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 March 31, 2014

☐·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	**98-0493698**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
848 N. Rainbow Blvd. #2494, Las Vegas, Nevada	**89107**
(Address of principal executive offices)	*(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 May 14, 2013 the Company had outstanding 23,726,481 shares of its common stock.

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Item 1. Consolidated Financial Statements

Diagnostic Imaging International Corp.
Consolidated Balance Sheets (Unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 323,622	$ 77,300
Accounts Receivable, net	295,507	295,614
Prepaid Expenses	8,584	5,364
Total Current Assets	627,713	378,278
Property and Equipment		
Equipment	1,433,707	1,437,464
Less: Accumulated Depreciation	(275,028)	(237,763)
Total Property and Equipment, net	1,158,679	1,199,701
Intangibles		
Hospital Contracts	524,585	794,707
Non-Compete Contract	133,245	133,245
Less: Accumulated Amortization	(657,830)	(905,027)
Total Intangible Assets, net	-	22,925
Goodwill	1,422,670	1,422,670
Other Assets		
Deposits	12,677	12,855
Loans Receivable	1,766	2,046
Total Other Assets	14,443	14,901
TOTAL ASSETS	$ 3,223,505	$ 3,038,475
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts Payable	$ 208,754	$ 250,099
Accrued Taxes Payable	331,155	358,052
Obligations Under Capital Lease, short term portion	104,009	102,210
Acquisition Liability	200,000	200,000
Promissory Notes, short term portion	18,669	27,543
Convertible Notes, net short term portion	54,900	-
Total Current Liabilities	917,487	937,904
Long Term Liabilities		
Obligations Under Capital Lease, long term portion	210,396	228,495
Promissory Notes, long term portion	13,829	17,472
Convertible Notes, net long term portion	2,097,614	1,856,869
Total Long Term Liabilities	2,321,839	2,102,836
Total Liabilities	3,239,326	3,040,740
Stockholders' Equity (Deficit)		
Preferred Stock-$0.001 par value; 5,000,000 shares authorized, no shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	-	-
Common Stock-$0.001 par value; 500,000,000 shares authorized, 23,726,481 and 23,421,481 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	23,727	23,422
Additional Paid-In Capital	1,862,424	1,837,079
Accumulated Other Comprehensive Gain	7,773	6,708
Accumulated Deficit	(1,909,745)	(1,869,474)
Total Stockholders' Equity (Deficit)	(15,821)	(2,265)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,223,505	$ 3,038,475

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

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

	Three Months Ended	
	March 31, 2014	March 31, 2013
Revenue:		
Sales	$ 1,195,937	$ 1,299,005
Less: Cost of sales	705,495	803,876
Gross Margin	490,442	495,129
Operating Expenses:		
Advertising	16,523	1,417
Amortization	22,925	34,386
Depreciation	39,820	39,436
Bad Debt Expense (Recapture)	7,522	29,395
General and Administrative	54,523	45,984
Insurance	11,746	10,605
Labor	190,480	186,848
Legal and professional	41,226	40,835
Management fees	4,422	3,884
Rent Office Space and Servers	39,136	38,710
Travel	14,388	9,086
Total Operating Expenses	442,711	440,586
Income from Operations	47,731	54,543
Other Income and (Expenses):		
Other Income	160	-
Debt Settlement Loss	-	(607)
Foreign Currency Gains (Losses)	415	3,351
Amortization of Debt Discount	(20,356)	(18,806)
Interest Expense	(68,225)	(70,511)
Total Other Income (Expenses)	(88,006)	(86,573)
Income (Loss) Before Provision for Income Taxes	(40,275)	(32,030)
Provision for Income Taxes	-	-
Net Income (Loss)	(40,275)	(32,030)
Comprehensive Income (Loss)	1,065	1,387
Total Comprehensive Income (Loss)	$ (39,210)	$ (30,643)
Basic and Diluted Income (Loss) per Share	$ (0.002)	$ (0.001)
Weighted Average Shares Outstanding:		
Basic and Diluted	23,350,793	23,134,813

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

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

	Three Months Ended	
	March 31, 2014	March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ (40,275)	$ (32,030)
Adjustments to Reconcile Net Loss to Net Cash provided by Operating Activities:		
Depreciation	39,820	39,436
Asset Write Off	974	-
Accrued Interest Converted into note	61,832	58,412
Amortization of Debt Discount	20,356	18,806
Shares issued for services	150	-
Amortization of Intangible Assets	22,925	34,386
Foreign currency transaction Gain/ Loss	229	(2,750)
Changes in operating assets and liabilities:		
Accounts Receivable	107	32,536
Deposits and prepaid expenses	(3,042)	3,167
Accounts Payable and accrued liabilities	(68,239)	92,276
Loans Receivable	280	471
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	35,117	244,710
CASH FLOWS FROM INVESTING ACTIVITIES:		
Equipment Purchase	-	(10,000)
NET CASH USED IN INVESTING ACTIVITIES	-	(10,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt issuance	300,000	150,000
Principal payments on Related Party debt	-	(4,023)
Principal payments on debt	(73,560)	(112,789)
Principal Payments on Capital Lease Obligations	(16,300)	(146,925)
NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES	210,140	(113,737)
Gain (Loss) due to foreign currency translation	1,065	1,387
NET CHANGE IN CASH AND CASH EQUIVALENTS	246,322	122,360
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	77,300	107,701
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 323,622	$ 230,061
Cash paid during the year for:		
Interest	$ 6,393	$ 12,099
Income Taxes	$ 18,900	$ 11,400
Non-cash financing and investing activities:		
Shares Issued for Convertible Note	$ 25,500	$ 18,600

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

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Diagnostic Imaging International Corp., ("DIIC" or the "Company") 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 Custom 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. In 2012, the Company purchased Schuylkill Medical Imaging ("SMI") an independent Magnetic Resonance Imaging (MRI) facility located in Pottsville, Pennsylvania.

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 our wholly-owned subsidiaries, Canadian Teleradiology Services, Inc. and Schuylkill Open MRI, Inc. Intercompany accounts and transactions have been eliminated in the consolidated financial statements. CTS' and SMI's accumulated earnings prior to their acquisition (March 2, 2009 and December 10, 2012, respectively) are not included in the consolidated balance sheet.

Reclassification of Accounts

Certain prior period amounts have been reclassified to conform to the March 31, 2014 presentation.

Use of Estimates and Assumptions

The preparation of consolidated 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 consolidated 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 consolidated 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 March 31, 2014, and December 31, 2013, 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 March 31, 2014 and December 31, 2013, the allowance for bad debts was $24,816 and $17,294, respectively. Bad debt expense for the three months ended March 31, 2014 and 2013 was $7,522 and $29,395, respectively.

At March 31, 2014 three customers of CTS totalled approximately 40% of the total accounts receivable. As of December 31, 2013, three customers totalled approximately 70% of the total accounts receivable.

Goodwill and Indefinite Intangible Assets

The Company follows the provisions of Financial Accounting Standard ("FASB") Accounting Standards Codification ("ASC") Topic 350, *Goodwill and Other Intangible Assets*. In accordance with ASC Topic 350, goodwill, representing 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 March 31, 2014, the Company has goodwill of $1,422,670 as result of the acquisition of SMI on December 10, 2012. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Intangible Assets

CTS 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 varied between one and five years. The contracts do not specify any minimum billings for any period of time. The contracts in existence on acquisition were valued on acquisition using a discounted cash flow model and the fair value as recorded is amortized over the remaining life of the contract using the straight line method.

The Company has written off one of the hospital contracts to reflect end of service with no potential for renewal.

The Company also attributed value to the non-compete agreement obtained as part of the acquisition agreement with CTS' former director. As of March 31, 2014.The value attributed to this agreement has been fully amortized.

SMI has a non-compete agreement with previous owners of SMI. The value attributed to this agreement has been fully amortized.

Amortization of Intangible Assets

The accumulated amortization of intangible assets with finite useful lives was $657,830 and $905,027 in March 31, 2014 and December 31, 2013, respectively.

These assets have been fully amortized; therefore there is no expected amortization expense for the next five years.

Revenue Recognition

The Company holds contracts with several hospitals and 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 year ended December 31, 2013, CTS held seven contracts; one contract that is renewable on a year-to-year basis, four contracts that are renewable in 2014 ,2015, and 2016, and its two largest contracts, which renewed automatically in 2013 for successive one year terms. As described above, in accordance with the requirement of Staff Accounting Bulletin ("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).

Revenue is accounted for under the guidelines established by SAB 101, *Revenue Recognition in Financial Statements,* and ASC Topic 605-45, *Revenue Recognition – Principal Agent Considerations*. For CTS, the Company has the following indicators of gross revenue reporting: (1) CTS is the primary obligator in the provision of services to the Hospitals under contract, (2) CTS has latitude in establishing price, and negotiating contracts with each hospital, (3) CTS negotiates and determines the service specification to be provided to each hospital client, (4) CTS has complete discretion in supplier selection, and (5) CTS has the credit risk. Accordingly, the Company records CTS revenue at gross.

For SMI, revenue is recorded at the time of service.

Cost of Sales

Cost of sales includes fees paid to radiologists for teleradiology services, transcription fees, equipment repairs, system license and usage costs.

Impairment of Long-Lived Assets

In accordance with ASC Topic 360, *Property, Plant and Equipment*, 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.

Amortization and Depreciation

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

3 - 7 years	Equipment
5 – 7 years	Furniture and Fixtures
2 to 5 years	Hospital Contracts
3 - 5 years	Non-compete Contract
39 years	Leasehold Improvements

Stock Based Compensation

The Company measures all share-based payments to employees (which includes non-employee Board of Directors), including employee stock options, warrants and restricted stock, at the fair value of the award and expenses it 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 three months ended March 31, 2014 and 2013.

The Company recognized stock-based compensation expenses of $150, and $0 from stock granted to employees for the three months ended March 31, 2014, and 2013, respectively.

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 Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification (“ASC”) for disclosures about fair value of its financial instruments and paragraph 820-10-35-37 of the FASB ASC (“Paragraph 820-10-35-37”) to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

Level 1 Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amounts of the Company’s financial assets and liabilities, such as cash and accounts payable approximate their fair values because of the short maturity of these instruments.

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

The Company’s functional currency for its wholly-owned subsidiary, CTS, is the Canadian dollar, and their 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 stockholders’ equity.

The Company recognized a foreign currency gain on transactions from operations of $415 and $3,351 for the three months ended March 31, 2014 and 2013, respectively.

The Company recognized other comprehensive income of $1,065 and $1,387 for the three months ended March 31, 2014 and 2013, respectively.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, *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, *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 March 31, 2014, 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	
	March 31, 2014	March 31, 2013
Numerator:		
Continuing operations:		
Total Comprehensive Income (Loss)	$ (39,210)	$ (30,643)
Total	$ (39,210)	$ (30,643)
Total Comprehensive Income (Loss)	$ (39,210)	$ (30,643)
Denominator:		
Weighted average number of shares outstanding – basic and diluted	23,350,793	23,134,813
EPS:		
Basic:		
Total Comprehensive Income (Loss)	$ (0.002)	$ (0.001)
Net Income (loss)	$ (0.002)	$ (0.001)
Diluted		
Total Comprehensive Income (Loss)	$ (0.002)	$ (0.001)
Total Comprehensive Income (Loss)	$ (0.002)	$ (0.001)

Recent Accounting Updates

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 three month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

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 March 31, 2014 and December 31, 2013, the major class of property and equipment were as follows:

	March 31, 2014	December 31, 2013	Estimated useful lives
Computer/Office Equipment	$ 84,621	$ 88,378	3-7 years
Medical Equipment	601,774	601,774	3-7 years
Leasehold Improvements	747,312	747,312	39 years
Less: Accumulated Depreciation	(275,028)	(237,763)	
Net Book Value	$ 1,158,679	$ 1,199,701	

Depreciation expense was $39,820 and $39,436 for the three months ended March 31, 2014 and 2013, respectively.

Note 4. Business Combination

On December 10, 2012, the Company acquired 100% of Schuylkill Open MRI Inc. for consideration including cash which is described in detail below. Accordingly, the results of operations for SMI have been included in the accompanying consolidated financial statements from that date forward. SMI provides Magnetic Resonance Imaging (MRI) services. Pursuant to the terms of the Share Purchase Agreement, the Company paid an aggregate purchase price of $1,825,000 for the shares, plus a possible earn-out payment of up to $200,000 to be paid within sixty days after December 31, 2013 if certain post-closing revenue targets are met. This earn out payment is now due. The Company is exploring financing opportunities to pay the obligation.

In connection with the Share Purchase Agreement, SMI entered into a lease agreement with one of the Sellers for the lease of two MRI machines. Under the terms of the lease, SMI is to make monthly payments of $11,013, plus applicable sales tax, over a period of 48 months. In addition, SMI agreed to make a one-time lease payment of $125,000 which was fully paid by March 30, 2013. The Company has guaranteed all of SMI's obligations under the lease. At the end of the lease, SMI will have the option to purchase the MRI machines for a total purchase price of $1.00. The lease was accounted for as a capital lease for a total value of $555,000.

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

Cash	$ 1,825,000
Acquisition Liability	200,000
Total consideration paid	$ 2,025,000

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

Cash	$ 42,887
Accounts receivable	124,436
Fixed Assets	1,345,647
Deposits	8,140
Non-compete agreement	27,917
Goodwill	1,422,670
Liabilities assumed	(946,697)
Net assets purchased	$ 2,025,000

The Company has evaluated this transaction and believes that the historical cost of the tangible and intangible assets acquired approximated fair market value given the current nature of the assets acquired. As part of the acquisition the Company has acquired Goodwill of $1,422,670. The Company expects to amortize the full amount of goodwill for tax purposes. At December 31, 2013 year end the Company performed an annual testing of goodwill for impairment, and valued the fair value of the reporting units to be greater than its carrying amount. As such, goodwill impairment was not recorded.

The amounts of revenue included in the consolidated statement of operations for the three months ended March 31, 2014 and 2013 is $457,965, and $476,016, respectively.

The amounts of gross earnings included in the consolidated statement of operations for three months ended March 31, 2014 and 2013 is $356,055, and $345,235, respectively.

Costs related to the acquisition, which include legal fees, in the amount of $81,811 have been charged directly to operations and are included in legal and professional expenses in the 2012 consolidated statement of operations.

Note 5. Goodwill

The change in the carrying amount of goodwill for the two years ended March 31, 2014 was:

Balance as of January 1, 2013	$ -
Acquisition of goodwill during the year	1,422,670
Changes in goodwill during the year	-
Balance as of December 31, 2013	1,422,670
Changes in goodwill during the year	-
Balance as of March 31, 2014	$ 1,422,670

Note 6. Lease Commitments

CTS has a lease commitment for its office space of approximately $2,450 minimum rental, and approximately $2,850 in utilities, realty taxes, and operating costs, for a total of approximately $5,300 per month. The Lease renewed in April 2013 for a period of five years and will expire in March 2018. On renewal, CTS was given a rental credit of approximately $28,000. This lease was accounted for as an operating lease.

CTS has a lease for its off-site servers at a cost of approximately $1,500 per month. This lease is accounted for as an operating lease. The lease will expire in April 30, 2017.

SMI has a lease for its off-site servers at a cost of approximately $1,092 per month. This lease is accounted for as an operating lease on a month-to-month basis.

SMI entered into a lease commitment for its office space in Pottsville, Pennsylvania. The lease will expire on June 30, 2016, and it is renewable for an additional term of 5 years on the same terms and conditions. Monthly rental amounts in 2014 were $5,437 per month plus approximately $1,674 in utilities, realty taxes, and operating costs.

SMI has a lease for office space in Dallas, Texas of approximately $880 per month plus approximately $660 in utilities, realty taxes, and operating costs. The lease will expire in August 31, 2014.

Expected Lease commitments for the next three years:

Year	Office Space	Servers	Total
2014	$ 117,859	$ 23,328	$ 141,187
2015	148,932	31,104	180,036
2016	106,266	31,104	137,370
	$ 373,057	$ 85,536	$ 458,593

Note 7. Accounts Payable and Accrued Liabilities

As of March 31, 2013 and December 31, 2013, the trade payables and accrued liabilities of the Company were $539,910 and $608,151, respectively. Of the total amount as of March 31, 2014, approximately $231,097 is related to CTS operations and $278,443 is related to SMI operations. The balance of the accounts is for vendors supplying goods and services used in the normal course of business. Of the total amount as of December 31, 2013, approximately $301,965 is related to CTS operations and $278,854 is related to SMI operations. The balance of the accounts is for vendors supplying goods and services used in the normal course of business.

Note 8. Obligations Under Capital Lease

On December 10, 2012, the Company entered into a lease agreement with one of the sellers of SMI to lease the two MRI machines. Under the terms of the lease, SMI is to make monthly payments of $11,013, plus applicable sales tax, over a period of 48 months. In addition, SMI agreed to make a one-time lease payment of $125,000, which was paid by March 30, 2013. The Company has guaranteed all of SMI’s obligations under the lease. At the end of the lease, SMI will have the option to purchase the MRI machines for a total purchase price of $1.00. The lease was accounted for as a capital lease for a total value of $555,000.

Minimum future lease payments under the capital lease are as follows as of March 31, 2014:

2014	99,115
2015	132,152
2016	132,150
Total minimum lease payments	363,417
Less amount representing interest	49,012
Present value of minimum lease payments	314,405
Less current portion of minimum lease payments	104,009
Long-term capital lease obligations	$ 210,396

The gross amount of the equipment held under capital leases totals $555,000 ($407,083 net book value after accumulated amortization of $147,917) at March 31, 2014.

Amortization of the capital lease assets is included in the depreciation expense of $27,750 for the three months ending March 31, 2014.

Note 9. Promissory Notes

During the year ended December 31, 2013, $6,616 in accrued interest was recorded on the notes, and $87,225 was paid towards the balance of the notes.$18,736 of the notes assumed on acquisition represented by a promissory note accruing interest at an annual rate of 10.5% and paid out monthly. $45,792 of the notes assumed on acquisition represented by a promissory note accruing interest at an annual rate of 6% and paid out monthly.

During the three months ended March 31, 2014, $593 in accrued interest was recorded on the notes, and $13,110 was paid towards the balance of the notes.

A summary of the promissory notes is as follows:

Promissory notes at January 1, 2013	$ 119,624
Added: Proceeds through December 31, 2013	6,000
Added: Accrued Interest through December 31, 2013	6,616
Less: Payments through December 31, 2013	(87,225)
Promissory notes at December 31, 2013	$ 45,015
Added: Accrued Interest through March 31, 2014	593
Less: Payments through March 31, 2014	(13,110)
Promissory notes at March 31, 2014	$ 32,498
Less: Short term portion	18,669
Long term portion March 31, 2014	$ 13,829

Note 10. Convertible Notes

Series B:

On December 3, 2012, the Company sold, through a private placement to accredited investors, three year 12% convertible notes ("Series B Notes") in the aggregate principal amount of $1,865,000. On March 27, 2013 the company sold an additional $150,000 of Series B Notes.

Series B Notes pay interest at a rate of 12% per annum, payable to the holder at 1% per month. The Notes are convertible into common shares of the Company at $0.10 per share. In addition, each holder of Series B Notes received shares dependent on the dollar amount of Notes purchased. The total number of shares issued was 5,315,000 shares of common stock of the Company. $1,865,000 of Series B Notes issued on December 3, 2012 mature on December 31, 2013; and $150,000 of Series B Notes issued March 27, 2013 mature on March 31, 2016.

For the three month ended March 31, 2014, $60,450 in accrued interest was recorded on the notes and paid.

In accordance with ASC 470 on issuance of the shares given, the Company recognized additional paid-in capital and a discount against the notes for a total of $244,275. Amortization of the discount for the three months ended March 31, 2014 was $20,356.

The Details of Series B Notes are as follows:

Issuance Date	December 31, 2013 Balance	December 31, 2013 Unamortized Discount Beginning Balance	Three Months Ended March 31, 2014 Proceeds	Three Months Ended March 31, 2014 Accrued Interest	Three Months Ended March 31, 2014 (Payments)	Three Months Ended March 31, 2014 Amortization of Debt Discount	March 31, 2014 Balance, net	Maturity Date
03-Dec-12	$ 25,000	$ (719)	$ -	$ 750	$ (750)	$ 94	$ 24,375	31-Dec-15
03-Dec-12	125,000	(10,569)	-	3,750	(3,750)	1,244	115,675	31-Dec-15
03-Dec-12	50,000	(2,156)	-	1,500	(1,500)	281	48,125	31-Dec-15
03-Dec-12	25,000	(719)	-	750	(750)	94	24,375	31-Dec-15
03-Dec-12	25,000	(719)	-	750	(750)	94	24,375	31-Dec-15
03-Dec-12	25,000	(719)	-	750	(750)	94	24,375	31-Dec-15
03-Dec-12	1,500,000	(129,375)	-	45,000	(45,000)	16,875	1,387,500	31-Dec-15
03-Dec-12	50,000	(2,156)	-	1,500	(1,500)	281	48,125	31-Dec-15
03-Dec-12	15,000	(431)	-	450	(450)	56	14,625	31-Dec-15
03-Dec-12	100,000	(7,081)	-	3,000	(3,000)	856	93,775	31-Dec-15
27-Mar-13	25,000	(1,162)	-	750	(750)	129	23,967	31-Mar-16
27-Mar-13	25,000	(1,162)	-	750	(750)	129	23,967	31-Mar-16
27-Mar-13	25,000	(1,162)	-	750	(750)	129	23,967	31-Mar-16
Total	$ 2,015,000	$ (158,131)	$ -	$ 60,450	$ (60,450)	$ 20,356	$ 1,877,,225	

Summary of Series B Notes is as follows:

	March 31, 2014	December 31, 2013
Convertible notes Beginning Balance	$ 2,015,000	$ 2,015,000
Less: unamortized debt discount	(137,775)	(158,131)
Convertible notes principal, net	1,877,225	1,856,869
Less: Payments in Period	(60,450)	(235,300)
Added: Accrued interest	60,450	235,300
Total Convertible notes, net	$ 1,877,225	$ 1,856,869
Less: Short term portion, net	-	-
Long term portion, net	$ 1,877,225	$ 1,856,869

Following are maturities of the long –term debt in Series B Notes for each of the next 5 years:

	Principal Payments	Interest Payments	Amortization of Discount
2014	$ -	$ 181,350	$ 61,069
2015	1,865,000	241,800	75,156
2016	150,000	4,500	1,550
2017	-	-	-
2018	-	-	-
Total	$ 2,015,000	$ 427,650	$ 137,775

<u>Individually issued Convertible Note</u>

On March 26, 2014 the Company issued $300,000 in convertible note to a non-affiliate. The note pays interest at a rate of 12% per annum, payable to the holder at 1% per month. In addition to interest payments the Company will be making monthly payments of $5,000 towards the principal balance beginning June 1, 2014 for three years until the note due date of February 27, 2017. The note is convertible into common shares of the Company at $0.15 per share. In addition, the non-affiliate will receive 300,000 shares as part of the note agreement.

For the three month ended March 31, 2014, $789 in accrued interest was recorded on the notes, and was paid on May 1, 2014.

In accordance with ASC 470 on issuance of the shares given, the Company recognized additional paid-in capital and a discount against the notes for a total of $25,500.

Summary of the notes is as follows:

	March 31, 2014	December 31, 2013
Convertible note Beginning Balance	$ 300,000	$ -
Less: unamortized debt discount	(25,500)	-
Convertible notes principal, net	274,500	-
Less: Payments in Period	-	-
Added: Accrued interest	789	-
Total Convertible note, net	$ 275,289	$ -
Less: short term portion, net	54,900	-
Long term portion, net	$ 220,389	$ -

Following are maturity of the individually issued convertible note for each of the next 5 years:

	Principal Payments	Interest Payments	Amortization of Discount
2014	$ 35,000	$ 23,803	$ 6,375
2015	60,000	28,496	8,500
2016	60,000	21,360	8,500
2017	145,000	4,103	2,125
2018	-	-	-
Total	$ 300,000	$ 77,762	$ 25,500

Note 11. Related Party Transactions

During the year ended December 31, 2013, Richard Jagodnik (an officer and shareholder of the Company), had a $7,062 note payable from DIIC. The note was non-interest bearing and payable on demand. As at December 31, 2013 the note is fully paid.

During the second quarter of 2010, Richard Jagodnik loaned DIIC $42,944 under the same terms of convertible notes Series A as described in Note 9 above. The note was carried in Canadian dollars and a foreign exchange gain of $693 was recorded for the year ended December 31, 2013. For the year ended December 31, 2013 $48 in accrued interest was recorded and added to the note. As at December 31, 2013 the note was fully paid.

For the three months ended March 31, 2014 the company did not have any related party debt outstanding.

Summary of related party notes is as follows:

	Shareholder Note	Shareholder Convertible Note
Balance at December 31, 2012	$ 7,062	$ 10,936
Added: Accrued Interest	-	48
Less: Foreign Exchange Gain	-	693
Less: Payments	(7,062)	(10,291)
Balance at December 31, 2013	$ -	$ -
Balance at March 31, 2014	$ -	$ -

Note 12. Major Customers

For the three months ending March 30, 2014 and 2013, revenue was derived primarily from radiology services.

Major customers representing more than 10% of total revenue for the three months ended March 31, 2014 and 2013 are as follow:

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Customers	**Revenue amount**	**Revenue percentage**	**Revenue amount**	**Revenue percentage**
Contract A	$ 260,873	22%	$ 281,675	22%
Contract E	205,727	17%	293,092	23%
Contract F	132,972	11%	138,625	11%
Contract H	$ 74,408	6%	$ 62,899	5%

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

	Balance at March 31, 2014		Balance at December 31, 2013	
Customers	**Accounts Receivable Closing Balance**	**Accounts Receivable Percentage**	**Accounts Receivable Closing Balance**	**Accounts Receivable Percentage**
Contract A	$ 18,914	6%	$ 17,876	6%
Contract E	51,614	17%	95,552	34%
Contract F	44,176	15%	46,796	17%
Contract G	13,034	4%	12,382	4%
Contract H	$ 25,097	8%	$ 54,757	19%

Note 13. Major Vendors

The company has one major vendor providing its system software and support. Expenses relating to this vendor for the three months ended March 31, 2014 and 2013 were $13,455 and $15,165, respectively.

Note 14. Common Stock Transactions

For the three months ended March 31, 2014, 5,000 shares were issued for services valued at $150 based upon the closing price of our common stock at the grant date.

For the three months ended March 31, 2014, 300,000 shares were issued as part of convertible notes agreements. The shares were valued at $25,500 based upon the closing price of our common stock at the grant date.

For the year ended December 31, 2013, 300,000 shares were issued as part of convertible notes agreements. The shares were valued at $18,600 based upon the closing price of our common stock at the grant date.

For the year ended December 31, 2012 5,015,000 shares were issued as an additional part of convertible notes agreements. The shares were valued at $225,675 based upon the closing price of our common stock at the grant date.

Note 15. Income Tax

The Company follows ASC 740, *Income Taxes,* which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between consolidated financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The provisions of ASC 740 require companies to recognize in their financial statements the impact of a tax position if that position is more likely than not to be sustained upon audit, based upon the technical merits of the position. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure.

Management does not believe that the Company has any material uncertain tax positions requiring recognition or measurement in accordance with the provisions of ASC 740. Accordingly, the adoption of these provisions of ASC 740 did not have a material effect on the Company’s financial statements. The Company’s policy is to record interest and penalties on uncertain tax positions, if any, as income tax expense.

Note. 16. Going Concern

As shown in the accompanying consolidated financial statements, the company incurred net losses of $39,210 for the three months ended March 31, 2014 as well as a working capital deficit of $289,774. These conditions raise substantial doubt as to if the company’s ability to continue as a going concern. Management plan to raise additional financing in order to continue its operations and fulfil its debt obligations in 2015, but there can be no assurances that the plan will be successful. These consolidated financial statements do not include any adjustments that might be necessary if the company is unable to continue as a going concern.

Note 17. Subsequent events

Subsequent to quarter end, the company issued $75,000 in convertible notes to non-affiliates.

Subsequent to quarter end, the company’s wholly –owned subsidiary, CTS, received noticed that one of its major customers is terminating its contract with CTS. The client is known as contract “A” as shown in Note 12 above.

The Company evaluated subsequent events through the date the consolidated 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 three months ended March 31, 2014, 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, 2013.

Business description

DIIC is a U.S.-based healthcare services company with a specific focus on medical diagnostic imaging. We currently own and operate two wholly-owned subsidiaries: Canadian Teleradiology Services, Inc., which operates as Custom Teleradiology Services; and Schuylkill Open MRI, Inc., which operates as Schuylkill Medical Imaging. With operations in the U.S. and Canada, our Company is executing a growth strategy centered on acquiring and operating profitable medical diagnostic imaging facilities and imaging services businesses with a goal of profitably increasing revenues.

DIIC's mission is to provide superior quality medical diagnostic imaging services to its clients across North America, delivering convenience, accuracy and the highest standards of care and service. Our Company's mandate is to make available, on a timely basis, valued-based on-site and remote medical imaging services for patients, hospitals, workers compensation boards and insurance companies. With a focus on continuous improvement in key process metrics that help drive service excellence and customer satisfaction, DIIC is dedicated to providing patient-centric care and comprehensive support to our broad network of medical partners.

Custom Teleradiology Services, Inc. (CTS)

- Founded in 2004 and acquired by DIIC in 2009, CTS is one of Canada's leading providers of remote reading and reporting of medical diagnostic imaging scans, otherwise known as Teleradiology, for rural hospitals and clinics. Our network of board certified radiologists is, collectively providing medical imaging interpretations for our clients, helping to speed diagnoses, improve outcomes and enhance patient care.

- On a 24/7/365 basis, CTS receives diagnostic imaging scans from hospitals, clinics and referring physicians, and transmits them to qualified radiologists, who are typically located in large urban medical centers. The receiving radiologist reads and interprets the diagnostic images and associated clinical data and prepares medical reports on the findings, which are in turn transmitted to the client allowing the hospital to continue with patient care.

- CTS specializes in Magnetic Resonance Imaging (MRI), Computed Tomography (CT), Positron Emission Tomography (PET), Ultrasound (US), Nuclear Medicine (NM), Digital Mammography (MAMMO), X-Ray and Bone Mineral Densitometry (BDM) modalities.

- CTS uses a leading brand Picture Archiving and Communications System (PACS) to ensure high resolution images can be delivered for interpretation in a quick, secure and highly dependable manner. CTS also works with our IT Company to ensure our doctors workstations and hospital servers are always running.

- Guided by the Canada Health Act of 1984, healthcare in Canada is delivered through a publicly funded healthcare system, which is mostly free at the point of use and has most services provided by private entities. CTS' revenues are derived from service agreements we enter with hospitals, clinics and other medical facilities where patients are treated. Fees for services provided by CTS are billed to the government by each CTS client, which, upon being paid by the government, remits payment to CTS in accordance with the contracted payment terms.

- CTS primary growth objectives are concentrated on optimizing our current contract portfolio and increasing our share of the Teleradiology market in the province of Ontario, expanding our geographic service region to include penetrating other Canadian provinces, and scaling our Canadian network of board certified radiologists to ensure effective support of our geographic expansion initiatives.

SMI

Incorporated in 2003, SMI is the premier medical imaging facility serving patients in Schuylkill County, Pennsylvania. SMI has provided high quality medical diagnostic imaging services for more than 11 years in a caring, safe and convenient environment. Located in Pottsville, Pennsylvania and accredited by the American College of Radiology, SMI has the first and only Open MRI in Schuylkill County and has earned a strong reputation within the communities it serves through its board certified radiologists, highly trained technologists, medical equipment and advanced technology matched with exceptional care and service.

- Our care facility currently houses two types of MRI systems – both of which provide exceptional anatomic detail and are particularly useful for diagnostic tests and procedures requiring high resolution. Our digital imaging equipment includes a Siemens Concerto Open MRI System, as well as a closed 1.5 T Siemens Symphony MRI System. The open MRI system is open on three sides, providing a panoramic 270° view – ideal for pediatric patients and those who may suffer from claustrophobia or are large bodied. Our highly skilled radiologists weigh all factors to choose the right system for each individual patient to ensure the best outcome. Equipped with this equipment, SMI is capable of facilitating MRI procedures that include cranial, spinal, abdominal, pelvic, musculoskeletal and head/neck scans.

- Most MRI procedures take between 20 to 45 minutes to complete depending on the body part imaged and how many images are needed, although some may take 60 to 90 minutes or longer. The scan is done as an outpatient procedure, which means the patient can go home after the test is completed.

- SMI's business is highly reliant upon referrals from area physicians and group practices and does not maintain dedicated or contractual relationships with hospitals or clinics. In fact, hospitals and clinics may compete with SMI to provide services to patients. We believe that our community presence assists referring physicians with further enhancing their practices by providing well-coordinated and responsive care to their patients who require diagnostic imaging services; therefore we maintain an active outreach program, ensuring that the SMI brand and quality service offerings are well represented and communicated to practicing physicians in the region and to local healthcare consumers who exercise their own personal discretion in determining at what local medical imaging facility they choose to have their imaging procedures performed.

Our relationships with government-sponsored plans, including Medicare, Medicaid and TRICARE, as well as managed care organizations and commercial health insurance payors, are vital to our business. We seek to maintain professional working relationships with our third-party payors, streamline the administrative process of billing and collection, and assist our patients and their families in understanding any balances due for co-payments, co-insurance, deductibles or out-of-network benefit limitations. In addition, through our quality initiatives and continuing research and education efforts, we have sought to enhance the level of service we provide to patients, which we believe benefits third-party payors by contributing to improved patient outcomes and reduced long-term health system costs.

SMI prides itself on its patient-centered culture and inviting, peaceful, healing environment that is aesthetically pleasing and designed specifically to allay patient fear, anxiety and discomfort.

SMI has a staff of approximately 8 employees including a center manager responsible for all the day operations and medical manager who oversees contrast studies and can advise on patient care.

About Teleradiology

Teleradiology encompasses the electronic transmission of medical images from one location to another healthcare set-up via the Internet. Teleradiology bridges the gap between the imbalanced demand and supply of radiologists and diagnostic services across the globe. Efficient image transfer demands three major components, an image capture and sending station, telecommunication channels (such as the Internet), and lastly, an image receiving station.

Initially, the image transfer process was tedious and time consuming, coupled with no assurance of image clarity and quality. That has all changed with the rapid evolution of imaging processing and transmission tools and technologies. Today, Teleradiology has emerged as a viable and cost effective alternative to hiring for many hospitals and clinics worldwide needing better coverage for imaging reading and interpretations.

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. Moreover, sharing high quality images at high speed saves precious time for medical staff and patients, and allows physicians to be better connected, work smarter and make more confident decisions. Teleradiology allows hospitals in remote rural communities the ability to provide patient care 24 hours a day without having to close its emergency rooms. Rural communities are able to receive the same high end healthcare and service that those in large urban centers experience and expect.

Teleradiology allows trained specialists to be available 24/7 – including those with difficult-to-find sub-specialties, such as MRI Radiology, Neuroradiology and Pediatric Neuroradiology.

CTS' network utilizes secured network technologies such a wide area networks (WAN) or a local area networks (LAN) that are fully compatible with. Highly specialized software is used to transmit the images and enable our radiologists to effectively analyze what can be hundreds of images for a given study. We also engage advanced technologies that include graphics processing, voice recognition and image compression are often used in Teleradiology.

Through Teleradiology, our radiologists 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 of our Teleradiology services, such as those involving critical or stroke studies, the turnaround time is extremely fast with a one-hour standard turnaround. Our 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.

About 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, orthopedics, 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.

About Magnetic Resonance Imaging

A noninvasive medical test, magnetic resonance imaging (MRI) uses a combination of magnetism, radio waves and computer processing to create detailed images of nearly every body part and internal structure - from bones and joints to vital organs and tiny blood vessels in the brain. Unlike imaging techniques based on x-ray, with MRI there's no exposure to radiation. It is among the safest and most versatile of imaging methods. Since its introduction for medical purposes in the 1970s, advances in MRI technology have greatly improved image quality, speed and convenience for patients, while giving physicians a safe and versatile tool for screening, diagnosing, surgical planning, treatment and reconstruction.

MRI technology has proven valuable when diagnosing a variety of conditions, including cancer, heart and vascular disease, stroke, and joint and musculoskeletal disorders. Sports injuries can also be diagnosed, especially those occurring in the knee, shoulder, hip, elbow and wrist. The benefits of MRI include:

- Images of the soft-tissue structures, such as the heart and lungs, can be clearer and more detailed than with other imaging technology.

- Enhanced ability to provide an early diagnosis and evaluation of tumors.

- Enables medical professionals to detect abnormalities that may be obscured by a bone.

About Computerized Tomography (CT) or Computerized Axial Tomography (CAT)

A 'computerized tomography' (CT) or 'computerized axial tomography' (CAT) scan uses a computer that takes data from several X-ray images of structures inside a human's or animal's body and converts them into pictures on a monitor. Tomography is the process of generating a 2-dimensional image of a slice or section through a 3-dimensional object. Similar to looking at one slice of bread within the whole loaf.

CT scans are used to study areas of the body and the arms or legs, including:

- Chest (thorax). A CT scan of the chest can look for problems with the lungs, the heart, the esophagus or the major blood vessel (aorta) or the tissues in the center of the chest. Some common chest problems a CT scan may find include infection, lung cancer, a pulmonary embolism, and an aneurysm. It also can be used to see if cancer has spread into the chest from another area of the body.

- Abdomen. A CT scan of the abdomen can find cysts, abscesses, infection, tumors, an aneurysm, enlarged lymph nodes, foreign objects, bleeding in the belly, diverticulitis, inflammatory bowel disease, and appendicitis.

- Urinary tract. A CT scan of the kidneys, ureters, and bladder is called a CT KUB or CT urogram. This type of scan can find kidney stones, bladder stones, or blockage of the urinary tract. A special type of CT scan, called a CT intravenous pyelogram (IVP), uses injected dye (contrast material) to look for kidney stones, blockage, growths, infection, or other diseases of the urinary tract.

- Liver. A CT scan can find liver tumors, bleeding from the liver and liver diseases. A CT scan of the liver can help determine the cause of jaundice.

- Pancreas. A CT scan can find a tumor in the pancreas or inflammation of the pancreas (pancreatitis).

- Gallbladder and bile ducts. A CT scan can be used to check for blockage of the bile ducts. Gallstones occasionally show up on a CT scan. But other tests, such as ultrasound, usually are used to find problems with the gallbladder and bile ducts.

- Adrenal glands. A CT scan can find tumors or enlarged adrenal glands.

- Spleen. A CT scan can be used to check for an injury to the spleen or the size of the spleen.

- Pelvis. A CT scan can look for problems of organs in the pelvis. For a woman, these include the uterus, ovaries, and fallopian tubes. For a man, the pelvic organs include the prostate gland and the seminal vesicles.

- Arm or leg. A CT scan can look for problems of the arms or legs, including the shoulder, elbow, wrist, hand, hip, knee, ankle, or foot.

About Positron Emission Tomography (PET)

A Positron Emission Tomography (PET) scan uses radiation, or nuclear medicine imaging, to produce three-dimensional, color images of the functional processes within the human body. The machine detects pairs of gamma rays which are emitted indirectly by a tracer (positron-emitting radionuclide) which is placed in the body on a biologically active molecule. The images are reconstructed by computer analysis. Modern machines often use a CT X-ray scan which is performed on the patient at the same time in the same machine.

A PET scan can measure such vital functions as blood flow, oxygen use, and glucose metabolism, which helps doctors identify abnormal from normal functioning organs and tissues. The scan can also be used to evaluate the effectiveness of a patient’s treatment plan, allowing the course of care to be adjusted if necessary. Currently, PET scans are most commonly used to detect cancer, heart problems (such as coronary artery disease and damage to the heart following a heart attack), brain disorders (including brain tumors, memory disorders, seizures) and other central nervous system disorders.

One of the main differences between PET scans and other imaging tests like CT scan or magnetic resonance imaging (MRI) is that the PET scan reveals the cellular level metabolic changes occurring in an organ or tissue. This is important and unique because disease processes often begin with functional changes at the cellular level. A PET scan can often detect these very early changes whereas a CT or MRI detect changes a little later as the disease begins to cause changes in the structure of organs or tissues.

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.

U.S. Government Regulation

Our SMI subsidiary is subject to extensive regulation under federal, State, and local laws. This includes but is not limited to complying with HIPPA, Accreditation standards, Medicare and private insurance standards. In addition, we believe that our business will continue to be subject to increasing regulation, the scope and effect of which we cannot predict.

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

Between direct hospital contracts and satellite hospitals that feed into the main hospital, we have a client roster of more than 20 hospitals that rely on CTS. The loss of any of these clients would have a negative impact on the Company.

SMI has built up its referral base from many family and specialized practitioners in the community. Currently, we have nearly 200 local physicians that refer patients to us for our medical imaging services, helping to lessen the impact should some physicians elect to no longer refer us patients.

Employees

DIIC currently has one full time executive (Chief Executive Officer), one part time executive (Chief Financial Officer) and 15 full time employees who include the head office accounting staff, CTS staff, the Dallas based billing staff and the SMI clinic staff. In addition, the Company employs as many as 40 sub-contractors who are physicians, radiologists, accountants, business development consultants, clerical staff and IT professionals.

Operations

CTS

During the first quarter of 2014, CTS concentrated on expanded customer service with existing contracts. In addition our new manager is focusing on marketing outside of Ontario to grow the company.

SMI

During the first quarter of 2014, focus was placed on three areas, client service, marketing and expansion. The weather was a factor in the first quarter as there were a number of days that referring physicians closed their offices and it was difficult for people to travel on the roads. We did see a strong rebound from this in March as conditions improved. During this time we focused on our referring physicians' client relations and marketing within the local community. Finally, we started preparation for the CT room expansion planned for the second Quarter of 2014.

Overall Operating Results:

For the three months ended March 31, 2014 revenues from teleradiology services was $737,972 compared to $822,989 for the three months ended March 31, 2013, a decrease of 10 % or $85,017. The decrease in revenue from teleradiology services of 10% is related to revenues carried in Canadian dollar. The exchange rate used to convert CTS revenues carried in Canadian dollars for the three months ended March 31, 2013 was 0.9902, while the exchange rate used to convert CTS revenue carried in Canadian dollars for the three months ended March 31, 2014 was 0.9062, a difference of 8.5%. The remaining 1.5% decrease in revenue was due to a slight decrease in scan volume.

For the three months ended March 31, 2014, revenues from medical scans services were $457,965 compared to $476,016 for the three months ended March 31, 2013, a decrease of 4 % or $18,051. The decrease of revenue from medical scans services of 4% is due to lower scan volume mainly as a result of weather related and lesser patient visits.

For the three months ended March 31, 2014, cost of sales relating to radiology services were $705,495 compared to $803,876 for the three months ended March 31, 2013, a decrease of 12% or $98,381. The decrease pertaining to cost of sales of CTS of 10% or $69,511 was as a result of the decrease in revenue of CTS as mentioned above. The remaining decrease of $28,869 was as a result of the decrease in revenue of SMI as mentioned above.

Operating expenses for the three months ended March 31, 2014 and March 31, 2013, totalled $442,711 and $440,586, respectively.

During the three months ended March 31, 2014, we incurred $62,745 in amortization and depreciation expenses, $41,226 in legal and professional fees, $54,523 in general and administrative costs, $4,422 in management fees, $16,523 in advertising and promotion, $190,480 for labor, and $50,882 for rent and insurance.

During the three months ended March 31, 2013, we incurred $73,822 in amortization and depreciation expenses, $40,835 in legal and professional fees, $45,984 in general and administrative costs, $3,884 in management fees, $1,417 in advertising and promotion, $186,848 for labor, and $49,315 for rent and insurance

The Company generated positive cash flow in 2014 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 and convertible notes. Since the third quarter of 2010, through the third quarter of 2012 the Company has funded its operations and working capital through revenue generation. During the fourth quarter of 2012 through the first quarter of 2013 the Company sold convertible notes to fund the acquisition of SMI and associated costs. Since the second quarter of 2013, the Company has funded its operations and working capital with revenue generation. In the first quarter of 2014 the company issued a convertible note to fund future expansion of SMI operations.

The Company's operations have produced $1,195,937 of revenues for the three months ended March 31, 2014, 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 operating expenses on an ongoing basis through 2014 and beyond.

Based on the debt payment obligations of the Company that are due within the next 12 months, there is doubt about its ability to continue as a going concern, and the Company's continued operations therefore are dependent upon either increasing revenues or adequate additional financing being raised, or both, to enable it to continue its operations as currently conducted. Alternatively, the Company could adjust some of its operational requirements or modify some of its debt obligations; however, these changes may not necessarily provide sufficient funds to continue as a going concern. In the event that the Company is unable to continue as a going concern, it may be forced to realize upon its assets or even elect or be required to seek protection from its creditors by filing a voluntary petition in bankruptcy or may be subject to an involuntary petition in bankruptcy. To date, management has not considered these alternatives as a likely outcome, since it has continuing revenues from operations and is considering capital raising actions.

As of March 31, 2014, our assets totalled $3,223,505 which consisted of cash balances, accounts receivable, deposits, intangible assets and computer and office equipment. As of March 31, 2014, our total liabilities consisted of accounts payable and accrued liabilities of $539,909, obligations under capital lease of $314,405, acquisition liability of $200,000, promissory notes of $32,498, and non-related party convertible notes of $2,152,514 (net of discount). As of March 31, 2014, we had an accumulated deficit of $1,909,745 and a working capital deficit of $289,774.

As of March 31, 2014 the Company had promissory notes to non–related parties for a total amount of $32,498. $28,076 of the promissory notes had scheduled monthly payments of $1,295 including interest at a rate of 6% per annum. This note is expected to mature on February 18, 2016. $4,243 of the promissory notes have scheduled monthly payments of $1,075 including interest of 10.5% per annum. This note matures June 2014. The remainder amount of $179 is accrued interest that was written off in April 2014.

On December 5, 2012, the Company sold, through a private placement to accredited investors, three year 12% convertible notes ("Notes") in the aggregate principal amount of $1,865,000. The Notes pay interest at a rate of 12% per annum, payable to the holder at 1% per month, and are due on December 31, 2015. On March 27, 2013 the Company sold an additional $150,000 of Series B Notes, these notes have the same terms and mature on March 31, 2016. The Notes are convertible into common shares of the Company at $0.10 per share. In addition, each purchaser of the Notes received shares dependent on the dollar amount of Notes purchased. The total number of shares issued was 5,315,000 shares of common stock of the Company. A detailed schedule of the Notes is presented in Note 10 to the consolidated financial statements.

In 2010, the Company closed a financing of $419,440 in loans from private investors. The notes were due on various dates in 2013 and required principal payments of 3% per month on the outstanding principal balance. Interest on the notes accrued at 10% per annum. The notes and interest were convertible into shares of common stock of the Company at $0.15 per share. In addition, each note holder was issued 3.33 shares of Company stock for each $1 of notes purchased. As at September 30, 2013 Series A notes are paid in full. A detailed schedule of the Notes is presented in Note 10 to the consolidated financial statements.

During the second quarter of 2010, Richard Jagodnik loaned DIIC $42,944 under the same terms of convertible notes series A as described in Note 10 above. The note was fully paid by July 2013.

Since inception, our current Chief Financial Officer (and former Chairman and Chief Executive Officer) has, from time to time, loaned the Company a total of $112,381 to fund our operations. The loans are non-interest bearing and payable upon demand. As at December 31, 2013, the loan is fully paid.

On March 26, 2014 the Company issued $300,000 in convertible note to a non-affiliate. The note pays interest at a rate of 12% per annum, payable to the holder at 1% per month. In addition to interest payments the Company will be making monthly payments of $5,000 towards the principal balance beginning June 1, 2014 for three years until the note due date of February 27, 2017. The note is convertible into common shares of the Company at $0.15 per share. In addition, the purchaser of the note will receive 300,000 shares as part of the note agreement.

The Company intends to explore capital raising options in the near term which may include the issuance of additional debt and the sale of equity or equity based securities. The Company has no agreements or arrangements for additional capital at this time. There can be no assurance that it will be able to raise additional capital, or if funds are offered, that they will on terms acceptable to the Company. A substantial amount of the assets of the Company, held through its subsidiaries, are pledged to secure certain debt; therefore, the ability of the Company to issue secured debt may be limited or require waivers or modifications to the current outstanding debt, which the current lenders do not have to provide.

Off Balance Sheet Arrangements

None.

New Accounting Pronouncements

There were various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to a have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows.

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, 2013.

Item 4T. – Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, management carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal 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 Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Limitations on Effectiveness of Controls and Procedures

Our management, which includes our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Controls over Financial Reporting

In connection with the evaluation of our internal controls, our principal executive officer and principal financial officer have determined that during the period covered by this quarterly report, there have been no changes to our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II

ITEM 1. Legal Proceedings

On December 27, 2011, *Geoffrey Blackner v. Schuylkill Open MRI, et al* litigation, docketed in the Schuylkill County Court of Common Pleas, No. S15802011 was commenced against SMI by Mr. and Mrs. Blackner ("Plaintiffs"). The Plaintiffs allege that a radiologist at Schuylkill Medical Center was negligent in not finding the T1-2 disc herniation when interpreting a CT scan of Mr. Blackner's head and neck. They further allege that a second doctor was negligent in not finding the T1-2 disc herniation when interpreting an MRI of Mr. Blackner's cervical spine. Plaintiffs allege that SMI is vicariously liable for this negligence, because the second doctor was an independent contractor of Schuylkill Open MRI. Plaintiffs' argue that the delay in discovering the T1-2 disc herniation, and thus the delay in surgery for that disc herniation, resulted in the damages to Mr. Blackner, specifically to his right hand. Mrs. Blackner has a loss of consortium claim. SMI has passed this case to its insurer and has received a full indemnity from the seller of SMI to DIIC for this claim. The Company has fully paid its insurance deductible and does not anticipate any further monetary damages from this claim.

ITEM 1A. Risk Factors

Not Applicable

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

The Company issued 300,000 shares in March 2014 at a per share price of $0.085 to purchasers of $300,000 of a convertible note issued in March of 2014.

The Company issued 5,000 shares in January 2014 at a per share price of $0.03 for services.

These securities were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act and Regulation D thereunder.

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

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*
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*
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*

* Filed herewith.

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 (Principal Executive Officer)

Date: May 15, 2014

DIAGNOSTIC IMAGING INTERNATIONAL CORP.

By: /s/ Richard Jagodnik
Richard Jagodnik
Chief Financial Officer (Principal Financial Officer)

Date: May 15, 2014