

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from _____ to _____

Commission File Number 333-136436

DIAGNOSTIC IMAGING INTERNATIONAL CORP.

(Exact name of registrant as specified in charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

98-0493698

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

848 N. Rainbow Blvd #2494, Las Vegas, Nevada

Address of principal executive offices

89107

(Zip Code)

Registrant's telephone number, including area code (877) 331-3444

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 the 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 (Do not check if smaller reporting company)

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

As of July 29, 2011 the Company had outstanding 18,056,481 shares of its common stock.

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Item 1. Consolidated Financial Statements
**Diagnostic Imaging International Corp.
Consolidated Balance Sheets (Unaudited)**

	June 30, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash	\$ 54,961	\$ 19,671
Accounts Receivable, net	151,867	127,144
Prepaid Expenses	8,847	10,643
Total Current Assets	<u>215,675</u>	<u>57,458</u>
Property and Equipment		
Equipment	108,725	105,436
Less: Accumulated Depreciation	(106,538)	(102,587)
Total Property and Equipment, net	<u>2,187</u>	<u>2,849</u>
Intangibles		
Hospital Contracts	794,707	794,707
Non Compete Contract	105,328	105,328
Less: Accumulated Amortization	(592,799)	(535,192)
Total Intangible Assets, net	<u>307,236</u>	<u>364,843</u>
Other Assets		
Deposits	5,097	4,942
Loans Receivable	2,432	581
Total Other Assets	<u>7,529</u>	<u>5,523</u>
TOTAL ASSETS	<u>\$ 532,627</u>	<u>\$ 530,673</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 222,717	\$ 247,543
Promissory Notes	80,601	-
Loans Payable	-	27,402
Loan Payable - Related Party	-	8,360
Note Payable - Shareholder	7,062	7,282
Convertible Note, net - Shareholder short term portion	16,798	-
Convertible Notes, net short term portion	157,244	45,159
Total Current Liabilities	<u>484,422</u>	<u>335,746</u>
Long Term Liabilities		
Convertible note - Shareholder, net	3,965	17,470
Convertible notes, net	32,932	147,337
Total Long Term Liabilities	<u>36,897</u>	<u>164,807</u>
Total Liabilities	<u>521,319</u>	<u>500,553</u>
Stockholders' Equity		
Preferred Stock-\$0.001 par value; 5,000,000 shares authorized, no shares issued and outstanding	-	-
Common Stock-\$0.001 par value; 100,000,000 shares authorized, 18,056,481 shares issued and outstanding at June 30, 2011 and December 31, 2010	18,057	18,057
Additional Paid-In Capital	1,596,110	1,595,753
Comprehensive Income / (Loss) Accumulated	33	(1,403)
Accumulated Deficit	(1,602,892)	(1,582,287)
Total Stockholders' Equity	<u>11,308</u>	<u>30,120</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 532,627</u>	<u>\$ 530,673</u>

The accompanying notes are an integral part of these consolidated financial statements.

Diagnostic Imaging International Corp.
Consolidated Statements of Operations (Unaudited)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenue:				
Sales	\$ 968,307	\$ 733,526	\$ 1,871,258	\$ 1,397,263
Less: Cost of sales	793,297	605,634	1,546,169	1,145,952
Gross Margin	175,010	127,892	325,089	251,311
Operating Expenses:				
Advertising	170	1,531	1,010	20,934
Amortization	28,804	36,495	57,607	118,011
Depreciation	370	1,069	735	1,940
General and Administrative	8,147	16,892	19,754	33,795
Insurance	5,129	3,809	9,927	7,319
Labor	31,120	25,842	58,979	50,225
Legal and professional	26,922	65,516	57,120	100,503
Management fees	2,383	2,321	4,790	3,848
Rent Office Space and Servers	24,708	22,124	49,148	34,415
Travel	27	940	2,926	2,218
Total Operating Expenses	127,780	176,539	261,996	373,208
Net Income / (Loss) from Operations	47,230	(48,647)	63,093	(121,897)
Other Income and (Expenses):				
Foreign Currency Gains/(Losses)	(963)	13,798	(9,850)	5,120
Amortization of Debt Discount	(26,286)	(18,112)	(52,572)	(21,950)
Interest Expense	(9,951)	(11,456)	(21,277)	(19,055)
Total Other Income/(Expenses)	(37,200)	(15,770)	(83,699)	(35,885)
Net Income / (Loss)	10,030	(64,417)	(20,606)	(157,782)
Comprehensive Income/(Loss)	664	(344)	1,436	(3,540)
Total comprehensive Loss	\$ 10,694	\$ (64,761)	\$ (19,170)	\$ (161,322)
Basic and Diluted Income / (Loss) per Share	\$ 0.001	\$ (0.004)	\$ (0.001)	\$ (0.009)
Weighted Average Shares Outstanding:				
Basic and Diluted	18,056,481	18,273,199	18,056,481	17,564,025

The accompanying notes are an integral part of these consolidated financial statements.

Diagnostic Imaging International Corp.
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended	
	June 30, 2011	June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (20,606)	\$ (157,782)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation	735	1,940
Accrued Interest Converted into note	18,517	-
Interest imputed on shareholder loan	357	364
Interest imputed on promissory notes	-	9,568
Amortization of debt discount	52,574	21,949
Shares issued for services	-	16,200
Amortization of Intangible Assets	57,607	118,011
Foreign currency transaction Gain/ Loss	8,050	(8,968)
Changes in operating assets and liabilities:		
Accounts receivable	(24,723)	(11,197)
Deposits and prepaid expenses	1,796	(19,036)
Accounts payable and accrued liabilities	21,035	39,461
Loans receivable	(1,851)	(24,698)
NET CASH USED IN OPERATING ACTIVITIES	113,491	(14,188)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted cash	-	(141,435)
NET CASH USED IN INVESTING ACTIVITIES	-	(141,435)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	-	36,000
Proceeds from related party debt	-	42,944
Principal payments on related party debt	(15,735)	-
Principal payments on debt	(67,866)	(191,745)
Proceeds from debt issuance	49,825	299,087
Settlement payment	(45,862)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	(79,638)	186,286
Gain / (Loss) due to foreign currency translation	1,437	(3,540)
NET CHANGE IN CASH	35,290	27,123
CASH AT BEGINNING OF PERIOD	19,671	18,076
CASH AT END OF PERIOD	\$ 54,961	\$ 45,199
Cash paid during the year for:		
Interest	\$ 2,759	\$ 3,279
Income Taxes	\$ -	\$ -
Non-cash financing and investing activities:		
Issuance of Earn-Out shares	\$ -	\$ 150,000

The accompanying notes are an integral part of these consolidated financial statements.

Diagnostic Imaging International Corp.
Notes to Consolidated Financial Statements (Unaudited)
June 30, 2011

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Diagnostic Imaging International Corp. (“DIIC”), a Nevada Corporation, was incorporated in 2000. In 2005 the Company developed a business plan for private healthcare opportunities in Canada with the objective of owning and operating private diagnostic imaging clinics. In 2009 the Company purchased Canadian Teleradiology Services, Inc. (“CTS”) a company that provides remote reading of diagnostic imaging scans for rural hospitals and clinics. In early 2010 the Company modified its business plan to grow its CTS subsidiary while planning for the acquisition of existing full service imaging clinics located in the United States and exploring the development of new diagnostic imaging technology.

Basis of Presentation

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in U.S. dollars. The Company’s fiscal year-end is December 31.

Principle of Consolidation

The consolidated financial statements include the accounts of Diagnostic Imaging International, Corp. and Canadian Teleradiology Services, Inc. (CTS), Intercompany accounts and transactions have been eliminated in the consolidated financial statements. CTS’ accumulated earnings prior to the date of acquisition March 02, 2009 were not included in the consolidated statement of Balance sheet.

Reclassification of Accounts

Certain prior period amounts have been reclassified to conform to June 30, 2011 presentation.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of net sales, expenses and costs recognized during the periods presented. Adjustments made with respect to the use of estimates often relate to improved information not previously available. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2011, and December 31, 2010 cash includes cash on hand and cash in the bank.

Accounts Receivable Credit Risk

The allowance for doubtful accounts is maintained at a level sufficient to provide for estimated credit losses based on evaluating known and inherent risks in the receivables portfolio.

Management evaluates various factors including expected losses and economic conditions to predict the estimated realization on outstanding receivables. As of June 30, 2011, and December 31, 2010 there was no allowance for bad debts. As of June 30, 2011, four customers totaled approximately 80% of the total accounts receivable. As of December 31, 2010, four customers totaled approximately 79% of the total accounts receivable.

Goodwill and Indefinite Intangible Assets

The Company adopted Statement of Financial Accounting Standard ("FASB") Accounting Standards Codification ("ASC") Topic 350 *Goodwill and Other Intangible Assets*, effective July 1, 2002. In accordance with ("ASC Topic 350") "Goodwill and Other Intangible Assets," goodwill, represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method, acquired in business combinations is assigned to reporting units that are expected to benefit from the synergies of the combination as of the acquisition date. Under this standard, goodwill and intangibles with indefinite useful lives are not amortized. The Company assesses goodwill and indefinite-lived intangible assets for impairment annually during the fourth quarter, or more frequently if events and circumstances indicate impairment may have occurred in accordance with ASC Topic 350. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company records an impairment loss equal to the difference. ASC Topic 350 also requires that the fair value of indefinite-lived purchased intangible assets be estimated and compared to the carrying value. The Company recognizes an impairment loss when the estimated fair value of the indefinite-lived purchased intangible assets is less than the carrying value. As of June 30, 2011, the Company has not acquired any indefinite-lived intangible assets and goodwill.

Intangible Assets

CTS, the Company's operating subsidiary, has contracts with various hospitals in the province of Ontario, Canada. These contracts are for specific radiology services to be provided for a length of time. Contracts vary between one and five years. The contracts do not specify any minimum billings for any period of time. These contracts were valued on acquisition using a discounted cash flow model and the fair value as recorded is amortized over the life of the contract using the straight line method.

The Company also attributed value to the non-compete agreement obtained as part of the acquisition agreement with CTS' former director. This agreement has a life of five years and the value attributed to it will be amortized over the same period.

As part of the settlement agreement between the Company and the previous owners of CTS (see Note 13), 1,000,000 shares of the Company previously issued as part of CTS' acquisition were returned for cancellation. The value of the shares was based upon the closing price of our returned common stock at the cancellation date of December 2, 2010. No reversals or adjustments to previously recognized amortization expenses were recorded.

Amortization of Intangible Assets

The accumulated amortization of intangible assets with finite useful lives was \$28,804 and \$36,495 for the quarter ended June 30, 2011 and 2010, respectively.

For these assets, amortization expense over the next five years is expected to be \$364,843.

Year	USD
2011	\$ 115,213
2012	115,213
2013	115,213
2014	19,204
2015	-
	<u>\$ 364,843</u>

Revenue Recognition

The Company holds contracts with several hospitals and/or groups of health care facilities to provide Teleradiology services for a specific period of time. The Company bills for services rendered on a monthly basis. For the quarter ended June 30, 2011, CTS held eight contracts; three contracts that are renewable on a year-to-year basis, two contracts that are renewable in 2014 and 2015, one contract that is renewable in 2014, and its two largest contracts, which are, each renewable in 2013. As described above in accordance with the requirement of SAB 104, the Company recognizes revenue when: (1) persuasive evidence of an arrangement exists (contracts); (2) delivery has occurred (monthly); (3) the seller's price is fixed or determinable (per the customer's contract, and services performed); and (4) collectability is reasonably assured (based upon our credit policy).

Cost of Sales

Cost of sales includes fees paid to radiologists for Teleradiology services.

Impairment of Long-Lived Assets

In accordance with ASC Topic 3605, *long-lived assets*, such as property, plant, and equipment, and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill and other intangible assets are tested for impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

On December 31, 2010 an impairment loss of \$100,000 was recorded against the carrying value of the company's purchased intangibles is reflected in the reduced value of the non-compete agreement.

Amortization and Depreciation

Depreciation and amortization are calculated using the straight-line method over the following useful lives:

3 years	Equipment
2 to 5 years	Hospital Contracts
5 years	Non compete Contract

Stock based compensation

Beginning January 1, 2006, the Company adopted an accounting standard for stock based compensation. The standard requires all share-based payments to employees (which includes non-employee Board of Directors), including employee stock options, warrants and restricted stock, be measured at the fair value of the award and expensed over the requisite service period (generally the vesting period). The fair value of common stock options or warrants granted to employees is estimated at the date of grant using the Black-Scholes option pricing model. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock option or warrant, the dividend yield and the risk-free interest rate.

The Company from time to time may issue stock options, warrants and restricted stock to acquire goods or services from third parties. Restricted stock, options or warrants issued to other than employees or directors are recorded on the basis of their fair value. The options or warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying equity instrument on the "valuation date," which for options and warrants related to contracts that have substantial disincentives to non-performance, is the date of the contract, and for all other contracts is the vesting date. Expenses related to the options and warrants are recognized on a straight-line basis over the period which services are to be received.

The Company did not recognize stock-based compensation expenses from stock granted to non-employees for the quarter ended June 30, 2011.

The Company did not recognize stock-based compensation expenses from stock granted to employees for the three months ended June 30, 2011.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale or liquidation.

The carrying amounts of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, and income taxes payable approximate fair value due to their most maturities.

Fair Value Measurements

The hierarchy below lists three levels of fair values based on the extent to which inputs used in measuring fair value is observable in the market. We disclose and categorize each of our fair value measurement items that we recorded at fair value on a recurring basis in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets. Our Level 1 non-derivative investments primarily include domestic and international equities, U.S. treasuries and agency securities, and exchange-traded mutual funds. Our Level 1 derivative assets and liabilities include those traded on exchanges.

- Level 2—inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and forward and spot prices for currencies and commodities. Our Level 2 non-derivative investments consist primarily of corporate notes and bonds, mortgage-backed securities, certificates of deposit, certain agency securities, foreign government bonds, and commercial paper. Our Level 2 derivative assets and liabilities primarily include certain over-the-counter options, futures, and swap contracts.

- Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. Our Level 3 non-derivative assets primarily comprise investments in certain corporate bonds. We value these corporate bonds using internally developed valuation models, inputs to which include interest rate curves, credit spreads, stock prices, and volatilities. Unobservable inputs used in these models are significant to the fair values of the investments. The Company Level 3 derivative assets and liabilities primarily comprise derivatives for foreign equities. In certain cases, market-based observable inputs are not available and the company uses management judgment to develop assumptions to determine fair value for these derivatives.

The company does not have assets and liabilities that are carried at fair value on a recurring basis.

Foreign Currency Translation

The Company's functional currency for its wholly owned subsidiary CTS is the Canadian dollar and these financial statements have been translated into U.S. dollars. The Canadian dollar based accounts of the Company's foreign operations have been translated into United States dollars using the current rate method. Assets and liabilities of those operations are translated into U.S. dollars using exchange rates as of the balance sheet date; income and expenses are translated using the weighted average exchange rates for the reporting period. Translation adjustments are recorded as accumulated other comprehensive income (loss), a separate component of shareholders' equity.

The Company recognized a foreign currency loss on transactions from operations of \$963, and a foreign currency gain of \$13,798 for the three months ended June 30, 2011 and June 30, 2010, respectively.

The Company recognized a foreign currency translation gain of \$664 for the three months ended June 30, 2011, and a foreign currency translation loss of \$344 for the three months ended June 30, 2010.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, formerly Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. This statement prescribes the use of the asset and liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Net Income / (Loss) Per Share

The Company follows the provisions of ASC Topic 260, formerly SFAS No. 128, Earnings per Share. Basic net Income / (loss) per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Basic and diluted losses per share are the same as all potentially dilutive securities are anti-dilutive.

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised or equity awards vest resulting in the issuance of common stock or conversion of notes into shares of the Company's common stock that could increase the number of shares outstanding and lower the earnings per share of the Company's common stock. This calculation is not done for periods in a loss position as this would be antidilutive. As of June 30, 2011, there were no stock options or stock awards that would have been included in the computation of diluted earnings per share that could potentially dilute basic earnings per share in the future.

The information related to basic and diluted earnings per share is as follows:

	Three Months Ended	
	June 30, 2011	June 30, 2010
Numerator:		
Continuing operations:		
Net Income /(Loss) from continuing operations	\$ 10,694	\$ (64,761)
Total	\$ 10,694	\$ (64,761)
Net Income / (loss)	\$ 10,694	\$ (64,761)
Denominator:		
Weighted average number of shares outstanding – basic and diluted	18,056,481	18,273,199
EPS:		
Basic:		
Income / (Loss) from Continuing operations	\$ 0.001	\$ (0.004)
Net Income /(loss)	\$ 0.001	\$ (0.004)
Diluted		
Income / (Loss) from Continuing operations	\$ 0.001	\$ (0.004)
Net Income / (loss)	\$ 0.001	\$ (0.004)

Recent Accounting Updates

Recent accounting updates that the Company has adopted or that will be required to adopt in the future are summarized below.

On June 30, 2011, the Company adopted updates issued by the Financial Accounting Standards Board (FASB) to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification™ (ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the Consolidated Financial Statements.

The Company does not expect the adoption of any other recently issued accounting pronouncements to have a significant impact on its results of operations, financial position or cash flow.

Note 2. Interim Financial Statements

The accompanying interim unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six and three month period ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Note 3. Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the accelerated method over the estimated useful life of the assets. At June 30, 2011 and December 31, 2010, the major class of property and equipment were as follows:

	June 30, 2011	December 31, 2010	Estimated useful lives
Computer/Office Equipment	\$ 108,725	\$ 105,436	3 years
Less: Accumulated Depreciation	(106,538)	(102,587)	
Net Book Value	\$ 2,187	\$ 2,849	

Depreciation expense was \$370 and \$1,069 for the three months ended June 30, 2011 and 2010, respectively.

Note 4. Lease Commitments

CTS, a wholly owned subsidiary of the Company has a lease for its off-site servers at a cost of approximately \$2,600 per month. This lease was accounted for as an operating lease and will expire in June of 2012. The lease agreement includes an automatic renewal term of one year at the same monthly lease payment, for a maximum of five annual renewal terms.

On December 30, 2009, CTS entered into a new lease commitment for its office space of approximately \$2,600 minimum rental, and approximately \$2,900 in utilities, realty taxes, and operating costs; for a total of approximately \$5,500 per month. The first lease payment was made in April 2010. This lease was accounted for as an operating lease and will expire in March of 2013.

Expected Lease commitments for the next three years:

Year	Office Space	Servers	Total
2011	\$ 66,000	\$ 31,200	\$ 97,200
2012	66,000	31,200	97,200
2013	16,500	31,200	47,700
	<u>\$ 148,500</u>	<u>\$ 93,600</u>	<u>\$ 242,100</u>

Note 5. Business Combination

On March 2, 2009, the Company acquired 100% of Canadian Teleradiology Services Inc. ("CTS") for consideration including cash and stock which is described in detail below. Accordingly, the results of operations for CTS have been included in the accompanying consolidated financial statements from that date forward. CTS provides remote radiology (teleradiology) services to hospitals and practices, on-call 24 hours a day, seven days a week. CTS connects its clients with a teleradiology network, providing access to partner facilities and American and Canadian board-certified radiologists.

This purchase has been accounted for as a business purchase pursuant to the new business combination standard adopted in 2009. The 500,000 shares issued pursuant to the acquisition were valued based on the closing price of our common stock and recognized at the date of the announcement. An additional 500,000 shares, also valued based upon the closing price, was contingent consideration whose issuance was based upon revenue targets. The contingent consideration of 500,000 shares was paid on February 26, 2010 as revenues for the year ended December 31, 2009 reached 90% of pre-acquisition levels.

Consideration for the acquisition comprised the following (at fair value):

Cash	\$ 313,185
Promissory Note	234,887
500,000 Acquisition Liability	150,000
500,000 Shares of DIIC	150,000
Total consideration paid	<u>\$ 848,072</u>

Following assets and liabilities were recognized in the acquisition (at fair value):

Accounts receivable	\$ 12,136
Computer equipment	8,155
Hospital contracts	794,707
Non-compete agreement	205,328
Liabilities assumed	<u>(172,254)</u>
Net assets purchased	<u>\$ 848,072</u>

The Company has evaluated this transaction and believes that the historical cost of the tangible assets acquired approximated fair market value given the current nature of the assets acquired. The fair value of the intangible assets was calculated using a discounted cash flow model of the expected net cash flows from these assets over the next five years. These intangible assets will be amortized over their determined life, being the length of the current contract in effect as at the day of the acquisition.

On December 31, 2010 a reduction of \$100,000 in the carrying value of the Non-compete agreement was recorded and discussed above in the Intangibles assets disclosure in Note 1.

The amounts of revenue included in the consolidated income statement for the quarter ended June 30, 2011 and June 30, 2010 are \$968,307 and \$733,526, respectively.

The amounts of gross margin included in the consolidated income statement for the quarter ended June 30, 2011 and June 30, 2010 are \$175,010 and \$127,892, respectively.

Costs related to the acquisition, which include legal fees, in the amount of \$2,892 have been charged directly to operations and are included in legal and professional expenses in the 2009 consolidated income statement.

Note 6. Accounts Payable and Accrued Liabilities

As of June 30, 2011 and December 31, 2010, the trade payables and accrued liabilities of the Company were \$222,717 and \$247,543, respectively. Of the total amount as of June 30, 2011, approximately \$140,478 is related to CTS ongoing operations. The balance of the accounts is for vendors supplying goods and services used in the normal course of business and. Of the total amount as of December 31, 2010, approximately \$128,000 is related to CTS ongoing operations. The balance of the accounts is for vendors supplying goods and services used in the normal course of business.

Note 7. Promissory Notes

On March 2, 2009, the Company entered into promissory note agreements of \$234,887 with the former shareholders of CTS as part of the acquisition agreement. On March 2, 2010 the Company paid \$145,869 towards the balance of the outstanding promissory notes. A foreign exchange loss of \$626 was recorded on the payment towards these notes. As part of the settlement agreement between the Company and the previous owners of CTS, the remaining balance of the promissory notes of \$148,134 was paid and the notes were eliminated from the company's books against funds previously paid into court by DIIC. During 2010 a total of \$7,352 in foreign currency loss was recorded against the balance of the notes to adjust to the value on the Balance sheet date.

During the six months ended June 30, 2011 the Company entered into additional promissory notes agreements with non – related parties for a total amount of \$77,228. The promissory notes are due on December 31, 2012. Interest expense on the promissory notes is accrued at a rate of 10% compounded quarterly. For the six months ended June 30, 2011 \$3,593 in accrued interest was recorded on the notes.

A summary of the Promissory Notes is as follows:

Promissory Notes at January 1, 2010	\$ 286,650
Less: Payments in 2010	(294,002)
Added: Foreign Exchange Loss in 2010	7,352
Promissory notes at December 31, 2010	<u>\$ -</u>
Added: Proceeds from Notes issuance	77,228
Added: Accrued Interest	3,593
Less: Payments	(220)
Promissory notes at June 30, 2011	<u>\$ 80,601</u>

Note 8. Convertible Notes

The convertible notes sold by DIIC in 2010 total \$419,440. The convertible notes require principal payments of 3% per month on the outstanding principal balance. Interest on the notes accrues at 10% per annum. The notes and interest are convertible into shares of common stock of the Company at \$0.15 per share. In addition, each note holder was given 3.33 shares of Company stock for each \$1 of notes purchased.

In accordance with ASC 470 on issuance of the shares given at 3.33 shares of company stock for each \$1 of notes purchased, the Company recognized an additional paid in Capital and a discount against the notes for a total of \$210,290. An amortization of the discount for the six months ended June 30, 2011 was \$50,574.

For the six months ended June 30, 2011, \$14,482 in accrued interest was recorded on the notes.

For the six months ended June 30, 2011, \$8,499 in foreign currency loss was recorded on the portion of the notes which is carried in Canadian dollar.

The Details of the Notes are as follows:

<u>Issuance Date</u>	<u>December 31, 2010 Balance</u>	<u>6 Months ended June 30, 2011 Accrued Interest</u>	<u>6 months ended June 30, 2011 Foreign Exchange Gain/(Loss)</u>	<u>6 Months Ended June, 2011 (Payments)</u>	<u>6 Months Ended June 30, 2011 (Amortization of Debt Discount)</u>	<u>June 30, 2011 Balance</u>	<u>Maturity date</u>
March 1, 2010	\$ 13,320	\$ 812	\$ n/a	\$ (4,500)	\$ 2,914	\$ 12,546	March 1, 2012
April 14, 2010	13,518	849	n/a	(4,500)	2,914	12,781	April 1, 2012
March 4, 2010	13,311	796	(434)	(4,609)	2,914	12,846	March 31, 2012
March 18, 2010	13,536	835	(482)	(4,609)	2,914	13,157	March 31, 2012
March 22, 2010	13,181	796	(450)	(4,609)	2,914	12,732	March 31, 2012
March 1, 2010	13,346	796	(418)	(4,609)	2,914	12,865	March 31, 2012
February 26, 2010	35,587	2,579	(2,585)	(15,638)	11,364	36,476	March 31, 2012
April 16, 2010	13,326	840	(480)	(4,609)	2,914	12,951	April 1, 2012
June 1, 2010	17,470	1,640	(1,098)	(6,938)	7,493	20,762	June 1, 2012
June 17, 2010	9,330	911	(508)	(4,609)	4,163	10,303	June 1, 2012
August 6, 2010	16,471	988	(555)	(4,609)	2,083	15,488	September 1, 2012
September 23, 2010	26,554	1,575	(887)	(6,135)	3,330	26,211	October 1, 2012
October 19, 2010	11,017	1,064	(601)	(4,609)	3,747	11,821	November 1, 2012
Total	\$ 209,966	\$ 14,482	\$ (8,499)	\$ (74,583)	\$ 52,575	\$ 210,939	

Summary of the Notes is as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Convertible notes Beginning Balance	\$ 349,064	\$ 419,440
Less: unamortized debt discount	(86,523)	(139,098)
Convertible notes principal, net	262,541	280,342
Less: Payments in Period	(74,583)	(104,887)
Added: Foreign exchange loss	8,499	10,785
Added: Accrued interest	14,482	23,728
Total Convertible notes, net	\$ 210,939	\$ 209,966
Less: Short term portion, net	157,244	45,159
Less: Shareholder short term portion, net	16,798	17,470
Long term portion, net	\$ 36,897	\$ 147,337

Following are maturities of the long –term debt in convertible notes for each of the next 5 years:

	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Amortization of Discount</u>
2011	\$ 78,064	-	(52,575)
2012 - (Before maturity dates)	115,600	-	(33,951)
2012 - (On maturity dates) *	120,889	56,610	-
2013	-	-	-
2014	-	-	-
2015	-	-	-
Total	\$ 314,553	56,610	(86,526)

* All unpaid principal of \$120,889, together with the balance of unpaid and accrued interest of \$56,610 that will be due on maturity can be converted into shares by the Holder as set in the conditions of the convertible notes agreement and discussed above.

Note 9. Related Party Transactions

For the six months ended June 30, 2011, Richard Jagodnik (an officer and shareholder of the Company), had a \$7,062 note payable from DIIC. The note is non-interest bearing and payable on demand. Payment of \$256 was made during the six months ended June 30, 2011.

During the second quarter of 2010 Richard Jagodnik loaned DIIC \$42,944 under the same terms of convertible notes as described in Note 8 above. The note is carried in Canadian dollars and a foreign exchange loss of \$1,098 was recorded for the six months ended June 30, 2011. For the six months ended June 30, 2011 \$1,640 in accrued interest was recorded and added to the note. The total value of the note, net of discount as at June 30, 2011, is \$20,762, including accrued interest.

In August of 2010, a related party to our CEO, Mr. Geisler, has loaned the company \$11,362. The note is carried in Canadian dollars and a foreign exchange loss of \$223 was recorded for the six months ended June 30, 2011. Interest on the note accrues at 10% per annum. For the six months ended June 30, 2011 \$214 in accrued interest was recorded and added to the note. Payments of \$8,797 were made during the six months ended June 30, 2011. The note was paid out in full by June 28, 2011.

Summary of Related Party Notes is as follows:

	Related Party Note	Shareholder Note	Shareholder Convertible Note
Balance at December 31, 2010	8,360	7,282	17,470
Added: Accrued Interest	214	-	1,640
Added: Foreign Exchange Loss	223	-	1,098
Less: Payments	(8,797)	(220)	(6,938)
Added: Amortization of Debt Discount	-	-	7,492
Balance at June 30, 2011	-	7,062	20,762

Note 10. Major Customers

For the three months ending June 30, 2011 and 2010 revenue was derived primarily from radiology services.

Major customers representing more than 10% of total revenue for the three months ended June 30, 2011 and 2010 are as follow:

Customers	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	Revenue amount	Revenue percentage	Revenue amount	Revenue percentage
Contract A	\$ 244,388	25%	\$ 186,952	24%
Contract B	161,286	17%	150,101	19%
Contract E	133,457	33%	276,695	36%
Contract F	\$ 318,102	14%	\$ 150,546	19%

Closing balances of accounts receivable for our major customers were as follow:

Customers	Balance at June 30, 2011		Balance at December 31, 2010	
	Accounts Receivable Closing Balance	Accounts Receivable Percentage	Accounts Receivable Closing Balance	Accounts Receivable Percentage
Contract A	\$ 15,590	11%	\$ 15,565	12%
Contract B	7,978	7%	9,999	8%
Contract E	42,420	33%	28,177	22%
Contract F	\$ 43,419	28%	\$ 47,320	37%

Note 11. Major Vendors

The company has one major vendor providing its system software and support. Expenses relating to this vendor for the three months ended June 30, 2011 and 2010 were \$21,207 and \$18,318, respectively.

Note 12. Legal Proceedings

On August 13, 2009, the Company filed a Statement of Claim, in the Ontario Superior Court of Justice, Case Number CV-09384970, against Syed Haider, Dawn Haider, and Quinte Magnetic Resonance Imaging Inc. ("Vendors"), to recover monies owed to the Company by the defendants for breach of the terms of the purchase contract to acquire the assets and business of CTS. On September 16, 2009, the Vendors filed a Statement of Defense and Syed Haider filed a Statement of Defense and Counterclaim, the latter for monies claimed to be owed under his consulting contract.

On November 26th, 2010 the parties to the above suits entered into a full and final settlement and mutual release of all claims against each other. The terms of the settlement called for the Company to pay the Vendors \$281,512 on November 26th, 2010 and a further \$45,243 on January 25th, 2011 which was recorded as an accrued liability as at December 31, 2010. These amounts were paid. In addition the Company has granted an exclusion to the Non-Compete agreement with the Vendors, allowing them to pursue a Teleradiology business located solely in British Columbia, Canada and Washington State, U.S.A. The Vendors have released the Company from any further monies owed to the Vendors and returned one (1) million shares of Company stock for cancellation.

During 2010 payments made into court were deposited in a non interest bearing account, and were allocated to a restricted deposit account on the company's financial statements. As of December 31, 2010, \$238,783 of restricted deposit paid into court was applied as part of the settlement agreement and therefore, the balance of the restricted deposit account as of December 31, 2010 was \$0.

Note 13. Common Stock Transactions

No Shares were issued for the six months ended June 30, 2011.

During the fourth quarter of 2010, 83,250 shares were issued as an additional part of convertible notes agreements. The shares were valued at \$14,985 based upon the closing price of our common stock at the grant date.

During the fourth quarter of 2010, 1,000,000 shares valued at \$100,000 based upon the closing price of our common stock at the cancellation date were returned to the Company for cancellation as part of the settlement agreement between the Company and the previous owners of CTS.

During the third quarter of 2010, 50,000 shares, previously issued in the first quarter, were cancelled for services not rendered, valued at \$6,000 based upon the closing price of our common stock at the grant date.

During the third quarter of 2010, 50,000 shares were issued for employee services valued at \$5,000 based upon the closing price of our common stock at the grant date.

During the third quarter of 2010, 216,450 shares were issued as an additional part of convertible notes agreements. The shares were valued at \$21,645 based upon the closing price of our common stock at the grant date.

During the first quarter of 2010, 135,000 shares were issued for services valued at \$16,200 based upon the closing price of our common stock at the grant date.

During the second quarter of 2010, 450,000 shares were issued by private placement for \$36,000.

During the second quarter of 2010, 566,100 shares were issued as an additional part of convertible notes agreements. The shares were valued at \$93,240 based upon the closing price of our common stock at the grant date.

During the first quarter of 2010, 574,425 shares were issued as an additional part of convertible notes agreements. The shares were valued at \$80,420 based upon the closing price of our common stock at the grant date.

During the first quarter of 2010, 500,000 shares previously recorded as contingent shares were issued. The shares were valued at \$150,000 based upon the closing price of our common stock at the initial measurement date.

Note 14. Subsequent events

No Subsequent events

The company evaluated subsequent events through July 29, 2011, the date the financial statements were issued.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward Looking Statements

This Form 10-Q quarterly report of Diagnostic Imaging International Corp. (the "Company") for the six and three months ended June 30, 2011, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The following are factors that could cause actual results or events to differ materially from those anticipated, and include, but are not limited to: variations in revenue; possible inability to attract investors for its equity securities or otherwise raise adequate funds from any source should the Company seek to do so; increased governmental regulation; increased competition; unfavorable outcomes to litigation involving the Company or to which the Company may become a party in the future; and a very competitive and rapidly changing operating environment.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. The Company believes the information contained in this Form 10-Q to be accurate as of the date hereof. Changes may occur after that date, and the Company will not update that information except as required by law in the normal course of its public disclosure practices.

Additionally, the following discussion regarding the Company's financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-Q, as well as the financial statements in Item 8 of Part II of the Company's Form 10-K for the fiscal year ended December 31, 2010.

Company History

Diagnostic Imaging International Corp., ("DIIC") a Nevada Corporation, was incorporated in 2000. In 2005 the Company developed a business plan for private healthcare opportunities in Canada with the objective of owning and operating private diagnostic imaging clinics. In 2009 the Company purchased Canadian Teleradiology Services, Inc. ("CTS") a company that provides remote reading of diagnostic imaging scans for rural hospitals and clinics. In early 2010, the Company modified its business plan to grow its CTS subsidiary while commencing the acquisition of existing full service imaging clinics located in the United States and exploring the development of new diagnostic imaging technology.

CTS (Business description)

CTS provides leading edge remote radiology (teleradiology) technology to hospitals and practices, on-call, 24 hours a day, 7 days a week. CTS connects clients with a global teleradiology network, providing access to global partner facilities and American and Canadian board-certified radiologists.

CTS offers interpretations of urgent and elective examinations by board certified consultant radiologists. The Company specializes in MRI, CT, PET, US, NM, MAMMO, X-Ray and BMD modalities. Emergency STAT service is available within one hour, and 24 hours for all other studies. The CTS operation centre co-ordinates hospitals and radiologists 24 hours a day, 365 days a year.

CTS receives diagnostic imaging scans from hospitals and clinics, and transmits them to approved, certified radiologists, who are typically located in larger urban medical centers. The radiologists read the scans and review the audio information, prepare a medical report, and transmit the reports to the hospitals and clinics. The CTS system of services allows hospitals and clinics access to on-demand radiologists. Joining the CTS team allows the radiologists to make additional income, the flexibility to work from home as opposed to being "locked" in a room in the hospital, and the flexibility to spend time with their families. This service system also helps hospitals and clinics in remote locations, where it is difficult to hire skilled radiologists, and access professional, skilled radiology staff.

CTS has been providing teleradiology services in North America since 2005.

CTS offers similar services to other public hospitals, and is looking to expand into other provinces and the U.S.

CTS services include:

Ø Full PACS Networking and Compatibility *

Ø Certified Radiologists based in North America and are vetted by the hospital.

Ø 24 Hour Turnaround on Non-emergency Reports

Ø One Hour Turnaround on Emergency Verbal STAT Reports

Ø References from Client Public Hospitals and Clinics on request

*The Picture Archiving and Communications System (PACS) offers Remote Teleradiology Services to PACS-based hospitals and clinics.

Compressed scanned images are transmitted to the CTS Data Centre, including audio dictation, and stored in the PCAS system. Orders and reports are generated automatically. The scanned images are read, and reports transcribed and completed. The system has the ability to update reports. Certified Radiologists sign-off on the transcribed final report.

CTS adheres to all standards and Medical Insurance Plans (Ontario and PHIPA (Personal Health Information Protection Act)) guidelines.

About Teleradiology

Teleradiology is the process of assessing radiological patient images, such as x-rays, CTs, and MRIs, from one location to another for the purposes of interpretation and/or consultation. Radiologists are increasingly a scarce resource given that imaging procedures are growing approximately 15% annually against an increase of only 2% in the Radiologist population.

Teleradiology improves patient care by allowing Radiologists to provide services without actually having to be at the location of the patient. This is important when a sub-specialist, such as a MRI Radiologist, Neuroradiologist, Pediatric Radiologist, or Musculoskeletal Radiologist is required, as these professionals are generally only located in large metropolitan areas.

Teleradiology allows trained specialists to be available 24/7. The Teleradiology Network utilizes secured network technologies such as the, lines, and (WAN) or a (LAN). Highly specialized software is used to transmit the images and enable the Radiologist to effectively analyze what can be hundreds of images for a given study. Technologies such as advanced graphics processing, voice recognition, and image compression are often used in Teleradiology. Through Teleradiology, images can be sent to another part of the hospital, or to other locations around the world.

Teleradiologists can provide a Preliminary Read Report for emergency room purposes, or a Final Read Report for the official patient record and for use in billing.

Preliminary Reports include all pertinent findings and a phone call for any critical findings. For some Teleradiology services, the turnaround time is extremely quick with a one hour standard turnaround which is expedited for critical and stroke studies.

Teleradiology Final Reports can be provided for emergent and non-emergent studies. Final reports include all findings and require access to prior studies and all relevant patient information for a complete diagnosis. Phone calls with any critical findings are proven quality services.

In addition, some teleradiologists are fellowship trained radiologists and have a wide variety of sub-specialty expertise, including such difficult-to-find areas as MRI Radiology, Neuroradiology, and Paediatric Neuroradiology.

Teleradiology Preliminary or Final Reports can be provided for all doctors' and hospitals' overflow studies. Teleradiology can be available for intermittent coverage as an extension of practices, which we believe will provide patients with higher quality care.

Magnetic Resonance Imaging (MRI)

MRI is an investigative procedure to detect structural or anatomical problems inside the body without the need for exploratory surgery or more complex invasive tests. MRI scanning is a painless way to "see" through bones.

MRI can be used to detect problems in almost any area - head, brain, eyes, ears, neck, chest, abdomen, pelvis, spine and limbs. It is particularly useful for detecting nerve root compression (pinched, trapped nerves) in the spine by a slipped disc, and is also commonly used to assess major joints (knees and ankles - torn ligaments, meniscus injuries).

MRI has found wide applications in many branches of medicine. Neurology, cardiology, orthopaedics, urology and general surgery all use MRI for making and confirming diagnosis.

MRI can also be used in angiography studies without the need for contrast. MRI scans produce detailed pictures of soft body tissue and organs without using ionizing radiation, making early detection of cancers, neurological, and musculoskeletal diseases possible.

Computerized Axial Tomography (CAT) Technology

Patients find CAT scan technology less claustrophobic than an MRI scan, as the tunnel on a CAT machine is much shorter than the tunnel on an MRI scanner.

Computed Tomography scans are a three dimensional "window" into the body through which doctors can see brain, spine, joint and internal organs.

A CAT scan consists of a highly sensitive X-ray beam that is focused on a special plane of the body. As this beam passes through the body, it is picked up by a detector, which feeds the information it receives into a computer. The computer analyzes the information on the basis of tissue density.

Computed Tomography (CT)

Computed Tomography (CT) is a method employing. is used to generate a of the inside of an object from a large series of two-dimensional images taken around a single.

CT was originally known as the "EMI scan" as it was developed at a research branch of, a company best known today for its music and recording business. It was later known as computed axial tomography (CAT or CT scan).

Positron Emission Tomography (PET)

Positron Emission Tomography (PET) is a technique which produces a three-dimensional image or map of functional processes in the body. The system detects pairs of emitted indirectly by a -emitting (tracer), which is introduced into the body on a biologically active molecule. Images of tracer concentration in 3-dimensional space within the body are then reconstructed by computer analysis. In modern scanners, this reconstruction is often accomplished with the aid of a performed on the patient during the same session, in the same machine.

Canadian Government Regulation

Our CTS subsidiary is subject to extensive regulation by the Canadian federal government, as well as the governments of the provinces and territories in which we conduct our business. A diagnostic imaging clinic or hospital must be licensed by the Ministry of Health and sanctioned by the College of Physicians and Surgeons in the province in which it is located.

In addition to extensive existing Canadian government healthcare regulation, there could be at the federal and provincial levels reforms affecting the payment for and availability of diagnostic healthcare services. Limitations on reimbursement amounts and other cost containment pressures could result in a decrease in the revenue we expect to receive for each scan we perform. It is not clear at this time what proposals, if any, will be adopted or, if adopted, what affect these proposals would have on our business.

As our CTS subsidiary operates solely in Canada, we do not expect the recent U.S. healthcare reform legislation to have a material affect on our business or results of operations.

Competition

We compete with numerous public and private diagnostic imaging clinics. We also compete for the hiring of qualified medical experts and MRI technicians to perform and evaluate the diagnostic imaging scans. Most of our current competitors have, and our future competitors are expected to have, greater resources than us. Therefore, our ability to compete largely depends on our financial resources and capacity.

Customers

We currently maintain a client roster of 17 public hospitals in Canada through our CTS subsidiary. The loss of any of these clients would have a negative impact on the Company.

Employees

DIIC currently has three full time employees and one part time employee who are the Chief Executive Officer, the Controller, the sales representative, and the Chief Financial Officer, respectively. In addition the Company employs many contractors who are radiologists, accountants, business development consultants, clerical staff and IT professionals. While we expand our CTS subsidiary we expect to hire additional employees.

Operations

CTS

In the second quarter of 2011 the company focused on sales of CTS service to new hospitals. In the first quarter of 2011, the Company began servicing a new client that had signed a contract with the Company in the last quarter of 2010. In addition, the Company focused on external marketing for CTS in order to gain new clients.

Diagnostic Imaging Clinics

In the second quarter of 2011 the company continued to look for an acquisition that meets a certain criteria. The Company continues these efforts. In the first quarter of 2011 the Company continued to explore opportunities for acquiring an MR clinic. The Company made its final required payment as outlined in the settlement agreement regarding the purchase of CTS (see Note 12 to the consolidated financial statements).

Overall Operating Results:

For the quarter ended June 30, 2011 revenues from radiology services were \$968,307 compared to \$733,526 for the quarter ended June 30, 2010, an increase of 32% or \$239,214. This increase in revenues was due to an increase in demand for radiology services from existing clients.

For the quarter ended June 30, 2011 cost of sales incurred were \$793,297 compared to \$605,634 for the quarter ended June 30, 2010, an increase of 31% or \$187,663. In order to increase revenues, we incurred additional costs of sales. As a percentage of revenues, our costs of sales remained constant at 82% for the quarter ended June 30, 2011 and 2010.

Operating expenses for the quarter ended June 30, 2011 and June 30, 2010, totaled \$127,780 and \$176,539, respectively.

During the quarter ended June 30, 2011, we incurred \$29,174 in amortization and depreciation expenses, \$26,922 in legal and professional fees, \$8,147 in general and administrative costs, \$2,383 in management fees, \$170 in advertising and promotion, \$31,120 for labor, and \$29,837 for rent and insurance.

During the quarter ended June 30, 2010, we incurred \$37,564 in amortization and depreciation expenses, \$65,516 in legal and professional fees, \$16,892 in general and administrative costs, \$2,321 in management fees, \$1,531 in advertising and promotion, \$25,842 for labor, and \$25,933 for rent and insurance.

The Company continues to generate positive cash flow in order to service its obligations but will require substantial investment in the near term in order to expand as we implement our business plan.

Liquidity and Capital Resources:

Prior to 2011, the Company funded its operations and working capital through the sale of common stock. In 2011, the Company has continued to fund its operations and working capital with the sale of common stock.

During the past two years, the Company sold an aggregate of 550,000 shares of common stock in several private offerings to accredited investors, in which it raised an aggregate of \$61,000.

The Company's operations have produced \$968,307 of revenues for the quarter ended June 30, 2011, which have been used to fund its operating expenses, and to reduce its liabilities. The Company expects that current operations will be able to cover its expenses on an ongoing basis through 2011 and beyond. The Company will need to raise additional capital to expand its business, implement additional aspects of its business plan, and to retire the remaining balance in convertible notes; however, there can be no assurance that the Company will be able to raise the funds necessary to do so.

Since inception, our current Chief Financial Officer (and former Chairman and Chief Executive Officer) has loaned the Company a total of \$112,381 to fund our operations. The note is non-interest bearing and payable upon demand. For the quarter ended June 30, 2011, the balance outstanding on this note was \$7,062.

During the second quarter of 2010 Richard Jagodnik loaned DIIC \$42,944 under the same terms of convertible notes as described in Note 8 above. The note is carried in Canadian dollars and a foreign exchange loss of \$1,098 was recorded for the six months ended June 30, 2011. For the six months ended June 30, 2011 \$1,640 in accrued interest was recorded and added to the note. The total value of the note, net of discount as at June 30, 2011, is \$20,762, including accrued interest.

As of June 30, 2011, our assets totaled \$532,627, which consisted of cash balances, accounts receivable, deposits, intangible assets and computer and office equipment. As of June 30, 2011, our total liabilities consisted of accounts payable and accrued liabilities of \$222,717, related party notes payable of \$20,762 (net of discount), Promissory notes of \$80,601, and non related party convertible notes of \$190,174 (net of discount). As of June 30, 2011, we had an accumulated deficit of \$1,602,892 and a working capital deficit of \$268,745.

In 2010 the Company closed a financing of \$419,440 in loans from private investors. The notes are due on various dates in 2012 and require principal payments of 3% per month on the outstanding principal balance. Interest on the notes accrues at 10% per annum. The notes and interest are convertible into shares of common stock of the Company at \$0.15 per share. In addition, each note holder was given 3.33 shares of Company stock for each \$1 of notes purchased. A detailed schedule of the Notes is presented in Note 8 to the consolidated financial statements.

During the six months ended June 30, 2011 the Company issued promissory notes to non – related parties for a total amount of \$77,228. The promissory notes are due on December 31, 2012. Interest expense on the promissory notes is accrued at a rate of 10% compounded quarterly.

We will need significant funds to consummate the acquisition of any additional diagnostic imaging clinics in the future. We anticipate that any funds raised will be raised through the sale of our securities in public or private placement transactions, and/or the issuance of convertible debentures and/or loans. We have no commitments at this time and we cannot give any assurances that we will be successful in raising adequate funds in order to fully implement our business plan. If we are not able to secure adequate financing or it is offered on unacceptable terms, then our business plan and strategy may have to be modified or curtailed or certain aspects terminated.

Off Balance Sheet Arrangements

The Company's off-balance sheet arrangements relate to operating lease and are detailed in Note 4 to the consolidated financial statements in this 10-Q.

New Accounting Pronouncements

Diagnostic Imaging does not expect the adoption of recently issued accounting pronouncements to have a significant impact on Diagnostic Imaging's results of operations, financial position, or cash flow.

Item 3 – Quantitative and Qualitative Analysis of Market Risks

There are no material changes in the market risks faced by us from those reported in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4T. – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management and our board of directors, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2011. This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer (who is also our principal financial and accounting officer). Based upon the evaluation, our chief executive officer concluded that our disclosure controls and procedures were not effective at the date of management's evaluation through the date of this report.

(b) Changes in Internal Controls. There was no change in the Company's internal controls over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to affect the Company's internal control over financial reporting.

Our determination of non-effectiveness is based upon the number and magnitude of adjustments proposed by our independent auditor during their review of our quarterly results.

1. As of June 30, 2011, we did not maintain effective controls over the control environment. Specifically, the Board of Directors does not currently have any independent members and no director qualifies as an audit committee financial expert as defined in Item 207(d)(5)(ii) of Regulation S-B. Since these entity level programs have a pervasive effect across the organization, management has determined that these circumstances constitute a material weakness.

2. As of June 30, 2011, we did not maintain effective controls over financial statement disclosure. Specifically, controls were not designed and in place to ensure that all disclosures required were originally addressed in our financial statements. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Management is evaluating our control environment and plans to make improvements to the quality of our controls. When changes are made to our control structure it will be disclosed in future filings.

PART II

ITEM 1. Legal Proceedings

On August 13, 2009, the Company filed a Statement of Claim, in the Ontario Superior Court of Justice, Case Number CV-09384970, against Syed Haider, Dawn Haider, and Quinte Magnetic Resonance Imaging Inc. (“Vendors”), to recover monies owed to the Company by the defendants for breach of the terms of the purchase contract to acquire the assets and business of CTS. On September 16, 2009, the Vendors filed a Statement of Defense and Syed Haider filed a Statement of Defense and Counterclaim, the latter for monies claimed to be owed under his consulting contract. On November 26th, 2010 the parties to the above suits entered into a full and final settlement and mutual release of all claims against each other. The terms of the settlement called for the Company to pay the Vendors \$281,512 on November 26th, 2010 and a further \$45,243 on January 25th, 2011. These amounts were paid. In addition the Company has granted an exclusion to the Non-Compete agreement with the Vendors, allowing them to pursue a Teleradiology business located solely in British Columbia, Canada and Washington State, U.S.A. The Vendors have released the Company from any further monies owed to the Vendors and returned one (1) million shares of Company stock for cancellation.

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

During the quarter ended June 30, 2011 the Company did not issue shares of common stock.

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 5. Other Information

None

ITEM 6. Exhibits

(a) Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
32.1	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002. (1)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

(1) Filed herewith

SIGNATURES

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

DIAGNOSTIC IMAGING INTERNATIONAL CORP.

By: /s/ Mitchell Geisler
Mitchell Geisler
Chief Executive Officer

Date: August 08, 2011

Pursuant to the requirements 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.

<u>Signature</u>	<u>Capacities</u>	<u>Date</u>
<u>/s/ Mitchell Geisler</u> Mitchell Geisler	Chief Executive Officer (Principal Executive Officer) and Director	August 08, 2011
<u>/s/ Richard Jagodnik</u> Richard Jagodnik	Chief Financial Officer (Principal Financial and Accounting Officer) and Director	August 08, 2011