

**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, 2017

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

MEDICAL IMAGING 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

Non-accelerated filer (Do not check if smaller reporting Company)

Accelerated filer

Smaller reporting Company

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

There were 26,506,481 shares of common stock outstanding as of May 4, 2017.

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Item 1. Consolidated Financial Statements

**Medical Imaging Corp.
Consolidated Balance Sheets (Unaudited)**

	March 31, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 96,377	\$ 85,455
Accounts Receivable, net of Allowance for Doubtful Accounts of \$544,940, and 475,982, respectively	1,025,027	1,106,712
Prepaid Expenses	38,106	43,087
Total Current Assets	<u>1,159,510</u>	<u>1,235,254</u>
Property and Equipment, net of Accumulated Depreciation of \$1,709,361 and \$1,562,471, respectively	1,971,897	2,100,058
Goodwill	1,977,670	1,977,670
Deposits	18,494	18,563
TOTAL ASSETS	<u>\$ 5,127,571</u>	<u>\$ 5,331,545</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts Payable	\$ 1,864,433	\$ 1,772,752
Accrued Liabilities	757,013	706,572
Current Portion of Capital Lease Obligations	123,381	123,738
Current Portion of Promissory Notes	812,542	931,842
Current Portion of Promissory Notes, Overdue	170,000	-
Current Portion of Royalty Financing	895,881	752,926
Current Portion of Convertible Notes	2,321,375	2,223,706
Total Current Liabilities	<u>6,944,625</u>	<u>6,511,536</u>
Capital Lease Obligations, less current portion	170,703	200,536
Promissory Notes, less current portion, net of unamortized discounts of \$114,684 and \$143,419, respectively	-	112,000
Royalty Financing, less current portion, net of unamortized discounts of \$5,196,508 and \$5,302,853, respectively	1,217,888	1,254,498
Convertible Notes, less current portion, net of unamortized discounts of \$3,729 and \$8,937, respectively	34,896	142,357
Total Liabilities	<u>8,368,112</u>	<u>8,220,927</u>
Commitments and Contingencies		
Stockholders' Deficit		
Preferred Stock-\$0.001 par value; 5,000,000 shares authorized, no shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	-	-
Common Stock-\$0.001 par value; 500,000,000 shares authorized, 26,506,481 and 25,741,481 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	26,507	25,742
Additional Paid-In Capital	2,096,058	2,057,723
Accumulated Other Comprehensive Income	141,031	138,145
Accumulated Deficit	(5,504,137)	(5,110,992)
Total Stockholders' Deficit	<u>(3,240,541)</u>	<u>(2,889,382)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 5,127,571</u>	<u>\$ 5,331,545</u>

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

Medical Imaging Corp.
Consolidated Statements of Operations (Unaudited)

	Three Months ended	
	March 31, 2017	March 31, 2016
Revenue:		
Sales	\$ 1,804,152	\$ 1,922,485
Cost of sales	980,697	955,180
Gross Margin	<u>823,455</u>	<u>967,305</u>
Operating Expenses:		
Labor	312,298	318,002
Depreciation	147,547	137,582
General and Administrative	147,321	217,090
Rent Office Space and Servers	143,274	138,027
Bad Debt Expense	68,958	-
Legal and professional	63,103	106,877
Insurance	23,070	21,592
Advertising	18,354	6,351
Travel	13,097	8,862
Management fees	3,883	5,100
Total Operating Expenses	<u>940,905</u>	<u>959,483</u>
Income (Loss) from Operations	<u>(117,450)</u>	<u>7,822</u>
Other Income and (Expenses):		
Other Income	6,818	6,011
Foreign Currency Gains (Losses)	2,903	(38,324)
Amortization of Debt Discount	(140,160)	(161,334)
Interest & Penalties Expense	(145,256)	(105,147)
Total Other Income (Expenses)	<u>(275,695)</u>	<u>(298,794)</u>
Net Loss	<u>(393,145)</u>	<u>(290,972)</u>
Comprehensive Income	2,886	40,464
Total Comprehensive Loss	<u>\$ (390,259)</u>	<u>\$ (250,508)</u>
Basic and Diluted Loss per Share	<u>\$ (0.015)</u>	<u>\$ (0.010)</u>
Weighted Average Shares Outstanding: Basic and Diluted	<u>26,047,481</u>	<u>25,440,162</u>

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

Medical Imaging Corp.
Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended	
	March 31, 2017	March 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (393,145)	\$ (290,972)
Adjustments to Reconcile Net Loss to Net Cash from Operating Activities:		
Depreciation	147,547	137,582
Bad Debt Expense	68,958	-
Amortization of Debt Discount	140,160	161,334
Stock-based compensation	39,100	-
Foreign currency transaction (Gain) Loss	275	(157)
Changes in operating assets and liabilities:		
Accounts Receivable, Net of Allowance for Doubtful Accounts	12,727	(233,464)
Prepaid Expenses and Deposits	4,981	(904)
Accounts Payable and Accrued Liabilities	142,122	121,920
NET CASH AND CASH EQUIVALENTS FROM OPERATING ACTIVITIES	162,725	(104,661)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposit on Leasehold Improvements	-	(3,983)
Equipment Purchase	(19,464)	(14,445)
NET CASH FROM INVESTING ACTIVITIES	(19,464)	(18,428)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Promissory Notes	-	670,000
Proceeds from Convertible Debt	-	-
Royalty Fee Payment	-	(100,932)
Principal Payments on Promissory Notes	(90,035)	(388,444)
Principal Payments on Convertible Notes	(15,000)	(15,000)
Principal Payments on Capital Lease Obligations	(30,190)	(43,124)
NET CASH AND CASH EQUIVALENTS FROM FINANCING ACTIVITIES	(135,225)	122,500
Gain (Loss) due to foreign currency translation	2,886	40,464
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,922	39,875
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	85,455	109,914
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 96,377	\$ 149,789
Cash paid during the period for:		
Interest	\$ 58,038	\$ 78,489
Income Taxes	\$ -	\$ 27,280
Non-cash financing and investing activities:		
Shares Issued for Convertible Note	\$ -	\$ 8,421
Warrants Issued for Convertible Notes	\$ -	\$ 285
Equipment purchased under Capital Lease	\$ -	\$ 16,618
Accrued Interest converted to Note	\$ -	\$ 15,000

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

Medical Imaging Corp.
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2017

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Medical Imaging Corp., (“MIC” 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 Canadian Teleradiology Services Inc., which operates as: Custom Teleradiology Services (“CTS”). CTS provides remote reading of medical diagnostic imaging scans for rural hospitals and clinics in Canada. 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 Open MRI Inc., which operates as: Schuylkill Medical Imaging (“SMI”), an independent diagnostic imaging facility located in Pottsville, Pennsylvania. In 2014, the Company purchased Partners Imaging Center of Venice, LLC (“PIV”) located in Venice, Florida; Partners Imaging Center of Naples, LLC (“PIN”) located in Naples, Florida; and Partners Imaging Center of Charlotte, LLC (“PIC”) located in Port Charlotte, Florida.

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 Medical Imaging, Corp., and its wholly-owned subsidiaries, CTS, SMI, PIV, PIN, and PIC. Intercompany accounts and transactions have been eliminated in the consolidated financial statements. CTS’, SMI’s, PIV’s, PIN’s, and PIC’s accumulated earnings prior to their acquisitions are not included in the consolidated balance sheet.

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, 2017, and December 31, 2016, 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.

In connection with the acquisition of the three facilities located in Venice, Port Charlotte and Naples, Florida, the Company, in October 2014, entered into professional services agreements whereby the seller of those three facilities continued to handle the billing and collection for the imaging centers (the “third party billing”). The seller must still provide a full set of verification data to the Company with respect to its account receivable processing and collections so that the Company can determine the extent to which accounts submitted by the seller in connection with the third party billing have been collected or denied. Final verification will only be able to be completed after the conclusion of the services performed pursuant to the third party billing contract, and review of account balances which is expected during the 2017 fiscal year.

As of March 31, 2017 and December 31, 2016, the allowance for doubtful accounts from direct billings was \$269,940 and \$200,982, respectively. The allowance for doubtful accounts from third party billings (Florida operations) was \$275,000 in both periods.

Although the gross receivable balance has increased significantly, management is actively pursuing collection efforts directly with patients and insurance payers and believes that the current allowance for doubtful accounts is sufficient to cover any expected losses.

Goodwill and Indefinite - Lived Intangible Assets

The Company follows the provisions of Financial Accounting Standard Accounting Standards Codification (“ASC”) 350, *Goodwill and Other Intangible Assets*. In accordance with ASC 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 acquisitions 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, or more frequently if events and circumstances indicate impairment may have occurred in accordance with ASC 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 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. 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.

No goodwill impairment was recognized during 2017 or 2016.

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 three months ended March 31, 2017, CTS held six contracts; four contracts that are renewable on a year-to-year basis and one contract that automatically renewed in 2016 for a successive one year term, and one to be renewed in 2018. 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 605, *Revenue Recognition*. 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, PIV, PIN, and PIC, revenue is recognized on the date of service and recorded on an aggregate monthly basis.

Cost of Sales

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

Impairment of Long-Lived Assets

In accordance with ASC 360, *Property, Plant and Equipment*, property, 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 at least annually.

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.

Stock Based Compensation

The Company follows ASC 718, *Stock Compensation*; a fair value calculation is performed by the Company to establish the “grant date fair value” of each award which will also be the amount recorded by the Company as stock based compensation expense pursuant to the guidance set forth in ASC 718 to produce an estimated fair value.

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 binomial option pricing model (“BOPM”). 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 BOPM 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.

There was no stock-based compensation expense to non-employees for the three months ended March 31, 2017 and 2016.

For the three months ended March 31, 2017, the Company recognized stock-based compensation expenses of \$8,500 from stock options and \$30,600 from stock granted to employees. The options were valued using the BOPM and included in the labor operating expenses in the consolidated statements of operations.

There was no stock-based compensation expense to employees for the three months ended March 31, 2016.

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, prepaid expenses, accounts payable, accrued liabilities and notes and loans payable approximate fair value due to their most maturities.

Fair Value Measurements

The Company follows ASC 820, *Fair Value Measurements and Disclosures*, for disclosures about fair value of its financial instruments and to measure the fair value of its financial instruments. ASC 820 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, ASC 820 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 ASC 820 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.

Foreign Currency Translation

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 (loss) on transactions from operations of \$2,903 for the three months ended March 31, 2017 and \$(38,324) for the three months ended March 31, 2016.

The Company recognized other comprehensive income (loss) of \$2,886 for the three months ended March 31, 2017 and \$40,464 for the three months ended March 31, 2016.

Income Taxes

The Company accounts for income taxes in accordance with ASC 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 basis 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 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.

Recent Accounting Updates

The Company does not expect the adoption of any 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, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. 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, 2016.

Note 3. Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight - line method over the estimated useful life of the assets. At March 31, 2017 and December 31, 2016, the major class of property and equipment were as follows:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>Estimated useful lives</u>
Computer/Office Equipment	\$ 474,152	\$ 474,887	3-7 years
Medical Equipment	2,344,852	2,329,872	3-7 years
Leasehold Improvements	862,254	857,770	5-39 years
Less: Accumulated Depreciation	(1,709,361)	(1,562,471)	
Net Book Value	<u>\$ 1,971,897</u>	<u>\$ 2,100,058</u>	

Depreciation expense was \$147,547 and \$137,582 for the three months ended March 31, 2017 and 2016, respectively.

Note 4. Operating Lease Commitments

CTS has a lease commitment for its office space of approximately \$2,450 minimum rental per month, not including utilities, realty taxes, and operating costs. The lease renewed in April 2013 for a period of five years and will expire in March 2018. CTS has sublet the space under the original lease to the end of its original term. In accordance with ASC 840, *Leases*, the Company has recognized approximately \$8,000 in total sublease loss, as a result of total anticipated revenue on the operating lease being less than original lease obligations. The loss was recorded on sublease execution and amortized over its term.

CTS has a lease commitment for its new office space in Toronto, Canada of approximately \$2,600 minimum rental per month, not including utilities, realty taxes, and operating costs. The lease will expire April 30, 2021.

SMI entered into a lease commitment for its office space in Pottsville, Pennsylvania. The lease will expire on July 30, 2021. Monthly rental amounts are \$6,908 per month not including utilities, realty taxes, and operating costs.

SMI has a lease for its x-ray equipment space in Pottsville, Pennsylvania. The lease term is seven years from commitment date of October 2014. Monthly lease payments are \$3,000.

SMI has a lease for use of x-ray equipment and space in Pottsville, Pennsylvania. The lease term is two years from commitment date of January 2016. Monthly lease payments are \$2,000.

PIV has a lease for office space in Venice, Florida. The lease will expire September 30, 2021. Monthly rental amounts are \$13,170 per month.

PIN has a lease for office space in Naples, Florida. The lease will expire January 1, 2020. Monthly rental amounts are \$9,543 per month.

PIC has a lease for office space in Port Charlotte, Florida. The lease will expire June 20, 2021. Monthly rental amounts are \$5,512 per month.

Expected lease commitments as of March 31, 2017:

Year	Total
2017	\$ 405,084
2018	431,621
2019	427,597
2020	352,101
2021	216,229
Thereafter	-
	<u>\$ 1,832,632</u>

Note 5. Capital Lease Obligations

A detailed summary of the capital lease obligations is as follows:

Description	Monthly payments	Maturity Date	APR*	March 31, 2017 Balance	December 31, 2016 Balance
SMI X-Ray Machine	\$ 1,495	15-Aug-19	6.32%	\$ 40,118	\$ 43,930
SMI PACS/RIS System	3,115	1-Nov-19	5.69	92,284	100,240
SMI Copier	135	1-Aug-18	27.63	1,881	2,144
SMI Ascentrium	2,450	18-Nov-18	21.48	39,741	44,776
PIV,PIN,PIC PACS/RIS	3,094	1-Jan-20	4.22	98,989	107,170
PIV,PIN,PIC Computers	813	1-Nov-17	10.52	6,269	8,509
PIV,PIN,PIC Digital Printers	423	24-Feb-19	9.90	8,823	9,856
CTS Computers	554	2-Feb-18	2.25%	5,979	7,649
Total	<u>\$ 12,079</u>			<u>\$ 294,084</u>	<u>\$ 324,274</u>

*Annual Percentage Rate ("APR").

Minimum future lease payments under the capital leases as of March 31, 2017 are as follow:

Minimum Lease Payments	Total
2017	\$ 107,863
2018	125,021
2019	84,201
2020	3,094
Total minimum lease payments	320,179
Less amount representing interest	26,095
Present value of minimum lease payments	294,084
Less current portion of minimum lease payments	123,381
Long-term capital lease obligations at March 31, 2017	\$ 170,703

Note 6. Promissory Notes

A detailed summary of the promissory notes is as follows:

Issuance Date	Maturity Date	APR*	Payment Amount	Payments Frequency	March 31, 2017 Face Value Balance	December 31, 2016 Face Value Balance
16-Feb-16	23-Feb-17**	12.00%	\$ 1,000	Monthly	\$ 100,000	\$ 100,000
22-Feb-16	31-Aug-17	25.00	10,417	Monthly	500,000	500,000
22-Mar-16	22-Mar-17**	12.00	700	Monthly	70,000	70,000
1-Jul-16	1-Aug-17	20.00	20,000	Monthly	340,000	400,000
3-Oct-16	27-Dec-17	42.09%	\$ 2,255	Weekly	87,226	117,261
Total Face Value					1,097,226	1,187,261
Unamortized Discount					(114,684)	(143,419)
Total					\$ 982,542	\$ 1,043,842

*Annual Percentage Rate ("APR")

** Principal Overdue

Note 7. Convertible Notes

On December 5, 2012 and March 27, 2013, 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, and \$365,000, respectively. The Notes pay interest at a rate of 12% per annum, payable to the holder at 1% per month, and 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 of common stock issued was 5,315,000 shares.

On December 1, 2015, the holders of \$1,840,000 Series B Notes have agreed to extend the maturity date of the debt outstanding to July 1, 2017 from its original maturity date of December 31, 2015. As part of the extension the Company issued warrants to entitle the holders to purchase up to 1,840,000 shares of common stock at an exercise price of \$0.07 per share at any time from December 1, 2015 to July 1, 2018. The Company has valued the warrants at \$0.0058 per issued share, and recorded a total discount of \$10,672 to be amortized over the 18-month extension period.

On March 31, 2016, the holders of \$50,000 Series B Notes have agreed to extend the maturity date of the debt outstanding to September 1, 2017 from its original maturity date of March 31, 2016. As part of the extension the Company issued warrants to entitle the holders to purchase up to 50,000 shares of common stock at an exercise price of \$0.07 per share at any time from March 31, 2016 to September 30, 2018. The Company has valued the warrants at \$0.00278 per issued share, and recorded a total discount of \$139 to be amortized over the 18-month extension period.

On March 31, 2016, the holder of \$25,000 Series B Notes has agreed to extend the maturity date of the debt outstanding to September 1, 2019 from its original maturity date of March 31, 2016. As part of the extension the Company issued warrants to entitle the holders to purchase up to 25,000 shares of common stock at an exercise price of \$0.07 per share at any time from March 31, 2016 to September 30, 2019. The Company has valued the warrants at \$0.00583 per issued share, and recorded a total discount of \$146 to be amortized over the 30-month extension period.

On May 22, 2014, the Company sold, through private placement to accredited investors, three year 12% convertible notes (“Series C Notes”) in the aggregate principal amount of \$95,000. The Notes bear interest at a rate of 12% per annum, payable to the holder at 1% per month, with the principal amount due on May 31, 2017. The Notes are convertible into shares of the Company’s common stock at an initial conversion rate of \$0.15 per share. In addition, each holder of Series C Notes received shares dependent on the dollar amount of Notes purchased. On August 25, 2014, October 31, 2014 and February 17, 2015, the Company sold an additional \$75,000, \$50,000 and \$20,000, respectively of Series C Notes. The total number of shares of common stock issued was 240,000 shares.

On March 26, 2014, the Company issued a \$300,000 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 is making monthly payments of \$5,000 towards the principal balance beginning June 1, 2014 until the note due date of February 28, 2018. The note is convertible into common shares of the Company at \$0.15 per share. In addition, the purchaser of the note received 300,000 shares as part of the note agreement. As of March 31, 2017, principal balance of the note was \$135,000.

In accordance with ASC 470, *Debt with conversion and other options*, on issuance of the shares, the Company recognized additional paid-in capital and a discount against the notes for a total of \$282,470. Amortization of the discount for the three months ended March 31, 2017 and 2016 was \$3,435 and \$4,023, respectively.

In accordance with ASC 480, *Distinguishing Liabilities from Equity*, the Company determined that the warrants are a freestanding instrument based on the following:

- The debt can be transferred without the transfer of the warrants.
- The warrants can be transferred without the transfer of the debt.
- The warrants can be exercised while debt still outstanding.

In accordance with ASC 470, if the warrants are classified as equity, then the proceeds should be allocated based on the relative fair values of the base instrument and the warrants were valued at \$0.0058 per issued share, and recorded a total discount of \$10,672 to be amortized over 18 months’ extension period. Amortization of the discount for the three months ended March 31, 2017 and 2016 was \$1,773 and \$0, respectively.

A detailed summary of the convertible notes is as follows:

Issuance Date	Maturity Date	APR	Conversion Rate	Monthly Payment	March 31, 2017 Face Value Balance	December 31, 2016 Face Value Balance
3-Dec-12	1-Jul-17	12.00%	\$ 0.10	\$ 250	\$ 25,000	\$ 25,000
3-Dec-12	1-Jul-17	12.00	0.10	750	75,000	75,000
27-Mar-13	1-Jul-17	12.00	0.10	500	50,000	50,000
3-Dec-12	1-Jul-17	12.00	0.10	500	50,000	50,000
3-Dec-12	1-Jul-17	12.00	0.10	250	25,000	25,000
3-Dec-12	1-Jul-17	12.00	0.10	250	25,000	25,000
3-Dec-12	1-Jul-17	12.00	0.10	250	25,000	25,000
3-Dec-12	1-Jul-17	12.00	0.10	15,000	1,500,000	1,500,000
3-Dec-12	1-Jul-17	12.00	0.10	500	50,000	50,000
3-Dec-12	1-Jul-17	12.00	0.10	150	15,000	15,000
3-Dec-12	1-Jul-18	12.00	0.10	5,750	70,000	75,000
27-Mar-13	30-Sep-17	12.00	0.10	250	25,000	25,000
27-Mar-13	30-Sep-17	12.00	0.10	250	25,000	25,000
27-Mar-13	30-Sep-19	12.00	0.10	250	25,000	25,000
22-May-14	31-May-17	12.00	0.15	500	50,000	50,000
22-May-14	31-May-17	12.00	0.15	225	22,500	22,500
22-May-14	31-May-17	12.00	0.15	225	22,500	22,500
25-Aug-14	31-Jul-17	12.00	0.15	500	50,000	50,000
25-Aug-14	31-Jul-17	12.00	0.15	250	25,000	25,000
31-Oct-14	31-Oct-17	12.00	0.15	500	50,000	50,000
17-Feb-15	28-Feb-18	12.00	0.15	200	20,000	20,000
26-Mar-14	28-Feb-18	12.00	0.15	6,350	135,000	145,000
Total Face Value					2,360,000	2,375,000
Unamortized Discount					(3,729)	(8,937)
Total					\$ 2,356,271	\$ 2,366,063

Following are maturities of the long –term debt as of March 31, 2017:

	Principal Payments
2017	\$ 2,200,000
2018	135,000
2019	25,000
Total	<u>\$ 2,360,000</u>

Note 8. Royalty Financing

On October 31, 2014, the Company entered into a royalty purchase agreement with Grenville Strategic Royalty Corp. (“Grenville”) for the amount of \$2,000,000. The agreement calls for a monthly payment to Grenville based on a percentage of the total of certain revenue items and subject to a minimum payment amount until \$8,000,000 has been paid. The amount financed is recorded net of discount to be amortized during the term. For the three months ended March 31, 2017 and 2016, the Company has recorded discount amortization expense of \$106,345 and \$75,075, respectively. The balance as shown on the consolidated balance sheet as of March 31, 2017 was \$2,113,769, net of \$5,196,508 in unamortized discount. The balance as shown on the consolidated balance sheet as of December 31, 2016 was \$2,007,424, net of \$5,302,853 in unamortized discount. As of March 31, 2017, the Company paid a total of \$689,723 in royalty payments, additionally the Company has accrued \$324,067 in unpaid royalty fees from August to March 2017.

Note 9. Related Party Transactions

During January 2015, the Company entered into an agreement with a Company that is owned and controlled by a major shareholder to provide consulting services. Fees payable for performance of the consulting services are \$10,000 per month. In addition to the monthly fees, the consultant was paid at signing of the agreement, four million two hundred thousand (4,200,000) options to purchase common stock of the client at an exercise price of \$0.15 per share with an expiry date of December 31, 2019. The options have a five (5) year term. Inputs used in Binomial Option Pricing model were as follow: stock price at grant date: \$0.0517, exercise price \$0.15, expected life of the option two and a half (2.5) years, volatility of 70%, and risk free rate of 0.03%. The options were recorded on the grant date at a value of \$34,683. Fees incurred to the related party consultant for the three months ended March 31, 2017 and 2016 were \$30,000, respectively, and are included as an expense in Legal and Professional fees in the accompanying statement of operations for the period.

Note 10. Common Stock Transactions

On February 23, 2017, 765,000 shares were issued for services valued at \$30,600 based upon the closing price of the Company’s common stock at the grant date.

On June 7, 2016, 50,000 shares were issued for services valued at \$5,000 based upon the closing price of the Company’s common stock at the grant date.

On June 16, 2016, the Company issued 30,000 shares of common stock of the Company as part of the bridge convertible note to a private investor. The shares were valued at \$609 based upon the closing price of the Company’s common stock at the grant date.

On March 22, 2016, the Company issued 70,000 shares of common stock of the Company as part of the bridge convertible note to a private investor. The shares were valued at \$1,421 based upon the closing price of the Company’s common stock at the grant date.

On February 18, 2016, the Company issued 100,000 shares of common stock of the Company as part of the bridge convertible note to a private investor. The shares were valued at \$7,000 based upon the closing price of the Company’s common stock at the grant date.

Note 11. 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. 12. Going Concern

As shown in the accompanying consolidated financial statements, the Company incurred net comprehensive loss of \$390,259, and \$250,508 for the three months ended March 31, 2017 and 2016, as well as a working capital deficit of \$5,785,115 at March 31, 2017. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. Management plans to raise additional financing in order to continue its operations and fulfill its debt obligations in 2017, 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 13. Subsequent events

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 Medical Imaging Corp. (the "Company") for the three months ended March 31, 2017, 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, 2016.

Business description

MIC is a U.S.-based healthcare services Company with a specific focus on medical diagnostic imaging. We currently own and operate five wholly-owned subsidiaries: CTS, SMI, PIV, PIN, and PIC. 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.

MIC's mission is to provide quality medical diagnostic imaging services to its patients and client hospitals 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.

CTS

CTS provides remote reading and reporting of medical diagnostic imaging scans, otherwise known as Teleradiology, for rural hospitals and clinics in Canada. Our network of board certified radiologists providing medical imaging interpretations for our clients, helping to speed diagnoses, while seeking to 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 or physician to continue with patient care.

CTS specializes in reading 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 third-party IT Company to ensure the workstations used by our contracted radiologists and CTS servers are functioning properly.

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 into 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

SMI operates a medical imaging facility serving patients in Schuylkill County, Pennsylvania. SMI has provided high quality medical diagnostic imaging services for more than 16 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 high quality care and service.

Our facility currently houses two types of MRI systems; 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. SMI is capable of facilitating MRI procedures that include cranial, spinal, abdominal, pelvic, musculoskeletal and head/neck scans.

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, with the goal of seeing 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.

Florida Operations (PIV, PIN, PIC)

MIC owns three diagnostic centers in the State of Florida, operating under the names of Partners Imaging Center of Venice, LLC, Partners Imaging Center of Charlotte, LLC, and Partners Imaging Center of Naples, LLC. These centers have been operating under the Partners name for more than seven years and have been in their respective locations from 9 to 16 years. The centers rely on referring physicians and marketing efforts to drive business. The centers offer a 1.5T MRI and 16 slice CT in Naples, a 1.5T MRI in Charlotte, and 3T MRI, 16 slice CT, ultrasound and X-ray at the Venice location. Reports are provided to the patients' physician within 24 hours and as quick as 60 minute for emergency exams.

The centers have dedicated marketing personnel that work to ensure we have a presence both in the community and to meet the needs of our referring physicians.

Canadian Government Regulation

Healthcare services in Canada are subject to extensive regulation by the Canadian federal government, as well as the governments of the provinces and territories in which we business is conducted. 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. CTS radiologist must be licensed to work in the province for which they report. CTS must follow strict protocols and systems as laid in place by each client hospital and uses appropriate medical software for transferring patient data.

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. At this time, it is not clear what proposals, if any, will be adopted or, if adopted, what affect these proposals would have on our business.

U.S. Government Regulation

Our U.S. subsidiaries are subject to extensive regulation under federal, State, and local laws. This includes, but is not limited to complying with HIPPA, accreditation standards, Medicare/Medicaid and private insurance standards. Generally, our MRI facilities must be licensed by the state, unless we can qualify for an applicable exemption. 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 private diagnostic imaging clinics and both private and public hospitals. We also compete for the hiring of qualified medical experts and MRI, CT and x-ray 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 15 hospitals that utilize CTS. The loss of any of these clients would have a negative impact on the Company.

The diagnostic imaging centers rely on a referral base of specialized and family practitioners in each respective community. The average center may have over 100 local physicians that refer patients to us for medical imaging services. In addition, each center uses marketing efforts and community involvement to reach out and educate patients that they have a choice as to where to have a scan.

For our Florida centers, we have a sizeable amount of self-pay patients in the winter time from foreign visitors.

Employees

MIC currently has one full time executive (Chief Executive Officer), one part time executive (Chief Financial Officer) and approximately 40 employees who include accounting staff, administrators, as well as technical employees and imaging center location managers. 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 2017 CTS-signed a contract with a new client hospital for services expected to start in the third quarter of 2017. Additionally, an existing client hospital has increased emergency work for CTS to cover. CTS has continued its marketing efforts and is looking at provinces outside of Ontario for potential growth.

SMI

During the first quarter of 2017 revenue and scan volume was consistent. Special attention has been given to marketing efforts and we have established a new referral base of doctors.

PIV, PIN, PIC, (Florida)

During the first quarter of 2017 we had a consistent high season for scan volume.

Naples marketing efforts that commenced in 2016 are showing effective with more room for growth. CT business has been increasing on a consistent monthly basis. Additionally, in PIN, the center is now offering Ultrasound two days a week. The center is using a mobile company that brings the machinery and technologist who sets up in a remodeled room within the center. This allows us to offer the modality with little cost risk to the company. Ultrasounds were offered starting late March. The need for this is to expand the offering of modalities within our market place to stay competitive and as a need and compliment for physicians referring CT patients that often first require an Ultrasound.

PIC and PIV had a consistent winter season. Marketing efforts have increased and at the end of the quarter the centers started looking to hire a second marketer. This will allow an opportunity to reach potential new referring doctor offices.

Overall Operating Results:

For the three months ended March 31, 2017, revenues from teleradiology services was \$564,100 compared to \$540,360 for the three months ended March 31, 2016, an increase of 4% or \$23,740. The increase in revenue from teleradiology services is related to revenues earned in Canadian dollars. The exchange rate used to convert CTS revenues carried in Canadian dollars for the three months ended March 31, 2017 and 2016 were \$0.7555 and \$0.7235, respectively. The difference in exchange rates contributed to the 4% increase, therefore, revenues were consistent year of year.

For the three months ended March 31, 2017, revenues from medical scans services was \$1,240,052 compared to \$1,382,125 for the year three months March 31, 2016, a decrease of \$142,073 or 10%; although we had an increase in scans owing to marketing efforts; due to contractual rates decrease, net revenues has decreased for the three months ended March 31, 2017 in compare to 2016. 2016 was the first year the Company controlled most of the billings at its three Florida locations under new contracts from insurance payors and Medicare. In prior years, the billing and collections had been performed by the previous owner of the centers at their contracted rates. At the end of the 2016 a review of the Florida centers was undertaken to reconcile the net collections of the centers versus the estimated reimbursement of claims filed with insurers. From this review, it was determined that an adjustment to revenue estimates of approximately \$311,000 was necessary. Revenues presented for the year ended December 31, 2016 consolidated financial statements reflect this adjustment. Going forward the Company will now rely on its own billing and collections history in order to determine its quarterly and annual expected revenues from its Florida operations.

For the three months ended March 31, 2017, cost of sales incurred relating to teleradiology services was \$462,870 as compared to \$445,360 for the three months March 31, 2016, an increase of 4% or \$17,510. As a result of the increase in revenues, we incurred more cost of sales. As a percentage of revenues, our costs of sales incurred relating to radiology services remained constant at 82%.

For the three months ended March 31, 2017 cost of sales from medical scans services was \$517,827, compared to \$509,820 for the three months March 31, 2016; an increase of \$8,007 or 2%. The slight increase is due to increase in directly related revenue activities as a result of the increase in scan volume.

Operating expenses for the three months ended March 31, 2017 and 2016 totalled \$940,905 and \$959,483, respectively, a decrease of \$18,578 or 2%, owing to the following:

During the three months ended March 31, 2017, we incurred \$312,298 as compared to \$318,002 for labor including \$39,100 in employee compensation pertaining to 1,000,000 stock options issued and 30,600 common stock shares issued.

During the three months ended March 31, 2017, we incurred \$147,321 in general and administrative costs as compared to \$217,090 for the three months ended March 31, 2016. The decrease in general and administrative costs is owing to reduced repairs costs on equipment incurred in 2016.

During the three months ended March 31, 2017, we incurred \$147,547 in depreciation expense, as compared to \$137,582 for the three months ended March 31, 2016. The increase in depreciation expense is due to additional equipment purchased after March 31, 2016.

During the three months ended March 31, 2017, we incurred \$63,103 in legal and professional fees compared to \$106,877. In the three months ended March 31, 2016 the Company incurred \$40,000 in legal and financing fees associated with promissory notes issued during the period.

During the three months ended March 31, 2017 we incurred \$68,958 in bad debt expense compared to \$0 for the three months ended March 31, 2016.

During the three months ended March 31, 2017, we incurred \$3,883 in management fees as compared to \$5,100.

During the three months ended March 31, 2017, we incurred \$18,354 in advertising and promotion, as compared to \$6,351 for the three months ended March 31, 2016. The increase was due to increase in marketing efforts with referring doctors for increase in revenues.

During the three months ended March 31, 2017, we incurred \$143,274 for rent, and \$23,070 for insurance, as compared to \$138,027 in rent and \$21,592 in insurance for the three months ended March 31, 2016. The increase in insurance was due to additional capital assets acquired and increase in revenue resulting in increase in premiums on renewals. The increase in rent was due to increase in rate on yearly renewal as per rental agreements.

For the three months ended March 31, 2017, net loss was \$393,145 as compared to a net loss of \$290,972 for the three months ended March 31, 2016, the increase in net loss is primarily due to \$118,333 decrease in revenue, \$18,578 decrease in operating expenses, and decrease in other expenses of \$23,099.

Liquidity and Capital Resources:

The Company used a combination of capital financing and revenues from operations to fund its acquisitions and working capital. The Company from time to time has sold shares of common stock and warrants and issued convertible notes. In 2016, it raised \$1,133,625 from the issuance of promissory notes.

The Company's operations have produced \$1,804,152 of revenues for the three months ended March 31, 2017, which have been used to fund its operating expenses and to reduce its liabilities.

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. As a result of this and other factors, the report of our independent auditors, dated April 17, 2017, on our consolidated financial statements for the period ended December 31, 2016 included an emphasis of matter paragraph indicating that there is a substantial doubt about the Company's ability to continue as a going concern. 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 as provided by law or be subject to claims by creditors or a general creditor action. 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, 2017, our assets totaled \$5,127,571 which consisted of cash balances, accounts receivable, prepaid expenses, deposits, goodwill and property and equipment. As of March 31, 2017, our total liabilities consisted of accounts payable and accrued liabilities of \$2,621,446, capital lease obligations of \$294,084, promissory notes of \$982,545 (net of discount), Royalty financing of \$2,113,769 (net of discount), and non-related party convertible notes of \$2,356,271 (net of discount). As of March 31, 2017, we had an accumulated deficit of \$5,504,137 and a working capital deficit of \$5,785,115.

Promissory Notes:

As of March 31, 2017, the Company had promissory notes due to non-related parties for a total amount of \$982,542.

On October 3, 2016, the Company received \$113,625 from a promissory note to On Deck Capital Inc from a forward sale of receivables. In accordance with ASC 860, Transfers and Servicing, ("ASC 860") the sale of future accounts receivable as per the agreements does not represent a sale of accounts receivable for accounting purposes and as such, the transaction will be presented in the consolidated financial statements as a promissory note. The forward sale of receivable does not carry a security interest and the only recourse is against accounts receivable. The forward sale of receivables calls for sixty-five weekly payments of \$2,977 towards the principal and interest starting October 5, 2016.

On July 1, 2016, the Company received \$350,000 from forward sale of receivables. In accordance with ASC 860, *Transfers and Servicing*, ("ASC 860") the sale of future accounts receivable as per the agreements does not represent a sale of accounts receivable for accounting purposes and as such, the transaction will be presented in the consolidated financial statements as a promissory note. The forward sale of receivable does not carry a security interest and the only recourse is against accounts receivable. The forward sale of receivables calls for twenty monthly payments of \$20,000 towards the principal balance and interest starting August 1, 2016.

On March 22, 2016, the Company sold additional \$70,000 in a bridge convertible promissory note to a private investor. The Note pays interest monthly at an annual rate of 12%. As an inducement to purchase the Note, the investor was also given 100,000 shares of common stock of the Company. The note principal balance was due on March 22, 2017 and it is currently overdue until maturity date is extended. The Balance of the note at March 31, 2017 is \$70,000.

On February 25, 2016, the Company sold to Grenville Strategic Royalty Corp. ("Holder") a convertible note for the principal amount of \$500,000. The Note pays interest monthly at an annual rate of 25%. From July 30, 2016 through to August 31, 2017, the Holder may elect to convert the Note into a temporary royalty and receive a monthly payment equal to a specified percentage of the Company's revenue for the previous month, subject to certain minimum payments, in lieu of interest payments. However, in such case the Company may still buy back the temporary royalty for the original face value of the Note. If the Note is outstanding as of August 31, 2017, then the Note may be converted into a permanent royalty based on the revenues of the Company (the "Royalty") at the Holder's election, subject to certain minimum payments. The Holder will maintain a security interest in the Company until such time as the Note is retired, the Company raises \$1,200,000 in additional capital, or the Note is converted into the Royalty. The balance of the note at March 31, 2017 is \$500,000.

On February 23, 2016, the Company sold a bridge convertible promissory note for \$100,000 to a private investor. The Note pays interest monthly at an annual rate of 12%. As an inducement to purchase the Note, the investor was also given 100,000 shares of common stock of the Company. The note principal balance was due on February 23, 2017 and it is currently overdue until maturity date is extended. The balance of the note at March 31, 2017 is \$100,000.

Convertible Notes:

As of March 31, 2017, the Company had convertible notes due to non-related parties for a total amount of \$2,356,271.

On February 17, 2015, the Company issued, through a private placement to an accredited investor, an additional Series C Note in the principal amount of \$20,000, and has issued 20,000 shares of common stock of the Company accordingly.

In May 2014, the Company received proceeds of \$50,000 through a private placement from an accredited investor, and in June 2014 the Company assigned \$25,000 of the SMI acquisition liability that was due as part of SMI acquisition to loans payable. The funds were held in escrow by the Company until the offer and sale was registered with the appropriate state securities regulator and the Series C convertible note was issued to the investors. On August 25, 2014 \$75,000 Series C Notes were issued to the investors and 75,000 shares of common stock of the Company were also issued.

On May 22, 2014, the Company issued, through a private placement to accredited investors, three year 12% convertible notes ("Series C Notes") in the aggregate principal amount of \$95,000. The Series C Notes bear interest at a rate of 12% per annum, payable to the holder at 1% per month, with the principal amount due on May 31, 2017. The Series C Notes are convertible into shares of the Company's common stock at an initial conversion rate of \$0.15 per share. In addition, each holder of Series C Notes received shares dependent on the dollar amount of Notes purchased. The total number of shares of common stock issued was 95,000 shares. A detailed schedule of the Series C Notes is presented in Note 7 to the consolidated financial statements. On October 31, 2014, the Company sold, through a private placement to accredited investor, an additional Series C Note in the principal amount of \$50,000, and has issued 50,000 shares of common stock of the Company accordingly.

On March 26, 2014, the issued a \$300,000 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 is making monthly payments of \$5,000 towards the principal balance beginning June 1, 2014 until the note due date of February 27, 2018. The note is convertible into common shares of the Company at \$0.15 per share. In addition, the purchaser of the note received 300,000 shares as part of the note agreement. A detailed schedule of this note is presented in Note 7 to the consolidated financial statements. As of March 31, 2017, principal balance of the note was \$135,000.

On December 5, 2012 and March 27, 2013, 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, and \$365,000, respectively. The Series B Notes pay interest at a rate of 12% per annum, payable to the holder at 1% per month, and convertible into common shares of the Company at \$0.10 per share. \$1,840,000 of the notes mature July 1, 2017, \$50,000 mature September 1, 2017, \$25,000 mature September 1, 2019, and \$100,000 of the notes mature on May 31, 2016. In addition, each purchaser of the Series B Notes received shares dependent on the dollar amount of Series B Notes purchased. The total number of shares of common stock issued was 5,315,000 shares. A detailed schedule of the Series B Notes is presented in Note 7 to the consolidated financial statements. \$1,840,000 of Series B Notes original maturity was extended to their current maturity of July 1, 2017 in consideration of warrants to purchase shares in equal number of one share for every \$1 of note at an exercise price of \$0.07 per share, which warrants will be exercisable from November 16, 2015 to and including July 1, 2018. \$50,000 of series B Notes original maturity was extended to their current maturity of September 1, 2017 in consideration of warrants to purchase shares in equal number of one share for every \$1 of note at an exercise price of \$0.07 per share, which warrants will be exercisable from March 25, 2016 to September 1, 2018. \$25,000 of series B Notes original maturity was extended to their current maturity of September 1, 2019 in consideration of warrants to purchase shares in equal number of one share for every \$1 of note at an exercise price of \$0.07 per share, which warrants will be exercisable from March 25, 2016 to September 1, 2019.

Royalty Financing:

A royalty financing arrangement was entered on October 31, 2014 with Grenville Strategic Royalty Corp. The royalty was purchased for \$2,000,000 in return for a series of payments based on a percentage of certain revenue items of the Company. The Company and the royalty holder may agree to a subsequent increase in the amount of the royalty purchase by up to an additional \$1,000,000. The royalties are payable monthly, subject to an agreed upon minimum amount. The royalty holder may advance additional sums in which case the royalty payment percentage and minimum amounts will be adjusted. The royalty payments will extend for a period of up to 10 years, which may be shortened if, depending on the amount of the royalty purchase, the Company has paid an agreed upon aggregate royalty amount. The Company has certain rights to buy out the royalty payments, including in the event of a change of control of the Company, which are calculated based on a variable formula at a multiple of the purchase amount and other factors.

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 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, 2016.

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

N/A

ITEM 1A. Risk Factors

Not Applicable

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

The Company issued 15,000 shares in February 2017 at a per share price of \$0.04 for services.

The Company issued 750,000 shares in February 2017 towards accrued CEO salary of \$30,000.

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.

<u>Exhibit No.</u>	<u>Description</u>
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.

MEDICAL IMAGING CORP.

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

Date: May 12, 2017

MEDICAL IMAGING CORP.

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

Date: May 12, 2017