



YM BioSciences Inc.
Letter to Shareholders
Fiscal 2009 Fourth Quarter and Year End, ended June 30th, 2009

Dear Shareholders,

Just weeks ago we received clearance from the US Treasury Department to extend our US clinical program for nimotuzumab, permitting us to conduct trials in any cancer indication beyond the Phase II pediatric glioma trial we have ongoing in ten sites in the US as well as in Canada and Israel. We and our licensees in Europe, Japan, Singapore and South Korea currently have a combined total of 11 Phase II and III trials underway and as a consequence of this license we have requested clearance from the US FDA to expand some of these trials to include US sites as well. In particular, I would like to thank US Senate Committee on Foreign Relations Chairman Senator John Kerry (D-MA), Western Hemisphere Subcommittee Chairman Senator Chris Dodd (D-CT) and Senate Committee on Foreign Relations Ranking Member Senator Richard Lugar (R-IN) for their extensive support of our application.

Obtaining this clearance is a transformative event for nimotuzumab and highlights the significant efforts made by YM staff in fiscal 2009 to advance our lead drug in an aligned effort with our licensees. While nimotuzumab is now approved for marketing in 21 countries, and well advanced clinically in numerous other regions, accessing US patients is valuable to YM's strategy for the drug. Data on nimotuzumab's mechanistic difference and further efficacy results presented this year at AACR and ASCO, the leading peer-reviewed oncology venues, have gone some distance to persuade the scientific and medical community that our drug has, indeed, the prospect of offering a density-selective mode of action, targeting tumor cells while avoiding normal tissues, challenging the current, prevalent tenet for the class of EGFR inhibitors that toxicity cannot be dissociated from efficacy. With the encouraging data presented at ASCO 2009 describing an efficacy profile for nimotuzumab that compares favorably with historical data presented for Erbitux® in a similar setting, but without the latter's associated toxicities, we believe once a broader group of key US oncologists gain experience investigating nimotuzumab in their patients, the benefits of our drug and its potential for best-in-class status will be more fully appreciated by this community as well as by potential partners and investors.

Our first priority is to discuss our IND submissions with the FDA to include US patients in our randomized, double-blind Phase II trial of nimotuzumab in non-small-cell lung cancer (NSCLC) patients ineligible for radical chemotherapy and a parallel Phase II trial we are conducting in patients with brain metastases from NSCLC, both of which YM initiated during the 2009 fiscal year. Our development plans may also include extending one of the Phase III trials being conducted worldwide into the US, such as the multinational 710-patient Phase III trial of nimotuzumab in the adjuvant setting in head and neck cancer. This trial is being conducted by the National Cancer Centre of Singapore and supported by our licensee, Innogene Kalbiotech Ltd., which is also conducting ongoing Phase II trials in locally-advanced head and neck cancer and cervical cancer.

Other ongoing Phase III trials for nimotuzumab include a randomized study in adult glioma patients, a single-arm Phase III in first-line pediatric glioma and a randomized Phase IIb/IIIa trial in patients with advanced pancreatic cancer being conducted by our licensee in Europe, Oncoscience AG. Two of these trials may report results in the first half of calendar 2010. In addition, our licensee for nimotuzumab in Japan, Daiichi-Sankyo Co., Ltd., is completing two Phase II trials that should also report results in calendar 2010 that will inform subsequent pivotal trial designs. The first of these trials is an 80-patient Phase II randomized, open-label trial

evaluating nimotuzumab in advanced or recurrent gastric cancer, being conducted jointly by Daiichi and our licensee in Korea, Kuhnle Pharmaceutical Co., reflecting the cooperative strategic approach of YM and its licensees to the global development of nimotuzumab. Daiichi also recently commenced enrollment of a Phase II trial evaluating nimotuzumab in combination with radiation therapy/cisplatin/vinorelbine in first-line, curative-intent patients with Stage III non-small-cell lung cancer (NSCLC).

In parallel with our clinical activities we continue to seek a further extension of our license from the US Treasury Department to make nimotuzumab available to US patients both in expanded clinical trials and commercially, should we obtain marketing approval from the FDA. Licenses with commercialization rights have been previously granted to two companies seeking to market Cuban-origin therapeutics in the US and we are referencing these experiences in our own efforts. Obtaining this license would be a compelling event for potential industry partners who would help broaden access to nimotuzumab for US patients in trials. Also, discussions would be further strengthened by the prospect of positive randomized data coming available in calendar 2010 positioning nimotuzumab as potentially the best-in-class offering in the EGFR drug class.

YM's business is to be a development company, using our expertise to identify and advance cancer-related products at various stages of clinical advancement. In keeping with this fundamental strategy, in addition to advancing nimotuzumab, and seeking partners to embark on a phase III program for AeroLEF®, YM constantly reviews and considers the acquisition of additional molecules for development as a normal course of its business. These molecules may be licensed or companies owning molecules and their intellectual property may be acquired. YM has made two corporate acquisitions in the past four years consistent with this corporate strategy.

As we launch into fiscal 2010, I look forward to the times ahead for our Company - the clinical programs we have going today are expected to yield volumes of data in the current fiscal year. On behalf of the Board and Management of YM, we thank you for your support.

Sincerely,



David G.P. Allan
Chairman and CEO
YM BioSciences Inc.
Date: September 25th, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year and three months ended June 30, 2009

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the accompanying audited consolidated financial statements for the years ended June 30, 2009, 2008 and 2007 and notes thereto.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada (Canadian GAAP). These accounting principles differ in certain respects from United States GAAP. The differences, as they affect our consolidated financial statements, are set out in Note 16 to the audited consolidated financial statements for the fiscal year ended June 30, 2009. All amounts presented are in Canadian dollars unless otherwise stated. In this report, "the Company", "YM", "we", "us", and "our" refer to YM BioSciences Inc. and its consolidated subsidiaries. This document is current in all material respects as of September 24, 2009.

FORWARD-LOOKING STATEMENTS

This MD&A contains or incorporates by reference forward-looking statements. All statements, other than statements of historical fact included or incorporated by reference and that address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking statements. While any forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results may vary, sometimes materially, from any estimates, predictions, projections, assumptions or other suggestions of future performance herein. Undue reliance should not be placed on these forward-looking statements which are based upon our assumptions and are subject to known and unknown risks and uncertainties and other factors, including those discussed under "Risk and Uncertainties" in this MD&A, some of which are beyond our control, which may cause actual results, levels of activity and achievements, to differ materially from those estimated or projected and expressed in or implied by such statements. We undertake no obligation to update publicly or revise any forward-looking statements contained herein, and such statements are expressly qualified by this cautionary statement. See "Risk and Uncertainties".

OVERVIEW OF BUSINESS

YM BioSciences Inc. (the "Company") is engaged in the licensing and commercialization of drug products and technologies from original research. The Company evaluates drug projects, technologies, and products and the prospective markets for them and obtains, as appropriate, a license for the further development and marketing of the products.

The Company expends money on the evaluation, in-licensing and further development of certain drug products and on providing out-licensing, marketing, clinical development and regulatory affairs skills, intellectual property management and funding to facilitate the introduction of the licensed products into the principal pharmaceutical markets. This involves taking the products researched and developed by others and taking them through the clinical and regulatory processes in Canada and elsewhere in order to achieve regulatory approval for their sale in the markets to which the Company has rights.

The Company will incur expenditures either directly or pursuant to agreements with certain licensees or partners. These expenditures will include: costs associated with the conduct of clinical trials; the collection and collation of data; the organizing of data and market information for each product; the development and production of non-confidential and confidential dossiers on each licensed product and the marketing of the information contained in the dossiers to prospective commercialization partners. The Company plans to generate its revenues from out-licensing the licensed products or from the direct commercialization of the products.

The Company does not have its own manufacturing facilities but it may participate in ownership of manufacturing facilities and the marketing of the products if appropriate opportunities are available.

SELECTED ANNUAL FINANCIAL INFORMATION

	<u>Year ended June 30,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Out-licensing revenue	4,543,280	4,859,085	4,407,890
Interest income	1,070,264	2,584,080	3,239,540
Expenses:			
Licensing and product development	14,172,845	15,631,550	28,758,469
General and administrative	4,839,870	6,831,955	6,978,336
Impairment	-	-	1,829,538
Loss for the year	(13,069,466)	(14,885,744)	(31,730,240)
Deficit, beginning of year	(133,182,485)	(118,296,741)	(86,566,501)
Deficit, end of year	(146,251,951)	(133,182,485)	(118,296,741)
Basic and diluted loss per common share	(0.23)	(0.27)	(0.57)
Total Assets	46,069,936	63,073,239	81,739,800

RESULTS OF OPERATIONS

Year ended June 30, 2009 compared to year ended June 30, 2008

Out-licensing Revenue

Revenue from out-licensing decreased by \$316 thousand for the year ended June 30, 2009 compared to the year ended June 30, 2008. The decrease is mainly attributable to the 12 month extension of the revenue recognition period for the initial payment from Daiichi Pharmaceutical Co., Ltd (“Daiichi”), as a result of a revision to the estimated period of the collaboration. The majority of YM’s out-licensing revenue comes from five out-licensing agreements with third party licensees. The licensing agreements include a non-refundable up-front payment from the licensees. The initial license fees have been recorded as deferred revenue and are being recognized over the estimated period of collaboration until the milestone associated with commercial approval of the first indication in the licensee’s territory has been satisfied and the relevant payment received. The largest of these contracts was entered into in July 2006 with Daiichi, a subsidiary of Daiichi Sankyo Co., Ltd. The agreement licensed the commercial rights for nimotuzumab for the Japanese market and included a non-refundable up-front payment from Daiichi to the Company of \$16.227 million. This initial license fee has been recorded as deferred revenue and is being recognized over the revised estimated period of collaboration of five years. The Company also began receiving royalty payments from a limited sales program in Europe in the fourth quarter of fiscal 2008.

Interest Income

Interest income decreased by \$1.514 million in the year ended June 30, 2009 compared to the year ended June 30, 2008. Interest income decreased as the Company drew on its cash and short-term investment balances to fund its operations, and due to the dramatic decline in interest rates.

Licensing and Product Development Expenses

Licensing and product development expenses for the year ended June 30, 2009 decreased by \$1.459 million compared to the year ended June 30, 2008. In addition to the changes described below, core expenses for licensing and product development decreased by \$1.205 million for the year ended June 30, 2009. This was mainly caused by decreases in salaries and travel expenses as a result of a reduction of staff in the U.S. office.

Nimotuzumab

Costs associated with development activities for nimotuzumab increased by \$889 thousand to \$6.048 million for the year ended June 30, 2009, compared to the year ended June 30, 2008. The increase was due mainly to two new clinical trials, one for brain metastases from non-small cell lung cancer (NSCLC) and the other for NSCLC patients ineligible for radical chemotherapy, which were initiated during fiscal 2009. These expenses were partially offset by the decrease in expenditures for the phase II pediatric pontine glioma trial and monkey toxicology studies.

AeroLEF™

Costs associated with development activities for AeroLEF™ decreased by \$260 thousand to \$1.741 million for the year ended June 30, 2009 as compared to the year ended June 30, 2008. The decrease was primarily due to the shift from clinical activity in fiscal 2008, to new marketing, and out-licensing initiatives, as well as clarifying our regulatory position in Europe, in fiscal 2009.

Tesmilifene

Costs related to development activities for tesmilifene, have decreased by \$883 thousand to \$432 thousand for the year ended June 30, 2009 compared to the year ended June 30, 2008. The decrease in spending for the current fiscal year resulted mainly from the curtailment of development subsequent to the termination of the DEC study in January 2007 and from lower intellectual property costs. Fiscal 2008 costs were associated with closing out the DEC study and completing the PK studies. Fiscal 2009 costs were related to the closing of the PK studies.

General and Administrative Expenses

General and administrative expenses have decreased by \$1.992 million to \$4.840 million for the year ended June 30, 2009, compared to the year ended June 30, 2008. This was due mainly to lower stock based-compensation expense of \$761 thousand in fiscal 2009 compared to \$2.064 million in fiscal 2008, and lower audit fees by \$140 thousand since we do not require a SOX audit this fiscal year end. In addition, expenditures for consulting, legal fees, salaries, and investor relations were also lower for the year ended June 30, 2009.

Year ended June 30, 2008 compared to year ended June 30, 2007

Out-licensing Revenue

Revenue from out-licensing increased by \$451 thousand for the year ended June 30, 2008 compared to the year ended June 30, 2007. The increase in revenue was due to the out-licensing agreement entered into at the end of July 2006 with Daiichi. The agreement licensed the commercial rights for nimotuzumab for the Japanese market and included a non-refundable up-front payment from Daiichi to the Company of \$16.227 million. This initial license fee was recorded as deferred revenue and was being recognized over the estimated period of collaboration of four years. The Company also recognized royalty revenues based on a limited sales program in Europe.

Interest Income

Interest income decreased by \$655 thousand in the year ended June 30, 2008 compared to the year ended June 30, 2007. Interest income decreased as the Company drew on its cash and short term investment balances to fund its operations.

Licensing and Product Development Expenses

Licensing and product development expenses for the year ended June 30, 2008 decreased by \$13.127 million compared to the year ended June 30, 2007. In addition to the specific licensing and product development costs addressed below, there was a significant decrease in licensing and product development salary expenses. Salary expenses including termination costs were \$2.039 million less in fiscal 2008 compared to fiscal 2007 as the Company reduced development staff following the termination of the DEC study.

Nimotuzumab

Costs associated with development activities for nimotuzumab decreased by \$784 thousand to \$5.159 million for the fiscal year ended June 30, 2008 compared to \$5.943 million for the year ended June 30, 2007.

The major costs in fiscal 2007 were associated with the clinical trial in Head & Neck cancer which was completed in fiscal 2007. Expenses in fiscal 2008 were primarily associated with the monkey toxicity study, the Phase II clinical trial in colorectal cancer, and the Phase II clinical trial in pediatric diffuse incurable pontine glioma. All of these activities began in fiscal 2008 and continued into fiscal 2009.

AeroLEF™

Costs associated with development activities for AeroLEF™ decreased by \$909 thousand to \$2.001 million for the fiscal year ended June 30, 2008 compared to \$2.910 million for the year ended June 30, 2007. Last year's costs were associated with the Phase IIb study in acute pain. In fiscal 2008, the costs included transferring the manufacturing to a contract manufacturer in the U.S. and preparing the submissions to the U.S. F.D.A.

Tesmilifene

Costs related to development activities for tesmilifene for the year ended June 30, 2008 decreased by \$6.193 million to \$1.315 million compared to \$7.508 million for the prior year. In the fiscal year ended June 30, 2007 the Company was completing a Phase III clinical trial (DEC) and gearing up for a FDA submission. With the termination of this study, development of tesmilifene halted at the end of January 2007 except for completing a pharmacokinetic study and, as a result, the development costs for fiscal 2008 are significantly lower compared to the same period last year. Costs in fiscal 2008 consisted mainly of winding down the DEC study, completing the PK studies, and maintaining the patent portfolio.

General and Administrative Expenses

General and administrative expenses decreased by \$146 thousand to \$6.832 million for the year ended June 30, 2008 compared to the prior year. Stock option expense increased by \$347 thousand from \$1.717 million for the year ended June 30, 2007 to \$2.064 million for the year ended June 30, 2008. This increase was offset by reductions in other expenses such as consulting and legal costs.

Fourth Quarter – Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

Out-licensing Revenue

Out-licensing revenue for the quarter ended June 30, 2009 of \$720 thousand decreased by \$700 thousand compared to \$1.420 million in the same quarter in the prior year. This is mainly because the recognition period for the initial payments for the Daiichi and Kuhnli contracts were extended by 12 months effective January 1, 2009 and the recognition period for the IGK contract ended in December 2008, reducing the amount recognized in the quarters following.

Interest Income

Interest income has decreased by \$483 thousand to \$61 thousand for the three months ended June 30, 2009 compared to \$544 thousand in the same period in the prior year. Interest income decreased as the Company drew on its cash and short term investment balances to fund its operations, and due to the dramatic decline in interest rates.

Licensing and Product Development Expenses

Licensing and product development expenses decreased by \$932 thousand to \$2.647 million for the fourth quarter ended June 30, 2009 compared to the same period last year. In addition to the changes described below, there were also decreases in salaries and travel expenses as a result of a reduction of staff in the U.S. office.

Nimotuzumab

Costs associated with development activities for nimotuzumab were \$1.314 million for the three months ended June 30, 2009, compared to \$1.534 million for the three months ended June 30, 2008. The 2008 costs were primarily related to the completion of the monkey toxicity study, the Phase II clinical trial in colorectal cancer, and the Phase II clinical trial in pediatric diffuse incurable pontine glioma. The 2009 costs were due mainly to two new clinical

trials, one for brain metastases from non-small cell lung cancer (NSCLC) and the other for NSCLC patients ineligible for radical chemotherapy, which were initiated during this fiscal year.

AeroLEF™

AeroLEF™ expenses have decreased by \$174 thousand to \$185 thousand for the three months ended June 30, 2009 compared to the same period in the prior year. The decrease was primarily due to the shift from clinical activity in fiscal 2008, to new marketing and out-licensing in fiscal 2009.

Tesmilifene

Costs related to tesmilifene totaled \$13 thousand for the three months ended June 30, 2009, a decrease of \$191 thousand compared to \$204 thousand in the same quarter of the previous year. The decrease in spending for the current quarter resulted mainly from the curtailment of development subsequent to the termination of the DEC study in January 2007 and from lower intellectual property costs. Q4 2008 costs were associated with closing out the DEC study and continuing the PK studies, as well as IP management. Q4 2009 costs were related to the closing of the PK studies.

General and Administrative Expenses

General and administrative expenses for the fourth quarter of fiscal 2009 were \$1.309 million, which is comparable to \$1.306 million for the same quarter in the prior year.

SUMMARY OF QUARTERLY RESULTS

	Revenue and Interest Income	Net Loss	Basic and diluted loss per common Share
June 30, 2009	\$ 780,925	\$ (3,264,030)	\$ (0.06)
March 31, 2009	\$ 977,762	\$ (3,474,839)	\$ (0.06)
December 31, 2008	\$ 2,197,291	\$ (3,174,385)	\$ (0.06)
September 30, 2008	\$ 1,657,566	\$ (3,156,212)	\$ (0.06)
June 30, 2008	\$ 1,964,901	\$ (2,962,900)	\$ (0.05)
March 31, 2008	\$ 1,777,864	\$ (3,818,647)	\$ (0.07)
December 31, 2007	\$ 1,883,075	\$ (4,479,888)	\$ (0.08)
September 30, 2007	\$ 1,817,325	\$ (3,624,309)	\$ (0.06)

In general, revenue remained steady over the first five quarters ending September 30, 2008, but changed in the last three quarters. Revenue consists of interest earned and licensing revenue. Licensing revenue results primarily from recognition, over time, of non-refundable up-front payments from out-licensing agreements plus milestone payments. Revenue decreased in the quarters ended March 31, 2009 and June 30, 2009 because the payment received for one contract was fully recognized in the quarter ended December 2008 and because the recognition period for the initial payment for the Daiichi contract was extended by 12 months effective January 1, 2009, reducing the amount recognized in the quarters following. In the quarter ended December 31, 2008 we received a one-time milestone payment of US\$500,000. The Company's policy is to recognize non-refundable up-front payments from out-licensing agreements over the estimated period of collaboration until the milestone associated with commercial approval of the first indication in the licensee's territory has been satisfied and the relevant payment received. There have been no new out-licensing agreements signed since fiscal 2007. The Company also received royalty revenue based on a limited sales program in Europe for the first time in the fourth quarter of fiscal 2008. Interest income is decreasing as the Company draws on its cash and short term investment balances to fund its operations and due to interest rates dropping to historic low levels.

It is inherent in the development of drug products that planned expenditures vary depending on results achieved. Our current plan calls for an increase in expenditures for nimotuzumab with our two new clinical trials in brain metastases and palliative non-small cell lung cancer.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company has financed the evaluation, licensing, and further development of its products principally through equity issuances. Since the Company does not have net earnings from its operations, the Company's long-term liquidity depends on its ability to out-license its products or to access the capital markets, both of which will depend substantially on results of product development programs. In prior years, the Company was considered a development stage company.

The Company's cash requirements will be affected by the progress of its clinical trials, the development of its regulatory submissions, the achievement of commercialization agreements, the costs associated with obtaining and protecting the patents for licensed products, and the availability of funding for part of the process from investors and prospective commercialization partners.

The audited consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly, will be able to realize on its assets and discharge its liabilities in the normal course of operations. The Company's ability to continue as a going concern has always been dependent on obtaining capital and, ultimately, the achievement of profitable operations. There can be no assurance that the Company will be successful in increasing revenue or raising additional capital to generate sufficient cash flows to continue as a going concern. The audited consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities and revenue and

expenses and the balance sheet classifications used if the Company were unable to continue operations in accordance with this assumption.

As at June 30, 2009 the Company had cash and short-term deposits totalling \$42.051 million and accounts payables and accrued liabilities totalling \$913 thousand compared to \$58.101 million and \$2.023 million respectively, at June 30, 2008. The Company's short-term deposits are bankers' acceptances issued by Canadian Schedule A banks, maturing in less than one year. These financial instruments have been classified as held-for-trading and all gains and losses are included in loss for the period in which they arise.

Management believes that the cash and short-term deposits at June 30, 2009 are sufficient to support the Company's activities for at least the next twelve months.

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

The Company fully consolidates a joint venture (CIMYM BioSciences Inc.) in which it is considered the primary beneficiary; and as such, the Company has recognized 100% of the cost of operations and cash flows of this entity.

In addition, the Company is party to certain licensing agreements that require the Company to pay a proportion of any fees that the Company may receive from sublicensees in the future. As of June 30, 2009 no amounts were owing and the amount of future fees thereon, if any, is not determinable.

In November 2007, the Company entered into a contract for services of a clinical research organization ("CRO"), relating to a pediatric pontine glioma clinical trial for nimotuzumab in the U.S. at a cost of approximately \$1.568 million (U.S. \$1.348 million) of which approximately \$1.005 million has been paid as at June 30, 2009 and the remaining \$563 thousand has not yet been incurred. The Company may cancel the contract with 30 days' notice and is obligated for services rendered by the CRO through to the effective date of termination and for any closeout services furnished by the CRO after the termination of the agreement. As at June 30, 2009 the Company continues to open clinical sites and is in the process of recruiting patients.

In February 2009, the Company entered into 2 contracts for CRO services relating to clinical trials for nimotuzumab. The first pertains to a randomized, Phase II, double-blind trial in brain metastases from NSCLC at a cost of \$1.161 million, of which approximately \$240 thousand has been incurred as at June 30, 2009 and the remaining \$920 thousand is yet to be incurred. The second contract pertains to a randomized, Phase II, double-blind trial in NSCLC patients ineligible for radical chemotherapy and costs approximately \$1.500 million, of which approximately \$508 thousand has been incurred as at June 30, 2009 and the remaining \$991 thousand is yet to be incurred. The Company may cancel either contract with a 30-day notice and is obligated for services rendered by the CRO through the effective date of termination and for any close-out services furnished by the CRO after the termination of the agreement.

In addition to these above contracts, the Company has entered into many additional contracts for pre-clinical and other studies, none of which individually exceed \$1 million, totaling approximately \$4.058 million of which \$2.010 million has been incurred as at June 30, 2009 and the remaining \$2.048 million has not yet been incurred. Any early termination penalties cannot exceed the amount of the contract commitment.

The Company plans to expend funds to continue the development of nimotuzumab. There are also ongoing activities directed at out-licensing commercial rights for nimotuzumab and AeroLEFTM as well as in evaluating new products to in-license.

TREND INFORMATION

Historical patterns of expenditures cannot be taken as an indication of future expenditures. The amount and timing of expenditures and therefore liquidity and capital resources vary substantially from period to period depending on the pre-clinical and clinical studies being undertaken at any one time and the availability of funding from investors and prospective commercial partners.

Other than as discussed above, the Company is not aware of any material trends related to the Company's business of product development, patents and licensing.

RISKS AND UNCERTAINTIES

Prospective investors should give careful consideration to the risk factors contained under "Risk Factors" in the Form 20-F filed as the Annual Information Form dated September 24, 2009 in respect of the fiscal year ended June 30, 2009. These risk factors include: (i) the Company dealing with drugs that are in the early stages of development; (ii) the Company's lack of revenue and history of losses; (iii) risks of pre-clinical and clinical testing; (iv) the inability of the Company to obtain, protect and use patents and other proprietary rights; (v) the Company's dependence on collaborative partners; (vi) the uncertain ability of the Company to keep abreast of rapid technological change; (vii) the inability of the Company to succeed against competition; (viii) the Company's lack of manufacturing experience; (ix) the Company's reliance on key personnel; (x) product liability and the Company's ability to maintain insurance; (xi) the Company's possible inability to maintain licenses; (xii) the Company's reliance on licensors; (xiii) governmental regulation including risks associated with obtaining regulatory approval for drug products; (xiv) risks associated with doing business in certain countries; (xv) the need for future capital and the uncertainty of additional funding; (xvi) risks associated with the uncertainty of capital markets and volatility of the share price; and (xvii) international taxation.

OUTLOOK

The business of YM is the identification, licensing, and further development of products it believes to have the prospect for utility in human health. The Company is continually evaluating the economic and prospective viability of its various products. YM's majority-owned joint venture, CIMYM BioSciences Inc., is the licensee for nimotuzumab for Western and Eastern Europe, North America, and Japan as well as Australia, New Zealand, Israel and certain Asian and African countries, and YM owns AeroLEF[®], its other principal product in development, outright.

Randomized, Phase II, double-blind trials in brain metastases from non-small cell lung cancer (NSCLC) and in NSCLC patients ineligible for radical chemotherapy, have been initiated in Canada; recruitment commenced in March 2009 on NSCLC and is anticipated for the brain metastases trial in Q3 of calendar year 2009. A Phase II, second-line, single-arm trial in children with progressive diffuse intrinsic pontine glioma (DIPG) is ongoing at multiple sites in the US, Canada, and Israel.

Completion of recruitment in a single-arm, Phase III trial of nimotuzumab as first-line therapy for DIPG was reported by Oncoscience AG (OSAG), CIMYM's licensee for Europe, in August 2007, and preliminary data from this trial was released at ASCO in 2008. OSAG reports that it continues to recruit in a Phase III trial in adult glioma patients and a Phase II/III trial in pancreatic cancer patients.

Innogene Kalbiotech PTE Ltd. (IGK), a CIMYM licensee, reports marketing approval in the Philippines and Indonesia bringing to 18 the number of countries that are reported as having approved the drug for sale in specific indications. In January 2009, the National Cancer Centre of Singapore announced that it was launching a worldwide Phase III, 710-patient trial of nimotuzumab in the adjuvant setting in head and neck cancer in cooperation with IGK. This trial is in addition to the on-going investigator-initiated Phase II trial in locally advanced head and neck cancer and the initiation of a Phase II trial in cervical cancer.

Daiichi Sankyo Co., Ltd., CIMYM's licensee for nimotuzumab in Japan, initiated a randomized trial with nimotuzumab in gastric cancer, designed to complete recruitment in 2009, and launched a Phase II trial in first-line NSCLC.

Nimotuzumab is, at the time of this report, being tested in 32 clinical trials worldwide having completed 20 trials to date. Eleven of these are Phase II and Phase IIIs being conducted by YM and our licensees.

After consulting with regulatory bodies in Europe and Canada, YM continues discussing the readiness of AeroLEF® for late-stage trials to identify its best options for aggressive development and partnering of this unique approach to the use of opioids.

While expenditures will increase with additional clinical activity we believe we have the resources to permit the completion of the program designed to support marketing authorization for nimotuzumab as well as AeroLEF.

Subsequent to the end of the fiscal year, YM received a license from the US Department of the Treasury's Office of Foreign Assets Control (OFAC) to further develop its lead product, nimotuzumab, for patients in the United States. YM's first priority is discussion with the FDA on its two IND submissions to include US citizens in the randomized, double-blind Phase II trial of nimotuzumab in NSCLC patients ineligible for radical chemotherapy and the parallel Phase II trial in patients with brain metastases from NSCLC, both of which YM initiated in Canada during the 2009 fiscal year. Development plans may also include extending one of the Phase III trials being conducted worldwide into the US, such as the multinational 710-patient Phase III trial of nimotuzumab in the adjuvant setting in head and neck cancer.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenue and expenses during the reporting period. Significant accounting policies and methods used in preparation of the financial statements are described in note 2 to the Consolidated Annual Financial Statements. Significant estimates affect: revenue recognition; intangible assets; research and development costs; the consolidation of variable interest entities; stock-based compensation; and the income tax valuation allowance.

Revenue recognition

Revenue from licensing agreements is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the amount is determinable and collectability is reasonably assured. Contingent revenue attributable to the achievement of milestones is recognized only on the achievement of the milestone. Non-refundable up-front fees for access to the Company's proprietary technology are deferred and recognized on a systematic basis over the estimated remaining period of collaboration required until the milestone associated with commercial approval of the first indication in the licensee's territory has been satisfied and the relevant payment received. Currently we have license agreements that specify that certain royalties are earned by the Company on sales of licensed products in the licensed territories. Licensees report sales and royalty information in the 90 days after the end of the quarter in which the activity takes place and typically do not provide us with forward estimates or current-quarter information. Because we are not able to reasonably estimate the amount of royalties earned during the period in which these licensees actually ship products, we do not recognize royalty revenue until the royalties are reported to us and the collection of these royalties is reasonably assured.

Intangible assets

The Company's identifiable intangible assets consist of patents and in-process research and development technologies acquired on the acquisition of DELEX in May 2005. The intangible assets are amortized on a straight-line basis over the estimated time to market of seven years for technologies acquired. The estimated useful lives of the intangible assets are considered each reporting period and the carrying value is reviewed on the occurrence of a triggering event, to determine if there has been impairment in their value.

Research and development costs

The Company does not engage in basic scientific research but does incur significant product development costs. Only development costs that meet strict criteria related to technical, marketing and financial feasibility would be capitalized under Canadian GAAP. To date, no costs have met such criteria and, accordingly, all development costs have been expensed when incurred.

Variable interest entity

The Company has a majority interest in a joint venture that is funded entirely by the Company. This joint venture is classified as a variable interest entity since the Company maintains a controlling financial interest. The Company

has recorded 100% of the results of operations and cash flows of this entity since its inception.

Stock-based compensation

The Company expenses all stock-based payments using the fair value method and uses the Black-Scholes Option Pricing Model in estimating the fair value. Under the fair value method and the option pricing model used to determine fair value, estimates are made as to the volatility of the Company's shares and the expected life of the options. Such estimates affect the fair value determined by the option pricing model.

Income tax valuation allowance

The Company and its joint venture have a net tax benefit resulting from non-capital losses carried forward, pools of scientific research and experimental development expenditures, investment tax credits, and withholding taxes paid. In view of the history of net losses incurred, management is of the opinion that it is not more likely than not that these tax assets will be realized in the foreseeable future and hence, a full valuation allowance has been recorded against these future tax assets. Accordingly, no future tax assets are recorded on the balance sheet.

ACCOUNTING POLICIES

The following new accounting pronouncements have been adopted during fiscal 2009:

General standards on financial statement presentation

On July 1, 2008 the Company adopted the amendments of CICA Handbook Section 1400 which includes requirements to assess and disclose an entity's ability to continue as a going concern. Management has assessed the Company's ability to continue as a going concern and believe that the cash and short-term deposits at June 30, 2009 are sufficient to support the Company's activities for at least the next twelve months.

The following new accounting pronouncements have been issued and are not yet effective:

Goodwill and Intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008, specifically July 1, 2009 for the Company. The Company is currently assessing the impact of this section on its intangible asset recognized on the acquisition of Delex Therapeutics Inc. ("Delex").

Financial Instruments

In June 2009, the CICA issued amendments to Handbook Section 3862, *Financial Instruments – Disclosures*, enhancing disclosure requirements about liquidity risk and fair value measurements of financial instruments, effective for fiscal years ending after September 30, 2009. The Company is currently assessing the impact of this section on its consolidated financial statements.

International financial reporting standards

The Accounting Standards Board of Canada has announced that public companies in Canada are required to adopt IFRS for fiscal years beginning on or after January 1, 2011. The Company is required to prepare its first financial statements that are compliant with IFRS for the interim period ending September 30, 2011. The Company's plan will consider the impact that IFRS has on its accounting policies and implementation decisions, financial statement presentation and disclosure options available on initial changeover to IFRS, information technology and data systems, and internal control over financial reporting. The Company is currently in the process of assessing the differences between its current accounting policies and IFRS and cannot at this time quantify the effect the adoption of the standards will have on its consolidated financial statements.

Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements ("Section 1601"), and Section 1602, Non-controlling Interests ("Section 1602"), which together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section

1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, International Accounting Standard 27 (Revised), Consolidated and Separate Financial Statements. The sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new sections on its consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings) as of June 30, 2009 (the "Evaluation Date") have concluded that as of the Evaluation Date, our disclosure controls were effective to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those rules, and that material information relating to our Company and any consolidated subsidiaries is made known to management, including the chief executive officer and chief financial officer, particularly during the period when our periodic reports are being prepared to allow timely decisions regarding required disclosure.

In connection with the evaluation referred to in the foregoing paragraph, we have identified no change in our disclosure controls and procedures that occurred during the year ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our disclosure controls over financial reporting.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has assessed the design and effectiveness of internal controls over financial reporting as at June 30, 2009, and based on that assessment determined that internal controls over financial reporting were designed and operating effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. No changes were made to the design of the Company's internal controls over financial reporting during the year ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, the design of our internal controls over financial reporting.

INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

The Company's management, including the chief executive officer and chief financial officer, do not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Internal control over financial reporting can also be circumvented by collusion or improper management override. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

OTHER MD&A REQUIREMENTS

As at June 30, 2009:

	Amount	Number
Common shares	\$172,921,153	55,835,356
Warrants	Nil	Nil

Note 1: In addition to the 55,835,356 shares outstanding, 2,380,953 shares are held in escrow to be released contingent upon the completion of certain milestones. They will be valued and accounted for when they are released from escrow.

Note 2: During fiscal 2009, 5,709,765 warrants expired.

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of YM Biosciences Inc.

We have audited the accompanying consolidated balance sheets of YM Biosciences Inc. (the "Company") and subsidiaries as at June 30, 2009 and 2008 and the related consolidated statements of operations and comprehensive loss and deficit and cash flows for each of the years in the three-year period ended June 30, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. With respect to the consolidated financial statements for the years ended June 30, 2009 and 2008, we also conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as at June 30, 2009 and 2008 and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2009 in conformity with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in note 16 to the consolidated financial statements.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 to the consolidated financial statements, the fact that the Company has no net earnings, minimal revenue and negative operating cash flows raises substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.



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As discussed in note 2(p) to the consolidated financial statements, effective July 1, 2008, the Company adopted The Canadian Institute of Chartered Accountants' Handbook Section 1400, General Standards on Financial Statement Presentation.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

September 23, 2009

YM BIOSCIENCES INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars, unless otherwise noted)

June 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash	\$ 2,337,716	\$ 3,119,189
Short-term deposits	39,713,042	54,981,737
Accounts receivable	564,584	403,371
Prepaid expenses	352,850	375,133
	<u>42,968,192</u>	<u>58,879,430</u>
Property and equipment (note 3)	96,876	128,400
Intangible assets (note 4)	3,004,868	4,065,409
	<u>\$ 46,069,936</u>	<u>\$ 63,073,239</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	\$ 431,028	\$ 307,588
Accrued liabilities	486,723	1,715,024
Deferred revenue (note 10)	2,549,568	4,623,340
	<u>3,467,319</u>	<u>6,645,952</u>
Deferred revenue (note 10)	2,898,292	4,414,256
Shareholders' equity:		
Share capital (note 6)	172,921,153	172,921,153
Share purchase warrants (note 7)	—	3,150,539
Contributed surplus (note 8)	13,035,123	9,123,824
Deficit	(146,251,951)	(133,182,485)
	<u>39,704,325</u>	<u>52,013,031</u>
Basis of presentation (note 1)		
Commitments (note 12)		
	<u>\$ 46,069,936</u>	<u>\$ 63,073,239</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

/s/ Tryon Williams _____ Director

/s/ David G.P. Allan _____ Director

YM BIOSCIENCES INC.

Consolidated Statements of Operations and Comprehensive Loss and Deficit
(Expressed in Canadian dollars, unless otherwise noted)

	Years ended June 30,		
	2009	2008	2007
Out-licensing revenue (note 10)	\$ 4,543,280	\$ 4,859,085	\$ 4,407,890
Interest income	1,070,264	2,584,080	3,239,540
	5,613,544	7,443,165	7,647,430
Expenses:			
Licensing and product development	14,172,845	15,631,550	28,758,469
General and administrative	4,839,870	6,831,955	6,978,336
Impairment of intangible assets (note 4)	–	–	1,829,538
	19,012,715	22,463,505	37,566,343
Loss before the undernoted	(13,399,171)	(15,020,340)	(29,918,913)
Gain (loss) on foreign exchange	67,075	32,463	(142,552)
Gain (loss) on short-term deposits	(40,200)	172,276	–
Loss on disposal of property and equipment	–	(70,143)	–
Other income	307,140	–	–
Loss before income taxes	(13,065,156)	(14,885,744)	(30,061,465)
Current income taxes (note 13)	4,310	–	1,668,775
Loss and comprehensive loss for the year	(13,069,466)	(14,885,744)	(31,730,240)
Deficit, beginning of year	(133,182,485)	(118,296,741)	(86,566,501)
Deficit, end of year	\$ (146,251,951)	\$ (133,182,485)	\$ (118,296,741)
Basic and diluted loss per common share	\$ (0.23)	\$ (0.27)	\$ (0.57)
Weighted average number of common shares outstanding	55,835,356	55,835,356	55,804,674
Excludes common shares held in escrow for contingent additional payment related to the acquisition of Delex Therapeutics Inc. (note 6)	2,380,953	2,380,953	2,380,953

See accompanying notes to consolidated financial statements.

YM BIOSCIENCES INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars, unless otherwise noted)

	Years ended June 30,		
	2009	2008	2007
Cash provided by (used in):			
Operating activities:			
Loss for the year	\$ (13,069,466)	\$ (14,885,744)	\$ (31,730,240)
Items not involving cash:			
Amortization of property and equipment	91,896	125,271	107,107
Amortization of intangible assets	1,060,541	1,060,541	1,913,040
Impairment of intangible assets	–	–	1,829,538
Loss on disposal of property and equipment	–	70,143	–
Unrealized loss on short-term deposits	41,912	–	–
Stock-based compensation	760,760	2,063,973	1,716,913
Change in non-cash operating working capital:			
Accounts receivable and prepaid expenses	(138,930)	(61,483)	1,816,092
Accounts payable, accrued liabilities and deferred revenue	(4,694,597)	(5,844,790)	11,604,460
	(15,947,884)	(17,472,089)	(12,743,090)
Financing activities:			
Issuance of common shares on exercise of options	–	–	11,232
Issuance of common shares on exercise of warrants	–	–	89,375
	–	–	100,607
Investing activities:			
Short-term deposits, net	15,226,783	14,742,701	15,881,679
Additions to property and equipment	(60,372)	(37,770)	(127,162)
Proceeds from sale of property and equipment	–	38,996	–
	15,166,411	14,743,927	15,754,517
Increase (decrease) in cash and cash equivalents	(781,473)	(2,728,162)	3,112,034
Cash and cash equivalents, beginning of year	3,119,189	5,847,351	2,735,317
Cash and cash equivalents, end of year	\$ 2,337,716	\$ 3,119,189	\$ 5,847,351

See accompanying notes to consolidated financial statements.

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

YM Biosciences Inc. (the "Company" or "YM") was incorporated on August 17, 1994 under the laws of the Province of Ontario and was continued under the laws of the Province of Nova Scotia on December 11, 2001. In prior years, the Company was considered a development stage company. It has entered into licensing agreements with certain biotechnology, pharmaceutical and medical institutes or has acquired technology originated in such institutes. The acquisitions of licenses provide exclusive rights for certain territories for certain products or families of products developed and rights of first refusal on additional territories, additional products or extensions to existing products. The Company is developing certain therapeutic products for patients with cancer and an inhalation delivered fentanyl product to treat acute and breakthrough pain, including cancer pain.

1. Basis of presentation:

These consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize on its assets and discharge its liabilities in the normal course of operations. Management has assessed the Company's ability to continue as a going concern. Since inception, the Company has concentrated on product licensing and product development. It has had no net earnings, minimal revenue and negative operating cash flows, and has financed its activities primarily through the issuance of shares and warrants. The Company's ability to continue as a going concern is dependent on obtaining additional investment capital and the achievement of profitable operations. There can be no assurance that the Company will be successful in increasing revenue or raising additional investment capital to generate sufficient cash flows to continue as a going concern. These consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenue and expenses and the balance sheet classifications used if the Company were unable to continue operations in accordance with this assumption.

Taking into consideration the cash and short-term deposits, management has determined that the Company has sufficient cash resources to fund its operations beyond the next 12 months.

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

2. Significant accounting policies:

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which, except as described in note 16, conform in all material respects to accounting principles generally accepted in the United States ("United States GAAP"). Significant accounting policies are summarized below:

(a) Basis of consolidation:

The consolidated financial statements include the assets and liabilities and results of operations of all wholly-owned subsidiaries and variable interest entities ("VIEs") where the Company is the primary beneficiary, after elimination of intercompany transactions and balances.

The Company consolidates all VIEs of which it is the primary beneficiary in accordance with Canadian GAAP. VIEs are entities in which equity investors do not have controlling financial interest or the equity at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support by other parties. The Company's only VIE is CIMYM BioSciences Inc., an 80% owned joint venture incorporated in Canada.

The Company proportionately consolidated its joint venture and has made provisions for any advances to the joint venture that did not eliminate on consolidation, such that the Company has recorded 100% of the results of operations and cash flows of this entity since its inception.

(b) Foreign currency translation:

Foreign currency transactions entered into by the Company and financial statements of integrated foreign operations are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at year-end rates of exchange, non-monetary assets and liabilities are translated at historic rates of exchange and consolidated statement of operations and comprehensive loss and deficit items are translated at actual rates prevailing during the year. Exchange gains and losses are included in income.

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

2. Significant accounting policies (continued):

(c) Revenue recognition:

Revenue is deemed to be realized and earned when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the Company's price to the customer is fixed or determinable, and collectibility is reasonably assured.

Contingent revenue attributable to the achievement of regulatory or developmental milestones is recognized only on the achievement of the applicable milestone.

Non-refundable, up-front fees for access to the Company's proprietary technology in connection with certain research and development collaborations are deferred and recognized as revenue on a systematic basis over the term of the related collaboration.

The Company has license agreements that specify that certain royalties are earned by the Company on sales of licensed products in the licensed territories. Licensees report sales and royalty information in the 90 days after the end of the quarter in which the activity takes place and typically do not provide the Company with forward estimates or current-quarter information. Because the Company is not able to reasonably estimate the amount of royalties earned during the period in which these licensees actually ship products, royalty revenue is not recognized until the royalties are reported to the Company and the collection of these royalties is reasonably assured.

(d) Cash and cash equivalents:

Cash and cash equivalents are recorded at fair value. Cash equivalents consist of highly liquid bankers' acceptances issued by Canadian Schedule A banks, with terms extending up to 90 days from the date of acquisition. Cash is on deposit with Canadian Schedule A banks.

(e) Short-term deposits:

Short-term deposits are recorded at fair value and consist mainly of highly liquid bankers' acceptances issued by Canadian Schedule A banks, held to maturity with terms extending beyond 90 days from the date of acquisition and are held to maturity.

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

2. Significant accounting policies (continued):

(f) Property and equipment:

Property and equipment are stated at cost less accumulated amortization. Amortization is provided to amortize the cost of property and equipment over their estimated useful lives using the straight-line method over the following periods:

Computer equipment	3 years
Furniture and equipment	5 years
Leasehold improvements	Term of lease

(g) Intangible assets:

Intangible assets consist of acquired technologies and are amortized on a straight-line basis over the estimated time to market of seven years.

(h) Impairment of long-lived assets:

The Company reviews the carrying value of intangible assets with finite lives and property and equipment for existence of facts or changes in circumstances that might indicate a condition of impairment. An impairment loss would be recognized when estimates of undiscounted future cash flows expected to result from the use of an asset and its eventual disposition are less than the carrying amount. Such impairment loss would be calculated as the excess of carrying value over fair value of the long-lived asset.

(i) Development costs:

To date, all development costs incurred have been expensed. Development costs include costs associated with product development activities, including salaries of scientific and technical staff and payments to third parties for development activities. Development costs that meet specific stringent criteria related to technical, market and financial feasibility are capitalized. To date, none of the development costs have met such criteria.

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

2. Significant accounting policies (continued):

(j) Government assistance:

Government assistance, including investment tax credits relating to development costs, is recorded as a reduction of the development costs when there is reasonable assurance that the assistance will be received.

(k) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the period in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the future income tax asset and tax planning strategies in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more-likely-than-not realization criteria, a valuation allowance is recorded against the future income tax assets.

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

2. Significant accounting policies (continued):

(l) Stock-based compensation:

The Company has a stock option plan for directors, officers, employees and service providers. All stock options issued under the plan have an exercise price equal to the fair market value of the underlying shares on the date of the grant. The Company uses the fair value-based method for all options granted to service providers and for employee stock options granted on or after July 1, 2002. Under the fair value-based method, compensation cost is measured at the fair value of the award at the date of grant using the Black-Scholes option pricing model. Forfeitures are accounted for on an estimated basis based on historical trends. Compensation cost is expensed over the vesting period of the awards. The settlement method was used to account for employee stock options granted before July 1, 2002. Under the settlement method, no compensation cost was recognized at the date of grant or recognized over the vesting period. Any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital.

(m) Basic and diluted loss per common share:

Basic loss per common share is computed by dividing loss for the period by the weighted average number of common shares outstanding during the reporting period. Diluted loss per common share is computed similarly to basic loss per common share, except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. These common equivalent shares were not included in the calculation of the weighted average number of shares outstanding for diluted loss per common share as the effect would have been anti-dilutive.

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

2. Significant accounting policies (continued):

(n) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Significant items subject to such estimates include, but are not limited to, the carrying amount of property, plant and equipment, determination of fair value of intangible assets, stock-based compensation expense, amortization periods and the valuation of long-lived assets and future income taxes. Actual results could differ from those estimates.

(o) Financial instruments:

Financial assets and financial liabilities are initially recorded at fair value and their subsequent measurements are determined in accordance with their classification. The classification depends on the purpose for which the financial instruments were acquired or issued and their characteristics. Cash and cash equivalents and short-term deposits are classified as held-for-trading assets and are accounted at fair value. All changes in fair value are included in loss for the year in which they arise. Accounts receivable are classified as loans and receivables, and after initial recognition are recorded at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, and after initial recognition are recorded at amortized cost.

(p) New accounting pronouncements:

General standards on financial statement presentation:

On July 1, 2008, the Company adopted amendments of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1400, General Standards of Financial Statement Presentation, which includes requirements to assess and disclose an entity's ability to continue as a going concern, as disclosed in note 1. The adoption of this change did not have an impact on the Company's consolidated financial statements.

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

2. Significant accounting policies (continued):

(q) Recent accounting pronouncements issued and not yet effective are as follows:

(i) Goodwill and intangible assets:

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008, specifically July 1, 2009 for the Company. The Company is currently assessing the impact of this section on its intangible asset recognized on the acquisition of Delex Therapeutics Inc. ("Delex").

(ii) Financial instruments:

In June 2009, the CICA issued amendments to Handbook Section 3862, Financial Instruments - Disclosures, enhancing disclosure requirements about liquidity risk and fair value measurements of financial instruments, effective for fiscal years ending after September 30, 2009. The Company is currently assessing the impact of this section on its consolidated financial statements.

(iii) International financial reporting standards:

The Accounting Standards Board of Canada has announced that public companies in Canada are required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company is in the process of assessing the effects of the standards on its consolidated financial statements.

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

2. Significant accounting policies (continued):

(iv) Consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements ("Section 1601"), and Section 1602, Non-controlling Interests ("Section 1602"), which together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, International Accounting Standard 27 (Revised), Consolidated and Separate Financial Statements. The sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new sections on its consolidated financial statements.

3. Property and equipment:

	2009			2008		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 419,259	\$ 359,857	\$ 59,402	\$ 378,289	\$ 278,449	\$ 99,840
Furniture and equipment	99,574	80,316	19,258	80,172	76,765	3,407
Leasehold improvements	52,539	34,323	18,216	52,539	27,386	25,153
	\$ 571,372	\$ 474,496	\$ 96,876	\$ 511,000	\$ 382,600	\$ 128,400

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

4. Intangible assets:

	2009			2008		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Acquired technologies	\$ 7,348,185	\$ 4,343,317	\$ 3,004,868	\$ 7,348,185	\$ 3,282,776	\$ 4,065,409

Delex:

In 2005, on acquisition of Delex, the Company recorded \$7,348,185 of acquired technologies which includes the intellectual property and in-process research and development of the Company's inhalation delivered fentanyl product to treat acute and breakthrough pain, including cancer pain.

Eximias:

The Company identified the workforce as an intangible asset as part of the acquisition of assets from Eximias in 2006 because of the expected future benefits that could be derived with respect to their involvement with the Company's lead product, tesmilifene.

On January 30, 2007, based on the recommendation of the Data Safety Monitoring Board, the Company stopped the phase III tesmilifene clinical trial based on an interim analysis of 351 events. As a result, the workforce intangible asset was determined to be impaired based on an analysis of the carrying value and projected future cash flows of the asset. The impairment analysis resulted in a write-down of \$1,829,538, the net book value of the asset on the day of impairment.

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Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

5. Consolidation of variable interest entity:

The consolidated financial statements include the revenue and expenses of an incorporated joint venture as follows:

	2009	Years ended June 30,	
		2008	2007
Out-licensing revenue	\$ 4,474,671	\$ 4,802,291	\$ 4,236,398
Expenses:			
General and administrative	4,312,867	5,677,860	2,458,547
Licensing and product development	9,886,659	8,277,154	8,913,425
	14,199,526	13,955,014	11,371,972
Loss before income taxes	(9,724,855)	(9,152,723)	(7,135,574)
Current income taxes	–	–	1,622,695
Loss for the year	\$ (9,724,855)	\$ (9,152,723)	\$ (8,758,269)

6. Share capital:

Authorized:

500,000,000 Class A preferred shares
500,000,000 Class B preferred shares, Series 1
500,000,000 Class A non-voting common shares
500,000,000 common shares

Issued:

	Number of shares	Amount
Common shares:		
Balance, June 30, 2007, 2008 and 2009	55,835,356	\$ 172,921,153

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Years ended June 30, 2009, 2008 and 2007

6. Share capital (continued):

At June 30, 2009, 2,380,953 (2008 - 2,380,953) common shares were held in escrow for contingent payments related to the Delex acquisition. These escrowed shares will be valued based upon their fair market value at the time of resolution of the related milestone contingency: 634,921 common shares upon entering a collaboration or other licensing arrangement; 1,111,112 common shares upon initiation of the first Phase III clinical trial; and 634,920 common shares upon initiation of the second Phase III clinical trial. Upon receipt of United States regulatory approval to market a product using Delex's technology, the Company will make an additional payment of \$4,750,000 in cash or common shares, or a combination of both, at its option, to the former Delex shareholders.

7. Share purchase warrants:

The Company has issued warrants for the purchase of common shares for a specified price for a specific period of time. Nominal value was ascribed to the warrants issued prior to June 30, 2002. Warrants issued after that date have been valued on a relative fair value basis using the Black-Scholes option pricing model. The following table contains information regarding the outstanding warrants to acquire common shares for the years ended June 30, 2009, 2008 and 2007.

	Number of warrants	Weighted average exercise price	Amount
Outstanding, June 30, 2006	9,022,777	\$ 2.88	\$ 4,597,988
Exercised	(50,500)	1.77	(44,680)
Outstanding, June 30, 2007	8,972,277	2.89	4,553,308
Expired	(3,262,512)	3.69	(1,402,769)
Outstanding, June 30, 2008	5,709,765	2.43	3,150,539
Expired	(5,709,765)	2.43	(3,150,539)
Outstanding, June 30, 2009	—	—	\$ —

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Years ended June 30, 2009, 2008 and 2007

8. Contributed surplus:

Balance, June 30, 2006	\$ 3,944,492
Stock-based compensation	1,716,913
Exercise of options	(4,323)
Balance, June 30, 2007	5,657,082
Stock-based compensation	2,063,973
Expiry of warrants	1,402,769
Balance, June 30, 2008	9,123,824
Stock-based compensation	760,760
Expiry of warrants	3,150,539
Balance, June 30, 2009	\$ 13,035,123

9. Stock-based compensation:

The Company has granted stock options pursuant to a stock option plan. Under the plan, options to purchase common shares may be granted to directors, officers, employees and service providers of the Company.

Compensation cost recognized as an expense for the year ended June 30, 2009 for stock-based employee compensation awards was \$760,760 (2008 - \$2,063,973; 2007 - \$1,716,913).

As at June 30, 2009, total compensation cost related to non-vested awards not yet recognized was \$353,458 and the weighted average period over which it is expected to be recognized was 0.6 years. The Company has 2,168,831 stock options that have been authorized but not granted.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Issue date	2009	2008	2007
Number of options issued	2,114,250	2,110,290	165,000
Risk-free interest rate	1.9% - 3.3%	3.2% - 4.4%	3.9% - 4.1%
Volatility factor	68% - 87%	72% - 74%	51% - 73%
Dividend rate	0%	0%	0%
Contractual life of options	3 - 10 years	10 years	10 years
Vesting period (months)	0 to 24	0 to 24	0 to 24
Weighted average fair value of options granted	\$0.31	\$1.13	\$1.41
Fair value of options granted	\$660,001	\$2,374,465	\$232,931

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Years ended June 30, 2009, 2008 and 2007

9. Stock-based compensation (continued):

The following tables reflect the activity under the stock option plan for the years ended June 30, 2009, 2008 and 2007 and the share options outstanding at the end of the year:

	2009		2008		2007	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	5,633,102	\$ 2.80	4,196,205	\$ 3.63	4,779,789	\$ 3.78
Granted	2,114,250	0.55	2,110,290	1.51	165,000	3.49
Cancelled/forfeited	(1,183,737)	2.78	(673,393)	3.96	(745,251)	4.53
Exercised	—	—	—	—	(3,333)	3.37
Outstanding, end of year	6,563,615	2.08	5,633,102	2.80	4,196,205	3.63
Exercisable, end of year	4,664,072	\$ 2.60	4,342,733	\$ 3.17	3,587,176	\$ 3.55

As at June 30, 2009:

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price
\$0.50 - \$1.00	1,961,250	9.0	\$ 0.50	676,393	8.9	\$ 0.50
\$1.01 - \$2.00	2,385,505	6.7	1.57	1,770,819	6.5	1.61
\$2.01 - \$3.00	63,750	3.9	2.52	63,750	3.9	2.52
\$3.01 - \$4.00	853,610	5.4	3.42	853,610	5.4	3.42
\$4.01 - \$5.74	1,299,500	4.8	4.50	1,299,500	4.8	4.50
\$0.50 - \$5.74	6,563,615	6.8	2.08	4,664,072	6.1	2.60

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Notes to Consolidated Financial Statements (continued)
 (Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

10. Out-licensing agreements:

Date of agreement	Product	Initial license fee	Deferred revenue as at June 30,		Revenue recognized for years ended June 30,		
			2009	2008	2009	2008	2007
November 3, 2006	Tesmilifene	\$ 230,400	\$ 120,400	\$ 154,000	\$ 33,600	\$ 26,800	\$ 49,600
July 25, 2006	Nimotuzumab	16,226,950	5,179,975	8,451,538	3,271,563	4,056,735	3,718,677
January 20, 2006	Nimotuzumab	1,152,788	–	192,131	192,131	384,262	384,263
August 30, 2005	Nimotuzumab	441,792	6,995	64,428	57,433	96,643	133,458
January 26, 2005	Tesmilifene	620,311	140,490	175,499	35,009	29,995	121,892
Royalty revenue	Nimotuzumab	–	–	–	953,544	264,650	–
		\$ 18,672,241	\$ 5,447,860	\$ 9,037,596	\$ 4,543,280	\$ 4,859,085	\$ 4,407,890

Under the terms of the agreements, the Company continues to be involved in the development of its products and is not required to fund any development in the licensed territory. The agreements also entitle the Company to receive milestone payments on the occurrence of regulatory approval and royalties on the commercial sale of the developed product. Initial license fee revenue is non-refundable and is deferred and recognized as revenue over the term of the related collaboration.

As a result of a revision to the estimated period of collaboration, the revenue recognition period for the July 25, 2006 agreement was extended by 12 months. This change was made as at January 1, 2009.

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Notes to Consolidated Financial Statements (continued)
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11. Related party transactions:

Occasionally, directors will provide assistance to management on a consulting basis to evaluate new opportunities or provide guidance for drug development activities. The fees incurred during the fiscal year ended June 30, 2009 totalled \$66,000 (2008 - \$92,000; 2007 - nil). The transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

12. Commitments:

In November 2007, the Company entered into a contract for services of a Clinical Research Organization ("CRO") relating to a pediatric pontine glioma clinical trial for nimotuzumab in the United States at a cost of approximately \$1.568 million (U.S. \$1.348 million), of which approximately \$1.005 million has been incurred as at June 30, 2009 and the remaining \$563,000 has yet to be incurred. The Company may cancel the contract with 30 days notice and is obligated for services rendered by CRO through to the effective date of termination and for any close-out services furnished by CRO after the termination of the agreement.

In February 2009, the Company entered into two contracts for CRO services relating to clinical trials for nimotuzumab. The first pertains to a randomized, phase II, double-blind trial in brain metastases from non-small cell lung cancer ("NSCLC") at a cost of \$1.161 million, of which approximately \$240,000 has been incurred as at June 30, 2009 and the remaining \$921,000 has yet to be incurred. The second contract pertains to a randomized, phase II, double-blind trial in NSCLC patients ineligible for radical chemotherapy at a cost of approximately \$1,500,000, of which approximately \$508,000 has been incurred as at June 30, 2009 and the remaining \$992,000 has yet to be incurred. The Company may cancel either contract with 30 days notice and is obligated for services rendered by the CRO through the effective date of termination and for any close-out services furnished by the CRO after the termination of the agreement.

In addition to the above contracts, the Company has entered into many additional contracts for pre-clinical and other studies, none of which individually exceeds \$1.0 million, totalling approximately \$4.058 million, of which approximately \$2.010 million has been incurred as at June 30, 2009 and the obligation to pay the remaining \$2.048 million has yet to be incurred. Any early termination penalties cannot exceed the amount of the contract commitment.

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Notes to Consolidated Financial Statements (continued)
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Years ended June 30, 2009, 2008 and 2007

12. Commitments (continued):

As at June 30, 2009, the approximate future minimum rental payments relating to operating leases for premises are as follows:

2010	\$ 328,966
2011	338,660
2012	246,295
2013	46,397
	\$ 960,318

13. Income taxes:

(a) Reconciliations of the income tax provisions with the amounts shown in the consolidated statements of operations and comprehensive loss are as follows:

	2009	2008	2007
Average Canadian income tax rate	33.25%	34.82%	36.12%
Loss before income taxes	\$ (13,065,156)	\$ (14,885,744)	\$ (30,061,465)
Income tax expense calculated at average Canadian income tax rates	\$ (4,344,164)	\$ (5,183,330)	\$ (10,858,201)
Change in income taxes resulting from:			
Tax effect of changes in rates	(205,046)	8,185,555	–
Differences in rates applicable to subsidiary in foreign jurisdiction	449,471	186,000	(298,859)
Withholding taxes	–	–	1,668,775
Other non-deductible items	194,049	734,775	586,813
Change in valuation allowance	3,910,000	(3,923,000)	10,570,247
Income tax expense	\$ 4,310	\$ –	\$ 1,668,775

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Notes to Consolidated Financial Statements (continued)
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13. Income taxes (continued):

- (b) The tax effects of temporary differences that give rise to significant portions of future tax assets and future tax liabilities as at June 30 are as follows:

	2009	2008
Future tax assets:		
Property and equipment	\$ 4,848,000	\$ 4,806,000
Financing costs	41,000	186,000
Deferred revenue	3,084,000	2,621,000
Capital loss carryforward	152,000	173,000
Eligible capital expenditures	41,000	41,000
Federal Ontario harmonization credit	1,090,000	—
Non-capital losses - United States	25,552,000	27,338,000
Non-capital losses - Canada	21,046,000	18,885,000
Research and development expenses	6,636,000	4,838,000
	62,490,000	58,888,000
Future tax liabilities:		
Acquired technologies	(871,000)	(1,179,000)
	61,619,000	57,709,000
Less valuation allowance	61,619,000	57,709,000
Net future tax asset	\$ —	\$ —

2008 numbers have been re-stated to conform to 2009 presentation.

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Notes to Consolidated Financial Statements (continued)
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13. Income taxes (continued):

- (c) The Company has available Canadian and United States non-capital loss carryforwards that expire as follows:

	Canada	United States
2010	\$ 2,250,000	\$ —
2014	7,158,000	—
2015	16,300,000	—
2019	—	1,000
2020	—	32,000
2021	—	96,000
2022	—	2,969,000
2023	—	5,256,000
2024	—	3,471,000
2025	—	3,589,000
2026	12,075,000	49,670,000
2027	10,235,000	5,694,000
2028	15,469,000	3,008,000
2029	9,084,000	1,366,000
	<u>\$ 72,571,000</u>	<u>\$ 75,152,000</u>

- (d) The Company has approximately \$22,884,000 (2008 - \$15,722,000) of unclaimed development costs that may be claimed against future taxable income.
- (e) The Company has accumulated net capital losses for tax purposes of approximately \$1,049,000, which may be carried forward and used to reduce taxable capital gains in future years.

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Notes to Consolidated Financial Statements (continued)
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13. Income taxes (continued):

- (f) The Company performs certain activities that result in investment tax credits ("ITCs") that can be used to offset future Canadian and United States federal taxes payable, Ontario Research and Development tax credits ("ORDTCs") that can be used to offset future Ontario provincial taxes payable and Ontario innovation tax credits ("OITCs") that are payable in cash from the Province of Ontario. The Company does not accrue the federal ITCs or the ORDTCs as they can only be used to offset future taxes payable and the Company has not recorded the benefit of any tax assets to date. The ITCs and ORDTCs expire as follows:

	Ontario	Canada	United States
2019	\$ –	\$ –	\$ 2,000
2020	–	25,000	10,000
2021	–	305,000	129,000
2022	–	430,000	87,000
2023	–	356,000	223,000
2024	–	302,000	202,000
2025	–	1,097,000	227,000
2026	–	703,000	408,000
2027	–	1,180,000	233,000
2028	–	1,151,000	106,000
2029	223,000	1,042,000	–
	\$ 223,000	\$ 6,591,000	\$ 1,627,000

The Company accrues and records cash refundable OITCs amounts directly against development expenses where there is reasonable assurance that the assistance will be realized. During the year, the Company received cash refundable OITCs claims related to prior years in the amount of \$135,305. At June 30, 2009, OITCs receivable amounted to \$300,000 (2008 - \$158,742; 2007 - \$143,049).

	2009	2008	2007
Gross development expenses	\$ 14,456,637	\$ 15,613,224	\$ 28,758,469
OITCs	(283,792)	18,326	–
Licensing and product development expenses	\$ 14,172,845	\$ 15,631,550	\$ 28,758,469

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13. Income taxes (continued):

- (g) The province of Ontario harmonized its corporate taxation system with the Government of Canada effective at the commencement of the first taxation year that included January 1, 2009. At that time, the Company's accumulated loss carryforwards, undepreciated capital costs, research and development expenditure pools and undeducted eligible capital expenditures for Ontario purposes were required to be adjusted to the federal values. Since the Company's Ontario balances exceeded its federal balances, the reduction resulted in a harmonization credit of \$1,090,000 which can be utilized to reduce Ontario taxes payable over the next five years. A full valuation allowance has been provided against the future tax amount.

14. Capital management:

The Company's primary objective when managing capital is to ensure that it has sufficient cash resources to fund its development and commercialization activities and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The Company includes cash and cash equivalents, short-term deposits in the definition of capital.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital management strategy during the 12 months ended June 30, 2009.

15. Financial instruments:

- (a) Financial assets and liabilities:

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The carrying values of current monetary assets and liabilities approximate their fair values due to their relatively short periods to maturity.

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15. Financial instruments (continued):

(b) Risks arising from financial instruments and risk management:

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange and interest rate risks), credit risk and liquidity risk. Risk management is the responsibility of the Company, which identifies, evaluates and, where appropriate, mitigates financial risks.

(i) Foreign exchange risk:

The Company operates in Canada and the United States and has relationships with entities in other countries. Foreign exchange risk arises because the cost of transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures").

Balances in foreign currencies at June 30, 2009 were approximately:

	U.S. dollars	Euros
Cash and short-term deposits	\$ 344,999	€ 23,502
Accounts receivable	29,917	–
Accounts payable and accrued liabilities	(103,337)	–
	<u>\$ 271,579</u>	<u>€ 23,502</u>

Fluctuations in the U.S. dollar exchange rate may potentially have a significant impact on the Company's results of operations.

(ii) Interest rate risk:

The Company is exposed to interest rate risk to the extent that short-term deposits are at a fixed rate of interest and their market value can vary with the change in market interest rates. The Company's maximum exposure to interest rate risk is based on the effective interest rate and the current carrying value of these assets. The Company monitors market interest rates and mitigates against interest rate risk by not investing in deposits longer than 18 months.

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15. Financial instruments (continued):

There is a risk that future cash flows from invested cash, cash equivalents and short-term deposits will vary as the market interest rates fluctuate because these investments earn interest at market rates. Based on the June 30, 2009 balance of approximately \$42 million, a variation of 100 basis points in the market interest rate could affect the consolidated statement of operations and comprehensive loss and deficit by approximately \$420,000. For the year ended June 30, 2009, the Company recorded interest income of \$1.070 million (2008 - \$2.584 million; 2007 - \$3.240 million) in relation to these assets.

(iii) Credit risk:

Accounts receivable are subject to normal credit risk. The maximum exposure to credit risk is equal to the carrying value of the accounts receivable. The Company regularly assesses the accounts receivable and takes action to collect the amounts or provide adequate reserves against doubtful accounts. The Company currently has no reserve for doubtful accounts as there have been no bad debts to date.

(iv) Liquidity risk:

Liquidity risk is the risk that the current financial obligations exceed the cash available to satisfy those obligations at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available cash in order to meet its liquidity requirements. The Company achieves this by maintaining sufficient cash and cash equivalents.

16. Canadian and United States accounting policy differences:

The Company's consolidated financial statements are prepared in accordance with Canadian GAAP, which differ in certain respects from those applied in the United States. The following items present the impact of material differences between Canadian GAAP and United States GAAP on the Company's consolidated financial statements.

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Notes to Consolidated Financial Statements (continued)
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16. Canadian and United States accounting policy differences (continued):

(a) Consolidated statements of operations and comprehensive loss:

The following table reconciles loss for the year as reported in the consolidated statements of operations and comprehensive loss and deficit reported under Canadian GAAP to what would have been reported had the statements been prepared in accordance with United States GAAP:

	2009	2008	2007
Loss for the year based on Canadian GAAP	\$ (13,069,466)	\$ (14,885,744)	\$ (31,730,240)
Amortization of acquired technologies (i)	1,060,541	1,060,541	1,059,255
Loss for the year and comprehensive loss based on United States GAAP	\$ (12,008,925)	\$ (13,825,203)	\$ (30,670,985)
	2009	2008	2007
Basic and diluted loss per share (ii)	\$ (0.22)	\$ (0.25)	\$ (0.55)
Weighted average number of common shares outstanding	55,835,356	55,835,356	55,804,674
Excludes common shares held in escrow for contingent additional payment related to the acquisition of Delex (note 6)	2,380,953	2,380,953	2,380,953

(i) Under United States GAAP, the Company's acquired technologies, which are primarily comprised of patents and technologies which require regulatory approval to be commercialized and which have no proven alternative future uses, are considered in-process research and development and are immediately expensed upon acquisition in accordance with FASB Statement No. 2, Accounting for Research and Development Costs. The Company's acquired technologies do not have an alternative future use given their specialized nature. Under Canadian GAAP, the acquired technologies are considered to be development assets which are capitalized and amortized over their expected useful lives.

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Notes to Consolidated Financial Statements (continued)
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16. Canadian and United States accounting policy differences (continued):

- (ii) Loss per common share has been calculated using the weighted average number of common shares outstanding during the year. The potential effect of share options is not dilutive to the loss per common share.

- (b) Consolidated statement of changes in shareholders' equity:

United States GAAP requires the inclusion of a consolidated statement of changes in shareholders' equity for each year a statement of operations is presented. Shareholders' equity under United States GAAP was as follows:

	Warrants	Share capital	Deficit	Additional paid-in capital	Total
Total shareholders' equity under U.S. GAAP, June 30, 2006	\$ 4,597,988	\$ 172,771,544	\$ (90,933,372)	\$ 2,183,380	\$ 88,619,540
Issued on exercise of options	–	15,554	–	(4,323)	11,231
Issued on exercise of warrants	(44,680)	134,055	–	–	89,375
Stock-based compensation	–	–	–	1,716,913	1,716,913
Loss for the year	–	–	(30,670,985)	–	(30,670,985)
Total shareholders' equity under U.S. GAAP, June 30, 2007	4,553,308	172,921,153	(121,604,357)	3,895,970	59,766,074
Expiry of warrants	(1,402,769)	–	–	1,402,769	–
Stock-based compensation	–	–	–	2,063,973	2,063,973
Loss for the year	–	–	(13,825,203)	–	(13,825,203)
Total shareholders' equity under U.S. GAAP, June 30, 2008	3,150,539	172,921,153	(135,429,560)	7,362,712	48,004,844
Expiry of warrants	(3,150,539)	–	–	3,150,539	–
Stock-based compensation	–	–	–	760,760	760,760
Loss for the year	–	–	(12,008,925)	–	(12,008,925)
Total shareholders' equity under U.S. GAAP, June 30, 2009	–	172,921,153	(147,438,485)	11,274,011	36,756,679
Stock-based compensation	–	–	(1,818,334)	1,761,112	(57,222)
In-process research and development acquired	–	–	7,348,185	–	7,348,185
Amortization of in-process research and development acquired	–	–	(4,343,317)	–	(4,343,317)
Total shareholders' equity under Canadian GAAP, June 30, 2009	\$ –	\$ 172,921,153	\$ (146,251,951)	\$ 13,035,123	\$ 39,704,325

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Notes to Consolidated Financial Statements (continued)
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16. Canadian and United States accounting policy differences (continued):

United States GAAP requires the disclosures of a consolidated statement of comprehensive income. Comprehensive income generally encompasses all changes in shareholders' equity, except those arising from transactions with shareholders. There have been no material transactions that would have been included in comprehensive income had the statements been prepared in accordance with United States GAAP.

(c) Investment tax credits:

Canadian GAAP requires that investment tax credits relating to development costs be accounted for as a reduction of development costs. United States GAAP requires such amounts to be accounted for as a reduction of income tax expense. There is no impact on the loss for the year as a result of this GAAP difference. For the year ended June 30, 2009, the Company recognized \$283,792 (2008 - nil; 2007 - nil) of investment tax credits.

(d) Income taxes:

Canadian GAAP requires that future income taxes be calculated using enacted income tax rates or, where they exist, substantively enacted income tax rates. United States GAAP does not permit the use of substantively enacted rates. As a full valuation allowance was recorded against all future tax assets, the future tax assets and valuation allowances are also different as a result of Canadian/United States GAAP loss differences.

The future tax assets and related valuation allowances calculated using United States GAAP were approximately \$70,932,000, \$65,212,000 and \$68,741,000, respectively, for the years ended June 30, 2009, 2008 and 2007.

The Company fully recognizes its tax benefits, which are offset by a valuation allowance to the extent that it is more likely than not that the deferred tax assets will not be realized.

The parent company and its Canadian subsidiary each file a Canadian federal and Ontario income tax return. Generally, the Company is no longer subject to federal and provincial income tax examinations by Canadian tax authorities for year ends prior to June 30, 2004. However, years from 2001 to 2009 remain open with respect to related party transactions.

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(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

16. Canadian and United States accounting policy differences (continued):

The Company's U.S. subsidiary files a U.S. federal income tax return and income tax returns in many U.S. state jurisdictions. Generally, the Company is no longer subject to federal and state income tax examinations by U.S. tax authorities for years prior to 2004.

The Company recognizes any interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the year ended June 30, 2009, there were no such interest or penalties.

(e) New accounting pronouncements:

On July 1, 2008, the Company adopted FASB Statement No. 157 ("SFAS 157"), Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under United States GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The adoption of this change did not have an impact on the Company's consolidated financial statements.

On July 1, 2008, the Company adopted FASB Statement No. 159 ("SFAS 159"), The Fair Value Options for Financial Assets and Financial Liabilities, which permits entities to choose to measure many financial instruments as fair value on a contract-by-contract basis. SFAS 159 applies to all reporting entities and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. The adoption of this change did not have an impact on the Company's consolidated financial statements.

(f) Recently issued accounting pronouncements not yet adopted:

In December 2007, the FASB issued Statement No. 141R ("SFAS 141R"), Business Combinations, which requires most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination to be recorded at full fair value. SFAS 141R applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, specifically July 1, 2009 for the Company.

YM BIOSCIENCES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

16. Canadian and United States accounting policy differences (continued):

In December 2007, the FASB issued Statement No. 160 ("SFAS 160"), Non-controlling Interests in Consolidated Financial Statements, which requires non-controlling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside permanent equity. SFAS 160 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements and is effective July 1, 2009 for the Company. SFAS 160 will be applied prospectively to all non-controlling interests, including any that arose before the effective date, except that comparative period information must be recast to classify non-controlling interests in equity, attribute net income and other comprehensive income to non-controlling interests and provide other disclosures required by SFAS 160. The Company does not expect the adoption of SFAS 160 will have an impact on its consolidated financial statements.

In March 2008, the FASB issued Statement No. 161 ("SFAS 161"), Disclosures about Derivative Instruments and Hedging Activities, which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. Mainly, entities are required to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective July 1, 2009 for the Company. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company does not expect the adoption of SFAS 161 will have an impact on its consolidated financial statements.

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Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise noted)

Years ended June 30, 2009, 2008 and 2007

16. Canadian and United States accounting policy differences (continued):

In June 2009, the FASB issued Statement No. 168 ("SFAS 168"), The FASB Accounting Standards Codification™ ("Codification") and the Hierarchy of Generally Accepted Accounting Principles to replace SFAS 162, The Hierarchy of Generally Accepted Accounting Principles, which became effective November 13, 2008. The Codification will become the source of authoritative United States GAAP recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative United States GAAP for SEC registrants. On the effective date of this statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of SFAS 168 will have an impact on its consolidated financial statements other than changes to note disclosures.