**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2016**

or

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

**For the transition period from ______________ to ______________**

**Commission File Number: 001-35586**

**MagneGas Corporation**
(Exact name of registrant as specified in its charter)

| **Delaware** | **26-0250418** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **11885 44th Street North Clearwater, Florida** | **33762** |
| (Address of principal executive offices) | (Zip Code) |

**(727) 934-3448**
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 November 8, 2016 there were 52,139,304 shares of common stock, $0.001 par value, issued and outstanding.

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**September 30, 2016**

## PART I - FINANCIAL INFORMATION

**Item 1. Consolidated Financial Statements.**

**MagneGas Corporation**
**Condensed Consolidated Balance Sheets**

| | September 30, 2016 (Unaudited) | December 31, 2015 (Audited) |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $ 1,182,456 | $ 5,319,869 |
| Accounts receivable, net of allowance for doubtful accounts of $135,931 and $109,568, respectively | 405,126 | 373,006 |
| Inventory, net | 2,211,158 | 2,362,014 |
| Prepaid and other current assets | 534,077 | 320,431 |
| Total Current Assets | 4,332,817 | 8,375,320 |
| | | |
| Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of $1,848,452 and $1,467,123, respectively | 6,652,672 | 6,004,990 |
| | | |
| Intangible assets, net of accumulated amortization of $387,303 and $345,382, respectively | 451,095 | 493,016 |
| Investment in joint ventures, net | 278,590 | 754,601 |
| Security deposits | 26,655 | 24,113 |
| Goodwill | 2,108,781 | 2,108,781 |
| Total Assets | $ 13,850,610 | $ 17,760,821 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| Current Liabilities | | |
| Accounts payable | $ 389,234 | $ 425,294 |
| Accrued expenses | 321,915 | 504,855 |
| Deferred revenue and customer deposits | 28,850 | 412,500 |
| Notes payable, current | 9,328 | 7,891 |
| Derivative liabilities | 5,150,078 | 1,241,841 |
| Total Current Liabilities | 5,899,405 | 2,592,381 |
| | | |
| Long Term Liabilities | | |
| Note payable, net of current maturities | 547,649 | 552,177 |
| Senior convertible debenture, net of debt discount of $950,000 | 50,000 | - |
| Total Liabilities | 6,497,054 | 3,144,558 |
| | | |
| Commitments and Contingencies | | |
| | | |
| Stockholders' Equity | | |
| Preferred stock: $0.001 par; 10,000,000 authorized; 1,000,000 issued and outstanding | -- | -- |
| Series A preferred stock - $0.001 par value 1,000,000 authorized and outstanding | 1,000 | 1,000 |
| Common stock: $0.001 par; 90,000,000 authorized; 51,939,304 and 45,599,534 issued and outstanding, respectively | 51,939 | 45,599 |
| Additional paid-in capital | 54,228,495 | 50,658,216 |
| Accumulated deficit | (46,927,878) | (36,088,552) |
| Total Stockholders' Equity | 7, 353,556 | 14,616,263 |
| | | |
| Total Liabilities and Stockholders' Equity | $ 13,850,610 | $ 17,760,821 |

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

## MagneGas Corporation
## Condensed Consolidated Statements of Operations
## (Unaudited)

| | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| Revenue: | 1,037,668 | 623,893 | $ 2,540,588 | $ 1,753,986 |
| Cost of Revenues | 632,531 | 405,979 | 1,470,569 | 1,078,032 |
| Gross Profit | 405,137 | 217,914 | 1,070,019 | 675,954 |
| Operating Expenses: | | | | |
| Selling, general and administration | 2,690,495 | 2,183,924 | 7,544,484 | 6,064,726 |
| Research and development | 143,072 | 104,968 | 472,329 | 231,618 |
| Impairment of joint venture | - | - | 501,011 | - |
| Depreciation and amortization | 177,557 | 141,848 | 507,000 | 418,467 |
| Total Operating Expenses | 3,011,124 | 2,430,740 | 9,024,824 | 6,714,811 |
| Operating (Loss) | (2,605,987) | (2,212,826) | (7,954,805) | (6,038,857) |
| Other Income and (Expense): | | | | |
| Interest | (47,734) | (10,815) | (67,233) | (21,070) |
| Non-Cash Interest, derivative liability | - | - | (2,622,080) | - |
| Non-cash Interest, amortization of debt discount | (50,000) | - | (50,000) | - |
| Loss on sale of property | - | - | - | (483,630) |
| Other income | 40,533 | 8,421 | 61,763 | 11,763 |
| Change in fair value of derivative liability | (1,404,490) | - | (206,971) | - |
| Total Other Income (Expense) | (1,461,691) | (2,394) | (2,884,521) | (492,937) |
| Net Loss | $ (4,067,678) | $ (2,215,220) | $ (10,839,326) | $ (6,531,794) |
| Net Loss per share: | | | | |
| Basic and diluted | $ (0.08) | $ (0.05) | $ (0.23) | $ (0.17) |
| Weighted average common shares: | | | | |
| Basic and diluted | 50,361,516 | 41,181,102 | 47,235,587 | 39,170,542 |

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

**MagneGas Corporation**
**Condensed Consolidated Statement of Changes in Stockholders' Equity**
**(Unaudited)**

| | Preferred Shares | Preferred Amount | Common Shares | Common Amount | Additional Paid In Capital | Accumulated Deficit | Total Equity |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2015** | 1,000,000 | $ 1,000 | 45,599,534 | $ 45,599 | $ 50,658,216 | $ (36,088,552) | $ 14,616,263 |
| Common shares issued for services | | | 1,076,612 | 1,077 | 819,423 | | 820,500 |
| Amortization of stock based compensation | | | | | 241,852 | | 241,852 |
| Prefunded warrants issued for cash | | | | | 2,540,821 | | 2,540,821 |
| Reclassification of warrants to derivative liability | | | | | (2,947,370) | | (2,947,370) |
| Common shares issued for the exercise of warrants | | | 5,263,158 | 5,263 | 47,369 | | 52,632 |
| Reclassification of derivative liability to equity | | | | | 2.868,184 | | 2,868,184 |
| Net loss | | | | | | (10,839,326) | (10, 839,326) |
| **Balance at September 30, 2016** | 1,000,000 | $ 1,000 | 51,939,304 | $ 51,939 | $ 54,228,495 | $ (46,927,878) | $7,353, 556 |

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

**MagneGas Corporation**
**Condensed Consolidated Statements of Cash Flows**
**For the Nine Months Ended September 30, 2016 and 2015**
**(Unaudited)**

| | September 30, | |
|---|---|---|
| | **2016** | **2015** |
| **Cash Flows from Operations** | | |
| Net loss | $ (10,839,326) | (6,531,794) |
| Adjustments to reconcile net loss to cash used in operating Activities: | | |
| Depreciation and amortization | 507,000 | 418,467 |
| Stock based compensation | 241,852 | 410,160 |
| Stocks issued for services | 820,500 | 1,063,276 |
| Provision for bad debt | 26,363 | 5,540 |
| Provision for slow moving spare parts | 270,000 | - |
| Loss on disposal of fixed assets | 131,934 | 483,630 |
| Provision for impairment of investment in joint venture | 501,011 | - |
| Non-Cash Interest for derivative liability | 2,622,080 | - |
| Non-cash interest, amortization of debt discount | 50,000 | -- |
| Change in fair value of derivative liability | 206,971 | - |
| Changes in operating assets: | | |
| Accounts receivable | (58,483) | (70,102) |
| Inventory | (119,144) | (50,514) |
| Prepaid and other current assets | (213,646) | (240,931) |
| Accounts payable | (36,060) | 295,056 |
| Accrued expenses | (182,940) | 131,351 |
| Deferred revenue and customer deposits | (383,650) | (26,666) |
| Total adjustments to net loss | 4,383,788 | 2,419,267 |
| Net cash used in operating activities | (6,455,538) | (4,112,527) |
| | | |
| **Cash Flows from Investing Activities** | | |
| Purchase of property and equipment | (1,252,695) | (578,381) |
| Security deposit | (2,542) | 184 |
| Investment in joint ventures | (25,000) | (66,548) |
| Proceeds from sale of assets | 8,000 | 400,410 |
| Net cash used in investing activities | (1,272,237) | (244,335) |
| | | |
| **Cash Flows from Financing Activities** | | |
| | | |
| Principle payments on notes payable | (3,091) | 19,583 |
| Proceeds from senior convertible debenture | 1,000,000 | - |
| Proceeds from prefunded warrants | 2,540,821 | - |
| Cash proceeds from exercise of warrants | 52,632 | 1,444,725 |
| Net cash provided by financing activities | 3,590,362 | 1,464,308 |
| | | |
| Net decrease in cash | (4,137,413) | (2,892,554) |
| | | |
| Cash, beginning of period | 5,319,869 | 5,061,674 |
| | | |
| **Cash, end of period** | $ 1,182,456 | 2,169,120 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for: | | |
| Interest | $ 46,635 | 28,299 |
| | | |
| Supplemental disclosure of non-cash investing and financing activities | | |
| | | |
| Fair value of warrants and embedded conversion option issued in connection with the debt | $ 1,000,000 | $ -- |
| | | |
| Reclassification of warrants and conversion option to derivative liabilities | $ 2,947,370 | $ -- |
| Reclassification of derivative liabilities to equity | $ 2,868,184 | $ -- |

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

**1. Description of Business**

MagneGas Corporation (the "Company") was organized in the State of Delaware on December 9, 2005.

The Company is an alternative energy company that creates a system that produces hydrogen based fuel through the gasification of liquid and liquid waste. Management has developed a process which gasifies various types of liquids and liquid wastes through a proprietary plasma arc system. A byproduct of this process is an alternative to natural gas currently sold in the metalworking market as a cutting fuel. The Company produces gas bottled in cylinders for the purpose of distribution to the metalworking market as an alternative to acetylene. Additionally, the Company markets for sale its proprietary plasma arc technology for the processing of liquid waste (the "Plasma Arc Flow" or "Plasma Arc Flow System"), is developing ancillary uses of its MagneGas2® fuel for co-combustion, and has acquired a gas distribution company that sells various types of industrial fuels and supplies. Through the course of its business development, the Company has established a retail and wholesale platform to sell its fuel for use in the metalworking and manufacturing industries. The Company has also established a network of brokers to sell its Plasma Arc Flow equipment internationally.

**2. Going Concern and Managements' Plan**

As of September 30, 2016, the Company had cash of approximately $1,182,000 and has reported a net loss of approximately $10.8 million and has used cash in operations of $6.5 million for the nine months ended September 30, 2016. In addition, as of September 30, 2016 the Company has a working capital deficit of approximately $1.6 million and an accumulated deficit of approximately $46.9 million. The aforementioned factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of asset amounts or the classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Historically, the Company has financed its operations through equity and debt financing transactions and expects to continue incurring operating losses for the foreseeable future. The Company's plans and expectations for the next 12 months include raising additional capital to help fund commercial operations, including product development. The Company utilizes cash in its operations of approximately $720,000 per month. Management believes but it cannot be certain its current holdings of cash along with the cash to be generated from expected product sales and future financings will be sufficient to meet its projected operating requirements for the next twelve months from the date of this report. In November 2015, the Company sold its first Plasma-Arc Gasification system for $775,000. The Company already received milestone payments totaling $583,750 as a result of this sale and will receive a final payment of $191,250 after the expected delivery of the system by us to the customer by the end of 2016. The Company believes that this sale will enable it to generate additional equipment sales as a result of the visibility in the industrial gas industry of this new technology being operated by a third party.

If these sources do not provide the capital necessary to fund the Company's operations during the next twelve months from the date of this report, the Company may need to curtail certain aspects of its operations or expansion activities, consider the sale of its assets, or consider other means of financing. The Company can give no assurance that it will be successful in implementing its business plan and obtaining financing on terms advantageous to the Company or that any such additional financing would be available to the Company.

**3. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("GAAP") for interim financial information, the instructions to SEC Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's Form 10-K for the year ended December 31, 2015.

In the opinion of management, all adjustments consisting of normal recurring adjustments necessary for a fair statement of (a) the result of operations for the three and nine months ended September 30, 2016 and 2015; (b) the financial position at September 30, 2016; and (c) cash flows for the nine months ended September 30, 2016 and 2015, have been made.

***Use of Estimates***

The Company prepares its financial statements in conformity with GAAP. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are reasonable and have been discussed with the Board of Directors; however, actual results could differ from those estimates. The financial statements presented include inventory reserves, fair value of derivative financial instruments, accounting of joint ventures, recoverability of deferred tax assets and collections of its receivables.

***Principles of Consolidation***

The condensed consolidated financial statements have been prepared using the accounting records of MagneGas and its wholly owned subsidiary Equipment Sales and Services, Inc. and all material intercompany balances and transactions have been eliminated.

***Variable Interest Entities***

The Company considers the consolidation of entities to which the usual condition (ownership of a majority voting interest) of consolidation does not apply, focusing on controlling financial interests that may be achieved through arrangements that do not involve voting interest. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary is generally required to consolidate assets, liabilities and non-controlling interests at fair value (or at historical cost if the entity is a related party) and subsequently account for the variable interest as if it were consolidated based on a majority voting interest. The Company has investments in joint ventures that are in development of the MagneGas2® technology, however the Company is not identified as a primary beneficiary; therefore consolidation is not required and the investments are recorded using the equity method of accounting.

***Accounts Receivable***

Accounts receivable consist of amounts due for the delivery of MagneGas2® sales to customers with payment terms of generally 30 days. An allowance for doubtful accounts is considered to be established for any amounts that may not be recoverable, which is based on an analysis of the Company's customer credit worthiness, historical estimates, and current economic trends. Receivables are determined to be past due, based on payment terms of original invoices. The Company does not typically charge interest on past due receivables.

***Intangible Assets***

Intangible assets primarily consist of intellectual property which is amortized ratably over a life of the property which ranges from 15 years to 20 years. The Company assesses the carrying value of its intangible assets for impairment each year. Based on its assessments, the Company did not incur any impairment charges for either the three or nine months ending September 30, 2016 and 2015.

***Revenue Recognition***

The Company generates revenue through two processes: (1) the sale of its MagneGas2® fuel for metal cutting and (2) the sale of its Plasma Arc Flow units. Additionally, the Company also recognizes revenue from territorial license arrangements, and through the sales of metal cutting gases and related products through their wholly owned subsidiary, Equipment Sales and Service, Inc. ("ESSI"), a Florida corporation.

- Revenue for metal-working fuel is recognized when shipments are made to customers. The Company recognizes a sale when the product has been shipped and risk of loss has passed to the customer and collectability is reasonably assured.
- Revenue generated from sales of its production unit is recognized on a percentage of completion, based on the progress during manufacturing of the unit. Our machine is a significant investment and generally requires a 6 to 9 month production cycle. During the course of building a unit the actual costs are tracked to our cost estimates and revenue is proportionately recognized during the process. Significant deposits are required before production. These deposits are classified as customer deposits. During our production, costs and progress earnings are accumulated and included in "Costs and earnings" as an asset, such amounts have been immaterial to date.
- Licenses are issued, per contractual agreement, for distribution rights within certain geographic territories. The Company recognizes revenue ratably, based on the amounts paid or values received, over the term of the licensing agreement.

***Inventory, net***

Inventory is stated at the lower of standard cost or market, which approximates actual cost. Cost is determined using the first-in, first-out method. Inventory is comprised of spare parts; consumables used in the production of gas, regulators and tips and accumulated costs incurred in the manufacturing process of units held for future sales. Estimates of lower of cost or market are based upon economic conditions, historical sales quantities and patterns, and in some cases, the specific risk of loss on specifically identified inventories. The Company evaluates inventories on a regular basis to identify inventory on hand that may be slow moving. Inventory that is in excess of current and projected use is reduced by an allowance to the level that approximates its estimate of future demand. As of September 30, 2016, the Company has a reserve of $270,000 for slow moving items.

***Goodwill***

The Company records goodwill and other indefinite-lived assets in connection with business combinations. Goodwill, which represents the excess of acquis ion cost over the fair value of the net tangible and intangible assets of the acquired company is not amortized, Indefinite-lived assets are stated at fair value as of the date acquired in a business combination. The Company's goodwill balance and other asset with indefinite lives are evaluated for potential impairment annually each year and in certain other circumstances. The valuation of impairment involves comparing the current fair value of the business to the recorded value, including goodwill. To determine the fair value of the business, the Company utilizes both the "Income Approach", which is based on estimates of the future net cash flow, and the "Market Approach", which observes transactional evidence involving similar business. The Company did not identify any indicators of impairment during the nine months ended September 30, 2016.

***Stock Based Compensation***

The Company accounts for options granted to employees by measuring the cost of services received in exchange for the award of equity instruments based upon the fair value of the award on the date of grant. The fair value of that award is then ratably recognized as expense over the period during which the recipient is required to provide services in exchange for that award.

Options and warrants granted to consultants and other non-employee are recorded at fair value as of the grand date and subsequently adjusted to fair value at the end of each reporting period until such options and warrants vest, and the fair value of such instruments, as adjusted, is expected over related vesting period.

The Company incurred stock-based compensation charges, net of estimated forfeitures of $241,852 and $410,160 for the nine months ended September 30, 2016 and 2015, respectively and has included such amounts in selling, general and administrative expenses in the condensed consolidated statements of operations.

***Earnings (Loss) Per Share***

Basic earnings (loss) per share calculations are determined by dividing net income (loss) by the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share calculations are determined by dividing net income (loss) by the weighted average number of shares. In periods of net loss, stock equivalents are excluded, as those shares would be anti-dilutive.

As of September 30, 2016 and 2015 the Company's common stock equivalents outstanding.

| | September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Options | 4,729,500 | 3,900,000 |
| Warrants | 23,266,241 | 11,944,089 |
| Convertible secured debentures | 1,754,386 | — |
| Total common stock equivalents outstanding | 29,750,127 | 15,844,089 |

*Derivative Financial Instruments*

The fair value of an embedded conversion option that is convertible into a variable amount of shares and warrants that include price protection reset provision features are deemed to be “down-round protection” and, therefore, do not meet the scope exception for treatment as a derivative under ASC 815 “Derivatives and Hedging”, since “down-round protection” is not an input into the calculation of the fair value of the conversion option and warrants and cannot be considered “indexed to the Company’s own stock” which is a requirement for the scope exception as outlined under ASC 815. The accounting treatment of derivative financial instruments requires that the Company record the embedded conversion option and warrants at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification. As a result of entering into a convertible credit facility for which such instruments contained a variable conversion feature with no floor, the Company has adopted a sequencing policy in accordance with ASC 815-40-35-12 whereby all future instruments may be classified as a derivative liability with the exception of instruments related to share-based compensation.

The Black-Scholes option valuation model was used to estimate the fair value of the warrants and conversion options. The model includes subjective input assumptions that can materially affect the fair value estimates. The Company determined the fair value of the Binomial Lattice Model and the Black-Scholes Valuation Model to be materially the same. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the warrants. Conversion options are recorded as debt discount and are amortized as interest expense over the life of the underlying debt instrument.

*Reclassifications*

Certain prior period amounts have been reclassified for comparative purposes to conform to the fiscal 2015 presentation. These reclassifications have no impact on the previously reported net loss.

*Subsequent Events*

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements, except as disclosed in Note 15.

**Recently Issued Accounting Pronouncements**

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-07 “Investments - Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting” (“ASU 2016-07”). ASU 2016-07 which simplifies the accounting for equity method investments by eliminating the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting The amendments of this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is evaluating ASU 2016-17 and its impact on its condensed consolidated financial statements or disclosures.

In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers - Principal versus Agent Considerations.” This update provides clarifying guidance regarding the application of ASU No. 2014-09 - Revenue from Contracts with Customers when another party, along with the reporting entity, is involved in providing a good or a service to a customer. In these circumstances, an entity is required to determine whether the nature of its promise is to provide that good or service to the customer (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). The amendments in the Update clarify the implementation guidance on principal versus agent considerations. The update is effective, along with ASU 2014-09, for annual and interim periods beginning after December 15, 2017. The Company is evaluating ASU 2016-08 and its impact on its condensed consolidated financial statements or disclosures.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718)" ("ASU 2016-09"). ASU 2016-09 requires an entity to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating ASU 2016-09 and its impact on its condensed consolidated financial statements or disclosures.

On May 9, 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2016-12"). ASU 2016-12 provides clarifying guidance in a few narrow areas and adds some practical expedients to the guidance. The effective date and transition requirements for this ASU are the same as the effective date and transition requirements for ASU 2014-09. The Company is evaluating the effect of ASU 2014-09, if any, on its financial statements.

Except for rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws and a limited number of grandfathered standards, the FASB Accounting Standards Codification™ ("ASC") is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company.  Management has reviewed the aforementioned rules and releases and believes any effect will not have a material impact on the Company's present or future consolidated financial statements.

**4. Inventory, net**

Inventory primarily consists of:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Production materials consumables, spare parts, and accessories | $ 925,918 | $ 891,382 |
| Work in process | 1,555,240 | 1,470,632 |
| Total at cost | 2,481,158 | 2,362,014 |
| Slow moving inventory reserve | (270,000) | — |
| Inventory, net | $ 2,211,158 | $ 2,362,014 |

**5. Investment in Joint Ventures**

As of September 30, 2016 the Company's investments in its joint ventures consisted of the following:

| | | September 30, 2016 | December 31, 2015 |
|---|---|---|---|
| | Investment: | | |
| a) | MagneGas Europe | $ 23,750 | $ 23,750 |
| b) | MagneGas China | — | 466,660 |
| c) | Supplemental Energy Solutions, LLC | — | — |
| d) | Future Energy PTY, LTD | 254,840 | 229,840 |
| e) | Kickin Gas Partners | — | 34,351 |
| | | $ 278,590 | $ 754,601 |

a) On June 25, 2010, the Company entered into agreement with a Belgian company, whereby 250,000 shares of the Company's common stock and territorial license rights were exchanged for a 20% interest in MagneGas Europe. The Company valued the investment in the Joint Venture at the fair market value of the shares issued ($23,750). The Company does not have effective or beneficial control over the European entity and the Company accounts for this investment using the Equity Method. Equity in earnings or loss from MagneGas Europe to date has not been material.

b) On June 28, 2010, the Company entered into an agreement with DDI Industries, a Chinese company, in contemplation of the formation of MagneGas China. The Company provided mechanical drawings (for complete construction), computer programs, license of patents (Greater China Region), trademarks, among other items of the Plasma Arc Flow Recyclers to the new entity in exchange for a $2 million investment in MagneGas Corporation (received as of September 30, 2010; subscription at a share price of $1.35 or 1,481,481 common shares) and 20% share in MagneGas China. The Company's investment had been valued at $466,660, a mutually agreed amount for the technology license. The MagneGas China entity was funded in cash for an amount which reflects the intellectual property's value. The Company does not have effective or beneficial control over the China entity. In May of 2016, the original majority owner of the entity, DDI Industries, sold their interest to another entity, Paishi Environment Technologies, also a Chinese entity. Based on the sales price DDI Industries received in the transaction for its controlling interest and the lack of earnings in the joint venture to date, the Company determined its investment was fully impaired.

c) On January 16, 2014, the Company entered into a joint venture, Supplemental Energy Solutions, LLC, to pursue the coal co-combustion coal market in the United States and Canada. The Company owns 50% of Supplemental Energy Solutions, LLC with the balance owned by confidential partners from the United States and additional partners to be added as warranted. Currently there is no value placed on this subsidiary as it is a development stage company conducting research and development for this market. It does not own any assets and activity has been minimal.

d) On March 19, 2014, the Company signed a Joint Venture agreement with FutureEnergy Pty Ltd of Australia. Under the terms of the agreement, both parties will own 50% of a new Company formed for the purpose of developing, licensing and commercializing new intellectual property for co-combustion of MagneGas fuels with hydrocarbon fuels to reduce emissions and increase energy. This agreement includes and extends beyond the existing partnership of coal co-combustion to include other current and future developments such as the combustion of MagneGas with diesel, heavy oil, aviation fuels, and liquid petroleum gas. The Company is working with FutureEnergy Pty Ltd and Supplemental Energy Solutions to finalize a license and commercialization agreement for the United Stated and Canada for Coal Co-Combustion. The Company's investment is $254,840 and recorded on the equity method since day to day control rests with the other partners. This joint venture is a development stage company conducting research and development and research activity and has been minimal to date.

e) In 2015, the Company entered into a Joint Venture agreement to target a specific geographic region in Florida. The Company's investment was $34,351. During the second quarter of 2016 the Company had not seen the development of the venture to support the value of its investment so the Company has elected to recognize impairment for the full value of the original investment.

**6. Fair Value**

The Company determines the estimated fair value of amounts presented in these condensed consolidated financial statements using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current exchange between buyer and seller. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. These fair value estimates were based upon pertinent information available as of September 30, 2016 and December 31, 2015, and, as of those dates, the carrying value of all amounts approximates fair value.

The Company has categorized its assets and liabilities at fair value based upon the following fair value hierarchy:

Level 1 - Inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 - Inputs use directly or indirectly observable inputs. These inputs include quoted prices for similar assets and liabilities in active markets as well as other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.

Both observable and unobservable inputs may be used to determine the fair value of positions that are classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in historical company data) inputs.

The following table summarizes the valuation of the Company's derivatives by the above fair value hierarchy levels as of September 30, 2016 and December 31, 2015 using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3):

| September 30, 2016 | Total | Quoted Prices In Active Markets for Identical Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Warrant liability | $ 4,592,401 | — | — | $ 4.592,401 |
| Embedded conversion feature | $ 557,677 | — | — | $ 557,677 |
| Derivative liability – September 30, 2016 | $ 5,150,078 | — | — | $ 5,150,078 |

| December 31, 2015 | Total | Quoted Prices In Active Markets for Identical Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Warrant liability –December 31, 2015 | $ 1,241,841 | — | — | $ 1,241,841 |

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. The Company's Level 3 liabilities shown in the above table consist of warrants that contain a cashless exercise feature that provides for their net share settlement at the option of the holder. The warrants also contain a fundamental transactions provision that permits their settlement in cash at fair value at the option of the holder upon the occurrence of a change in control. Such change in control events include tender offers or hostile takeovers, which are not within the sole control of the Company as the issuer of these warrants. Accordingly, the warrants are considered to have a cash settlement feature that precludes their classification as equity instruments. Settlement at fair value upon the occurrence of a fundamental transaction would be computed using the Black Scholes Option Pricing Model.

Assumptions utilized in the valuation of Level 3 liabilities are described as follows:

| | For the nine months ended September 30, 2016 | 2015 |
|---|---|---|
| Risk free interest rate | 0.2%-1.42% | 0.33% |
| Expected term | .25 to 7.25 years | 1.0 years |
| Volatility | 62% to 90% | 93% |
| Dividends | $ 0 | $ 0 |

The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued. The expected term used is the contractual life of the instrument being valued. Volatility was calculated using the Company's historical common stock price over the expected term of the instruments valued. Dividends were deemed to be $0 as the Company has historically never declared any dividends to its stock holders.

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of all Level 3 liabilities measured at fair value on a recurring basis using unobservable inputs during the nine months ended September 30, 2016:

| | **Warrant Liability** | **Embedded Conversion Feature** | **Total Derivative Liabilities** |
|---|---|---|---|
| Balance – December 31, 2015 | $ 1,241,841 | $ — | $ 1,241,841 |
| Change in fair value | 202,706 | 4,265 | 206,971 |
| Included in debt discount | 446,588 | 553,412 | 1,000,000 |
| Interest expense | 2,622,080 | — | 2,622,080 |
| Reclassification of equity instruments to derivative liabilities | 2,947,370 | — | 2,947,370 |
| Reclassifications of derivative liabilities to equity | (2,868,184) | — | (2,868,184) |
| Balance – September 30, 2016 | $ 4,592,401 | $ 557,677 | $ 5,150,078 |

The Company's significant financial instruments such as cash, other current assets, accounts payable, accrued expenses and notes payable were deemed to approximate fair value due to their short term nature.

**7. Senior Convertible Debenture**

On June 27, 2016, the Company issued and sold a senior convertible debenture that matures in June 2021 in the principal amount of $1,000,000. The debenture has a stated conversion price of $0.57 per share and a stated interest rate of 0.0% per annum. The conversion feature to the note carries a reset provision whereby if the Company enters into a subsequent financing at a price less than the original conversion price the stated conversion price would reset to the lower of the subsequent financing transaction. The holder of the debenture will not have the right to convert any portion of the debenture if the holder, together with its affiliates, would beneficially own in excess of 9.99% of the number of shares of the Company's common stock outstanding immediately after giving effect to such conversion.

In connection with the debenture addition the Company granted the following warrants to purchase common stock of the Company to the investor as follows:

| Number of Warrants | Exercise Price | | Expiration Date |
|---|---|---|---|
| 3,508,772 | $ | 1.05 | December 27, 2023 |
| 1,754,386 | $ | 1.30 | December 27, 2023 |
| 7,017,544 | $ | 1.01 | January 26, 2017 |
| 3,508,772 | $ | 1.05 | December 27, 2023 |
| 1,754,386 | $ | 1.30 | December 27, 2023 |

In addition the Company sold to the investor prefunded warrants To purchase 5,263,158 shares of common stock at an exercise price of $0.01 per share for cash proceeds of approximately $3,000,000 less the $0.01 exercise price of approximately $53,000. The warrant has life of 0.5 years and was fully vested on the date of the grant. During the three months ended September 30, 2016 the investor exercised such warrants.

The Company also entered into a registration rights agreement whereby the Company is required to maintain an effective registration statement covering all of the common stock equivalent for the conversion of the note and for the common stock issuable for the exercise of the warrants. Under the terms of the registration statement rights agreement the Company is required to have registered shares available for the settlement of these instruments 60 days from the date of the transaction, in the event of a full review the date will be 100 days from the date of the transaction. Should the Company not meet this obligation the Company would be required to pay liquidating damages of 2% of the total investment or approximately $80,000 on the date of the event and every month thereafter until the violation has been cured. As of September 30, 2016 the Company has not accrued any amount for this contingency as it was deemed not probable that the Company would incur any liquidating damages in connection with the registration rights agreement.

In addition, the Company's wholly owned subsidiary signed a guarantee in connection with the issuance of the debenture and registration rights agreement.

The Company has accounted for this transaction under ASC 815 "Derivatives and Hedging" whereby the conversion feature in the debenture was deemed to have a "down round" price protection features with no floor. This feature resulted in the determination that the Company would not have sufficient authorized shares available to settle its outstanding warrants and convertible instruments.

Accordingly, the warrants and the embedded conversion option of the debenture are recorded as derivative liabilities at their fair market value and are required to be marked to market through earnings at the end of each reporting period. The fair value of the financial instruments was determined using the Black-Scholes valuation model which approximated the binomial lattice model. The gross proceeds of the prefunded warrant and the sale of the debenture was recorded net of a discount of $1,000.000. The total fair value of all of the embedded conversion feature and warrants was approximately $6,675,000 which was in excess of the total proceeds of the transaction. The excess fair value of approximately $2,622,000 was recorded as a charge to the condensed consolidated statement of operations as a component of interest expense. The company recorded a charge of approximately $50,000 for the amortization of the debt discount for the nine months ended September 30, 2016

### 8. Deferred Revenue and Customer Deposits

The Company has received deposits on production units and fees for exclusive territorial license. The Company has deferred the associated revenues until such time that production order is placed and produced (recognition under percentage of completion method) or through the passage of time (recognition over the life of the license term).

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| South African deposit for future sale | $ — | $ 20,000 |
| Deposit from Green Arc Supply (to be recognized at completion of sale) | 28,850 | 392,500 |
| Proton Power, Inc. | -- | — |
| Deferred revenue and customer deposits | $ 28,850 | $ 412,500 |

### 9. Common shares issued for services

The Company issued 1,076,612 shares of common stock (valued at $820,500) to consultants for various services rendered during the nine months ended September 30, 2016. The common stock was fully vested on the date of issuance and valued using the Company's closing price on the date of issuance.

### 10. Options

Options outstanding as of September 30, 2016 consisted of the following:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life in Years | Intrinsic Value |
|---|---|---|---|---|
| December 31, 2015 | 4,100,000 | 1.47 | 3.17 | 1.36 |
| Granted | 629,500 | 0.65 | | |
| Exercised | | | | |
| Forfeited | — | | | |
| Expired | — | | | |
| September 30, 2016 | 4,729,500 | 1.27 | 2.85 | 1.19 |
| | | | | |
| Exercisable at September 30, 2016 | 3,712,500 | | | |

During the nine months ended September 30, 2016 the Company granted 75,000 options to a consultant. The options have a life of 5 years, are exercisable price averaged at $0.91 per share, and vest over a term of 3 years. The fair value of the options granted approximated $47,600. During the nine months ended September 30, 2016 the Company granted 554,500 options to employees. The options have a life of 5 years, are exercisable price averaged at $0.62 per share, and vest over a term of 3 years. The fair value of the options granted approximated $245,700

As of September 30, 2016, the fair value of non-vested options totaled $1,130,700 which will be amortized to expense over the weighted average remaining term of 2.8 years.

The fair value of each employee option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. Key weighted-average assumptions used to apply this pricing model during the nine months ended September 30, 2016 and 2015 were as follows:

| | For the nine months ended September 30, 2016 | 2015 |
|---|---|---|
| Risk free interest rate | 0.88%-1.01% | 1.07% |
| Expected term | 3-5 years | 3-5 years |
| Volatility | 99%-117% | 55.6% |
| Dividends | $ 0 | $ 0 |

### 11. Warrants

Warrants outstanding as of September 30, 2016 consisted of the following:

| | Warrants Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life in Years |
|---|---|---|---|
| Balance -December 31, 2015 | 7,702,819 | 2.33 | 1.5 |
| Granted | 22,807,018 | 0.84 | 4.5 |
| Exercised | (5,263,158) | 0.01 | |
| Forfeited | — | | |
| Expired | (1,980,438) | | |
| Balance- September 30, 2016 | 23,266,241 | 1.24 | 3.3 |
| | | | |
| Exercisable at September 30, 2016 | 23,266,241 | | |

During the nine months ended September 30, 2016 the Company issued 5,263,158 shares of common stock for the exercise of warrants, cash proceeds were $52,632

### 12. Related Party Transactions

The Company occupies 5,000 square feet of the building owned by a related party. Rent is payable at $4,000 on a month to month basis. The facility allows for expansion needs. The lease is held by EcoPlus, Inc., a company that is effectively controlled by Dr. Ruggero Santilli, a former officer and director of the Company and one of the people who currently has voting and investment control over 1,000,000 shares of Series A Preferred Stock which, in turn, has 100,000 votes per share on any matters brought to a vote of the common stock shareholders. Rent expense for both the three and nine months ended September 30, 2016 and 2015 under this lease was approximately $12,000 and $36,000 respectively.

The Company holds a 20% ownership of MagneGas Europe acquired by the issuance of 25,000 shares of common shares, which were valued at the fair market price at the date of grant, June 25, 2010, at $0.95 per share for an aggregate of $23,750. Dr. Santilli is a stockholder of MagneGas Europe, and at the time of the agreement, Ermanno Santilli, our current Chief Executive Officer, was the Chief Executive Officer of MagneGas Europe and Vice President of MagneGas Corporation.

### 13. Product Line Information

The following information is the results of our operating product line revenues:

| | Revenue | Cost of Revenue | Gross Profit |
|---|---|---|---|
| ***For the nine months ended September 30, 2016*** | | | |
| Product Line: | | | |
| Metal Cutting | $ 1,985,688 | $ 1,132,681 | $ 853,007 |
| License Fees | -- | -- | -- |
| Unit Sales | 554,900 | 337,888 | 217,012 |
| | $ 2,540,588 | $ 1,470,569 | $ 1,070,019 |
| | | | |
| ***For the nine months ended September 30, 2015*** | | | |
| Product Line: | | | |
| Metal Cutting | $ 1,707,320 | $ 1,078,032 | $ 629,288 |
| License Fees | 46,666 | -- | 46,666 |
| Unit Sales | -- | -- | -- |
| | $ 1,753,986 | $ 1,078,032 | $ 675,954 |

## 14. Commitments and Contingencies

### Litigation

From time to time the Company may be a party to litigation matters involving claims against the Company. The Company operates with waste, hazardous material and within a highly regulated industry, which may lend itself to legal matters.

On April 16, 2015, there was an accident at the Company's facilities which occurred during the gas filling process. As a result of the accident, one employee was killed and one was injured but has recovered and has returned to work. Although the Company has Workers Compensation Insurance and General Liability Insurance, the financial impact of the accident is unknown at this time. No customers have terminated their relationship with the Company as a result of the accident. On October 14, 2015 the Company received their final report from the Occupational and Safety Hazard Administration ("OSHA") related to the accident. The OSHA report included findings, many of which were already resolved and a proposed citation. The Company was not cited for any willful misconduct and no final determination was made as to the cause of the accident. The Company received citations related to various operational issues and received an initial fine of $52,000. The Company has also been informed by the U.S. Department of Transportation that it has closed its preliminary investigation with no findings or citations to the Company. The U.S. Department of Transportation has the right to re-open the investigation should new information become available.

The Company is still investigating the cause of the accident and there have been no conclusive findings as of this time. It is unknown whether the final cause of the accident will be determined and whether those findings will negatively impact Company operations or sales. The Company continues to be fully operational and transparent with all regulatory agencies. As of September 30, 2016 the Company has not accrued for any contingency. The Company has not been notified of any pending legal claims related to the accident. However, it did receive notice from legal counsel representing the deceased that it should retain all communication and records related to the accident.

The Company has insurance to cover Liabilities related to environmental and pollution contingencies of $1,000,000 per loss and $2,000,000 in the aggregate.

Operating leases

On April 5, 2016 the Company entered into a lease for a new operating facility in Lakeland, FL. The lease agreement is for 3 years with minimum monthly payments of $2,200 ($26,400 per annum)

On August 4, 2016 the Company entered into a lease for a new operating facility in Sarasota, FL. The lease agreement is for 5 years with minimum monthly payments of $1,700 ($20,400 per annum)

## 15. Subsequent Events

Subsequent to September 30, 2016 the Company issued 200,000 shares of common stock for the partial conversion of $114,000 of the senior convertible debenture

On October 7, 2016, MagneGas Corporation (the "Company") finalized a Letter of Intent with a German biomass company (the "LOI"). The LOI was signed on August 28, 2016, however, the LOI did not become binding until the German biomass company (the "German Counterparty") paid a non-refundable deposit of $25,000 to the Company on October 7, 2016. The LOI calls for the Company and the German Counterparty, within 90 days of the LOI's execution, to sign definitive agreements for the Company to manufacture and deliver: (1) a 300KW stationary Gasification system; 2) a 100KW mobile Sterilization system; 3) 250 cylinders full of MagneGas2®; and 4) 50 MagneGas regulators. If the definitive agreements are signed, the German Counterparty will make progress payments totaling $2.625 million due upon signature of the definitive agreements, construction completion, and delivery of systems and related supplies. The German Counterparty will have exclusive distribution rights in Germany, with an option to purchase exclusive distribution rights to certain additional countries with additional system purchases. The Company can give no assurance it will be successful in contemplating this transaction.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Cautionary Notice Regarding Forward Looking Statements

The information contained in Item 2 contains 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. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.

This filing contains a number of forward-looking statements which reflect management's current views and expectations with respect to our business, strategies, products, future results and events, and financial performance. All statements made in this filing other than statements of historical fact, including statements addressing operating performance, events, or developments which management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results, and non-historical information, are forward looking statements. In particular, the words "believe," "expect," "intend," "anticipate," "estimate," "may," variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements, and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated, or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below), and apply only as of the date of this filing. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors which could cause or contribute to such differences include, but are not limited to, the risks to be discussed in our Annual Report on Form 10-K and in the press releases and other communications to shareholders issued by us from time to time which attempt to advise interested parties of the risks and factors which may affect our business. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

### Certain Terms Used in this Report

When this report uses the words "we," "us," "our," and the "Company," they refer to MagneGas Corporation and our wholly-owned subsidiaries. "SEC" refers to the Securities and Exchange Commission.

### Our Company

We are a technology company that produces a plasma based system for the gasification and sterilization of liquid waste. A byproduct of our process is a hydrogen based fuel that we sell for metal cutting as an alternative to acetylene ("MagneGas2®"). In addition, we are developing the use of our fuel for co-combustion with hydrocarbon fuels to reduce emissions. We also market, for sale or licensure, our proprietary plasma arc technology for the processing of liquid waste (the "Plasma Arc Flow® System"). Through the course of our business development, we have established a retail and distribution platform to sell our fuel for use in the metalworking industries; we have developed a global network of brokers to sell our system for processing liquid waste and we are testing our fuel through a third party laboratory for use in the reduction of coal emissions. Additionally, we intend to acquire other gas distribution businesses in order to become a larger distributor of MagneGas2®, other industrial gases and related equipment.

In October of 2014, we purchased Equipment Sales and Services, Inc. ("ESSI") for $3 million cash. ESSI is a full line seller of industrial gases and equipment for the welding and metal cutting industries. The Company has since opened three additional retail locations and distributes its proprietary MagneGas2® product as well as other gases and welding supplies through this wholly owned subsidiary.

**Our Products**

We currently have three products: the fuel called MagneGas2® for the metal working industry, the equipment primarily known in the firefighting industry, known as MagneTote, and the machines that produce MagneGas2®, known as Plasma Arc Flow® refineries. In addition, the Company sells metal cutting fuels and ancillary products through ESSI.

While our original fuel for the metal working industry was known as MagneGas®, we started selling MagneGas2® in July 2014 and stopped selling MagneGas® in March 2015.

*Fuel*

In the United States, we currently produce MagneGas2®, which is comprised primarily of hydrogen. The fuel can be used as an alternative to natural gas to power industrial equipment, automobiles and for metal cutting. The fuel is stored in hydrogen cylinders which are then sold to market on a rotating basis. Independent tests have confirmed that it cuts 38% faster than acetylene. The fuel has similar properties as acetylene making it easier for end users to adopt with limited training.

MagneTote is a storage and transport system that can be used by firefighters, military and first responders which allows quicker access to fuel. The system has been designed to be used in emergency extraction situations.

*Equipment*

The Plasma Arc Flow® System can gasify many forms of liquids and liquid waste such as used vegetable oils, ethylene glycol and sewage and sludge. Plasma Arc Flow® refineries have been configured in various sizes ranging from 50kw to 500kw depending on the application. Plasma Arc Flow® refineries range in price from $500,000 to $5 Million.

The Company is pursuing three major market segments:

- Industrial Gas Sales
- Equipment Sales for Liquid Waste Processing
- Use of MagneGas2® for the Co-Combustion of Hydro-Carbon Fuels to Reduce Emissions

The Company's Research and Development focuses on the following:

- Increased system efficiency for higher fuel production
- Combustion of MagneGas2® with hydrocarbon fuels, such as coal, to reduce emission
- Third party verification of fuel and equipment safety and performance results

**Sales**

**Industrial Gas Sales**

ESSI is being used as a launching platform to accelerate MagneGas2® fuel sales into the Florida market by allowing the Company access to a variety of goods and services for the metal working market and access to acetylene customers for potential conversion into MagneGas2®.

ESSI operates a business of sales and distribution of industrial gases and related equipment from its headquarters in Pinellas Park, Florida. On August 4, 2016, the Company announced that it had signed a lease that will allow it to open a facility in its fourth location for ESSI. The Company already has fully owned ESSI facilities in Clearwater and Lakeland, Florida and continues to operate its facility in North Florida, "ESSI North," which is owned as a Joint Venture with partner Suwannee Ironworks.

The Company is aggressively seeking other gas distribution business acquisitions. It has retained a consultant to assist in the search and has identified several potential acquisition targets. The Company has a strategy of selling fuel to the military, the first responder market and major marquee customers in the electric utility and waste to energy industry. The fuel is sourced through ESSI or through local distributor relationships in various states. To that end it has received initial fuel orders from several major customers including utility companies, a transportation company, the U.S. Navy, the Fire Department of New York and several others. All of these sales have long sales cycles as initial orders have been received and filled and the Company is in various stages of the procurement process for additional penetration and recurring orders. The ramp-up period for these customers can range from several weeks to several months. In addition, the Company has signed an exclusive distribution agreement with a Florida company to distribute fuel and MagneTote to the first responder market throughout the Southeastern United States.

For the Quarter ending September 30, 2016 the Company had the following developments:

- It became an authorized distributor for Global Calibration Gases, a specialty gas company;
- A major Fortune 100 Auto Manufacturing Company converted an Indiana Factory from Acetylene to MagneGas2® for Metal Cutting;
- MagneGas2® was chosen by one of Florida's largest counties as a Fire-Rescue metal cutting fuel; and
- The Company completed the purchase of 2,000 additional gas cylinders to meet sales demand.

**Equipment Sales**

On November 11, 2015, the Company executed agreements with Green Arc Supply of Louisiana for the sale of a MagneGas2® gasification system for $775,000. A deposit of $392,500 was received at the execution of the agreement and another $191,250 was received in July with the balance due and payable upon the completion of the system construction. The Company has completed construction and is in the process of final testing and deployment with the Customer, after which a final $191,250 is due and payable.

**MagneGas2 ® for the Co-Combustion of Hydro-Carbon Fuels to Reduce Emissions**

The Company has completed internal testing both in the United States and Australia of the effect of combusting MagneGas2® with hydrocarbon fuel exhaust and has demonstrated reduced hydrocarbon emission and increased heat with the co-combustion of coal and other hydrocarbon fuels and MagneGas2®.

On September 13, 2014 the Company and FuturEnergy PTY, LTD of Australia signed a term sheet in order to form a Joint Venture ("JV LLC Australia") for the purposes of pursuing the co-combustion of MagneGas2® fuel with hydrocarbon fuels to reduce emissions through co-combustion of MagneGas2® fuel including diesel, gasoline and coal.

On March 20, 2015, the Company and FuturEnergy PTY, LTD finalized a term sheet (the "March 2015 Term Sheet") with a confidential party from Michigan for a tri-party joint venture implemented through a Delaware limited liability company (the "JV LLC"). Each party owns one-third of the JV LLC which is engaged in the worldwide testing, development, and pursuit of the co-combustion of MagneGas2® with coal and coal by-products in the electric power plant industry. The March 2015 Term Sheet was due to expire on December 31, 2015 unless the three parties agreed to extend the term. On December 26, 2015, the parties agreed to extend the March 2015 Term Sheet until December 31, 2016. The extension allows the parties to attain verification by an independent agency of the co-combustion technology by December 31, 2016.

On October 23, 2016 the main partner from our Joint Venture in Michigan died unexpectedly from a sudden medical condition. As a result, the verification of the co-combustion has been delayed. The testing for co-combustion was occurring in Michigan under operational leadership from this partner. The Company is now in the process of moving the testing equipment to Florida and plans to resume the testing in late 2016. As a result, the date of the verification is unknown at this time.

**Research and Development**

**Increased System Efficiency for Greater Fuel Output**

The Company has begun working with an advanced power system to test another method of delivering power to the arc within the MagneGas system. Initially analysis has shown that using a more efficient power delivery method could increase fuel output per kilowatt. Testing was completed in September, and although additional fuel output was achieved, it was not at the levels required for this investment in this new equipment. The Company is now exploring alternative methods to increase efficiency and fuel output.

**Sterilization System for Agricultural Use**

In early 2015, the Company completed a new generation of mobile systems for use with the sterilization of manures and sewage waste. It has developed a new 50kw Venturi System which was tested at a major hog farm in Indiana. The Company conducted multiple successful tests at the farm with increasing flow and efficiency rates. The pilot plant achieved what was expected, namely, full sterilization of manures processed through the 50kw pilot system. The Company made a presentation to officials at the United States Department of Agriculture in early 2016. The officials indicated that there are grant programs available for these types of projects and the Company retained a consultant to assist it in the grant application process which was submitted on May 10, 2016. The Company has been informed that it did not receive the grant as there were many more applicants than anticipated. However, the Company is continuing to work with representatives from the U.S.D.A to explore other opportunities.

**Facilities**

In March of 2016, the Company moved into its new headquarters 18855 44th Street North, Clearwater, Florida. This new facility is 18,000 square feet and has the capacity for three MagneGas systems to run simultaneously for multiple shifts. The Company is in the process of installing all three systems while we continue to produce fuel in our old location.

**Intellectual Property**

The Plasma Arc Flow® refinery forces a high volume flow of liquid waste through an electric arc between carbon electrodes. The benefit of this from a competitive perspective is that it sterilizes the bio-contaminants within the waste without the need to add any chemical disinfecting agents. In addition, while sterilizing the liquid, a clean burning fuel is produced. In addition to the patents list below, the Company has several patents pending.

MagneGas Corporation has patent ownership on the technology in the United States and is exploring filing patents under the Patent Cooperation Treaty in other areas of the world as needed. MagneGas Corporation has a 20% ownership interest in MagneGas entities that control the intellectual property in Europe, Africa and China. MagneGas Corporation owns the following U. S. patents:

*U. S. Patent No. 6,926,872* – issued August 9, 2005, expires June 29, 2018, titled "Apparatus and Method for Producing a Clean Burning Combustible Gas with Long Life Electrodes and Multiple Plasma-Arc-Flows;"

*U. S. Patent No. 6,972,118* – issued December 6, 2005, expires November 13, 2022, titled "Apparatus and Method for Processing Hydrogen, Oxygen and Other Gases;"

*U. S. Patent No. 7,780,924* – issued August 24, 2010, expires June 7, 2029, titled "Plasma-arc-flow apparatus for submerged long lasting electric arcs operating under high power, pressure and temperature conditions to produce a combustible gas;"

*U. S. Patent No. 8,236,150* – issued August 7, 2012, expires September 17, 2030, titled, "Plasma-Arc-Through Apparatus and Process for Submerged Electric Arcs;"

*U.S. Patent No. 6,183,604* – issued February 6, 2001, expires August 11, 2019, titled "Durable and efficient equipment for the production of a combustible and non-pollutant gas from underwater arcs and method therefor;"

*U.S. Patent No. 6,540,966* – issued April 1, 2003, expires June 29, 2018, titled "Apparatus and Method for Recycling Contaminated Liquids;"

*U.S. Patent No. 6,673,322* – issued January 6, 2004, expires June 29, 2018, titled "Apparatus for Making a Highly Efficient, Oxygen Rich Fuels;" and

*U.S. Patent No. 6,663,752* – issued December 16, 2003, expires July 9, 2022, titled "Clean Burning Liquid Fuel Produced Via a Self -Sustaining Processing of Liquid Feedstock."

In addition to the above-listed utility patents, MagneGas Corporation is the assignee of multiple pending provisional applications and non-provisional utility patent applications. Furthermore, MagneGas Corporation is the owner of record for the registered trademark MAGNEGAS in both the United States and Mexico.

**Accident at Company Facility**

On April 16, 2015, there was an accident at the Company's facilities which occurred during the gas filling process. As a result of the accident, one employee was killed and one was injured but has recovered and has returned to work. Although the Company has Workers Compensation Insurance and General Liability Insurance, the financial impact of the accident is unknown at this time. No customers have terminated their relationship with the Company as a result of the accident. On October 14, 2015, the Company received the final report from the Occupational and Safety Hazard Administration ("OSHA") related to the accident. The OSHA report included findings, many of which were already resolved and a proposed citation. The Company was not cited for any willful misconduct and no final determination was made as to the cause of the accident. The Company received citations related to various operational issues and received an initial fine of $52,000. The Company has also been informed by the U.S. Department of Transportation that it has closed its preliminary investigation with no findings or citations to the Company. The U.S. Department of Transportation has the right to re-open the investigation should new information become available.

The Company is still investigating the cause of the accident and there have been no conclusive findings as of this time. It is unknown whether the final cause of the accident will be determined and whether those findings will negatively impact Company operations or sales. The Company continues to be fully operational and transparent with all regulatory agencies.

**Employees**

We presently have forty three full-time employees. We occasionally have leased employees and independent technicians perform production and other duties, as required. We consider our relationship with our employees to be excellent.

**Results of Operations**

*Comparison for the three and nine months ended September 30, 2016 and 2015*

*Revenues*

For the three and nine months ended September 30, 2016 and 2015 we generated revenues of $1,037,668 and $2,540,588 compared to $623,893 and $1,753,986, respectively. For the three and nine months ended September 30, 2016 and 2015, we generated revenues from our metal cutting fuel of $676,518 and $1,985,688 compared to $623,893 and $1,707,320, respectively.

Our increase in revenues was primarily due to additional customers and distributors we obtained through ESSI and the results of marketing our Company. In addition, we recognized $361,150 in revenue from the equipment sale to Green Arc. The Company also experienced close to 20% revenue growth versus the same period 2015 for MagneGas fuel sales. This was primarily attributed to additional customers and distributors

For our technology licensing, we have recognized $0 and $46,666 for the nine months ended September 30, 2016 and 2015, respectively. These license fees are ratably earned over the terms of the licensing agreement which expired as of June 30, 2015. Currently we do not have any outstanding licenses that are generating revenue.

For the three and nine months ended September 30, 2016 and 2015 cost of revenues were $632,531 and $1,470,569 compared to $405,979 and $1,078,032, respectively. For the three and nine months ended September 30, 2016 and 2015, we generated a gross profit of $405,137 and $1,070,019 compared to $217,914 and $675,954 respectively. An improved gross profit can be attributed to strategic price increases and controlling the cost of materials. In addition, the gross profit from the Green Arc sales was higher than anticipated due to lower component costs and installation expenses

*Operating Expenses*

Operating costs for the three and nine months ended September 30, 2016 and 2015 were $3,011,124 and $9,024,824 compared to $2,430,740 and $6,714,811, respectively. The increase in our operating costs in 2016 was primarily attributable to the completion of our new headquarters and increased consulting expenses related to research and development, investor relations, public relations and new business development. During the nine months ended September 30, 2016 we recognized a non-cash charge of $241,852 in stock based compensation, compared to $410,160 in the comparable nine months ended September 30, 2015. Other non-cash operating expenses were due to depreciation and amortization charges of $507,000 for the nine month period ended September 30, 2016, compared to $418,467 for the nine months ended September 30, 2015.

In the current quarter, as in prior quarters, we used common stock as a method of payment for certain services, primarily the advertising and promotion of the technology to increase investor and customer awareness and as incentive to its key employees and consultants. We expect to continue these arrangements, though due to a stronger operating position, this method of payment may become limited to employees.

*Net Loss*

Our operating results have recognized losses in the amount of $4,067,678 and $10, 839,326 compared to $2,215,220 and $6,531,794 for the three and nine months ended September 30, 2016 and 2015, respectively. The increase in our loss was primarily attributable to a 2016 change in derivative liability related to our pre-2014 warrants, the warrants associated with the June 2016 financing as well as impairment for a joint venture. The interest expense associated with the Derivative Liability is a non-cash item.

**Liquidity and Capital Resources**

As of September 30, 2016, the Company had cash of approximately $1,182,000 and has reported a net loss of approximately $10.8 million and has used cash in operations of $6.5 million for the nine months ended September 30, 2016. In addition, as of September 30, 2016 the Company has a working capital deficit of approximately $1.6 million and an accumulated deficit of approximately $46.9 million. The aforementioned factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of asset amounts or the classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Historically, the Company has financed its operations through equity and debt financing transactions and expects to continue incurring operating losses for the foreseeable future. The Company's plans and expectations for the next 12 months include raising additional capital to help fund commercial operations, including product development. The Company utilizes cash in its operations of approximately $720,000 per month. Management believes its current holdings of cash along with the cash to be generated from expected product sales and future financings will be sufficient to meet its projected operating requirements for the next twelve months from the date of this report. As of September 30, 2016, the Company had cash of approximately $1,182,000. In November 2015, the Company sold its first Plasma-Arc Gasification system for $775,000. The Company already received milestone payments totaling $583,750 as a result of this sale and will receive a final payment of $191,250 after the expected delivery of the system by us to the customer by the end of 2016. The Company believes that this sale will enable it to generate additional equipment sales as a result of the visibility in the industrial gas industry of this new technology being operated by a third party.

If these sources do not provide the capital necessary to fund the Company’s operations during the next twelve months from the date of this report, the Company may need to curtail certain aspects of its operations or expansion activities, consider the sale of its assets, or consider other means of financing. The Company can give no assurance that it will be successful in implementing its business plan and obtaining financing on terms advantageous to the Company or that any such additional financing would be available to the Company.

As reflected in the unaudited financial statements we currently have an accumulated a deficit of approximately $45.8 million dollars. Our cash flow from operations for the nine month period ending September 30, 2016 used approximately $6.5 million of cash. Cash was used primarily to fund ongoing operations.

As disclosed under the heading "Accident at Company Facility," on April 16, 2015, there was an accident at the Company's facility which occurred during the gas filling process. Although the Company has Workers Compensation Insurance and General Liability Insurance, the financial impact of the accident is unknown at this time. No customers have terminated their relationship with the Company as a result of the accident. There is, however, a risk in the future that equipment sales or gas sales may be negatively impacted as a result of the accident.

**Derivative Financial Instruments**

The fair value of an embedded conversion option that is convertible into a variable amount of shares and warrants that include price protection reset provision features are deemed to be "down-round protection" and, therefore, do not meet the scope exception for treatment as a derivative under ASC 815 "Derivatives and Hedging", since "down-round protection" is not an input into the calculation of the fair value of the conversion option and warrants and cannot be considered "indexed to the Company's own stock" which is a requirement for the scope exception as outlined under ASC 815. The accounting treatment of derivative financial instruments requires that the Company record the embedded conversion option and warrants at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification. As a result of entering into a convertible credit facility for which such instruments contained a variable conversion feature with no floor, the Company has adopted a sequencing policy in accordance with ASC 815-40-35-12 whereby all future instruments may be classified as a derivative liability with the exception of instruments related to share-based compensation.

The Black-Scholes option valuation model was used to estimate the fair value of the warrants and conversion options. The model includes subjective input assumptions that can materially affect the fair value estimates. The Company determined the fair value of the Binomial Lattice Model and the Black-Scholes Valuation Model to be materially the same. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the warrants. Conversion options are recorded as debt discount and are amortized as interest expense over the life of the underlying debt instrument.

**Cash Flows from Continuing Operations**

Cash flows from continuing operations for operating, financing and investing activities for the nine months ended September 30, 2016 and 2015 are summarized in the following table:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| Operating activities | $ (6,455,538) | $ (4,112,527) |
| Investing activities | (1,272,237) | (244,335) |
| Financing activities | 3,590,362 | 1,464,308 |
| Net (decrease) increase in cash from continuing operations | $ (4,137,413) | $ (2,892,554) |

For the nine months ended September 30, we used cash of approximately $6,455,538 million in operations in 2016 and used cash of $4,112,527 in operations in 2015. Our cash use for 2016 was primarily attributable to the completion of our new headquarters and consulting expenses related to research and development, investor relations, public relations and new business development. Our cash use for 2015 was primarily attributable to general operations. During the nine months ended September 30, 2016, cash used by investing activities consisted of $1,272,237. During the nine months ended September 30, 2015, cash used by investing activities consisted of $244,335 primarily due to the purchases of assets offset by the sale of land. Cash provided by financing activities for the nine months ended September 30, 2016 was $3,590,362 as compared to cash provided by financing activities for the nine months ended September 30, 2015 of $1,464,308. The net decrease in cash during the nine months ended September 30, 2016 was $4,137,413 as compared to $2,892,554 for the nine months ended September 30, 2015.

## Recent Accounting Pronouncements

Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the FASB Accounting Standards Codification™ ("ASC") is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. Management has reviewed the aforementioned rules and releases and believes any effect will not have a material impact on the Company's present or future consolidated financial statements. See note 3 to the financial statements for new pronouncements issued during the period.

## Critical Accounting Policies

Our significant accounting policies are presented in this Report in our notes to financial statements for the period ended September 30, 2016 and in our notes to financial statements for the fiscal year ended December 31, 2015, which are contained in the Company's 2015 Annual Report on Form 10-K. The significant accounting policies that are most critical and aid in fully understanding and evaluating the reported financial results include the following:

The Company prepares its financial statements in conformity with GAAP. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are reasonable and have been discussed with our Board of Directors (the "Board"); however, actual results could differ from those estimates.

We issue restricted stock to consultants for various services. Cost for these transactions are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete.

Long-lived assets such as property, equipment and identifiable intangibles are reviewed for impairment whenever facts and circumstances indicate that the carrying value may not be recoverable. When required impairment losses on assets to be held and used are recognized based on the fair value of the asset. The fair value is determined based on estimates of future cash flows, market value of similar assets, if available, or independent appraisals, if required. If the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows, an impairment loss is recognized for the difference between the carrying amount and fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risk associated with the recovery of the assets. We did not recognize any impairment losses for any periods presented.

The Company generates revenue through two processes: (1) the sale of its MagneGas2® fuel for metal cutting and (2) the sale of its Plasma Arc Flow units. Additionally the Company also recognizes revenue from territorial license arrangements, and through the sales of metal cutting gases and related products through their wholly owned subsidiary, ESSI.

- Revenue for metal-working fuel is recognized when shipments are made to customers. We recognize a sale when the product has been shipped and risk of loss has passed to the customer.
- Revenue generated from sales of its production unit is recognized on a percentage of completion, based on the progress during manufacturing of the unit. Our machine is a significant investment and generally requires a 6 to 9 month production cycle. During the course of building a unit the actual costs are tracked to our cost estimates and revenue is proportionately recognized during the process. Significant deposits are required before production. These deposits are classified as customer deposits. During our production, costs and progress earnings are accumulated and included in "Costs and earnings" as an asset.
- Licenses are issued, per contractual agreement, for distribution rights within certain geographic territories. We recognize revenue ratably, based on the amounts paid or values received, over the term of the licensing agreement.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, as appropriate, to allow timely decisions regarding required disclosure.

Our management has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, management has concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective due to material weaknesses in our internal control over financial reporting related to: (i) a lack of segregation of duties within accounting functions and (ii) expertise with respect to accounting for complex equity and debt transactions. Management plans to initiate the remediation process during the fourth quarter of 2016 through a review of ongoing procedures and the addition of staff and/or consultants with expertise in these transactions.

**Changes in Internal Controls Over Financial Reporting**

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter or nine months ended September 30, 2016 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our Company or any of our subsidiaries, threatened against or affecting our Company, our common stock, any of our subsidiaries or of our Company's or our Company's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

As a result of the accident which occurred on April 16, 2015, however, potential plaintiffs may initiate litigation related to the accident until April 16, 2017. We are currently unaware of any forthcoming or threatened litigation in connection with the accident.

### Item 1A. Risk Factors.

There have been no changes that constitute material changes from the risk factors previously disclosed in our 2015 Annual Report filed on Form 10-K, except for the addition of the following risk factors:

***We may need to raise additional funds to finance our operations during the next twelve months, we may not be able to do so when necessary, and/or the terms of any financings may not be advantageous to us.***

As of September 30, 2016 the Company had cash of approximately 1,182,000 and has reported a net loss of approximately $10.8 million and has used cash in operations of $6.5 million for the nine months ended September 30, 2016. In addition, the Company has an active shelf registration statement in place that can provide additional potential sources of capital. In November 2015, the Company sold its first Plasma-Arc Gasification system for $775,000. We have already received milestone payments totaling $583,750 as a result of this sale and will receive a final payment of $191,250 after the expected delivery of the system by us to the customer by the end of 2016. The Company believes that this sale will enable it to generate additional equipment sales as a result of the visibility in the industrial gas industry of this new technology being operated by a third party.

Historically, the Company has financed its operations through equity and debt financing transactions and expects to continue incurring operating losses for the foreseeable future. The Company's plans and expectations for the next 12 months include raising additional capital to help fund commercial operations, including product development. The Company utilizes cash in its operations of approximately $720,000 per month. Management believes its current holdings of cash along with the cash to be generated from expected product sales and future financings will be sufficient to meet its projected operating requirements for the next twelve months from the date of this report. If these sources do not provide the capital necessary to fund the Company's operations during the next twelve months from the date of this report, the Company may need to curtail certain aspects of its operations or expansion activities, consider the sale of its assets, or consider other means of financing. The Company can give no assurance that it will be successful in implementing its business plan and obtaining financing on terms advantageous to the Company or that any such additional financing would be available to the Company.

***Our failure to meet the continued listing requirements of the Nasdaq Capital Market could result in a delisting of our common stock.***

On June 16, 2016, we received notification from the Listing Qualifications Department of The Nasdaq Stock Market LLC ("Nasdaq") indicating that the Company's common stock was subject to potential delisting from the Nasdaq because for a period of thirty (30) consecutive business days, the bid price of the Company's common stock had closed below the minimum $1.00 per share requirement for continued inclusion under Nasdaq Marketplace Rule 5550(a)(2) (the "Bid Price Rule"). The notification had no immediate effect on the listing or trading of the common stock on the Nasdaq Capital Market.

Nasdaq stated in its letter that in accordance with the Nasdaq Listing Rules the Company has been provided an initial period of 180 calendar days, or until December 13, 2016, to regain compliance. The letter states that Nasdaq will provide written notification that the Company has achieved compliance with the minimum bid price listing requirement if at any time before December 13, 2016, the bid price of the Company's common stock closes at $1.00 per share or more for a minimum of ten consecutive business days.

If the Company is unable to regain compliance by December 13, 2016, the Company may be eligible for an additional 180 calendar day compliance period to demonstrate compliance with the bid price requirement. The Company intends to monitor the closing bid price of its Common Stock and may, if appropriate, consider implementing available options to regain compliance with the minimum bid price requirement under the Nasdaq Listing Rules.

No assurances can be made that our common stock will remain listed on the Nasdaq Capital Market. If we are not able to comply with the Nasdaq Listing Rules and Nasdaq delists our common stock from trading on its exchange and we are not able to list our common stock on another national securities exchange, we expect our common stock could be quoted on an over-the-counter market. If this were to occur, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our common stock;
- reduced liquidity for our common stock;
- a likely negative effect on the price of our common stock; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

The National Securities Markets Improvement Act of 1996, which is a federal statute, prevents or preempts the states from regulating the sale of certain securities, which are referred to as "covered securities." As our common stock is listed on the Nasdaq Capital Market, they are covered securities. If our common stock were no longer listed on the Nasdaq Capital Market, our common stock would not be covered securities and we would be subject to regulation in each state in which we offer our securities.

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

During the three months ended September 30, 2016, the Company issued a total of 325,000 shares of common stock as payment for public relations and investor relations consultants at a price per share of $0.63.

*The above securities were issued in reliance on the exemption under Section 4(a)(2) of the Securities Act. These securities qualified for exemption under Section 4(a)(2) since the issuance of such securities by us did not involve a public offering. The offering was not a "public offering" as defined in Section 4(a)(2) due to the insubstantial number of persons involved in the transactions, manner of the issuance, and number of securities issued. We did not undertake offerings in which we sold a high number of securities to a high number of investors. In addition, the investors had the necessary investment intent as required by Section 4(a)(2) since they agreed to and received securities certificates bearing a legend stating that such securities are restricted pursuant to Rule 144 of the Act. This restriction ensured that these securities would not be immediately redistributed into the market and therefore not be part of a "public offering." Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(a)(2) of the Securities Act for these transactions.*

**Item 3.  Defaults Upon Senior Securities.**

None

**Item 4.  Mine Safety Disclosures.**

Not applicable

**Item 5.  Other Information.**

None.

**Item 6.  Exhibits**

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | Filed or Furnished Herewith |
|---|---|---|---|---|---|
| | | Form | Exhibit | Filing Date | |
| 3.1 | Amendment No. 1 to By-Laws of MagneGas Corporation. | 8-K | 3.1 | 09/29/2016 | |
| 31.1 | Certification of Principal Executive Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 31.2 | Certification of Principal Financial Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 32.1* | Certification of Principal Executive Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 32.2* | Certification of Principal Financial Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 101.INS | XBRL Instance. | | | | X |
| 101.SCH | XBRL Schema. | | | | X |
| 101.CAL | XBRL Calculation. | | | | X |
| 101.DEF | XBRL Definition. | | | | X |
| 101.LAB | XBRL Label. | | | | X |
| 101.PRE | XBRL Presentation. | | | | X |

* In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**MagneGas Corporation**

By: /s/ *Ermanno Santilli*
Ermanno Santilli
Chief Executive Officer
(Principal Executive Officer)

Dated: November 14, 2016

By: /s/ *Luisa Ingargiola*
Luisa Ingargiola
Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: November 14, 2016

**Exhibit 31.1**

**CERTIFICATION**
**OF PRINCIPAL EXECUTIVE OFFICER**
**PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 302 OF**
**THE SARBANES-OXLEY ACT OF 2002**

I, Ermanno Santilli, certify that:

1. I have reviewed this Form 10-Q of MagneGas Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2016

*/s/ Ermanno Santilli*
Ermanno Santilli
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION**
**OF PRINCIPAL FINANCIAL OFFICER**
**PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 302 OF**
**THE SARBANES-OXLEY ACT OF 2002**

I, Luisa Ingargiola, certify that:

1. I have reviewed this Form 10-Q of MagneGas Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2016

*/s/ Luisa Ingargiola*
Luisa Ingargiola
(Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATION OF**
**PRINCIPAL EXECUTIVE OFFICER**
**PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report of MagneGas Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ermanno Santilli, Chief Executive Officer of the Company, certifies to the best of his knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

1. Such Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in such Report, fairly presents, in all material respects, the financial condition and results of operations of MagneGas Corporation.

Date: November 14, 2016

*/s/ Ermanno Santilli*
Ermanno Santilli
(Principal Executive Officer)

**Exhibit 32.2**

**CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report of MagneGas Corporation (the "Company") on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Luisa Ingargiola, Chief Financial Officer of the Company, certifies to the best of her knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

1. Such Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in such Report, fairly presents, in all material respects, the financial condition and results of operations of MagneGas Corporation.

Date: November 14, 2016

*/s/ Luisa Ingargiola*
Luisa Ingargiola
(Principal Financial Officer)