsecured.

6. 10% Senior convertible notes (continued):

On June 1, 2006, the Corporation issued a total of $500,000 of its 10% senior convertible notes. The notes had a maturity date of June 1, 2007. Under the terms of the notes, the holders were permitted, at any time, to convert all or a portion of the outstanding principal plus accrued interest into common stock of the Corporation at a ratio of one common share for each $0.10 of debt and accrued interest converted; the Corporation had the option of pre-paying all or any portion of the balance outstanding on the notes at any time, without penalty or bonus; and interest was payable quarterly, in arrears. Additionally, the holders could demand repayment of 50% of the principal of the note, at such time as the Corporation completed an equity financing of $500,000 or more.

Holders of the notes were granted 1,000,000 common shares of the Corporation upon issuance of the notes. In accordance with APB 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants," $170,000, representing the relative fair value of the shares at the issuance date, was allocated to the common shares par value and additional paid in capital.

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

On July 11, 2006, in conjunction with the issuance of $250,000 in promissory notes (note 5), these $500,000 10% senior convertible notes were amended and restated as follows: the first position lien on all of the assets of the Corporation was removed; the date of maturity was extended by one year to June 1, 2008; the Corporation was given the option of paying the quarterly interest either in cash or in common shares of the Corporation; the provision allowing the holder to demand immediate repayment of 50% of the face value of the note in the event of an equity financing by the Corporation of at least $500,000 was removed. These amendments collectively resulted in the new notes being "substantially different" from 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 Corporation accounted for the modification as an extinguishment of the original debt, which resulted in a gain on the extinguishment of $38,097.

On various dates between June 30 and December 21, 2006, the Corporation issued an aggregate of $900,000 of its 10% senior convertible notes. $400,000 of the notes mature on July 1, 2008; $500,000 mature on October 1, 2008. 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 Corporation at a ratio of one common share for each $0.10 of debt converted; the Corporation may pre-pay all or any portion of the balance outstanding on the notes at any time, without penalty or bonus; interest is payable quarterly in arrears, and may, at the Corporation's option, be paid either in cash or in common shares of the Corporation. If interest is paid in common shares, the number of shares required for settlement will be calculated using a 10% discount to the average closing price of the common stock, as listed on the exchange where the Corporation's common stock is traded, for the ten days prior to the date the interest is due to the holder.

6. 10% Senior convertible notes (continued):

Holders of the notes were granted an aggregate of 1,800,000 common shares of the Corporation upon issuance of the notes. In accordance with APB 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants," $234,402, representing the relative fair value of the common shares at the issuance date, was allocated to the common shares par value and additional paid-in capital.

At the date of issuance, the conversion feature relating to $600,000 of the notes was "in-the'money". The intrinsic value of this beneficial conversion feature was $185,297. In accordance with EITF 98-5, "accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," this amount was recorded as additional paid-in capital.

7. Stockholders' equity:

(a) Common stock transactions:

During the year ended December 31, 2007, the Corporation issued an aggregate of 3,105,000 shares of its common stock valued at $147,150, for services rendered. $147,150, representing the value of services rendered under these contracts, has been included in selling, general and administrative expenses for the year ended December 31, 2007.

During the year ended December 31, 2007, the Corporation 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 year ended December 31, 2007, has been included in selling, general and administrative expenses for the year.

During the year ended December 31, 2007, the Corporation issued 149,333 shares of its common stock, valued at $6,660, in consideration for finance fees relating to the issuance of the Corporation's 10% senior secured convertible notes. 100,000 of the shares were prepaid, which resulted in a gain on the transaction of $2,300.

During the year ended December 31, 2007, the Corporation issued an aggregate of 1,275,000 shares of its common stock, valued at $47,175, in settlement of accrued liabilities totaling $127,499. A gain on settlement of debt in the amount of $80,324 was recognized in connection with this transaction.

During the year ended December 31, 2007, the Corporation 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 $31,604 of accrued interest on the notes. A loss on settlement of accrued interest payable in the amount of $8,283 was recognized in connection with this transaction.

In connection with the issuance of the Corporation's 10% senior convertible notes during the year ended December 31, 2007, the Corporation issued an aggregate of 2,790,566 of its common shares, valued at $182,923, to the holders of the notes. A further 810,000 common shares, with a relative fair value of $99,228, were granted conditionally to the holders of the notes, such grant to take effect only if the authorized capital of the Corporation was increased to at least 120,000,000 common shares. On October 4, 2007, at the Corporation's Annual General Meeting, an increase in the Corporation's authorized capital from 100,000,000 to 300,000,000 common shares was approved, thereby resolving the contingent feature of the notes. The shares were subsequently issued pursuant to the terms of the notes.

7. Stockholders' equity:

(a) Common stock transactions (continued):

On July 9, 2007, a holder of the Corporation'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.

During the year ended December 31, 2006, the Corporation issued a total of 800,000 shares of its common stock, valued at $107,500 in consideration for consulting services rendered and to be rendered. In relation to these transactions, an expense of $83,750 was included in selling, general and administrative expenses for the year ended December 31, 2006. The remaining $23,750 was included in prepaid expenses, and expensed over the remaining three months of the contract term.

During the year ended December 31, 2006, the Corporation issued 20,000 shares of its common stock in connection with the exercise of 20,000 Series H stock purchase warrants for cash proceeds of $10,000.

During the year ended December 31, 2006, in connection with the issuance of the Corporation's 10% senior convertible notes (note 6) the Corporation issued a total of 2,800,000 shares of its common stock, valued at $404,402, to the holders of the notes.

In connection with the issuance of the Corporation's 10% promissory note on July 13, 2006 the Corporation issued 1,000,000 shares of its common stock, valued at $150,000, to the holder of the note. In accordance with the terms of the note, a further 500,000 shares of the Corporation's common stock, valued at $45,000, were issued to the holder of the note on October 11, 2006, as a penalty for failing to repay the full value of the note, plus accrued interest thereon, prior to that date.

During the year ended December 31, 2006, the Corporation issued 740,000 shares of its common stock, valued at $76,460, in consideration for finance fees relating to the issuance of the Corporation's 10% senior convertible notes and 10% promissory notes.

During the year ended December 31, 2006, the Corporation issued 100,000 shares of its common stock, valued at $11,500, in exchange for the deferral of payment of finance fees.

During the year ended December 31, 2006, the Corporation issued 250,000 shares of its common stock, valued at $28,750, in settlement of finance fees payable in the amount of $25,000 (note 8).

7. Stockholders' equity (continued:

(a) Common stock transactions (continued):

During the year ended December 31, 2006, the Corporation issued 118,378 shares of its common stock in settlement of $13,637 in accrued interest on the 10% senior convertible notes.

(b) Transactions involving stock purchase warrants:

During the year ended December 31, 2007, the Corporation 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 Corporation at an exercise price of $0.03 per share, are exercisable at any time, and expire on June 21, 2011. The $211,190 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 Corporation's 10% senior convertible notes (note 6). $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 were issued as partial consideration for consulting services which were to have been rendered over a two-year period commencing May 15, 2007. On July 25, 2007 the underlying service contract was terminated; consequently, $108,675, representing the value of the series K warrants issued in connection with this contract, has been included in selling general and administrative expenses for the year ended December 31, 2007.

Effective May 15, 2007, the exercise price of the Corporation'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 Corporation 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 Corporation issued 10% senior convertible notes (note 6) having a conversion rate of $0.03.

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

7. Stockholders' equity (continued):

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

On July 9, 2007, the 1,635,000 series E warrants were repurchased and cancelled for cash consideration of $1,000. At the date of repurchase, the fair value of the Series E warrants was nil, as calculated using the Black Scholes option pricing model with the following assumptions: expected dividend yield 0%; risk-free interest of 4.85%; expected volatility of 188%; and an expected life of .04 years. The $1,000 cost of repurchasing the series E warrants has been included in general and administrative expenses.

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

Effective June 1, 2006, the exercise price of the Corporation's Series I warrants was adjusted from $0.90 to $0.10, in accordance with the terms of the warrant agreements, which call for the conversion rate to be adjusted at such time as the Corporation issues debt or equity instruments having a conversion rate lower than $0.90. On June 1, 2006, the Corporation issued senior convertible notes (note 6), which have a conversion rate of $0.10.

On December 31, 2006, in connection with the resignation of one of the Corporation's directors, 520,000 Series E warrants and 1,005,000 stock options (note 7(c)) were surrendered in exchange for the issuance of 650,000 Series J warrants. The Series J warrants entitle the holder to purchase a total of 650,000 common shares of the Corporation at an exercise price of $0.15 per share, are exercisable at any time, and expire on June 30, 2008. At the date of issuance, the fair value of the Series J warrants was $18,307, which was lower than the aggregate fair value of the Series E warrants and the stock options surrendered ($9,314 and $17,688, respectively). Accordingly, the Corporation did not record an expense in relation to this transaction. The fair value of the Series J and Series E warrants, and the stock options, were calculated using the Black Scholes option pricing model with the following assumptions: expected dividend yield 0%; risk-free interest rate of 4.9%; expected volatility ranging from 136% to 143%; and an expected life ranging from 1.3 to 1.5 years.

On December 31, 2006, 400,000 Series G warrants and 2,652,500 Series H warrants expired.

(In U.S. dollars)

7. Stockholders' equity (continued):

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

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

	Exercise Price	Expiry	Outstanding 2007	Outstanding 2006
Series E	$0.33	December, 2007	--	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	0.03	June, 2011	3,120,000	--
			7,283,833	8,944,833

(c) Transactions involving stock options:

The Corporation has two incentive equity plans, under which a maximum of 10,000,000 options to purchase 10,000,000 common shares may be granted to officers, employees and consultants of the Corporation. The maximum number of options available for grant was increased by 3,000,000 on October 4, 2007. The granting of options, and the terms associated with them, occurs at the discretion of the board of directors, who administers the plan. As of December 31, 2007, 4,595,000 options remained available for grant under these plans.

On June 11, 2007, the Corporation 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 expiration in the event the holder ceases to be engaged by the Corporation 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 0%; risk-free interest rate of 5.06%; expected volatility of 168%; and an expected life of 5 years.

7. Stockholders' equity (continued):

(c) Transactions involving stock options (continued):

Also on June 11, 2007, the Corporation granted 900,000 options as partial consideration for consulting services which were to have been rendered over a two-year period commencing May 15, 2007. On July 25, 2007, the contract was terminated; consequently, $20,969, representing the value of the options issued in connection with this contract, has been included in selling, general and administrative expenses for the year ended December 31, 2007. The fair value of these options was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 5.06%; expected volatility of 168%; and an expected life of 5 years. These options expired on November 22, 2007, in accordance with the early expiration provision of the options.

During the year ended December 31, 2006, the Corporation granted 100,000 stock options to an employee as an incentive to enter into full-time employment with the Corporation. The options vest on various dates between January 1, 2007 and January 1, 2009; have an exercise price of $0.67; and an expiry date for unexercised options of January 12, 2011, with provision for early forfeiture in the event the holder ceases to be employed by the Corporation prior to the stated expiry date. The fair value of these options at date of grant was $19,556, determined using the following assumptions: expected dividend yield 0%; risk-free interest rate of 4.39%; expected volatility of 158%; an expected life of 5 years; and an expected forfeiture rate of 1.5%.

(In U.S. dollars)

7. Stockholders' equity (continued):

(c) Transactions involving stock options (continued):

On December 31, 2006, in connection with the resignation of one of the Corporation's directors, 1,005,000 stock options and 520,000 Series E warrants were surrendered in exchange for the issuance of 650,000 Series J warrants (note 7(b)).

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

	2007		2006	
	# of Options	Weighted Average Exercise price	# of Options	Weighted Average Exercise price
Options outstanding, beginning of year	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	(1,308,000)	0.21	(1,655,000)	0.51
Forfeited	(67,000)	0.67	(250,000)	0.57
Options outstanding, end of year	5,405,000	$ 0.06	3,447,302	$ 0.50
Options exercisable, end of year	5,405,000	$ 0.06	3,297,302	$ 0.49

The following table summarizes information regarding stock options outstanding and exercisable at December 31, 2007:

	Options Outstanding			Options Exercisable	
Exercise price	Number outstanding at 12/31/07	Weighted average remaining contractual life	Weighted average exercise price	Number outstanding at 12/31/07	Weighted average exercise price
$ 0.33	305,000	0.4 years	$ 0.33	305,000	$ 0.33
0.04	5,100,000	4.5 years	0.04	5,100,000	0.04
	5,405,000	4.2 years	$ 0.06	5,405,000	$ 0.06

(In U.S. dollars)

7. Stockholders' equity (continued):

(d) Summary of stock-based compensation:

The following table presents the total of stock-based compensation included in the expenses of the Corporation for the years ended December 31, 2007 and 2006:

	2007	2006
Selling, general and administrative	$ 444,324	$ 300,727
Research and development	24,372	--
Total stock-based compensation included in expenses	$ 468,696	$ 300,727

8. Interest and financing costs:

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

9. Gain (loss) on extinguishment of debt and accrued liabilities:

	2007	2006
Loss on settlement of $31,603 of accrued interest on 10% senior convertible notes (note 6)	$ (8,283)	$ --
Gain on issuance of 1,275,000 common shares, valued at $47,175, in settlement of accrued liabilities totaling $127,499 (note 7)	80,324	--
Gain on issuance of 100,000 common shares, valued at $3,700, as partial consideration for finance fees payable in connection with the issuance of 10% senior convertible notes	2,300	--
Loss recognized on the modification of the 10% senior convertible notes (note 6)	(177,234)	--
Gain on extinguishment of 10% promissory note	--	44,956
Gain on extinguishment of 10% senior convertible notes (note 6)	--	38,097
Loss on issuance of 250,000 common shares, valued at $28,750 in satisfaction of accounts payable totaling $25,000 (note 7(a))	--	(3,750)
	$ (102,893)	$ 79,303

(In U.S. dollars)

10. Loss per share:

As the Corporation incurred a net loss during the years ended December 31, 2007 and 2006, the loss and diluted loss per common share are based on the weighted-average common shares outstanding during the year. The following outstanding instruments could have a dilutive effect in the future:

	2007	2006
Stock options	5,405,000	3,447,302
Series E stock purchase warrants	--	1,635,000
Series F stock purchase warrants	--	3,146,000
Series I stock purchase warrants	3,513,333	3,513,333
Series J stock purchase warrants	650,000	650,000
Series K stock purchase warrants	3,120,000	--
	12,688,333	12,391,635

11. Related party transactions:

Included in promissory notes payable (note 5) is $59,766 (2006 - $7,902) payable to companies controlled by directors of the Corporation, and $21,170 (2006 - $18,438) payable to a director. $5,037 (2006 - $221) in accrued interest charges relating to these notes is included in accrued liabilities; $4,422 (2006 – $221) is included in interest and finance costs for the year.

As discussed in note 12(b), the Corporation subleased excess office space during the year ended December 31, 2007, to companies which were related during part of the sublease period.

12. Guarantees and Commitments:

a) Guarantees

The Corporation has entered into agreements which contain features which meet the definition of a guarantee under FASB Interpretation No. 45 (“FIN 45”). FIN 45 defines a guarantee to be a contract that contingently requires the Corporation to make payments (either in cash, financial instruments, other assets, common stock of the Corporation or through the provision of services) to a third party based on changes in an underlying economic characteristic (such as interest rates or market value) that is related to an asset, liability or an equity security of the other party.

The Corporation has the following guarantees which are subject to the disclosure and measurement requirements of FIN 45:

12. Guarantees and Commitments (continued):

a) Guarantees (continued)

(i) In the normal course of business, the Corporation entered into a lease agreement for facilities. As the lessee, the Corporation agreed to indemnify the lessor for liabilities that may arise from the use of the leased facility. The maximum amount potentially payable under the foregoing indemnity cannot be reasonably estimated. The Corporation does not have liability insurance that relates to the indemnification described above.

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

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

b) Commitment

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:

2008	$ 80,387
2009	80,387
2010	26,796
Total	$ 187,570

(In U.S. dollars)

12. Guarantees and Commitments (continued):

b) Commitment (continued)

Rental expense for the year, which is included in selling, general and administrative expenses, has been reduced by sublease income of $18,610 (2006 - $31,808), of which $2,813 (2006 - $31,808) was received from a related company. The companies are related by virtue of an officer and director of the Corporation being also an officer and director of the other company. The sublease arrangement was discontinued effective August 31, 2007.

Rent expense incurred under the operating lease for the year ended December 31, 2007, net of sublease income, was $96,277 (2006 - $118,647).

13. Financial instruments:

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, capital lease obligation and promissory notes payable approximates fair value due to the short term to maturity of these instruments. The fair value of the 10% senior convertible notes at December 31, 2007 was approximately $2,479,000 based on the present value of future cash flows as of the balance sheet date, discounted at market rates.

14. Income taxes:

Deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities as reported for financial reporting purposes and such amounts as measured by tax laws. The tax effects of temporary differences that gave rise to significant portions of the deferred tax asset and deferred tax liability are as follows:

	2007	2006
Deferred tax asset:		
Net operating loss carryforwards	$ 5,873,000	$ 5,041,000
Capital loss carryforwards	1,050,000	1,050,000
Total gross deferred tax asset	6,923,000	6,091,000
Valuation allowance	(6,923,000)	(6,091,000)
Net deferred taxes	$ --	$ --

(In U.S. dollars)

14. Income taxes (continued):

Income tax expense attributable to loss before income taxes was $nil (2006 - $nil) and differed from the amounts computed by applying the U.S. federal income tax rate of 34% (2006 - 34%) to the net loss as a result of the following:

	2007	2006
Expected tax rate	34%	34%
Expected tax recovery applied to net loss before income taxes	$ (1,266,974)	$ (1,151,679)
Increase (decrease) in taxes resulting from:		
Change in valuation allowance	832,000	1,046,000
Compensation expense	159,000	63,000
Interest and financing costs	213,000	71,000
Gain on extinguishment of debt	35,000	(27,000)
Other	27,974	(1,321)
	$ --	$ --

The Corporation has net operating losses of $17,452,000 (2006 - $14,829,000) which are available to reduce U.S. taxable income and which expire as follows:

2019	$ 391,000
2020	675,000
2021	521,000
2022	897,000
2023	1,671,000
2024	4,205,000
2025	3,381,000
2026	3,088,000
2027	2,623,000
	$ 17,452,000

(In U.S. dollars)

15. Change in non-cash operating working capital:

	2007	2006
Accounts receivable	$ (2,152)	$ 61,367
Prepaid expenses	46,091	(366)
Accounts payable	607,009	258,771
Accrued liabilities	382,130	241,452
Deferred revenue	--	130,000
	$ 1,033,078	$ 691,224

(In U.S. dollars)

16. Supplementary cash flow information:

The Corporation paid no income taxes during the year ended December 31, 2007, nor during the year ended December 31, 2006. Interest paid in cash during the years ended December 31, 2007 and December 31, 2006 were $1,023 and $2,593, respectively.

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

	2007	2006
Debt issuance costs	$ 23,960	$ 178,960
Issuance of 659,001 shares of the Corporation'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 Corporation's common stock, valued at $47,175, in settlement of accrued liabilities totaling $127,499	47,175	--
Issuance of 1,025,000 shares of the Corporation'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 3,080,000 shares of the Corporation's common stock, valued at $146,000, in respect of consulting services rendered	146,000	--
Payable to employees and consultants with respect to the repurchase of options issued in prior periods	2,661	--
Issuance of 250,000 shares of the Corporation's common stock, valued at $28,750, in satisfaction of accounts payable in the amount of $25,000	--	28,750
Issuance of 118,378 shares of the Corporation's common stock in settlement of $13,638 in accrued interest on the 10% senior convertible notes	--	13,638
Total	$ 297,833	$ 221,348

17. Subsequent events:

On December 21, 2006, a former director of the Corporation commenced legal action against the Corporation with respect to approximately $51,732 in unpaid salary owing to the former director at the date of his retirement, plus costs with respect to collecting the amount due. The Corporation contested this action, and on January 29, 2008, an out of court settlement for $34,727 was reached. Legal fees of $10,238 relating to this action have been included in selling, general and administrative expenses for the year ended December 31, 2007. Additional costs of $1,476 relating to this action were incurred in January 2008, and have been included in selling general and administrative expenses for that period. A liability for unpaid salary of $50,950, and employee expense reimbursements of $782 have been included in accrued liabilities and accounts payable, respectively, at December 31, 2007.

During the period from January 1 to April 8, 2008, the Corporation issued an aggregate of $321,512 of its promissory notes, of which $288,512 were issued to related parties.

On January 7, 2008, holders of the Corporation's 10% senior convertible notes exercised the conversion option and converted $31,763 in principal and accrued interest in exchange for 1,058,780 shares of common stock.

On January 10, 2008, the Corporation received $50,000 in cash proceeds from the issuance of its 10% senior convertible notes. The notes are payable on demand, and are secured by a general assignment of all assets of the Corporation. Under the terms of the note, the holder is permitted, at any time, to convert all or a portion of the outstanding principal plus accrued interest into common stock of the Corporation at a ratio of one common share for each $0.03 of debt converted; the Corporation may pre-pay all or any portion of the balance outstanding on the note at any time without penalty or bonus, with permission from the holder; interest is payable quarterly and may, at the Corporation's option, be paid in either cash, or in common shares of the Corporation at the rate of one common share for each $0.03 of interest paid. The Corporation issued 300,000 shares of its common stock to the holder pursuant to the terms of the note.

On January 25, 2008, the Corporation issued 3,000,000 shares of its common stock pursuant to the terms of a contract to provide financial advisory services for an unspecified period of time.

On February 1, 2008, the Corporation issued 200,000 shares of its common stock pursuant to the terms of a contract to provide consulting services for a one-year period commencing January 3, 2008.

On March 5, 2008, the Corporation received $30,000 in cash proceeds, net of a discount of $3,000, from the issuance of its promissory notes. The Corporation issued 100,000 shares of its common stock to the holder pursuant to the terms of the note. The note became due on March 19, 2008; at April 14, 2008, the Corporation was involved in negotiations regarding the settlement of this note.

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosures.

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

Item 8A. Controls and Procedures.

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

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

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

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

In connection with the preparation of the Company's annual consolidated financial statements, management undertook an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. Management's assessment, based on criteria established in our internal control procedures policies, included an evaluation of the design of the Company's internal control over financial reporting but did not include testing of the operational effectiveness of those controls because our evaluation concluded that our system of internal controls was not effective in preventing or detecting misstatements.

Based on this assessment, management has concluded that as of December 31, 2007, the Company's internal control over financial reporting was not effective enough to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. KPMG LLP, our independent registered public accounting firm, which audited our financial statements included in this annual report on

Form 10-KSB, has not audited the effectiveness of our internal control over financial reporting as of December 31, 2007.

In connection with the audit of our consolidated financial statements for the years ended December 31, 2007 and 2006, 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 the standards established by the American Institute of Certified Public Accountants. A material weakness is a significant deficiency in one or more of the internal control components that alone or in the aggregate precludes our internal controls from reducing to an appropriately low level of risk that material misstatements in our financial statements will not be prevented or detected on a timely basis. We considered these matters in connection with the period-end closing of accounts and preparation of the related consolidated financial statements and determined that no prior period financial statements were materially affected by such matters. Notwithstanding the material weakness identified by our independent registered public accountants, we believe that the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operation and cash flows of the Corporation as of, and for, the periods represented in this report.

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

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

Lack of segregation of duties. Since commencing the development phase of our operations in August 1999, our size has prevented us from being able to employ sufficient resources to enable us to have an adequate level of supervision and segregation of duties within our internal control system. We had only three people involved in the processing of accounting entries during 2006 and 2007: the Office Administrator, the Controller and the Chief Financial Officer. It was therefore difficult to effectively segregate accounting duties. While we strive to segregated 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 2006 and 2007, 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 Form 10-QSB for the quarter ended September 30, 2006 until November 24, 2006, partially as a result of our lack timely preparation of back up schedules; the audit of our 10-KSB for the year ended December 31, 2006 was also delayed for this reason. As such, we believe that this material weakness had not been remediated as of the end of the period covered by this report, although progress in remediation had been made. Effective during 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. We have not been as successful in this initiative as we had hoped.

As required by the SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Report. This evaluation was performed under the supervision and with the participation of our 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 existence of the significant internal control deficiencies described above.

There has been no change in internal control over financial reporting, other than the measures noted above, during the year ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 8B. Other Information.

None.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons: Compliance with Section 16(a) of the Exchange Act.

The following table sets forth certain information concerning our directors and executive officers as of December 31, 2007:

Name	Age	Position
Bruce I. Benn	54	Director, President, Chief Executive Officer, Executive Vice President and Secretary

Effective May 6, 2005, the Board of Directors of the Company appointed Bruce I. Benn to the positions of President and Chief Executive Officer of the Company. Mr. Benn has served as a Director, Executive Vice President and Secretary of the Company since February 2004. From 1999 until February 2004, he provided services to the Company through Capital House Corporation. Mr. Benn plays a major role in making key management and strategic decisions and oversees all aspects of corporate finance for the Company. He has been principally responsible for arranging the $20 million of capital investment for the Company from 1999 to date. Since 1989, Mr. Benn has been the President, Director and co-founder of Capital House Corporation, a boutique investment bank that has provided and/or arranged early and mid stage venture capital and hands-on managerial assistance to a portfolio of leading technology software companies. Mr. Benn was also a founder, Director and Officer of DevX Energy, Inc. from 1995 until October 2000. From 1980 to 1993, he was with Corporation House Ltd., where he was a Vice President and a Director from 1985 to 1993. He is an attorney and holds a Masters of Law degree from the University of London, England, a Baccalaureate of Laws from the University of Ottawa, Canada, and a Bachelor of Arts in Economics from Carleton University in Ottawa, Canada.

Name	Age	Position
Ronald I. Benn	53	Director, Chief Financial Officer and Treasurer

Ron Benn was appointed a Director, Chief Financial Officer and Treasurer of the Company in February 2004. He is a co-founder, Officer and Director of Capital House Corporation since 1989. He was Chief Financial Officer of Coast Software Inc., a position he held from September 2000 to February 2004 and where he was directly involved in raising more than $7 million in capital. From 1995 to 2007, he was also a Director of Telemus Electronics. From 1995 until 2000 he was Chief Financial Officer of DevX Energy, Inc., a publicly traded company on the NASDAQ exchange. He has 23 years' experience in senior finance positions, having begun his career in 1980 with Clarkson Gordon (now Ernst & Young) in the audit department. He holds a Chartered Accountant designation with the Institute of Chartered Accountants of Ontario (1982), and Bachelor of Commerce (Honours) degree from the University of Windsor, in Windsor, Canada and Bachelor of Science degree from Carleton University in Ottawa, Canada. Ron Benn is the brother of Bruce Benn.

Audit Committee Financial Expert

The SEC has adopted rules to implement certain requirements of the Sarbanes-Oxley Act of 2002 pertaining to public company audit committees. One of the rules adopted by the SEC requires a company to disclose whether it has an “audit committee financial expert” serving on its audit committee. Our board of directors has not yet established an audit committee and as a result provides the functions of an audit committee. As such, our board has not yet appointed an audit committee financial expert. We believe that our board of directors, taken as a whole, has the financial, accounting and other relevant education and experience necessary to qualify as an audit committee financial expert under Item 401(e) of Regulation S-B. At this time, our board of directors believes it would be desirable to have an audit committee, and for the audit committee to have an audit committee financial expert serving on the committee. While informal discussions as to potential candidates have occurred, at this time no formal search process has commenced.

Code of Ethics Policy

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

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

To our knowledge, based solely on a review of such materials as are required by the Securities and Exchange Commission, none of our officers, directors or beneficial holders of more than ten percent of our issued and outstanding shares of common stock failed to timely file with the Securities and Exchange Commission any form or report required to be so filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, during the year ended December 31, 2005.

Item 10. Executive Compensation.

The following table shows all the cash compensation paid or to be paid by us or our subsidiaries, as well as certain other compensation paid or accrued, during the fiscal years indicated, to our chief executive officer and other executive officers who received total annual salary and bonus in excess of $100,000 during the past fiscal year in all capacities in which the person served.

Summary Compensation Table

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compen-sation ($)	Nonqualified Deferred Compen-sation Earnings($)	All Other Compensa-tion	Total $
Benn, Bruce (1)(4)	2007	112,278	0	0	17,681	0	0	0	129,959
	2006	105,847	0	0	0	0	0	0	105,847
	2005	99,146	0	0	500,000	0	0	0	599,146
Benn, Ronald (2)(4)	2007	98,243			18,339				116,582
	2006	105,847	0	0	0	0	0	0	105,847
Maisonneuve, Andre (3)	2006 2005 2004	105,847 103,848 100,353	0 0 0	0 0 0	0 0 0	0 0 0	0 0 0	0 0 0	105,847 103,848 100,353

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

(2) Became Director, Chief Financial Officer and Treasurer in February, 2004.

(3) Became Director, Executive Vice President and Secretary in July, 2001. In addition, Mr. Maisonneuve served as Chairman, President, Chief Executive Officer, and Chief Financial Officer from January, 2002 to February, 2004; as Chairman, President, Chief Executive Officer from January 2002 until May 2005; and as Chairman and Vice- President – Strategic Marketing from May 2005 until his retirement effective December 31, 2006.

(4) Reported salary for August 2006 to December 2007 has been accrued but not paid.

Outstanding Equity Awards at Fiscal Year-End

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

(1) Calculated based on $0.027 per share of common stock, the closing bid price of our common stock on December 31, 2006.

Long-Term Incentive Plans – Awards In Last Fiscal Year

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

Directors are not compensated for acting in their capacity as directors. Directors are reimbursed for their accountable expenses incurred in attending meetings and conducting their duties.

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

The following table sets forth information as of March 31, 2008, with respect to any person known by us to own beneficially more than 5% of our common stock; common stock beneficially owned by each of our officers and directors named in Item 10; and the amount of common stock beneficially owned by our officers and directors as a group.

Name & Address of Beneficial Owner	Number of Shares Beneficially Owned	Approximate Percent of Common Stock Outstanding (1)
Leonid Frenkel (3) 401 City Avenue Suite 800 Bala Cynwyd, PA 19004	4,884,165	9.0%
Bruce Benn* (2) (4)	3,580,000	6.5%
Valdosta Corp. (2) P.O. Box 30592 Cayside, 2nd Floor, Harbour Drive Georgetown, Grand Cayman Cayman Islands, BWI	3,400,000	6.3%
Ronald Benn* (2) (5)	1,175,500	2.1%
All Executive Officers and Directors As a Group	4,755,500	8.5%

*Executive Officer and/or a Director.

(1) Based upon 54,151,943 shares of common stock issued and outstanding as of March 31, 2008 and includes for each person the shares issuable upon exercise of the options and warrants owned by them.

(2) Valdosta Corp. is a portfolio management corporation incorporated under the laws of the Cayman Islands. Bruce Benn has a beneficial interest in 2,650,000 of the shares owned of record by Valdosta Corporation. Accordingly, 2,650,000 shares of the 3,400,000 shares owned of record by Valdosta Corporation have been included as beneficially owned by him. Ronald Benn has a beneficial interest in 250,000 of the shares owned of record by Valdosta Corporation. Accordingly, 250,000 shares of the 3,400,000 shares owned of record by Valdosta Corporation have been included as beneficially owned by him.

(3) Based on information contained in Schedule 13G as filed by Mr. Frenkle on February 14, 2008.

(4) Includes (a) 30,000 shares held directly by Bruce Benn; (b) 2,650,000 shares owned of record by Valdosta Corporation; and (c) 900,000 shares issuable upon exercise of options held directly by Bruce Benn. See footnotes (2) and (11).

(5) Includes (a) 25,500 shares held directly by Ronald Benn, (b) 250,000 shares owned of record by Valdosta Corporation; and (c) 900,000 shares issuable upon exercise of options held directly by Ronald Benn. See footnotes (2) and (11).

The following table sets forth details regarding our common stock authorized for issuance under equity compensation plans as at March 31, 2008:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	4,200,000	$ 0.04	5,800,000
Equity compensation plans not approved by security holders	--	--	--
Total	4,200,000	$ 0.04	5,800,000

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

In respect of our Amended and Restated Incentive Equity Plan, we have granted options to purchase an aggregate of 2,702,302 shares of our common stock to employees and non-employees in consideration for services rendered. These options entitle the holders to purchase shares of common stock at an exercise price of $0.04 per share. The options vested immediately upon their issuance, and are exercisable until June 19, 2012, provided the holder remains engaged by us as of that date, with provision for early expiry in the event the holder ceases to be engaged by us prior to the stated expiry date. Of the 3,912,302 options originally granted under this plan, none were exercised as of March 31, 2008, and 1,205,000 expired during the period from January 1 to March 31, 2008 on termination of the related consulting and employment agreements, leaving 2,707,302 currently outstanding.

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

In respect of our 2004 Incentive Equity Plan, we have granted options to purchase 1,492,698 shares of our common stock to employees and non-employees in consideration for services rendered and as incentives, entitling the holders to purchase shares of our common stock at an exercise prices of $0.04: The options vested immediately upon their issuance, and are exercisable until June 19, 2012, provided the holder remains engaged by us as of that date, with provision for early expiry in the event the holder ceases to be engaged by us prior to the stated expiry date. Of the 2,392,698 options originally granted under this plan, none were exercised as of March 31, 2008 and 900,000 expired during the year ended December 31, 2007 on termination of the related consulting agreement, leaving 1,492,698 currently outstanding.

Item 12. <u>Certain Relationships and Related Transactions.</u>

Included in promissory notes payable at December 31, 2007 is $59,766 (2006 - $7,902) payable to companies controlled by directors of the Corporation, and $21,170 (2006 - $18,438) payable to a director. $5,037 (2006 - $221) in accrued interest charges relating to these notes is included in accrued liabilities; $4,422 (2006 - $221) is included in interest and finance costs for the year.

Effective July 1, 2004, our company entered into an agreement to sublease excess office space to a company which was related at that time. This other company was related to our company due to Ronald Benn being an officer and director of both companies; the other company changed management effective January 1, 2007, such that there was no longer a relationship between the other company and the Corporation from that date. However, in July 2007, another company which is related to the Corporation assumed responsibility for the sublease on July 1, 2007. Consequently sublease income received for July and August 2007, and for the year ended December 31, 2006, was from a related company. Rent expense for the year, which is included in selling, general and administrative expenses, has been reduced by sublease income of $18,610 (2006 - $31,808), of which $2,813 (2006 - $31,808) was received from these related companies.

Item 13. <u>Exhibits</u>

Exhibit No.	Document Description
3.1	Restated Articles of Incorporation (1)
3.2	Amendment to Articles of Incorporation (5)
3.3	Amendment to Articles of Incorporation
3.4	By-Laws (2)
3.5	Amendment to By-Laws (1)
4.1	Form of Class B Warrants (2)
4.2	Form of Class E Warrants (1)
4.3	Form of Class F Warrants (1)
4.4	Form of Class G Warrants (1)
4.5	Form of Class H Warrants (1)
4.6	Form of Class I Warrants (3)
4.7	Form of Class J Warrants (6)
4.8	Form of 12% Promissory Note (1)
4.9	Form of 4% Convertible Debenture (1)
4.10	Form of 10% senior secured convertible note and security agreement (6)
10.1	Registration Rights Agreement, dated as of March 8, 2004 by and among the Company and each entity named on the signature page thereto (3)
10.2	Securities Purchase Agreement, dated as of March 8, 2004 by and among the Company and each entity named on the signature page thereto (3)
10.3	Securities Purchase Agreement in respect of the 4% Convertible Debenture, dated as of December 30, 2003 by and between Validian Corporation and each individual or entity named on a signature page thereto (1)
10.4	Registration Rights Agreement, dated as of December 30, 2004 by and between the Company and each entity named on the signature page thereto (1)
10.5	Amended and Restated Incentive Equity Plan (4)
10.6	Validian Corporation 2004 Incentive Equity Plan (4)
10.7	Validian Corporation 2004 Amended Incentive Equity Plan
10.8	Commercial Lease dated April 15, 2004 between Validian Corporation and National Capital Commission (5)
10.9	Commercial Renewal Lease dated March 20, 2007 (6)
10.10	Employment Agreement with Andre Maisonneuve * (5)
10.11	Employment Agreement with Bruce Benn * (5)
10.12	Employment Agreement with Ronald Benn * (5)
21.1	List of Subsidiaries (5)
31.1	Certification of Chief Executive Officer Pursuant to Section 302
31.2	Certification of Chief Financial Officer Pursuant to Section 302
32.1	Certification of Chief Executive Officer Pursuant to Section 906
32.2	Certification of Chief Financial Officer Pursuant to Section 906

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* Denotes management contract

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

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

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

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

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

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

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

Item 14. Principal Accountant Fees and Services

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

Description of services	Fees billed for 2006 fiscal year	Fees billed for 2006 fiscal year
Audit fees	$ 81,774	$ 37,416
Audit-related fees	$ 40,781	$ 66,879

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

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

There were no tax-related fees incurred during the year.

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
(Registrant)

By: /s/ Bruce Benn
Bruce Benn

President, Chief Executive Officer and director
(principal executive officer)

Dated: April 14, 2008

By: /s/ Ronald Benn
Ronald Benn

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

Dated: April 14, 2008

Exhibits.

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10.3	Securities Purchase Agreement in respect of the 4% Convertible Debenture, dated as of December 30, 2003 by and between Validian Corporation and each individual or entity named on a signature page thereto (1)
10.4	Registration Rights Agreement, dated as of December 30, 2004 by and between the Company and each entity named on the signature page thereto (1)
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(6) Previously filed as an Exhibit to our Annual Report on Form 10-KSB for the year ended December 31, 2006, filed with the Commission on May 18, 2007 and incorporated herein by reference.

Exhibit 3.3

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

Certificate of Amendment

(PURSUANT TO NRS 78.385 AND 78.390)

USE BLACK INK ONLY - DO NOT HIGHLIGHT

ABOVE SPACE IS FOR OFFICE USE ONLY

Certificate of Amendment to Articles of Incorporation For Nevada Profit Corporations

(Pursuant to NRS 78.385 and 78.390 - After Issuance of Stock)

1. Name of corporation:

Validian Corporation

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

The first sentence of Article IV of the Charter is hereby amended to read as follows: "The Corporation is authorized to issue a total of 350,000,000 shares consisting of 50,000,000 shares of Preferred Stock having a par value of $.001 per share (hereinafter the "Preferred Stock"), and 300,000,000 shares of Common Stock, par value $.001 (hereinafter the "Common Stock")."

3. The vote by which the stockholders holding shares in the corporation entitling them to exercise at least a majority of the voting power, or such greater proportion of the voting power as may be required in the case of a vote by classes or series, or as may be required by the provisions of the* articles of incorporation have voted in favor of the amendment is: 54.23%

4. Effective date of filing (optional): 10/4/07
(must not be later than 90 days after the certificate is filed)

5. Officer Signature **(Required)**: X [signature]

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

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

This form must be accompanied by appropriate fees.

Exhibit 10.7

Validian Corporation
2004 AMENDED INCENTIVE EQUITY PLAN

The name of the plan is the 2004 AMENDED INCENTIVE EQUITY PLAN (the "***Plan***") of Validian Corporation, a Nevada corporation (the "***Company***"). On June 11, 2007, Validian's Board of Directors approved, subject to stockholder approval, this 2004 Amended Incentive Equity Plan. This 2004 Amended Incentive Equity Plan shall only be effective when approved by the Company's stockholders and only if the Authorized Capital of the Company is increased to 50,000,000 shares of preferred stock and 300,000,000 shares of common stock.

ARTICLE 1
PURPOSE

The purpose of the Plan is to attract and to retain the services of Employees, Consultants and Outside Directors of the Company and its Subsidiaries and to provide such persons with a proprietary interest in the Company through the granting of incentive stock options, non-qualified stock options, restricted stock, whether granted singly, or in combination, or in tandem, that will

(a) increase the interest of such persons in the Company's welfare and success;
(b) furnish an incentive to such persons to continue their services for the Company; and
(c) provide a means through which the Company may attract able persons as Employees, Consultants and Outside Directors.

With respect to Reporting Participants, the Plan and all transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 promulgated under the Securities Exchange Act of 1934 (the "***1934 Act***"). To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void *ab initio*, to the extent permitted by law and deemed advisable by the Committee. No incentive stock options shall be issued to Consultants or Outside Directors of the Company.

ARTICLE 2
DEFINITIONS

Unless the context requires otherwise, for purposes of the Plan, the following terms shall have the meanings indicated:

"***Award***" means the grant of any Incentive Stock Option, Non-qualified Stock Option, Restricted Stock, or Performance Award whether granted singly, in combination or in tandem (each individually referred to herein as an "***Incentive***" or as ***"Award"***).

"***Award Agreement***" means a written agreement between a Participant and the Company, which sets out the terms of the grant of an Award.

"***Award Period***" means the period during which one or more Incentives granted under an Award may be exercised.

"***Board***" means the board of directors of the Company.

"***Change of Control***" means any of the following, except as otherwise provided herein: (i) any consolidation, merger or share exchange of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property of another entity, other than a consolidation, merger or share exchange of the Company in which the holders of the Company's

Common Stock immediately prior to such transaction have the same proportionate ownership of Common Stock of the surviving entity immediately after such transaction; (ii) any sale, lease, exchange or other transfer (excluding transfer by way of pledge or hypothecation) in one transaction or a series of related transactions, of all or substantially all of the assets of the Company; (iii) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; (iv) the cessation of control (by virtue of their not constituting a majority of directors) of the Board by the individuals (the "***Continuing Directors***") who (x) at the date of this Plan were directors or (y) become directors after the date of this Plan and whose election or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors (1) then in office who were directors at the date of this Plan or (2) whose election or nomination for election was previously so approved; (v) the acquisition of beneficial ownership (within the meaning of Rule 13d-3 under the 1934 Act) of an aggregate of twenty percent (20%) of the voting power of the Company's outstanding voting securities by any person or group (as such term is used in Rule 13d-5 under the 1934 Act) who beneficially owned less than fifteen percent (15%) of the voting power of the Company's outstanding voting securities on the date of this Plan, or the acquisition of beneficial ownership of an additional five percent (5%) of the voting power of the Company's outstanding voting securities by any person or group who beneficially owned at least fifteen percent (15%) of the voting power of the Company's outstanding voting securities on the date of this Plan, provided, however, that notwithstanding the foregoing, an acquisition shall not constitute a Change of Control hereunder if the acquirer is (x) a trustee or other fiduciary holding securities under an employee benefit plan of the Company and acting in such capacity, (y) a Subsidiary of the Company or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of voting securities of the Company or (z) any other person whose acquisition of shares of voting securities is approved in advance by a majority of the Continuing Directors; or (vi) in a Title 11 bankruptcy proceeding, the appointment of a trustee or the conversion of a case involving the Company to a case under Chapter 7. Notwithstanding the foregoing, in the event an Award issued under the Plan is subject to Section 409A of the Code, then, in lieu of the foregoing definition and to the extent necessary to comply with the requirements of Section 409A of the Code and the regulations and other guidance issued thereunder, the definition of "change of control" for purposes of such Award shall be the definition provided for under Section 409A of the Code and the regulations and other guidance issued thereunder.

"***Code***" means the Internal Revenue Code of 1986, as amended, or any successor legislation.

"***Committee***" means the committee appointed or designated by the Board to serve as the Compensation and Stock Option Committee (or a similarly named Committee generally intended to administer and oversee employee compensation plans such as the Plan) of the Board to administer the Plan in accordance with **Article 3** of this Plan.

"***Common Stock***" means the common stock, par value $0.001 per share, which the Company is currently authorized to issue or may in the future be authorized to issue, or any securities into which or for which the common stock of the Company may be converted or exchanged, as the case may be, pursuant to the terms of this Plan.

"***Company***" means Validian Corporation, a Nevada corporation, and any successor entity.

"***Consultant***" means any person, who is not an Employee, performing advisory or consulting services for the Company or a Subsidiary, with or without compensation, to whom the Company chooses to grant an Award in accordance with the Plan, provided that *bona fide* services must be rendered by such person and such services shall not be rendered in connection with the offer or sale of securities in a capital raising transaction. A Consultant shall not be eligible to receive Incentive Stock Options.

"***Date of Grant***" means the effective date on which an Award is made to a Participant as set forth in the applicable Award Agreement, which, for purposes of grants of Incentive Stock Options or Non-qualified Stock Options, shall always be a date after the date when the Committee has approved the terms of the Award, including, without limitation, the maximum number of shares that can be purchased pursuant to the Award, the exercise price, and the identity of the Participant. Notwithstanding the foregoing, solely for purposes of Section 16 of the 1934 Act and the rules and regulations promulgated thereunder, the Date of Grant of an Award shall be the date of stockholder approval of the Plan if such date is later than the effective date of such Award as set forth in the Award Agreement.

"***Employee***" means common law employee (as defined in accordance with the Regulations and Revenue Rulings then applicable under Section 3401(c) of the Code) of the Company or any Subsidiary of the Company.

"Executive Officer" means an officer of the Company or a Subsidiary subject to Section 16 of the 1934 Act or a "covered employee" as defined in Section 162(m)(3) of the Code.

"***Fair Market Value***" means, as of a particular date, (a) if the shares of Common Stock are listed on any established national securities exchange, the closing sales price per share of Common Stock on the consolidated transaction reporting system for the principal securities exchange for the Common Stock on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (b) if the shares of Common Stock are not so listed but are quoted on the NASDAQ National Market System, the closing sales price per share of Common Stock on the NASDAQ National Market System on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (c) if the Common Stock is not so listed or quoted, the mean between the closing bid and asked price on that date, or, if there are no quotations available for such date, on the last preceding date on which such quotations shall be available, as reported by NASDAQ, or, if not reported by NASDAQ, by the National Quotation Bureau, Inc., or (d) if none of the above is applicable, such amount as may be determined by the Board (acting on the advice of an Independent Third Party, should the Board elect in its sole discretion to utilize an Independent Third Party for this purpose), in good faith, to be the fair market value per share of Common Stock, taking into consideration all factors which the Board deems appropriate, including, without limitation, Section 409A of the Code and the regulations issued thereunder or, for purposes of Incentive Stock Options, Section 422 of the Code and the regulations and guidance issued thereunder.

"***Incentive Stock Option***" or "***ISO***" means an incentive stock option within the meaning of Section 422 of the Code, granted pursuant to this Plan. Incentive Stock Options shall only be granted to Employees. Consultants and Outside Directors are not eligible to receive Incentive Stock Options.

"Independent Third Party" means an individual or entity independent of the Company having experience in providing investment banking or similar appraisal or valuation services and with expertise generally in the valuation of securities or other property for purposes of this Plan. The Board may utilize one or more Independent Third Parties.

"***Non-qualified Stock Option***" or "***NQSO***" means a non-qualified stock option, granted pursuant to this Plan, which is not an Incentive Stock Option.

"***Option Price***" means the price, which must be paid by a Participant upon exercise of a Stock Option to purchase a share of Common Stock.

"Outside Director" means a director of the Company who is not an Employee. Outside Directors are not eligible to receive Incentive Stock Options.

"***Participant***" means an Employee, Consultant or Outside Director of the Company or a Subsidiary to whom an Award is granted under this Plan.

"Performance Award" means an Award hereunder of cash, shares of Common Stock, units or rights based upon, payable in, or otherwise related to, Common Stock pursuant to Section 6.3 hereof.

"Performance Goal" means any of the goals set forth in Section 6.5 hereof.

"***Plan***" means this Validian Corporation 2004 INCENTIVE EQUITY PLAN, as amended from time to time.

"Reload Stock Option" means a Non-qualified Stock Option or an Incentive Stock Option granted pursuant to Section 10.3(c) hereof.

"***Reporting Participant***" means a Participant who is subject to the reporting requirements of Section 16 of the 1934 Act.

"Restricted Stock" means shares of Common Stock issued or transferred to a Participant pursuant to Section 6.3 of this Plan which is subject to restrictions or limitations set forth in this Plan and in the related Award Agreement.

"***Retirement***" means any Termination of Service solely due to retirement upon attainment of age 65, or permitted early retirement as determined by the Committee.

"***Stock Option***" means a Non-qualified Stock Option or an Incentive Stock Option.

"***Subsidiary***" means (i) any corporation in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain, (ii) any limited partnership, if the Company or any corporation described in item (i) above owns a majority of the general partnership interest and a majority of the limited partnership interests entitled to vote on the removal and replacement of the general partner, and (iii) any partnership or limited liability company, if the partners or members thereof are composed only of the Company, any corporation listed in item (i) above or any limited partnership listed in item (ii) above. "***Subsidiaries***" means more than one of any such corporations, limited partnerships, partnerships or limited liability companies.

"***Termination of Service***" occurs when a Participant who is (i) an Employee of the Company or any Subsidiary ceases to serve as an Employee of the Company and its Subsidiaries, for any reason; (ii) an Outside Director of the Company or a Subsidiary ceases to serve as a director of the Company or its Subsidiaries for any reason; or (iii) a Consultant of the Company or a Subsidiary ceases to serve as a Consultant for any reason. Except as may be necessary or desirable to comply with applicable federal or state law, a "Termination of Service" shall not be deemed to have occurred when a Participant who is an Employee becomes an Outside Director or a Consultant or vice versa. If, however, a Participant who is an Employee and who has an Incentive Stock Option ceases to be an Employee but does not suffer a Termination of Service, and if that Participant does not exercise the Incentive Stock Option within the time required under Section 422 of the Code upon ceasing to be an Employee, the Incentive Stock Option shall thereafter become a Nonqualified Stock Option. Notwithstanding the foregoing, in the event an Award issued under the Plan is subject Section 409A of the Code, then, in lieu of the foregoing definition and to the extent necessary to comply with the requirements of Section 409A of the Code and the regulations and other guidance issued thereunder, the definition of "Termination of Service" for purposes of such Award shall be the definition of "separation from service" provided under Section 409A of the Code and the regulations and other guidance issued thereunder.

"***Total and Permanent Disability***" means a Participant is qualified for long-term disability benefits under the Company's disability plan or insurance policy; or, if no such plan or policy is then in existence (or the Participant is not eligible to participate in such plan or policy), that the

Participant, because of ill health, physical or mental disability or any other reason beyond his or her control, is unable to perform his or her duties of employment for a period of six (6) continuous months, as determined in good faith by the Committee; provided that, with respect (i) to any Incentive Stock Option, Total and Permanent Disability shall have the meaning given it under the rules governing Incentive Stock Options under the Code; and (ii) to any other Award that is subject to Section 409A of the Code, Total and Permanent Disability shall have the meaning given to the term "disability" under Section 409A of the Code and the regulations and other guidance issued thereunder.

ARTICLE 3
ADMINISTRATION

The Plan shall be administered by the Board or such committee appointed by the Board (the "**Committee**"). The Committee shall consist of not fewer than two persons. Any member of the Committee may be removed at any time, with or without cause, by resolution of the Board. Any vacancy occurring in the membership of the Committee may be filled by appointment by the Board. At any time there is no Committee to administer the Plan, any reference in this Plan to the Committee shall be deemed to refer to the Board.

Membership on the Committee shall be limited to those members of the Board who are "non-employee directors" as defined in Rule 16b-3 of the Securities Exchange Act of 1934, as amended, and who are "outside directors" under Section 162(m) of the Code. The Committee shall select one of its members to act as its Chairman. A majority of the Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee.

The Committee shall determine and designate from time to time the eligible persons to whom Awards will be granted and shall set forth in each related Award Agreement the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance requirements, as approved by the Committee, but not inconsistent with the Plan. The Committee shall determine whether an Award shall include one type of Incentive, two or more Incentives granted in combination, or two or more Incentives granted in tandem (that is, a joint grant where exercise of one Incentive results in cancellation of all or a portion of the other Incentive). Although the members of the Committee shall be eligible to receive Awards, all decisions with respect to any Award, and the terms and conditions thereof, to be granted under the Plan to any member of the Committee shall be made solely and exclusively by the other members of the Committee, or if such member is the only member of the Committee, by the Board.

The Committee, in its discretion, shall (i) interpret the Plan, (ii) prescribe, amend, and rescind any rules and regulations necessary or appropriate for the administration of the Plan, (iii) establish Performance Goals for an Award and certify the extent of their achievement, and (iv) make such other determinations and take such other action as it deems necessary or advisable in the administration of the Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties.

With respect to restrictions in the Plan that are based on the requirements of Rule 16b-3 promulgated under the 1934 Act, Section 422 of the Code, Section 162(m) of the Code, the rules of any exchange or inter-dealer quotation system upon which the Company's securities are listed or quoted, or any other applicable law, rule or restriction (collectively, "***applicable law***"), to the extent that any such restrictions are no longer required by applicable law, the Committee shall have the sole discretion and authority to grant Awards that are not subject to such mandated restrictions and/or to waive any such mandated restrictions with respect to outstanding Awards.

ARTICLE 4
ELIGIBILITY

Any Employee (including an Employee who is also a director or an officer), Consultant or Outside Director of the Company or any Subsidiary whose judgment, initiative, and efforts contributed or may be expected to contribute to the successful performance of the Company is eligible to participate in the Plan; provided that only Employees shall be eligible to receive Incentive Stock Options. The Committee, upon its own action, may grant, but shall not be required to grant, an Award to any Employee, Consultant or Outside Director of the Company or any Subsidiary. Awards may be granted by the Committee at any time and from time to time to new Participants, or to then Participants, or to a greater or lesser number of Participants, and may include or exclude previous Participants, as the Committee shall determine. Except as required by this Plan, Awards granted at different times need not contain similar provisions. The Committee's determinations under the Plan (including without limitation determinations of which Employees, Consultants or Outside Directors, if any, are to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among Employees and Consultants who receive, or are eligible to receive, Awards under the Plan.

ARTICLE 5
SHARES SUBJECT TO PLAN

5.1 **Number Available for Awards.** Subject to adjustment as provided in **Articles 13** and **14**, the maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan is 6,087,698 shares. Shares to be issued may be made available from authorized but unissued Common Stock, Common Stock held by the Company in its treasury, or Common Stock purchased by the Company on the open market or otherwise. During the term of this Plan, the Company will at all times reserve and keep available the number of shares of Common Stock that shall be sufficient to satisfy the requirements of this Plan. The maximum number of shares of Common Stock that may be delivered pursuant to Awards under the Plan that are Incentive Stock Option grants is three million (3,000,000) shares.

5.2 **Reuse of Shares.** To the extent that any Award under this Plan shall be forfeited, shall expire or be canceled, in whole or in part, then the number of shares of Common Stock covered by the Award or stock option so forfeited, expired or canceled may again be awarded pursuant to the provisions of this Plan. In the event that previously acquired shares of Common Stock are delivered to the Company in full or partial payment of the exercise price for the exercise of a Stock Option granted under this Plan, the number of shares of Common Stock available for future Awards under this Plan shall be reduced only by the net number of shares of Common Stock issued upon the exercise of the Stock Option. Awards that may be satisfied either by the issuance of shares of Common Stock or by cash or other consideration shall be counted against the maximum number of shares of Common Stock that may be issued under this Plan only during the period that the Award is outstanding or to the extent the Award is ultimately satisfied by the issuance of shares of Common Stock. Awards will not reduce the number of shares of Common Stock that may be issued pursuant to this Plan if the settlement of the Award will not require the issuance of shares of Common Stock. Notwithstanding any provisions of the Plan to the contrary, only shares forfeited back to the Company, shares canceled on account of termination, expiration or lapse of an Award, shares surrendered in payment of the exercise price of an option or shares withheld for payment of applicable employment taxes and/or withholding obligations resulting from the exercise of an option shall again be available for grant of Incentive Stock Options under the Plan, but shall not increase the maximum number of shares described in Section 5.1 above as the maximum number of shares of Common Stock that may be delivered pursuant to Incentive Stock Options.

ARTICLE 6
GRANT OF AWARDS

6.1 **In General**. The grant of an Award shall be authorized by the Committee and shall be evidenced by an Award Agreement setting forth the Incentive or Incentives being granted, the total number of shares of Common Stock subject to the Incentive(s), the Option Price (if applicable), the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance objectives, as are approved by the Committee, but (i) not inconsistent with the Plan and (ii) to the extent an Award issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. The Company shall execute an Award Agreement with a Participant after the Committee approves the issuance of an Award. Any Award granted pursuant to this Plan must be granted within five (5) years of the date of adoption of this Plan. The Plan shall be submitted to the Company's stockholders for approval; however, the Committee may grant Awards under the Plan prior to the time of stockholder approval and shall not be effective until the Plan is approved by the stockholders. Any such Award granted prior to such stockholder approval shall be made subject to such stockholder approval. The grant of an Award to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan.

6.2 **Maximum ISO Grants**. The Committee may not grant Incentive Stock Options under the Plan to any Employee which would permit the aggregate Fair Market Value (determined on the Date of Grant) of the Common Stock with respect to which Incentive Stock Options (under this and any other plan of the Company and its Subsidiaries) are exercisable for the first time by such Employee during any calendar year to exceed $100,000. To the extent any Stock Option granted under this Plan, which is designated as an Incentive Stock Option exceeds this limit or otherwise fails to qualify as an Incentive Stock Option, such Stock Option (or any portion thereof) shall be a Non-qualified Stock Option. To the extent any Stock Option granted under this Plan exceeds the limit in this Section, the options which shall qualify as Incentive Stock Options shall be determined by taking the options into account in the order in which they were granted until such maximum limit is reached and any option or portion of an option that becomes exercisable in that year that was granted after such limit was reached shall not be treated as an Incentive Stock Option, but shall be treated as a Non-qualified Stock Option.

6.3 **Restricted Stock.** If Restricted Stock is granted to or received by a Participant under an Award (including a Stock Option), the Committee shall set forth in the related Award Agreement: (i) the number of shares of Common Stock awarded, (ii) the price, if any, to be paid by the Participant for such Restricted Stock and the method of payment of the price, (iii) the time or times within which such Award may be subject to forfeiture, in whole or in part, or the schedule which determines when the Participant earns a vested interest in the shares of Common Stock subject to the Restricted Stock Award (iv) specified Performance Goals of the Company, a Subsidiary, any division thereof or any group of Employees of the Company, or other criteria, which the Committee determines must be met in order to remove any restrictions (including vesting) on such Award, and (v) all other terms, limitations, restrictions, and conditions of the Restricted Stock, which shall be consistent with this Plan and, to the extent an Award issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. The provisions of Restricted Stock need not be the same with respect to each Participant. Each Participant who is awarded or receives Restricted Stock shall be issued a stock certificate or certificates in respect of such shares of Common Stock as such shares vest under the terms of the Award. Such certificate(s) shall be registered in the name of the Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, substantially as provided in Section 17.9 of the Plan.

Shares of Restricted Stock shall be subject to the following restrictions and conditions:

(i) Subject to the other provisions of this Plan and the terms of the particular Award Agreements, during such period as may be determined by the Committee commencing on the Date of Grant or the date of exercise of an Award (the "Restriction Period"), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock. Except for these limitations, the Committee may in its sole discretion, remove any or all of the restrictions on such Restricted Stock whenever it may determine that, by reason of changes in applicable laws or other changes in circumstances arising after the date of the Award, such action is appropriate.

(ii) Except as provided in sub-paragraph (i) above or in the applicable Award Agreement, the Participant shall have, with respect to his or her Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon. Certificates for shares of Common Stock free of restriction under this Plan shall be delivered to the Participant promptly after, and only after, the Restriction Period shall expire without forfeiture in respect of such shares of Common Stock or after any other restrictions imposed on such shares of Common Stock by the applicable Award Agreement or other agreement have expired. Certificates for the shares of Common Stock forfeited under the provisions of the Plan and the applicable Award Agreement shall be promptly returned to the Company by the forfeiting Participant. Each Award Agreement shall require that (x) each Participant, by his or her acceptance of Restricted Stock, shall irrevocably grant to the Company a power of attorney to transfer any shares so forfeited to the Company and agrees to execute any documents requested by the Company in connection with such forfeiture and transfer, and (y) such provisions regarding returns and transfers of stock certificates with respect to forfeited shares of Common Stock shall be specifically performable by the Company in a court of equity or law.

(iii) The Restriction Period of Restricted Stock shall commence on the Date of Grant or the date of exercise of an Award, as specified in the Award Agreement, unless otherwise established by the Committee in the Award Agreement setting forth the terms of the Restricted Stock, shall expire upon satisfaction of the conditions set forth in the Award Agreement; such conditions may provide for vesting based on such Performance Goals, as may be determined by the Committee in its sole discretion.

(iv) Except as otherwise provided in the particular Award Agreement, upon Termination of Service for any reason during the Restriction Period, the nonvested shares of Restricted Stock shall be forfeited by the Participant. In the event a Participant has paid any consideration to the Company for such forfeited Restricted Stock, the Committee shall specify in the Award Agreement that either (i) the Company shall be obligated to, or (ii) the Company may, in its sole discretion, elect to, pay to the Participant, as soon as practicable after the event causing forfeiture, in cash, an amount equal to the lesser of the total consideration paid by the Participant for such forfeited shares or the Fair Market Value of such forfeited shares as of the date of Termination of Service, as the Committee, in its sole discretion shall select. Upon any forfeiture, all rights of a Participant with respect to the forfeited shares of the Restricted Stock shall cease and terminate, without any further obligation on the part of the Company.

6.4 **Performance Awards.**

(a) The Committee may grant Performance Awards to any Participant upon such terms and conditions as shall be specified at the time of the grant and may include provisions establishing the performance period, the Performance Goals to be achieved during a performance period, and the maximum or minimum settlement values, provided that such terms and conditions are (i) not inconsistent with the Plan and (ii) to the extent a Performance Award issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. Each Performance Award shall have its own terms and conditions. If the Committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in the Company's business, operations, corporate structure, or for other reasons that the Committee deemed satisfactory, the Committee may modify the performance measures or objectives and/or the performance period. However, the Committee may not, in any event, increase the number of shares of Common Stock earned by any Executive Officer upon satisfaction of any Performance Goal. Performance Awards may be valued by reference to the Fair Market Value of a share of Common Stock or according to any formula or method deemed appropriate by the Committee, in its sole discretion, including, but not limited to, achievement of Performance Goals or other specific financial, production, sales or cost performance objectives that the Committee believes to be relevant to the Company's business and/or remaining in the employ of the Company for a specified period of time. Performance Awards may be paid in cash, shares of Common Stock, or other consideration, or any combination thereof. If payable in shares of Common Stock, the consideration for the issuance of such shares may be the achievement of the performance objective established at the time of the grant of the Performance Award. If the Performance Award is to be in shares of Common Stock, the Performance Awards may provide for the issuance of the shares of Common Stock at the time of the grant of the Performance Award or at the time of the certification by the Committee that the Performance Goals for the performance period have been met; provided, however, if shares of Common Stock are issued at the time of the grant of the Performance Award and if, at the end of the performance period, the Performance Goals are not certified by the Committee to have been fully satisfied, then, notwithstanding any other provisions of this Plan to the contrary, the Common Stock shall be forfeited in accordance with the terms of the grant to the extent the Committee determines that the Performance Goals were not met. The forfeiture of shares of Common Stock issued at the time of the grant of the Performance Award due to failure to achieve the established Performance Goals shall be separate from and in addition to any other restrictions provided for in this Plan that may be applicable to such shares of Common Stock. Performance Awards may be payable in a single payment or in installments and may be payable at a specified date or dates or upon attaining the performance objective. The extent to which any applicable performance objective has been achieved shall be conclusively determined by the Committee.

If it is determined to be necessary in order to satisfy Section 162(m) of the Code, at the time of the grant of a Performance Award (other than a Stock Option) and to the extent permitted under Section 162(m) of the Code and the regulations issued thereunder, the Committee shall provide for the manner in which the Performance Goals shall be reduced to take into account the negative effect on the achievement of specified levels of the Performance Goals which may result from enumerated corporate transactions, extraordinary events, accounting changes and other similar occurrences which were unanticipated at the time the Performance Goal was initially established. In no event, however, may the Committee increase the amount earned under a Performance Award, unless the reduction in the Performance Goals would reduce or eliminate the amount to be earned under the Performance Award and the Committee determines not to make such reduction or elimination.

With respect to a Performance Award that is not intended to satisfy the requirements of Code Section 162(m), if the Committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in the Company's business, operations, corporate structure, or for other reasons that the Committee deemed satisfactory, the Committee may modify the performance measures or objectives and/or the performance period.

(b) Notwithstanding the foregoing, in order to comply with the requirements of Section 162(m) of the Code, no Participant may receive in any calendar year Performance Awards which have an aggregate value of more than $100,000, and if such Performance Awards involve the issuance of shares of Common Stock, said aggregate value shall be based on the Fair Market Value of such shares on the time of the grant of the Performance Award.

6.5 **Maximum Individual Grants**. No participant may receive during any calendar year of the Company Awards covering an aggregate of more than one million five hundred thousand (1,500,000) shares of Common Stock.

6.6 **Performance Goals.** Awards of Restricted Stock, Performance Awards and Other Awards (whether relating to cash or shares of Common Stock) under the Plan may be made subject to the attainment of Performance Goals relating to one or more business criteria, which, where applicable, shall be within the meaning of Section 162(m) of the Code, and consist of one or more or any combination of the following criteria: cash flow; cost; ratio of debt to debt plus equity; profit before tax; economic profit; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings per share; operating earnings; economic value added; ratio of operating earnings to capital spending; free cash flow; net profit; net sales; sales growth; price of the Company's Common Stock; return on net assets, equity or stockholders' equity; market share; or total return to stockholders ("Performance Criteria"). Any Performance Criteria may be used to measure the performance of the Company as a whole or any business unit of the Company and may be measured relative to a peer group or index. Any Performance Criteria may include or exclude (i) extraordinary, unusual and/or non-recurring items of gain or loss, (ii) gains or losses on the disposition of a business, (iii) changes in tax or accounting regulations or laws, or (iv) the effect of a merger or acquisition, as identified in the Company's quarterly and annual earnings releases. In all other respects, Performance Criteria shall be calculated in accordance with the Company's financial statements, under generally accepted accounting principles, or under a methodology established by the Committee prior to the issuance of an Award which is consistently applied and identified in the audited financial statements, including footnotes, or the Compensation Discussion and Analysis section of the Company's annual report. However, to the extent Section 162(m) of the Code is applicable, the Committee may not in any event increase the amount of compensation payable to an individual upon the attainment of a Performance Goal.

6.7 **Tandem Awards**. The Committee may grant two or more Incentives in one Award in the form of a "***tandem award***," so that the right of the Participant to exercise one Incentive shall be canceled if, and to the extent, the other Incentive is exercised.

ARTICLE 7
OPTION PRICE

The Option Price for a Non-qualified Stock Option shall be such price as determined by the Committee; provided, however, such Option Price shall not be less than the Fair Market Value of such shares as of the Date of Grant. The Option Price for an Incentive Stock Option shall be at least one hundred percent (100%) of the Fair Market Value of the share on the Date of Grant. If an Incentive Stock Option is granted to an Employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company (or any parent or Subsidiary), the Option Price shall be at least one hundred and ten percent (110%) of the Fair Market Value of the Common Stock on the Date of Grant.

ARTICLE 8
AWARD PERIOD; VESTING

8.1 **Award Period**. Subject to the other provisions of this Plan, the Committee may, in its discretion, provide that an Incentive may not be exercised in whole or in part for any period or periods of time or beyond any date specified in the Award Agreement. Except as provided in the Award Agreement, an Incentive may be exercised in whole or in part at any time during its term. The Award Period for an Incentive shall be reduced or terminated upon Termination of Service in accordance with this **Article 8** and **Article 9**. No Incentive granted under the Plan may be exercised at any time after the end of its Award Period. No portion of any Incentive may be exercised after the expiration of five (5) years from its Date of Grant. However, if an Employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company (or any parent or Subsidiary) and an Incentive Stock Option is granted to such Employee, the term of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no more than five (5) years from the Date of Grant.

8.2 **Vesting**. The Committee, in its sole discretion, may determine that an Incentive will be immediately vested and exercisable, in whole or in part, or that all or any portion may not be vested or exercised until a date, or dates, subsequent to its Date of Grant, or until the occurrence of one or more specified events, subject in any case to the terms of the Plan. If the Committee imposes conditions upon vesting or exercise, then subsequent to the Date of Grant, the Committee may, in its sole discretion, accelerate the date on which all or any portion of the Incentive may be vested or exercised.

ARTICLE 9
TERMINATION OF SERVICE

In the event of Termination of Service of a Participant, an Incentive may only be exercised as determined by the Committee and provided in the Award Agreement.

ARTICLE 10
EXERCISE OF INCENTIVE

10.1 **In General**. A vested Incentive may be exercised during its Award Period, subject to limitations and restrictions set forth therein and in Articles 8 and 9. A vested Incentive may be exercised at such times and in such amounts as provided in this Plan and the applicable Award Agreement, subject to the terms, conditions, and restrictions of the Plan.

10.2 **Securities Law and Exchange Restrictions.** In no event may an Incentive be exercised or shares of Common Stock be issued pursuant to an Award if a necessary listing or quotation of the shares of Common Stock on a stock exchange or inter-dealer quotation system or any registration under state or federal securities laws required under the circumstances has not been accomplished. No Incentive may be exercised for a fractional share of Common Stock. The granting of an Incentive shall impose no obligation upon the Participant to exercise that Incentive.

10.3 **Exercise of Stock Option.**

(a) In General. If a Stock Option is exercisable prior to the time it is vested, the Common Stock obtained on the exercise shall be Restricted Stock which is subject to the applicable provisions of the Plan and the Award Agreement. If the Committee imposes conditions upon exercise, then subsequent to the Date of Grant, the Committee may, in its sole discretion, accelerate the date on which all or any portion of the Stock Option may be exercised.

(b) Notice and Payment. Subject to such administrative regulations as the Committee may from time to time adopt, a 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 and 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: (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 and which the Participant has not acquired from the Company within six (6) months prior to the Exercise Date, (c) by delivery (including by FAX) 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. In the event that shares of Restricted Stock are tendered as consideration for the exercise of a Stock Option, a number of shares of Common Stock issued upon the exercise of the Stock Option equal to the number of shares of Restricted Stock used as consideration therefore shall be subject to the same restrictions and provisions as the Restricted Stock so tendered.

(c) Reload Stock Options. In the event that shares of Common Stock are delivered by a Participant in payment of all or a portion of the exercise price of a Stock Option as set forth in Section 10.3(b) above and/or shares of Common Stock are delivered to or withheld by the Company in satisfaction of the Company's tax withholding obligations upon exercise in accordance with Section 17.6 hereof, then, subject to Article 10 hereof, the Committee may authorize the automatic grant to a Participant so exercising a Nonqualified Stock Option, a replacement Nonqualified Stock Option, and to a Participant so exercising an Incentive Stock Option, a replacement Incentive Stock Option (in either case, a "Reload Stock Option"), to purchase that number of shares so delivered to or withheld by the Company, as the case may be, at an option exercise price equal to the Fair Market Value per share of the Common Stock on the date of exercise of the original Stock Option (subject to the provisions of the Plan regarding Incentive Stock Options and, in any event not less than the par value per share of the Common Stock). The option period for a Reload Stock Option will commence on its Date of Grant and expire on the expiration date of the original Stock Option it replaces (subject to the provisions of the Plan regarding Incentive Stock Options), after which period the Reload Stock Option cannot be exercised. The Date of Grant of a Reload Stock Option shall be the date that the Stock Option it replaces is exercised. A Reload Stock Option shall automatically vest and be exercisable in full after the expiration of six (6) months from its Date of Grant. It shall be a condition to the grant of a Reload Stock Option that promptly after its Date of Grant, a stock option agreement shall be delivered to the Participant and executed by the Participant and the Company which sets forth the total number of shares subject to the Reload Stock Option, the option exercise price, the option period of the Reload Stock Option and such other terms and provisions as are consistent with the Plan.

(d) Issuance of Certificate. Except as otherwise provided in Section 6.3 hereof (with respect to shares of Restricted Stock) or in the applicable Award Agreement upon payment of all amounts due from the Participant, the Company shall cause certificates for the Common Stock then being purchased to be delivered as directed by 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; provided that if the Participant has exercised an Incentive Stock Option, the Company may at its option retain physical possession of the certificate evidencing the shares acquired upon exercise until the expiration of the holding periods described in Section 422(a)(1) of the Code. The obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration, or qualification of the Stock Option or the Common Stock upon any securities exchange or inter-dealer quotation system 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, 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 acceptable to the Committee.

(e) Failure to Pay. If the Participant fails to pay for any of the Common Stock specified in such notice or fails to accept delivery thereof, the Participant's right to purchase such Common Stock may be terminated by the Company.

10.4 **Disqualifying Disposition of ISO**. If shares of Common Stock acquired upon exercise of an Incentive Stock Option are disposed of by a Participant prior to the expiration of either two (2) years from the Date of Grant of such Stock Option or one (1) year from the transfer of shares of Common Stock to the Participant pursuant to the exercise of such Stock Option, or in any other disqualifying disposition within the meaning of Section 422 of the Code, such Participant shall notify the Company in writing of the date and terms of such disposition. A disqualifying disposition by a Participant shall not affect the status of any other Stock Option granted under the Plan as an Incentive Stock Option within the meaning of Section 422 of the Code.

ARTICLE 11
AMENDMENT OR DISCONTINUANCE

Subject to the limitations set forth in this **Article 11**, the Board may at any time and from time to time, without the consent of the Participants, alter, amend, revise, suspend, or discontinue the Plan in whole or in part; provided, however, that no amendment for which stockholder approval is required either (i) by any securities exchange or inter dealer quotation system on which the Common Stock is listed or traded or (ii) which requires stockholder approval in order for the Plan and Incentives awarded under the Plan to continue to comply with Section 162(m), 421 and 422 of the Code, including any successors to such Sections, or other applicable law, shall be effective unless such amendment shall be approved by the requisite vote of the stockholders of the Company entitled to vote thereon. Any such amendment shall, to the extent deemed necessary or advisable by the Committee, be applicable to any outstanding Incentives theretofore granted under the Plan, notwithstanding any contrary provisions contained in any Award Agreement. In the event of any such amendment to the Plan, the holder of any Incentive outstanding under the Plan shall, upon request of the Committee and as a condition to the exercisability thereof, execute a conforming amendment in the form prescribed by the Committee to any Award Agreement relating thereto. Notwithstanding anything contained in this Plan to the contrary, unless required by law, no action contemplated or permitted by this **Article 11** shall adversely affect any rights of Participants or obligations of the Company to Participants with respect to any Incentive theretofore granted under the Plan without the consent of the affected Participant.

ARTICLE 12
TERM

The Plan shall be effective from the date that this Plan is approved by the Board. Unless sooner terminated by action of the Board, the Plan will terminate on January 1, 2011, but Incentives granted before that date will continue to be effective in accordance with their terms and conditions.

ARTICLE 13
CAPITAL ADJUSTMENTS

If at any time while the Plan is in effect, or Incentives are outstanding, there shall be any increase or decrease in the number of issued and outstanding shares of Common Stock resulting from (1) the declaration or payment of a stock dividend, (2) any recapitalization resulting in a stock split-up, combination, or exchange of shares of Common Stock, or (3) other increase or decrease in such shares of Common Stock effected without receipt of consideration by the Company, then and in such event:

(i) An appropriate adjustment shall be made in the maximum number of shares of Common Stock then subject to being awarded under the Plan and in the maximum number of shares of Common Stock that may be awarded to a Participant to the end that the same proportion of the Company's issued and outstanding shares of Common Stock shall continue to be subject to being so awarded.

(ii) Appropriate adjustments shall be made in the number of shares of Common Stock and the Option Price thereof then subject to purchase pursuant to each such Stock Option previously granted and unexercised, to the end that the same proportion of the Company's issued and outstanding shares of Common Stock in each such instance shall remain subject to purchase at the same aggregate Option Price.

Except as otherwise expressly provided herein, the issuance by the Company of shares of its capital stock of any class, or securities convertible into shares of capital stock of any class, either in connection with direct sale or upon the exercise of rights or warrants to subscribe therefore, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to the number of or Option Price of shares of Common Stock then subject to outstanding Stock Options granted under the Plan.

Upon the occurrence of each event requiring an adjustment with respect to any Incentive, the Company shall mail to each affected Participant its computation of such adjustment which shall be conclusive and shall be binding upon each such Participant.

ARTICLE 14
RECAPITALIZATION, MERGER AND CONSOLIDATION

The existence of this Plan and Incentives granted hereunder shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, Change of Control or other changes in the Company's capital structure and its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

Subject to any required action by the stockholders and except as may be required to comply with Section 409A of the Code and the regulations or other guidance issued thereunder, if the Company shall be the surviving or resulting corporation in any reorganization, merger, consolidation or share exchange, any Incentive granted hereunder shall pertain to and apply to the securities or rights (including cash, property, or assets) to which a holder of the number of shares of Common Stock subject to the Incentive would have been entitled. Notwithstanding the foregoing, however, all such Incentives may be canceled by the Company as of the effective date of any such reorganization, merger, consolidation or share exchange by giving notice to each holder thereof or his personal representative of its intention to do so and by permitting the purchase during the thirty (30) day period next preceding such effective date of all of the shares of Common Stock subject to such outstanding Incentives.

Except as may be required to comply with Section 409A of the Code and the regulations or other guidance issued thereunder, in the event of any reorganization, merger, consolidation or share exchange pursuant to which the Company is not the surviving or resulting corporation, there shall be substituted for each share of Common Stock subject to the unexercised portions of such outstanding Incentives, that number of shares of each class of stock or other securities or that amount of cash, property, or assets of the surviving, resulting or consolidated company which were distributed or distributable to the stockholders of the Company in respect to each share of Common Stock held by them, such outstanding Incentives to be thereafter exercisable for such stock, securities, cash, or property in accordance with their terms.

Notwithstanding the foregoing, however, all such Incentives may be canceled by the Company, in its sole discretion, as of the effective date of any such Change of Control, reorganization, merger, consolidation, or share exchange, or of any proposed sale of all or substantially all of the assets of the Company, or of any dissolution or liquidation of the Company, by either:

(a) giving notice to each holder thereof or his personal representative of its intention to cancel those Incentives for which the issuance of shares of Common Stock involved payment by the Participant for such shares and, permitting the purchase during the thirty (30) day period next preceding such effective date of any or all of the shares of Common Stock subject to such outstanding Incentives, including in the Board's discretion some or all of the shares as to which such Incentives would not otherwise be vested and exercisable; or

(b) in the case of Incentives that are either (i) settled only in shares of Common Stock, or (ii) at the election of the Participant, settled in shares of Common Stock, paying the holder thereof an amount equal to a reasonable estimate of the difference between the net amount per share payable in such transaction or as a result of such transaction, and the price per share of such Incentive to be paid by the Participant (hereinafter the "Spread"), multiplied by the number of shares subject to the Incentive. In cases where the shares constitute, or would after exercise, constitute Restricted Stock, the Company, in its discretion may include some or all of those shares in the calculation of the amount payable hereunder. In estimating the Spread, appropriate adjustments to give effect to the existence of the Incentives shall be made, such as deeming the Incentives to have been exercised, with the Company receiving the exercise price payable thereunder, and treating the shares receivable upon exercise of the Incentives as being outstanding in determining the net amount per share. In cases where the proposed transaction consists of the acquisition of assets of the Company, the net amount per share shall be calculated on the basis of the net amount receivable with respect to shares of Common Stock upon a distribution and liquidation by the Company after giving effect to expenses and charges, including but not limited to taxes, payable by the Company before such liquidation could be completed.

(c) An Award that by its terms would be fully vested or exercisable upon a Change of Control will be considered vested or exercisable for purposes of Article 14.

ARTICLE 15
LIQUIDATION OR DISSOLUTION

In case the Company shall, at any time while any Incentive under this Plan shall be in force and remain unexpired, (i) sell all or substantially all of its property, or (ii) dissolve, liquidate, or wind up its affairs, then each Participant shall be thereafter entitled to receive, in lieu of each share of Common Stock of the Company which such Participant would have been entitled to receive under the Incentive, the same kind and amount of any securities or assets as may be issuable, distributable, or payable upon any such sale, dissolution, liquidation, or winding up with respect to each share of Common Stock of the Company. If the Company shall, at any time prior to the expiration of any Incentive, make any partial distribution of its assets, in the nature of a partial liquidation, whether payable in cash or in kind (but excluding the distribution of a cash dividend payable out of earned surplus and designated as such) then in such event the Option Prices then in effect with respect to each Stock Option shall be reduced, on the payment date of such distribution, in proportion to the percentage reduction in the tangible book value of the shares of the Company's Common Stock (determined in accordance with generally accepted accounting principles) resulting by reason of such distribution.

ARTICLE 16
INCENTIVES IN SUBSTITUTION
FOR INCENTIVES GRANTED BY OTHER CORPORATIONS

Incentives may be granted under the Plan from time to time in substitution for similar instruments held by employees of a corporation who become or are about to become management Employees of the Company or any Subsidiary as a result of a merger or consolidation of the employing corporation with the Company or the acquisition by the Company of stock of the employing corporation. The terms and conditions of the substitute Incentives so granted may vary from the terms and conditions set forth in this Plan to such extent as the Board at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the Incentives in substitution for which they are granted.

ARTICLE 17
MISCELLANEOUS PROVISIONS

17.1 **Investment Intent**. The Company may require that there be presented to and filed with it by any Participant under the Plan, such evidence as it may deem necessary to establish that the Incentives granted or the shares of Common Stock to be purchased or transferred are being acquired for investment and not with a view to their distribution.

17.2 **No Right to Continued Employment**. Neither the Plan nor any Incentive granted under the Plan shall confer upon any Participant any right with respect to continuance of employment by the Company or any Subsidiary.

17.3 **Indemnification of Board and Committee**. No member of the Board or the Committee, nor any officer or Employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Committee and each and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation.

17.4 **Effect of the Plan**. Neither the adoption of this Plan nor any action of the Board or the Committee shall be deemed to give any person any right to be granted an Award or any other rights except as may be evidenced by an Award Agreement, or any amendment thereto, duly authorized by the Committee and executed on behalf of the Company, and then only to the extent and upon the terms and conditions expressly set forth therein.

17.5 **Compliance With Other Laws and Regulations**. Notwithstanding anything contained herein to the contrary, the Company shall not be required to sell or issue shares of Common Stock under any Incentive if the issuance thereof would constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including without limitation Section 16 of the 1934 Act and Section 162(m) of the Code); and, as a condition of any sale or issuance of shares of Common Stock under an Incentive, the Committee may require such agreements or undertakings, if any, as the Committee may deem necessary or advisable to assure compliance with any such law or regulation. The Plan, the grant and exercise of Incentives hereunder, and the obligation of the Company to sell and deliver shares of Common Stock, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.

17.6 **Tax Requirements**. The Company or if applicable, any Subsidiary (for purposes of this Section 17.6, 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, or local taxes required by law to be withheld with respect to such payments. The Participant receiving shares of Common Stock issued under the Plan shall be required to pay the Company the amount of any taxes which the Company is required to withhold with respect to such shares of Common Stock. Notwithstanding the foregoing, in the event of an assignment of a Non-qualified Stock Option pursuant to Section 17.7, the Participant who assigns the Non-qualified Stock Option shall remain subject to withholding taxes upon exercise of the Non-qualified Stock Option by the transferee to the extent required by the Code or the rules and regulations promulgated thereunder. Such payments shall be required to be made prior to the delivery of any certificate representing such shares of Common Stock. Such payment may be made in cash, by check, or through the delivery of shares of Common Stock owned by the Participant (which may be effected by the actual delivery of shares of Common Stock by the Participant that the Participant has not acquired from the Company within six (6) months prior to the Exercise Date, or by the Company's withholding a number of shares to be issued upon the exercise of a Stock Option, if applicable), which shares have an aggregate Fair Market Value equal to the required minimum withholding payment, or any combination thereof.

17.7 **Assignability**. Incentive Stock Options may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution and may be exercised during the lifetime of the Participant only by the Participant or the Participant's legally authorized representative, and each Award Agreement in respect of an Incentive Stock Option shall so provide. The designation by a Participant of a beneficiary will not constitute a transfer of the Stock Option. The Committee may waive or modify any limitation contained in the preceding sentences of this Section 17.7 that is not required for compliance with Section 422 of the Code. The Committee may, in its discretion, authorize all or a portion of a Non-qualified Stock Option to be granted to a Participant to be on terms which permit transfer by such Participant to (i) the spouse, children or grandchildren of the Participant ("***Immediate Family Members***"), (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members, or (iii) a partnership in which such Immediate Family Members are the only partners, (iv) an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision, or (v) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, provided that (x) there shall be no consideration for any such transfer, (y) the Award Agreement pursuant to which such Non-qualified Stock Option is granted must be approved by the Committee and must expressly provided for transferability in a manner consistent with this Section, and (z) subsequent transfers of transferred Non-qualified Stock Options shall be prohibited except those by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended. Following transfer, any such Non-qualified Stock Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of **Articles 10, 11, 13, 15** and **17** hereof the term "***Participant***" shall be deemed to include the transferee. The events of Termination of Service shall continue to be applied with respect to the original Participant, following which the Non-qualified Stock Options shall be exercisable by the transferee only to the extent and for the periods specified in the Award Agreement. The Committee and the Company shall have no obligation to inform any transferee of a Non-qualified Stock Option of any expiration, termination, lapse or acceleration of such Option. The Company shall have no obligation to register with any federal or state securities commission or agency any Common Stock issuable or issued under a Non-qualified Stock Option that has been transferred by a Participant under this Section 17.7.

17.8 **Use of Proceeds**. Proceeds from the sale of shares of Common Stock pursuant to Incentives granted under this Plan shall constitute general funds of the Company.

A copy of this Plan shall be kept on file in the office of the Company at 30 Metcalfe St, Suite 620, Ottawa, Ontario, Canada or any successor location of the Company's principal executive offices.

17.9 **Legend.** Each certificate representing shares of Restricted Stock issued to a Participant shall bear the following legend, or a similar legend deemed by the Company to constitute an appropriate notice of the provisions hereof (any such certificate not having such legend shall be surrendered upon demand by the Company and so endorsed):

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 2004 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 pledgee 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."

A copy of this Plan shall be kept on file in the principal office of the Company in Atlanta, Georgia.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its duly authorized representative pursuant to prior action taken by the Board.

Validian Corporation

By: /s/Bruce Benn____________
Name: Bruce Benn
Title: President and CEO

Exhibit 31.1

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

I, Bruce Benn, of Validian Corporation, certify that:

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

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

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the small business issuer as of, and for, the periods presented in this report;

(4) The small business issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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 reasonably likely to materially affect, the small business issuer’s internal control over financial reporting; and

(5) The small business issuer’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer’s auditors and the audit committee of the small business issuer’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: April 14, 2008

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

Exhibit 31.2

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

I, Ronald Benn, of Validian Corporation, certify that:

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

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

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the small business issuer as of, and for, the periods presented in this report;

(4) The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

(5) The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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: April 14, 2008

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

Exhibit 32.1

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

Pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Executive Officer of Validian Corporation (the "Corporation"), hereby certify that, to the best of my knowledge, the Annual Report on Form 10-KSB of the Corporation for the year ended December 31, 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 the operation of the Corporation 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-KSB pursuant to Item 601(b)(32) of Regulation S-B and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-KSB for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Date: April 14, 2008

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

Exhibit 32.2

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

Pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Financial Officer of Validian Corporation (the "Corporation"), hereby certify that, to the best of my knowledge, the Annual Report on Form 10-KSB of the Corporation for the year ended December 31, 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 the operation of the Corporation 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-KSB pursuant to Item 601(b)(32) of Regulation S-B and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-KSB for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Date: April 14, 2008

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