May 15, 2017

Aeolus Announces Second Quarter Financial Results for Fiscal Year 2017

MISSION VIEJO, CA -- (Marketwired) -- 05/15/17 -- 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 three months ended March 31, 2017.

The company reported net loss of $1,035,000 or $0.01 per share for the three months ended March 31, 2017. This compares to a net loss (before extraordinary items) of $629,000 or $0.01 per share for the three months ended March 31, 2016. The increase in net loss was primarily attributable to pre-IND work on AEOL 11114, the Company's compound in development for the treatment of Parkinson's disease and lower revenues from the Biomedical Advanced Research and Development Authority ("BARDA").

"During the quarter, we initiated a Phase 1 safety study of AEOL 10150 in healthy volunteers, completed manufacturing optimization and oral formulation development work on AEOL 11114 for Parkinson's disease, and reported positive results in an animal model of Cystic Fibrosis with inhaled AEOL 20415," stated John L. McManus, President and Chief Executive Officer. "Although we were disappointed with BARDA's notification in March that it had elected not to exercise additional options under the contract at this time, we are continuing work in process under the contract through its expiration in May 2019. In addition, we are submitting proposals to and have received indications of interest from other government agencies to expand the funding of AEOL 10150 as a medical countermeasure against the pulmonary effects of radiation exposure and sulfur mustard gas exposure."

Results of Operations for the Three Months Ended March 31, 2017

Revenue for the three months ended March 31, 2017 was $129,000, which compares to $565,000 for the three months ended March 31, 2016. The revenue is from the BARDA Contract and the decline in revenue is primarily attributable to a lower level of activity under that contract.

Research and Development ("R&D") expenses increased $93,000, or 19%, to $594,000 for the three months ended March 31, 2017 from $501,000 for the three months ended March 31, 2016. The increase is primarily attributable to manufacturing optimization and oral formulation development work for AEOL 11114.

General and administrative ("G&A") expenses decreased $123,000, or 18%, to $570,000 for the three months ended March 31, 2017 from $693,000 for the three months ended March 31, 2016. The decrease is primarily attributable to lower accounting and legal fees

related to SEC filing requirements.

Results of Operations for the Six Months Ended March 31, 2017

Revenue for the six months ended March 31, 2017 was $212,000, which compares to $870,000 for the six months ended March 31, 2016. The revenue is from the BARDA Contract and the decline in revenue is primarily attributable to a lower level of activity under that contract.

Research and Development ("R&D") expenses increased $89,000, or 9%, to $1,082,000 for the six months ended March 31, 2017 from $993,000 for the six months ended March 31, 2016. The increase is primarily attributable to manufacturing optimization and oral formulation development work for AEOL 11114.

General and administrative ("G&A") expenses decreased $2,000 to $1,252,000 for the six months ended March 31, 2017 from $1,254,000 for the six months ended March 31, 2016. The decrease is primarily attributable to lower investor relations fees.

As of March 31, 2017, the Company had approximately $981,000 in cash and cash equivalents and 152,085,825 common shares outstanding. The Company had accounts receivable of $603,000 and accounts payable of $638,000 on March 31, 2017.

Aeolus has filed today with the SEC its Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. 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 superoxide dismutase (SOD) mimic being developed for the treatment/mitigation of lung damage from exposure to chemical and radiological insults and to reduce/prevent lung damage in patients with Idiopathic Pulmonary Fibrosis (IPF) and in cancer patients receiving radiation therapy. AEOL 10150 protects tissue from damage and increases survival in animal models of lung damage after exposure to radiation toxic chemicals, agents that induce inflammation, and trauma by mitigating and/or preventing cell death, inflammation and fibrosis through its action on oxidative stress (Reactive Oxygen Species, or "ROS") and regulation of growth factors and chemokines including PTEN, TGF-β1, HIF-1α, TNF-α and IL-6, as well as impacting subsequent signaling pathways associated with ROS production, apoptosis and fibrosis such as NADPH-oxidase (Nox-4), PTEN, PI3K/p-Akt and p53/Bax. AEOL 10150 has been shown to improve survival and mitigate pulmonary damage in rodent models of SMG, chlorine gas and radiation exposure and in a nonhuman primate (NHP) model of whole thorax lung irradiation (WTLI). Given these promising results, Aeolus is developing AEOL10150 for the mitigation and/or treatment of pulmonary injury resulting from SMG exposure.

AEOL 10150 has performed well in animal safety studies, was well tolerated in two human clinical trials and is currently being tested in a third human study. Aeolus has received

"Orphan Drug" designation for use in treating Lung ARS, Idiopathic Pulmonary Fibrosis and Amyotrophic Lateral Sclerosis and has active IND's for the Lung ARS and ALS indications. Preparations are currently underway to make IND filings for Idiopathic Pulmonary Fibrosis, Cancer Radiation Therapy and Pulmonary Effects of Sulfur Mustard Gas Exposure.

About Aeolus Pharmaceuticals

Aeolus Pharmaceuticals is developing a platform of novel compounds, for use in biodefense, fibrosis, oncology, infectious disease and diseases of the central nervous system. Its lead compound, AEOL 10150, is being developed for the treatment of Idiopathic Pulmonary Fibrosis and as a treatment to reduce side effects caused by radiation toxicity and improve local tumor control in cancer therapy. These development efforts have been aided by substantial funding for toxicology, manufacturing, and preclinical and clinical studies from the US Department of Health and Human Services, for the development of AEOL 10150 as a medical countermeasure against chemical and radiological weapons, where its initial target indications are as a protective agent against the pulmonary effects of radiation exposure and sulfur mustard gas exposure. 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, 2016. 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)

	March 31, 2017	September 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 981	$ 3,155
Accounts receivable	603	750
Prepaid expenses and other current assets	149	230
Total current assets	1,733	4,135
Investment in CPEC LLC	32	32
Total assets	$ 1,765	$ 4,167
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$ 638	$ 972
Total current liabilities	638	972
Total liabilities	638	972
Commitments and Contingencies (Note H)		
Stockholders' equity:		
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 March 31, 2017 and September 30, 2016, respectively; no shares issued and outstanding as of March 31, 2017 and September 30, 2016	-	-
Series B nonredeemable convertible preferred stock, 1,600,000 and 1,600,000 shares authorized as of March 31, 2017 and September 30, 2016, respectively; 526,080 and 526,080 shares issued and outstanding as of March 31, 2017 and September 30, 2016	-	-
Series C nonredeemable convertible preferred stock, 5,000 and zero shares authorized as of March 31, 2017 and September 30, 2016, respectively; 4,500 and zero shares issued and outstanding as of March 31, 2017 and September 30, 2016	-	-
Common stock, $.01 par value per share, 200,000,000 shares authorized; 152,085,825 shares issued and outstanding as of March 31, 2017 and September 30, 2016	1,520	1,520
Additional paid-in capital	191,917	191,863

Accumulated deficit	(192,310)	(190,188)
Total stockholders' equity (deficit)	1,127	3,195
Total liabilities and stockholders' equity (deficit)	$ 1,765	$ 4,167

AEOLUS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
Revenue:				
Contract revenue	$ 129	$ 565	$ 212	$ 870
Costs and expenses:				
Research and development	594	501	1,082	993
General and administrative	570	693	1,252	1,254
Total costs and expenses	1,164	1,194	2,334	2,247
Loss from operations	(1,035)	(629)	(2,122)	(1,377)
Interest expense	-	-	-	(285)
Net loss	(1,035)	(629)	(2,122)	(1,662)
Deemed dividend on Series C preferred stock	-	1,906	-	2,486
Net loss attributable to common stockholders	$ (1,035)	$ (2,535)	$ (2,122)	$ (4,148)
Net loss per weighted share attributable to common stockholders:				
Basic (Note E)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.03)
Diluted (Note E)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.03)
Weighted average common shares outstanding:				
Basic	152,085	151,560	152,085	145,466
Diluted	152,085	151,560	152,085	145,466

AEOLUS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended March 31,

	2017	2016
Cash flows from operating activities:		
Net loss	$ (2,122)	$ (1,662)
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	54	74
Change in assets and liabilities:		
Accounts receivable	147	219
Deferred subcontractor cost	-	(176)
Prepaid expenses and other current assets	81	(111)
Accounts payable and accrued expenses	(334)	(567)
Deferred revenue	-	183
Net cash used in operating activities	(2,174)	(1,755)
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
Net cash provided by financing activities	-	6,170
Net increase (decrease) in cash and cash equivalents	(2,174)	4,415
Cash and cash equivalents at beginning of period	3,155	94
Cash and cash equivalents at end of period	$ 981	$ 4,509
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

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Source: Aeolus Pharmaceuticals