

**Genaera Liquidating Trust
2010 Trust Financial Statements**

IMPORTANT TAX INFORMATION – CORRECTION OF FORM 1099-DIV

You received a distribution in 2010 of \$0.13 per trust unit (share). For most stockholders, this distribution would have shown up in brokerage statements for July 2010. That distribution was incorrectly reported to some unit holders in Box 1 of FORM 1099 – DIV. The distribution reported on the Grantor Letter Statement of Income/Loss (see Page 4) should be used to adjust to the basis in your interest in the Genaera Liquidating Trust (i.e. your units/shares) and is NOT a dividend. The Grantor Letter Statement of Income/Loss on page 4 advises you of the taxable income and deductions of the Trust that should be reported on your 2010 tax returns. The Grantor Letter Statement of Income/Loss should be provided to your income tax return preparer and used to prepare your 2010 tax return.

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Introduction

This booklet provides an update to Unitholders and 2010 financial information, including financial statements, of the Genaera Liquidating Trust (the “Trust”) as required by Article V, Section 5.9(a) of the Genaera Liquidating Trust Agreement dated June 12, 2009 pursuant to the Plan of Complete Liquidation and Dissolution of Genaera Corporation.

Also included in the booklet is the 2010 Grantor Letter Statement that provides Federal income tax information to allow Unitholders (holder of beneficial interest in the Trust) to determine their pro rata share of taxable income and deductions attributable to their beneficial interest in the Trust. This information has been posted on the Trust website, www.genaera.com.

Status of the Trust

In 2009, the Trustee completed the sale of the trodusquemine and squalamine assets. In April 2010, the IL9 asset (licensed to MedImmune, Inc., a wholly owned subsidiary of AstraZeneca plc) was sold to Ligand Pharmaceuticals, Inc. for proceeds of \$2.75 million. As a result of this transaction, the Trust made an interim distribution to Unitholders of \$0.13 per unit. Additionally, the pexiganan acetate asset was sold in 2010 for an initial lump sum payment and a retained royalty interest in the pexiganan acetate asset, which the Trust is actively looking to monetize. When the disposition of this asset is completed, the Trustee will post a report on the Trust website regarding that transaction and also a narrative updating the description of the entire liquidation wind-down process. The description of the active phase of the liquidation through monetization of the IL9 asset and the interim distribution was posted on the website in July of 2010.

PLEASE NOTE that in an effort to conserve costs and maximize potential distributions, all future notices regarding material events, including assets sales and distribution notices, will be provided on the Trust’s website, www.genaera.com, and will not be mailed to individual Unitholders. Once the final distribution is made, we intend to prepay maintenance of the website for at least one year to assure information on the Trust’s activities and tax return information is available.

The Trustee can not provide any projection with respect to the timing or amount of distributions to Unitholders for the reasons cited in the footnotes accompanying the Trust financial statements. The Trustee is working diligently to resolve claims and realize the value of the non-cash assets held by the Trust in order to facilitate a final distribution.

General Tax Information

For Federal income tax purposes, the Trust is treated as a "grantor" trust. As such, the Trust is not subject to Federal income tax. You will be treated as having a direct interest in an allocable portion of each asset and liability of the Trust. Consequently, an allocable portion of all items of Trust income,

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deductions and credits must be reported by you on your income tax return. The Trustee has filed the Form 1041 for the Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a). For the Unitholders, this booklet has been prepared to be used in the preparation of the information required for Federal income tax reporting.

IRS Circular 230 Notice Requirement. This communication is not given in the form of a covered opinion, within the meaning of Circular 230 issued by the United States Secretary of the Treasury. Thus, we are required to inform you that you cannot rely upon any tax advice contained in this communication for the purpose of avoiding United States federal tax penalties. In addition, any tax advice contained in this communication may not be used to promote, market or recommend a transaction to another party.

THE TRUSTEE CAN NOT AND DOES NOT PROVIDE INCOME TAX ADVICE OR GUIDANCE TO ANY UNITHOLDER AS EACH UNITHOLDER MAY HAVE INCOME TAX SITUATIONS THAT REQUIRE TAX REPORTING OTHER THAN WHAT HAS BEEN DESCRIBED IN THIS BOOKLET. THE TRUSTEE RECOMMENDS AND URGES EACH UNITHOLDER TO CONSULT HIS, HER OR ITS TAX ADVISOR ON ALL TAX COMPLIANCE MATTERS.

Foreign Persons

Nonresident alien individuals and foreign corporations ("Foreign Taxpayer(s)") who are Unitholders are subject to special tax rules with respect to their beneficial interest. Due to the complexity of these rules, it is recommended that such Foreign Taxpayers consult their tax advisors regarding their individual income tax circumstances with regard to their beneficial interest.

State and Local Income Tax

Each Unitholder may be required to file state and local income tax returns and may be liable for state income tax as a result of their ownership of a beneficial interest in the Trust. The laws pertaining to income tax in any given state may vary from those of another state and from those applicable to Federal income tax. EACH UNITHOLDER IS URGED TO CONSULT THEIR TAX ADVISORS CONCERNING THIS MATTER.

History and Background

On June 4, 2009, Genaera Corporation's (the "Company") stockholders approved a Plan of Complete Liquidation and Dissolution of the Company (the "Plan"). Pursuant to the Plan, on June 11, 2009, the Company's Board of Directors voted to dissolve the Company, to transfer the Company's assets and liabilities to a liquidating trust and to appoint Argyce LLC as liquidating trustee. On June 12, 2009, Genaera transferred all its remaining assets and liabilities ("Trust Estate") to the Genaera Liquidating Trust ("Trust"). The stock transfer books of the Company were permanently closed on June 12, 2009. The holders of record of Genaera common stock as of the close of business on that date subsequently received on June 12, 2009 a liquidating distribution of non-trading beneficial interests in the Trust on a pro rata basis equal to their former stockholdings in the Company.

The sole purpose of the Trust is to liquidate the Trust Estate and distribute to the beneficiaries the income and proceeds therefrom in an orderly and timely manner after the payment of, or provision for, expenses and liabilities in accordance with the Genaera Liquidating Trust Agreement.

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Tax Impact of the Dissolution of Genaera Corporation on Unitholders (former stockholders)

While the Trustee cannot and will not provide tax advice, we can tell you that the provisions of the Liquidating Trust Agreement (the "Agreement") by which the Trust was formed contemplated former stockholders of Genaera treating the liquidation of Genaera Corporation into the Trust as though each stockholder received the value of a liquidating trust unit in full payment for each share of stock owned on June 12, 2009. In this scenario, U.S. stockholders recognized a gain or loss on the difference between the amount originally paid for each share of stock and the value of the trust unit received (\$0.24 per share). Genaera Corporation 2009 Federal tax returns and the Trust 2009 Federal tax returns were filed with this structure in mind.

The Agreement provides "it is intended that the granting, assignment and conveyance of the Retained Assets by the Company to the Trust pursuant to the terms hereof shall be treated for all tax purposes as if the Company made such distributions directly to the Stockholders who then transferred the Retained Assets to the Trust pursuant to the terms herein." The Agreement goes on to state that the Trust is intended to be treated "as a liquidating trust under Treasury Regulation Section 301.7701-4(d) and any analogous provision of state or local law . . .".

The Trust placed a value on each unit as of June 12, 2009 based on the last value at which Genaera stock traded on June 11, 2009 (\$0.24). To establish the Trust's opening balance sheet for income tax purposes, the total value of the outstanding units on June 12, 2009 was allocated among the assets received from Genaera Corporation based on an independent valuation of Genaera's most important intellectual property and contract rights.

Assuming that the liquidating trust functions as intended for tax purposes, the valuation assigned to each unit as of June 12, 2009 of \$0.24 per share/unit became the unit holders' cost basis in the unit against which loss or gain may be measured when the Trust makes whatever distributions it can and closes. **PLEASE SEE NOTE ON VALUATION BELOW.**

For calendar year 2009, the \$0.24 per unit valuation multiplied by the number of units held by each unit holder was been communicated as a "non-cash liquidating distribution." The Trust provided the 2009 Form 1099-MISC information on behalf of the dissolved Genaera Corporation to registered stockholders through the transfer agent and to beneficial owners (the vast majority of stockholders) through their brokers.

We recommend that you consult your tax advisor concerning the specific tax consequences and tax reporting relating to the tax information provided on the grantor's letter. The Trustee can not and will not provide advice on the personal tax treatment of the tax information.

If you have any questions, please refer to the Trust's website at www.genaera.com or write to:

John A. Skolas,
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Argyce LLC, Trustee
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Southampton, PA 18966
E-mail: trustee@genaera.com
Fax: 267-988-4082

NOTE: THERE IS NO PROMISE OR GUARANTY THAT THE TRUST WILL BE ABLE TO REALIZE \$0.24 PER UNIT OR ANY VALUE AT ALL FOR UNIT HOLDERS BEYOND THE \$0.13 PER UNIT DISTRIBUTED IN THE LIQUIDATION PROCESS. GENAERA CORPORATION'S PROXY STATEMENT FOR THE SPECIAL MEETING OF STOCKHOLDERS HELD JUNE 4, 2009 TO APPROVE LIQUIDATION OF THE COMPANY PRESENTED ESTIMATED DISTRIBUTIONS OF BETWEEN \$0.002 AND \$0.017 PER UNIT/SHARE.

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**Genaera Liquidating Trust
Employer ID Number:
Grantor Letter Statement of Income/ (Loss)
Year Ended December 31, 2010**

	In whole dollars	Per 1,000 shares	Per 100 shares	Per share
Interest Income	\$ 38.77	\$ 0.00	\$ 0.00	\$ 0.00
(Enter on Form 1040, Schedule B, Part I, Line 1)				
Passive income (loss) from estates and trust				
Income				
Other revenues	6,479.55			
Total passive income	6,479.55			
Expenses				
Loss on sale of assets	822,549.74			
Outside services	152,931.69			
Insurance expenses	15,439.94			
Other business expenses	46,122.64			
Total passive expenses	1,037,044.01			
Total passive income (loss) from estates and trusts	(1,030,564.46)	\$ (59.01)	\$ (5.90)	\$ (0.06)
(Enter on Form 1040, Schedule E, Part III)				
Other deductions subject to 2% limitation				
Legal and professional fees	81,811.00			
Trustee fees	245,564.12			
Total other deductions subject to 2% limitation	327,375.12	\$ 18.75	\$ 1.88	\$ 0.02
(Enter on Form 1040, Schedule A, Line 22)				
Other non-deductible expenses	117.19			
Net income per books	\$ (1,358,018.00)	\$ (77.76)	\$ (7.78)	\$ (0.08)
Total units outstanding	17,464,630			
Total distributions during 2010	\$ 2,270,402.00	\$ 130.00	\$ 13.00	\$ 0.13

Disclosure: The distribution you received from the Trust was incorrectly reported to you in Box 1 on Form 1099-DIV. The Trust's representatives have subsequently corrected this information in information filed with the Internal Revenue Service to reflect the fact that this distribution is NOT a dividend and the amount properly reported in Box 1 of Form 1099-DIV is \$0.00 (zero dollars). The distribution reported on this statement should be used to adjust your basis in the liquidating trust.

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(Unaudited) (Amounts in thousands)

Statement of Operations	
For the year ended December 31, 2010	
Revenues:	
Revenue	\$3,028
Expenses:	
General & administrative expenses	687
Income from operations	2,341
Net income	\$2,341

Balance Sheet	
As of December 31, 2010	
Assets:	
Cash	\$385
Receivables	5
Prepaid expenses & other assets	19
Total Assets	\$409
Liabilities:	
Accounts payable	\$28
Total Liabilities	125
Equity:	
Beneficiaries' equity	(1,960)
Retained earnings	2,341
Total Trust Equity	381
Total Liabilities & Trust Equity	\$409

Statement of Cash Flows	
For the year ended December 31, 2010	
Net Income	\$2,341
Decrease in accounts payable & accrued expenses	(96)
Decrease in prepaid expenses	133
Cash distribution to Unitholders	(2,270)
Net increase in cash	12
Cash at the beginning of the period	\$373
Cash at the end of the period	\$385

Statement of Changes in Trust Equity	For the year ended December 31, 2010
Beginning balance December 31, 2009	\$4,029
Sale of intellectual property/development assets	(3,719)
Cash distribution to Unitholders	(2,270)
Net income	2,341
Ending balance December 31, 2010	\$381

See accompanying notes to these financial statements.

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Notes to Financial Statements

Note 1 - Organization

The Trust was established on June 12, 2009, pursuant to Genaera Corporation's ("Genaera") Plan of Complete Liquidation and Dissolution of the Company (the "Plan"). Pursuant to the Plan, the Trust was established for the purpose of liquidating and distributing the assets of Genaera in accordance with Treasury Regulation section 301.7701-4(d), with no objective for the Trust to continue or engage in the conduct of a trade or business. Pursuant to the Plan, on the Effective Date, Genaera transferred all of its assets to the Trust. On the Effective Date, the common stock transfer books of Genaera were permanently closed and all shares of its common stock were cancelled. Holders of record of Genaera common stock as of the close of business on June 12, 2009 became holders of non-trading beneficial interests in the Trust on a pro rata basis equal to their former shareholdings in Genaera on June 12, 2009.

The Trust Agreement sets forth a time limit of three years for the disposition of the Trust's assets and distribution to the unit holders unless the Trustee determines that an extension is necessary to facilitate or complete the recovery and liquidation of the Trust assets and winding up of its affairs.

The accompanying financial statements for the Trust are unaudited. In the opinion of the Trustee, the financial statements reflect all adjustments necessary for a fair presentation of the financial position and income and expenses of the Trust as prepared on a in accordance with accounting principles generally accepted in the United States of America, reflecting an entity in liquidation.

Note 2 - Basis of Accounting

Basis of presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, reflecting an entity in liquidation ("GAAPLIQ"). Accordingly, certain revenue and the related assets are recognized when earned rather than when received; certain expenses are recognized when the obligation is incurred rather than when paid; and assets are reflected at their fair market value. For information concerning the financial statements prepared based on Federal Income Tax Reporting Principles ("FITR"), and a reconciliation of the Trust's GAAPLIQ to FITR, see Note 5.

Valuation of Assets: The Trust Equity balance on June 12, 2009 was equal to approximately \$4.2 million. The Trust Equity balance included cash, receivables and the estimated value of the remaining intellectual property and drug development assets of Genaera (collectively, the "IP and development assets"), which includes the IL-9 antibody license with MedImmune, Inc. a wholly owned subsidiary of AstraZeneca plc. (the "MEDI license"), squalamine lactate, trodusquemine and the pexiganan acetate license with MacroChem, Inc. a subsidiary of Access Pharmaceuticals, Inc.

The valuation of the IP and development assets was based on reference to the market capitalization of Genaera Corporation at the closing trade on June 11, 2009 and upon an independent valuation of the MEDI license coupled with term sheet offers for purchase of the remaining development assets. The Trust received \$200,000 from the sale of squalamine lactate and trodusquemine and the Trust regained control of the pexiganan acetate asset 2009. During 2010, the Trust sold the IL-9 antibody asset to Ligand Pharmaceuticals, Inc. for \$2.75 million and the pexiganan acetate asset to Dipexium Pharmaceuticals, LLC for an initial lump sum payment and a retained royalty interest in the pexiganan acetate asset, which the Trust intends to monetize.. In addition to the proceeds from the sale of pexiganan acetate, the Trust retains a royalty interest in the asset for which the Trust is currently pursuing options for monetization. The value of the remaining IP and development assets that may be realized by the Unitholders may be greater or less than the amount reflected on the balance sheet of the Trust.

Income taxes: The Trust is treated as a grantor trust and not a corporation. Accordingly, any income or loss of the Trust will not be taxable to the Trust but will be taxable to the holders of beneficial interests in the Trust, as if such holders had themselves realized the income or loss from their pro rata interest in the Trust assets.

Note 3 - Contingent Assets and Liabilities

While the Trust is not aware of any material contingent liabilities that may affect the amount of assets to be distributed to Unitholders, the Trust can not provide any assurances that additional claims may not be asserted

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against the Trust. Therefore, it is possible that future liabilities may be incurred affecting the amount of assets available for distribution to Unitholders.

Note 4- Future Distribution of Trust Assets

The Trustee can not provide any projection with respect to the timing or amount of distributions to Unitholders for the reasons cited in these footnotes. The Trustee is working diligently to resolve claims and realize the value of the non-cash assets held by the Trustee in order to facilitate a distribution.

Note 5 - Differences between Accounting Principles Generally Accepted in the United States of America, Reflecting an Entity in Liquidation and Federal Income Tax Reporting Principles

These financial statements have been prepared in accordance with GAAPLIQ which differ in certain respects with those principles and practices that the Trust would have followed had its financial statements been prepared in accordance with FITR.

The material differences between FITR and GAAPLIQ, which are relevant to the Trust's Statement of Operation, Balance Sheet, Statement of Cash Flows and Statement of Changes in Trust Equity, are summarized as follows:

Accounting for Prepaid Expenses

For GAAPLIQ, prepaid expenses are recognized as an asset when paid and expensed as services are incurred or assets are received, while for FITR, prepaid expenses are recorded when paid.

Accounting for Accrued Liabilities

For GAAPLIQ, accrued liabilities are recognized as a liability in the period the assets are purchased or the services are incurred while for FITR, accrued liabilities are recorded when paid.

The effect of different treatments described above on the Trust's financial statements would be as follows:

- a. In December 2009, the Trust paid for insurance coverage from the period beginning on January 1, 2010 and ending on December 31, 2011. Under GAAPLIQ, this expense was recorded as an asset and is being amortized over a two year period. Under FITR, the total expense of approximately \$32,000 would have been incurred in the year ended December 31, 2009. No expense would have been incurred in the year ended December 31, 2010 under FITR.
- b. During 2009, the Trust paid for a deposit on the lease of its office space. Under GAAPLIQ, this expense was recorded as an asset until the deposit is returned. For the year ended December 31, 2009, approximately \$1,000 of additional patent filing fee expense would have been incurred under FITR.
- c. During 2010, the Trust paid for administrative expenses relating to information technology services to be performed in January 2011 as well as rent on its office space for January 2011. Under GAAPLIQ, these expenses were recorded as assets. For the year ended December 31, 2010, approximately \$2,000 of additional expense would have been incurred under FITR.