

August 14, 2012



# Aeolus Pharmaceuticals Announces Third Quarter Fiscal Year 2012 Financial Results

MISSION VIEJO, CA -- (Marketwire) -- 08/14/12 -- Aeolus Pharmaceuticals, Inc. (OTCQB: AOLS) (OTCBB: AOLS)

- *\$1.4 million in revenue for third quarter 2012; \$5.9 million in revenue for first nine months of fiscal year 2012*
- *Two options exercised by BARDA during quarter*

Aeolus Pharmaceuticals, Inc., a biotechnology company leveraging significant government funding to develop a platform of novel compounds in oncology and biodefense, announced today financial results for the three months and nine month ended June 30, 2012.

The Company reported a net profit of approximately \$3,064,000, or \$0.05 per share, which includes a non-cash adjustment of approximately \$3,666,000 related to decreases in the fair value of warrants that are included as a component of other income (expense) in the statement of operations, for the three months ended June 30, 2012. This compares to a net profit of \$6,293,000, or \$0.10 per share, which includes a non-cash adjustment of approximately \$7,484,000 related to decreases in the fair value of warrants that are included as a component of other income (expense) in the statement of operations, for the three months ended June 30, 2011. Revenue for the three months ended June 30, 2012 was approximately \$1,448,000, which compares to revenue of \$1,912,000 for the three months ended June 30, 2011. The revenue is from the collaboration with BARDA announced on February 11, 2011.

"The Company continues to make significant progress under our \$118 million advanced research and development contract with BARDA," stated John L. McManus, President and Chief Executive Officer. "During the quarter we began the work on the two recently exercised options, valued at \$9.1 million, which include the bulk of the studies needed for our emergency use authorization filing next year."

As of June 30, 2012, the Company had approximately \$207,000 in cash and cash equivalents and 62,731,963 common shares outstanding. The Company had accounts receivable of \$2,365,000 and accounts payable of \$3,240,000 on June 30, 2012. Aeolus has filed today with the SEC its Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. Aeolus urges its investors to read this quarterly filing as well as its amended Annual Report on Form 10-K/A, also filed with the SEC, for further details concerning the Company. The Quarterly Report on Form 10-Q and the amended Annual Report on Form 10-K/A are also available on the Company's website, at <http://www.aeoluspharma.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 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 preclinical and non-clinical studies, was well-tolerated in two human clinical trials, and has demonstrated statistically significant survival efficacy in an acute radiation-induced lung injury model. 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.

### *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, including the contract with BARDA valued, with options, at up to \$118.4 million, 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, the Company's potential initiation of large efficacy studies, the potential impact of AEOL 10150 and the BARDA Contract. 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' amended Annual Report on Form 10-K/A for the year ended September 30, 2011. 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  
(In thousands, except share data)

	June 30, 2012	September 30, 2011
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 207	\$ 518
Accounts receivable	2,365	1,677
Prepays and other current assets	55	63
	-----	-----
Total current assets	2,627	2,258
Investment in CPEC LLC		32 32
	-----	-----
Total assets	\$ 2,659	\$ 2,290
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,240	\$ 2,144
	-----	-----
Total current liabilities	3,240	2,144
Warrant liability	12,710	23,405
	-----	-----
Total liabilities	15,950	25,549
Commitments and contingencies (Note H)		
Stockholders' 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, 2012 and September 30, 2011, respectively; no shares issued and outstanding as of June 30, 2012 and September 30, 2011, respectively		
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Series B nonredeemable convertible preferred stock, 1,600,000 and 600,000 shares authorized as of June 30, 2012 and September 30, 2011, respectively; 526,080 and 526,080 shares issued and outstanding as of June 30, 2012 and September 30, 2011, respectively		
	5	5
Common stock, \$.01 par value per share, 200,000,000 shares authorized; 62,731,963 and 60,470,718 shares issued and outstanding as of June 30, 2012 and September 30, 2011, respectively		
	627	605
Additional paid-in capital	159,685	158,543
Accumulated deficit	(173,608)	(182,412)

Total stockholders' deficit	(13,291)	(23,259)
Total liabilities and stockholders' deficit	\$ 2,659	\$ 2,290

AEOLUS PHARMACEUTICALS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)  
 (In thousands, except share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Revenue:				
Contract revenue	\$ 1,448	\$ 1,912	\$ 5,894	\$ 2,697
Costs and expenses:				
Research and development	1,226	1,948	5,223	3,045
General and administrative	824	1,155	2,545	2,546
Total costs and expenses	2,050	3,103	7,768	5,591
Loss from operations	(602)	(1,191)	(1,874)	(2,894)
Non-cash financing charges and change in fair value of warrants (Notes D, E and F)	3,666	7,484	10,678	5,028
Interest expense, net	--	--	--	(21)
Other income, net	--	--	--	337
Net income	\$ 3,064	\$ 6,293	\$ 8,804	\$ 2,450

Net income per weighted share attributable to common stockholders:				
Basic	\$ 0.05	\$ 0.10	\$ 0.14	\$ 0.04
Diluted	\$ 0.05	\$ 0.07	\$ 0.12	\$ 0.03

Weighted average common shares outstanding:				
Basic	62,678	60,468	61,210	59,138
Diluted	64,919	86,550	73,097	85,220

AEOLUS PHARMACEUTICALS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (In thousands)

Nine Months Ended

June 30,

2012 2011

Cash flows from operating activities:

Net income	\$ 8,804	\$ 2,450
Adjustments to reconcile net income to net cash used in operating activities:		
Stock-based compensation	505	740
Change in fair value of warrants	(10,695)	(5,562)
Noncash interest and warrant costs	17	528
Change in assets and liabilities:		
Accounts receivable	(688)	(466)
Prepaid and other assets	8	(30)
Accounts payable and accrued expenses	1,096	(402)

Net cash used in operating activities (953) (2,742)

Cash flows from financing activities:

Proceeds from issuance of common stock and warrants	660	987
Costs related to the issuance of common stock and warrants	(18)	--
Proceeds from exercise of warrants	--	283

Net cash provided by financing activities 642 1,270

Net decrease in cash and cash equivalents (311) (1,472)  
Cash and cash equivalents at beginning of period 518 2,355

Cash and cash equivalents at end of period \$ 207 \$ 883

Supplemental disclosure of non-cash financing activities:

Preferred stock and warrants issued for payment of note payable \$ -- \$ 453

Preferred stock and warrants issued for payment of interest on note payable \$ -- \$ 210

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Source: Aeolus Pharmaceuticals