VALIDIAN CORP
Form 10-K
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 **For the fiscal year ended December 31, 2011**
	OR
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ________ to ________

VALIDIAN CORPORATION

(Name of registrant as specified 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)

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

(Address of principal executive offices) (Zip Code)

Registrant 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 registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes o No þ

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

Check whether the registrant (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 þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactice Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o 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-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ

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

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 ($0.02) and asked ($0.02) price of the registrant’s Common Stock as of June 30, 2011, the last business day of the registrant s most recently completed second fiscal quarter, was $1,890,758, based upon the average between the closing bid and asked price ($0.02) multiplied by the 94,537,914 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 registrant.)

The number of shares outstanding of each of registrant s classes of common equity as of April 9, 2012: 151,724,724.

DOCUMENTS INCORPORATED BY REFERENCE: None.

SEC 2337 (3-10) **Persons who potentially are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

VALIDIAN CORPORATION

Form 10-K

December 31, 2011

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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:

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

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our business and growth strategies;

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our technology;

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the Internet; and

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our financing plans.

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

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our limited operating history;

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our lack of sales to date;

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our future requirements for additional capital funding;

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the failure of our technology and products to perform as specified;

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the discontinuance of growth in the use of the Internet;

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the enactment of new adverse government regulations; and

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the development of better technology and products by others.

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

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"Part I. Item 1. Description of Business" especially the disclosures set out under the heading "Risk Factors"; and

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"Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations"

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.

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PART I

Item 1. Description of Business.

Summary

Validian Corporation provides software products to assist public and private enterprises address the increasingly complex issues surrounding the protection of digital information and application security. Validian Protect is a software only system that enables secure remote storage, access and transfer of digital information with variable compression on wired or wireless networks over the Internet, and helps to protect mission-critical applications against hack attacks and unauthorized access, which often occur at the application. Validian Protect makes secure data exchange among applications, including distributed applications, straightforward and affordable for any organization, regardless of size and resources. Validian Protect 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.

Our Intellectual Property

Our intellectual property includes an addressing scheme, an authentication process and a key exchange process for all parties and end points 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. It also enables IT managers on demand to change encryption algorithms, keys, key life time and level of compression and to distribute these automatically, immediately and transparently to all end points without having to re-develop or re-install the software.

Our technology provides benefits, by enabling users:

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to integrate security and transport in all communication and document exchanges through an integrated approach; and

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to develop and use existing interactive, distributed applications (like e-commerce, e-banking, e-health and e-loyalty) with an integrated security model; and

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to dynamically change and distribute to all end points encryption algorithms, keys, key life time and level of compression, without having to re-develop or re-install the software.

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:

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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

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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:

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health care providers and suppliers;

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governments;

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post-production houses, studios and production companies in the digital media industry;

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transportation industry;

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manufacturers in supply management chains;

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financial institutions and insurance companies; and

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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.

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Marketing Analysis

During the year ended December 31, 2011, 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:

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security;

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features and benefits;

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integration into current systems;

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openness of the architecture;

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future developments; and

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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. At March 31, 2012 we had two sales representatives.

Marketing Expenses

The main expense factors for our marketing campaign are for:

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personnel, both internal and outside specialists;

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direct marketing to potential customers;

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participation in trade shows;

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travel and living expenses;

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web site development and maintenance; and

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literature preparation and distribution.

For more information, please see "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Products

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

Validian Protect (previously known as Application Security Infrastructure (ASI))

Our Validian Protect is an application security middleware for securing data transport between distributed applications and Web services. Validian Protect is specifically designed to enable secure storage, access and transfer of digital information on wired and wireless networks over the Internet, including 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. Validian Protect 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 Validian Protect product, we offer a Software Development Kit (SDK), for rapidly and simply securing data transport between applications through Validian Protect. The SDK includes a

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complete, integrated and built-in set of control, transport and security features, which are automatically inherited by any applications linked to Validian Protect 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 Validian Protect 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.

Validian ShareProtect (previously known as Secure Send and Receive (SSR))

Our ShareProtect 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 ShareProtect protects file exchanges against malicious interference, interception by rogue applications and unwanted leaks.

Validian MedicalProtect

Our MedicalProtect product is designed and developed specifically to provide secure remote storage, access and transfer of digital medical health and medical records, information and files and thereby prevent hacking, theft and improper access of this digital information.

Our MedicalProtect solution enables the eHealth industry including hospitals, clinics, emergency responders, laboratories, research facilities and their professionals and administrators to handle health and medical digital information securely, including storage, remote access, transfer of large files and sharing across communities, including:

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to authenticate health, medical and insurance professionals and staff using fingerprint signatures;

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to store health and medical records, information and files in encrypted form on portable media storage drives;

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to transfer encrypted media files of any size and any format between authenticated doctors, workers and/or personnel across the Internet;

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to track health and medical file activity such as create, rename, modify, transfer and delete, transparently and in real-time over the Internet; and

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to set universal policies which govern security and tracking levels applied on a per patient or project basis.

Validian MediaProtect (previously known as   Biometric Media Seal (BMS)   )

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

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to authenticate project workers using fingerprint signatures;

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to store media files in encrypted form on portable media storage drives;

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to transfer encrypted media files of any size and any format between authenticated workers and/or reviewers across the Internet;

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to track media file activity such as create, rename, modify, transfer and delete, transparently and in real-time over the Internet; and

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to set universal policies which govern security and tracking levels applied on a per project basis.

Competition

There are different competitors for the Validian Protect, ShareProtect, MedicalProtect and MediaProtect markets.

Validian Protect competition

Our Validian Protect 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 no-one 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 a wide range of suppliers 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.

ShareProtect 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.

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MedicalProtect Competition

We are not aware of an integrated solution featuring biometric access control and file tracking and logging.

MediaProtect 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,	
2011	**2010**
$125,661	$115,407

For more information, see: "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results 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, and have registered several trademarks in North America and in Europe.

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 may file patent applications as we extend the development of our current technology, or as we develop new technology. We have defined migration paths for the various products and developed schedules for that migration. This defines the requirement for patent, trademarks and copyright protection, which we may 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.

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Employees

As at December 31, 2011, we had seven employees and contractual personnel, including one executive officer, two sales and marketing staff, three in research and development and one in administration. Six are located in Ottawa, Canada and one is located in Memphis, TN. We also regularly engage technical consultants and independent contractors to provide specific advice or to perform certain marketing or technical tasks.

Item 1A. 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 $2,278,744 and negative cash flow from operations of $299,165 during the year ended December 31, 2011. During the year ended December 31, 2010, we incurred a net loss of $1,358,341 and negative cash flow from operations of $367,000. 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 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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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 7. Management's Discussion of Financial Condition and Results of Operation. 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 products and 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 products and 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 products and 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

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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 filed a patent application covering certain aspects of our products in the United States, Canada and the European Union. 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.

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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:

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new technology or products introduced by us or by our competitors;

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the timing and uncertainty of sales cycles and seasonal declines in sales;

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our success in marketing and market acceptance of our products and services by our existing customers and by new customers;

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a decrease in the level of spending for information technology-related products and services by our existing and potential customers; and

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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

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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:

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unexpected changes in regulatory requirements, export and import restrictions;

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controls relating to encryption technology that may limit sales in the future;

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legal uncertainty regarding liability and compliance with foreign laws;

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competition with foreign companies or other domestic companies entering into the foreign markets in which we operate;

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tariffs and other trade barriers and restrictions;

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difficulties in staffing and managing foreign operations;

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longer sales and payment cycles;

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problems in collecting accounts receivable;

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political instability;

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fluctuations in currency exchange rates;

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software piracy;

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seasonal reductions in business activity during the summer months in Europe and elsewhere; and

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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:

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our quarterly results of operations;

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the variance between our actual quarterly results of operations and predictions by stock analysts;

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financial predictions and recommendations by stock analysts concerning Internet companies and companies competing in our market in general, and concerning us in particular;

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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;

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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.

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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:

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investors may have difficulty buying and selling or obtaining market quotations;

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market visibility for our common stock may be limited; and

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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 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, 2012, we have outstanding options to purchase a total of 7,700,000 shares of our common stock, all of which have exercise prices at or above the recent market price of $0.02 per share (as of March 31, 2012). 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 7,302 shares remaining for issuance as of March 31, 2012, the second of which had 2,292,698 shares remaining for issuance as of March 31, 2012. 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, 2012, we had outstanding 151,652,724 shares of our common stock, of which approximately 26,128,468 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

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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;

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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:

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whose prices are not quoted on the NASDAQ automated quotation system ; or

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of issuers with net tangible assets less than:

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$2,000,000 if the issuer has been in continuous operation for at least three years; or

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$5,000,000 if in continuous operation for less than three years, or

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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:

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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.

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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 officer and director, 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, 2012, our current executive officer and director, 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 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.

Certain of our debt instruments are secured.

Certain of our 10% senior convertible notes are secured by a general assignment of all of the assets of the Company, and also provide collateral to the note holder. The security agreements further provide that in the event of a default, the secured party would have the right to take possession of the collateral and operate the Company. As of March 31, 2012, all of the 10% senior convertible notes are in default. If the secured parties were to choose to exercise their rights in accordance with the security agreements, we could lose ownership and or control over our assets, which could have a negative effect on our business operations and the trading price of our common stock.

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.

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We performed an assessment of our internal controls and our assessment has identified the existence of material weakness in internal controls. In particular, the following weaknesses in our internal control system were identified: (1) a lack of segregation of duties; (2) the lack of timely preparation of certain back up schedules; (3) finance staff s lack of sufficient technical accounting knowledge; (4) a lack of independent Board oversight; and (5) signing authority with respect to corporate bank accounts. 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.

Material weakness in our internal control over financial reporting require Validian to perform additional analyses and post-closing procedures that, if not performed effectively, may prevent Validian from reporting its financial results in an accurate and timely manner.

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. 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, due to the limitations imposed by our size and resultant inadequate staffing, as is more fully described under Item 9a. Controls and Procedures . We expect to devote substantial time and to incur costs to implement appropriate controls and procedures to ensure compliance, at such time as our size permits us to do so. 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 6 Gurdwara Rd., Suite 100, Ottawa, Canada, K2E 8A3. 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 per oral arrangement on a month-by-month basis . The lease provides shared access to and use of 2,500 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.

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Item 3. Legal Proceedings.

During 2010, the Company entered into legal proceedings against Mobile Secure, Inc. over the failure of Mobile Secure, Inc. to deliver certain software it had contracted with the Company to develop and deliver versus payment of the balance of the contracted amount to be paid to Mobile Secure, Inc. by the Company against that delivery to, and testing and acceptance by, the Company.

Item 4. Mine Safety Disclosures

Not applicable.

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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 Market QB and 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 Market QB and 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**
2010		
January 1 to March 31	0.04	0.023
April 1 to June 30	0.0345	0.011
July 1 to September 30	0.021	0.01
October 1 to December 31	0.025	0.012
2011		
January 1 to March 31	0.044	0.015
April 1 to June 30	0.039	0.0123
July 1 to September 30	0.065	0.02
October 1 to December 31	0.035	0.01
2012		
January 1 to March 31	0.044	0.018

On March 31, 2012, the closing price of our common stock was $0.0218 per share.

(b)

Holders -- There were approximately 207 holders of record of our common stock as of March 31, 2012, 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, 2012 was 151,652,724 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, 2011, we issued the following:

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824,742 shares of our common stock to an accredited investor pursuant to the conversion on November 4, 2011 of $8,000.00 in principal amount of our convertible promissory notes issued April 27, 2011, at a conversion rate of $0.0097 per share;

*

2,000,000 shares were issued on November 11, 2011, as bonuses to consultants

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1,369,863 shares of our common stock to an accredited investor pursuant to the conversion on November 28, 2011 of $10,000.00 in principal amount of our convertible promissory note issued April 27, 2011, at a conversion rate of $0.0073 per share;

*

2,323,529 shares of our common stock to an accredited investor pursuant to the conversion on December 2, 2011 of $14,500.00 in principal amount plus $1,300 in accrued interest on our convertible promissory note issued April 27, 2011 at a conversion rate of $0.0068 per share;

*

1,000,000 shares of our common stock to an accredited investor on December 31, 2011 pursuant to terms of an Advisory Agreement as payment for services;

*

1,007,077 shares of our common stock to an accredited investor pursuant to the conversion on December 31, 2011 of $25,000.00 in principal amount plus $5,212 in accrued interest of our 10% senior convertible notes issued November 30, 2009 at a conversion rate of $0.03 per share;

*

105,000 shares of our common stock to an accredited investor pursuant to the 10% senior convertible note, principal amount of $35,000, which was issued December 31, 2011;

*

243,242 shares of our common stock to an accredited investor pursuant to the conversion on December 31, 2011 of $8,513 in accrued interest on our 10% senior convertible note issued November 30, 2009 at a conversion rate of $0.03 per share;

*

61,501 shares of our common stock to an accredited investor pursuant to the $20,500 in principal amount of the 10% senior convertible note, which was issued December 31, 2011;

*

500,000 shares of our common stock to an accredited investor on December 31, 2011 pursuant to terms of an Advisory Agreement as payment for services;

*

25,611 shares of our common stock to an accredited investor pursuant to the $8,537 in principal amount of the 10% senior convertible note, which was issued December 31, 2011;

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125,068 shares of our common stock to an accredited investor pursuant to the $39,584 in principal amount of the 10% senior convertible note, which was issued December 31, 2011;

*

41,573 shares of our common stock to an accredited investor pursuant to the $13,858 in principal amount of the 10% senior convertible note, which was issued December 31, 2011;

*

201,615 shares of our common stock to an accredited investor pursuant to the $67,205 in principal amount of the 10% senior convertible note, which was issued December 31, 2011;

*

193,813 shares of our common stock to an accredited investor pursuant to the $39,012 in principal amount of the 10% senior convertible note, which was issued December 31, 2011;

*

3,099,523 shares of our common stock to an accredited investor pursuant to the $1,033,174 in principal amount of the 10% senior convertible note, which was issued December 31, 2011;

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190,384 shares of our common stock to an accredited investor pursuant to the $63,461 in principal amount of the 10% senior convertible note, which was issued December 31, 2011;

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During the period from January 1 to April 9, 2011, we issued the following:

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1,500,000 shares of our common stock to an accredited investor on January 15, 2012 pursuant to terms of an Advisory Agreement as payment for services;

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100,667 shares of our common stock to an accredited investor pursuant to the conversion on January 30, 2012 of $3,020 in accrued interest of our 10% senior secured convertible note issued February 10, 2011 at a conversion rate of $0.03 per share;

*

300,000 shares of our common stock to an accredited investor pursuant to the $100,000 in principal amount of the 10% senior convertible note, which was issued January 23, 2012;

*

965,234 shares of our common stock to an accredited investor pursuant to the $321,745 in principal amount of the 10% senior convertible note, which was issued February 1, 2012;

*

2,250,000 shares of our common stock to an accredited investor on February 1, 2012 pursuant to terms of an Advisory Agreement as payment for services;

*

582,281 shares of our common stock to an accredited investor pursuant to the $194,094 in principal amount of the 10% senior convertible note, which was issued February 1, 2012;

*

2,250,000 shares of our common stock to an accredited investor on February 1, 2012 pursuant to terms of an Advisory Agreement as payment for services;

90,000 shares of our common stock to an accredited investor as payment for consulting services rendered;

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1,000,000 shares of our common stock to an accredited investor on March 1, 2012 pursuant to terms of an Advisory Agreement as payment for services;

*

60,000 shares of our common stock to an accredited investor as payment for consulting services rendered;

*

961,538 shares of our common stock to an accredited investor pursuant to the conversion on March 21, 2012 of $10,000 in principal amount of our convertible promissory note issued September 15, 2011 at a conversion rate of $0.0104 per share;

*

72,000 shares of our common stock to an accredited investor pursuant to the $24,000 in principal amount of the 10% senior convertible note, which was issued April 2, 2012.

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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

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Item 6. Selected Financial Data.

The selected financial data set forth below with respect to our consolidated statements of operations and cash flows for each of the two fiscal years ended December 31, 2011 and with respect to the consolidated balance sheets as at December 31, 2011 and 2010, are derived from our audited consolidated financial statements included in Item 8 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	
	2011	**2010**
Operations Data		
Selling, general and administrative	$ 664,550	$ 500,780
Research and development	125,661	115,407
Depreciation of property and equipment	5,637	5,606
Other expenses, net	1,482,896	736,548
Net loss	$ 2,278,744	$ 1,358,341

	Year Ended December 31	
	2011	2010
Cash Flows Data		
Net cash used in operating activities	$ (299,165)	$ (367,000)
Net cash used in investing activities	(7,900)	(1,216)
Net cash provided by financing activities	315,782	326,590
Effects of exchange rates on cash and cash equivalents	5,117	3,060
Net increase (decrease) in cash and cash equivalents	$ 13,834	$ (38,566)

	December 31	
Balance Sheet Data	2011	2010
Cash	$ 11,957	$ --
Total current assets	20,379	40,499
Property and equipment (net)	10,136	7,873
Total assets	30,515	48,372
Total current liabilities, including current portion of 10% senior convertible notes and capital lease obligation	9,826,941	9,014,756
Capital lease obligation	--	2,052
Stockholders deficiency	$ (9,796,426)	$ (8,968,436)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

In this section, we explain our consolidated financial condition and results of operations for the years ended December 31, 2011 and December 31, 2010. As you read this section, you may find it helpful to refer to our Consolidated Financial Statements in Item 8 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 2011 Consolidated Financial Statements included with this Annual Report on Form 10-K for the year ended December 31, 2011. 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, 2011 Consolidated Financial Statements.

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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:

The Corporation accounts for stock-based compensation in accordance with the provisions of ASC Topic 718 Compensation stock compensation). ASC Topic 718 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.

Financial instruments:

We have issued convertible notes and convertible notes with common shares. The fair value of the convertible notes is required to be estimated as well as the fair value of the convertible notes issued with common shares. There are significant assumptions and management estimates used in determining these amounts. A significant change to these assumptions could result in a significant change to the fair value of the convertible notes.

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, 2012. Our major initiatives through December 31, 2012 are:

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obtaining commercial sales of our products, and continuing our current marketing program;

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developing and improving product agents to perform specialized functions common to many e-commerce sites; and

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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.

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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 $30,000 on our marketing efforts during the year ending December 31, 2012.

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 $90,000 on our sales initiatives, including compensation and travel expenses, during the year ending December 31, 2012.

Subject to our ability to obtain adequate funding, our sales and marketing expenditures for the year ending December 31, 2012 are expected to total $120,000.

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 $10,000 on training and related activities during the year ending December 31, 2012.

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, 2012 will be $260,000.

General and Administrative Expenses: Subject to our ability to obtain adequate funding, we expect to spend $329,000 on general and administrative activities during the year ending December 31, 2012.

In summary, provided we are able to obtain adequate funding, we expect to spend a total of $719,000 for all expenses during the year ending December 31, 2012, 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:

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debt instruments, including demand notes and convertible notes similar to those discussed below in Liquidity and Capital Resources ;

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private placements of common stock;

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exercise of stock options at a weighted average exercise price of $0.04 per share; or

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funding from potential clientele or future industry partners.

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Results of Operations

In this section, we discuss our operations 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, 2011 compared to the fiscal year ended December 31, 2010

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. As a result of subsequent delays in completing certain of our software products to a market ready stage, and in consideration of the general market decline during 2009, we have agreed to extend the expiry of this agreement, with terms to be negotiated upon completion of our current development initiatives. 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.

During the year ended December 31, 2010, we entered into an agreement with a VAR, pursuant to which we granted the VAR a license to sell our software to the VAR s customers for a period of one year. A nonrefundable deposit of $165,000 was received in connection with this contract; revenue will be recognized under this contract as the conditions for recognizing revenue as set out in our accounting policies have been met.

We did not make any commercial sales during the year ended December 31, 2011.

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

Selling, general and administrative expenses: Selling, general and administrative expenses consist primarily of personnel costs, professional fees, communication expenses, occupancy costs and other miscellaneous costs associated with supporting our research and development, sales and marketing and investor relations activities. During the year ended December 31, 2011 we incurred a total of $664,550, as compared to $500,780, during the year ended December 31, 2010. There was an overall increase in selling, general and administrative expenses of $163,770 (28%).

The increase in this expense occurred primarily as a result of our engaging several consultants during the year. The remuneration pursuant to these contracts resulted in $189,567 of expense, of which $117,900 was stock-based, and $71,776 was cash based, for which there was no comparable expense during the year ended December 31, 2010. We also issued a bonus in the form of 1,000,000 common shares, to a consultant, which resulted in a further $18,300 in remuneration expense for which there was no comparable cost during the year ended December 31, 2010. The increase in fees associated with these contracts was partially offset by a decrease in both marketing and administration remuneration, as a result of the termination of two consulting contracts in September 2011, and by a reduction in audit and related fees.

We have made efforts to reduce these costs wherever possible, through measures such as reducing the number of personnel, reducing our occupancy costs, postponing our Annual General Meeting, reducing the number of trade shows in which we participate, reducing travel costs, and delaying production of new promotional material. We will continue to carefully monitor our selling, general and administrative expenses as we work within current budgetary limits leading up to the full commercial release of our products.

Research and development expenses: Research and development expenses consist primarily of personnel costs, consulting fees and travel expenses directly associated with the development of our software applications. During the year ended December 31, 2011, we spent $125,661 developing our software applications, compared to $115,407 during the year ended December 31, 2011. There was an overall increase in research and development expenses of $10,254 (9%).

During the year ended December 31, 2011, we engaged consultants to perform evaluation, testing and debugging of our software as we introduced a new version of our software in preparation for installations of our products under evaluation licences. This goal was met, and these installations provided us with feedback required to identify weaknesses and areas for improvement in our software. During 2010, we met several development goals, but these did not require the same level of development as our 2011 goals.

Depreciation of property and equipment: Depreciation of property and equipment was $5,637 during the year ended December 31, 2011, an increase of $31 (1%), from the $5,606 charged to depreciation expense during the year ended December 31, 2010. Some of our capital assets became fully depreciated during the year ended December 31, 2011, which eliminated the periodic depreciation charges associated with those assets; the addition of $7,900 of new computer equipment increased depreciation charges associated with those assets, resulting in very little change in the overall depreciation expense for the year.

Interest and financing costs: Interest and financing costs during the year ended December 31, 2011 consisted of interest and financing costs associated with our 10% senior convertible notes, our 12% convertible notes, our convertible promissory notes, our promissory notes and interest on the capital lease. Interest and financing costs during the year ended December 31, 2010 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, 2011, we incurred $1,507,054 in interest and financing costs, an increase of $827,379 (102%) over the $679,675 in interest and financing costs incurred during the year ended December 31, 2010.

The $1,507,054 in interest and financing costs we incurred during the year ended December 31, 2011 is comprised of $662,813 of interest paid and payable to the holders of our debt; $838,297 of accretion on our 10% senior convertible notes, 12% convertible notes, and convertible promissory notes; $5,640 of financing costs; and $305 in interest on the capital lease. The $679,675 in interest and financing costs we incurred during the year ended December 31, 2010 was comprised of $628,129 of interest paid and payable to the holders of our debt; $50,398 of accretion on our 10% senior convertible notes; $597 of financing costs; and $551 in interest on the capital lease.

Total interest and financing costs increased by $827,379 (102%) during the year ended December 31, 2011 as compared with 2010. Charges to interest as a result of accretion increased by $787,899 (156%), as a result of the equity components of notes issued during 2011 having a higher relative fair value than those issued during 2010. There was also an increase of $16,862 (3%) in coupon rate interest charges, which occurred as a result of an overall net increase of $344,153 in the principal balance interest-bearing notes during the year.

Gain on extinguishment of debt and accrued liabilities: During the year ended December 31, 2011, we recorded a net gain on extinguishment of debt and accrued liabilities in the amount of $5,725, on the issuance of our common stock, and on the transfer of fully depreciated, unused capital assets, in settlement

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of accounts payable and accrued liabilities. There were no comparable transaction during the year ended December 31, 2010.

Other income (expense): Other income (expense) is comprised of realized and unrealized gains and losses on foreign currency translations, the majority of which relate to accounts payable and accrued liabilities, and obligations under our promissory notes, denominated in Canadian dollars. During the year ended December 31, 2011, the Canadian dollar lost strength in relation to the United States dollar, resulting in an $18,433 net gain on foreign currency translations. During the year ended December 31, 2010, the Canadian dollar gained strength in relation to the United States dollar, resulting in a $56,873 net loss on foreign currency translations.

Net loss: We incurred a loss of $2,278,744 ($0.02 per share) for the year ended December 31, 2011, compared to a loss of $$1,358,341 ($0.01 per share) for the year ended December 31, 2010.   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 increased by $13,843 during the year ended December 31, 2011, from a balance of $(1,877) at December 31, 2010, to $11,957 at December 31, 2011, primarily as a result of our financing activities, which generated $315,782 in net cash proceeds from the issuance of our promissory notes, 10% senior convertible notes and convertible promissory notes, net of repayments and finance fees. This increase in cash was substantially offset by our net loss of $2,278,744 for the year, which resulted in net cash used in operations of $299,165, and our acquisition of computer equipment for $7,900. Our cash and cash equivalents decreased by $38,566 during the year ended December 31, 2010, from a balance of $36,689 at December 31, 2009, to $(1,877) at December 31, 2010, primarily as a result of our net loss of $1,358,341 for the year, and resulting cash used in operations of $367,000, which was substantially offset by an increase in cash resulting from the issuance of our 10% senior convertible notes and our promissory notes, which generated proceeds, net of repayments during the year, of $326,590.

As discussed elsewhere in this report, we have added an explanatory paragraph to our consolidated financial statements for the year ended December 31, 2011. It states that our economic viability is dependent on our ability to finalize the development of our principal products, generate sales and finance operational expenses, and that these factors, together with our lack of revenues to date, our negative working capital, our loss for the year, as well as negative cash flow from operating activities, and our accumulated deficit, raise substantial doubt regarding our ability to continue as a going concern. At December 31, 2011, we had negative working capital of $9,806,562 and an accumulated deficit during the development stage of $37,627,290; we incurred a net loss of $2,278,744, and negative cash flow from operations of $299,165 for the year then ended; and note 2(a) to our consolidated financial statements for the year ended December 31, 2011 also discusses the continuing substantial doubt regarding our ability to continue as a going concern.

We anticipate commercial sales during the second or third quarter of 2012, however we cannot be assured that this will be the case. During the year ended December 31, 2011, there was a reduction of two contractual staff. We engaged three additional consultants over the course of the year; we did not hire any new employees. 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. 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, 2011, we issued $161,500 of our 10% senior convertible notes, and $185,500 in convertible promissory notes, which generated cash for funding operations. We issued a further $1,253,199 in 10% senior convertible notes in settlement of previously issued 10% senior convertible notes and accrued interest thereon; $95,681 in settlement of promissory notes payable and accrued interest thereon; $89,584 in settlement of accounts payable; and $303,847 in settlement of 12% convertible notes and accrued interest thereon, all of which reduced the cash which would otherwise have been required to settle these liabilities. We also issued 7,682,556 common shares pursuant to the terms of 10% senior convertible notes issued during the year, and 4,668,845 common shares pursuant to the terms of the 12% convertible notes issued during the year, which reduced the rate of coupon interest which would otherwise have been reflected in these transactions. In addition to these financing activities, we issued an aggregate of 6,000,000 shares of our common stock to consultants, as consideration for services rendered and to be rendered, which reduced the amount of cash which would otherwise be required to engage these personnel; and we issued 266,666 shares of our common stock in settlement of accounts payable, which reduced the amount of cash which would otherwise have been required to settle this liability.

During the period from January 1 to April 12, 2011, we issued $174,000 of our 10% senior convertible notes, the proceeds of which were used to fund operations. We also issued a further $321,745 of our 10% senior convertible notes in settlement of previously issued 10% convertible notes and accrued interest thereon, and $193,366 of these notes in settlement of previously issued 12% convertible notes and accrued interest thereon, both of which reduced our requirement for cash settlement. In connection with these financing transactions, we issued 1,919,515 shares of our common stock to the holders of the notes, which reduced the rate of coupon interest which would otherwise have been required. Additionally, we issued 7,150,000 shares of our common stock to consultants in respect of services rendered and to be rendered.

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. Research and development expenses for the year ended December 31, 2011 increased by approximately 9% as compared to the year ended December 31, 2010. Selling, general and administrative expenses for the year ended December 31, 2011 increased by approximately 33% as compared to the year ended December 31, 2010, due to several factors, including the engagement of several new consultants to assist us in identifying potential funding sources, 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 arrangements which would have resulted in our use of capital.

The cost to implement appropriate controls and procedures to ensure compliance with Section 404 of the Act is included in our budget for 2012.

Commitments: We are not currently a party to any operating lease agreement, nor do we have any contingent liabilities.

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Item 8. Financial Statements.

Consolidated Financial Statements of

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Years ended December 31, 2011 and 2010

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SEALE AND BEERS, CPAs

PCAOB & CPAB REGISTERED AUDITORS

www.sealebeers.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Validian Corporation

(A Development Stage Company)

We have audited the accompanying balance sheets of Validian Corporation (A Development Stage Company) as of December 31, 2011 and 2010, and the related statements of operations, stockholders equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2011 and 2010 and since inception of development stage on August 3, 1999 through December 31, 2011. Validian Corporation s management is responsible for these financial statements. Our responsibility is to express an opinion on these 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. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of Validian Corporation (A Development Stage Company) as of December 31, 2011 and 2010, and the related statements of operations, stockholders equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2011 and 2010 and since inception of development stage on August 3, 1999 through December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2a to the financial statements, the Company has no revenues, has negative working capital at December 31, 2011, has incurred recurring losses and recurring negative cash flow from operating activities, and has an accumulated deficit which raises substantial doubt about its ability to continue as a going concern. Management s plans concerning these matters are also described in Note 2a. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Seale and Beers, CPAs

Seale and Beers, CPAs

Las Vegas, Nevada

April 11, 2012

50 S. Jones Blvd. Suite 202 Las Vegas, NV 89107 Phone: (888)727-8251 Fax: (888)782-2351

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Balance Sheets

December 31, 2011 and 2010

(In U.S. dollars)

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 11,957	$ --
Value added taxes recoverable	8,422	40,499
Total current assets	20,379	40,499
Property and equipment (note 3)	10,136	7,873
Total assets	$ 30,515	$ 48,372
Liabilities and Stockholders Deficiency		
Current liabilities:		
Bank overdraw	$ --	$ 1,877
Accounts payable	433,201	384,287
Accrued liabilities	2,144,048	1,775,829
Accrued interest on 10% notes payable to related parties (note 13)	139,373	84,698
Deferred revenue	320,000	320,000
Promissory notes payable (note 4)	46,248	120,253
Promissory notes payable to related parties (notes 4 and 13)	71,649	90,754
Current portion of capital lease obligation (note 8)	2,009	3,908
10% Senior convertible notes (note 5)	5,806,820	5,581,631
10% Senior convertible notes payable to related parties (notes 5 and 13)	659,445	651,519
12% Convertible notes (note 6)	177,227	--
Convertible promissory notes (note 7)	26,921	--
Total current liabilities	9,826,941	9,014,756
Capital lease obligation (note 8)	--	2,052

Total liabilities	9,826,941	9,016,808
Stockholders deficiency:		
Preferred stock ($0.001 par value. Authorized 50,000,000 shares; issued and outstanding Nil shares in 2011 and 2010)		
Common stock ($0.001 par value. Authorized 700,000,000 shares in 2011 and 300,000 shares in 2010; Issued and outstanding 141,593,004 shares In 2011 and 106,554,038 shares in 2010 (note 9(a))	141,593	106,554
Additional paid-in capital	27,717,705	26,301,990
Deficit accumulated during the development stage	(37,627,290)	(35,348,546)
Retained earnings prior to entering development stage	21,304	21,304
Treasury stock (7,000 shares in 2011 and 2010 at cost)	(49,738)	(49,738)
Net stockholders deficiency	(9,796,426)	(8,968,436)
Future operations (note 2(a))		
Guarantees and commitments (note 14)		
Subsequent events (note 19)		
Total liabilities and stockholders deficiency	$ 30,515	$ 48,372

See accompanying notes to consolidated financial statements

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Operations

Years ended December 31, 2011 and 2010 and the period from August 3, 1999 to December 31, 2011

(In U.S. dollars)

	2011	2010	Period from August 3, 1999 to December 31, 2011
Expenses:			
Selling, general and administrative	$ 664,550	$ 500,780	$15,993,584
Research and development	125,661	115,407	10,101,889
Depreciation of property and equipment	5,637	5,606	447,545
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
Total Expenses	795,848	621,793	28,146,511
Loss before the undernoted	(795,848)	(621,793)	(28,146,511)
Other income (expenses):			
Interest income			61,728
Gain on extinguishment of debt and accrued liabilities (note 11)	5,725		310,520
Interest and financing costs (notes 10 and 13)	(1,507,054)	(679,675)	(9,723,627)
Other	18,433	(56,873)	(129,400)

Total other income (expenses)	(1,482,896)	(736,548)	(9,480,779)
Net loss	$(2,278,744)	$(1,358,341)	$(37,627,290)
Loss per common share basic and diluted (note 12)	$(0.02)	$(0.01)	
Weighted average number of common shares outstanding	120,074,916	105,849,438	

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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			244,814					244,814

conversion feature on 4% convertible debentures issued to unrelated parties								
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.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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			(163,980)					(163,980)

shares				
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.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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	800,000	800	106,700					107,500
Fair value of unvested employee stock options earned during period			28,689					28,689

Reversal of fair value of unvested employee stock options recognized in the current and prior periods, on forfeiture of the options			(9,939)	(9,939)
Shares issued on the exercise of stock purchase warrants	20,000	20	9,980	10,000
Shares issued pursuant to the terms of the 10% senior secured convertible notes	1,600,000	1,600	213,202	214,802
Shares issued pursuant to the terms of the 10% senior convertible notes	1,200,000	1,200	188,400	189,600
Shares issued pursuant to the terms of the 10% promissory note	1,000,000	1,000	149,000	150,000
Shares issued pursuant to the terms of an agreement to extend the payment terms of finance fees payable	100,000	100	11,400	11,500
Intrinsic value of the beneficial conversion feature on the 10% senior convertible notes			465,850	465,850

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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
Intrinsic value of the beneficial conversion feature on the 10% senior convertible notes		$	$ 49,447	$	$	$	$	$ 49,447
Shares issued in satisfaction of interest payable	118,378	119	13,519					13,638
Shares issued in satisfaction of finance fees payable, which were included in accrued liabilities	250,000	250	28,500					28,750

Shares issued in satisfaction of penalty for non-timely payment of the 10% promissory note	500,000	500	44,500					45,000
Shares issued in consideration for finance fees related to the issuance of convertible and promissory notes	740,000	740	75,720	--	--	--	--	76,460
Net loss and comprehensive loss					(3,387,291)			(3,387,291)
Balances at December 31, 2006	39,212,069	39,212	22,326,065	21,304	(24,643,182)		(49,738)	(2,306,339)
Shares issued in consideration of consulting services rendered and to be rendered	4,105,000	4,105	180,045					184,150
Shares issued in consideration of finance fees relating to the issuance of 10% senior convertible notes	149,333	149	6,511					6,660
Shares issued in settlement of accrued liabilities	1,275,000	1,275	45,900					47,175
Shares issued in settlement of accrued interest on the 10% senior convertible notes	659,001	659	39,228					39,887
Fair value of employee stock								

options earned during the year			2,727	2,727
Incremental value of stock options issued during the year in exchange for the repurchase and cancellation of options previously issued			106,933	106,933
Shares issued pursuant to the terms of the 10% senior convertible notes at issuance	2,790,566	2,791	180,132	182,923

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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
Shares issued pursuant to the terms of the 10% senior convertible notes on resolution of the contingency	810,000	$ 810	$ 98,418	$	$	$	$	$ 99,228
Intrinsic value of the beneficial conversion feature of the 10% senior senior convertible notes at date of issuance			188,767					188,767
Relative fair value of warrants								

issued pursuant to the terms of the 10% senior convertible notes			102,515		102,515
Intrinsic value of the beneficial conversion feature of the 10% senior senior convertible notes on resolution of the contingency			540,031		540,031
Adjustment to the relative fair value of warrants issued pursuant to the terms of the 10% senior convertible notes on resolution of the contingency			77,222		77,222
Shares issued on conversion of 10% senior convertible notes	572,194	572	52,455		53,027
Fair value of warrants issued in consideration of consulting services rendered			108,675		108,675
Fair value of options issued in consideration of consulting services rendered and to be rendered			20,969		20,969
Net loss and comprehensive loss				(3,726,393)	(3,726,393)

Balances at December 31, 2007	49,573,163	$ 49,573	$24,076,593	$ 21,304	$ (28,369,575)	$	$(49,738)	$(4,271,843)

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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
Balances at December 31, 2007	49,573,163	$ 49,573	$24,076,593	$ 21,304	$(28,369,575)	$	$(49,738)	$(4,271,843)
Shares issued in consideration of consulting contract incentive payment	3,000,000	3,000	237,000					240,000
Shares issued as partial consideration for consulting services rendered and to be rendered	2,250,000	2,250	51,950					54,200
Shares issued pursuant to the terms of the promissory								

notes at issuance	766,667	767	20,291	21,058
Shares issued in connection with the conversion of 10% senior convertible notes	6,404,818	6,405	361,897	368,302
Shares issued pursuant to the terms of the 10% senior convertible notes at issuance	4,910,852	4,911	160,233	165,144
Shares issued in settlement of accounts payable and accrued liabilities	11,293,396	11,293	250,662	261,955
Shares issued in settlement of accrued interest on the 10% senior convertible notes	2,085,161	2,085	45,557	47,642
Intrinsic value of the beneficial conversion feature of the 10% senior convertible notes at date of issuance			329,282	329,282
Fair value of vested options issued to employees and consultants in consideration for services rendered and to be rendered			113,459	113,459
Fair value of unvested stock				

options earned during the year			4,719					4,719
Net loss and comprehensive loss					(3,964,963)			(3,964,963)
Balances at December 31, 2008	80,284,057	$ 80,284	$25,651,643	$ 21,304	$(32,334,538)	$	$(49,738)	$(6,631,045)

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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
Balances at December 31, 2008	80,284,057	$ 80,284	$25,651,643	$ 21,304	$(32,334,538)	$	$(49,738)	$(6,631,045)
Shares issued in consideration of consulting contract incentive payments	2,300,000	2,300	42,300					44,600
Shares issued as partial consideration for consulting services rendered and to be rendered	2,600,000	2,600	57,400					60,000
Shares issued pursuant to the								

terms of the promissory notes at issuance	366,250	366	4,221	4,587
Shares issued in connection with the conversion of 10% senior convertible notes	4,235,151	4,235	122,820	127,055
Shares issued pursuant to the terms of the 10% senior convertible notes at issuance	7,437,054	7,437	141,033	148,470
Shares issued in settlement of accounts payable and accrued liabilities	333,333	333	3,667	4,000
Shares issued in settlement of accrued interest on the 10% senior convertible notes	7,461,508	7,462	152,826	160,288
Shares issued in consideration of finance fees	100,000	100	1,300	1,400
Intrinsic value of the beneficial conversion feature of the 10% senior convertible notes at date of issuance			58,327	58,327
Fair value of stock options earned during the year			13,350	13,350
Net loss and comprehensive				

loss					(1,655,667)			(1,655,667)
Balances at December 31, 2009	105,117,353	$ 105,117	$26,248,887	$ 21,304	$(33,990,205)	$	$(49,738)	$(7,664,635)

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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
Balances at December 31, 2009	105,117,353	$ 105,117	$26,248,887	$ 21,304	$(33,990,205)	$	$(49,738)	$(7,664,635)
Shares issued pursuant to the terms of the 10% senior convertible notes at issuance (note 5)	1,436,685	1,437	28,064					29,501
Intrinsic value of the beneficial conversion feature of the 10% senior convertible notes at date of issuance (note			20,897					20,897

5)								
Fair value of stock options earned during the year (note 9(c))			4,142					4,142
Net loss and comprehensive loss					(1,358,341)			(1,358,341)
Balances at December 31, 2010	106,554,038	$ 106,554	$26,301,990	$ 21,304	$(35,348,546)	$	$(49,738)	$(8,968,436)
Shares issued pursuant to the terms of the 10% senior convertible notes at issuance (note 5)	7,682,556	7,683	179,847					187,530
Intrinsic value of the beneficial conversion feature of the 10% senior convertible notes at date of issuance (note 5)			457,254					457,254
Fair value of stock options earned during the year (note 9(c))			2,235					2.235
Shares issued in consideration of consulting contract signing bonuses	2,500,000	2,500	99,900					102,400
Shares issued as partial consideration for consulting services rendered (note 9(a))	3,500,000	3,500	60,300					63,800

Shares issued in connection with the conversion of 10% senior convertible notes (note 9(a))	9,441,669	9,442	273,808					283,250
Shares issued in connection with the conversion of convertible promissory notes (note 9(a))	6,979,230	6,979	68,422					75,401
Shares issued in settlement of accounts payable and accrued liabilities	266,666	267	6,385	--	--	--	--	6,652

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Changes in Stockholders Equity (Deficiency) and Comprehensive Loss

For the period from inception on August 3, 1999 to December 31, 2011

(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
Shares issued pursuant to the terms of the 12% convertible notes at issuance (note 6)	4,668,845	4,668	89,835					94,503
Intrinsic value of the beneficial conversion feature of the 12% convertible notes at date of issuance (note 6)			33,111					33,111
Intrinsic value of the beneficial conversion feature of the								

convertible promissory notes at date of issuance (note 7)			144,618					144,618
Net loss and comprehensive loss					(2,278,744)			(2,278,744)
Balances at December 31, 2011	141,593,004	$ 141,593	$27,717,705	$ 21,304	$(37,627,290)	$	$(49,738)	$(9,796,426)

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010 and the period from August 3, 1999 to December 31, 2011

(In U.S. dollars)

	2011	2010	Period from August 3, 1999 to December 31, 2011
Cash flows from operating activities:			
Net loss	$ (2,278,744)	$ (1,358,341)	$ (37,627,290)
Items not involving cash:			
Depreciation of property and equipment	5,637	5,606	447,545
Stock-based compensation expense (note 9(d))	168,435	4,142	3,711,174
Non-cash interest expense	1,494,800	678,019	9,686,668
Gain on extinguishment of debt and accrued liabilities	(5,725)		(310,520)
Non-cash penalties			166,900
Write-off of prepaid services			496,869
Write-off of deferred consulting services			1,048,100
Currency translation adjustment on liquidation of investment in foreign subsidiary			(26,212)
Gain on sale of property and equipment	--		(7,442)
Write-off of accounts receivable			16,715
Write-off of due 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 17)	316,432	303,574	4,838,081
Net cash used in operating activities	(299,165)	(367,000)	(17,510,160)
Cash flows from investing activities:			
Additions to property and equipment	(7,900)	(1, 216)	(546,943)

Proceeds on sale of property and equipment			176,890
Cash pledged as collateral for operating lease			(21,926)
Net cash used in investing activities	(7,900)	(1,216)	(391,979)
Cash flows from financing activities:			
Issuance of promissory notes	18,500	161,397	4,870,772
Capital lease obligation repayments	(3,951)	(3,929)	(28,480)
Issuance of 10% senior convertible notes	161,500	235,000	3,635,500
Debt issuance costs	(13,000)		(314,359)
Repayment of promissory notes	(32,767)	(65,878)	(258,714)
Exercise of stock purchase warrants			412,500
Issuance of convertible promissory notes	185,500	--	185,500
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	315,782	326,590	17,863,932
Effects of exchange rates on cash and cash equivalents	5,117	3,060	15,365
Net increase (decrease) in cash and cash equivalents	13,834	(38,566)	(22,842)
Cash and cash equivalents, beginning of period	(1,877)	36,689	34,799
Cash and cash equivalents, end of period	$ 11,957	$ (1,877)	$ 11,957

Supplementary information (note 18)

See accompanying notes to consolidated financial statements.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

(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 Corporation s 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 $9,806,562, has accumulated a deficit of $37,627,290 as at December 31, 2011, and has incurred a loss of $2,278,744 and negative cash flow from operations of $299,165 for the year then ended. Furthermore, the Corporation failed to settle certain of its promissory notes and 10% senior convertible notes when they matured on various dates during the years 2007 through 2010, resulting in a condition of default for all of the 10% senior convertible notes and $36,250 of the promissory notes; a significant portion of these notes remain in default as at December 31, 2011. 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 $719,000 for the year ending December 31, 2012. 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.

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.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(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, and equipment under capital lease. These assets are being depreciated on a straight-line basis over their estimated useful lives, as follows: computer hardware: 3 years; equipment under capital lease: over the term of the lease, being 4 years; computer software: 1 year.

(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)

Prepaid expenses:

Prepaid consulting fees related to services to be rendered within twelve months from the balance sheet date are included in prepaid expenses. 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.

(g)

Income taxes:

Deferred income taxes are determined using the asset and liability method, whereby deferred income tax is recognized based 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.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(h)

Revenue recognition:

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 when all criteria for recognizing revenue have been met. 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.

Revenues that have been prepaid but for which all elements have not been delivered, are reflected as deferred revenue on the consolidated balance sheet.

(i)

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.

(j)

Advertising expense:

Advertising costs are expensed upon the start of the scheduled advertising.

(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.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

(In U.S. dollars)

2.

Summary of significant accounting policies (continued):

(l) Stock-based compensation:

The Corporation accounts for stock-based compensation in accordance with the provisions of ASC Topic 718 Compensation stock compensation (ASC Topic 718). ASC Topic 718 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 ASC Topic 718, 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).

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

The Corporation accounts for long-lived assets in accordance with ASC Topic 360-10 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) Accounting for uncertainty in income taxes:

The Corporation does not recognize adjustments in the liability for unrecognized income tax benefits. As of December 31, 2011, the Corporation had approximately $9,050,000 of unrecognized tax benefits, all of which would affect the Corporation s effective tax rate if recognized.

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

(In U.S. dollars)

3.

Property and equipment:

	Cost	Accumulated depreciation	2011 Net book value
Computer hardware and software	$ 32,900	$ 25,057	$ 7,843
Equipment under capital lease	15,723	13,430	2,293
	$ 48,623	$ 38,487	$ 10,136

	Cost	Accumulated depreciation	2010 Net book value
Computer hardware and software	$ 25,000	$ 23,351	$ 1,649
Equipment under capital lease	15,723	9,499	6,224
	$ 40,723	$ 32,850	$ 7,873

4.

Promissory notes payable:

The following table sets forth the financial statement presentation of the promissory note proceeds on issuance, and the changes in the financial statement presentation of the balance allocated to the notes as at and for the years ended December 31, 2011 and 2010:

	2010	2010
Balance at beginning of year	$ 211,007	$ 112,428
Notes issued during the year	18,500	161,397
Accretion recorded as a charge to interest and financing costs	--	--
Principal repaid	(32,767)	(65,878)
Principal settled through the issuance of the Corporation s 10% senior convertible notes (note 5)	(83,960)	--
Adjustment for foreign currency translation	5,117	3,060
Balance at end of year	$ 117,897	$ 211,007
Due on demand, interest at 12%, unsecured, repayable in Canadian dollars	$ 54,750	$ 174,757
Due on demand, interest at 12%, unsecured, repayable in United States dollars	63,147	36,250
	$ 117,897	$ 211,007

Included in interest and financing costs for the year ended December 31, 2011 is $23,847 (2010: $16,057) of interest on the promissory notes. Interest on the promissory notes paid in cash during the year ended December 31, 2011 was $11,950 (2010: $1,105).

VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

(In U.S. dollars)

5.

10% Senior convertible notes:

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

	2011	2010
Balance at beginning of year	$ 6,233,150	$ 5,978,407
Note principal on issuance	1,903,810	591,198
Allocated to common stock and additional paid-in capital for market value of stock issued to holders of the notes:		
Allocated to common stock	(7,683)	(1,437)
Allocated to additional paid-in capital	(179,847)	(28,064)
	(187,530)	(29,501)
Allocated to additional paid-in capital for the intrinsic value of the beneficial conversion feature	(457,254)	(20,897)
Proceeds allocated to 10% senior convertible notes on issuance	1,259,026	540,800
Accretion recorded as a charge to interest and financing costs	644,784	50,398
Principal converted pursuant to the terms of the note	(224,332)	--
Principal matured and settled through the issuance of new notes	(1,035,248)	(336,455)
Principal matured and settled through the issuance of 12% convertible notes	(411,115)	--
Balance at end of year	$ 6,466,265	$ 6,233,150

During the year ended December 31, 2011, the Corporation issued an aggregate of $1,903,810 of its 10% senior convertible notes, and settled an aggregate of $1,670,695 of these notes. $161,500 of the notes issued during the year, were issued for cash; $89,584 were issued in settlement of accounts payable; $303,847 were issued as consideration for the repayment of $289,658 in 12% convertible notes, plus $14,189 in accrued interest thereon; $95,681 were issued as consideration for the repayment of $83,356 in promissory notes, plus $12,325 in accrued interest thereon; and $1,253,199 of the notes were issued as consideration for the repayment of $1,035,248 in previously issued 10% senior convertible notes, plus $217,951 in accrued interest thereon.

Under the terms of the notes issued during the year ended December 31, 2011, the holders are permitted, at any time, to convert all or a portion of the outstanding principal plus accrued interest thereon into common stock of the company, at a rate of one common share for each $0.03 of debt converted. 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 the notes is accrued until the notes are either repaid by the Company or converted by the holders; holders of $60,000 of the notes are also entitled to receive payment of accrued interest on submission to the Corporation of a written request. 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 at the rate of conversion in effect for the conversion of the note principal. $303,847 of the notes matured on December 31, 2011; $336,099 of the notes mature on December 31, 2012; and $1,263,864 of the notes are payable on demand.

Notwithstanding the stated maturity dates, all of the notes issued during the year ended December 31, 2011 are payable on demand, pursuant to the default provisions of the notes, as described below.

Holders of the notes issued during the year ended December 31, 2011 were granted 7,682,556 common shares of the Corporation upon issuance of the notes; $187,530, 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.

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VALIDIAN CORPORATION

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

(In U.S. dollars)

5.

10% Senior convertible notes (continued):

At the date of issuance, the conversion feature of $1,475,502 of the notes was in-the-money. $457,254, representing the relative fair value of the beneficial conversion feature, was allocated to additional paid in capital.

The Corporation failed to settle certain of its 10% senior convertible notes plus accrued interest thereon when they matured on various dates between October 1, 2008 and December 31, 2010. At December 31, 2011, a significant portion of these notes remained in default for non payment. As a result of these non-payment defaults, all of the 10% senior convertible notes are in default at December 31, 2011, in accordance with the default provisions of the notes, and consequently are payable on demand. Interest is accrued at the coupon rate on all notes outstanding past the maturity date.

During the year ended December 31, 2010, the Corporation issued an aggregate of $591,198 of its 10% senior convertible notes, and settled an aggregate of $336,455 of these notes. $235,000 of the notes issued during the year, were issued for cash; $597 were issued in settlement of finance fees; and $355,600 of the notes were issued as consideration for the repayment of $336,455 in previously issued 10% senior convertible notes, plus $19,146 in accrued interest thereon.

Under the terms of the notes issued during the year ended December 31, 2010, the holders are permitted, at any time, to convert all or a portion of the outstanding principal plus accrued interest thereon into common stock of the company, at a rate of one common share for each $0.03 of debt converted. 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 the notes is accrued until the notes are either repaid by the Company or converted by the holders; holders of $430,083 of the notes are also entitled to receive payment of accrued interest on submission to the Corporation of a written request. 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 at the rate of conversion in effect for the conversion of the note principal. $325,469 of the notes matured on December 31, 2010; $265,729 of the notes are payable on demand. Notwithstanding the stated maturity dates, all of the notes issued during the year ended December 31, 2010 are payable on demand, pursuant to the default provisions of the notes, as described below.

Holders of the notes issued during the year ended December 31, 2010 were granted 1,436,685 common shares of the Corporation upon issuance of the notes; $29,501, 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 of $75,000 of the notes was in-the-money. $20,897, representing the relative fair value of the beneficial conversion feature, was allocated to additional paid in capital.

The following table summarizes information regarding the 10% senior convertible notes outstanding at December 31, 2011:

Note Principal	Conversion Rate
$ 5,454,759	$ 0.030
511,506	0.038
500,000	0.100
$ 6,466,265	

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5.

10% Senior convertible notes (continued):

The maximum number of shares issuable on conversion of all 10% senior convertible notes outstanding at December 31, 2011 was 200,285,984. Interest is payable in stock or in cash, at the discretion of the Corporation, therefore the potential conversion of the interest portion has not been included in our calculated issuance requirement (note 9(a)).

At December 31, 2011, $2,865,025 of the 10% senior convertible notes were secured by a first position lien on all of the assets of the Corporation; the remaining $3,601,240 were unsecured. As a result of the event of default noted above, holders of the secured notes have the right to exercise their lien on all of the assets of the Corporation.

Included in interest and financing costs for the year ended December 31, 2011 is $605,902 (2010: $612,071) in coupon rate interest accrued on the 10% senior convertible notes, and $644,784 (2010: $50,398) in accretion related to the relative fair value of the equity components of the 10% senior convertible notes at issuance.

At December 31, 2011, the fair value of the stock issuable to fully convert the 10% senior convertible note principal, was $7,010,009, which exceeds the principal amount by $543,744.

6. 12% Convertible notes:

During the year ended December 31, 2011, the Corporation issued an aggregate of $446,884 of its 12% convertible notes in settlement of $411,115 of its 10% senior convertible notes which matured on December 31, 2010, plus

$55,769 in accrued interest thereon. The notes permit the holders, at any time, to convert all or a portion of the outstanding principal plus accrued interest into common stock of the 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. Interest is payable either on payment of the principal amount, or on conversion, pro rata on the converted principal amount. At the holder s option, interest may be paid in either cash or in common shares of the Corporation at the rate in effect for conversion of the principal. The notes are payable on demand.

Holders of the notes were granted 4,668,845 common shares of the Corporation upon issuance of the note; $94,503, representing the relative fair value of the common shares at the issuance date, was allocated to the common shares par value and additional paid in capital.

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

Also during the year ended December 31, 2011, $289,658 of the notes and $14,189 in accrued interest thereon were settled through the issuance of $303,847 in 10% senior convertible notes.

Included in interest and financing costs for the year ended December 31, 2011 is $28,572 (2010: $nil) relating to accrued coupon-rate interest on the 12% convertible notes; also included in interest and financing costs for the year ended December 31, 2011 is $127,614 (2010: $nil) relating to the accretion of the relative fair value of the equity components of the 12% convertible notes at issuance.

At December 31, 2011, the fair value of the stock issuable to fully convert the 12% convertible note principal, was $206,764, which exceeds the principal amount by $29,538.

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7. Convertible promissory notes:

During the year ended December 31, 2011, the Corporation issued $185,500 of its convertible promissory notes for cash. The notes bear interest at the rate of 8% until they mature, or until there is an event of default; thereafter, any portion of the principal or interest which has not been settled will be subject to interest at the rate of 22% per annum.

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

$32,500 of the convertible promissory notes matured on January 30, 2012, and could be prepaid during the period from issuance to October 24, 2011, in whole or in part, at various rates ranging from 130% to 145% of the principal balance plus accrued interest to the date of prepayment. The holder has the option to convert any balance of principal and interest which is unpaid at October 24, 2011 or thereafter, into common stock of the Corporation. The rate of conversion was calculated as the average of the lowest three trading prices during the ten day period immediately preceding such conversion, discounted by 42%. The holder of these notes exercised the conversion feature, and converted $32,500 of principal plus $1,300 of accrued interest into an aggregate of 4,518,134 common shares of the Corporation.

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

$32,500 of the convertible promissory notes mature on September 3, 2012, and may be prepaid during the period from issuance to May 26, 2012, in whole or in part, at various rates ranging from 130% to 145% of the principal balance plus accrued interest to the date of prepayment. The holder has the option to convert any balance of principal and interest which is unpaid at May 26, 2012 or thereafter, into common stock of the Corporation. The rate of conversion is to be calculated as the average of the lowest three trading prices during the ten day period immediately preceding such conversion, discounted by 42%.

$27,500 of the convertible promissory notes mature on September 14, 2012, and may be prepaid during the period from issuance to June 8, 2012, in whole or in part, at various rates ranging from 130% to 145% of the principal balance plus accrued interest to the date of prepayment. The holder has the option to convert any balance of principal and interest which is unpaid at June 8, 2012 or thereafter, into common stock of the Corporation. The rate of conversion is to be calculated as the average of the lowest three trading prices during the ten day period immediately preceding such conversion, discounted by 42%.

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7. Convertible promissory notes (continued):

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

$144,618, representing the relative fair value of the beneficial conversion feature of the notes, was allocated to additional paid in capital. The convertible promissory notes are being accreted to their face value over the term of the notes, through periodic charges to interest expense, using the effective interest rate method. During the year ended December 31, 2011, accretion of $65,900 (2010: $nil) was recognized, through charges to interest and financing costs, leaving a balance of $78,720 to be accreted over the remaining term of the notes.

$13,000 in finance fees were incurred in relation to the convertible promissory notes, and are being charged to interest and financing costs over the term of the notes, using the effective interest rate method. During the year ended December 31, 2011, $5,640 (2010: $nil) was charged to interest and financing costs in relation to these finance fees, leaving a balance of $7,360 to be amortized to expense over the remaining terms of the notes, which range from one month to 9 months.

Also during the year ended December 31, 2011, $4,493 (2010: $nil) in coupon rate interest relating to the convertible promissory notes was charged to interest and financing costs.

The discount to market conversion feature of the convertible promissory notes causes a theoretical possibility that the Corporation may be required to settle the notes by issuing more shares than are authorized. Furthermore, this feature causes the notes to fall within the FAS 133 definition of a derivative liability. Management has calculated that the maximum number of shares required to convert the principal plus accrued interest on the convertible notes at December 31, 2011 was 10,565,420, which represents less than 1% of the authorized, unissued shares at that date, and has also estimated that the fair value of the notes at December 31, 2011 approximates face value, therefore no adjustment for fair value restatement has been made.

At December 31, 2011, the fair value of the stock issuable to fully convert the convertible promissory note principal was $364,651, which exceeds the principal amount by $251,651.

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8. Capital lease obligation:

Future minimum payments remaining under a lease arrangement for office equipment are approximately as follows:

Year ending December 31:	
2012	$ 2,059
Total minimum lease payments	2,059
Less amount representing interest, at 6.61%	50
Present value of minimum lease payments	2,009
Current portion of capital lease obligation	2,009
	$ --

9.

Stockholders deficiency:

(a)

Common stock transactions:

In connection with the issuance of the Corporation s 10% senior convertible notes during the year ended December 31, 2011, the Corporation issued 7,682,556 shares of its common stock, with a relative fair value of $187,530, to the holders of the notes (note 5).

During the year ended December 31, 2011, the Corporation issued an aggregate of 2,500,000 shares of its common stock as incentives for consultants to enter into consulting agreements with the company. $102,400, representing the aggregate fair value of the stock at issuance, was allocated to shares and additional paid in capital, and was charged to expense.

During the year ended December 31, 2011, the Corporation issued an aggregate of 3,500,000 shares of its common stock to consultants as partial consideration for services rendered. $63,800, representing the fair value of the stock at issuance, was allocated to shares and to additional paid in capital, and was charged to expense.

On various dates during the year ended December 31, 2011, holders of the 10% senior convertible notes exercised the conversion feature of the notes, and converted an aggregate of $224,332 in principal and $58,918 in accrued interest, in exchange for 9,441,669 common shares of the Corporation (note 5).

On various dates during the year ended December 31, 2011, holders of the convertible promissory notes exercised the conversion feature of the notes, and converted an aggregate of $72,500 in principal and $2,900 in accrued interest, in exchange for 6,979,230 common shares of the Corporation (note 7).

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

Effective April 11, 2011, pursuant to a vote of the common shareholders, the Corporation s articles of incorporation were amended to increase the authorized share capital from a maximum of 350,000,000 to 750,000,000 shares, including 50,000,000 preferred shares and 700,000,000 common shares, par value $0.001.

In connection with the issuance of the Corporation s 12% convertible notes during the year ended December 31, 2011, the Company issued 4,668,845 shares of its common stock, with a relative fair value of $94,503, to the holders of the notes (note 6).

In connection with the issuance of the Corporation s 10% senior convertible notes during the year ended December 31, 2010, the Corporation issued 1,436,685 of its common shares, with a relative fair value of $29,501, to the holders of the notes (note 5).

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9.

Stockholders deficiency (continued):

(b)

Transactions involving stock purchase warrants:

On June 21, 2011, the 3,120,000 Series I warrants expired.

Following is a summary of stock purchase warrants outstanding at December 31, 2011 and 2010:

	Exercise Price	Expiry	Outstanding 2011	Outstanding 2010
Series K	0.03	June, 2011	--	3,120,000
			--	3,120,000

(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 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, 2011, a total of 7,700,000 options were granted under these plans, all with an exercise price of $0.04. 2,975,000 of the options expire on June 19, 2012; 4,725,000 expire on dates between May 12, 2013 and December 31, 2013. All of the options are fully vested. 2,300,000 options remained available for grant under these plans as of December 31, 2011.

$2,235, representing the fair value of 75,000 options issued during 2009, and earned by non-employees during the year ended December 31, 2011, has been included in expense. The fair value of these options was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest of 1.93%; expected volatility of 191%; and an expected life of 4 years.

$4,142, representing the fair value of 375,000 options issued during 2009, and earned by non-employees during the year ended December 31, 2010, was included in expense for that year. The fair value of these options was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest of 0.6% - 2.0%; expected volatility of 178% - 195%; and an expected life of 3.0 3.75 years.

The fair value of unvested options are determined at the date of grant and are included in expense over the vesting period.

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9.

Stockholders deficiency (continued):

(c)

Transactions involving stock options (continued):

Following is a summary of stock options outstanding at December 31, 2011 and 2010:

	2011		2010	
	# of Options	Weighted Average Exercise price	# of Options	Weighted Average Exercise price
Options outstanding, beginning of year	7,700,000	$ 0.04	7,700,000	$ 0.04
Granted	--	--	--	--
Expired	--	--	--	--
Forfeited	--	--	--	--
Options outstanding, end of year	7,700,000	$ 0.04	7,700,000	$ 0.04
Options exercisable, end of year	7,700,000	$ 0.04	7,700,000	$ 0.04

The following table summarizes information regarding stock options outstanding and exercisable at December 31, 2011:

	Options Outstanding			Options Exercisable	
Exercise price	Number outstanding at 12/31/11	Weighted average remaining contractual life	Weighted average exercise price	Number outstanding at 12/31/11	Weighted average exercise price
$ 0.04	7,700,000	1.1 years	$ 0.04	7,700,000	$ 0.04

(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, 2011 and 2010:

	2011	2010
Selling, general and administrative	$ 147,900	$ --
Research and development	20,535	4,142
Total stock-based compensation included in expenses	$ 168,435	$ 4,142

10.

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 and accretion on the promissory notes; and the interest portion of capital lease payments.

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11.

Gain on extinguishment of debt and accrued liabilities:

During the year ended December 31, 2011, the Corporation issued 266,666 shares of its common stock, valued at $6,652, in settlement of $8,000 in accounts payable. A gain of $1,348 on the settlement of accounts payable was recognized in connection with this transaction. Also during the year ended December 31, 2011, the Corporation transferred fully depreciated office furniture in satisfaction of $4,377 in accounts payable. A gain of $4,377 on settlement of accounts payable was recognized in connection with this transaction.

12.

Loss per share:

As the Corporation incurred a net loss during the years ended December 31, 2011 and 2010, 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:

	2011	2010
Stock issuable on conversion of the 10% senior convertible notes	200,285,984	192,515,506
Stock issuable on conversion of the convertible promissory notes and accrued interest thereon	10,565,420	--
Stock issuable on conversion of the 12% convertible notes and accrued interest thereon	6,386,977	--
Stock options	7,700,000	7,700,000
Series K stock purchase warrants	--	3,120,000

	224,938,381	203,335,506

13.

Related party transactions:

Included in 10% senior convertible notes (note 5) is $611,887 (2010 - $611,887) payable to the director and to a company controlled by the director, and $47,558 (2010 - $39,632) payable to an individual related to the director and a company controlled by an individual related to the director.

Included in promissory notes payable (note 4) is $71,649 (2010 - $90,754) payable to the director and to a company controlled by the director.

$139,373 (2010 - $84,698) in accrued interest charges relating to these notes is included in accrued liabilities; $64,166 (2010 - $75,152) in coupon-rate interest on these notes is included in interest and finance costs.

14.

Guarantees and Commitments:

a)

Guarantees

The Corporation has entered into agreements which contain features which meet the definition of a guarantee under ASC Topic 460 Guarantees (Topic 460). Topic 460 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 Topic 460:

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14.

Guarantees and Commitments (continued):

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.

15. Fair value measurements:

The carrying value of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities approximates fair value due to the short term to maturity of these instruments. The carrying value of the promissory notes, 10% senior convertible notes, 12% convertible notes and convertible promissory notes approximates fair value due to the issuance of new debt instruments having similar terms and conditions subsequent to December 31, 2011. The fair value of the obligation under capital lease at December 31, 2010 was approximately $2,009, based on the present value of future cash flows as of the balance sheet date, discounted at market rates.

16.

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:

	2011	2011
Deferred tax asset:		
Net operating loss carryforwards	$ 8,000,000	$ 7,560,000
Capital loss carryforwards	1,050,000	1,050,000
Total gross deferred tax asset	9,050,000	8,610,000
Valuation allowance	(9,050,000)	(8,610,000)
Net deferred taxes	$ --	$ --

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16.

Income taxes (continued):

Income tax expense attributable to loss before income taxes was $nil (2010 - $nil) and differed from the amounts computed by applying the U.S. federal income tax rate of 34% (2010 - 34%) to the net loss as a result of the following:

	2011	2010
Expected tax rate	34%	34%
Expected tax recovery applied to net loss before income taxes	$ (774,773)	$ (461,836)
Increase (decrease) in taxes resulting from:		
Change in valuation allowance	440,000	420,000
Compensation expense	57,000	1,000
Interest and financing costs	285,000	17,000
Other	(7,227)	23,836
	$ --	$ --

The Corporation has net operating losses of $22,398,000 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
2028	2,401,000
2029	1,299,000
2030	1,258,000
2031	1,298,000
	$ 23,708,000

The losses noted above are estimates, as the related tax returns have not been filed by the Corporation.

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17.

Change in non-cash operating working capital:

	2011	2010
Amounts receivable	$ 32,077	$ (17,785)
Prepaid expenses	--	11,464
Accounts payable	150,874	12,207
Accrued liabilities	133,481	132,688
Deferred revenue	--	165,000
	$ 316,432	$ 303,574

18. Supplementary cash flow information:

The Corporation paid no income taxes during the year ended December 31, 2011, nor during the year ended December 31, 2010. Interest paid in cash during the years ended December 31, 2011 and December 31, 2010 were $12,254 and $1,656, respectively.

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

	2011	2010
Issuance of the Corporation s 10% senior convertible notes in settlement of previously issued 10% senior convertible notes and accrued interest thereon	$ 1,253,199	$ 355,600

Debt issuance costs	--	597
Issuance of the Corporation s 10% senior convertible notes in settlement of 12% convertible notes, and accrued interest thereon	303,847	--
Issuance of the Corporation s 10% senior convertible notes in settlement of promissory notes, and accrued interest thereon	95,681	--
Issuance of the Corporation s 10% senior convertible notes in settlement of accounts payable	89,584	--
Issuance of the Corporation s common stock in settlement of accounts payable and accrued liabilities	6,652	--
Issuance of the Corporation s common stock as incentives under consulting services contracts	102,400	--
Issuance of the Corporation s common stock as partial consideration for Services rendered	63,800	--
Issuance of the Corporation s common stock in settlement of 10% senior convertible notes and accrued interest, on the holders exercise of the conversion feature	283,250	--
Issuance of the Corporation s common stock in settlement of convertible promissory notes, and accrued interest thereon	75,401	--
Total	$ 2,273,814	$ 356,197

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19.

Subsequent events:

During the period from January 1, 2012, to April 12, 2012, the Corporation issued an aggregate of $689,111 of its 10% senior convertible notes. $174,000 of the notes were issued for cash; $321,745 of the notes were issued in settlement of previously issued 10% senior convertible notes and accrued interest thereon; and $193,366 of the notes were issued in settlement of previously issued 12% convertible notes and accrued interest thereon. The notes permit the holders, at any time, to convert all or a portion of the outstanding principal plus accrued interest into common stock of the 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 on conversion of the notes, 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 an aggregate of 1,919,515 shares of its common stock to the holders pursuant to the terms of these notes.

During the period from January 1, 2012 to April 12, 2012, the Corporation issued an aggregate of 6,000,000 shares of its common stock to consultants in respect of contract initiation fees relating to three separate contracts.

During the period from January 1, 2012 to April 12, 2012, the Corporation issued an aggregate of 1,150,000 shares of its common stock in respect of consulting services rendered.

On January 30, 2012, the Corporation settled $30,000 of its 10% senior convertible notes with a cash payment of $30,000, plus the issuance of 100,667 of its common shares in settlement of $3,020 in accrued interest on the note.

On March 9, 2012, the Corporation paid $6,029 as full settlement of accounts payable of $42,062. A gain of $36,033 was realized on the transaction.

On March 21, 2012, holders of the Corporation s convertible promissory notes exercised the conversion feature of the notes and converted $10,000 in principal in exchange for 961,538 shares of the Corporation s common stock.

Except for the foregoing, we have evaluated subsequent events through the date the financial statements were issued. All material events have been disclosed.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosures.

On March 29, 2011, the Company dismissed its Independent Auditor from KPMG.

The report of KPMG regarding our financial statements for the last two fiscal years ended December 31, 2009 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles, except to indicate that there is substantial doubt about our ability to continue as a going concern.

During the two most recent fiscal years and during any subsequent interim period prior to March 29, 2011, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures that, if not resolved to the satisfaction of KPMG, would have caused it to make reference to the subject matter thereof in connection with its report.

On March 29, 2011, the Company retained Seale & Beers, CPAs as the Company s Independent Auditor, who audited our year-end 2010.

During the Registrant's two most recent fiscal years or any subsequent interim period prior to engaging Seale & Beers, CPAs, the Company, or someone on the Company's behalf, had not consulted Seale & Beers, CPAs regarding any of the accounting or auditing concerns stated in Item 304(a)(2) of Regulation S-K.

The Company s Board of Directors approved the change of auditors pursuant to Item 304(a)(1)(iii) of Regulation S-K.

Item 9A(T). Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our internal control system was designed 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.

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 transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of 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 management and directors of the company; 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 financial statements.

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

Under the supervision and with the participation of management, including its principal executive officer and principal financial officer, our management assessed the design and operating effectiveness of internal control over financial reporting as of December 31, 2011 based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on its evaluation under the framework in Internal Control Integrated Framework, our management concluded that our internal control over financial reporting was not effective as of December 31, 2011, as a result of the material weaknesses noted below. The effectiveness of our internal control over financial reporting as of December 31, 2011 has not been audited by Seale & Beers, CPA's, an independent registered public accounting firm, as stated in their report which is included herein.

In connection with the audit of our consolidated financial statements for the year ended December 31, 2011, our management identified the existence of certain significant internal control deficiencies that they considered to be material weaknesses. In particular, we identified the following weaknesses in our internal control system at December

31, 2011: (1) a lack of segregation of duties; (2) the lack of timely preparation of certain back up schedules; (3) finance staff s lack of sufficient technical accounting knowledge; (4) a lack of independent Board oversight; and (5) signing authority with respect to corporate bank accounts. 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. 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. Effective July 2008, we have had only two individuals, our controller and our chief financial officer, involved in the accounting functions of the Corporation, including the processing of accounting entries and generating interim and year-end financial reports. Additionally, our chief financial officer is also our chief executive officer and sole officer and director. We are therefore inadequately staffed at this time to ensure a sufficient level of segregation of duties. As a result, this significant internal control deficiency had not been remediated as of the end of the period covered by this report, nor do we know if we will be able to remediate this weakness in the foreseeable future. However, we will continue to monitor and assess the costs and benefits of additional staffing.

Lack of timely preparation of back up schedules. Throughout 2011 and 2010, we were able to complete most of our back up schedules prior to the arrival of our independent registered public accountants audit staff, however, during this time we consistently experienced a lack of complete preparedness. As such, we believe that this material weakness had not been remediated as of the end of the period covered by this report. Inasmuch as this deficiency is related to our lack of adequate staffing, which is a condition which our size prohibits us from remediating, we do not know if we will be able to remediate this weakness in the foreseeable future. We will continue to review our procedures, and to make changes wherever practicable which will assist in remediating this deficiency.

Finance staff s lack of sufficient technical accounting knowledge. Due to the limited number of personnel, our finance staff does not have sufficient technical accounting knowledge to address all complex and non-routine accounting transactions that may arise. These transactions are sometimes extremely technical in nature and require an in-depth understanding of generally accepted accounting principles. As a result of this pervasive deficiency, these types of transactions may not be recorded correctly, potentially resulting in material misstatements of the financial statements of the Company. To address this risk, the Company has a control whereby it consults with its auditors and advisors, as needed, in conjunction with the recording and reporting of complex and non-routine accounting transactions. Management has concluded that this control was not operating effectively during the year, as the Company did not consult with external advisors on certain complex and non-routine transactions and on certain of these transactions, errors were identified by our auditors. All material misstatements detected by the audit have been corrected by the Company. Any changes in the staff complement will be dependant upon the growth of our operations and the number of our staff to allow further technical accounting knowledge to address all complex and non-routine accounting transactions. Management will continue to review existing consultation controls and, if appropriate, implement changes to its current internal control processes whereby more effective consultation will be performed.

Lack of independent Board oversight. Our Board of Directors consists of only one individual who is also the Company s sole signing officer. We have experienced difficulties in identifying suitable candidates to serve as independent Board members because of our size, the perceived additional liability to the public by prospective candidates and the excessive additional costs associated with the selection of a candidate including director fees and director liability insurance. As such, our Board lacks the controls, depth of knowledge and perspective that such independence would provide.

Item 9B. Other Information.

None.

PART III

Item 10.

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 director and executive officer as of December 31, 2010:

Name	Age	Position
Bruce I. Benn	58	Director, President, Chief Executive Officer, Chief Financial Officer, Executive Vice President, Secretary and Treasurer

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. Effective July 11, 2008, the Board of Directors of the Company appointed Bruce I. Benn also to the positions of Chief Financial Officer and Treasurer 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 in excess of $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.

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. We do not have an audit committee financial expert. The Company and its Board of Directors have experienced difficulties in identifying a suitable candidate to serve as its audit committee financial expert because of the size of the Company, the perceived additional liability to the public by prospective candidates and the excessive additional costs associated with the selection of a candidate, including director fees for the audit committee financial expert and director liability insurance.

Code of Ethics Policy

We have adopted a code of ethics that applies to our officers, directors and employees in accordance with applicable federal securities laws. We have filed a copy of our code of ethics as an exhibit to our Annual Report on Form 10-K as filed on April 15, 2011. This document may be reviewed by accessing our public filings at the SEC s web site at www.sec.gov. In addition, a copy of the code of ethics will be provided without charge upon request to us. We intend to disclose any amendments to or waivers of certain provisions of our code of ethics in a Current Report on Form 8-K

<u>Compliance with Section 16(a) of The Securities Exchange Act of 1934</u>

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, 2011.

Item 11.

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) Name and Principal Position	**(b)** Year	**(c)** Salary ($)	**(d)** Bonus ($)	**(e)** Stock Awards ($)	**(f)** Option Awards ($)	**(g)** Non-Equity Incentive Plan Compen- sation ($)	**(h)** Nonqualified Deferred Compen- sation Earnings($)	**(i)** All Other Compensa- tion	**(j)** Total $
Benn,Bruce	2011	121,276	0	0	0	0	0	0	121,276
(1)(4)	2010	116,494	0	0	0	0	0	0	116,494
	2009	105,579	0	0	0	0	0	0	105,579

	2008	113,292	0	0	27,910	0	0	0	141,202
	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	2007	98,243			18,339				116,582
(2)(5)	2006	105,847	0	0	0	0	0	0	105,847
Maisonneuve,	2006	105,847	0	0	0	0	0	0	105,847
Andre (3)	2005	103,848	0	0	0	0	0	0	103,848
	2004	100,353	0	0	0	0	0	0	100,353

(1) Became Director, President, Chief Executive Officer, Executive Vice President and Secretary in May 2005 and Chief Financial Officer in July, 2008. 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, until his resignation in July 2008

(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 2011 has been accrued but not paid.

(5) Reported salary for August 2006 to July 2008 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)**
	Number of Securities Underlying Unexercised Options Exercisable	**Number of Securities Underlying Unexercised Option Unexercisable**	**Equity Incentive plan awards: Number of securities underlying unexercised unearned options**	**Option Exercise Price**	**Option Expiration**	**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**
Name	**(#)**	**(#)**	**(#)**	**($)**	**Date**	**(#)**	**($)**	**(#)**	**$**
Benn, Bruce	900,000	0	0	$0.04	2013/05/12	0	0	0	0
	900,000	0	0	$0.04	2012/06/19	0	0	0	0
Benn, Ronald	900,000	0	0	$0.04	2013/05/12	0	0	0	0
	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 $0.03 per share of common stock, the closing bid price of our common stock on December 31, 2009.

Long-Term Incentive Plans Awards In Last Fiscal Year

There were no incentive awards granted to our officer and director during the year ended December 31, 2011.

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

The following table sets forth information as of March 31, 2012, 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)
Henrik Olsen (2) Rte De St. Cergue 297 CH 1260 Nyon Switzerland	8,460,604	5.7%
Leonid Frenkel (3) 401 City Avenue Suite 800 Bala Cynwyd, PA 19004	12,756,325,	8.4%
Bruce Benn* (4)	6,020,454	4.0%
All Executive Officers and Directors As a Group	6,020,454	4.0%

*Executive Officer and/or a Director.

(1) Based upon 151,652,724 share of common stock issued and outstanding as of March 31, 2012 and includes for each person the shares issuable upon exercise of the options and warrants owned by them.

(2) Includes (a) 7,911,816 shares held directly by Henrik Olsen; and (b) 548,788 shares owned of record by Echo Technologies S.A.

(3) Based on information contained in Schedule 13G as filed by Mr. Frenkel on February 14, 2012.

(4) Includes (a) 330,860 shares held directly by Bruce Benn, (b) 2,650,000 shares owned of record by Valdosta Corporation; and (c) 1,239,594 shares owned of record by White Haven Capital Inc.; and (d) 1,800,000 shares issuable upon exercise of options held directly by Bruce Benn.

The following table sets forth details regarding our common stock authorized for issuance under equity compensation plans as at March 31, 2012:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	7,700,000	$ 0.04	2,300,000
Equity compensation plans not approved by security holders	--	--	--
Total	7,700,000	$ 0.04	2,300,000

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

In respect of our Amended and Restated Incentive Equity Plan, we have granted options to purchase an aggregate of 3,905,000 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; 2,700,000 of the options are exercisable until June 19, 2012; 1,205,000 of the options are exercisable until May 12, 2013, 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 5,117,302 options originally granted under this plan, none were exercised as of April 12, 2012, and 2,212,302 expired during periods prior to January 1, 2010, leaving 3,905,000 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 Plan was 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 3,795,000 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 price of $0.04. 2,670,000 of the options vested immediately upon their issuance; 1,125,000 of the options vest or vested on various dates between December 1, 2008 and December 27, 2010. The options are exercisable until various dates between June 19, 2012 and December 31, 2013, 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 6,212,698 options originally granted under this plan, none were exercised as of March 31, 2011, 2,267,698 expired during periods prior to January 1, 2010; 150,000 were forfeited, leaving 3,795,000 currently outstanding.

Item 13. Certain Relationships and Related Transactions.

Included in 10% senior convertible notes at December 31, 2011 is $611,887 payable to the director and to a company controlled by the director, and $47,558 payable to an individual related to the director and to a company controlled by an individual related to the director.

Included in promissory notes payable at December 31, 2011 is $71,649 payable to companies controlled by the director and an individual related to the director of the Corporation.

$139,373 in accrued interest charges relating to these notes is included in accrued liabilities; $64,166 in interest on these notes is included in interest and finance costs for the year.

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 2011 fiscal year	Fees billed for 2010 fiscal year
Audit fees	$62,500	$121,609

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.

There were no tax-related, audit-related or other fees incurred during the year.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)

(1)

The List of Financial Statements are filed as Item 8 of Part II of this Form 10-K

(2)

List of Financial Statement Schedules None - see Notes to Financial Statements included in Item 8 of Part II of this Form 10-K

(3)

List of Exhibits follows

The exhibits listed in the accompanying Index to Exhibits are filed as part of this Form 10-K

Exhibit No.	Document Description
3.1	Restated Articles of Incorporation (1)
3.2	Amendment to Articles of Incorporation (5)
3.3	By-Laws (2)
3.4	Amendment to By-Laws (1)
4.1	Form of Class B Warrants (2)
4.2	Form of Class E Warrants (1)
4.3	Form of Class F Warrants (1)
4.4	Form of Class G Warrants (1)
4.5	Form of Class H Warrants (1)
4.6	Form of Class I Warrants (3)
4.7	Form of 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(7)
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)
14.1	Code of Ethics (8)
21.1	List of Subsidiaries (5)
23.1	Consent of Seale & Beers, CPAs
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
101**	The following financial information from our Annual Report on Form 10-K for the year ended December 31, 2011 formatted in Extensible Business Reporting Language (XBRL): (i) the Balance Sheets, (ii) the Statements of Operations, (iii) Statement of Changes in Stockholders Equity, (iv) the Statements of Cash Flows, and (v) Notes to Financial Statements

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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.

(7)

Previously filed as an Exhibit to our Current Report on Form 8-K, SEC File No. 0-28423, filed with the Commission on August 24, 2007 and incorporated herein by reference.

(8)

Previously filed as an Exhibit to our Annual Report on Form 10-K for the year ended December 31, 1010, and incorporated herein by reference.

**

In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 to this annual report on Form 10-K shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Statements contained in this Form 10-K 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.

SIGNATURES

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

VALIDIAN CORPORATION

(Registrant)

By: /s/ Bruce Benn

Bruce Benn

President, Chief Executive Officer and director

(principal executive officer)

Dated: April 16, 2012

By: /s/ Bruce Benn

Bruce Benn

Chief Financial Officer and Treasurer

(principal financial and accounting officer)

Dated: April 16, 2012

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)
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Statements of Cash Flows, and (v) Notes to Financial Statements

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(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.

(7)

Previously filed as an Exhibit to our Current Report on Form 8-K, SEC File No. 0-28423, filed with the Commission on August 24, 2007 and incorporated herein by reference.

(8)

Previously filed as an Exhibit to our Annual Report on Form 10-K for the year ended December 31, 1010, and incorporated herein by reference.

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In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 to this annual report on Form 10-K shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.