

VALIDIAN CORP
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 000-28423

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 Rd., Suite 205, 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 ☒

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

Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

At August 12, 2014, 269,930,362 shares of the registrant's common stock were outstanding.

SEC 1296 (1-12)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

PART I FINANCIAL INFORMATION**Item 1. Financial Statements****VALIDIAN CORPORATION AND SUBSIDIARIES****A DEVELOPMENT STAGE ENTERPRISE****Unaudited Interim Consolidated, Condensed Balance Sheets****(In United States dollars)****June 30,****December 31, 2013****2014****Assets**

Current assets:

Cash and cash equivalents	\$ 56,517	\$ 104,389
Value added taxes recoverable	20,746	8,638
Prepaid expenses	106,748	--
Total Current assets	184,011	113,027

Property and equipment, net of accumulated depreciation of \$32,333

(December 31, 2013 - \$31,235)	1,757	3,355
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Total assets	\$ 185,768	\$ 116,382
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Liabilities and Stockholders Deficiency

Current liabilities:

Accounts payable and accrued liabilities (note 8)	\$ 3,788,630	\$ 3,473,100
Accrued interest on promissory notes and 10% senior convertible notes payable to related parties (note 8)	275,946	244,252
Deferred revenue	320,000	320,000
Promissory notes payable (notes 2, 8)	46,250	51,350
Promissory notes payable to related parties (notes 2,8)	5,989	5,989
10% Senior convertible notes (notes 3, 8)	6,352,705	6,593,050
10% Senior convertible notes payable to related parties (notes 3, 8)	631,945	631,945
Convertible promissory notes (note 4)	6,165	47,010
Total current liabilities	11,427,630	11,366,696
Total liabilities	11,427,630	11,366,696

Stockholders deficiency (note 5):

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Preferred stock (\$0.001 par value. Authorized 50,000,000 shares; issued and outstanding Nil shares at June 30, 2014 and at December 31,	--	--
2013)		
Common stock, (\$0.001 par value. Authorized 700,000,000 shares; issued and outstanding 269,930,362 and 251,023,302 shares at	269,930	251,023
June 30, 2014 and December 31, 2013, respectively.)		
Additional paid in capital	32,139,432	31,208,208
Deficit accumulated during the development stage	(43,622,790)	(42,681,111)
Retained earnings prior to entering development stage	21,304	21,304
Treasury stock (7,000 shares at June 30, 2014 and December 31, 2013, at cost)	(49,738)	(49,738)
Total stockholders' deficiency	(11,241,862)	(11,250,314)
Basis of presentation (note 1)		
Subsequent events (note 12)		
Total liabilities and stockholders' deficiency	\$ 185,768	\$ 116,382

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES**A DEVELOPMENT STAGE ENTERPRISE****Unaudited Interim Consolidated, Condensed Statements of Operations****For the three and six months ended June 30, 2014 and 2013****And for the Period from August 3, 1999 to June 30, 2014****(In United States dollars)**

	Three Months Ended June 30,		Six Months Ended June 30,		Period from August 3, 1999 To June 30, 2014
	2014	2013	2014	2013	
Expenses:					
Selling, general and administrative	\$ 144,487	\$ 356,305	\$ 235,512	\$ 481,327	\$18,323,239
Research and development	78,190	30,627	117,273	30,627	10,468,572
Depreciation of property and equipment	799	710	1,598	1,421	457,615
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
	223,476	387,642	354,383	513,375	30,852,919
Loss before the undernoted	(223,476)	(387,642)	(354,383)	(513,375)	(30,852,919)
Other income (expenses):					
Interest income	--	--	--	--	61,728
Gain (loss) on extinguishment of debt, accounts payable and accrued liabilities	--	(1,600)	--	925	466,207
Interest and financing costs (notes 6 and 8)	(350,537)	(467,190)	(580,022)	(756,498)	(13,209,334)
Foreign exchange gain (loss)	(47,508)	40,517	(7,274)	69,237	(88,472)
	(398,045)	(428,273)	(587,296)	(686,336)	(12,769,871)

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Net loss	\$(621,521)	\$(815,915)	\$ (941,679)	\$ (1,199,711)	\$(43,622,790)
Loss per common share basic and diluted (note 8)	\$(0. 00)	\$(0. 00)	\$(0. 00)	\$(0. 01)	
Weighted average number of common shares outstanding during period	263,821,735	202,314,731	258,195,797	195,857,785	

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Unaudited Interim Consolidated, Condensed, Statements of Cash Flow

For the six months ended June 30, 2014 and 2013

And for the Period from August 3, 1999 to June 30, 2014

(In United States dollars)
Six Months

	2014	Ended June 30, 2013	Period from August 3, 1999 to June 30, 2014
Cash flows from operating activities:			
Net loss		\$ (941,679)	\$ (1,199,711)
<i>Adjustments to reconcile net loss to net cash used in</i>			\$ (43,622,790)
<i>operating activities:</i>			
Depreciation of property and equipment		1,598	1,421
Stock-based compensation		97,952	125,400
Non-cash interest and financing expense		530,300	755,534
Loss (gain) on extinguishment of debt and accrued liabilities		--	(925)
Non-cash penalties		--	--
Write-off of prepaid services		--	--
Write-off of deferred consulting services		--	--
Currency translation adjustment on liquidation of		--	--
investment in foreign subsidiary		--	--
Gain on sale of property and equipment		--	--
Write-off of accounts receivable		--	--
Write-off of due to related party		--	--
Loss on cash pledged as collateral for operating lease		--	--
Write-down of property and equipment		--	--
<i>Increase (decrease) in cash resulting from changes in:</i>			
Value added taxes recoverable		(12,108)	(8,351)
Prepaid expenses		--	(6,500)
Accounts payable and accrued liabilities		18,843	94,687
Deferred revenue		--	--

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Due to a related party	--	--	(5,178)
Net cash used in operating activities	(305,094)	(238,445)	(18,740,937)
Cash flows from investing activities:			
Additions to property and equipment	--	(1,690)	(548,633)
Proceeds on sale of property and equipment	--	--	176,890
Cash pledged as collateral for operating lease	--	--	(21,926)
Net cash used in investing activities	--	(1,690)	(393,669)
Cash flows from financing activities:			
Capital lease repayments	--	--	(30,489)
Issuance of promissory notes	--	20,156	4,926,129
Issuance of 10% senior convertible notes	133,000	399,500	4,750,500
Issuance of convertible promissory notes	211,500	65,000	733,500
Debt and equity issuance costs	(11,500)	(5,000)	(978,983)
Repayment of promissory notes	(5,100)	(35,963)	(381,015)
Repayment of 10% senior convertible notes	(17,678)	31,000	(104,306)
Repayment of convertible promissory notes	(53,000)	--	(181,000)
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	257,222	412,693	19,139,673
Effects of exchange rates on cash and cash equivalents	--	(188)	16,651
Net increase (decrease) in cash and cash equivalents	(47,872)	172,370	21,718
Cash and cash equivalents:			
Beginning of period	104,389	2,110	34,799
End of period	\$ 56,517	\$ 174,480	\$ 56,517

Supplementary information (note 9)

See accompanying notes to unaudited interim consolidated financial statements.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

June 30, 2014

(In United States dollars)

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. Basis of presentation

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 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 and are not necessarily indicative of the operating results for the full fiscal year ending December 31, 2013. 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, 2013.

Going concern

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 \$11,243,619, and stockholders' deficiency of \$11,241,862 as at June 30, 2014, and has incurred a loss of \$941,679 and negative cash flow from operations of \$305,094 for the six 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 December 2013. 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 June 30, 2014, 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 \$720,000 for the year ending December 31, 2014, 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.

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.

VALIDIAN CORPORATION AND SUBSIDIARIES**A DEVELOPMENT STAGE ENTERPRISE****Notes to Unaudited Interim Consolidated, Condensed Financial Statements**

June 30, 2014

(In United States dollars)

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 June 30, 2014 and December 31, 2013:

	Six months ended June 30, 2014 (unaudited)	Year ended December 31, 2013
Balance beginning of period	\$ 57,339	\$ 93,008
Notes issued	--	23,156
Principal repaid	(5,100)	(58,630)
Adjustment for foreign currency translation	--	(195)
	52,239	57,339
Payable to related parties (note 11)	(5,989)	(5,989)
	\$ 46,250	\$ 51,350

Included in interest and financing costs for the three and six months ended June 30, 2014 is \$1,656 (2013: \$2,310) and \$3,325 (2013: \$5,281), respectively, of interest on the promissory notes. Interest on the promissory notes paid in cash during the three and six months ended June 30, 2014 was \$709 (2013: \$nil) and \$927 (2013: \$963), respectively.

VALIDIAN CORPORATION AND SUBSIDIARIES**A DEVELOPMENT STAGE ENTERPRISE****Notes to Unaudited Interim Consolidated, Condensed Financial Statements**

June 30, 2014

(In United States dollars)

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 June 30, 2014 and December 31, 2013:

	Six months Ended June 30, 2014 (unaudited)	Year Ended December 31, 2013
Balance beginning of period	\$ 7,224,995	\$ 6,896,749
Note proceeds on issuance	133,000	1,965,090
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 par value	(398)	(7,990)
Allocated to additional paid-in capital	(17,493)	(211,789)
	(17,891)	(219,779)
Allocated to additional paid-in capital for the intrinsic value of the beneficial conversion feature	(104,335)	(765,217)
Proceeds allocated to 10% senior convertible notes on issuance	10,774	980,094
Accretion recorded as a charge to interest and financing costs	122,226	984,996
Principal repaid in cash	(17,678)	(49,628)
Principal converted in accordance with the terms of the notes	(355,667)	(446,667)
Principal matured and repaid through the issuance of new 10% senior convertible notes	--	(1,140,549)
	6,984,650	7,224,995

Payable to related parties (note 11)	(631,945)	(631,945)
	\$ 6,352,705	\$ 6,593,050

During the six months ended June 30, 2014, the Company issued an aggregate of \$133,000 of its 10% senior convertible notes, for cash, and repaid \$17,678 in principal, and \$22,794 in accrued interest thereon. As well during this period, holders of the notes exercised the conversion feature of the notes and converted \$355,667 in principal and \$4,333 in accrued interest, into 12,000,000 shares of the Company's common stock.

Under the terms of the notes issued during the six months ended June 30, 2014, 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. 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. \$23,000 of the notes mature on December 31, 2014; \$110,000 of the notes are payable on demand.

Notwithstanding the stated maturity date, the notes issued during the six months ended June 30, 2014 are payable on demand, pursuant to the default provisions of the notes, as described below.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

June 30, 2014

(In United States dollars)

3. 10% Senior convertible notes (continued)

Holders of the notes issued during the six months ended June 30, 2014 were granted 399,000 common shares of the Company upon issuance of the notes; \$17,891, 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 the notes was in-the-money. \$104,335, representing the relative fair value of the beneficial conversion feature, was allocated to additional paid in capital.

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 December 31, 2013. At June 30, 2014, 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 June 30, 2014, 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.

The following table summarizes information regarding the 10% senior convertible notes outstanding at June 30, 2014:

Note	Conversion
Principal	Rate
\$ 5,973,143	\$0.03
511,507	0.038
500,000	0.10

\$ 6,984,650

At June 30, 2014, \$2,835,025 of the 10% senior convertible notes were secured by a first position lien on all of the assets of the Company. The remaining \$4,149,625 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.

Included in interest and financing costs for the three and six months ended June 30, 2014 is \$176,358 (2013: \$178,128) and \$350,625 (2013: \$349,374), respectively, in coupon rate interest accrued on the 10% senior convertible notes, and \$99,226 (2013: \$100,804) and \$122,226 (2013: \$345,441), respectively, in accretion related to the relative fair value of the equity components of the 10% senior convertible notes at issuance.

At June 30, 2014, the fair value of the stock issuable to fully convert the 10% senior convertible note principal, was \$9,333,559, which is \$2,348,908 greater than the principal outstanding on that date.

4. Convertible promissory notes

During the six months ended June 30, 2014, the Company issued \$211,500 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.

\$63,000 of the notes issued during the six months ended June 30, 2014 mature on October 29, 2014, and may be prepaid during the period from issuance to July 25, 2014, in full, 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 July 25, 2014 or thereafter, into common stock of the Company. The rate of conversion for these notes is calculated as the average of the lowest three trading prices during the ten trading days immediately preceding such conversion, discounted by 49%. \$63,000, representing the relative fair value of the beneficial conversion feature of the notes at date of issuance, was allocated to additional paid in capital.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

June 30, 2014

(In United States dollars)

4. Convertible promissory notes (continued)

\$53,000 of the notes of the notes issued during the six months ended June 30, 2014 mature on December 18, 2014, and may be prepaid during the period from issuance to September 9, 2014, in full, 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 September 9, 2014, or thereafter, into common stock of the Company. The rate of conversion for these notes is calculated as the average of the lowest three trading prices during the ten trading days immediately preceding such conversion, discounted by 49%. \$50,691, representing the relative fair value of the beneficial conversion feature of the notes at date of issuance, was allocated to additional paid in capital.

\$53,000 of the notes of the notes issued during the six months ended June 30, 2014 mature on January 22, 2015 and may be prepaid during the period from issuance to October 15, 2014, in full, 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 15, 2014, or thereafter, into common stock of the Company. The rate of conversion for these notes is calculated as the average of the lowest three trading prices during the ten trading days immediately preceding such conversion, discounted by 49%. \$53,000, representing the relative fair value of the beneficial conversion feature of the notes at date of issuance, was allocated to additional paid in capital.

\$42,500 of the notes of the notes issued during the six months ended June 30, 2014 mature on February 19, 2015, and may be prepaid during the period from issuance to November 11, 2014, in full, 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 November 11, 2014, or thereafter, into common stock of the Company. The rate of conversion for these notes is calculated as the average of the lowest three trading prices during the ten trading days immediately preceding such conversion, discounted by 49%. \$41,394, representing the relative fair value of the beneficial conversion feature of the notes at date of issuance, was allocated to additional paid in capital.

During the six months ended June 30, 2014, holders of the convertible promissory notes exercised the conversion feature of the notes, and converted \$53,000 of note principal, plus \$2,120 of accrued interest thereon, into 2,508,060 shares of the Company's common stock.

\$53,000 of the convertible promissory notes payable at June 30, 2014 were issued during 2013. These notes had a maturity date of July 28, 2014, and could be converted by the holder, using a conversion rate calculated as the average of the lowest three trading prices during the ten trading days immediately preceding a conversion, discounted by 49%, and had an interest rate of 8% until the date of maturity, or until an event of default. The Company prepaid these notes on April 28, 2014, in accordance with the prepayment terms of the notes.

The convertible promissory notes contain penalty provisions relating to events of default, pursuant to which the Company 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 Company 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 Company; breach of covenants, representations or warranties under the note; delisting of the Company's stock or failure to comply with the exchange act; failure to maintain property or rights which are necessary to the Company's business; certain restatements of the Company'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 Company'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.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

June 30, 2014

(In United States dollars)

4. Convertible promissory notes (continued)

The discount to market conversion feature of the convertible promissory notes causes a theoretical possibility that the Company 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 June 30, 2014 was 16,719,224, which represents less than 4% of the authorized, unissued shares at that date, and has also estimated that the fair value of the notes at June 30, 2014 approximates face value, therefore no adjustment for fair value restatement has been made.

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 three and six months ended June 30, 2014, accretion of \$42,120 (2013: \$36,866) and \$66,264 (2013: \$48,359), respectively, was included in interest and financing costs.

Also included in interest and financing costs for the three and six months ended June 30, 2014 is \$27,755 (2013: \$1,747) and \$30,606 (2013: \$3,536), respectively, relating to accrued coupon-rate interest on the convertible promissory notes; and \$3,422 (2013: \$3,502) and \$6,976 (2013: \$4,507), respectively, relating to the amortization of deferred finance fees incurred in connection with the placement of the convertible promissory notes.

At June 30, 2014, the fair value of the stock issuable to fully convert the convertible promissory note principal was \$701,801, which exceeded the principal amount outstanding on that date by \$490,301.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

June 30, 2014

(In United States dollars)

5. Stockholders' deficiency

(a) Common stock transactions

During the six months ended June 30, 2014, the Company issued an aggregate of 4,000,000 shares of its common stock as remuneration for consulting services rendered and to be rendered. \$204,700, representing the fair value of the stock at issuance, was allocated to shares and additional paid in capital; \$97,952 was charged to expense during the period; \$106,748 was allocated to prepaid expense, and will be charged to expense over the remaining service period.

During the six months ended June 30, 2014, holders of the 10% senior convertible notes exercised the conversion feature of the notes and converted an aggregate of \$355,667 of note principal and \$4,333 of accrued interest thereon, into 12,000,000 shares of the Company's common stock.

During the six months ended June 30, 2014, holders of the convertible promissory notes exercised the conversion feature of the notes and converted an aggregate of \$53,000 of note principal and \$2,120 in accrued interest thereon, into 2,508,060 shares of the Company's common stock.

In connection with the issuance of the Company's 10% senior convertible notes during the six months ended June 30, 2014, the Company issued 399,000 shares of its common stock, with a relative fair value of \$17,891, to the holders of the notes.

(b)

Stock-based compensation

The following table presents the total of stock-based compensation included in the expenses of the Company for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Selling, general and administrative	\$ 74,618	\$ 30,900	\$ 97,952	\$ 125,400
Total stock-based compensation included in expenses	\$ 74,618	\$ 30,900	\$ 97,952	\$ 125,400

6. Interest and financing costs

Interest and financing costs include accrued and paid coupon rate interest and accretion and financing costs relating to the 10% senior convertible notes and convertible promissory notes.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

June 30, 2014

(In United States dollars)

7. Loss per share

As the Company incurred a net loss during the three and six months ended June 30, 2014, and during the three and six months ended June 30, 2013, 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:

	June 30, 2014 (unaudited)	June 30, 2013 (unaudited)
Shares issuable on conversion of 10% senior convertible notes	217,565,469	228,469,136
Shares issuable on conversion of convertible promissory notes and accrued interest thereon	16,719,244	8,474,859
Stock options	--	600,000
	234,284,713	237,543,995

8. Related party transactions

Included in 10% senior convertible notes payable (note 3) is \$584,387 (December 31, 2013 - \$584,387) payable to a director and to a company controlled by a director, and \$47,558 (December 31, 2013 - \$47,558) 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 \$5,989 (December 31, 2013 - \$5,989) payable to the director and to a company controlled by a director.

\$275,946 (December 31, 2013: \$244,252) in accrued interest charges relating to the 10% senior convertible notes and promissory notes is included in accrued liabilities at June 30, 2014. \$15,757 (2013: \$15,851) and \$31,517 (2013: \$33,568), is included in interest and financing costs for the three and six months ended June 30, 2014, respectively.

VALIDIAN CORPORATION AND SUBSIDIARIES

A DEVELOPMENT STAGE ENTERPRISE

Notes to Unaudited Interim Consolidated, Condensed Financial Statements

June 30, 2014

(In United States dollars)

9. Supplementary cash flow information

The Company paid no income taxes during the six months ended June 30, 2014, nor during the six months ended June 30, 2013. Interest paid in cash during the six months ended June 30, 2014 was \$49,722 (2013: \$963).

Non-cash financing activities are excluded from the consolidated statements of cash flows. The following is a summary of such activities for the six months ended June 30, 2014 and 2013:

	2014	2013
Issuance of the Company's common stock on conversion of the 10% senior convertible notes plus accrued interest thereon	\$ 360,000	\$ 30,616
Issuance of the Company's common stock on conversion of convertible promissory notes plus accrued interest thereon	55,120	53,800
Issuance of the Company's common stock as compensation to consultants	204,700	125,400
Issuance of the Company's 10% senior convertible notes in settlement of previously issued 10% senior convertible notes and accrued interest thereon	--	773,932
Issuance of the Company's common stock in settlement of accounts payable and accrued liabilities	--	39,500
Issuance of the Company's 10% senior convertible notes in settlement of accounts payable and accrued liabilities	--	26,000
	\$ 619,820	\$ 1,049,248

10. 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 10% senior convertible notes, the convertible promissory notes, and the promissory notes approximate fair value, due to the issuance of certain of these debt instruments during the three months prior and/or subsequent to the period ended June 30, 2014, under conditions substantially identical to those existing at June 30, 2014.

11. Recent accounting pronouncements

Management does not believe that any recently issued but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

12. Subsequent events

We have evaluated subsequent events through the date the financial statements were issued; there were no material events to disclose.

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:

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our limited operating history;

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our lack of sales to date;

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our requirements for additional capital and operational 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.

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 2013 Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013. We evaluate our estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Actual results could differ materially from these estimates and assumptions. The following critical accounting policies are impacted by judgments, assumptions and estimates used in preparation of our June 30, 2014 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 June 30, 2014 compared to the three months ended June 30, 2013

Revenue: We had no revenue during the three months ended June 30, 2014, nor during the three months ended June 30, 2013. 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, travel and other miscellaneous costs associated with supporting our research and development, sales and marketing and investor relations activities. During the three months ended June 30, 2014, we incurred a total of \$144,487, as compared to \$356,305 during the three months ended June 30, 2013. There was an overall decrease in selling, general and administrative expenses of \$211,818 (59%) during the three months ended June 30, 2014 as compared to the three months ended June 30, 2013.

The decrease in selling, general and administrative expense occurred primarily as a result of a reduction in investor relations consultant fees incurred during the period ended June 30, 2014 as compared to the period ended June 30, 2013. The majority of the investor relations consulting fees expensed during the three months ended June 30, 2013 were incurred pursuant to a contract which was terminated in December 2013. Additionally, we issued 1,000,000 shares of our common stock, with a fair value of \$31,500, as a bonus to a consultant during the three months ended June 30, 2013, for which there was no comparable transaction during the three months ended June 30, 2014.

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, delaying production of new promotional material, and reducing our occupancy costs. 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 June 30, 2014, we incurred a total of \$78,190, as compared to \$30,627 during the three months ended June 30, 2013 on research and development activities. There was an overall increase in research and development expenses of \$47,563 (155%) during the three months ended June 30, 2014 as compared to the three months ended June 30, 2013.

During the first part of the three month period ended June 30, 2013, we did not conduct any development activity, while we evaluated the development options required to position our software competitively given the recent changes in the way in which non-mobile and mobile applications interface. During this time we identified the methodology and skill set required to enable development of the next version of our software server component to support web applications, and to enable the next version of the client component of our software to function on each of the four major mobile operating systems. We determined that we would need to engage additional consultants in order to have the breadth of skill sets required for this next level of our software development, and we succeeded in engaging a qualified consulting development team in mid-May 2013.

During the three months ended June 30, 2014, the primary focus of our development activity was the debugging of our ValidianProtect application pursuant to feedback received from our channel partners, based on their use of our trial version during Q4 2013 and Q1 2014.

Interest and financing costs: Interest and financing costs during the three months ended June 30, 2014 and during the three months ended June 30, 2013 consisted of costs associated with our 10% senior convertible notes, our promissory notes, and our convertible promissory notes. During the three months ended June 30, 2014, we incurred \$350,537 in interest and financing costs, a decrease of \$116,653 (25%) from the \$467,190 in interest and financing costs incurred during the three months ended June 30, 2013.

The \$350,537 in interest and financing costs we incurred during the three months ended June 30, 2014 is comprised of \$205,769 of interest paid and payable to the holders of our debt; \$99,226 of accretion of our 10% senior convertible notes; \$42,120 of accretion of our convertible promissory notes; and \$3,422 of amortized deferred finance fees relating to the convertible promissory notes. The \$467,190 in interest and financing costs we incurred during the three months ended June 30, 2013 is comprised of \$182,186 of interest paid and payable to the holders of our debt; \$244,637 of accretion of our 10% senior convertible notes; \$36,865 of accretion of our convertible promissory notes; and \$3,502 of amortized deferred finance fees relating to the convertible promissory notes.

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 December 31, 2013; a significant portion of these notes remain in default as at June 30, 2014. 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 other stated maturity date. Consequently, the accretion relating to the equity components of either of these instruments 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 components of interest and financing costs relating to the 10% senior convertible notes for the three months ended June 30, 2014, and for the three months ended June 30, 2013 relate only to notes issued during these periods. The fair value of the equity components relating to this class of notes issued during the three months ended June 30, 2014 was less than the fair value of equity components relating to similar notes issued during the three months ended June 30, 2013, which resulted in a decrease of \$145,411 (59%) in accretion related to this class of notes.

Accretion of our convertible promissory notes increased by \$5,255 (14%) as a result of a net increase of \$146,500 (225%) in the principal outstanding on these notes at June 30, 2014 as compared to June 30, 2013, and the related increase in the fair value of the beneficial conversion options being accreted.

Interest paid and payable to the holders of our debt increased by \$23,583 (2%). Although there was a net decrease of \$270,384 (4%) in principal outstanding on our interest-bearing debt during the period from June 30, 2013 to June 30, 2014, there was not a significant difference in the average principal outstanding during these two periods. A prepayment bonus of \$23,840 on the partial settlement of our convertible promissory notes during the three months ended June 30, 2014, for which there was no comparable transaction during the three months ended June 30, 2013, was the primary reason for the increase in interest paid and payable to the holders of our debt.

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 June 30, 2014, the Canadian dollar gained strength relative to the United States dollar, resulting in an overall loss of \$47,508 on foreign currency translations; during the three months ended June 30, 2013, the United States dollar gained strength relative to the Canadian dollar, resulting in an overall gain of \$40,517 on foreign currency translations.

Net loss: We incurred a loss of \$621,521 (rounded to \$0.00 per share) for the three months ended June 30, 2014, compared to a loss of \$815,915 (rounded to \$0.00 per share) for the three months ended June 30, 2013. Our revenues and future profitability are substantially dependent on our ability to:

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

The Six months ended June 30, 2014 compared to the six months ended June 30, 2013

Revenue: We had no revenue during the six months ended June 30, 2014, nor during the six months ended June 30, 2013. 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, travel and other miscellaneous costs associated with supporting our research and development, sales and marketing and investor relations activities. During the six months ended June 30, 2014, we incurred a total of \$235,512, as compared to \$481,327 during the six months ended June 30, 2013. There was an overall decrease in selling, general and administrative expenses of \$245,815 (51%) during the six months ended June 30, 2014 as compared to the six months ended June 30, 2013.

The decrease in selling, general and administrative expense occurred primarily as a result of a reduction in investor relations consultant fees incurred during the period ended June 30, 2014 as compared to the period ended June 30, 2013. The majority of the investor relations consulting fees expensed during the six months ended June 30, 2013 were incurred pursuant to a contract which was terminated in December 2013. Additionally, we issued 1,000,000 shares of our common stock, with a fair value of \$31,500, as a bonus to a consultant during the six months ended June 30, 2013, for which there was no comparable transaction during the six months ended June 30, 2014.

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, delaying production of new promotional material, and reducing our occupancy costs. 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 six months ended June 30, 2014, we incurred a total of \$117,273, as compared to \$30,627 during the six months ended June 30, 2013, on research and development activities. There was an overall increase in research and development expenses of \$86,646 (283%) during the six months ended June 30, 2014 as compared to the six months ended June 30, 2013.

During the first 4.5 months of the six month period ended June 30, 2013, we did not conduct any development activity, while we evaluated the development options required to position our software competitively given the recent changes in the way in which non-mobile and mobile applications interface. During this time we identified the methodology and skill set required to enable development of the next version of our software server component to

support web applications, and to enable the next version of the client component of our software to function on each of the four major mobile operating systems. We determined that we would need to engage additional consultants in order to have the breadth of skill sets required for this next level of our software development, and we succeeded in engaging a qualified consulting development team in mid-May 2013.

During the three months ended June 30, 2014, the primary focus of our development activity was the debugging of our ValidianProtect application pursuant to feedback received from our channel partners, based on their use of our trial version during Q4 2013 and Q1 2014; and the creation of a prototype to enable testing of our software on mobile applications.

Interest and financing costs: Interest and financing costs during the six months ended June 30, 2014 and during the six months ended June 30, 2013 consisted of costs associated with our 10% senior convertible notes, our promissory notes, and our convertible promissory notes. During the six months ended June 30, 2014, we incurred \$580,022 in interest and financing costs, a decrease of \$176,476 (23%) from the \$756,498 in interest and financing costs incurred during the six months ended June 30, 2013.

The \$580,022 in interest and financing costs we incurred during the six months ended June 30, 2014 is comprised of \$384,556 of interest paid and payable to the holders of our debt; \$122,226 of accretion of our 10% senior convertible notes; \$66,264 of accretion of our convertible promissory notes; and \$6,976 of amortized deferred finance fees relating to the convertible promissory notes. The \$756,498 in interest and financing costs we incurred during the six months ended June 30, 2013 is comprised of \$358,191 of interest paid and payable to the holders of our debt; \$345,441 of accretion of our 10% senior convertible notes; \$48,359 of accretion of our convertible promissory notes; and \$4,507 of amortized deferred finance fees relating to the convertible promissory notes.

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 December 31, 2013; a significant portion of these notes remain in default as at June 30, 2014. 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 other stated maturity date. Consequently, the accretion relating to the equity components of either of these instruments 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 components of interest and financing costs relating to the 10% senior convertible notes for the six months ended June 30, 2014, and for the six months ended June 30, 2013 relate only to notes issued during these periods. The fair value of the equity components relating to this class of notes issued during the six months ended June 30, 2014 was less than the fair value of equity components relating to similar notes issued during the six months ended June 30, 2013, which resulted in a decrease of \$223,215 (65%) in accretion related to this class of notes.

Accretion of our convertible promissory notes increased by \$17,905 (37%) as a result of a net increase of \$146,500 (225%) in the principal outstanding on these notes at June 30, 2014 as compared to June 30, 2013, and the related increase in the fair value of the beneficial conversion options being accreted.

Interest paid and payable to the holders of our debt increased by \$26,365 (7%). Although there was a net decrease of \$270,384 (4%) in principal outstanding on our interest-bearing debt during the period from June 30, 2013 to June 30, 2014, there was a slight increase in the average principal outstanding during these two periods. A prepayment bonus of \$23,840 on the partial settlement of our convertible promissory notes during the six months ended June 30, 2014, for which there was no comparable transaction during the six months ended June 30, 2013, was the primary reason for the increase in interest paid and payable to the holders of our debt.

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 six months ended June 30, 2014 the Canadian dollar gained strength relative to the United States dollar, resulting in an overall loss of \$7,274 on foreign currency translations. During the six months ended June 30, 2013, the United States dollar gained strength relative to the Canadian dollar, resulting in an overall gain of \$69,237 on foreign currency translations.

Net loss: We incurred a loss of \$941,679 (rounded to \$0.00 per share) for the six months ended June 30, 2014, compared to a loss of \$686,336 (rounded to \$0.01 per share) for the six months ended June 30, 2013. Our revenues and future profitability are substantially dependent on our ability to:

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;

.

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

.

successfully develop related software applications.

LIQUIDITY AND CAPITAL RESOURCES

General: Since inception, we have funded our operations from private placements of debt and equity securities. In addition, until September 1999 we derived revenues from consulting contracts with affiliated parties, the proceeds of which were used to fund operations. We have also received an aggregate of \$316,650 in proceeds relating to VAR licensing agreements. 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 \$47,872 during the six months ended June 30, 2014, from a balance of \$104,389 at December 31, 2013, to \$56,517 at June 30, 2014. Our net loss of \$941,679 during the period, and resulting cash used in operations of \$305,094, and the repayment of \$5,100 of our promissory notes, were offset by an increase in cash resulting from the issuance of \$115,322, net of repayments of \$17,678, of our 10% senior convertible notes; and proceeds, net of repayments of \$53,000 and issuance costs of \$11,500, of \$147,000, on the issuance of convertible promissory notes.

We added an explanatory paragraph to our interim consolidated financial statements for the six months ended June 30, 2014. It states that our economic viability is dependent on our ability to finalize the development of our principal products, generate sales and finance operational expenses, and that these factors, together with our lack of revenues to date; our negative working capital; our loss for the year, as well as negative cash flow from operating activities in the same period; and our accumulated deficit, raise substantial doubt regarding our ability to continue as a going concern.

At June 30, 2014, we had negative working capital of \$11,243,619 and an accumulated deficit during the development stage of \$43,622,790; for the six months then ended we had a net loss of \$941,679, and negative cash flow from operations of \$305,094. 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 December 31, 2013. A substantial amount of these notes remain unpaid as of June 30, 2014. All of the 10% senior convertible notes, as well as \$36,250 of the promissory notes were in default at June 30, 2014 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 fourth quarter of 2014, however we cannot be assured that this will be the case. During the six months ended June 30, 2014, we engaged four new consultants. 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 six months ended June 30, 2014, we issued \$115,322, net of repayments of \$17,678, of our 10% senior convertible notes; and \$147,000, net of repayments of \$53,000 and issuance costs of \$11,500 of our convertible promissory notes, which generated cash to fund operations. During this period, we also issued 12,000,000 shares of our common stock in settlement of \$355,667 of our 10% senior convertible notes, plus \$4,333 in accrued interest thereon; and 2,508,060 shares of our common stock in settlement of \$53,000 of our convertible promissory notes plus \$2,120 in accrued interest thereon, which reduced the amount of cash that would otherwise have been required to settle these liabilities. We also issued 3,000,000 shares as

compensation to consultants, which also reduced the amount of cash which would otherwise have been required to retain the consultants.

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

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 Chief Financial Officer has concluded that our disclosure controls and procedures were not effective 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 Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the six months ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Controls over Financial Reporting

At December 31, 2013, 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, 2013 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 preparation of the consolidated financial statements for the year ended December 31, 2013, our management identified the existence of certain significant internal control deficiencies that they considered to be material weaknesses. In particular, the following weaknesses in our internal control system were identified at December 31, 2013: (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. Our controller is the only person involved in the data entry function, and since the departure of our chief financial officer in 2008, our chief executive officer has assumed

the role of chief financial officer. We 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 2013, we were able to complete most of our back up schedules in a timely manner, however, during this time we consistently experienced a lack of complete preparedness at the time our external independent accountants commenced their field work on a quarterly basis. 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 operating effectively during the preceding year, as the Company consulted with external advisors on certain complex and non-routine transactions resulting in no material misstatements being identified during the year end audit. Although management has determined that this control was operating effectively during the year ended December 31, 2013, the finance staff's lack of sufficient technical accounting knowledge nonetheless remains a continued weakness in our internal control system. 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

On or around August 3, 2010, an agent of the Company was served notice of the commencement of legal action against the Company by a former consultant of the Company. The plaintiff was seeking approximately \$171,900 in unpaid fees relating to a service contract entered into by the Company and the consultant in January of 2007, plus legal and other costs. The Company contended that Mobile Secure, Inc. had failed to deliver certain software it had contracted with the Company to develop and deliver, and consequently were not entitled to payment of the balance of the contracted amount pursuant to the contract, which set out amounts to be paid to Mobile Secure, Inc. by the Company against the achievement of pre-determined deliverables to, and testing and acceptance by, the Company.

In accordance with a settlement agreement reached by the parties in January 2013, the Company paid Mobile Secure a total of \$47,500 in scheduled installments over the period from January 2013 to February 2014. The settlement allowed the Company to reacquire certain contractual rights that it may otherwise have transferred under the prior contractual arrangements.

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, 2013. There were no material changes to these risk factors during the six months ended June 30, 2014.

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

None

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 December 31, 2013. A significant amount of these notes remained unpaid as of June 30, 2014, 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. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits.

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| 31.1 | <u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 31.2 | <u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 32.1 | <u>Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 32.2 | <u>Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101* | The following financial information from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Cash Flows, and (iv) Notes to Financial Statements |

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: August 19, 2014

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: August 19, 2014

