August 15, 2016

Aeolus Announces Third Quarter Fiscal Year 2016 Financial Results

MISSION VIEJO, CA -- (Marketwired) -- 08/15/16 -- Aeolus Pharmaceuticals, Inc. (OTCQB: AOLS), a biotechnology company developing compounds to protect against fibrosis, inflammation, nerve damage and infection, announced today financial results for the nine months ended June 30, 2016.

The Company reported a net loss of approximately $872,000, or $0.01 per share for the three months ended June 30, 2016. This compares to a net loss of approximately $784,000, or $0.01 per share for the three months ended June 30, 2015. For the nine months ended June 30, 2016, the Company reported a net loss of approximately $5,021,000, or $0.03 per share. This compares to a net loss of approximately $2,194,000, or $0.02 per share for the nine months ended June 30, 2015. The increase in net loss during the nine months ended June 30, 2016 was primarily attributable to a $2,486,000 non-cash expense related to a deemed dividend for the Company's Series C Preferred Stock. The net operating loss for the nine months ended June 30, 2016 was $2,250,000 or $0.02 per share.

"With the work completed this quarter and over the term of our partnership with BARDA, we are on the brink of launching the clinical development of AEOL 10150. Thanks to the support of the BARDA Contract, we have reduced the cost of manufacturing AEOL 10150 by 90 percent, manufactured pilot scale GMP batches and, this past quarter, extended stability out to 3 years for the API and 2 years for the final drug product," stated John L. McManus, President and Chief Executive Officer. "Over the next two quarters, we anticipate filing INDs and initiating clinical studies in Idiopathic Pulmonary Fibrosis and cancer radiation therapy, which, in addition to launching our development efforts in two important commercial indications, will also provide the initial human safety data required for our Lung ARS medical countermeasure development program funded by BARDA."

Results of Operations for the Three Months Ended June 30, 2016

Revenue for the three months ended June 30, 2016 was approximately $660,000, which compares to approximately $63,000 for the three months ended June 30, 2015. The revenue is from the BARDA Contract. Higher revenue in 2016 reflects the timing of the initiation of program items and revenue recognition under accounting rules. Under the BARDA Contract, we generate contract revenue from a cost-plus fee arrangement. Revenues on reimbursable contracts are recognized as costs are incurred, which is based on allowable costs incurred during the period, plus any recognizable earned fee. We consider fixed fees under cost-plus fee contracts to be earned in proportion to the allowable costs incurred in performance of the contract.

Research and development expenses increased to approximately $904,000 for the three months ended June 30, 2016 from approximately $269,000 for the three months ended June 30, 2015. The increase is primarily attributable to the timing of work related to the BARDA Contract.

General and administrative expenses increased to approximately $628,000 for the three months ended June 30, 2016 from approximately $578,000 for the three months ended June 30, 2015. The increase is primarily attributable to increased investor relations costs and legal fees.

Results of Operations for the Nine Months Ended June 30, 2016

Revenue for the nine months ended June 30, 2016 was approximately $1,530,000, which compares to approximately $2,177,000 for the nine months ended June 30, 2015. The revenue is from the BARDA Contract. Lower revenue in 2016 reflects the timing of the initiation of program items and revenue recognition under accounting rules.

Research and development expenses decreased to approximately $1,897,000 for the nine months ended June 30, 2016 from approximately $2,539,000 for the nine months ended June 30, 2015. The decrease is primarily attributable to the timing of work related to the BARDA Contract.

General and administrative expenses increased to approximately $1,883,000 for the nine months ended June 30, 2016 from approximately $1,832,000 for the nine months ended June 30, 2015 due to higher legal fees, investor relations cost and insurance premiums.

As of June 30, 2016, the Company had approximately $3,756,000 in cash and cash equivalents and 152,085,825 common shares outstanding. The Company had accounts receivable of $742,000 and accounts payable of $661,000 on June 30, 2016.

Aeolus has filed today with the SEC its Quarterly Report on Form 10-Q for the quarter ended June 30, 2016. Aeolus urges its investors to read this quarterly filing as well as its Annual Report on Form 10-K, also filed with the SEC, for further details concerning the Company. The Quarterly Report on Form 10-Q and the Annual Report on Form 10-K are also available on the Company's website, at www.aolsrx.com.

About AEOL 10150

AEOL 10150 is a broad-spectrum catalytic antioxidant specifically designed to neutralize reactive oxygen and nitrogen species. The neutralization of these species reduces oxidative stress, inflammation, and subsequent tissue damage-signaling cascades resulting from radiation exposure. AEOL 10150 may have a profound beneficial impact on people who have been exposed, or are about to be exposed, to high-doses of radiation in the treatment of oncology.

AEOL 10150 has performed well in animal safety studies, was well tolerated in two human clinical trials and has demonstrated statistically significant survival efficacy in multiple Radiation-Induced Lung Fibrosis ("Lung ARS") studies in animals. The Company believes it could have a profound beneficial impact on people who have been exposed, or are

about to be exposed, to high-doses of radiation, whether from cancer therapy or a nuclear event. Aeolus has received "Orphan Drug" designation for the use of AEOL 10150 in treating Lung ARS and Idiopathic Pulmonary Fibrosis and has filed an IND to allow for human safety testing of the compound in healthy volunteers. AEOL 10150 is also currently in development for use in Idiopathic Pulmonary Fibrosis and as both a therapeutic and prophylactic drug in cancer patients.

About Aeolus Pharmaceuticals

Aeolus Pharmaceuticals is developing a platform of novel compounds, known as metalloporphyrins, for use in biodefense, fibrosis, oncology, infectious disease and diseases of the central nervous system. Its lead compound, AEOL 10150, is being developed, with funding from the US Department of Health and Human Services, as a medical countermeasure against chemical and radiological weapons, where its initial target indications are as a protective agent against the effects of acute radiation syndrome and delayed effects of acute radiation exposure. Aeolus' strategy is to leverage the substantial investment in toxicology, manufacturing, and preclinical and clinical studies made by US Government agencies in AEOL 10150 to develop the compound for the treatment of lung fibrosis, including idiopathic pulmonary fibrosis ("IPF") and as a treatment to reduce side effects caused by radiation toxicity and improve local tumor control in cancer therapy. The Company is also developing AEOL 11114 as a treatment for Parkinson's Disease and AEOL 20415 as a treatment for cystic fibrosis and diseases that have developed a resistance to existing antibiotic and anti-viral therapies. For more information, please visit Aeolus's corporate website at www.aolsrx.com.

Forward-Looking Statements

The statements in this press release that are not purely statements of historical fact are forward-looking statements. Such statements include, but are not limited to, those relating to Aeolus' product candidates, as well as its proprietary technologies and research programs, a potential phase 1 study in healthy normal volunteers, the BARDA Contract, and the expected use of proceeds from the financing. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Aeolus' actual results to be materially different from historical results or from any results expressed or implied by such forward-looking statements. Important factors that could cause results to differ include risks associated with uncertainties of progress and timing of clinical trials, scientific research and product development activities, difficulties or delays in development, testing, obtaining regulatory approval, the need to obtain funding for pre-clinical and clinical trials and operations, the scope and validity of intellectual property protection for Aeolus' product candidates, proprietary technologies and their uses, and competition from other biopharmaceutical companies, and whether BARDA exercises one or more additional options under the BARDA Contract. Certain of these factors and others are more fully described in Aeolus' filings with the Securities and Exchange Commission, including, but not limited to, Aeolus' Annual Report on Form 10-K for the year ended September 30, 2015. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

AEOLUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	June 30, 2016	September 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,756	$ 94
Accounts receivable	742	1,585
Deferred subcontractor cost	26	21
Prepaid expenses and other current assets	317	45
Total current assets	4,841	1,745
Investment in CPEC LLC	32	32
Total assets	$ 4,873	$ 1,777
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 661	$ 1,598
Deferred revenue	27	22
Note payable to shareholders, net of debt discount of $273	-	727
Note payable to shareholders redemption liability	-	275
Total current liabilities	688	2,622
Total liabilities	688	2,622
Stockholders' equity (deficit):		
Preferred stock, $.01 par value per share, 10,000,000 shares authorized:		
Series A nonredeemable convertible preferred stock, 1,250,000 shares authorized as of June 30, 2016 and September 30, 2015, respectively; no shares issued and outstanding as of June 30, 2016 and September 30, 2015, respectively	-	-
Series B nonredeemable convertible preferred stock, 1,600,000 shares authorized as of June 30, 2016 and September 30, 2015, respectively; zero and 526,080 shares issued and outstanding as of June 30, 2016 and September 30, 2015, respectively	-	5
Series C nonredeemable convertible preferred stock, 5,000 and zero shares authorized as of June 30, 2016 and September 30, 2015, respectively; 4,500 and zero shares issued and outstanding as of June		

30, 2016 and September 30, 2015, respectively	-	-
Common stock, $.01 par value per share, 200,000,000 shares authorized; 152,085,825 and 135,930,068 shares issued and outstanding as of June 30, 2016 and September 30, 2015, respectively	1,521	1,359
Additional paid-in capital	191,830	184,421
Accumulated deficit	(189,166)	(186,630)
Total stockholders' equity (deficit)	4,185	(845)
Total liabilities and stockholders' equity (deficit)	$ 4,873	$ 1,777

AEOLUS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Contract revenue	$ 660	$ 63	$ 1,530	$ 2,177
Costs and expenses:				
Research and development	904	269	1,897	2,539
General and administrative	628	578	1,883	1,832
Total costs and expenses	1,532	847	3,780	4,371
Loss from operations	(872)	(784)	(2,250)	(2,194)
Interest expense	-	-	(285)	-
Net loss	(872)	(784)	(2,535)	(2,194)
Deemed dividend on Series C preferred stock	-	-	2,486	-
Net loss attributable to common stockholders	$ (872)	$ (784)	$ (5,021)	$ (2,194)
Net loss per weighted share attributable to common stockholders:				
Basic	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.02)
Diluted	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.02)
Weighted average common shares outstanding:				
Basic	151,652	135,900	147,521	135,867
Diluted	151,652	135,900	147,521	135,867

AEOLUS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	Nine Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$ (2,535)	$ (2,194)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of discount on note payable to shareholders	273	-
Accrued interest	12	-
Non-cash compensation	108	300
Change in assets and liabilities:		
Accounts receivable	843	903
Deferred subcontractor cost	(5)	398
Prepaid expenses and other current assets	(272)	(27)
Accounts payable and accrued expenses	(937)	(87)
Deferred revenue	5	(414)
Net cash used in operating activities	(2,508)	(1,121)
Cash flows from financing activities:		
Proceeds from issuance of common stock and common stock warrants, net	2,005	-
Proceeds from issuance of preferred stock and common stock warrants, net	4,165	-
Proceeds from exercise of common stock warrants	-	20
Net cash provided by financing activities	6,170	20
Net increase (decrease) in cash and cash equivalents	3,662	(1,101)
Cash and cash equivalents at beginning of period	94	1,517
Cash and cash equivalents at end of period	$ 3,756	$ 416
Supplemental disclosure of non-cash financing activities:		
Conversion of note payable to shareholders for common stock and warrants	$ 1,000	$ -
Conversion of accrued interest on note payable to shareholders for common stock and warrants	$ 12	$ -
Issuance of warrants for financing costs	$ 266	$ -
Deemed dividend on Series C preferred stock	$ 2,486	$ -
Conversion of Series B preferred stock to common stock	$ 5	$ -

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Source: Aeolus Pharmaceuticals