

Item 1. Cover Page

**Brochure of
Stonepine Capital Management, LLC**

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This brochure provides information about the qualifications and business practices of Stonepine Capital Management, LLC (“**Stonepine**”). If you have any questions about the contents of this brochure, please contact Jeff Nunnenkamp at (541) 647-5673. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Stonepine also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2. Material Changes

There have been no material changes to Stonepine’s brochure since its last annual update on March 30, 2021.

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Item 4. Advisory Business

Stonepine is a California limited liability company that has been in business since 2006. Jon M. Plexico and Timothy P. Lynch are Stonepine's members, managers and the portfolio managers of the Funds (defined below). As of December 31, 2021, Stonepine had total discretionary assets under management of approximately \$237,667,138. Stonepine only manages assets on a discretionary basis.

Stonepine serves as the general partner and investment adviser to Stonepine Capital, L.P., a private investment fund ("**Stonepine Capital**"). Stonepine may form additional private investment funds in the future, and it may form one or more "special purpose" funds (the "**SPVs**") to invest in opportunities that it believes are attractive but are (a) outside of Stonepine Capital's investment strategy, or (b) are appropriate for Stonepine Capital, but too large to allocate solely to that fund, or (c) in Stonepine's judgment not appropriate at that time for Stonepine Capital. Stonepine does not currently advise any SPVs. Stonepine Capital, any additional private investment fund that Stonepine may form in the future and any SPVs are referred to collectively as the "**Funds**" and individually as a "**Fund**".

Stonepine invests on the Funds' behalf principally, but not solely, in equity and equity-related securities in healthcare companies that are traded publicly in U.S. markets, but is authorized to enter into any type of investment transaction that it deems appropriate under the terms of each Fund's governing documents.

Stonepine does not participate in wrap fee programs.

Item 5. Fees and Compensation

Stonepine's compensation is negotiable and varies, but typically it charges a 2% annual management fee with respect to each investor in Stonepine Capital, payable in quarterly installments at the beginning of each calendar quarter based on the net market value of each investor's capital account on that date. Stonepine also typically receives a performance-based allocation with respect to each investor in Stonepine Capital equal to 20% of net profits (including both realized and unrealized gains and losses) otherwise allocable to such investor. Performance allocations are made with respect to each investor at the end of each calendar year (and on withdrawals or redemptions with respect to the amount withdrawn or redeemed), and are typically only applied to the portion of profits that exceed the cumulative losses previously allocated to that investor in that year or in any subsequent year.

Stonepine may waive or reduce all or part of the management or performance-based allocations with respect to any investor or Fund. For example, Stonepine has waived or reduced the management fee and performance-based allocations for certain strategic investors in Stonepine Capital and for certain employees and family members. In addition, an SPV may be subject to lower management fees and performance-based allocations than Stonepine Capital.

Stonepine complies with Rule 205-3 under the Investment Advisers Act of 1940, to the extent required by applicable law. Performance allocations create an incentive for Stonepine to make more risky and speculative investments than it would otherwise make.

Stonepine typically deducts management fees and performance allocations directly from the Funds.

Stonepine believes that its fees are competitive with fees charged by other investment advisers for comparable services. Comparable services may be available, however, from other sources for lower fees.

The disclosure in this Item 5, together with the disclosure in Item 12, allow a plan that is subject to the Employee Retirement Income Security Act of 1974 and that invests in an investment limited partnership of which Stonepine is general partner, to use the “alternative reporting option” to report Stonepine’s compensation as “eligible indirect compensation” on the Schedule C of the plan’s Form 5500 Annual Return/Report of Employee Benefit Plan.

Relationships with each Fund are terminable on expiration of the Fund’s term, its dissolution or the termination of Stonepine as the general partner or investment adviser to the Fund. Generally, each investor may withdraw from Stonepine Capital on specified prior written notice, on the last day of any calendar quarter. If an investor in Stonepine Capital makes a withdrawal before the day preceding the first anniversary of the capital contribution to which the withdrawn amount relates, that investor must pay Stonepine Capital a withdrawal fee of 5% of the amount withdrawn (as detailed in Stonepine Capital’s governing documents). An investor who withdraws from a Fund on a date other than the last day of a quarter does not receive a refund of the management fee previously paid. Investors in an SPV may be subject to more favorable liquidity provisions than Stonepine Capital.

Each Fund is responsible for its own costs and expenses, including trading costs and expenses (such as brokerage commissions, expenses related to short sales, and clearing and settlement charges), research expenses, ongoing legal, audit, bookkeeping fees and expenses, and the fees and expenses charged by the Fund’s administrator and sub-administrator for their accounting, bookkeeping and other services.

Stonepine allocates any expenses that relate to multiple Funds among all of those Funds as it deems appropriate in its reasonable discretion.

Stonepine bears its own operating, general, administrative and overhead costs and expenses, other than the expenses described in the preceding two paragraphs. All or part of these costs and expenses may be paid, however, by securities brokerage firms that execute the Funds’ securities trades, as discussed in Item 12 below.

Item 6. Performance-Based Fees and Side-By-Side Management

Stonepine receives the performance-based allocations described in Item 5 from all of the Funds. Any differences in the performance-based allocation rates applicable to the various Funds creates an incentive for Stonepine to favor Funds with higher performance allocation rates. See Item 11 for a summary of Stonepine’s investment allocation policy.

Item 7. Types of Clients

Stonepine provides investment advice to investment funds. Investors in the Funds generally are required to invest a minimum of \$500,000, but Stonepine may waive, and has waived, this minimum.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Investment Strategy. Stonepine Capital's investment objective is to achieve superior absolute returns while preserving capital. The SPVs' investment objective differs because their investments are expected to be more concentrated than Stonepine Capital. There can be no assurance that any Fund will achieve its investment objectives. Stonepine seeks to achieve its investment objective primarily by investing its assets in publicly traded healthcare companies. Stonepine's investment focus is companies with commercial stage products generating sustainable revenue and companies with substantial financial assets (such as cash and royalty income streams). By focusing on companies with these characteristics, Stonepine seeks to mitigate many of the scientific, clinical, regulatory and financing risks often associated with development stage firms. However, Stonepine may opportunistically invest in development-stage companies.

Stonepine looks for companies whose valuations reflect a material discount to their fundamental value in the healthcare space. Notwithstanding the highly specialized nature of these companies' products and operations, Stonepine's evaluation of investment opportunities consists primarily of a financial and business analysis, as opposed to a primary focus and evaluation of the science behind a company's products. Stonepine typically prefers to invest in companies at a price reflecting a discount to current commercial and financial assets alone.

The investment strategies summarized above represent Stonepine's current intentions, are general in nature and are not exhaustive. There are no limits on the types of securities in which Stonepine may take positions on behalf of the Funds, the types of positions that it may take, the concentration of its investments or the amount of leverage that it may use. Stonepine may use any trading or investment techniques, whether or not contemplated by the expected investment strategies described above. In addition, there are limitations in describing any investment strategy due to its complexity, confidentiality and indefinite nature. Depending on conditions and trends in securities and commodities markets and the economy generally, Stonepine may pursue any objectives or use any techniques that it considers appropriate and in the Funds interests.

Risk Factors. Investing in securities involves risk of loss that investors should be prepared to bear. Below are some of the risks that investors should consider before investing in any Fund. Any or all of such risks could materially and adversely affect investment performance, the value of any Fund or any security held in a Fund, and could cause investors to lose substantial amounts of money. Below is only a brief summary of some of the risks to the Funds and investors. Potential investors should review a Fund's offering materials carefully and in their entirety, and consult with their professional advisers before deciding whether to invest.

- The success of each Fund's investment strategy depends on the skill and acumen of Stonepine's portfolio managers, Jon M. Plexico, Timothy P. Lynch and Matthew B.

Carroll, in selecting investments. If any of them should cease to participate in Stonepine's activities, its ability to select attractive investments and manage the Funds could be impaired.

- The Funds may not achieve their investment objectives. A strategy may not be successful and investors may lose some or all of their investment.
- The Funds are concentrated in securities of healthcare sector companies (including but not limited to biotechnology and/or biopharmaceuticals). Stock prices in this sector have been, and Stonepine expects that they will continue to be, highly volatile. The liquidity of some stocks in this sector is also unpredictable. Some of these companies have limited operating histories and the market value of many of these companies is based on expectations about future products and research progress. Many companies in the healthcare sector are subject to competition and rapid technological developments that may make a company's products or services obsolete in a short period of time. Companies in the healthcare sector are subject to extensive government regulation and such regulation is subject to change. The sector is also significantly affected by developments in payment and reimbursement arrangements for particular types of medical tests and treatments.
- Companies in the healthcare sector are subject to unique risks due to increasing regulation of, and government intervention into, the healthcare industry and the complexity raised by ethical issues. Rapid advances in genetic engineering have also resulted in widely disparate regulations on bio-engineered medical products. Changes in the regulatory environment will affect healthcare companies in ways that are not currently anticipated.
- Investor sentiment on the market, an industry or an individual stock, fixed income or other security is not predictable and can adversely affect an account's investments.
- A Fund may hold stocks that disappoint earnings expectations and decline, and may short stocks that beat earnings expectations and rise.
- Stonepine may not be able to obtain complete or accurate information about an investment and may misinterpret the information that it does receive. Stonepine also may receive material, non-public information about an issuer that prevents it from trading securities of that issuer for a Fund when it could make a profit or avoid losses.
- Stonepine takes positions in securities of small, unseasoned companies that are less actively traded and more volatile than those of larger companies. These companies are riskier because they often lack the management experience, financial resources, product diversification, markets, distribution channels and competitive strengths of larger companies. They also may experience substantial variations in operating results from period to period. The stock of smaller companies may be hard to borrow, making it difficult for Stonepine to take short positions as large as would be desirable.

- Stonepine may engage in an activist strategy to negotiate or litigate with management of portfolio companies and other third parties. Such negotiations involve skills as well as expenses not typically associated with investment management. In executing a particular strategy, Stonepine may need to retain third party experts, including, but not limited to, forensic auditors and accountants, due diligence experts, executive search firms, litigation or other legal or regulatory counsel and proxy solicitation firms, among others. The Funds bear the costs of such third party experts and these costs could be substantial.
- An officer, employee or other representative of Stonepine may serve as a director of a portfolio company. In such person's capacity as an officer or director, such person will become subject to fiduciary or other duties that adversely affect a Fund. Additionally, during periods when directors of such a company and their affiliates are prohibited from purchasing or selling securities of that company, a Fund would be prohibited from buying or selling such securities when such activity may be beneficial to such Fund.
- A Fund may participate in transactions with a company of which Stonepine's personnel or advisers are directors, or exercise the Fund's voting or consent rights with respect to any such company. If a dispute arises from any of those activities or with respect to any other matter arising from any such person's service on a board, a Fund or Stonepine may incur significant defense costs and liabilities. Beyond direct costs, such disputes would adversely affect the Funds in a variety of ways, including by distracting Stonepine personnel and harming relationships between the Funds and such companies.
- Stonepine engages in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security hedged do not always correlate, resulting in losses on both the hedged security and the hedging instrument. Stonepine is not obligated to hedge a Fund's portfolio positions, and it frequently may not do so.
- A Fund may have higher portfolio turnover and transaction costs than a similar fund or account managed by another investment adviser. These costs reduce investments and potential profit or increase loss.
- Stonepine sells securities short, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase.
- Management and stockholders of an issuer may sue short sellers to prevent short sales of the issuer's securities. Stonepine could be subject to such actions, even if they are baseless, and the Funds could incur substantial costs defending them.
- Stonepine uses leverage by borrowing on margin, selling securities short and trading futures and derivatives, which increases volatility and losses greatly in excess of the amount invested. These instruments can be difficult to value. An incorrect valuation could result in losses. Trading on margin also can result in substantial interest charges.
- Stonepine may sell covered and uncovered options on securities. The sale of uncovered options could result in unlimited losses.

- Counterparties such as brokers, dealers, futures commission merchants, custodians and administrators with which Stonepine does business on behalf of the Funds may default on their obligations. For example, a Fund may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.
- Stonepine may cause the Funds to enter into repurchase agreements or reverse repurchase agreements. These instruments can have effects similar to margin trading and leveraging strategies.
- A Fund may invest in ETFs that concentrate heavily in a particular asset category or sector, and international ETFs that specialize in a particular country or region of the world. ETFs may use leverage or short sales. Shareholders of an ETF generally bear all of its expenses, including fees of the investment adviser and custodian, brokerage commissions and legal and accounting fees. As a result, investors pay two levels of advisory fees--Stonepine's and the advisory fee of the investment adviser of the ETF. These fees and expenses may result in a higher investment cost than if an investor invested directly in such ETFs and potentially lower returns.
- Stonepine causes the Funds to invest in securities of non-U.S. issuers, including ADRs and GDRs. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.
- The Funds may acquire a large position in an issuer's securities but nevertheless Stonepine is unlikely to have any control over the issuer's management. In addition, if the Funds hold a large position in an issuer's securities, it could depress the market for those securities. Further, securities laws may restrict the extent to which a Fund may trade the securities of a company of which it is a large shareholder, which could limit the Fund's ability to realize profits on transactions in the securities of such a portfolio company.
- Some Fund positions are illiquid, and Stonepine may not be able to sell such positions.
- A Fund may lend securities to brokers and other institutions to earn additional income. These loans typically are fully collateralized on a daily basis, but the value of the collateral may fall below the value of the loaned securities on any given day. If the other party becomes insolvent or bankrupt, the Fund could experience losses due to insufficient collateralization or due to delays and costs of liquidating the collateral or recovering the securities or payment for the securities. If, in the meantime, the value of the securities changes, the Fund could experience further losses.
- A Fund may invest in restricted securities that are subject to long holding periods or that are not traded in public markets. These securities are difficult or impossible to sell at prices comparable to the market prices of similar publicly-traded securities and may never become publicly traded.

- A Fund's investments may not be diversified. Therefore, a loss in any one position, industry or sector in which a Fund has invested may cause significant losses.
- Changes in economic conditions can affect a Fund's investments and prospects materially and adversely. Global equity markets have periodically experienced sharp declines and high volatility. Credit markets have sometimes tightened significantly, and the stability of several major financial institutions has been affected by these economic conditions. The extent of the impact of the coronavirus pandemic on the U.S. and global capital and financial markets and economies will depend largely on future developments, including the duration of the spread of the outbreak and the policies implemented in connection with restoring business and other activity, all of which are highly uncertain and cannot be predicted. None of these conditions is within Stonepine's control, and it may not anticipate them.
- Stonepine determines the value of the Funds' assets, whether or not a public market exists for such assets, and relies on information about valuation from third parties. If Stonepine's valuation is inaccurate, it might receive more compensation than that to which it is entitled, a new investor in a Fund might receive an interest that is worth less than the investor paid and an investor that is withdrawing assets might receive more than the amount to which the investor is entitled, to the detriment of other investors.
- The Funds and not Stonepine are responsible for any trade errors that Stonepine makes, even when the error hurts the Fund.
- Stonepine and its affiliates and agents generally are not responsible to any Fund or investor for losses incurred in a Fund unless the conduct resulting in such loss breached Stonepine's fiduciary duty to the Fund or investor.
- There is not and will not be an active market for Fund interests. It may be impossible to transfer any such interests, even in an emergency.
- A Fund may not be able to generate cash necessary to satisfy investor withdrawals. Substantial withdrawals in a short period could force Stonepine to liquidate investments too rapidly, and so reduce the size of a Fund that it cannot generate returns or reduce losses.
- A Fund may limit or suspend withdrawals of an investor's assets from the Fund.
- A Fund may establish a reserve for contingencies if Stonepine considers it appropriate. Investors may not withdraw or redeem assets covered by that reserve until it is lifted.
- If the assets that Stonepine and its affiliates manage grow too large, it may adversely affect performance, because it is more difficult for Stonepine to find attractive investments as the amount of assets that it must invest increases.

- No Fund or investor has been represented by separate counsel. The attorneys who represent Stonepine or its manager do not represent Funds or investors. Investors must hire their own counsel for legal advice and representation.
- A Fund may dissolve or expel any investor at any time, even if such actions adversely affect one or more investors.
- Stonepine, an administrator or any government agency may freeze assets that any of them believes a Fund holds in violation of anti-money laundering laws or rules or on behalf of a suspected terrorist, and may transfer such assets to a government agency. None of Stonepine, the Funds or an administrator will be liable for losses related to actions taken in an effort to comply with anti-money laundering regulations.
- The Funds do not intend to make distributions, but intend instead to reinvest substantially all income and gain. Therefore, an investor may have taxable income from a Fund without a cash distribution to pay the related taxes.
- Federal, state and international governments may increase regulation of investment advisers, private investment funds and derivative securities, which may increase the time and resources that Stonepine must devote to regulatory compliance, to the detriment of investment activities.
- Stonepine is not registered with the SEC as a broker-dealer or with the Commodity Futures Trading Commission as a commodity pool operator or commodity trading adviser. The equity interests in the Funds are not registered under the Securities Act of 1933, and the Funds are not registered investment companies under the Investment Company Act of 1940. Stonepine believes that none of these registrations is required because exemptions are available under applicable law. If a regulatory authority deems that any of these registrations is required, Stonepine and the Funds could be subject to expensive legal action and potential termination. Investors in the Funds also do not have certain regulatory protection that they would have if these registrations were in place.
- Stonepine's activities could cause adverse tax consequences to the Funds and investors, including liability for interest and penalties.
- Stonepine's activities may cause an account that is subject to the Employee Retirement Income Security Act of 1974 to engage in a prohibited transaction under that Act.
- If a Fund becomes insolvent, investors may be required to return with interest any distributions and forfeit any undistributed profits.
- Stonepine depends heavily on information systems and technology. A disruption in the infrastructure that supports Stonepine's business, including a disruption involving order management systems, electronic communications or other services that Stonepine or third parties with which it does business use, would affect Stonepine's ability to continue to manage the Funds without interruption.

- Stonepine, the Funds and their service providers may experience cybersecurity attacks that disrupt operations, losses, interfere with net asset value calculations, impede trading, or lead to violations of privacy and other laws, regulatory fines and penalties, reputational damage, reimbursement or other costs.
- Stonepine may receive information that restricts its ability to cause a Fund to buy or sell securities of a company when a Fund otherwise could realize profit or avoid loss.
- Stonepine and its affiliates spend time on activities that compete with any particular Fund without accountability to investors, including investing for other Funds (such as the SPVs) and their own accounts. If Stonepine receives better compensation and other benefits from managing certain Funds, it has incentive to allocate more time to those other activities. These factors could influence Stonepine not to make investments on a Fund's behalf even if such investments would benefit the Fund.
- Stonepine provides certain investors or Funds more frequent or detailed reports, special compensation arrangements and withdrawal rights that it does not provide to other investors or Funds. Because of these different terms, those investors or Funds may from time to time take actions that could adversely affect other Funds and their investors.

Item 9. Disciplinary Information

This Item is not applicable, because Stonepine has no reportable disciplinary information.

Item 10. Other Financial Industry Activities and Affiliations

This Item is not applicable, because Stonepine has no reportable other financial industry activities or affiliations.

Item 11. Code of Ethics, Participation or Interest In Client Transactions and Personal Trading

Stonepine has adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, that establishes standards of conduct for Stonepine's supervised persons. The Code of Ethics includes general requirements that Stonepine's supervised persons comply with their fiduciary obligations to the Funds and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of investor information. It requires supervised persons to comply with the personal trading restrictions described below and periodically to report their personal securities transactions and holdings to Stonepine's Compliance Officer, and requires the Compliance Officer or his delegate to review those reports. It also requires supervised persons to report any violations of the Code of Ethics promptly to the Compliance Officer. Each supervised person of Stonepine receives a copy of the Code of Ethics and any amendments to it and must acknowledge in writing having received those materials. Annually, each supervised person must certify that he or she complied with the Code of Ethics during the preceding year. Investors and prospective investors may obtain a copy of Stonepine's Code of Ethics by contacting Jeff Nunnenkamp at Stonepine.

Under Stonepine's Code of Ethics, Stonepine and its managers, members and employees may personally invest in securities of the same classes as Stonepine purchases for the Funds and may own securities of issuers whose securities Stonepine subsequently purchases for the Funds. This practice creates a conflict of interest in that any of such persons can use his or her knowledge about actual or proposed securities transactions and recommendations for a Fund to profit personally by the market effect of such transactions and recommendations. To address this conflict, except as described in Item 12 regarding aggregating securities transactions, Stonepine and its managers, members and employees typically must obtain pre-approval before engaging in securities transactions in the healthcare sector. Stonepine and its managers, members and employees may, however, buy or sell specific securities for their own accounts based on personal investment considerations aside from company or industry fundamentals, which Stonepine does not believe appropriate to buy or sell for the Funds.

There are conflicts of interest over Stonepine's time devoted to managing any one Fund and allocating investment opportunities among all of the Funds. Stonepine selects investments for each Fund based solely on investment considerations for that Fund. Different Funds may have differing investment strategies and expected levels of trading. Stonepine may buy and sell securities for one or more Funds that it doesn't buy or sell for one or more other Funds, and may buy (or sell) securities for one or more Funds while simultaneously selling (or buying) the same securities for one or more other Funds.

Stonepine may form one or more SPVs to invest in opportunities that Stonepine believes are attractive but are (a) outside of Stonepine Capital's investment strategy, or (b) are appropriate for Stonepine Capital, but too large to allocate solely to that fund, or (c) in Stonepine's judgment not appropriate at that time for Stonepine Capital. Those investment opportunities are called the **"SPV Opportunities."**

Stonepine may determine that an SPV Opportunity is inappropriate to allocate in whole or in part to Stonepine Capital because, among other things, the SPV Opportunity is outside of Stonepine Capital's strategy or, if it falls within Stonepine Capital's strategy, taking the full investment in Stonepine Capital would overweight that position in Stonepine Capital's portfolio or require risk controls that are impracticable to set up within Stonepine Capital, or if the SPV Opportunity involves illiquid securities, Stonepine believes that the lack of liquidity is inappropriate for Stonepine Capital (or some combination of such factors).

When Stonepine identifies an SPV Opportunity, it may offer that opportunity to an existing SPV or form new SPVs for other existing investors, including its principals, as well as new investors. For example, Stonepine may offer an opportunity only to investors that Stonepine believes could commit capital within a short time frame or whose participation Stonepine believes could help facilitate the transaction. For certain SPV Opportunities, confidentiality may be important, in which case Stonepine would only approach a small number of investors.

Stonepine generally expects to liquidate SPV Opportunities that are appropriate for Stonepine Capital and the SPVs on a *pari passu* basis, although Stonepine may purchase or liquidate any such position disproportionately between Stonepine Capital and the SPVs as appropriate (e.g., to rebalance a Fund's positions due to new investments, to satisfy withdrawal requests or the

request of an SPV investor). Any different timing of purchases or sales between the Funds may adversely affect the price at which a Fund's position is bought or sold.

Item 12. Brokerage Practices

Best Execution. Stonepine has complete discretion in selecting the broker that it uses for the Funds' transactions and the commission rates that the Funds pay such brokers. Stonepine generally allocates portfolio transactions for the Funds to brokers (which term includes futures commission merchants) based on best execution. Stonepine's analysis of best execution takes into account various factors, such as, for example:

- net price;
- outsourced trading expertise and services of brokers that provide trading desks to their customers;
- online pricing;
- special execution capabilities;
- willingness to execute related or unrelated difficult transactions in the future;
- willingness to commit capital;
- knowledge of market participants;
- block trading and block positioning capabilities;
- efficiency of execution and error resolution;
- order of call;
- clearance, settlement and reputation;
- financial strength and stability;
- the availability of stocks to borrow for short trades; and
- confidentiality.

Stonepine may also purchase from a broker or allow a broker to pay for the following (each a "soft dollar" relationship):

- research reports, services and conferences, including third-party research fees;
- economic and market information; portfolio strategy advice; industry and company comments;
- technical data;
- quotation services;
- performance measuring data; and
- other brokerage and research goods and services that benefit Stonepine, its affiliates and the Funds.

Stonepine causes the Funds to pay brokerage commissions (or prices on principal trades) in excess of that which another broker might charge for effecting the same transaction in recognition of the value of the research and brokerage goods and services described above that are provided by that broker. Accordingly, the Funds may be deemed to be paying for research and these other services with "soft" or commission dollars. Section 28(e) of the Securities Exchange Act of 1934 provides a "safe harbor" to investment advisers who use commission dollars of their advised accounts to obtain investment research and brokerage services that

provide lawful and appropriate assistance to the adviser in performing investment decision-making responsibilities. Stonepine intends to conduct brokerage activities within the safe harbor of section 28(e) except with respect to certain administrative goods and services the Fund's prime brokers or custodians may provide as described below.

Stonepine may direct brokerage transactions to brokers who refer prospective investors to the Funds.

Stonepine may use the investment information and other services that it receives from brokers that execute a Fund's trades in servicing all of its Funds, but it may not use all such information and services for the Fund whose trading generated the credits used to obtain the information or other services. Stonepine believes that allocating brokerage transactions in this manner helps the Funds obtain research and execution capabilities and provides other benefits to the Funds.

The relationships with brokers that provide soft dollar services to Stonepine and its affiliates influence Stonepine's judgment in allocating brokerage transactions and create a conflict of interest in using the services of those brokers to execute the Funds' brokerage transactions. The brokerage fees that the Funds pay benefit Stonepine at the expense of the Funds, to the extent that soft dollars are used to pay the expenses of the Funds that are not otherwise reimbursable by the Funds. Stonepine believes that these relationships benefit both it and the Funds, but the Funds' trades executed through these firms or any other broker may or may not be at the best price otherwise available. Moreover, if any particular Fund uses most or all of the soft dollars generated by its trades for its own purposes, another Fund's soft dollars would be used disproportionately to purchase products or services that Stonepine uses to service other Funds. Prospective investors who consider such soft dollar practices material to their investment decision should request Stonepine's most recent information on soft dollar practices.

Stonepine addresses these conflicts of interest by annually evaluating the trade execution services that it receives from the brokers it uses to execute the Funds' trades. Such evaluation includes comparing those services to the services available from other brokers. Stonepine considers, among other things, alternative market makers and market centers, the quality of execution services, the value of continuing with various soft dollar services and adding or removing brokers, increasing or decreasing targets for each broker and the appropriate level of commission rates.

Prime Brokers and Custodians. Stonepine has retained certain brokerage firms to serve as the prime brokers and custodians for the Funds. The services that they provide as prime broker and custodian includes providing custody, margin financing, clearing, settlement and stock borrowing in accordance with the terms of the prime brokerage and custody agreements entered into with the Funds. Stonepine also receives other services from them. These services may include: technology (such as internet access, IT support, Bloomberg connections, wireless networking, email archiving and disaster recovery systems), capital introduction services, portfolio reporting and access to electronic communications networks. These arrangements may be deemed to be soft dollar arrangements. Stonepine expects to use a substantial portion of these services for research and trading on behalf of the Funds, but some may be used for administrative purposes, which would not be within the safe harbor of section 28(e). Although many prime brokers and custodians provide similar services to investment advisers in exchange

for brokerage, custody and clearance fees and other charges, if Stonepine did not receive these services from them, Stonepine would be required to pay for all or some of them. Stonepine expects to direct some securities transactions to these firms and their affiliates, but is not required to direct a particular number of trades to them or to continue to use them as any Fund's prime broker and custodian. However, it has an incentive to do so based on their prior and continued services.

A Fund's obligations to its custodians and their affiliates are secured by a first priority perfected security interest over all of that Fund's assets held in custody by such custodians, and they and their affiliates may transfer to themselves all rights, title and interest in and to those assets as collateral and may deal with, lend, dispose of, pledge or otherwise use all such collateral for their own purposes. If any such transfer occurs, the Fund will rank as such custodian's (or affiliate's) unsecured creditor. If such custodian or affiliate becomes insolvent, the Fund may not be able to recover its securities in full. In addition, the Fund's cash held by a custodian may not be segregated from such custodian's own cash and, if not so segregated, may be used by such custodian or affiliate in the course of its business and the Fund will therefore rank as an unsecured creditor in relation thereto.

If a Fund's investments are registered in the name of a custodian or affiliate due to the nature of the law or market practice of a particular jurisdiction, such investments will not be segregated from the custodian's or affiliate's own investments. If such custodian or affiliate becomes insolvent, that Fund may not be able to recover its investments in full.

Stonepine may select a broker to act as a "trading broker" for a Fund. In such cases, Stonepine or the trading broker may select the executing broker, and the trading broker would then place or manage the order. The trading broker is compensated (through commissions or otherwise) for this trading service in addition to the commissions paid to the executing brokers. As with all soft dollar arrangements, using a trading broker in this manner causes the Fund to pay brokerage commissions, mark-ups and other transactions fees that are higher than might otherwise be paid if brokers were selected solely based on lowest execution cost. In addition, using a trading broker (rather than an employee of Stonepine) to provide those services may allow Stonepine to reduce its own personnel expenses.

Trade Aggregation. Stonepine may aggregate sale and purchase orders of securities held by a Fund with similar orders being made simultaneously for other Funds if, in its judgment, such aggregation is reasonably likely to result in an overall economic benefit to the Funds in the aggregate, based on an evaluation that the Funds will benefit from relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, Stonepine purchases or sells securities for some Funds and simultaneously purchases or sells like securities for other Funds. Such transactions may be at slightly different prices, because of the volume of securities purchased or sold. In such event, a Fund may be charged or credited, as the case may be, the average transaction price of all securities purchased or sold in such transactions. As a result, the price may be less favorable to that Fund than it would be if similar transactions were not executed concurrently for other Funds.

Portfolio Rebalancing. Periodically, Stonepine may seek to adjust or rebalance the portfolios of the Funds by effecting cross trades between or among those accounts (i.e., causing one or more Funds to sell securities to one or more of other Funds). In effecting such cross trades, Stonepine seeks to rebalance the Funds in connection with new investments and withdrawals or redemptions from the Funds and in other circumstances when Stonepine believes in good faith that such transactions are consistent with the objections of the Funds.

Portfolio Turnover. Each Fund's investment program includes trading as well as investments, and frequently includes short-term market considerations. The turnover of the Funds' portfolios (and the concomitant brokerage, custodial and other transaction costs and expenses) may be greater than the turnover rates (and transaction costs) of other types of investment vehicles.

Item 13. Review of Accounts

Stonepine's portfolio managers review the Funds' portfolios on an ongoing basis. Those reviews take into account such matters as asset allocation, cash management, the prospects of individual securities, changes in issuer earnings, industry outlook, market outlook and price levels. Investors receive monthly statements stating performance for the month and year to date.

Item 14. Client Referrals and Other Compensation

Stonepine engages solicitors to whom it pays cash or a portion of the advisory fees paid by investors referred by those solicitors. In such cases, this practice is disclosed in writing to the applicable investors and Stonepine complies with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, to the extent required by applicable law.

Item 15. Custody

Not applicable.

Item 16. Investment Discretion

Stonepine has discretionary authority to manage the Funds' assets pursuant to a grant of authority in each Fund's limited partnership agreement or investment management agreement. Fund investors generally may not place any limits on Stonepine's authority beyond those set forth in the Funds' offering and governing documents.

Item 17. Voting Client Securities

Stonepine decides whether to vote a proxy on behalf of a Fund after considering whether the proposal will have a material effect on Stonepine's investment strategy. This analysis sometimes leads Stonepine to determine not to vote proxies. In determining whether to vote a proxy, Stonepine considers a number of factors, including:

- the proposal's economic effect on shareholder value;
- the threat that the proposal poses to existing rights of shareholders;
- the dilution of existing shares that would result from the proposal;
- the effect of the proposal on management or director accountability to shareholders; and

- if the proposal is a shareholder initiative, whether it wastes time and resources of the company or reflects the grievance of one individual.

Stonepine abstains from voting proxies when Stonepine believes that it is appropriate to do so.

If a material conflict of interest over proxy voting arises between Stonepine and a Fund, Stonepine will vote all proxies in accordance with the policy described above. If Stonepine determines that this policy does not adequately address the conflict of interest, Stonepine will notify the Fund of the conflict and request that the Fund consent to Stonepine's intended response to the proxy solicitation. If the Fund consents to Stonepine's intended response or fails to respond to the notice within a reasonable time specified in the notice, Stonepine will vote the proxy as described in the notice. If the Fund objects in writing to Stonepine's intended response, Stonepine will vote the proxy as the Fund directs.

An investor can obtain a copy of Stonepine's proxy voting policy and a record of votes cast by Stonepine on behalf of the applicable Fund by contacting Stonepine.

Item 18. Financial Information

This Item is not applicable because Stonepine is not required to report financial information.

Item 19. Requirements for State-Registered Advisers

This Item is not applicable because Stonepine is not registered as an investment adviser with any state.

Privacy Policy

Stonepine and the Funds:

- collect non-public personal information about investors from the following sources:
 - information received from investors on subscription applications or other forms, and
 - information about investors' transactions with Stonepine, its affiliates, the Funds or others;
- do not disclose any non-public personal information about investors or former investors to anyone, except as permitted by law. Such disclosure includes disclosure to service providers such as auditors, tax preparers, prime brokers, custodians, administrators and attorneys that need access to such information so that Stonepine and the Funds can conduct their affairs;
- restrict access to non-public personal information about investors to their employees who need to know that information to provide services to clients; and
- maintain physical, electronic and procedural safeguards that comply with federal standards to guard clients' and investors' personal information.

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