



Quarterly Report
Second Quarter — Fiscal 2010

YM BioSciences Inc.
Letter to Shareholders
Fiscal 2010 Second Quarter, ended December 31st, 2009
Dear Shareholders,

After rigorous evaluation of numerous global in-licensing opportunities, we proposed to merge Cytopia Limited., a clinical-stage, Melbourne-based drug development company, into YM, during the second quarter. Cytopia's products are an ideal complement to our current portfolio. Subsequent to quarter-end, the merger was approved by Cytopia shareholders both by number of shares and number of shareholders and the arrangement was finalized on January 29th 2010.

On behalf of the Board of Directors, I would like to welcome the Cytopia shareholders. This merger provides all shareholders with both risk mitigation and a much enhanced prospect for success through the opportunity to link Cytopia's earlier stage products to our well-advanced development of nimotuzumab both directly and through our extensive network of international licensees. Cytopia's products deepen YM's portfolio of drugs while our clinical expertise as well as proximity to the North American capital markets will help enable these products to realize their full potential. Our US listing is another key advantage for all shareholders as the US is the world's most important capital market for companies in this industry. We also welcome the appointment of the Chairman of Cytopia, Mr. Bob Watson, to the Board of YM. Mr. Andrew Macdonald, CEO of Cytopia, will continue to be responsible for all elements of the combined company in Australia.

Our US presence is especially relevant given that, subsequent to quarter end, the FDA advised YM that we may now enroll patients at US clinical sites into two ongoing randomized, double-blind Phase II trials of our lead product, nimotuzumab. The first of the two trials is in non-small-cell lung cancer (NSCLC) patients who are ineligible for curative treatment and being treated palliatively. This is an important and underserved patient population. The second of the two trials is in patients with brain metastases from NSCLC. This development is a significant milestone in our US development program allowing US patients the opportunity to be treated with nimotuzumab, benefitting from its benign side-effect profile compared to other currently marketed EGFR-targeting agents, and a broader group of US oncologists to gain experience with the drug. Both indications are severe, unmet medical needs.

Nimotuzumab continues to demonstrate efficacy in trials throughout the world. During the quarter, we reported positive 48-month survival data for nimotuzumab at the American Society for Therapeutic Radiology and Oncology (ASTRO) 2009 Annual Meeting in Chicago, IL. The trial was a randomized, four-arm study treating patients with inoperable, locoregionally-advanced, stage III/IVa head and neck cancer with radiation alone, chemoradiation alone, or radiation or chemoradiation in combination with nimotuzumab. Additional results from a Phase III study in children with glioma demonstrating that children and adolescents with this inoperable cancer were able to stay at home or attend school while undergoing treatment with nimotuzumab, were presented at the 2009 International Society of Paediatric Oncology (SIOP) in Sao Paulo, Brazil. We believe it is important for shareholders to recall that nimotuzumab has been approved in 23 countries worldwide and has now been reportedly administered to over 9,000 patients. Any reports of the advanced toxicities common in the marketed EGFR-targeting antibodies have been extremely rare notwithstanding the rapid increase in patient numbers reported in 2009.

Development also continued during the quarter for preclinical and clinical-stage drugs in the Cytopia portfolio. Enrollment commenced for a Phase I/II trial evaluating CYT387, a potent, orally-administered JAK1/JAK2 inhibitor that is currently being conducted at Mayo Clinic in Rochester, MN. Preclinical results for CYT997 were presented in a poster by Cytopia Limited at the 2009 AACR-NCI-EORTC Molecular Targets and Cancer Therapeutics conference in Boston, MA. The results demonstrated that when administered metronomically (in frequent, low doses), CYT997 is able to produce potent vascular disrupting effects in tumors (colon adenocarcinoma xenograft model), and in combination with cisplatin dosed weekly leads to enhanced antitumor effects compared to cisplatin alone. Both CYT387 and CYT997 hold the prospect of surfacing considerable value for shareholders as they are further developed. Clinical data from both drugs is expected during 2010 and positive results from the current trials would confirm their prospective value. Both of these drugs acts on targets that have been demonstrated to be of high interest to the pharmaceutical industry and both enjoy financial benchmarks from recent licensing agreements between development companies and pharmaceutical companies indicative of the appetite for and interest value of a successful drug in the class.

The combination of YM and Cytopia is completely aligned with the YM business model to develop a diverse portfolio of products, partnering where possible to share expenses and risk, and to continuously renew our pipeline through acquisitions of promising new drug candidates invented by others. On behalf of the Board of Directors, I would like to thank the shareholders on their continuing support of YM and I look forward to updating you on our progress next quarter.

Sincerely,



David G.P. Allan

Chairman and CEO

YM BioSciences Inc.

Date: February 8, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and six months ended December 31, 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 unaudited consolidated interim financial statements for the three months and six months ended December 31, 2009 and condensed notes thereto. This MD&A should also be read in conjunction with the MD&A and audited consolidated financial statements for the years ended June 30, 2009, 2008 and 2007, as well as the 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 and Note 11 to the unaudited consolidated financial statements for the three and six months ended December 31, 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 February 8, 2010.

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 acquisition or in-licensing and subsequent clinical development toward commercialization of drug products and technologies from basic research of others. The Company evaluates drug projects, technologies, and products and the prospective markets for them and acquires products or obtains, as appropriate, a license for their further development and marketing.

The Company expends money on the evaluation, acquisition, 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 initially developed by others 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, which 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 products being developed 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 QUARTERLY FINANCIAL INFORMATION

| | Three months ended December 31, | | | Six months ended December 31, | | |
|---|---------------------------------|---------------|--------------|-------------------------------|---------------|--------------|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Out-licensing revenue | 697,583 | 1,832,224 | (1,134,641) | 1,425,121 | 3,047,169 | (1,622,048) |
| Interest income | 13,174 | 365,067 | (351,893) | 32,293 | 807,688 | (775,395) |
| Expenses: | | | | | | |
| Licensing and product development | 2,372,946 | 4,421,428 | (2,048,482) | 4,808,994 | 8,266,612 | (3,457,618) |
| General and administrative | 1,699,330 | 1,193,209 | 506,121 | 3,483,762 | 2,340,587 | 1,143,175 |
| Loss for the period | (3,375,537) | (3,174,385) | (201,152) | (6,878,325) | (6,330,597) | (547,728) |
| Deficit, beginning of period, | (149,754,739) | (136,338,697) | (13,416,042) | (146,251,951) | (133,182,485) | (13,069,466) |
| Deficit, end of period | (153,130,276) | (139,513,082) | (13,617,194) | (153,130,276) | (139,513,082) | (13,617,194) |
| Basic and diluted loss per common share | (0.06) | (0.06) | 0.00 | (0.12) | (0.11) | (0.01) |
| Total Assets | 39,041,215 | 54,853,553 | (15,812,338) | 39,041,215 | 54,853,553 | (15,812,338) |

RESULTS OF OPERATIONS

Three months and six months ended December 31, 2009 compared to three months and six months ended December 31, 2008

Out-licensing Revenue

Out-licensing revenue decreased by \$1.135 million for the three months ended December 31, 2009 compared to the three months ended December 31, 2008 and decreased by \$1.622 million for the six months ended December 31, 2009 compared to the six months ended December 31, 2008. The decrease in both 2009 periods was due mainly to the extension of the recognition periods for the initial payments for the Daiichi Pharmaceutical Co., Ltd. (“Daiichi”) and Kuhnle Pharmaceuticals Co., Ltd. (“Kuhnle”) contracts by 12 months effective January 1, 2009 and no revenue in 2009 from the Innogene Kalbiotech Private Limited (“IGK”) contract which was fully recognized at December 2008.

Interest Income

Interest income has decreased by \$352 thousand and \$775 thousand, respectively, in the three months and six months ended December 31, 2009 compared to the same periods ended December 31, 2008. Interest income has decreased significantly due mainly to the sharp decline in market interest rates.

Licensing and Product Development Expenses

Licensing and product development expenses for the three months ended December 31, 2009 decreased by \$2.048 million to \$2.373 million, and for the six months ended December 31, 2009, decreased by \$3.458 million to \$4.809 million compared to the same periods last year. In addition to the changes described below, core expenses for licensing and product development decreased by \$195 thousand and by \$1.046 million for the three and six months

ended December 31, 2009, respectively. This was due mainly to decreases in salaries, travel and office expenses as a result of a reduction of staff in the U.S office.

Nimotuzumab

Costs associated with development activities for nimotuzumab decreased by \$1.032 million to \$1.204 million and by \$1.230 million to \$2.039 million for the three and six months ended December 31, 2009, respectively, compared to the same periods in the prior year. The 2009 costs were due mainly to the two new clinical trials for non-small cell lung cancer patients ineligible for radical chemotherapy (NSCLC) and brain metastases from non-small cell lung cancer, as well as the ongoing glioma trial. 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 diffuse intrinsic pontine glioma (DIPG).

AeroLEF

Costs associated with development activities for AeroLEF™ decreased by \$697 thousand and by \$782 thousand for the three and six months ended December 31, 2009, respectively, compared the same periods in the prior year. Costs in 2009 were due mainly to out-licensing initiatives, analytical development, stability studies and IP management. The 2008 costs were primarily related to the creation of a product development plan, regulatory, and preparation for a phase III clinical trial.

Tesmilifene

The company has ceased development spending for tesmilifene. Current year costs for the three month and six months periods ended December 31, 2009 were \$11 thousand and \$19 thousand, respectively, compared to \$135 thousand and \$419 thousand for the respective comparative periods which included expenses related to the completion of the TAX PK study and data monitoring.

General and Administrative Expenses

General and administrative expenses increased by \$506 thousand to \$1.699 million for the three months ended December 31, 2009 and increased by \$1.143 million to \$3.484 million for the six months ended December 31, 2009, compared to the same periods in the prior year. The increase for the six months ended December 31, 2009 over the comparative period was due mainly to higher stock-based compensation expense (2010-\$514,690; 2009-\$379,556), and an increase in business development costs related to potential new product acquisitions. The increase for the three months ended December 31, 2009, was primarily due to increased legal and consulting fees relating to the Cytopia Limited acquisition.

SUMMARY OF QUARTERLY RESULTS

| | Out-Licensing Revenue | Net Loss | Basic and diluted loss per common Share |
|--------------------|----------------------------------|-----------------|--|
| December 31, 2009 | \$ 697,583 | \$ (3,375,537) | \$ (0.06) |
| September 30, 2009 | \$ 727,538 | \$ (3,502,788) | \$ (0.06) |
| June 30, 2009 | \$ 719,984 | \$ (3,264,030) | \$ (0.06) |
| March 31, 2009 | \$ 776,127 | \$ (3,474,839) | \$ (0.06) |
| December 31, 2008 | \$ 1,832,224 | \$ (3,174,385) | \$ (0.06) |
| September 30, 2008 | \$ 1,214,945 | \$ (3,156,212) | \$ (0.06) |
| June 30, 2008 | \$ 1,420,484 | \$ (2,962,900) | \$ (0.05) |
| March 31, 2008 | \$ 1,155,835 | \$ (3,818,647) | \$ (0.07) |

In general, out-licensing revenue remained steady over the first three quarters ending September 30, 2008, but changed in the last five quarters. Out-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 most recent four quarters because the revenue received for one contract was fully recognized in the quarter ended

December 31, 2008 and because the recognition period for the initial payment for the license to Daiichi Sankyo was extended by 12 months effective January 1, 2009, reducing the amount recognized in the quarters following. In the quarter ended December 31, 2008 a one-time milestone payment of US\$500,000, was received and fully recognized in revenue. 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, which began in the fourth quarter of fiscal 2008.

It is inherent in the development of drug products that planned expenditures vary depending on results achieved. Our current plan includes continuing 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, acquisition 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 extent of its clinical trials, the results of its regulatory submissions, the achievement of commercialization agreements, the costs associated with obtaining and protecting the patents for products in development, and its general operating expenses.

The 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 to continue as a going concern. The 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 December 31, 2009 the Company had cash and short-term deposits totalling \$35.902 million and accounts payables and accrued liabilities totalling \$1.468 million compared to \$42.051 million and \$918 thousand respectively, at June 30, 2009. 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 December 31, 2009 are sufficient to support the Company's activities beyond 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 principal 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 December 31, 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 \$1.417

million (U.S. \$1.348 million) of which approximately \$1.210 million has been paid as at December 31, 2009 and the remaining \$207 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.

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 metastases to the brain from NSCLC at a cost of \$1.161 million, of which approximately \$555 thousand has been incurred as at December 31, 2009 and the remaining \$606 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 \$772 thousand has been incurred as at December 31, 2009 and the remaining \$728 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 contracts, the Company has entered into numerous additional contracts for pre-clinical and other studies, none of which individually exceed \$1 million, totaling approximately \$4.898 million of which \$2.299 million has been incurred as at December 31, 2009 and the remaining \$2.599 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 AeroLEF as well as in evaluating new products to in-license. Additional funds will be required for the costs related to the acquisition of Cytopia Limited, concluded on January 28, 2010, and to fund the development of its products.

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, acquisition, 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. YM owns AeroLEF[®], its other principal product in development, outright.

FDA clearance for YM's randomized, Phase II, double-blind trials in metastases to the brain from non-small cell lung cancer (NSCLC) and in NSCLC patients ineligible for curative treatment who are being treated palliatively was received in January 2010 for the trials that had previously been initiated in Canada; recruitment commenced in March 2009 in palliative NSCLC and in September 2009 for the brain metastases trial. 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.

Daiichi Sankyo Co., Ltd., CIMYM's licensee for nimotuzumab in Japan, initiated a randomized trial with nimotuzumab in gastric cancer which it reports completed recruitment in calendar 2009, and also launched a Phase II trial in first-line NSCLC for which completion of recruitment is reportedly expected in the first half of 2010. Data on both trials is expected during 2010.

Oncoscience AG (OSAG), CIMYM's licensee for Europe, reported acceptance of its submission of a Pediatric Investigative Program (PIP) by the Pediatric Committee (PDCO) of the EMEA on December 23, 2009. This follows the completion of recruitment in a single-arm, Phase III trial of nimotuzumab as first-line therapy in combination with radiotherapy for DIPG in August 2007. The preliminary data from this trial was released at ASCO in 2008 and was expanded on at the annual international pediatric oncology forum, SIOP, held in São Paulo, Brazil in October 2009. If the PIP is approved by the PDCO it would support a submission for marketing authorization. OSAG reports that it has completed recruitment in a Phase III trial in adult glioma patients and continues to recruit a Phase IIb/III trial in pancreatic cancer patients. Data from the adult glioma trial are expected in 2010.

Innogene Kalbiotech PTE Ltd. (IGK), a CIMYM licensee, has reported marketing approval in the Philippines and Indonesia. In January 2009, the National Cancer Centre of Singapore (NCCS) announced that it was launching a worldwide Phase III, 710-patient trial of nimotuzumab in the post-operative or adjuvant setting in head and neck cancer in cooperation with IGK. This trial is in addition to the on-going NCCS Phase II trial in locally advanced head and neck cancer and the initiation of a Phase II trial in cervical cancer being conducted by IGK.

Nimotuzumab is reportedly, at December 31, 2009, being tested in 34 clinical trials worldwide having completed 25 trials to date for a total of 59. Eleven of these ongoing trials are Phase II and Phase IIIs being conducted by YM and our licensees.

In August 2009, 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 subsequently submitted two protocols to the FDA to include US citizens in the YM-led randomized, double-blind Phase II trial of nimotuzumab in NSCLC patients ineligible for radical chemotherapy and the parallel, YM-led, Phase II trial in patients with brain metastases from NSCLC both of which were cleared to initiate in January 2010. Development plans may also include extending other trials being conducted worldwide into the US, such as the multinational 710-patient Phase III trial of nimotuzumab in the post-operative or adjuvant setting in head and neck cancer.

YM has also applied to OFAC for a license to permit activities related to partnering, licensing or otherwise commercializing nimotuzumab in order to more rapidly advance its pivotal stage development. Licenses containing permission for commercial activity have been previously granted by OFAC to two companies seeking to commercialize Cuban-origin therapeutics in the US although only YM proceeded into the clinic subsequent to issuance of an OFAC license.

For Fiscal 2010, YM BioSciences anticipates an extensive roll-out of important data concerning nimotuzumab's clinical utility from completed trials and continued differentiation from the other marketed drugs in its class. These data are expected to lead to broad recognition and acceptance of the efficacy and safety of nimotuzumab.

A presentation of 48-month survival data for patients treated for locally advanced head and neck cancer in a Phase IIb trial known as “BEST” was made at the ASTRO Annual Meeting in Chicago on November 2, 2009. Survival of patients treated with chemo-radiation and nimotuzumab was 48 months compared to 31 months with chemo-radiation alone demonstrating that nimotuzumab is both active and effective in a randomized trial. Nimotuzumab also produced a survival advantage when added to radiation over radiation alone.

Anticipated clinical data for nimotuzumab include:

- Nimotuzumab Phase II (Japan) gastric cancer data in 2010
- Nimotuzumab European Phase III adult glioma data in 2010
- Nimotuzumab North American Phase II pediatric glioma data in 2010
- Nimotuzumab Phase II (Japan) first-line non-small cell lung cancer data in 2010
- Esophageal Phase II data (Brazil) in 2010

Data from the JAK 1/2 targeting molecule, CYT387, and the IV and orally-available vascular disrupting agent, CYT997, also in clinical trials, are expected during 2010.

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. Further development of this product will depend upon partnering or cost-sharing for its pivotal clinical trials.

While expenditures will increase with additional clinical activity we believe YM has the resources to permit the completion of the program designed to support marketing authorization for nimotuzumab, for the continued development of CYT387 and CYT997 as well as AeroLEF.

SUBSEQUENT EVENT

On January 29, 2010 the Company acquired Cytopia Limited (Cytopia) a clinical-stage, cancer drug development company based in Melbourne, Australia. The acquisition added two additional drugs to the Company’s portfolio. Cytopia’s lead products are CYT997, a novel vascular disrupting agent currently in Phase II trials, and CYT387, a novel JAK1/2 inhibitor that has commenced a Phase I trial in myeloproliferative disorders at the Mayo Clinic. YM plans to continue these development programs.

This transaction was conducted by a Scheme of Arrangement whereby YM acquired all of the issued shares and options in Cytopia. The exchange ratio for Cytopia common shares was determined in accordance with the terms of the Arrangement based on volume weighted average share prices as follows:

- Cytopia shareholders received 0.0852 YM common shares for each Cytopia common share held at the record date, as the 20-day volume weighted average price of YM common shares traded on the Toronto Stock Exchange and the New York Stock Exchange/Amex, ending on the day prior to the effective date of \$1.6178 was in the range of \$1.2905 to \$2.3966. This resulted in the issuance of a total of 7,215,053 YM common shares, based on the number of Cytopia common shares outstanding at the date of the Agreement.
- The holders of Cytopia partly paid shares received 61,635 YM common shares and 138,442 YM stock options as consideration for the exchange of their partly paid shares.
- Cytopia optionholders received 225,950 YM stock options in consideration for the cancellation of their Cytopia options.

The purchase price (value of YM common shares issued plus the fair value of stock options issued in exchange for the partly paid shares) for Cytopia was estimated to be \$12.6 million. The value of the YM common shares issued was determined using the closing price of YM common shares on the Toronto Stock Exchange on the acquisition date of January 29, 2010 of \$1.72. The value of the stock options issued to holders of Cytopia partly paid shares was determined using the Black-Scholes option pricing model with the following assumptions: share price of \$1.72; exercise prices of \$3.00 to \$15.00; risk-free interest rate of 3.28%; volatility factor of 83.6%; and estimated life prior

to exercise of options of 7 years. The value of the stock options issued to Cytopia option holders was determined using the Black-Scholes option pricing model with the following assumptions: share price of \$1.72; exercise prices of \$3.71 to \$15.27; risk-free interest rate of 1.41%; volatility factor of 99.6-117.5%; and estimated life prior to exercise of options of 1 to 30 months. YM expects to incur acquisition costs of approximately \$1.000 million. The transaction is a business combination and YM will apply the acquisition method of accounting for the transaction.

The purchase price allocation to the acquired assets and liabilities has not been determined at this time, due to the recent closing of this transaction. The Company expects that a majority of the purchase price will be assigned to the two clinical compounds acquired, in the form of acquired research and development.

At the completion of the transaction, the former shareholders of YM will control approximately 88.5% of the combined consolidated entity and the existing Cytopia shareholders will represent approximately 11.5% of non-diluted interest in the combined company. Post-closing, there were 65,604,476 YM common shares outstanding, with a market capitalization of \$112.8 million.

The results of operations of Cytopia, will be included in the consolidated financial statements of the Company from the date of acquisition, January 29, 2010.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with Canadian 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, the expected life of the options and expected forfeitures.

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 were adopted July 1, 2009:

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 established standards for the recognition, measurement and disclosure of goodwill and intangible assets and was 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. There was no impact of this section on the consolidated financial statements.

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Section 1582 Business Combinations, to replace Section 1581 Business Combinations, which aligns this section with International Financial Reporting Standard IFRS 3, "Business Combinations"; Section 1602 Non-controlling Interests which is equivalent to the corresponding provisions of International Financial Reporting Standard 27, "Consolidated and Separate Financial Statements"; and Section 1601 Consolidated Financial Statements which together with Section 1602 establishes standards for the preparation of consolidated financial statements, replacing Section 1600, Consolidated Financial Statements. These sections are effective for fiscal years beginning on or after January 1, 2011, however, earlier adoption is permitted if all sections are adopted together. As a result of the acquisition of Cytopia Limited and given current differences among Canadian GAAP, IFRS and US GAAP, the company has elected to early adopt these sections effective July 1, 2009. One of the impacts of adopting Section 1582 is that acquisition costs for business combinations are expensed in the statement of operations rather than capitalized as a part of the net assets of the acquired company. For the three and six months ended December 31, 2009, acquisition costs included in general and administrative expenses were \$430 thousand and \$622 thousand, respectively. Under the former Section 1581, these costs at December 31, 2009 would be capitalized as an asset on the balance sheet. Section 1582 also requires supplemental pro forma disclosures of consolidated operating results of the company and the acquired entity.

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

Financial Instruments

In September 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. As a consequence of the requirements of the scheme booklet filed with the Australian Securities and Investments Commission in December 2009 pertaining to the acquisition of Cytopia, the Company accelerated the first phase of its IFRS plan and completed an initial assessment of the differences between IFRS and Canadian GAAP. The Company identified a significant difference in the accounting for stock-based compensation expenses. YM is continuing the process of assessing the differences between its current accounting policies and IFRS, has commenced the process of detailed review, documentation and selection of accounting policy choices, and is evaluating the effect the adoption of the standards will have on its consolidated financial statements.

Financial Instruments

In August 2009, the CICA issued amendments to Handbook Section 3855, Financial Instruments – Recognition and Measurement. The amendments change the categories into which a debt instrument is required or permitted to be classified and changes the impairment models for held-to-maturity and available-for-sale financial assets. These changes will be effective April 1, 2010. The Company is currently assessing the impact of the amendments 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 December 31, 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 quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our disclosure controls over financial reporting.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management 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 quarter ended December 31, 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 December 31, 2009: | <u>Amount</u> | <u>Number</u> |
| Common shares | \$173,023,140 | 55,946,835 |

Note: In addition to the 55,946,835 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. If the milestones are not met by the escrow deadline of May 2, 2010, the shares are returned to YM Biosciences Inc. for cancellation.

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

YM BIOSCIENCES INC.

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

| | December 31, 2009 | June 30, 2009 |
|---|----------------------|----------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash (note 3) | \$ 30,728,304 | \$ 2,337,716 |
| Short-term deposits (note 3) | 5,173,645 | 39,713,042 |
| Accounts receivable | 441,815 | 564,584 |
| Prepaid expenses | 142,024 | 352,850 |
| | <u>36,485,788</u> | <u>42,968,192</u> |
| Property and equipment | 80,830 | 96,876 |
| Intangible assets (note 4) | 2,474,597 | 3,004,868 |
| | <u>\$ 39,041,215</u> | <u>\$ 46,069,936</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 537,272 | \$ 431,028 |
| Accrued liabilities | 930,734 | 486,723 |
| Deferred revenue (note 8) | 2,553,762 | 2,549,568 |
| | <u>4,021,768</u> | <u>3,467,319</u> |
| Deferred revenue (note 8) | 1,616,168 | 2,898,292 |
| Shareholders' equity: | | |
| Share capital (note 5) | 173,023,140 | 172,921,153 |
| Contributed surplus (note 6) | 13,510,415 | 13,035,123 |
| Deficit | (153,130,276) | (146,251,951) |
| | <u>33,403,279</u> | <u>39,704,325</u> |
| Basis of presentation (note 1) | | |
| Commitments (note 9) | | |
| Subsequent event (note 10) | | |
| | <u>\$ 39,041,215</u> | <u>\$ 46,069,936</u> |

See accompanying notes to interim consolidated financial statements.

YM BIOSCIENCES INC.

Interim Consolidated Statements of Operations and Comprehensive Income and Deficit
(Expressed in Canadian dollars, unless otherwise indicated)

| | Three months ended December 31, | | Six months ended December 31, | |
|--|------------------------------------|------------------|----------------------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (Unaudited) | | (Unaudited) | |
| Out-licensing revenue (note 8) | \$ 697,583 | \$ 1,832,224 | \$ 1,425,121 | \$ 3,047,169 |
| Interest income | 13,174 | 365,067 | 32,293 | 807,688 |
| | 710,757 | 2,197,291 | 1,457,414 | 3,854,857 |
| Expenses: | | | | |
| Licensing and product development | 2,372,946 | 4,421,428 | 4,808,994 | 8,266,612 |
| General and administrative | 1,699,330 | 1,193,209 | 3,483,762 | 2,340,587 |
| | 4,072,276 | 5,614,637 | 8,292,756 | 10,607,199 |
| Loss before the undernoted | (3,361,519) | (3,417,346) | (6,835,342) | (6,752,342) |
| Gain (loss) on foreign exchange | (7,130) | 79,684 | (33,877) | 91,887 |
| Gain (loss) on short-term deposits | (6,888) | 163,277 | (9,106) | 22,718 |
| Other income | — | — | — | 307,140 |
| Loss and comprehensive loss for the period | (3,375,537) | (3,174,385) | (6,878,325) | (6,330,597) |
| Deficit, beginning of period | (149,754,739) | (136,338,697) | (146,251,951) | (133,182,485) |
| Deficit, end of period | \$ (153,130,276) | \$ (139,513,082) | \$ (153,130,276) | \$ (139,513,082) |
| Basic and diluted loss per common share | \$ (0.06) | \$ (0.06) | \$ (0.12) | \$ (0.11) |
| Weighted average number of common shares outstanding | 55,888,710 | 55,835,356 | 55,862,879 | 55,835,356 |
| Excludes common shares held in escrow for contingent additional payment related to the acquisition of Delex Therapeutics Inc. (note 5) | 2,380,953 | 2,380,953 | 2,380,953 | 2,380,953 |

See accompanying notes to interim consolidated financial statements.

YM BIOSCIENCES INC.

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

| | Three months ended December 31, | | Six months ended December 31, | |
|--|------------------------------------|----------------|----------------------------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (Unaudited) | | (Unaudited) | |
| Cash provided by (used in): | | | | |
| Operating activities: | | | | |
| Loss for the period | \$ (3,375,537) | \$ (3,174,385) | \$ (6,878,325) | \$ (6,330,597) |
| Items not involving cash: | | | | |
| Amortization of property and equipment | 17,331 | 18,844 | 33,583 | 37,476 |
| Amortization of intangible assets | 265,135 | 265,136 | 530,271 | 530,271 |
| Loss (gain) on short-term deposits | 6,888 | (163,277) | 9,106 | (22,718) |
| Stock-based compensation | 118,046 | 189,223 | 514,690 | 379,556 |
| Change in non-cash operating working capital: | | | | |
| Accounts receivable and prepaid expenses | 87,560 | (191,057) | 333,595 | (300,897) |
| Accounts payable, accrued liabilities and deferred revenue | (722,825) | (1,585,637) | (727,675) | (2,268,645) |
| | (3,603,402) | (4,641,153) | (6,184,755) | (7,975,554) |
| Financing activities: | | | | |
| Issuance of common shares on exercise of options | 51,165 | – | 62,589 | – |
| Investing activities: | | | | |
| Short-term deposits, net | 25,422 | (174,312) | 34,530,291 | 13,025,814 |
| Additions to property and equipment | (13,974) | (2,332) | (17,537) | (15,036) |
| | 11,448 | (176,644) | 34,512,754 | 13,010,778 |
| Increase (decrease) in cash | (3,540,789) | (4,817,797) | 28,390,588 | 5,035,224 |
| Cash, beginning of period | 34,269,093 | 12,972,210 | 2,337,716 | 3,119,189 |
| Cash, end of period | \$ 30,728,304 | \$ 8,154,413 | \$ 30,728,304 | \$ 8,154,413 |

See accompanying notes to interim consolidated financial statements.

YM BIOSCIENCES INC.

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

1. Basis of presentation:

These unaudited interim consolidated financial statements of YM BioSciences Inc. (the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") for unaudited interim consolidated financial statements which, except as described in note 11, conform in all material respects to accounting principles generally accepted in the United States ("U.S. GAAP"). Accordingly, these unaudited interim consolidated financial statements do not contain all disclosures required to be included in the annual consolidated financial statements and should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended June 30, 2009. These unaudited interim consolidated financial statements are prepared following accounting policies consistent with the Company's audited annual consolidated financial statements and notes thereto for the year ended June 30, 2009, except as disclosed in notes 2 and 11(d).

The financial information included herein reflects all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the results for the interim period presented. Operating results for the three months and six months ended December 31, 2009 are not necessarily indicative of the results of operations that may be expected for the year ending June 30, 2010.

These unaudited interim 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 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 development. It has had no net earnings, minimal revenue, 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 unaudited interim 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.

YM BIOSCIENCES INC.

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

1. Basis of presentation (continued):

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

2. Significant accounting policies:

(a) New accounting pronouncements:

These unaudited interim consolidated financial statements have been prepared using the same accounting policies and methods as were used for the audited annual consolidated financial statements for the year ended June 30, 2009, except for the following new accounting pronouncements, which were adopted effective July 1, 2009:

(i) Goodwill and intangible assets:

In February 2008, The Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this change did not have an impact on the Company's unaudited interim consolidated financial statements.

(ii) Financial instruments:

In June 2009, the CICA issued amendments to Section 3862, Financial Instruments - Disclosures, enhancing disclosure requirements about liquidity risk and fair value measurements of financial instruments. The adoption of this change did not have an impact on the Company's unaudited interim consolidated financial statements.

YM BIOSCIENCES INC.

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

2. Significant accounting policies (continued):

- (iii) Business combinations, consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued Section 1582, Business Combinations ("Section 1582"), to replace Section 1581, Business Combinations ("Section 1581"), which aligns this section with International Financial Reporting Standard 3, Business Combinations; Section 1602, Non-controlling Interests ("Section 1602"), which is equivalent to the corresponding provisions of International Financial Reporting Standard 27, Consolidated and Separate Financial Statements; and Section 1601, Consolidated Financial Statements, which together with Section 1602 establishes standards for the preparation of consolidated financial statements, replacing Section 1600, Consolidated Financial Statements. These sections are effective for fiscal years beginning on or after January 1, 2011, however, earlier adoption is permitted if all sections are adopted together. As a result of the acquisition of Cytopia Limited (ASX: CYT) ("Cytopia") and given current differences among Canadian GAAP, International Financial Reporting Standards ("IFRS") and U.S. GAAP, the Company has elected to early adopt these sections effective July 1, 2009. One of the impacts of adopting Section 1582 is that acquisition costs for business combinations are expensed in the statement of operations rather than capitalized as a part of the net assets of the acquired company. For the three and six months ended December 31, 2009, acquisition costs included in general and administrative expenses were \$430,000 and \$622,000, respectively. Under the former Section 1581, these costs at December 31, 2009 would be capitalized as an asset on the balance sheet. Section 1582 also requires supplemental pro forma disclosures of consolidated operating results of the Company and the acquired entity.

- (b) Accounting policies issued but not yet adopted:

International financial reporting standards:

The CICA plans to converge Canadian GAAP with IFRS over a transition period until implementation in July 2011. The impact of the transition to IFRS on the Company's unaudited interim consolidated financial statements has not yet been determined and management is carrying out a plan for the conversion to IFRS in accordance with the timelines required.

YM BIOSCIENCES INC.

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

3. Cash and short-term deposits:

Cash is on deposit with Canadian Schedule A banks.

The Company's short-term deposits are bankers' acceptances issued by Canadian Schedule A banks, maturing in less than one year.

4. Intangible assets:

| | December 31, 2009 | | | June 30, 2009 | | |
|-----------------------|-------------------|--------------------------|----------------|---------------|--------------------------|----------------|
| | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| Acquired technologies | \$ 7,348,185 | \$ 4,873,588 | \$ 2,474,597 | \$ 7,348,185 | \$ 4,343,317 | \$ 3,004,868 |

5. Share capital:

Issued:

| | Number of shares | Amount |
|-------------------------------|------------------|----------------|
| Common shares: | | |
| Balance, June 30, 2009 | 55,835,356 | \$ 172,921,153 |
| Issued on exercise of options | 9,149 | 19,187 |
| Balance, September 30, 2009 | 55,844,505 | 172,940,340 |
| Issued on exercise of options | 102,330 | 82,800 |
| Balance, December 31, 2009 | 55,946,835 | \$ 173,023,140 |

YM BIOSCIENCES INC.

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

5. Share capital (continued):

At December 31, 2009, 2,380,953 (June 30, 2009 - 2,380,953) common shares are held in escrow for contingent payments related to Delex Therapeutics Inc. ("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. If these milestones are not met by the escrow deadline of May 2, 2010, the common shares will be returned to the Company for cancellation.

6. Contributed surplus:

| | |
|-----------------------------|---------------|
| Balance, June 30, 2009 | \$ 13,035,123 |
| Stock-based compensation | 396,644 |
| Exercise of options | (7,763) |
| <hr/> | |
| Balance, September 30, 2009 | 13,424,004 |
| Stock-based compensation | 118,046 |
| Exercise of options | (31,635) |
| <hr/> | |
| Balance, December 31, 2009 | \$ 13,510,415 |

7. 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. As at December 31, 2009, the option exercise prices range from \$0.50 to \$5.74.

YM BIOSCIENCES INC.

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

7. Stock-based compensation (continued):

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:

| | Three months ended December 31, | | Six months ended December 31, | |
|---|------------------------------------|------|----------------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| Number of options issued | – | – | 757,500 | 2,004,250 |
| Risk-free interest rate | – | – | 2.3% - 3.1% | 3.0% - 3.4% |
| Volatility factor | – | – | 84.0% - 87.0% | 68.0% - 78.0% |
| Expected life of options | – | – | 5 - 7 years | 3 - 7 years |
| Vesting period (months) | – | – | 0 to 24 | 0 to 24 |
| Weighted average fair value of options granted | – | – | \$1.19 | \$0.31 |
| Fair value of options granted | – | – | \$900,018 | \$626,294 |

Forfeitures are accounted for on an estimated basis, based on historical trends.

Compensation cost recognized as an expense for the three months and six months ended December 31, 2009 for stock-based employee compensation awards was \$118,046 and \$514,690 (three months and six months ended December 31, 2008 - \$189,233 and \$379,556), respectively. The fair value of options granted is being expensed over the vesting period of the options.

As at December 31, 2009, total compensation cost related to non-vested awards not yet recognized was \$589,653 and the weighted average period over which it is expected to be recognized was 1.52 years. As at December 31, 2009, the Company has 1,865,617 stock options that have been authorized but not granted.

YM BIOSCIENCES INC.

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

7. Stock-based compensation (continued):

Stock options:

The following table reflects the activity under the stock option plan for the three months and six months ended December 31, 2009 and the stock options outstanding at the end of the period:

| | Number | Weighted average exercise price |
|---------------------------------|-----------|---------------------------------------|
| Outstanding, June 30, 2009 | 6,563,615 | \$ 2.08 |
| Granted | 757,500 | 1.58 |
| Expired | (108,351) | 1.22 |
| Exercised | (9,149) | 1.25 |
| Outstanding, September 30, 2009 | 7,203,615 | 2.04 |
| Expired | (217,734) | 2.89 |
| Exercised | (102,330) | 0.50 |
| Outstanding, December 31, 2009 | 6,883,551 | 2.04 |
| Exercisable, December 31, 2009 | 5,689,445 | \$ 2.26 |

YM BIOSCIENCES INC.

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

Three months and six months ended December 31, 2009 and 2008
 (Unaudited)

8. Out-licensing agreements:

| Date of agreement | Product | Initial license fee | Deferred revenue | | Revenue recognized | | | |
|-----------------------------------|-------------|---------------------|-------------------|---------------|---------------------------------|--------------|-------------------------------|--------------|
| | | | December 31, 2009 | June 30, 2009 | Three months ended December 31, | | Six months ended December 31, | |
| | | | | | 2009 | 2008 | 2009 | 2008 |
| November 3, 2006 | Tesmilifene | \$ 230,400 | \$ 103,600 | \$ 120,400 | \$ 8,400 | \$ 8,400 | \$ 16,800 | \$ 16,800 |
| July 25, 2006 | Nimotuzumab | 16,226,950 | 3,936,780 | 5,179,975 | 621,597 | 1,014,184 | 1,243,194 | 2,028,369 |
| January 20, 2006 | Nimotuzumab | 1,152,788 | — | — | — | 96,066 | — | 192,131 |
| August 30, 2005 | Nimotuzumab | 441,792 | 4,786 | 6,995 | 1,104 | 27,612 | 2,209 | 55,224 |
| January 26, 2005 | Tesmilifene | 620,311 | 124,764 | 140,490 | 7,339 | 9,572 | 15,727 | 19,145 |
| Royalty and miscellaneous revenue | Nimotuzumab | — | — | — | 59,143 | 676,390 | 147,191 | 735,500 |
| | | \$ 18,672,241 | \$ 4,169,930 | \$ 5,447,860 | \$ 697,583 | \$ 1,832,224 | \$ 1,425,121 | \$ 3,047,169 |

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.

YM BIOSCIENCES INC.

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

9. 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 \$1.417 million (U.S. \$1.348 million), of which approximately \$1.210 million has been incurred as at December 31, 2009 and the remaining \$207 thousand has yet to be 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 close-out services furnished by the 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 \$555 thousand has been incurred as at December 31, 2009 and the remaining \$606 thousand 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 million, of which approximately \$772 thousand has been incurred as at December 31, 2009 and the remaining \$728 thousand has 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 contracts, the Company has entered into many additional contracts for pre-clinical and other studies, none of which individually exceeds \$1.000 million, totalling approximately \$4.898 million, of which approximately \$2.299 million has been incurred as at December 31, 2009 and the obligation to pay the remaining \$2.599 million has yet to be incurred. Any early termination penalties cannot exceed the amount of the contract commitment.

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Notes to Interim Consolidated Financial Statements (continued)
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Three months and six months ended December 31, 2009 and 2008
(Unaudited)

10. Subsequent event:

On January 29, 2010, the Company acquired Cytopia, a clinical-stage, cancer drug development company based in Melbourne, Australia. The acquisition added two additional drugs to the Company's portfolio. Cytopia's lead products are CYT997, a novel vascular disrupting agent currently in Phase II trials, and CYT387, a novel JAK1/2 inhibitor that has commenced a Phase I trial in myeloproliferative disorders at the Mayo Clinic. The Company plans to continue these development programs.

This transaction was conducted by a Scheme of Arrangement (the "Arrangement") whereby the Company acquired all of the issued shares and options in Cytopia. The terms of the Arrangement were as follows:

- (a) Cytopia shareholders received 0.0852 common shares of the Company for each Cytopia common share held at the record date. This resulted in the issuance of a total of 7,215,053 common shares of the Company, based on the number of Cytopia common shares outstanding at the date of the Arrangement.
- (b) The holders of Cytopia partly paid shares received 61,635 common shares of the Company and 138,442 stock options in the Company as consideration for the exchange of their partly paid shares.
- (c) Cytopia option holders received 225,950 stock options in the Company in consideration for the cancellation of their Cytopia options.

The purchase price (value of the Company's common shares issued plus the fair value of stock options issued in exchange for the partly paid shares) for Cytopia was estimated to be \$12,642,000. The value of the Company's common shares issued was determined using the closing price of the Company's common shares on the Toronto Stock Exchange on the acquisition date of January 29, 2010 of \$1.72.

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Notes to Interim Consolidated Financial Statements (continued)
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10. Subsequent event (continued):

The value of the stock options issued to holders of Cytopia partly paid shares was determined using the Black-Scholes option pricing model with the following assumptions: share price of \$1.72; exercise prices of \$3.00 to \$15.00; risk-free interest rate of 3.28%; volatility factor of 83.6%; and estimated life prior to exercise of options of seven years. The value of stock options issued to Cytopia option holders was determined using the Black-Scholes option pricing model with the following assumptions: share price of \$1.72; exercise prices of \$3.71 to \$15.27; risk-free interest rate of 1.41%; volatility factor of 99.58% to 117.49%; and estimated life of one to thirty months. The Company expects to incur acquisition costs of approximately \$1,000,000. For the three and six months ended December 31, 2009, \$430,000 and \$622,000 of acquisition costs, respectively, were included in general and administrative expenses. The transaction is a business combination and the Company will apply the acquisition method of accounting for the transaction.

The purchase price allocation to the acquired assets and liabilities has not been determined at this time, due to the recent closing of this transaction. The Company expects that a majority of the purchase price will be assigned to the two clinical compounds acquired, in the form of acquired research and development.

The former shareholders of the Company will control approximately 88.5% of the combined consolidated entity and the existing Cytopia shareholders will represent approximately 11.5% of non-diluted interest in the combined company.

The results of operations of Cytopia will be included in the consolidated financial statements of the Company from the date of acquisition, January 29, 2010. As required by Canadian GAAP, the supplemental financial information presented below summarizes selected results of operations on a pro forma basis as though the acquisition of Cytopia occurred as of the beginning date of the current period. This pro forma information is for informational purposes only and does not purport to represent what the results of operations for the period presented would have been had the acquisition of Cytopia occurred at the beginning of the period, or to project the results of operations for any future period.

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

10. Subsequent event (continued):

Supplemental pro forma information:

The pro forma condensed combined revenue and loss for the six months ended December 31, 2009, had the acquisition date been July 1, 2009, is \$1,445,420 and \$9,427,727, respectively.

11. Canadian and United States generally accepted accounting policy differences:

The Company's unaudited interim 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 U.S. GAAP on the Company's unaudited interim consolidated financial statements.

(a) Interim consolidated statements of operations and comprehensive loss and deficit:

The following table reconciles loss for the period as reported in the unaudited interim consolidated statements of operations and comprehensive loss and deficit reported under Canadian GAAP to what would have been reported had the unaudited interim consolidated financial statements been prepared in accordance with U.S. GAAP.

| | Three months ended December 31, | | Six months ended December 31, | |
|--|------------------------------------|----------------|----------------------------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Loss for the period, based on Canadian GAAP | \$ (3,375,537) | \$ (3,174,385) | \$ (6,878,325) | \$ (6,330,597) |
| Amortization of acquired technologies (i) | 265,136 | 265,136 | 530,271 | 530,271 |
| Loss for the period and comprehensive loss based on United States GAAP | \$ (3,110,401) | \$ (2,909,249) | \$ (6,348,054) | \$ (5,800,326) |
| Basic and diluted loss per share (ii) | \$ (0.06) | \$ (0.06) | \$ (0.11) | \$ (0.11) |
| Weighted average number of common shares outstanding | 55,888,710 | 55,835,356 | 55,862,879 | 55,835,356 |
| Excludes common shares held in escrow for contingent additional payment related to the acquisition of Delex Therapeutics Inc. (note 5) | 2,380,953 | 2,380,953 | 2,380,953 | 2,380,953 |

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

11. Canadian and United States generally accepted accounting policy differences (continued):

(i) Acquired technologies:

Under U.S. 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, were considered in-process research and development and were immediately expensed upon acquisition. The Company's acquired technologies do not have an alternative future use given their specialized nature. Under Canadian GAAP, the acquired technologies were considered to be development assets that were capitalized and amortized over their expected useful lives.

(ii) Loss per common share:

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

YM BIOSCIENCES INC.

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

Three months and six months ended December 31, 2009 and 2008
(Unaudited)

11. Canadian and United States generally accepted accounting policy differences (continued):

(b) Interim consolidated statement of changes in shareholders' equity:

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

| | Share capital | Deficit | Additional paid-in capital | Total |
|---|----------------|------------------|----------------------------------|-------------------|
| Total shareholders' equity under United States GAAP, June 30, 2009 | \$ 172,921,153 | \$ (147,438,485) | \$ 11,274,011 | \$ 36,756,679 |
| Stock-based compensation Issued on exercise of options | – 101,987 | – – | 514,690 (39,398) | 514,690 62,589 |
| Loss for the period | – | (6,348,054) | – | (6,348,054) |
| Total shareholders' equity under United States GAAP, December 31, 2009 | 173,023,140 | (153,786,539) | 11,749,303 | 30,985,904 |
| Stock-based compensation expense | – | (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 | – | (4,873,588) | – | (4,873,588) |
| Total shareholders' equity under Canadian GAAP, December 31, 2009 | \$ 173,023,140 | \$ (153,130,276) | \$ 13,510,415 | \$ 33,403,279 |

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Notes to Interim Consolidated Financial Statements (continued)
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(Unaudited)

11. Canadian and United States generally accepted accounting policy differences (continued):

| | Warrants | Share capital | Deficit | Additional paid-in capital | Total |
|--|--------------|----------------|------------------|----------------------------|---------------|
| Total shareholders' equity under United States GAAP, June 30, 2008 | \$ 3,150,539 | \$ 172,921,153 | \$ (135,429,560) | \$ 7,362,712 | \$ 48,004,844 |
| Stock-based compensation | – | – | – | 379,556 | 379,556 |
| Expiry of warrants | (3,095,764) | – | – | 3,095,764 | – |
| Loss for the period | – | – | (5,800,326) | – | (5,800,326) |
| Total shareholders' equity under United States GAAP, December 31, 2008 | 54,775 | 172,921,153 | (141,229,886) | 10,838,032 | 42,584,074 |
| Stock-based compensation expense | – | – | (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 | – | – | (3,813,047) | – | (3,813,047) |
| Total shareholders' equity under Canadian GAAP, December 31, 2008 | \$ 54,775 | \$ 172,921,153 | \$ (139,513,082) | \$ 12,599,144 | \$ 46,061,990 |

(c) Investment tax credits:

Canadian GAAP requires that investment tax credits relating to development costs be accounted for as a reduction of development costs. U.S. GAAP requires such amounts to be accounted for as a reduction of income tax expense. For the six months ended December 31, 2009, the Company recognized \$50,000 of investment tax credits (2008 - nil).

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Notes to Interim Consolidated Financial Statements (continued)
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11. Canadian and United States generally accepted accounting policy differences (continued):

(d) New accounting pronouncements:

These unaudited interim consolidated financial statements have been prepared using the same accounting policies and methods under U.S. GAAP as were used for the audited annual consolidated financial statements for the year ended June 30, 2009, except for the following new accounting pronouncements:

- (i) On July 1, 2009, the Company adopted the Statement of Financial Accounting Standards ("SFAS") 141R, Business Combinations ("SFAS 141R") and SFAS 160R, Non-controlling interests in Consolidated Financial Statements ("SFAS 160R"). The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 160R 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 entity. This standard applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. Effective July 1, 2009, as described in note 2(a)(iii), the Company adopted new Canadian GAAP standards that parallel the adoption of these new U.S. standards. Accordingly, the adoption of these U.S. standards did not have any additional impact on the Company's unaudited interim consolidated financial statements.

- (ii) On July 1, 2009, the Company adopted 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 (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The adoption of this change did not have an impact on the Company's unaudited interim consolidated financial statements.

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11. Canadian and United States generally accepted accounting policy differences (continued):

(iii) Accounting standards codification:

On July 1, 2009, the Company adopted the Financial Accounting Standards Board, ("FASB") Accounting Standards Codification ("Codification") and The Hierarchy of Generally Accepted Accounting Principles, which became effective November 13, 2008. The Codification is the source of authoritative U.S. 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 U.S. GAAP for SEC registrants. On November 13, 2008, the Codification superseded 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.

(e) Supplemental pro forma information:

Supplemental pro forma information on the acquisition of Cytopia on January 29, 2010 is presented in note 10 in accordance with Canadian GAAP. The pro forma condensed combined revenue for the six months ended December 31, 2009 under U.S. GAAP is unchanged at \$1,445,420. Under U.S. GAAP as described in note 11(a)(i), in-process research and development previously acquired was immediately expensed on acquisition. Amortization of the acquired research and development included in the pro forma condensed combined loss for the six months ended December 31, 2009 of \$530,271 was reversed under U.S. GAAP, and accordingly the pro forma condensed combined loss under U.S. GAAP was \$8,897,456.