

VALIDIAN CORP
Form 10-Q
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

..

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

VALIDIAN CORPORATION

(Exact name of Registrant as specified in its charter)

NEVADA

(State or other jurisdiction of
incorporation or organization)

58-2541997

(I.R.S. Employer
Identification No.)

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

(Address of principal executive offices)

Registrant's telephone number: 613-230-7211

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes ☐ No ☒

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APPLICABLE ONLY TO CORPORATE ISSUERS:

At May 14, 2010, 105,850,394 shares of the registrant's common stock were outstanding.

SEC 2334 (9-05)

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PART I FINANCIAL INFORMATION**Item 1. Financial Statements****VALIDIAN CORPORATION AND SUBSIDIARIES****A DEVELOPMENT STAGE ENTERPRISE****Consolidated Balance Sheets****(In United States dollars)**

	March 31, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,322	\$ 36,689
Amounts receivable	28,539	22,714
Prepaid expenses	11,464	11,464
	45,325	70,867
Property and equipment, net of accumulated depreciation of \$219,782 (December 31, 2009 - \$218,540)	11,021	12,263
Total assets	\$ 56,346	\$ 83,130
Liabilities and Stockholders Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 1,720,151	\$ 1,492,041
Deferred revenue	155,000	155,000
Promissory notes payable (note 2)	113,271	112,428
Current portion of capital lease obligation (note 4)	3,938	3,762
10% Senior convertible notes (note 3)	6,061,306	5,978,407
Total current liabilities	8,053,666	7,741,638
Capital lease obligation (note 4)	5,300	6,127
Total liabilities	8,058,966	7,747,765
Stockholders deficiency (note 5):		

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Common stock, (\$0.001 par value. Authorized 300,000,000 shares;

issued and outstanding 105,516,049 and 105,117,353 shares at

105,516

105,117

March 31, 2010 and December 31, 2009, respectively.)

Preferred stock (\$0.001 par value. Authorized 50,000,000 shares;
issued

and outstanding Nil shares at March 31, 2010 and at December 31,

2009)

--

--

Additional paid in capital

26,282,721

26,248,887

Deficit accumulated during the development stage

(34,362,423)

(33,990,205)

Retained earnings prior to entering development stage

21,304

21,304

Treasury stock (7,000 shares at March 31, 2010 and December 31, 2009,

at cost)

(49,738)

(49,738)

Total stockholders deficiency

(8,002,620)

(7,664,635)

Future operations (note 1)

Commitment and contingent liability (note 10)

Subsequent events (note 13)

Total liabilities and stockholders deficiency

\$ 56,346

\$ 83,130

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Consolidated Statements of Operations

For the three months ended March 31, 2010 and 2009

And for the Period from August 3, 1999 to March 31, 2010

(In United States dollars)

(Unaudited)

	Three Months Ended March 31,		Period from August 3, 1999 To March 31,
	2010	2009	2010
Expenses:			
Selling, general and administrative	\$ 104,490	\$ 88,379	\$14,932,744
Research and development	53,572	32,173	9,914,393
Depreciation of property and equipment	1,242	3,087	437,544
Gain on sale of property and equipment	--	--	(7,442)
Write-off of prepaid services	--	--	496,869
Write-off of deferred consulting services	--	--	1,048,100
Write-off of accounts receivable	--	--	16,715
Write-off of due from related party	--	--	12,575
Loss on cash pledged as collateral for operating lease	--	--	21,926
Write-down of property and equipment	--	--	14,750
	159,304	123,639	26,888,174
Loss before other income (expenses)	(159,304)	(123,639)	(26,888,174)
Other income (expenses):			
Interest income	--	--	61,728
Gain (loss) on extinguishment of debt, accounts payable and accrued liabilities (note 7)	--	(4,346)	304,795
Interest and financing costs (notes 6 and 9)	(184,086)	(137,658)	(7,720,984)
Foreign exchange gain (loss)	(28,828)	16,581	(119,788)
	(212,914)	(125,423)	(7,474,249)

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Net loss	\$(372,218)	\$(249,062)	\$(34,362,423)
Loss per common share basic and diluted (note 8)	\$(0.004)	\$(0.003)	
Weighted average number of common shares outstanding during period	105,234,283	80,615,144	

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES**A DEVELOPMENT STAGE ENTERPRISE****Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss****For the period from December 31, 1998 to March 31, 2010****(In United States dollars)****(Unaudited)**

				Retained	Deficit	Accumulated			
				earnings	accumulated	other			
				prior	during	compre-			
		Common	Additional	to entering	development	hensive	Treasury		
	Number	stock	paid-in	development	stage	income	stock		Total
		amount	capital	stage		(loss)			
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:									

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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)	(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

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Comprehensive loss								(1,386,283)
Balances at December 31, 2001	15,387,286	\$15,386	\$4,799,472	\$21,304	\$(5,124,325)	\$26,212	\$(49,738)	\$(311,689)

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

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

For the period from December 31, 1998 to March 31, 2010

(In United States dollars)

(Unaudited)

				Retained earnings					
				prior	Deficit	Accumulated			
				to	accumulated	other			
				entering	during	compre-			
	Common	Additional		develop-	development	hensive	Treasury		
	stock	paid-in		ment	stage	income	stock		
	Number	amount	capital	stage		(loss)			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

(3,001,900) (3,001,900)

loss

Balances at
December 31,

20,567,548 \$ 20,566 \$10,822,021 \$ \$ \$ (49,738) \$ 1,781,087
2003 21,304 (9,033,066)

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES**A DEVELOPMENT STAGE ENTERPRISE****Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss****For the period from December 31, 1998 to March 31, 2010****(In United States dollars)****(Unaudited)**

				Retained earnings prior	Deficit accumulated	Accumulated		
	Common stock Number	Additional paid-in capital amount	to entering development stage capital	during development stage income	other comprehensive (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			(721,097)		(721,097)
capital on conversion of 4%					
senior subordinated convertible					
debentures into common shares					
Shares issued pursuant to private					
placement of common shares and	6,666,666	6,667	5,993,333		6,000,000
warrants					
Cost of share issuance pursuant to			(534,874)		(534,874)
private placement					
Shares issued in consideration of	70,000	70	72,730		72,800
consulting and financing services					
Shares issued in consideration of					
penalties on late registration of	184,000	184	110,216		110,400
shares underlying the 4% senior					

subordinated
convertible

debentures
Fair value of
stock purchase

warrants
issued to
unrelated

809,750

809,750

parties for
services
Relative fair
value of
warrants

issued to
investors in
conjunction

\$

\$
861,522

\$

\$

\$

\$

\$

861,522

with 4%
senior
subordinated

convertible
debentures

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

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

For the period from December 31, 1998 to March 31, 2010

(In United States dollars)

(Unaudited)

				Retained earnings prior	Deficit accumulated	Accumulated		
	Common stock	Additional paid-in capital	to entering development stage	during development stage	other comprehensive income (loss)	Treasury stock	Total	
	Number	amount						
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	1,157,866	1,158	577,774	578,932
------------------------	-----------	-------	---------	---------

convertible debentures

Shares issued in settlement of

4% senior subordinated

convertible debentures at	485,672	486	242,349	242,835
---------------------------	---------	-----	---------	---------

maturity

Deferred financing costs

transferred to additional paid in

capital on conversion of 4%			(163,980)	(163,980)
-----------------------------	--	--	-----------	-----------

senior subordinated convertible

debentures into common shares

Fair value of stock purchase

options issued to unrelated			211,496	211,496
-----------------------------	--	--	---------	---------

parties for services rendered

Fair value of modifications to

stock purchase

warrants			61,162					61,162
previously issued to unrelated parties								
Shares issued on the exercise of	805,000	805	401,695					402,500
stock purchase warrants								
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		\$ \$	- \$(49,738)	\$ (300,345)
					(21,255,891)			

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

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

For the period from December 31, 1998 to March 31, 2010

(In United States dollars)

(Unaudited)

				Retained earnings prior to entering development stage	Deficit accumulated during development stage	Accumulated other comprehensive income (loss)	Treasury stock	Total
	Number	Common stock amount	Additional paid-in capital					
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	800,000	800	106,700					107,500
consulting services								
Fair value of employee stock								
			28,689					28,689
options earned during period								
Reversal of fair value of unvested								
employee stock options								
recognized in the current and			(9,939)					(9,939)

prior periods,
on forfeiture of

the options

Shares issued
on the exercise
of

20,000

20

9,980

10,000

stock
purchase
warrants

Shares issued
pursuant to the

terms of the
10% senior

2,800,000

2,800

401,602

404,402

convertible
notes

Shares issued
pursuant to the

terms of the
10%
promissory

note

1,000,000

1,000

149,000

150,000

Shares issued
pursuant to the

terms of an
agreement to
extend

the payment
terms of
finance fees

payable

100,000

100

11,400

11,500

Shares issued
in satisfaction
of

finance fees
payable, which
were

included in
accounts
payable and

accrued
liabilities

250,000

250

28,500

28,750

Intrinsic value
of beneficial

conversion feature on the 10%			515,297					515,297
senior convertible notes								
Shares issued in satisfaction of								
interest payable	118,378	119	13,519					13,638
Shares issued in satisfaction of								
penalty for non-timely payment of the 10% promissory note	500,000	500	44,500					45,000
Shares issued in consideration for								
finance fees related to the issuance of convertible and promissory notes	740,000	740	75,720					76,460
Net loss and comprehensive loss					(3,387,291)			(3,387,291)
Balances at December 31, 2006	39,212,069	\$ 39,212	\$22,326,065	\$ 21,304	\$ (24,643,182)	\$ -	\$(49,738)	\$ (2,306,339)

See accompanying notes to unaudited interim consolidated financial statements

VALIDIAN CORPORATION AND SUBSIDIARIES**A DEVELOPMENT STAGE ENTERPRISE****Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss****For the period from December 31, 1998 to March 31, 2010****(In United States dollars)****(Unaudited)**

				Retained earnings prior to entering development stage	Deficit accumulated during development stage	Accumulated income (loss) other comprehensive	Treasury stock	Total
	Common stock Number	amount	Additional paid-in capital					
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 period			2,727		2,727
Incremental value of stock					
options issued during the period					
in exchange for the repurchase and cancellation of options					
previously issued			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
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 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 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

See accompanying notes to unaudited interim consolidated financial statements

VALIDIAN CORPORATION AND SUBSIDIARIES**A DEVELOPMENT STAGE ENTERPRISE****Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss****For the period from December 31, 1998 to March 31, 2010****(In United States dollars)****(Unaudited)**

				Retained	Deficit			
				earnings	accumulated	Accumulated		
				prior	during	other		
	Common			to entering	development	comprehensive	Treasury	
	stock	Additional		development	stage	income (loss)	stock	Total
	Number	amount	paid-in	stage				
			capital					
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

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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)
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 unaudited interim consolidated financial statements

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

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

For the period from December 31, 1998 to March 31, 2010

(In United States dollars)

(Unaudited)

				Retained	Deficit			
				earnings	accumulated	Accumulated		
		Common	Additional	prior	during	Other		
		stock	paid-in	to entering	development	comprehensive	Treasury	
	Number	amount	capital	development	stage	income (loss)	stock	Total
				stage				
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 for consulting contract incentive payments	2,300,000	2,300	42,300					44,600
Shares issued as partial consideration for consulting services 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 for 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 period		13,350						13,350	
Net loss and comprehensive loss					(1,655,667)			(1,655,667)	
Balances at December 31, 2009	105,117,353	\$ 26,248,887	\$ 21,304	\$ (33,990,205)	\$ (49,738)	\$ (7,664,635)			

See accompanying notes to unaudited interim consolidated financial statements

VALIDIAN CORPORATION AND SUBSIDIARIES**A DEVELOPMENT STAGE ENTERPRISE****Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Comprehensive Loss****For the period from December 31, 1998 to March 31, 2010****(In United States dollars)****(Unaudited)**

				Retained	Deficit				
				earnings	accumulated	Accumulated			
				prior	during	Other			
	Common	Additional		to entering	development	comprehensive	Treasury		
	stock	paid-in		development	stage	income (loss)	stock		
	Number	amount	capital	stage					Total
Balances at	105,117,353	\$ 26,248,887	\$	21,304	\$	\$	\$(49,738)		\$(7,664,635)
December 31, 2009		105,117			(33,990,205)				
Shares issued pursuant to the terms of the 10% senior convertible notes at issuance (note 3)	398,696	399	11,206						11,605
Intrinsic value of the beneficial conversion feature of the 10% senior convertible									

notes at									
date of			20,897					20,897	
issuance									
Fair value of									
stock options									
earned									
during the			1,731					1,731	
period (note									
5(b))									
Net loss and									
comprehensive									
loss						(372,218)		(372,218)	
Balances at	105,516,049	\$	\$26,282,721	\$	21,304	\$	\$	\$(49,738)	\$(8,002,620)
March 31, 2010		105,516				(34,362,423)			

See accompanying notes to unaudited interim consolidated financial statements

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2010 and 2009

And for the Period from August 3, 1999 to March 31, 2010

(In United States dollars)

(Unaudited)

	Three Months		
	Ended	Period from	
	March 31,	August 3, 1999	
	2010	2009	to
			March 31, 2010
Cash flows from operating activities:			
Net loss	\$ (372,218)	\$(249,062)	\$ (34,362,423)
<i>Adjustments to reconcile net loss to net cash used in</i>			
<i>operating activities:</i>			
Depreciation of property and equipment	1,242	3,087	437,544
Stock-based compensation	1,731	2,306	3,540,328
Non-cash interest and financing expense	183,723	134,793	7,697,572
Loss (gain) on extinguishment of debt and accrued liabilities	--	4,346	(304,795)
Non-cash penalties	--	--	166,900
Write-off of prepaid services	--	--	496,869
Write-off of deferred consulting services	--	--	1,048,100
Currency translation adjustment on liquidation of			
investment in foreign subsidiary	--	--	(26,212)
Gain on sale of property and equipment	--	--	(7,442)
Write-off of accounts receivable	--	--	16,715
Write-off of due to related party	--	--	12,575
Loss on cash pledged as collateral for operating lease	--	--	21,926
Write-down of property and equipment	--	--	14,750
<i>Increase (decrease) in cash resulting from changes in:</i>			
Amounts receivable	(5,825)	(3,933)	(16,776)

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Prepaid expenses	--	(9,228)	(58,982)
Accounts payable and accrued liabilities	84,788	(6,003)	4,222,975
Deferred revenue	--	--	155,000
Due to a related party	--	--	(5,178)
Net cash used in operating activities	(106,559)	(123,694)	(16,950,554)
Cash flows from investing activities:			
Additions to property and equipment	--	--	(537,827)
Proceeds on sale of property and equipment	--	--	176,890
Cash pledged as collateral for operating lease	--	--	(21,926)
Net cash used in investing activities	--	--	(382,863)
Cash flows from financing activities:			
Capital lease repayments	(651)	(969)	(21,251)
Issuance of promissory notes	1,166	64,877	4,692,041
Issuance of 10% senior convertible notes	75,000	50,000	3,314,000
Debt and equity issuance costs	--	--	(932,983)
Repayment of promissory notes	(2,366)	(37,311)	(162,435)
Proceeds from exercise of stock purchase warrants	--	--	412,500
Increase in due from related party	--	--	12,575
Issuance of common shares	--	--	8,030,000
Redemption of common stock	--	--	(49,738)
Issuance of 4% senior subordinated convertible debentures	--	--	2,000,000
Net cash provided by financing activities	73,149	76,597	17,294,709
Effects of exchange rates on cash and cash equivalents	2,043	798	9,231
Net decrease in cash and cash equivalents	(31,367)	(46,299)	(29,477)
Cash and cash equivalents:			
Beginning of period	36,689	59,418	34,799
End of period	\$ 5,322	\$ 13,119	\$ 5,322

Supplementary information (note 11)

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Consolidated Financial Statements

March 31, 2010

(In United States dollars)

(Unaudited)

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

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

1. Future operations

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

The interim financial statements contained herein are unaudited but, in the opinion of management, include all adjustments (consisting only of normal recurring entries) necessary for a fair presentation of the financial position and results of operations of the Company for the periods presented. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the operating results for the full fiscal year ending December 31, 2010. These unaudited interim financial statements have been prepared following accounting principles consistent with those used in the annual audited financial statements and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2009.

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has no revenues, has negative working capital of \$8,008,341 and stockholders' deficiency of

\$8,002,620 as at March 31, 2010, and has incurred a loss of \$372,218 and negative cash flow from operations of \$106,559 for the three months then ended. Furthermore, the Company failed to settle certain 10% senior convertible notes and promissory notes plus accrued interest when they matured on various dates between October 2008 and March 2010. As a result of these non-payment defaults, all of the 10% senior convertible notes, as well as \$36,250 of the promissory notes were in default at March 31, 2010, in accordance with the default provisions of the respective notes, and consequently are due and payable on demand. In addition, the Company expects to continue to incur operating losses for the foreseeable future, and has no lines of credit or other financing facilities in place.

The Company expects to incur operating expenses of approximately \$1,130,000 for the year ending December 31, 2010, subject to the availability of adequate funding. In the event the Company cannot raise the additional funds necessary to finance its research and development and sales and marketing activities, it may have to cease operations.

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

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1. Basis of presentation (continued)

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

2. 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 periods ended March 31, 2010 and December 31, 2009:

	Three months ended March 31, 2010 (unaudited)	Year ended December 31, 2009
Balance at beginning of period	\$ 112,428	\$ 121,537
Note principal on issuance	1,166	166,023
Allocated to common stock and additional paid-in capital for		

market value of stock issued to holders of the notes:

Allocated to common stock	--	(366)
Allocated to additional paid-in capital	--	(4,221)
	--	(4,587)
Proceeds allocated to promissory notes on issuance	1,166	161,436
Accretion recorded as a charge to interest and financing costs	--	4,587
Principal repaid	(2,366)	(74,214)
Principal settled through the issuance of the Company's		
10% senior convertible notes	--	(115,727)
Adjustment for foreign currency translation	2,043	14,809
Balance at end of period	\$ 113,271	\$ 112,428
Due on demand, interest at 12%, unsecured, repayable in		
Canadian dollars	\$ 77,021	\$ 76,178
Due on demand, interest at 12%, unsecured, repayable in		
United States dollars	36,250	36,250
	\$ 113,271	\$ 112,428

VALIDIAN CORPORATION AND SUBSIDIARIES**A DEVELOPMENT STAGE ENTERPRISE****Notes to Consolidated Financial Statements**

March 31, 2010

(In United States dollars)

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3. 10% Senior convertible notes

The following table sets forth the financial statement presentation of the note proceeds on issuance, and the changes in financial statement presentation of the balance allocated to the 10% senior convertible notes for the periods ended March 31, 2010 and December 31, 2009:

	Three months Ended March 31, 2010 (unaudited)	Year Ended December 31, 2009
Balance beginning of period	\$ 5,978,407	\$ 5,030,709
Note proceeds on issuance	239,354	5,243,991
Allocated to common stock and additional paid-in capital for the relative fair value of stock issued to holders of the notes:		
Allocated to common stock	(399)	(7,437)
Allocated to additional paid-in capital	(11,206)	(141,033)
	(11,605)	(148,470)
Allocated to additional paid-in capital for the intrinsic value of the beneficial conversion feature	(20,897)	(58,327)
Proceeds allocated to 10% senior convertible notes on issuance	206,852	5,037,194
Accretion recorded as a charge to interest and financing costs	32,502	206,797
Principal converted pursuant to the terms of the notes	--	(108,100)
Principal matured and repaid through the issuance of new notes	(156,455)	(4,188,193)

\$ 6,061,306 \$ 5,978,407

During the three months ended March 31, 2010, the Company issued an aggregate of \$239,354 of its 10% senior convertible notes, and settled \$156,455 of these notes. \$75,000 of the notes issued during the period were issued for cash; \$164,354 were issued as consideration for the repayment of \$156,455 in previously issued 10% senior convertible notes, \$7,801 in accrued interest thereon, and \$98 in financing fees.

Under the terms of the notes issued during the three months ended March 31, 2010, the holders are permitted, at any time, to convert all or a portion of the outstanding principal plus accrued interest into common stock of the company, at a rate of one common share for each \$0.03 of debt converted. The Company has the option of pre-paying all or any portion of the balance outstanding on the notes at any time, without penalty or bonus, with the permission of the holders. Interest on the notes is accrued until the notes are either repaid by the Company or converted by the holder; holders are also entitled to receive payment of accrued interest on submission to the Company of a written request. At the Company's option, interest may be paid either in cash or in common shares of the Company. If interest is paid in common shares, the number of shares required for settlement will be calculated at the rate of conversion in effect for the conversion of the note principal. \$156,455 of the notes mature on December 31, 2010; \$75,000 of the notes are payable on demand.

Holders of the notes issued during the three months ended March 31, 2010 were granted 398,696 common shares of the Company upon issuance of the notes; \$11,605, 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.

VALIDIAN CORPORATION AND SUBSIDIARIES

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3. 10% Senior convertible notes (continued)

The Company 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 March 31, 2010. At March 31, 2010, 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 March 31, 2010, in accordance with the default provisions of the notes, and consequently are payable on demand, notwithstanding stated maturity dates ranging from on demand to December 31, 2010. Interest is accrued at the coupon rate on all notes outstanding past the maturity date.

The following table summarizes information regarding the 10% senior convertible notes outstanding at March 31, 2010:

Note	Conversion
Principal	Rate
\$ 5,049,799	\$0.03
511,507	0.038
500,000	0.10
\$6,061,306	

At March 31, 2010, \$2,639,297 of the 10% senior convertible notes were secured by a first position lien on all of the assets of the Company. The remaining \$3,422,009 were unsecured. As a result of the event of default noted above, holders of secured notes have the right to exercise their lien on all of the assets of the Company.

4. Capital lease obligation:

The Company has entered into a long-term lease arrangement for office equipment. Future minimum payments remaining under this obligation are approximately as follows:

Twelve months ending March 31:	
2011	\$ 4,452
2012	4,452
2013	1,113
Total minimum lease payments	10,017
Less amount representing interest, at 6.61%	779
Present value of minimum lease payments	9,238
Current portion of capital lease obligation	3,938
	\$ 5,300

5. Stockholders' deficiency

(a) Common stock transactions

In connection with the issuance of the Company's 10% senior convertible notes during the three months ended March 31, 2010, the Company issued 398,696 shares of its common stock, with a relative fair value of \$11,605, to the holders of the notes (note 3).

As at May 14, 2010, the Company has 105,850,394 shares of its common stock issued and outstanding; an additional 204,977,880 common shares are issuable upon the exercise of outstanding options, warrants and the conversion of outstanding senior convertible notes. Common shares issued and issuable therefore exceed the 300,000,000 shares authorized for issuance by 10,828,274.

VALIDIAN CORPORATION AND SUBSIDIARIES

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(Unaudited)

5. Stockholders' deficiency (continued)

(b)

Transactions involving stock options

The Company 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 Company. The granting of options, and the terms associated with them, occurs at the discretion of the board of directors, who administers the plan. As of March 31, 2010, there were a total of 7,700,000 options 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. 7,325,000 of the options are fully vested; 375,000 vest on various dates between June 21, 2010 and June 21, 2011. 2,300,000 options remained available for grant under these plans as of March 31, 2010.

\$1,731, representing the fair value of 150,000 options issued during 2009, and earned by non-employees during the current period, has been included in expense during the three months ended March 31, 2010. The fair value of these options was determined using the following weighted average assumptions: expected dividend yield 0%; risk-free interest rate of 2.0%; expected volatility of 191% - 193%; and an expected life of 3.5 - 3.75 years.

The fair value of unvested options held by non-employees will be determined periodically and included in expense over the vesting period.

(b)

Stock-based compensation

The following table presents the total of stock-based compensation included in the expenses of the Company for the three months ended March 31, 2010 and 2009:

	Three Months Ended	
	March 31, 2010	2009
Selling, general and administrative	\$ --	\$ 1,540
Research and development	1,731	766
Total stock-based compensation included in expenses	\$ 1,731	\$ 2,306

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6. Interest and financing costs

Interest and financing costs include accrued and paid coupon rate interest, accretion and financing costs relating to the 10% senior convertible notes, promissory notes, and the interest portion of capital lease payments.

7. Loss on extinguishment of debt, accounts payable and accrued liabilities

	Three Months Ended	
	March 31, 2010	2009
Loss on settlement of accrued interest on 10% senior convertible notes	\$ --	\$ (4,346)

8. Loss per share

As the Company incurred a net loss during the period ended March 31, 2010, and during the period ended March 31, 2009, the loss and diluted loss per common share are based on the weighted-average common shares outstanding during the period. The following outstanding instruments could have a dilutive effect in the future:

	March 31,	December 31,
	2010	2009
Shares issuable on conversion of 10% senior convertible notes	186,787,380	184,024,051
Stock options	7,700,000	7,700,000
Series K stock purchase warrants	3,120,000	3,120,000
	197,607,380	194,844,051

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9. Related party transactions

Included in 10% senior convertible notes payable (note 3) is \$584,387 (December 31, 2009 \$584,387) payable to a director and to a company controlled by a director, and \$39,632 (December 31, 2009 \$39,632) payable to an individual related to a director and a company controlled by an individual related to a director.

Included in promissory notes payable (note 2) is \$74,023 (December 31, 2009 - \$71,888) payable to a company controlled by a director.

\$27,195 (December 31, 2009 \$9,460) in accrued interest charges relating to the 10% senior convertible notes and promissory notes is included in accrued liabilities at March 31, 2010. \$17,528 (2009 - \$14,247) is included in interest and financing costs for the three months ended March 31, 2010.

10. Commitment and contingent liability

(a) Commitment

The Company's contract for leased premises was terminated effective September 8, 2009.

Rent expense incurred under the operating lease for the three months ended March 31, 2009 was \$20,229.

(b) Contingent liability

Effective May 1, 2009, the Company entered into a contract for consulting services, pursuant to which part of the remuneration is contingent upon the Company achieving certain funding goals, whereupon the contingent amount will become immediately due and payable. As of March 31, 2010, the accumulated contingent liability under this arrangement was \$33,000 (December 31, 2009 - \$24,000).

VALIDIAN CORPORATION AND SUBSIDIARIES

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11. Supplementary cash flow information

The Company paid no income taxes during the three months ended March 31, 2010, nor during the three months ended March 31, 2009. Interest paid in cash during the three months ended March 31, 2010 was \$363.

Non-cash financing activities are excluded from the consolidated statements of cash flows. The following is a summary of such activities for the three months ended March 31, 2010 and 2009

	2010	2009
Debt issuance costs	\$ --	\$ 1,400
Issuance of the Company's common stock in settlement of interest payable on the 10% senior convertible notes	--	8,455
Issuance of the Company's 10% senior convertible notes in settlement of accounts payable and accrued liabilities	--	3,280
Issuance of the Company's 10% senior convertible notes in settlement of previously issued 10% senior convertible notes, which matured during Period, plus accrued interest thereon	--	30,117
	\$ --	\$ 43,252

12. 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 and the 10% senior convertible notes approximates fair value, due to the issuance of new debt instruments having similar terms and conditions subsequent to March 31, 2010. The fair value of the obligation under capital lease at March 31, 2010 was approximately \$9,238, based on the present value of future cash flows as of the balance sheet date, discounted at market rates.

VALIDIAN CORPORATION AND SUBSIDIARIES

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13. Subsequent events

On April 27, 2010, the Company issued \$60,000 of its 10% senior convertible notes for cash. 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 Company at a ratio of one common share for each \$0.03 of debt converted; the Company 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 accrued until the notes are either repaid by the Company or converted by the holder, or until paid at such time as the holder requests payment in writing. At the Company's option, interest may be paid either in cash or in common shares of the Company. If interest is paid in common shares, the number of shares required for settlement will be calculated at the rate of conversion in effect for the note principal. The notes are payable on demand. The Company issued 316,000 shares of its common stock to the holders pursuant to the terms of the notes.

On April 30, 2010, the Company issued \$161,115 of its 10% senior convertible notes in settlement of \$155,000 of previously issued 10% senior convertible notes, plus \$6,115 in accrued interest thereon. The notes permit the holder, at any time, to convert all or a portion of the outstanding principal plus accrued interest into common stock of the Company at a ratio of one common share for each \$0.03 of debt converted; the Company 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 accrued until the notes are either repaid by the Company or converted by the holder. At the Company's option, interest may be paid either in cash or in common shares of the Company. If interest is paid in common shares, the number of shares required for settlement will be calculated at the rate of conversion in effect for the note principal. The notes are payable on demand. The Company issued 18,345 shares of its common stock to the holder pursuant to the terms of the notes.

On May 3, 2010, the Company issued \$52,100 of its 12% promissory notes for cash.

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

FORWARD-LOOKING INFORMATION

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

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

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

- our limited operating history;

.
our lack of sales to date;

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our requirements for additional capital and operational funding;

.
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.

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

CRITICAL ACCOUNTING POLICIES

We prepare our financial statements in accordance with generally accepted accounting principles in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies and methods used in preparation of the financial statements are described in note 2 to our 2009 Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2009. 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 March 31, 2010 Interim Consolidated Financial Statements.

Research and development expenses:

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

Stock based compensation:

The Company accounts for its stock-based payments in accordance with FASB Accounting Standards Codification Topic 718 Compensation Stock Compensation, which requires all share-based payments, including stock options granted by the Company to its employees, to be recognized as expenses, based on the fair value of the share-based payments at the date of grant. For purposes of estimating the grant date fair value of stock-based compensation, the Company uses the Black Scholes option-pricing model, and has elected to treat awards with graded vesting as a single award. The fair value of awards granted is recognized as compensation expense on a straight-line basis over the requisite service period, which in the Company's circumstances is the stated vesting period of the award.

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.

RESULTS OF OPERATIONS

The Three Months Ended March 31, 2010 compared to the Three Months Ended March 31, 2009

Revenue: We had no revenue during the three months ended March 31, 2010, nor during the three months ended March 31, 2009. 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 three months ended March 31, 2010, we incurred a total of \$104,490, all of which was cash-based expenses, as compared to \$88,379, of which \$86,839 was cash-based and \$1,540 was stock-based expense, during the three months ended March 31, 2009. There was an overall increase in selling, general and administrative expenses of \$16,111 (18%) during the three months ended March 31, 2010 as compared to the three months ended March 31, 2009.

The increase in selling, general and administrative expense occurred primarily as a result of higher consulting fees in our sales and marketing departments, as we engaged in activities such as market research and demonstrations of our products.

We have made efforts to minimize selling, general and administrative expenses wherever possible, through measures such as reducing the number of personnel, 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 directly associated with the development of our software applications. During the three months ended March 31, 2010, we incurred a total of \$53,572, including \$51,841 in cash-based expenses and \$1,731 in stock-based expenses, as compared to \$32,173, of which \$31,407 was cash-based and \$766 was stock-based expense, during the three months ended March 31, 2009. There was an overall increase in research and development expenses of \$21,399 (67%) during the three months ended March 31, 2010 as compared to the three months ended March 31, 2009.

The increase in research and development expenses is due primarily to an increase in fees paid to consultants as we ramped up our development efforts in preparation for installations of our products under evaluation licences.

The stock-based component of research and development expense for the three months ended March 31, 2010 and during the three months ended March 31, 2009 consisted of the fair value of options earned during the period by non employees.

Interest and financing costs: Interest and financing costs during the three months ended March 31, 2010 and during the three months ended March 31, 2009 consisted of costs associated with our 10% senior convertible notes, our promissory notes and interest on the capital lease. During the three months ended March 31, 2010, we incurred \$184,086 in interest and financing costs, an increase of \$46,428 (34%) over the \$137,658 in interest and financing costs incurred during the three months ended March 31, 2009.

The \$184,086 in interest and financing costs we incurred during the three months ended March 31, 2010 is comprised of \$151,424 of interest paid and payable to the holders of our debt; \$32,502 of accretion of our 10% senior convertible notes; and \$160 in interest on the capital lease. The \$137,658 in interest and financing costs we incurred during the three months ended March 31, 2009 is comprised of \$132,140 of interest paid and payable to the holders of our debt; \$3,929 of accretion of our 10% senior convertible notes and our promissory notes; \$1,400 of amortization of deferred financing costs; and \$189 in interest on the capital lease.

We failed to settle certain of our promissory notes and 10% senior convertible notes, and accrued interest thereon, when they became due on various dates between October 1, 2008 and March 31, 2010, and a significant portion of these notes remain in default as at March 31, 2010. In accordance with the default provision of the 10% senior convertible notes, and certain of the promissory notes, this has resulted in all of these notes becoming due and payable on demand as of the date of the default, or in the case of notes issued subsequent to the default, on the date of issuance, notwithstanding any differing stated maturity date. Consequently, the accretion relating to the equity components of debt issued since the initial event of default, and the amortization of any finance charges incurred thereon, has occurred in the period of issuance.

As a result of the above, the accretion and finance charge components of interest and financing costs for the three months ended March 31, 2010, and for the three months ended March 31, 2009 relate only to notes issued during these periods. The fair value of the equity components relating to notes issued during the three months ended March 31, 2010 was greater than the fair value of equity components relating to notes issued during the three months ended March 31, 2009, which resulted in an increase of \$28,573 (727%) in accretion.

Interest paid and payable to the holders of our debt increased by \$19,284 (15%), as a result of a net increase of \$935,570 in principal outstanding on our debt over the period from March 31, 2009 to March 31, 2010.

Gain on extinguishment of debt and accrued liabilities: During the three months ended March 31, 2009 we realized a net loss of \$4,346 on the settlement of accounts payable and accrued liabilities. There were no similar transactions during the three months ended March 31, 2010.

Foreign exchange gain (loss): Foreign exchange gain (loss) 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 three months ended March 31, 2010 the Canadian dollar gained strength in relation to the United States dollar, resulting in overall losses on foreign currency translations of \$28,828. During the three months ended March 31, 2009, the United States dollar gained strength in relation to the Canadian dollar, resulting in overall gains on foreign currency translations of \$16,581.

Net loss: We incurred a loss of \$372,218 (\$0.004 per share) for the three months ended March 31, 2010, compared to a loss of \$249,062 (\$0.003 per share) for the three months ended March 31, 2009. Our revenues and future profitability are substantially dependent on our ability to:

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raise additional capital to fund operations;

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license software applications to a sufficient number of clients;

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be cash-flow positive on an ongoing basis;

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modify the successful software applications, over time, to provide enhanced benefits to then-existing users; and

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successfully develop related software applications.

LIQUIDITY AND CAPITAL RESOURCES

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

Our cash and cash equivalents decreased by \$31,367 during the three months ended March 31, 2010, from a balance of \$36,689 at December 31, 2009, to \$5,322 at March 31, 2010. Our net loss of \$372,218 during the period, and resulting cash used in operations of \$106,559, along with our repayments of \$1,200 of our promissory notes, net of new note proceeds, were partially offset by an increase in cash resulting from the issuance of \$75,000 of 10% senior convertible notes. Our cash and cash equivalents decreased by \$46,299 during the three months ended March 31, 2009. Our net loss of \$249,062 during the period, and resulting cash used in operations of \$123,694, were partially offset by an increase in cash resulting from the issuance of \$50,000 of 10% senior convertible notes, and \$27,566, net of repayments and issuance costs, from the issuance of promissory notes.

We added an explanatory paragraph to our interim consolidated financial statements for the three months ended March 31, 2010. It states that our economic viability is dependent on our ability to finalize the development of our principal products, generate sales and finance operational expenses, and that these factors, together with our lack of revenues to date; our negative working capital; our loss for the year, as well as negative cash flow from operating activities in the same period; and our accumulated deficit, raise substantial doubt regarding our ability to continue as a going concern.

At March 31, 2010, we had negative working capital of \$8,008,341 and an accumulated deficit during the development stage of \$34,362,423; for the three months then ended we had a net loss of \$372,218, and negative cash flow from operations of \$106,559. Furthermore, the Company failed to settle certain of its 10% senior convertible notes and promissory notes, plus accrued interest thereon when they matured on various dates from October 1, 2008 to March 31, 2010. A substantial amount of these notes remain unpaid as of March 31, 2010. All of the 10% senior convertible notes, as well as \$36,250 of the promissory notes were in default at March 31, 2010 in accordance with the default provisions of the respective notes, and as a result are due and payable on demand.

We anticipate commercial sales during the third quarter of 2010, however we cannot be assured that this will be the case. During the three months ended March 31, 2010, we engaged one new part-time consultant, and increased the level of involvement of two consultants already engaged on a part-time basis. During the next six months we expect to engage one officer and director; we do not expect to hire additional personnel unless we are successful in raising significant funds through the issuance of our debt or equity securities. We do not 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 securities. We have engaged consultants to provide advice to us with respect to the raising of capital. However, additional funding may not be available to us on reasonable terms, if at all. The perceived risk associated with the possible sale of a large number of shares of our common stock could cause some of our stockholders to sell their stock, thus causing the price of our stock to decline. In addition, actual or anticipated downward pressure on our stock price due to actual or anticipated issuance of stock could cause some institutions or individuals to engage in short sales of our common stock, which may itself cause the price of our stock to decline. We may be unable to raise additional capital if our stock price is too low. A sustained inability to raise capital could force us to limit or curtail our operations.

We expect the level of our future operating expenses to be driven by the needs of our research and development and marketing programs, offset by the availability of funds. In addition, we have since inception taken steps 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 three months ended March 31, 2010, we issued \$75,000 of 10% senior convertible notes, which generated cash to fund operations. During this period, we issued a further \$164,354 of our 10% senior convertible notes in settlement of previously issued 10% senior convertible notes which matured in March 2010, plus accrued interest thereon, which reduced the cash which would otherwise have been required to settle the liability; and \$1,167 of our promissory notes, which also generated cash for operations.

During the period from April 1, 2010 to May 14, 2010, we issued \$60,000 in senior convertible notes, and \$52,100 in promissory notes, the cash proceeds of which were used to fund operations; and \$161,115 in senior convertible notes, in settlement of previously issued 10% senior convertible notes which matured in March, 2010, plus accrued interest thereon, which reduced the cash which would otherwise have been required to settle the liability.

As at May 14, 2010, we have 105,850,394 shares of our common stock issued and outstanding; an additional 204,977,880 common shares are issuable upon the exercise of outstanding options, warrants and the conversion of outstanding senior convertible notes. Common shares issued and issuable therefore exceed the 300,000,000 shares authorized for issuance by 10,828,274.

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

Uses of Capital: Over the past several years, we have scaled our development activities to the level of available cash resources. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

N/A

ITEMS 4 AND 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

It is management’s responsibility to establish and maintain adequate internal control over all financial reporting pursuant to these rules. Our management, including our principal executive officer and principal financial officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures as of a date within ninety (90) days of the filing date of this report. Based on that evaluation, our President, Chief Executive Officer and Chief Financial Officer has concluded that our controls and procedures were not effective as of the end of the period covered by this Report to ensure that information required to be disclosed by us in reports that we file or submit under the

Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the three months ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Controls over Financial Reporting

At December 31, 2009, management of the Company provided a report on internal controls over financial reporting. Reference should be made to our annual report on Form 10-K for that report, wherein we reported that management's assessment at December 31, 2009 was that the Company's internal control over financial reporting was not effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

In connection with the audit of our consolidated financial statements for the year ended December 31, 2009, our management identified the existence of certain significant internal control deficiencies that they considered to be material weaknesses. In particular, identified the following weaknesses in our internal control system at December 31, 2009: (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. A material weakness is a significant deficiency in one or more of the internal control components that alone or in the aggregate precludes our internal controls from reducing to an appropriately low level of risk that material misstatements in our financial statements will not be prevented or detected on a timely basis. We considered these matters in connection with the period-end closing of accounts and preparation of the related consolidated financial statements and determined that no prior period financial statements were materially affected by such matters.

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

We were unable to eliminate the identified weaknesses with respect to the period covered by this report. Set forth below is a discussion of the significant internal control deficiencies which have not been remediated.

Lack of segregation of duties. Since commencing the development phase of our operations in August 1999, our size has prevented us from being able to employ sufficient resources to enable us to have an adequate level of supervision and segregation of duties within our internal control system. During the period from January 2007 to February 2008, we had only three people involved with the processing of accounting entries: the Office Administrator, the Controller and the Chief Financial Officer. It was therefore difficult to effectively segregate accounting duties. During this

period, we made attempts to segregate duties as much as practicable, however there was insufficient volume of transactions to justify additional full time staff. The office administrator and the Chief Financial Officer resigned, effective February 15, 2008 and July 10, 2008, respectively. While our Chief Executive Officer has assumed the roll of the Chief Financial Officer on an interim basis, we nonetheless are 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 2010 and 2009, 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 interim procedures, and to make changes wherever practicable to 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.

Signing authority with respect to corporate bank accounts. Since the departure of our Chief Financial Officer and Treasurer in July 2008, the positions of Director, President, Chief Executive Officer, Chief Financial Officer, Executive Vice President, Secretary and Treasurer have been held by one person. This individual has sole signing authority for the Company's bank accounts. Our Controller monitors our bank accounts on a regular basis, however there can be no assurance that unauthorized or unsupported transactions will not occur.

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1a. Risk Factors

In addition to other information set forth in this Report, you should carefully consider the risk factors previously disclosed in Item 1A. to Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2009. There were no material changes to these risk factors during the three months ended March 31, 2010.

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

On April 27, 2010, the Company issued 316,000 shares of its common stock to an accredited investor pursuant to the terms of \$60,000 in principal amount of its 10% senior convertible notes, which were issued to the investor on the same date.

On April 30, 2010, the Company issued 18,345 shares of its common stock to an accredited investor pursuant to the terms of \$161,115 in principal amount of its 10% senior convertible notes, which were issued to the investor on the same date.

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

Item 3. Defaults upon Senior Securities

We failed to settle certain of our 10% senior convertible notes and our promissory notes, plus accrued interest thereon when they matured on various dates between October 1, 2008 and March 31, 2010. A significant amount of these

notes remained unpaid as of March 31, 2010, and were therefore in default and due and payable on demand. Additionally, in accordance with the default provisions of the notes, this failure to settle the matured notes resulted in the remaining 10% senior convertible notes and accrued interest thereon becoming also due and payable on demand. Notwithstanding our obligation to repay these amounts immediately, the note holders have verbally communicated to management their willingness to continue holding the notes until new terms are negotiated. We will accrue interest on these unpaid balances at the coupon rate until a settlement is reached.

Until such time as the matured notes plus accrued interest thereon are settled, all of the 10% senior convertible notes, and \$36,250 of the promissory notes will remain in default.

Item 4. Removed and Reserved

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits.

31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with requirements 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

By: /s/ Bruce Benn

Bruce Benn

President, Chief Executive Officer

and Chief Financial officer

(principal executive officer)

Dated: May 20, 2010

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

By: /s/ Bruce Benn

Bruce Benn

President, Chief Executive Officer

and Chief Financial officer

(principal financial and accounting officer)

Dated: May 20, 2010

