

**Update to Unit Holders of the Genaera Liquidating Trust (the “Trust”)
Prepared by the Trustee, Argyce LLC, as of August 12, 2009**

Overview

On June 12, 2009 Genaera Corporation (the “Company”) filed its Certificate of Dissolution with the Delaware Secretary of State. At that moment all the Company’s assets and liabilities were transferred to the Trust. The Trust received about \$1.2 million in cash subject to accounts payable and accrued expenses totaling about \$0.9 million, providing net liquid assets of about \$300,000.

With about 17.5 million units (formerly shares) outstanding, for each cent per unit the Trust would distribute it must generate \$175,000 in cash plus mailing and distribution expenses. The Proxy Statement for the June 4, 2009 Special Meeting of Stockholders projected “Estimated Distribution to Stockholders”: the “High” estimate of which was less than two cents per share; the “Low” estimate was one fifth of one cent per share.

Under the Delaware law the Trust is successor in interest to the Company’s contractual and regulatory obligations. The regulatory obligations include such matters as employee retirement and health benefits, hazardous material disposal, a township tax audit and income taxes of both the Company and the Trust to name a few.

At this time the Trust has not yet generated sufficient liquid assets to make a meaningful distribution to unit holders. We are working through administrative issues to wind up the company and reduce the run rate of the Trust as we ramp up our efforts to monetize illiquid assets. An agreement was executed July 31 to settle the lease of the Company’s offices and laboratories in Plymouth Meeting, Pennsylvania. Effective September 1, 2009 the Trust will move from premises costing over \$50,000 per month to temporary office space costing \$1,000 per month.

The non-cash assets of the Company can be thought of in three categories:

Tangible Assets: Nearly all the Company’s physical assets, i.e. lab equipment, furniture and equipment were sold by the Company’s management prior to formation of the Trust.

Out-licensed Program Assets: The Company has licensed two drug development programs to other companies, IL-9 antibody therapy for asthma and its infectious disease program, LOCILEX (pexiganan).

Internal Program Assets: Trodusquemine (a/k/a MSI 1436), squalamine (a/k/a EVIZON), analogues of these compounds and Lomucin were all developed by the Company and have not been licensed to other parties. Assets associated with the programs include patents, research data from studies in the Company’s laboratories, clinical material, research material, pre-clinical and other animal model data and clinical trial data, in electronic and hard copy form, including filings with the FDA.

Review of Development Program Assets

The proxy for the June 4, 2009 Special Meeting of Stockholders described extensive but unsuccessful efforts of firms retained by the Company's management and by members of management to license or sell program assets of the Company. While most of these assets have some potential value, the Trust will need to realize significant value from an out-licensed program to generate enough money for a meaningful distribution.

Out-licensed Programs

IL9 Antibody Therapeutics

In April 2001 the Company entered into a collaboration agreement with MedImmune Inc. to develop and commercialize therapies related to the Company's IL9 program. The intellectual property licensed to MedImmune under the Collaboration Agreement includes patents, know-how and materials owned by the Company or licensed by the Company from the Ludwig Institute of Cancer Research. Since April of 2001, MedImmune has utilized those materials, know-how and patents to develop a drug candidate it refers to as "MEDI-528" as a therapy for asthma. In doing so MedImmune developed patents, know-how and materials of its own. MedImmune, which is now a subsidiary of AstraZeneca, has progressed MEDI 528 into phase 2 clinical trials. In August 2008, MedImmune voluntarily suspended its three phase 2 clinical trials. Its underlying IND has been placed on clinical hold.

In spite of the clinical hold status, conversations with knowledgeable people in the pharmaceutical and investment communities indicate that this program is still considered to be the most valuable of the Company's programs.

The collaboration agreement provides that its financial terms may not be publicly disclosed. As the Company's successor in interest, the Trust is also bound by those terms. The Company has typically referred to "up to \$54 million in milestones, plus royalties." This phrasing originated from a joint press release in April 2001 referencing \$55 million in milestones \$1.0 million of which was subsequently received. While we can not state any other numbers from the collaboration agreement we can provide insight into the factors affecting valuation of this asset using public information.

A redacted version of the collaboration agreement was filed with the SEC in April 2001. It can be viewed at

<http://www.sec.gov/Archives/edgar/data/880431/000103605001500576/dex104.txt>. Most numbers and some key provisions are replaced with "***". Section 6 sets forth three potential royalty rates applicable to sales in any individual country of the world depending on the level of sales in that country. A fourth and minimum royalty applies if

no claim of a patent controlled by Genaera covers the product in a specific country in question at the time of the product sales. Additionally, royalty rates are adjusted if MedImmune owes royalties to any third party on the final product or if the product is sold in combination with a product not covered by the collaboration agreement. Section 6.10 of the collaboration agreement lists 13 milestones, two of which have occurred. The events, the payment amounts and a key overarching condition to each payment have been redacted.

A number of patents are licensed under the collaboration agreement, but the most important Genaera patent is very broad covering IL9 antibody therapy. That patent expires August 23, 2016. Assuming the product is approved before that date, MedImmune can choose to extend that patent or one of its own patents under the Hatch-Waxman Act. We believe the extension could be as long as five years.

The agreement terms described above and resulting variability are all typical of drug candidate licenses. Of course the largest single determinant of the program's value is whether or not MEDI-528 progresses through phase 2 and 3 trials and becomes approved for sale by the FDA. Thus variables arising out of the collaboration agreement include:

- Timing of relief from clinical hold status;
- Successful completion of phase 2 and 3 trials;
- Date of completion of phase 2 and 3 trials
- Approval by the FDA and by counterparts in the EU, Japan and other countries;
- The date each approval occurs;
- Rate of sales growth in each country;
- Volume of sales at the peak level in each country and subsequent decline;
- Competition in each country approved;
- Patent coverage end date in each country;
- MedImmune's choice of a patent for extension;
- Other issues that can not be publicly disclosed.

For a prospective purchaser, valuation of the Company's interest in the collaboration agreement starts by modeling assumptions for all these variables in combination with actual royalty rates and milestones. Whether the modeling is a spreadsheet of probability adjusted present values of possible royalties and milestones or something more sophisticated like a Monte Carlo simulation or a real option model, the idea is to compute a risk adjusted single value for an almost infinite number of scenarios generated by multiple probabilities and numerous variables.

We have reviewed the Company's confidential discussions with potential purchasers over the past two years. Applying a range of credible, conservative assumptions the Company's modeling produced a wide range of low and high valuations. It appears that prospective purchasers' proposals, none of which progressed to binding agreements, were all at the low end of the Company's valuations.

One course of action is for the Trust to approach investment firms that acquire these sorts of assets, propose assignment of the collaboration agreement and make the best deal we can, hopefully with interest from more than one party. In any scenario we want to raise the Trust's cash position and lower its run rate pending resolution of the "clinical hold." This may affect the type of deal we can make, but we are working to extend the Trust's runway for this asset one way or another to the extent practicable to improve its value.

At this time, a sale to the highest bidder for one or two payments seems like a probable scenario, but we plan to investigate alternative deal structures as well. Rather than sell 100% of the collaboration agreement for 100% of a relatively low valuation, it may be feasible to sell a fraction of the future royalties and milestones for a fraction of that same relatively low valuation, reserving much of the asset for distribution to unit holders if the drug candidate is ultimately successful. One permutation of this structure seen in other industries is to assign a fraction of future receipts plus certain administrative rights to an institutional investor in exchange for (i.) a non-refundable purchase price based on the present value of the collaboration agreement plus (ii.) additional cash advances as necessary that would be recoupable from future payments and could be deployed to support intellectual property rights and enforce the agreement. Whether an agreement with this level of complexity can be made to work for a protracted term depends on manageable legal costs and creating an extension of the Trust that can exist with little ongoing cost beyond mailings and distributions. Additional comments on administrative costs of the Trust are included at the end of this note.

From discussions with other prospective liquidating trust clients, disposition of out-licensed drug development programs will likely to be an issue for other failed but solvent companies. We have seen glimmers of expanding investor interest in these types of high risk, high reward assets.

LOCILEX (pexiganan) Infectious Disease Program

Pexiganan was licensed to MacroChem Corporation in October 2007 for an initial payment of \$1.0 million under an agreement providing for milestones of an additional \$7.0 million. MacroChem was acquired by Access Pharmaceuticals in March 2009 and is the successor in interest to MacroChem's licensee interest. The specifics of the milestones and royalties described in the license agreement are confidential and redacted in SEC filings.

The public documents indicate that the licensee, now Access Pharmaceuticals, must commence a phase 3 trial no later than October 2009. In the event of failure to do so, the license is subject to termination upon 30 days notice from Genaera Corporation (now the Trust) unless the licensee can show commercially reasonable efforts have been made and submits a plan to Genaera detailing a plan of corrective action. In its Form 10-Q filed on May 19, 2009, Access states "We are actively seeking co-development partners for Pexiganan." The Trust is not aware of any announcement by Access announcing any

transaction involving Pexiganan and has not seen any information concerning preparations to start a new phase 3 trial.

An April 23, 2009 analyst report currently posted on Access' website states that analyst omitted Pexiganan from his valuation on the assumption that the program will be sold rather than out-licensed and the timing could not be predicted. The US patent covering Pexiganan and controlled by Genaera expires in 2016. We believe it can be extended for as much as five years under the Hatch-Waxman Act upon approval of the drug. It is believed that Pexiganan could be approved by the FDA following one more phase III trial, two phase III trials having been completed by Genaera some years ago. Patents covering the molecule in most countries other than the US expire in 2010.

Internal Programs

Given the terms governing the Trust, as well as its limited resources, the Trust can not continue development activities of the Company's programs. Extensive, but unsuccessful efforts of firms retained by the Company and by the Company's management to license or sell the Company's internal development programs were detailed in the Proxy Statement referenced on page 1 above. Any buyer of these assets will incur substantial expense to complete or redirect development of the programs in addition to any price paid to the Trust. However, these assets incorporate extraordinary scientific work that can be the scientific core of new development programs. The Trust is currently in the midst of discussions with potential purchasers and based on these discussions, we anticipate closing sales of these assets that will at least offset the costs of the Trust and allow it to more aggressively pursue value from out-licensed programs.

Aminosterols:

Squalamine Lactate for Cancer and Wet AMD

Trodusquemine for Obesity and Type 2 Diabetes

The Company identified squalamine lactate as an anti-angiogenic compound and advanced it into phase 2 trials for oncology and phase 3 trials for wet age related macular degeneration. The Company also identified trodusquemine as a molecule with an ability to prevent weight gain or induce weight reduction in animal models and progressed the molecule into phase 1 trials for obesity and type 2 diabetes. While these molecules have very different properties, their chemical structures are very similar utilizing common precursors, intermediates and synthesis steps.

Most of the Company's inventory of squalamine lactate material was sold by the Company for a nominal sum in May of 2009 but prospective buyers have expressed serious interest in the intellectual property, remaining material and other assets associated with squalamine as well as trodusquemine, albeit at liquidation prices.

In addition the company synthesized a number of related compounds in research quantities, tested them in animal models and filed patents in some cases. Depending upon the interests of prospective purchasers, the assets associated with these programs can be sold as a group or divided into three categories for sale, squalamine, trodusquemine and analogs.

Lomucin

This drug candidate, also known as talniflumate, was developed and tested as a therapy for cystic fibrosis. The inventories of the drug itself and analogs developed for research purposes were discarded by the Company prior to formation of the Trust but all the research data, reports, clinical trial information and some patents remain.

Some Closing Thoughts

Ideally the Trust would have started with more than \$300,000 of net liquid assets. We would have preferred to have a reserve for contingencies, e.g. attorney's fees for transactions that progress to incur fees but fail to close. Unplanned costs and administrative requirements do arise, some of which were not captured in the projections included in the Proxy Statement. For example, mailings to approximately 9,500 unit holders (i.e. former stockholders) cost from \$18,000 to \$20,000 plus annual transfer agent fees. The Trust anticipates a minimum of three mailings if it terminates as quickly as possible. Additionally, no costs were projected for trust expenses and administrative costs after December 31, 2009, which at a minimum would include tax return preparation and distribution of tax information to unit holders. That said we have been able to improve the Trust's cash position a few dollars at a time to offset unbudgeted expenses. We have access to personnel familiar with the assets, particularly the intellectual property, as well as detailed understanding of the liabilities. This partially compensates for starting with less than ideal liquidity.

We have not attempted to respond to former stockholder questions about trading in the Company's stock over the past months. All notifications and filings to agencies, market regulators, transfer agents and related entities were made as required in a timely manner. It is not in the Trust's interest to spend time on matters beyond the Trustee's control. More broadly we do not want to devote time to issues from the past in the absence of a regulatory duty or a potential benefit to the Trust. We have resisted, and will continue to resist claims asserted against the Company that we believe are meritless or overstated. We also adjusted existing agreements to the Trust's benefit where we had a legal basis to do so.

Sincerely,
Argyce LLC, as Trustee of the
Genaera Liquidating Trust

