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INDEPENDENT RESEARCH

RESEARCH NOTE

O2Diesel Corp

Sally H. Wallick, CFA

Symbol (AMEX)

OTD Fiscal Year Ending: December

Industry:	Oil, Gas & Energy	Year	EPS	P/E	REVS	PSR
Recent Price:	\$1.01	2004 A	\$-0.23	---	\$0.13	572.9
52-week Price Range:	\$0.37 - \$2.97	2005 E	\$-0.20	---	\$0.2	372.4
Target Price (12 Months):	\$2.25	2006 E	\$-0.12	---	\$0.25	297.9
Avg. Daily Vol. (3 mo.):	788,845	2007 N/A	---	---	---	---
		2008 N/A	---	---	---	---

Balance Sheet Data (mil)	06/30/06	Ownership and Valuation (mil)	Current Rating History
Cash Equivalent:	\$9.4	Shares Outstanding:	73.74 Date Assigned: 4/21/2006
Working Capital:	\$8.2	Inside Ownership:	14.00% Price at Rating: \$1.64
Long-Term Liability:	\$0.0	Institutional Ownership:	0.00% Original Price Target: \$2.25
Shareholder's Equity:	\$8.4	Equity Market Value:	\$74.5 Time Frame: 12 Months

Rating: Speculative Buy

08/16/2006

O2Diesel Corporation: Customer Award Recognizes Value of Innovative CityHome(TM) initiative.

One of O2Diesel's CityHome(TM) customers, Johnson County Transit (JCT) in Kansas was presented the "Innovative Service Initiative of the Year Award" by the Kansas Public Transit Association, which consists of 150 individual members and transit systems from throughout the state. This award is in recognition of JCT's conversion of its bus fleet to O2Diesel(TM), O2Diesel's clean-burning ethanol-diesel blended fuel, which has cut its emissions of smog-causing gasses at no additional cost to JCT. We consider this award noteworthy as a validation of the significant role O2Diesel's CityHome program is playing in helping municipalities to address clean air issues. We believe that CityHome is an important long-term growth initiative for O2Diesel, which recently announced its fifth CityHome customer, and believe that broader recognition of its benefits by transit authorities, as reflected in this award, could contribute to further expansion of the program.

We rate O2Diesel common Speculative Buy. In 2005 and thus far in 2006, O2Diesel has made strides toward commercializing its products in the U.S. and Brazil and positioning the Company for growth in Europe. While the revenue has been modest to date, we expect it to grow over time. At the same time, the Company faces significant challenges, since it is still in the early stages of development as a viable commercial operation, has generated minimal revenue to date and substantial losses, and needs to raise more capital for working capital purposes and to maintain its American Stock Exchange listing. Therefore, we consider the shares appropriate for risk-oriented investors.

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Dutton Associates. John M. Dutton, President, 4989 Golden Foothill Parkway, Suite 4, El Dorado Hills, CA 95762 Phone (916) 941-8119, Fax (916) 941-8093

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