

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶
Sections 354, 356, 358, 361, 368, and 1221.

18 Can any resulting loss be recognized? ▶
See attached statement for details.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶
The Merger, as defined in the attached statement, became effective on December 4, 2015. Therefore, it is reportable in the tax year which includes December 4, 2015. The holding period for any shares of Midatech Ordinary Shares, as defined in the attached statement, received by Dara shareholders in the Mergers, as defined in the attached statement, generally will include the holding period of the shares of Dara Common Stock exchanged for such Midatech Ordinary Shares

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature ▶  Date ▶ January 12, 2016

Print your name ▶ N Robbins-Cherry Title ▶ Chief Financial Officer

Paid Preparer Use Only

| | | | | |
|--|---|---------|---|-----------|
| Print/Type preparer's name | Preparer's signature | Date | Check <input type="checkbox"/> if self-employed | PTIN |
| S. AARON SAMUELS, CPA |  | 1-12-15 | | P01047389 |
| Firm's name ▶ HORNE LLP | Firm's EIN ▶ 20-1941244 | | Phone no. 601-326-1000 | |
| Firm's address ▶ 1020 HIGHLAND COLONY PKWY, STE 400, RIDGELAND, MS 39157 | | | | |

Additional details for responses to Form 8937, Part II, line 14

All capitalized terms used below but not defined herein shall have the same definition given to them in the **AGREEMENT AND PLAN OF MERGER** (the “Merger Agreement”) by and among **MIDATECH PHARMA PLC, MERLIN ACQUISITION SUB, INC., DUKE ACQUISITION SUB, INC., DARA BIOSCIENCES, INC., and SHAREHOLDER REPRESENTATIVE SERVICES LLC, AS STOCKHOLDER REPRESENTATIVE** dated as of June 3, 2015.

On December 4, 2015, Midatech Pharma PLC, a public limited company organized under the laws of England and Wales (“Midatech”), completed its merger with Dara Biosciences, Inc., a Delaware corporation (“DARA”) (NASDAQ: DARA), pursuant to the terms and conditions of the Merger Agreement under which Merlin Acquisition Sub, Inc. (“Merlin”), a wholly owned subsidiary of Midatech, merged with and into DARA (the “Merger”), with DARA being the surviving corporation (the “Surviving Corporation”). Immediately following the Merger, the Surviving Corporation merged with and into Duke Acquisition Sub, Inc. (“Duke”) (the “Secondary Merger,” and together with the Merger, the “Mergers”), a wholly owned subsidiary of Midatech, and Duke survived as a wholly owned subsidiary of Midatech. Immediately following completion of the Mergers, Duke changed its name to “Midatech Pharma US Inc.”

Other than Excluded Shares (as defined herein), at the effective time of the Merger (the “Effective Time”), each share of DARA common stock, par value of \$0.001 per share (“DARA Common Stock”), was converted into the right to receive, without interest, (i) 0.272 ordinary shares of Midatech (“Midatech Ordinary Shares”), delivered to the holders of DARA Common Stock in the form of American Depositary Receipts, each representing the right to receive two Midatech Ordinary Shares (the “Midatech Depositary Shares”), plus (ii) one contingent value right (“CVR”), which represents the right to receive contingent payments if specified milestones are achieved within agreed time periods (subject to, an in accordance with the terms and conditions of the Contingent Value Rights Agreement), which are valued at \$0.076 each, plus (iii) cash in lieu of fractional Midatech Depositary Shares, less the amount of any withholding taxes, equal to the product of (x) such fraction multiplied by (y) \$3.96. The Per Share Stock Consideration, one CVR, along with any cash to be paid in lieu of fractional shares of Midatech Depositary Shares to be paid, are collectively referred to as the “Per Share Merger Consideration”.

As used herein, “Excluded Shares” mean any shares of DARA Common Stock (i) that were outstanding immediately prior to the Effective Time and that were held by the stockholder who neither voted in favor of the Merger nor consented thereto in writing, demanded in writing appraisal, and has not withdrawn a demand for, or lots its right to, appraisal with respect to such shares, (ii) held by DARA as treasury stock, (iii) authorized but unissued, or (iv) held by Midatech or any subsidiary of Midatech.

Additionally, under the terms and subject to the conditions of the Merger Agreement, at the Effective Time each share of issued and outstanding DARA’s Series A Convertible Preferred Stock, Series B-2 Convertible Preferred Stock and Series C-1 Convertible Preferred Stock, other than dissenting shares, were converted into the right to receive, without interest, \$1,000 in cash.

Each outstanding and unexercised warrant to purchase shares of DARA Common Stock (“Warrants”) were assumed or substituted by Midatech and, as of the Effective Time, (i) became exercisable for (A) the number of whole Ordinary Shares equal to the product of the number of shares of DARA Common Stock

that were issuable upon exercise of such Warrant immediately prior to the Effective Time, multiplied by 0.272, rounded down to the nearest whole number of shares of Ordinary Shares and (B) one CVR multiplied by the total number of shares of DARA Common Stock that were issuable upon exercise of such Warrants immediately prior to the Effective Time, and (ii) the per share exercise price for each Ordinary Share issuable upon exercise of Warrants so converted will be equal to the quotient determined by dividing the exercise price per share of DARA Common Stock at which such Warrant was exercisable immediately prior to the Effective Time by 0.272, rounded up to the nearest whole cent. All Ordinary Shares delivered to the holders of Warrants will be delivered in the appropriate amount of Midatech Depositary Shares.

Subject to certain exceptions, each outstanding and unexercised option to acquire DARA Common Stock (“Stock Options”) became fully vested and exercisable immediately prior to the Effective Time. Stock Options that were unexercised at the Effective Time were assumed by Midatech and will continue to have, and be subject to, the same material terms and conditions set forth in the applicable agreement under which such Stock Option was granted immediately prior to the Effective Time, provided that at the Effective Time, (i) each Stock Option will be exercisable for that number of whole Ordinary Shares equal to the product of (A) the number of shares of DARA Common Stock that were issuable upon exercise of such Stock Option immediately prior to the Effective Time, multiplied by (B) 0.272, rounded down to the nearest whole number of Ordinary Shares, and (ii) the per share exercise price for each Ordinary Share issuable upon exercise of each Stock Option so converted will be equal to the quotient determined by dividing the exercise price per share of DARA Common Stock at which such Stock Option was exercisable immediately prior to the Effective Time by 0.272, rounded up to the nearest whole cent. All Ordinary Shares delivered to the holders of Stock Options will be delivered in the appropriate amount of Midatech Depositary Shares. Those Stock Options that did not vest at the Effective Time (by virtue of the Merger) shall continue to vest in accordance with their terms.

Additional details for responses to Form 8937, Part II, lines 15 and 16

The conversion into the right to receive the amount of \$1,000 per share by each shareholder of Dara preferred stock, will not affect the basis of any other security or property received in this transaction.

The exchange by each Dara shareholder of its shares of Dara Common Stock for a combination of Midatech Ordinary Shares, cash, and CVRs pursuant to the Merger will generally result in the tax basis of the Midatech Ordinary Shares received being equal to the aggregate adjusted tax basis in the Dara Common stock exchanged, decreased by the sum of the cash received in lieu of fractional shares, if any, and the fair market value of the CVRs received and increased by any gain recognized by such shareholder (excluding any gain attributable to cash received in lieu of fractional shares, if any). A former Dara shareholder must allocate the adjusted tax basis of its shares of Dara Common Stock (as increased and decreased as described in the immediately preceding sentence) across the total number of Midatech Ordinary Shares received in the Merger. As a result of the allocation, the tax basis per Midatech Ordinary Share received can be computed. The actual tax basis will differ with respect to each former Dara shareholder.

Example:*Facts and assumptions*

Assume a shareholder acquires 100 shares of DARA Common Stock on date X for \$1.00 per share. This results in an aggregate tax basis of \$100.00 in DARA Common Stock.

Pursuant to the Merger Agreement, in exchange for the 100 shares of Dara Common Stock, the shareholder receives the following: (a) 27.2 Midatech Ordinary Shares, equivalent to and payable in the form of 13 Midatech Depositary Shares (because only whole Midatech Depositary Shares can be issued), worth a total of \$95.55 (assuming a fair market value of \$7.35 per Midatech Depositary Share); (b) \$4.75 cash in lieu of fractional Midatech Depositary Shares (0.6 Midatech Depositary Shares multiplied by \$7.92, which, pursuant to the terms of the Merger Agreement, is the agreed-upon USD equivalent of the closing price of the Midatech Ordinary Shares underlying one Midatech Depositary Share on the AIM Market of the London Stock Exchange on December 3, 2015), and (c) 100 CVRs worth \$7.60 (\$0.076 being the actual fair market value of each CVR, according to the Merger Agreement).

The amount of gain realized in the reorganization is \$7.90, which is equal to the excess of the sum of the fair market value of the Midatech Depositary Shares (\$95.55), cash in lieu (\$4.75) and the CVRs (\$7.60) received in the Merger, over the shareholder's aggregate basis in its DARA Common Stock (\$100.00).

The amount of gain recognized is \$7.60, the lesser of (i) the gain realized (\$7.90) and (ii) the fair market value of the CVRs (\$7.60) received.

Allocation of Basis in DARA Common Stock to Midatech Ordinary Shares

| | | |
|--|----------------|---------------------|
| Aggregate tax basis in DARA Common Stock | \$100.00 | |
| LESS: fair market value of CVRs received | <u>7.60</u> | |
| | \$ 92.40 | |
| | | |
| ADD: amount of gain recognized | <u>\$ 7.60</u> | |
| Aggregate tax basis in Midatech Ordinary Shares | \$100.00 | |
| | | |
| \$100 aggregate tax basis divided by 27.2 shares | \$3.6765 | tax basis per share |

Gain or loss on sale of fractional shares

| | |
|--|---------------|
| Cash received in lieu of 0.6 fractional Midatech Depositary Shares | \$4.75 |
| Basis in fractional shares (0.6 x \$7.92 tax basis per share) | <u>\$4.41</u> |
| Gain on sale of fractional shares | \$0.34 |

As a result, a taxable gain of \$7.60 will be recognized on the CVRs received, and a gain of \$0.34 will be recognized on the cash in lieu conversion of 0.6 fractional Midatech Depositary Shares. The resulting basis in the 13 Midatech Depositary Shares, representing 26 Midatech Ordinary Shares, is \$95.59 (26 multiplied by \$3.6765), which is the \$100 aggregate tax basis in the DARA Common Stock less the \$4.41 basis assigned to the cash in lieu of 0.6 fractional Midatech Depositary Shares. Since the tax basis of the

13 Midatech Depositary Shares is \$95.59, the tax basis in each Midatech Depositary Share is \$7.35. The tax basis in the 100 CVRs is \$7.60, their fair market value.

Midatech and DARA do not provide tax advice. The above example is for illustrative purposes only and is not intended to indicate the outcome for any particular DARA shareholder. Consult the Merger Agreement for additional information. Each shareholder is encouraged to consult its own tax advisor concerning the shareholder's individual tax treatment resulting from the Merger, including, but not limited to, the computation of basis in the shareholder's shares of Midatech Depositary Shares acquired in the Merger.

Additional details for responses to Form 8937, Part II, lines 18

In general, a Dara shareholder who exchanged all of its shares of Dara Common Stock for a combination of Midatech Ordinary Shares, cash in lieu of fractional Midatech Depositary Shares, and CVRs may recognize gain, but not loss (except as to any loss incurred with respect to receiving cash in lieu of fractional shares), as a result of the Mergers.

A Dara shareholder who received cash in lieu of fractional shares of Midatech Depositary Shares generally will be treated as having received such fractional share and then having received cash in redemption of the fractional share. Gain or loss will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of the shareholder's aggregate adjusted tax basis of the shares of Dara Common Stock surrendered that is allocable to the fractional share.

A DARA shareholder who received the right to convert each DARA preferred share to \$1,000.00 cash will recognize gain, or loss, depending on whether the cash received is greater or less than the basis in the preferred shares. The conversion into the right to receive the amount of \$1,000.00 per share by each shareholder of DARA preferred stock will not affect the basis of any other security or property received in this transaction.

The recognizable gain or loss generally will be long-term capital gain or loss if the holding period of such shares of Dara Common Stock is more than one year at the Effective Time. The deductibility of any recognizable capital loss is subject to limitations.