



YM BIOSCIENCES INC.

Quarterly Report
Second Quarter — Fiscal 2009

YM BioSciences Inc.
Letter to Shareholders
Fiscal 2009 Second Quarter, ended December 31st, 2008

Dear Shareholders,

During the second quarter of Fiscal 2009, YM received clearance from Canadian regulatory authorities to initiate two Phase II, double-blind, randomized trials for nimotuzumab. These two trials will evaluate our EGFR-targeting antibody in combination with radiation-based treatments in patients with non-small cell lung cancer (NSCLC) and in patients with brain metastases from NSCLC. Enrolment for both trials is expected to be initiated in Canada in the first quarter of calendar 2009 and YM anticipates expanding the trials into other countries.

These two controlled studies are expected to contribute significantly to the already extensive late-stage clinical program being pursued by the global network of companies developing nimotuzumab. In addition to a third YM-sponsored trial in pediatric glioma ongoing in the USA, Canada and Israel, nimotuzumab is currently being advanced in several randomized Phase II and III trials in Japan, South East Asia, Europe and elsewhere.

- Citing nimotuzumab's preferential safety profile compared with other EGFR-targeting cancer drugs, during the quarter the National Cancer Centre of Singapore (NCCS) announced that it has selected our drug for a Phase III multinational trial in the adjuvant setting of more than 700 patients with cancers of the head and neck.
- Two of our licensees for nimotuzumab, Daiichi-Sankyo Co., Ltd. in Japan and Kuhnle Pharmaceutical Co. in Korea, recently initiated an 80-patient Phase II randomized, open-label trial evaluating nimotuzumab in patients with advanced or recurrent gastric cancer.
- Our licensee in Europe, Oncoscience AG, reports that it continues to enrol patients in a randomized Phase III study evaluating nimotuzumab in adult glioma patients and a randomized Phase IIb/IIIa trial in patients with advanced pancreatic cancer.

Specific to our North American regulatory strategy, our two randomized trials form part of the registration program for nimotuzumab that is concentrating on cancers treated with radiation-containing regimens. This strategy is driven by data we and others have generated supporting nimotuzumab's demonstrated efficacy within radiation-containing regimens. Consistent with the extensive literature on the effect of radiation on EGFR-expression, the combination has the prospect to maximize the benefits of radiotherapy and increase survival and quality of life. Nimotuzumab's preferential safety profile is expected to permit its useful addition to radiation/chemotherapy combinations where the increased toxicity of the other antibodies would be intolerable. By conducting trials in these particularly challenging and neglected patient populations, we should be able to generate robust data relatively rapidly aimed at confirming these benefits.

During the quarter we also continued to prepare our second late-stage product, AeroLEF[®], for further development internationally. Our current focus is on establishing the registration pathway for the product in Europe as we already have in the US and obtaining this clarity will further enhance AeroLEF[®]'s attractiveness to potential partners.

We continue to manage our cash resources prudently and conservatively. While YM's cash resources (just short of \$50 million net as at the end of the quarter) should allow us to continue development of our lead products nimotuzumab and AeroLEF[®] beyond fiscal 2009 as planned, we are cognizant that in this

harsh economic environment extreme caution is warranted. I believe that our overhead controls this quarter demonstrate our commitment to this and we continue to leverage the tremendous value of the network of cooperative relationships for the development of nimotuzumab to offset the costs of the sizeable late-stage clinical program for this drug.

Looking ahead, we and our partners expect to make significant progress in the coming quarters, maintaining the momentum for our lead drug. The prospect of bringing a potentially best-in-class cancer drug to patients globally is a powerful incentive that motivates us all. As we advance towards this goal, I look forward to updating you on our continued progress.

Sincerely,
David G.P. Allan
Chairman and CEO
YM BioSciences Inc.
Date: February 12, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and six months ended December 31, 2008

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, 2008 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, 2008, 2007, 2006, and the notes thereto.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada (Canadian GAAP) for interim financial statements. 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 17 to the audited consolidated financial statements for the fiscal year ended June 30, 2008. 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 12, 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 a company 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, licensing and further development of certain drug products and on providing licensing, marketing, clinical development and regulatory affairs skills, patent advice 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 their 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

	<u>Three months ended December 31,</u>			<u>Six months ended December 31,</u>		
	2008	2007	Change	2008	2007	Change
Out-licensing revenue	\$1,832,224	\$1,155,833	\$676,391	\$3,047,169	\$2,282,766	\$764,403
Interest income	365,067	727,242	(362,175)	807,688	1,417,634	(609,946)
Expenses:						
General and administrative	1,193,209	2,075,506	(882,297)	2,340,587	4,109,516	(1,768,929)
Licensing and product development	4,421,428	4,220,627	200,801	8,266,612	7,765,486	501,126
Loss for the period	(3,174,385)	(4,479,888)	1,305,503	(6,330,597)	(8,104,197)	1,773,600
Deficit, beginning of period,	(136,338,697)	(121,921,050)	(14,417,647)	(133,182,485)	(118,296,741)	(14,885,744)
Deficit, end of period	<u>(\$139,513,082)</u>	<u>(\$126,400,938)</u>	<u>(\$13,112,144)</u>	<u>(\$139,513,082)</u>	<u>(\$126,400,938)</u>	<u>(\$13,112,144)</u>
Basic and diluted loss per common share	<u>(\$0.06)</u>	<u>(\$0.08)</u>	<u>(\$0.02)</u>	<u>(\$0.11)</u>	<u>(\$0.15)</u>	<u>\$0.04</u>
Total Assets	<u>\$54,853,553</u>	<u>\$71,783,722</u>	<u>(\$16,930,169)</u>	<u>\$54,853,553</u>	<u>\$71,783,722</u>	<u>(\$16,930,169)</u>

RESULTS OF OPERATIONS

Three months and six months ended December 31, 2007 compared to three months and six months ended December 31, 2008

Out-licensing Revenue

Revenue from out-licensing has increased by \$676 thousand for the three months ended December 31, 2008 compared to the three months ended December 31, 2007 and has increased by \$764 thousand for the six months ended December 31, 2008. The increase in revenue for the three months ended December 31, 2008 compared to the same period in the prior year is mainly attributable to a US\$500 thousand milestone payment received from one of the Company's licensees. The Company also began receiving royalty payments from a limited sales program in Europe in the fourth quarter of fiscal 2008. 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 at the end of July 2006 with Daiichi Pharmaceutical Co., Ltd ("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 \$16.227M. This initial license fee

has been recorded as deferred revenue and is being recognized over the estimated period of collaboration of four years.

Interest Income

Interest income has decreased by \$362 thousand and \$610 thousand respectively in the three months and six months ended December 31, 2008 compared to the same periods ended December 31, 2007. Interest income is decreasing as the Company draws on its cash balances to fund its operations and as interest rates decline.

Licensing and Product Development Expenses

Licensing and product development expenses for the three months ended December 31, 2008 increased by \$201 thousand and for the six months ended December 31, 2008, increased by \$501 thousand compared to the same periods last year. In addition to the changes described below, core expenses for licensing and product development decreased by \$683 thousand for the three months and by \$661 thousand for the six months ended December 31, 2008. 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 \$1.157 million to \$2.237 million and by \$1.345 million to \$3.269 million for the three and six months ended December 31, 2008 respectively, compared to the same periods in the prior year. The increase in expenses is related to a new toxicology study, and preparation for the two new clinical trials.

AeroLEF™

Costs associated with development activities for AeroLEF™ decreased by \$184 thousand to \$630 thousand for the three month period ended December 31, 2008 compared to \$814 thousand for the same period in the prior year. Last year, the Company incurred one time costs in transferring manufacturing to a contract manufacturer in the U.S.A. For the six month period ended December 31, 2008 costs are comparable to the same period in the prior year, as spending has only increased by \$66 thousand to \$1.143 million. This year's costs are related to the new marketing and regulatory initiatives in Europe.

Tesmilifene

Costs related to development activities for tesmilifene for the three month period ended December 31, 2008 decreased by \$89 thousand to \$135 thousand compared to \$224 thousand for the same three months in the prior year. Year-to-date costs have decreased by \$249 thousand to \$419 thousand compared to \$668 thousand for the same period in the prior year. The decrease in spending for the current fiscal year is a result of the curtailment of development subsequent to the termination of the DEC study in January 2007.

General and Administrative Expenses

General and administrative expenses have decreased by \$882 thousand to \$1.193 million for the three month period ended December 31, 2008 and by \$1.769 to \$2.341 for the six months ended December 31, 2008, compared to the same periods in the prior year. This is mainly a result of stock option expense decreasing by \$268 thousand from \$457 thousand to \$189 thousand for the three months ended December 31, 2008, compared to the same period in the prior year. Similarly, for the year to date, the stock option expense has decreased by \$1.124 million from \$1.503 million to \$380 thousand for the six months ended December 31, 2008, when compared to the same period in the prior year. In addition, there were also decreases in expenditures for consulting, legal fees, salaries, and investor relations, for both the three and six months ended December 31, 2008..

Other Income

Other income pertains to a refund of unclaimed property from the state of Pennsylvania, received in the first quarter of fiscal 2009.

SUMMARY OF QUARTERLY RESULTS

	Revenue and Interest Income	Net Loss ⁽¹⁾	Basic and diluted loss per common Share
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)
June 30, 2007	\$ 1,909,514	\$ (4,749,837)	\$ (0.08)
March 31, 2007	\$ 1,984,707	\$ (8,929,074)	\$ (0.16)

Note:

- (1) Effective July 1, 2007, the Company adopted CICA Handbook Sections 1530, 3855, 3861, and 3865 relating to financial instruments retrospectively, without restatement and therefore the quarterly losses for fiscal 2007 above do not include any adjustment to reflect the adoption of these standards. There was no effect to the Company's opening balances as a result of the change in accounting policy.

In general, revenue had remained steady over the previous seven quarters. Revenue for this quarter increased by \$540 thousand compared to last quarter. The increase resulted from the receipt of a US\$500 thousand milestone payment from one of the Company's licensees. The Company's policy is to recognize nonrefundable up-front payments from out-licensing agreements over the estimated 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. There have been no new out-licensing agreements signed since Q2 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 earned from cash and short-term deposits peaked after the prospectus-based offering in February 2006, the acquisition of Eximias Pharmaceutical Corporation (Eximias) in May 2006, and the licensing payment from Daiichi pursuant to the agreement signed in July 2006. However, interest income is decreasing as the Company draws on its cash balances to fund its operations and interest rates decline.

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 as we begin 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.

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 unaudited consolidated interim 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 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 classification used if the Company were

unable to continue operation in accordance with this assumption.

On February 16, 2006, pursuant to a prospectus filed with the Ontario Securities Commission, the Company issued 9,436,471 shares at a price of \$4.91 (US\$4.25) for total gross proceeds of \$46.305 million (US\$40.105 million). Net proceeds after costs amounted to approximately \$42.623 million. Under the terms of this offering the funds raised could not be used to fund activities related to nimotuzumab or any other products or technologies of Cuban origin. All those funds have now been spent and in full compliance with those restrictions. Thus, the Company's remaining funds, totaling approximately \$50.133 million (cash and short-term deposits) as at December 31, 2008, are available to fund all the company's activities.

On May 9, 2006, with the acquisition of Eximias, the Company obtained approximately \$34.5 million in cash and an experienced workforce in exchange for approximately 5.6 million common shares. Of the total purchase price paid, \$3.3 million was comprised of 474,657 common shares valued at \$3.0 million and \$300 thousand in cash was held in escrow for one year, until May 9, 2007, to satisfy any claims arising out of the representations and warranties made by Eximias in the transaction. On January 30, 2007 the Company recorded an impairment for the unamortized portion of the workforce intangible asset that was acquired in the Eximias acquisition on May 9, 2006. After the termination of the Phase III DEC trial in metastatic breast cancer, management re-evaluated the workforce intangible and concluded that there was no longer a foreseeable future benefit.

As at December 31, 2008 the Company had cash and cash equivalents and short-term deposits totalling \$50.133 million and payables and accrued liabilities totalling \$2.066 million 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 December 31, 2008 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 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 December 31, 2008 no amounts were owing and the amount of future fees, if any, is not determinable.

In November 2007 the Company entered into a contract for contract research ("CRO") services relating to a pediatric pontine glioma clinical trial for nimotuzumab in the U.S. at a cost of approximately \$1.642 million (U.S. \$1.348 million) of which approximately \$851 thousand has been paid as at December 31, 2008 and the obligation to pay the remaining \$790 thousand has not 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 September 30, 2008 the Company continues to open clinical sites and is in the process of recruiting patients.

In addition to the above contract, the Company has entered into many additional contracts for pre-clinical and other studies, none of which individually exceed \$1 million, totaling approximately \$4.459 million of which \$2.218 million has been paid as at December 31, 2008 and the obligation to pay the remaining \$2.241 million has not been incurred. Any early termination penalties can not exceed the amount of the contract committed.

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

TREND INFORMATION

It is important to note that 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 22, 2008 in respect of the fiscal year ended June 30, 2008. 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 subsidiary, CIMYM BioSciences Inc., is the licensee for nimotuzumab for Europe, North America, and Japan as well as Australia, New Zealand and certain Asian and African countries and YM owns AeroLEF[®], its other principal product in development, outright.

A Phase II, second-line trial in children with progressive diffuse, intrinsic pontine glioma (DIPG) is ongoing at multiple sites in the US, Canada, and Israel. 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 cleared by the Canadian Health Regulatory Authority and for which recruitment is expected to commence in calendar Q1 2009.

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 12 the number of countries 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 ongoing investigator-initiated Phase II trial in locally advanced head and neck cancer.

Daiichi Sankyo Co., Ltd., CIMYM's licensee for nimotuzumab in Japan, reported completion of its Phase I clinical trial of nimotuzumab for the treatment of solid tumours in December 2007, informed YM of its intention to proceed

into later-stage randomized trials, and announced first patients enrolled in a randomized trial of nimotuzumab in patients with gastric cancer in September 2008.

In July, YM announced the engagement of Dr. Ali Raza and Elizabeth Jenkins as President of the AeroLEF[®] division and as principal regulatory advisor, respectively. Dr. Raza and Ms. Jenkins most recently led a team that succeeded in clearance of a Phase III trial of a fentanyl product through the EMEA (European Medicines Agency). YM is discussing the readiness of AeroLEF[®] for late-stage trials with regulatory bodies in Europe and Canada to establish its best options for aggressive development and partnering this unique approach to the use of opioids.

While expenditures would 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.

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 asset

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 life of the intangible asset is 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 as they have been 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 credit, 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. The adoption of these changes did not have an impact on the Company's consolidated financial statements.

The following new accounting pronouncements have been issued but not yet adopted:

International financial reporting standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined and management is working on a plan towards conversion to IFRS in accordance with the timelines required.

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 Multilateral Instrument 52-109-Certification of Disclosure in Issuer's Annual and Interim Filings) as of June 30, 2008 (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 six months ended December 31, 2008 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, 2008, 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 six months ended December 31, 2008 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

Share Data as at December 31, 2008:	<u>Outstanding</u>	<u>Number</u>
Common shares	\$172,921,153	55,835,356
Warrants	\$54,775	17,500

Note 1: If all warrants were to be exercised, 17,500 shares would be issued for an aggregate consideration of \$77,350 (weighted average exercise price of \$4.42 per warrant).

Note 2: 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 are valued and accounted for when they are released from escrow.

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)

	December 31, 2008	June 30, 2008
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 8,154,413	\$ 3,119,189
Short-term deposits (note 3)	41,978,641	54,981,737
Accounts receivable	721,357	403,371
Prepaid expenses	358,044	375,133
	<u>51,212,455</u>	<u>58,879,430</u>
Property and equipment	105,960	128,400
Intangible assets (note 4)	3,535,138	4,065,409
	<u>\$ 54,853,553</u>	<u>\$ 63,073,239</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 469,734	\$ 307,588
Accrued liabilities	1,595,903	1,715,024
Deferred revenue (note 5)	4,133,228	4,623,340
	<u>6,198,865</u>	<u>6,645,952</u>
Deferred revenue (note 5)	2,592,698	4,414,256
Shareholders' equity:		
Share capital (note 8)	172,921,153	172,921,153
Share purchase warrants (note 7)	54,775	3,150,539
Contributed surplus	12,599,144	9,123,824
Deficit	(139,513,082)	(133,182,485)
	<u>46,061,990</u>	<u>52,013,031</u>
Basis of presentation (note 1)		
Commitments (note 9)		
	<u>\$ 54,853,553</u>	<u>\$ 63,073,239</u>

See accompanying notes to interim consolidated financial statements.

YM BIOSCIENCES INC.

Interim Consolidated Statements of Operations and Comprehensive Income
(Expressed in Canadian dollars)

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Out-licensing revenue (note 5)	\$ 1,832,224	\$ 1,155,833	\$ 3,047,169	\$ 2,282,766
Interest income	365,067	727,242	807,688	1,417,634
	2,197,291	1,883,075	3,854,857	3,700,400
Expenses:				
General and administrative	1,193,209	2,075,506	2,340,587	4,109,516
Licensing and product development	4,421,428	4,220,627	8,266,612	7,765,486
	5,614,637	6,296,133	10,607,199	11,875,002
Loss before the undernoted	(3,417,346)	(4,413,058)	(6,752,342)	(8,174,602)
Gain (loss) on foreign exchange	79,684	(29,773)	91,887	14,132
Realized gain on short-term deposits	–	110,337	–	133,290
Unrealized gain (loss) on short-term deposits	163,277	(77,251)	22,718	(6,874)
Loss on disposal of property and equipment	–	(70,143)	–	(70,143)
Other income	–	–	307,140	–
Loss and comprehensive loss for the period	\$ (3,174,385)	\$ (4,479,888)	\$ (6,330,597)	\$ (8,104,197)
Basic and diluted loss per common share	\$ (0.06)	\$ (0.08)	\$ (0.11)	\$ (0.15)
Weighted average number of common shares outstanding	55,835,356	55,835,356	55,835,356	55,835,356
Excludes common shares held in escrow for contingent additional payment related to the acquisition of Delex Therapeutics Inc.	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 Deficit
(Expressed in Canadian dollars)

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Deficit, beginning of period	\$ (136,338,697)	\$ (121,921,050)	\$ (133,182,485)	\$ (118,296,741)
Loss for the period	(3,174,385)	(4,479,888)	(6,330,597)	(8,104,197)
Deficit, end of period	\$ (139,513,082)	\$ (126,400,938)	\$ (139,513,082)	\$ (126,400,938)

See accompanying notes to interim consolidated financial statements.

YM BIOSCIENCES INC.

Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (3,174,385)	\$ (4,479,888)	\$ (6,330,597)	\$ (8,104,197)
Items not involving cash:				
Amortization of property and equipment	18,844	51,436	37,476	85,583
Amortization of intangible assets	265,136	265,136	530,271	530,271
Loss on disposal of property and equipment	–	70,143	–	70,143
Unrealized loss (gain) on financial instruments	(163,277)	77,251	(22,718)	6,874
Stock-based compensation	189,223	456,659	379,556	1,503,287
Change in non-cash operating working capital:				
Accounts receivable and prepaid expenses	(191,057)	(427,522)	(300,897)	(410,530)
Accounts payable, accrued liabilities and deferred revenue	(1,585,637)	(1,160,302)	(2,268,645)	(3,355,168)
	(4,641,153)	(5,147,087)	(7,975,554)	(9,673,737)
Investing activities:				
Short-term deposits, net	(174,312)	(3,951,708)	13,025,814	15,342,989
Additions to property and equipment and intangible assets	(2,332)	(35,933)	(15,036)	(35,933)
Proceeds from sale of property and equipment	–	38,996	–	38,996
	(176,644)	(3,948,645)	13,010,778	15,346,052
Increase (decrease) in cash and cash equivalents	(4,817,797)	(9,095,732)	5,035,224	5,672,315
Cash and cash equivalents, beginning of period	12,972,210	20,615,398	3,119,189	5,847,351
Cash and cash equivalents, end of period	\$ 8,154,413	\$ 11,519,666	\$ 8,154,413	\$ 11,519,666

See accompanying notes to interim consolidated financial statements.

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(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 interim financial statements which, except as described in note 10, conform in all material respects to accounting principles generally accepted in the United States ("United States GAAP"). Accordingly, these unaudited interim consolidated financial statements do not contain all disclosures required to be included in the annual financial statements and should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended June 30, 2008. 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, 2008, except as disclosed in note 2 and note 10(d). In prior years, the Company had been considered a development stage company.

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, 2008 are not necessarily indicative of the results of operations that may be expected for the year ending June 30, 2009.

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. Since inception, the Company has concentrated on licensing and product development. It has had no net earnings, minimal revenue, negative operating cash flows, an accumulated deficit of \$139,513,082 and has financed its activities 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)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

1. Basis of presentation (continued):

Taking into consideration the cash and cash equivalents and short-term deposits detailed in note 3 of the unaudited interim consolidated financial statements, management believes that the Company has sufficient cash resources to fund its future operations beyond the next 12 months.

2. Accounting policies:

(a) Change in accounting policy:

These 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, 2008, except for the following new accounting pronouncement, which has been adopted effective July 1, 2008.

General standards on financial statement presentation:

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

(b) Accounting policy issued but not yet adopted:

International financial reporting standards:

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined and management is working on a plan towards conversion to IFRS in accordance with the timelines required.

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

3. Cash and cash equivalents and short-term deposits:

As a condition of the February 16, 2006 issuance of common shares, the Company will use the net proceeds of \$42,622,618 raised to fund drug development activities not related to Cuba or for general corporate purposes not related to the Cuban licensed products and technologies. As at December 31, 2008, there are no remaining restricted proceeds.

Management believes that the cash and cash equivalents and short-term deposits at December 31, 2008 of \$50,133,054 are sufficient to fund future activities during and beyond the next 12 months.

As at December 31, 2008, the Company did not hold any cash equivalents (2007 - nil). Cash equivalents are short-term deposits with terms extending up to 90 days from the date of acquisition.

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, 2008	Cost	Accumulated amortization	Net book value
Acquired technologies	\$ 7,348,185	\$ 3,813,047	\$ 3,535,138

June 30, 2008	Cost	Accumulated amortization	Net book value
Acquired technologies	\$ 7,348,185	\$ 3,282,776	\$ 4,065,409

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

5. Out-licensing agreements:

The following table reflects revenue from out-licensing agreements entered into with third parties for the development of the Company's products:

Date of agreement	Product	Initial license fee	Deferred revenue		Revenue recognized			
			December 31, 2008	June 30, 2008	Three months ended December 31,		Six months ended December 31,	
					2008	2007	2008	2007
November 3, 2006	Tesmilifene	\$ 230,400	\$ 137,200	\$ 154,000	\$ 8,400	\$ 8,400	\$ 16,800	\$ 10,000
July 25, 2006	Nimotuzumab	16,226,950	6,423,168	8,451,538	1,014,184	1,014,184	2,028,369	2,028,368
January 20, 2006	Nimotuzumab	1,152,788	–	192,131	96,066	96,064	192,131	192,130
August 30, 2005	Nimotuzumab	441,792	9,204	64,428	27,612	27,613	55,224	41,419
January 26, 2005	Tesmilifene	620,311	156,354	175,499	9,572	9,572	19,145	10,849
Milestone/royalty revenue	Nimotuzumab	–	–	–	676,390	–	735,500	–
		18,672,241	6,725,926	9,037,596	1,832,224	1,155,833	3,047,169	2,282,766
Less current portion		–	4,133,228	4,623,340	–	–	–	–
		\$ 18,672,241	\$ 2,592,698	\$ 4,414,256	\$ 1,832,224	\$ 1,155,833	\$ 3,047,169	\$ 2,282,766

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 over the estimated period of collaboration required.

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

6. 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. The option exercise prices range from \$0.50 to \$5.75.

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

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Number of options issued	–	15,000	2,004,250	2,000,290
Risk-free interest rate	–	4.00% - 4.36%	2.98% - 3.40%	4.00% - 4.36%
Volatility factor	–	73.40% - 73.70%	68.02% - 77.87%	73.40% - 73.90%
Expected life of options	–	8 years	2.72 - 7 years	8 years
Vesting period (months)	–	24	Immediate to 24	24
Weighted average fair value of options granted	–	\$0.96	\$0.31	\$1.15
Fair value of options granted	–	\$14,356	\$626,294	\$2,299,394

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, 2008 for stock-based employee compensation awards was \$189,223 (2007 - \$456,659) and \$379,556 (2007 - \$1,503,287), respectively.

The fair value of options granted is being expensed over the vesting period of the options.

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

6. 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, 2008 and the share options outstanding at the end of the period:

	Number	Weighted average exercise price
Outstanding, June 30, 2008	5,633,102	\$ 2.80
Granted	2,004,250	0.55
Cancelled/forfeited	(528,172)	2.38
Outstanding, September 30, 2008	7,109,180	2.20
Cancelled/forfeited	(614,700)	3.21
Outstanding, December 31, 2008	6,494,480	2.10
Exercisable, December 31, 2008	4,610,277	\$ 2.62

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 fair value option pricing model. The following table contains information regarding the warrants to acquire common shares outstanding as of December 31, 2008. As of December 31, 2008, all outstanding warrants were exercisable.

	Number	Weighted average exercise price	Balance sheet amount
Outstanding, June 30 and September 30, 2008	5,709,765	\$ 2.43	\$ 3,150,539
Expired	(5,692,265)	2.43	(3,095,764)
Outstanding, December 31, 2008	17,500	4.42	\$ 54,775

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

7. Share purchase warrants (continued):

As at December 31, 2008:

Exercise price	Expiry date	Number outstanding	Weighted average remaining contractual life (years)
\$4.42	February 7, 2009	17,500	0.10

8. Share capital:

Issued:

	Number of shares	Amount
Balance, June 30 and December 31, 2008	55,835,356	\$ 172,921,153

At December 31, 2008, 2,380,953 (2007 - 2,380,953) common shares are held in escrow for contingent payments related to the 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.

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

9. Commitments:

In November 2007, the Company entered into a contract for CRO services relating to a pediatric pontine glioma clinical trial for nimotuzumab in the United States at a cost of approximately \$1.642 million (U.S. \$1.348 million), of which approximately \$851,412 has been incurred as at December 31, 2008 and the remaining \$790,339 is yet to be incurred. The Company may cancel the contract with a 30-day 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 addition to this contract, the Company has entered into many additional contracts for pre-clinical and other studies, none of which individually exceed \$1,000,000, totalling approximately \$4.459 million, of which approximately \$2.218 million has been paid as at December 31, 2008 and the remaining \$2.241 million has yet to be incurred.

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

The unaudited interim consolidated financial statements of the Company as at and for the three months and six months ended December 31, 2008 and 2007 are prepared in accordance with Canadian GAAP for interim financial reporting, which differ in certain respects from United States GAAP. The following items present the impact of material differences between Canadian GAAP and United States GAAP on the Company's unaudited interim consolidated financial statements as at and for the three months and six months ended December 31, 2008 and 2007.

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

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

The significant differences affecting the unaudited interim consolidated financial statements are consistent with those listed in note 17 of the June 30, 2008 annual consolidated financial statements and are as noted below:

(a) Interim consolidated statements of operations and comprehensive income:

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

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Loss for the period, based on Canadian GAAP	\$ (3,174,385)	\$ (4,479,888)	\$ (6,330,597)	\$ (8,104,197)
Amortization of acquired technologies (ii)	265,136	265,136	530,271	530,271
Loss for the period and comprehensive loss based on United States GAAP	\$ (2,909,249)	\$ (4,214,752)	\$ (5,800,326)	\$ (7,573,926)
Basic and diluted loss per share (iii)	\$ (0.06)	\$ (0.08)	\$ (0.11)	\$ (0.14)
Weighted average number of common shares outstanding	55,835,356	55,835,356	55,835,356	55,835,356
Excludes common shares held in escrow for contingent additional payment related to the acquisition of Delex Therapeutics Inc.	2,380,953	2,380,953	2,380,953	2,380,953

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

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

(i) Additional stock-based compensation:

United States GAAP requires disclosure of total unrecognized compensation costs. As at December 31, 2008, total compensation cost related to non-vested awards not yet recognized is \$687,725, and the weighted average period over which it is expected to be recognized is 1.19 years.

(ii) Acquired technologies:

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 Financial Accounting Standards Board ("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 and limited alternative use. Under Canadian GAAP, the acquired technologies are considered to be development assets that are capitalized and amortized over their expected useful lives.

(iii) 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 and share purchase warrants is not dilutive to the loss per common share.

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

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

(b) Interim 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 is as follows:

	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

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

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

	Warrants	Share capital	Deficit accumulated during the development stage	Additional paid-in capital	Total
Total shareholders' equity under United States GAAP, June 30, 2007	\$ 4,553,308	\$ 172,921,153	\$ (121,604,357)	\$ 3,895,970	\$ 59,766,074
Stock-based compensation	–	–	–	1,503,287	1,503,287
Loss for the period	–	–	(7,573,926)	–	(7,573,926)
Total shareholders' equity under United States GAAP, December 31, 2007	4,553,308	172,921,153	(129,178,283)	5,399,257	53,695,435
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	–	–	(2,752,506)	–	(2,752,506)
Total shareholders' equity under Canadian GAAP, December 31, 2007	\$ 4,553,308	\$ 172,921,153	\$ (126,400,938)	\$ 7,160,369	\$ 58,233,892

(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 loss for the period as a result of this GAAP difference.

YM BIOSCIENCES INC.

Notes to Interim Consolidated Financial Statements (continued)
(Expressed in Canadian dollars)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

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

(d) Changes in accounting policy:

These interim consolidated financial statements have been prepared using the same accounting policies and methods under United States GAAP as were used for the audited annual consolidated financial statements for the year ended June 30, 2008, except for the following new accounting pronouncements:

- (i) 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 interim consolidated financial statements.
- (ii) 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 and certain warranty and insurance contracts at fair value on a contract-by-contract basis. SFAS 159 applies to all reporting entities, including not-for-profit organizations, 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 interim consolidated financial statements.