



# \*GENAERA

## Liquidating Trust

### Tax Impact to Unitholders (former stockholders) of Genaera Corporation

The Trustee cannot provide tax advice. You are encouraged to consult your tax advisor. We can tell you that the provisions of the Liquidating Trust Agreement (the "Agreement") by which the Trust was formed contemplate 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, US stockholders will recognize a gain or loss (a loss in most cases we would presume) 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 have been 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 will become the unit holders' cost basis in the unit against which loss or gain may be measured when the Trust finally makes whatever distributions it can make and closes. **PLEASE SEE NOTE ON VALUATION BELOW**

The \$0.24 per unit valuation multiplied by the number of units held by each unit holder has been communicated via Form 1099 as a "non-cash liquidating distribution." The Trust provided the Form 1099 information to registered stockholders through the transfer agent and to beneficial owners (the vast majority of stockholders) through their brokers.

**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 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.**