

December 30, 2010



## **Aeolus Pharmaceuticals Announces Fiscal Year 2010 Financial Results**

MISSION VIEJO, Calif.-- Aeolus Pharmaceuticals, Inc. (OTC Bulletin Board: AOLS) announced today financial results for the three months and twelve months ended September 30, 2010. The Company reported a net loss of \$12,888,000, or \$0.24 per share, which includes a charge of approximately \$11,448,000 related to increases in the fair value of warrants that are included as a component of other income (expenses) in the statement of operations, for the three months ended September 30, 2010 compared to a loss of \$746,000, or \$0.02 per share, for the three months ended September 30, 2009. The Company reported a net loss of \$25,869,000, or \$0.53 per share, which includes a charge of approximately \$21,347,000 related to increases in the fair value of the warrants, for the fiscal year ended September 30, 2010, compared to a loss of \$2,296,000, or \$0.07 per share, for the fiscal year ended September 30, 2009. For additional details please see the Company's Annual Report on Form 10-K filed today with the United States Securities and Exchange Commission.

The warrant liability and revaluations have not and will not have any impact on the Company's working capital, liquidity or business operations. The Company's outstanding warrants will continue to be revalued at each balance sheet date, which could result in significant and unpredictable changes to our reported liabilities and significant additional gains or losses charged to the statement of operations for each period regardless of any changes to the Company's working capital, liquidity or business operations.

The increase in research and development expense reflects the acceleration of our Pulmonary Acute Radiation Syndrome ("Lung-ARS") program and manufacturing of compound for our planned oncology study in 2011. G&A expenses were higher due to the costs of submitting proposals for government funding. They were also higher due to preparation in building our infrastructure to support our oncology development program and potential countermeasure research and development activity in the event we are successful in obtaining contracts for our Lung-ARS or Chlorine Gas programs.

As of September 30, 2010, the Company had \$2,355,000 in cash and cash equivalents and as of December 29, 2010 had 59,684,050 outstanding shares of common stock.

Key accomplishments during the year include:

- Submitted proposal to the Biomedical Advanced Research and Development Authority (BARDA) to develop AEOL 10150 Pulmonary Acute Radiation Syndrome.
- Reported survival advantage in non-human primate study of AEOL 10150.
- Shored-up balance sheet with additional cash.
- Invited by BARDA to submit a full proposal for development of AEOL 10150 as a countermeasure for chlorine gas exposure.

-- Continued the study of AEOL 10150 as a countermeasure for mustard gas exposure.

"Thanks to the continued support of our investors, NIH-NIAID, NIH CounterACT and our academic collaborators, we were able to make significant advancements in the development of AEOL 10150", stated John L. McManus, President and Chief Executive Officer. "We look forward to 2011, when we expect to receive a decision on our proposals with BARDA, begin important studies in lung cancer and report key data from several ongoing studies."

#### 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 could 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 already performed well in animal safety studies, was well-tolerated in two human clinical trials, and has demonstrated statistically significant survival efficacy in an acute radiation-induced lung injury model. AEOL 10150 is also currently in development for use as both a therapeutic and prophylactic drug in cancer patients.

#### About Aeolus Pharmaceuticals

Aeolus Pharmaceuticals is developing a new class of catalytic antioxidant compounds that protects healthy tissue from the damaging effects of radiation. Its first compound, AEOL 10150, is being developed for oncology indications, where it is used in combination with radiation therapy. It is also being developed, with funding by the US Government, 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 efficiently develop the compound for use in oncology.

#### 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. 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. 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, 2010. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended		Twelve Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenue				
Grant income	\$ -	\$ -	\$ -	\$ -
Costs and expenses:				
Research and development	805	242	1690	711
General and administrative	617	389	1,954	1,292
Total costs and expenses	1,422	631	3,644	2003
Loss from operations	(1,422 )	(631 )	(3,644 )	(2,003 )
Interest income (expense), net	(18 )	(115 )	(878 )	(437 )
Warrant repricing charges	-	-	-	(38 )
Warrant liability charges	(11,448 )	-	(21,347 )	-
Gain on sale of investments, available for sale	-	-	-	133
Other than temporary impairment on marketable investments	-	-	-	49
Net loss	(12,888 )	(746 )	(25,869 )	(2,296 )
Net loss per weighted share attributable to common stockholders:				
Basic	(0.24 )	(0.02 )	(0.53 )	(0.07 )

Diluted (0.24 ) (0.02 ) (0.53 ) (0.07 )

Weighted average common  
shares outstanding:

Basic 53,600 37,531 49,151 34,789

Diluted 53,600 37,531 49,151 34,789

Selected Balance Sheet Items:

(in thousands)

	September 30, 2010	September 30, 2009
Cash and marketable securities	\$ 2,355	\$ 646
Total assets	\$ 2,433	\$ 811
Stockholders' equity (deficit)	\$ (26,736 )	\$ (1,157 )

Source: Aeolus Pharmaceuticals, Inc.