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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Northfield Laboratories Inc.:

We have reviewed the balance sheet of Northfield Laboratories Inc. (a company in the development stage) as of February 28, 2001, and the related statements of operations for the three-month periods ended February 28, 2001 and February 29, 2000, and statements of operations and cash flows for the nine-month periods ended February 28, 2001 and February 29, 2000 and for the period from June 19, 1985 (inception) through February 28, 2001. We have also reviewed the statements of shareholders' equity (deficit) for the nine-month period ended February 28, 2001 and for the period from June 19, 1985 (inception) through February 28, 2001. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Northfield Laboratories Inc. as of May 31, 2000, and the related statements of operations, shareholders' equity (deficit), and cash flows for the year then ended and for the period from June 19, 1985 (inception) through May 31, 2000 (not presented herein); and in our report dated June 29, 2000, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of May 31, 2000 and in the accompanying statement of shareholders' equity (deficit) is fairly stated, in all material respects, in relation to the statement from which it has been derived.

/s/ KPMG LLP

Chicago, Illinois
March 21, 2001

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NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Balance Sheets

February 28, 2001 (unaudited) and May 31, 2000

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ASSETS	FEBRUARY 28, 2001	MAY 31, 2000
	-----	-----
Current assets:		
Cash	\$ 7,299,077	15,154,2
Short-term marketable securities	23,799,980	23,129,3
Prepaid expenses	223,629	409,2
Other current assets	632,555	505,5
	-----	-----
Total current assets	31,955,241	39,198,4
Property, plant, and equipment, net	2,811,257	2,455,7
Other assets	122,775	74,3
	-----	-----
	\$ 34,889,273	41,728,4
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,347,153	1,061,3
Accrued expenses	149,551	174,0
Accrued compensation and benefits	268,620	250,5
	-----	-----
Total current liabilities	1,765,324	1,485,9
Other liabilities	167,231	147,7
	-----	-----
Total liabilities	1,932,555	1,633,6
	-----	-----
Shareholders' equity:		
Preferred stock, \$.01 par value. Authorized 5,000,000 shares; none issued and outstanding	--	--
Common stock, \$.01 par value. Authorized 30,000,000 shares; issued and outstanding 14,265,875 shares at February 28, 2001 and May 31, 2000, respectively	142,659	142,4
Additional paid-in capital	117,503,271	117,276,0
Deficit accumulated during the development stage	(84,689,212)	(77,323,6
	-----	-----
Total shareholders' equity	32,956,718	40,094,8
	-----	-----
	\$ 34,889,273	41,728,4
	=====	=====

See accompanying independent accountants' review report.

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NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Statements of Operations

Three and nine-month periods ended February 28, 2001 and February 29,

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2000 and for the period from June 19, 1985
(inception) through February 28, 2001

	THREE-MONTH PERIOD ENDED		NINE-MONTH PERI
	FEBRUARY 28, 2001 (UNAUDITED)	FEBRUARY 29, 2000 (UNAUDITED)	FEBRUARY 28, 2001 (UNAUDITED)
Revenues - license income	--	--	--
Costs and expenses:			
Research and development	\$ 2,488,972	2,364,773	6,963,676
General and administrative	620,079	657,759	2,047,582
	-----	-----	-----
	3,109,051	3,022,532	9,011,258
	-----	-----	-----
Other income and expense:			
Interest income	504,733	558,499	1,645,689
Interest expense	--	--	--
	-----	-----	-----
	504,733	558,499	1,645,689
	-----	-----	-----
Net loss	\$ (2,604,318)	(2,464,033)	(7,365,569)
	=====	=====	=====
Net loss per basic share	\$ (0.18)	(0.17)	(0.52)
	=====	=====	=====
Shares used in calculation of per share data	14,263,003	14,240,864	14,252,632
	=====	=====	=====

See accompanying independent accountants' review report.

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NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Statements of Shareholders' Equity (Deficit)

Nine-month period ended February 28, 2001
and for the period from June 19, 1985
(inception) through February 28, 2001

PREFERRED STOCK		COMMON STOCK	
NUMBER OF SHARES	AGGREGATE AMOUNT	NUMBER OF SHARES	AGGR AM

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Issuance of common stock on August 27, 1985	--	\$ --	3,500,000	\$ 3
Issuance of Series A convertible preferred stock at \$4.00 per share on August 27, 1985 (net of costs of issuance of \$79,150)	--	--	--	--
Net loss	--	--	--	--
Balance at May 31, 1986	--	--	3,500,000	3
Net loss	--	--	--	--
Deferred compensation relating to grant of stock options	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1987	--	--	3,500,000	3
Issuance of Series B convertible preferred stock at \$35.68 per share on August 14, 1987 (net of costs of issuance of \$75,450)	--	--	--	--
Net loss	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1988	--	--	3,500,000	3
Issuance of common stock at \$24.21 per share on June 7, 1988 (net of costs of issuance of \$246,000)	--	--	413,020	--
Conversion of Series A convertible preferred stock to common stock on June 7, 1988	--	--	1,250,000	1
Conversion of Series B convertible preferred stock to common stock on June 7, 1988	--	--	1,003,165	1
Exercise of stock options at \$2.00 per share	--	--	47,115	--
Issuance of common stock at \$28.49 per share on March 6, 1989 (net of costs of issuance of \$21,395)	--	--	175,525	--
Issuance of common stock at \$28.49 per share on March 30, 1989 (net of costs of issuance of \$10,697)	--	--	87,760	--
Sale of options at \$28.29 per share to purchase common stock at \$.20 per share on March 30, 1989 (net of costs of issuance of \$4,162)	--	--	--	--
Net loss	--	--	--	--
Deferred compensation relating to grant of stock options	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1989	--	--	6,476,585	6
Net loss	--	--	--	--
Deferred compensation relating to grant of stock options	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1990	--	--	6,476,585	6
Net loss	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1991	--	--	6,476,585	6

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Exercise of stock warrants at \$5.60 per share	--	--	90,000	
Net loss	--	--	--	
Amortization of deferred compensation	--	--	--	
	-----	-----	-----	-----
Balance at May 31, 1992	--	--	6,566,585	6
Exercise of stock warrants at \$7.14 per share	--	--	15,000	
Issuance of common stock at \$15.19 per share on April 19, 1993 (net of costs of issuance of \$20,724)	--	--	374,370	
Net loss	--	--	--	
Amortization of deferred compensation	--	--	--	
	-----	-----	-----	-----
Balance at May 31, 1993	--	--	6,955,955	6
	-----	-----	-----	-----

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NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Statements of Shareholders' Equity (Deficit)

Nine-month period ended February 28, 2001
and for the period from June 19, 1985
(inception) through February 28, 2001

	SERIES B CONVERTIBLE PREFERRED STOCK		ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE
	NUMBER OF SHARES	AGGREGATE AMOUNT		
	-----	-----	-----	-----
Issuance of common stock on August 27, 1985	--	\$ --	(28,000)	
Issuance of Series A convertible preferred stock at \$4.00 per share on August 27, 1985 (net of costs of issuance of \$79,150)	--	--	670,850	
Net loss	--	--	--	(607,000)
	-----	-----	-----	-----
Balance at May 31, 1986	--	--	642,850	(607,000)
Net loss	--	--	--	(2,429,000)
Deferred compensation relating to grant of stock options	--	--	2,340,000	
Amortization of deferred compensation	--	--	--	
	-----	-----	-----	-----
Balance at May 31, 1987	--	--	2,982,850	(3,037,000)
Issuance of Series B convertible preferred stock at \$35.68 per share on August 14, 1987 (net of costs of issuance of \$75,450)	200,633	200,633	6,882,502	
Net loss	--	--	--	(3,057,000)
Amortization of deferred compensation	--	--	--	
	-----	-----	-----	-----
Balance at May 31, 1988	200,633	200,633	9,865,352	(6,094,000)

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Issuance of common stock at \$24.21 per share on June 7, 1988 (net of costs of issuance of \$246,000)	--	--	9,749,870	
Conversion of Series A convertible preferred stock to common stock on June 7, 1988	--	--	237,500	
Conversion of Series B convertible preferred stock to common stock on June 7, 1988	(200,633)	(200,633)	190,601	
Exercise of stock options at \$2.00 per share	--	--	93,759	
Issuance of common stock at \$28.49 per share on March 6, 1989 (net of costs of issuance of \$21,395)	--	--	4,976,855	
Issuance of common stock at \$28.49 per share on March 30, 1989 (net of costs of issuance of \$10,697)	--	--	2,488,356	
Sale of options at \$28.29 per share to purchase common stock at \$.20 per share on March 30, 1989 (net of costs of issuance of \$4,162)	--	--	7,443,118	
Net loss	--	--	--	(791)
Deferred compensation relating to grant of stock options	--	--	683,040	
Amortization of deferred compensation	--	--	--	
	-----	-----	-----	-----
Balance at May 31, 1989	--	--	35,728,451	(6,886)
Net loss	--	--	--	(3,490)
Deferred compensation relating to grant of stock options	--	--	699,163	
Amortization of deferred compensation	--	--	--	
	-----	-----	-----	-----
Balance at May 31, 1990	--	--	36,427,614	(10,376)
Net loss	--	--	--	(5,579)
Amortization of deferred compensation	--	--	--	
	-----	-----	-----	-----
Balance at May 31, 1991	--	--	36,427,614	(15,956)
Exercise of stock warrants at \$5.60 per share	--	--	503,100	
Net loss	--	--	--	(7,006)
Amortization of deferred compensation	--	--	--	
	-----	-----	-----	-----
Balance at May 31, 1992	--	--	36,930,714	(22,962)
Exercise of stock warrants at \$7.14 per share	--	--	106,890	
Issuance of common stock at \$15.19 per share on April 19, 1993 (net of costs of issuance of \$20,724)	--	--	5,663,710	
Net loss	--	--	--	(8,066)
Amortization of deferred compensation	--	--	--	
	-----	-----	-----	-----
Balance at May 31, 1993	--	--	42,701,314	(31,029)
	-----	-----	-----	-----

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Statements of Shareholders' Equity (Deficit), continued

Nine months ended February 28,
2001 and for the period from June 19, 1985
(inception) through February 28, 2001

	PREFERRED STOCK		COMMON STOCK		SERIES A PREFER
	NUMBER OF SHARES	AGGREGATE AMOUNT	NUMBER OF SHARES	AGGREGATE AMOUNT	NUMBER OF SHARE
Net loss	--	\$ --	--	\$ --	--
Issuance of common stock at \$6.50 per share on May 26, 1994 (net of costs of issuance of \$2,061,149)	--	--	2,500,000	25,000	--
Cancellation of stock options	--	--	--	--	--
Amortization of deferred compensation	--	--	--	--	--
Balance at May 31, 1994	--	--	9,455,955	94,560	--
Net loss	--	--	--	--	--
Issuance of common stock at \$6.50 per share on June 20, 1994 (net of issuance costs of \$172,500)	--	--	375,000	3,750	--
Exercise of stock options at \$7.14 per share	--	--	10,000	100	--
Exercise of stock options at \$2.00 per share	--	--	187,570	1,875	--
Cancellation of stock options	--	--	--	--	--
Amortization of deferred compensation	--	--	--	--	--
Balance at May 31, 1995	--	--	10,028,525	100,285	--
Net loss	--	--	--	--	--
Issuance of common stock at \$17.75 per share on August 9, 1995 (net of issuance costs of \$3,565,125)	--	--	2,925,000	29,250	--
Issuance of common stock at \$17.75 per share on September 11, 1995 (net of issuance costs of \$423,238)	--	--	438,750	4,388	--
Exercise of stock options at \$2.00 per share	--	--	182,380	1,824	--
Exercise of stock options at \$6.38 per share	--	--	1,500	15	--
Exercise of stock options at \$7.14 per share	--	--	10,000	100	--
Cancellation of stock options	--	--	--	--	--
Amortization of deferred compensation	--	--	--	--	--
Balance at May 31, 1996	--	--	13,586,155	135,862	--
Net loss	--	--	--	--	--
Exercise of stock options at \$0.20 per share	--	--	263,285	2,633	--
Exercise of stock options at \$2.00 per share	--	--	232,935	2,329	--
Exercise of stock options at \$7.14 per share	--	--	10,000	100	--
Amortization of deferred compensation	--	--	--	--	--
Balance at May 31, 1997	--	--	14,092,375	140,924	--
Net loss	--	--	--	--	--

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Exercise of stock options at \$7.14 per share	--	--	5,000	50	--
Amortization of deferred compensation	--	--	--	--	--
	-----	-----	-----	-----	-----
Balance at May 31, 1998	--	--	14,097,375	140,974	--
Net loss	--	--	--	--	--
Non-cash compensation	--	--	--	--	--
Exercise of stock options at \$7.14 per share	--	--	17,500	175	--
Exercise of stock warrants at \$8.00 per share	--	--	125,000	1,250	--
	-----	-----	-----	-----	-----
Balance at May 31, 1999	--	--	14,239,875	142,399	--
Net loss	--	--	--	--	--
Non-cash compensation	--	--	--	--	--
Exercise of stock options at \$13.38 per share	--	--	2,500	25	--
	-----	-----	-----	-----	-----
Balance at May 31, 2000	--	--	14,242,375	142,424	--
Net loss (unaudited)	--	--	--	--	--
Exercise of stock options at \$10.81 per share	--	--	17,500	175	--
Exercise of stock options at \$6.38 per share	--	--	6,000	60	--
	-----	-----	-----	-----	-----
Balance at February 28, 2001 (unaudited)	--	\$ --	14,265,875	\$142,659	--
	=====	=====	=====	=====	=====

See accompanying independent accountants' review report.

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	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	D
	-----	-----	---
Net loss	--	(7,363,810)	
Issuance of common stock at \$6.50 per share on May 26, 1994 (net of costs of issuance of \$2,061,149)	14,163,851	--	
Cancellation of stock options	(85,400)	--	
Amortization of deferred compensation	--	--	
	-----	-----	---
Balance at May 31, 1994	56,779,765	(38,393,281)	
Net loss	--	(7,439,013)	
Issuance of common stock at \$6.50 per share on June 20, 1994 (net of issuance costs of \$172,500)	2,261,250	--	
Exercise of stock options at \$7.14 per share	71,300	--	
Exercise of stock options at \$2.00 per share	373,264	--	
Cancellation of stock options	(106,750)	--	

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Amortization of deferred compensation	--	--
	-----	-----
Balance at May 31, 1995	59,378,829	(45,832,294)
Net loss	--	(4,778,875)
Issuance of common stock at \$17.75 per share on August 9, 1995 (net of issuance costs of \$3,565,125)	48,324,374	--
Issuance of common stock at \$17.75 per share on September 11, 1995 (net of issuance costs of \$423,238)	7,360,187	--
Exercise of stock options at \$2.00 per share	362,937	--
Exercise of stock options at \$6.38 per share	9,555	--
Exercise of stock options at \$7.14 per share	71,300	--
Cancellation of stock options	(80,062)	--
Amortization of deferred compensation	--	--
	-----	-----
Balance at May 31, 1996	115,427,120	(50,611,169)
Net loss	--	(4,245,693)
Exercise of stock options at \$0.20 per share	50,025	--
Exercise of stock options at \$2.00 per share	463,540	--
Exercise of stock options at \$7.14 per share	71,300	--
Amortization of deferred compensation	--	--
	-----	-----
Balance at May 31, 1997	116,011,985	(54,856,862)
Net loss	--	(5,883,378)
Exercise of stock options at \$7.14 per share	35,650	--
Amortization of deferred compensation	--	--
	-----	-----
Balance at May 31, 1998	116,047,635	(60,740,240)
Net loss	--	(7,416,333)
Non-cash compensation	14,354	--
Exercise of stock options at \$7.14 per share	124,775	--
Exercise of stock warrants at \$8.00 per share	998,750	--
	-----	-----
Balance at May 31, 1999	117,185,514	(68,156,573)
Net loss	--	(9,167,070)
Non-cash compensation	57,112	--
Exercise of stock options at \$13.38 per share	33,425	--
	-----	-----
Balance at May 31, 2000	117,276,051	(77,323,643)
Net loss (unaudited)	--	(7,365,569)
Exercise of stock options at \$10.81 per share	189,000	--
Exercise of stock options at \$6.38 per share	38,220	--
	-----	-----
Balance at February 28, 2001 (unaudited)	117,503,271	(84,689,212)
	=====	=====

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Statements of Cash Flows

Nine-month periods ended February 28, 2001 and February 29,
2000 and for the period from June 19, 1985
(inception) through February 28, 2001

	NINE MONTHS ENDED	
	FEBRUARY 28, 2001 (UNAUDITED)	FEBRUARY 29, 2000 (UNAUDITED)
Cash flows from operating activities:		
Net loss	\$ (7,365,569)	(6,809,815)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	368,758	325,417
Non-cash compensation	--	74,328
Loss on sale of equipment	--	--
Changes in assets and liabilities:		
Prepaid expenses	185,641	194,964
Other current assets	(126,983)	(61,126)
Other assets	(49,200)	--
Accounts payable	285,786	(353,771)
Accrued expenses	(24,458)	(8,716)
Accrued compensation and benefits	18,050	38,215
Other liabilities	19,514	16,510
Net cash used in operating activities	(6,688,461)	(6,583,994)
Cash flows from investing activities:		
Purchase of property, plant, equipment, and capitalized engineering costs	(723,556)	(2,145,445)
Proceeds from matured marketable securities	7,548,171	15,549,200
Proceeds from sale of marketable securities	--	--
Purchase of marketable securities	(8,218,827)	(4,909,192)
Proceeds from sale of equipment	--	1,786,436
Net cash used in investing activities	(1,394,212)	10,280,999
Cash flows from financing activities:		
Proceeds from issuance of common stock	227,455	33,450
Payment of common stock issuance costs	--	--
Proceeds from issuance of preferred stock	--	--
Proceeds from sale of stock options to purchase common shares	--	--
Proceeds from issuance of notes payable	--	--
Repayment of notes payable	--	--
Net cash provided by financing activities	227,455	33,450
Net increase (decrease) in cash	(7,855,218)	3,730,455
Cash at beginning of period	15,154,295	25,855,668

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Cash at end of period	----- \$ 7,299,077 =====	----- 29,586,123 =====
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See accompanying independent accountants' review report.

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NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Notes to Financial Statements

February 28, 2001

(1) BASIS OF PRESENTATION

The interim financial statements presented are unaudited but, in the opinion of management, have been prepared in conformity with accounting principles generally accepted in the United States of America applied on a basis consistent with those of the annual financial statements. Such interim financial statements reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. The results of operations for the interim period presented are not necessarily indicative of the results to be expected for the year ending May 31, 2001. The interim financial statements should be read in connection with the audited financial statements for the year ended May 31, 2000.

(2) COMPUTATION OF NET LOSS PER SHARE

Basic earnings per share is based on the weighted average number of shares outstanding and excludes the dilutive effect of unexercised common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of unexercised common stock equivalents. Because the Company reported a net loss for all periods presented, basic and diluted per share amounts are the same.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Since Northfield's incorporation in 1985, we have devoted substantially all of our efforts and resources to the research, development and clinical testing of our potential product, PolyHeme(TM). We have incurred operating losses during each year of our operations since inception and expect to incur substantial additional operating losses for the next several years. From Northfield's inception through February 28, 2001, we have incurred operating losses totaling \$84,689,000.

Our success will depend on several factors, including our ability to obtain Food & Drug Administration regulatory approval of PolyHeme and our

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manufacturing facilities, obtain sufficient quantities of blood to manufacture PolyHeme in commercial quantities, manufacture and distribute PolyHeme in a cost-effective manner, and enforce our patent positions. We have experienced significant delays in the development and clinical testing of PolyHeme. We cannot ensure that we will be able to achieve these goals or that we will be able to realize product revenues or profitability on a sustained basis or at all.

We anticipate that research and development expenses will increase during the foreseeable future. These expected increases are attributable to anticipated future clinical trials, monitoring and reporting the results of these trials and continuing process development associated with improving our manufacturing capacity to permit commercial-scale production of PolyHeme. We expect that general and administrative expenses will increase over the foreseeable future due to increased expenses relating to the expansion of our organization in support of potential expanded commercial operations.

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RESULTS OF OPERATIONS

We reported no revenues for either of the three-month periods ended February 28, 2001 or 2000. From Northfield's inception through February 28, 2001, we have reported total revenues of \$3,000,000, all of which were derived from licensing fees.

OPERATING EXPENSES

Operating expenses for our third fiscal quarter ended February 28, 2001 totaled \$3,109,000, an increase of \$86,000 from the \$3,023,000 reported in the third quarter of the prior fiscal year. Measured on a percentage basis, total expenses in the third quarter of fiscal 2001 increased by 2.8%. This increase was primarily due to higher costs related to the expansion of our manufacturing organization and facilities.

Research and development expenses for the third quarter of fiscal 2001 totaled \$2,489,000, an increase of \$124,000, or 5.2%, from the \$2,365,000, reported in the third quarter of fiscal 2000. The majority of the increase in research and development expenses resulted from increased costs associated with our expanded manufacturing organization and facilities. The clinical trials continue to shift from field work in the hospitals to data accumulation and analysis. Phase II and Phase III trials remain active in the field, but patient accrual has slowed.

Research and development expenses for the nine-month period ended February 28, 2001 totaled \$6,964,000, an increase of \$113,000 or 1.6%, from the \$6,851,000 of expense incurred in the comparable prior year period. The nature of expenditures has changed as higher

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employment levels and salary increases have pushed labor costs up while purchased services have decreased as a 3rd party viral inactivation study conducted during the first half of the last fiscal year has not been repeated.

We anticipate that research and development expenses will remain stable over the balance of the fiscal year. Beyond that, we expect these expenses to increase significantly. Additional costs are being planned for additional multi-center clinical trials, third party clinical monitoring, biostatistical analysis, report preparation, expanding our manufacturing organization and developing additional sources of hemoglobin.

General and administrative expenses in the third quarter of fiscal 2001 totaled \$620,000 compared to expenses of \$658,000 in the third quarter of 2000, representing a decrease of \$38,000, or 5.8%. The decrease was primarily due to

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lower travel expense.

General and administrative expenses for the nine-month period ended February 28, 2001 totaled \$2,048,000, which represents a \$382,000, or 22.9%, increase from the \$1,666,000 in the comparable prior year period. All of the increase was due to higher legal fees.

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INTEREST INCOME

Interest income in the third quarter of fiscal 2001 totaled \$505,000, or a \$53,000 decrease from the \$558,000 in interest income reported in the third quarter of fiscal 2000. Higher interest rates early in fiscal 2001 somewhat offset lower available investment balances to account for the decrease. Currently available short-term interest rates are yielding over 2% less than the rates available for the comparable prior year period. Consequently, interest income will remain below prior year levels for the remainder of fiscal 2001 as the corporation will be investing smaller amounts which will be earning lower interest rates.

Interest income for the nine-month period ended February 28, 2001 totaled \$1,646,000, or a \$62,000 decrease from the comparable prior year period. Higher interest rates available earlier in the current fiscal year offset declining investment balances and combined to cause the modest decrease in interest income. On a going forward basis, lower available interest rates and lower available investment balances will cause future interest income to remain below prior year levels.

NET LOSS

The net loss for the third quarter ended February 28, 2001 was \$2,604,000, or \$.18 per basic share, compared to a net loss of \$2,464,000, or \$.17 per basic share, for the third quarter ended February 29, 2000. The difference is due to the increased expense associated with our expanded manufacturing organization and facility costs.

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For the nine-month period ended February 28, 2001, Northfield reported a loss of \$7,366,000, or \$.52 per basic share, compared to the comparable prior year period results of a loss of \$6,810,000, or \$.48 per basic share. Higher legal fees combined with an expanded manufacturing organization and higher facility costs accounted for the increased loss.

LIQUIDITY AND CAPITAL RESOURCES

From Northfield's inception through February 28, 2001, we have used cash for operating activities and for the purchase of engineering services and property, plant and equipment in the amount of \$84,888,000. For the nine-month periods ended February 28, 2001 and 2000, these cash expenditures totaled \$7,412,000, and \$8,729,000, respectively. The decreased cash outlay for fiscal 2001 compared to the comparable prior year period reflects a decreased level of capital spending.

We have financed our research and development and other activities to date primarily through the public and private sale of equity securities and, to a more limited extent, through the licensing of product rights. As of February 28, 2001, we had cash and marketable securities totaling \$31,099,000.

We believe our existing capital resources will be adequate to satisfy our operating capital requirements and maintain our existing manufacturing plant and office facilities for approximately the next 24-30 months. Thereafter, we are likely to require substantial additional capital to continue our

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operations. We are currently unable to fund the construction of a large-scale greenfield manufacturing facility, which is estimated to cost approximately \$45 million, without raising substantial additional capital. Currently, we have manufacturing capacity of approximately 10,000 units. Initial engineering on the leased space adjacent to our existing manufacturing facility is completed. This engineering indicates an additional capacity of 75,000 units could be developed in approximately 16-18 months at a cost of \$26-30 million. Like the greenfield project, significant additional funding will be required before the smaller scale expansion facility could be completed. Northfield has not yet committed to the build-out of a smaller scale expansion facility. We view the smaller scale expansion facility as financially prudent yet large enough for commercial viability.

We may enter into collaborative arrangements with strategic partners which could provide us with additional funding or absorb expenses we would otherwise be required to pay. We have engaged in discussions with a number of potential strategic partners. These discussions are at various stages and we cannot ensure that any of these arrangements will be consummated.

Our capital requirements may vary materially from those now anticipated because of the results of our clinical testing of PolyHeme, the establishment of relationships with strategic partners, changes in the scale, timing or cost of our commercial manufacturing facility, competitive and technological advances, the FDA regulatory process, changes in our marketing and distribution strategy and other factors.

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PART II. OTHER INFORMATION

Item 6. Exhibits

- a) Exhibit 10.15 - Employment Agreement - Richard DeWoskin
- Exhibit 10.16 - Employment Agreement - Steven A. Gould, MD
- Exhibit 10.17 - Employment Agreement - Jack Kogut
- Exhibit 10.18 - Form of Indemnification Agreement - Director and Executive Officer, Richard DeWoskin and Steven A. Gould, MD

- Exhibit 10.19 - Form of Indemnification Agreement - Director, Gerald Moss, MD, Bruce Chelberg, David Savner, and Jack Olshansky
- Exhibit 10.20 - Form of Indemnification Agreement - Executive Officer, Jack Kogut
- Exhibit 15 - Acknowledgement of Independent Certified Public Accountants

b) None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 13, 2001.

NORTHFIELD LABORATORIES INC.

By /s/ RICHARD E. DEWOSKIN

Richard E. DeWoskin
Chairman of the Board and
Chief Executive Officer

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By /s/ JACK J. KOGUT

Jack J. Kogut
Secretary and Treasurer
(principal financial officer and
principal accounting officer)