



interim statement

March 31, 2004

Pacific Northern Gas Ltd.
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Pacific Northern Gas Ltd.
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the Period Ending March 31, 2004

FORWARD-LOOKING STATEMENTS

Management's discussion and analysis contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events predicted in this discussion to differ materially from actual results or events. Factors which could cause the results or events to differ include, but are not limited to: general economic conditions; gas commodity price volatility; decisions by regulators; seasonal weather patterns; the cost and availability of capital; and the ability of the Company to attract and retain quality employees. No assurance can be given that results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Business Overview

Pacific Northern Gas Ltd. and its wholly-owned subsidiary Pacific Northern Gas (N.E.) Ltd. (together the "Company") are natural gas distribution utilities operating within the Province of British Columbia.

The Company operates in two service areas, a transmission and distribution system in the west-central portion of northern British Columbia ("western system") and a distribution system in northeastern British Columbia ("northeast system"). The northeast service area is comprised of two divisions, the Fort St. John/Dawson Creek division and the Tumbler Ridge division.

The Company is subject to regulation by the British Columbia Utilities Commission (the "Commission") under the Utilities Commission Act of British Columbia. The Commission regulates the business of the Company, including the construction and operation of major facilities, the issuance of securities, the determination of rates for the sale and transportation of gas, and the terms and conditions of service.

The Commission determines customer rates using forecasts of both the cost of service and the volumes of gas delivered through the transmission and distribution systems. The cost of service consists of the cost of purchased gas and the cost of transporting all gas delivered, including operating, maintenance and administrative expenses, depreciation of facilities, income and other taxes and a return on rate base. Rate base is the sum of the depreciated cost of property, plant and equipment that is used or useful in serving the Company's customers, plus a reasonable allowance for working capital. The Commission determines the allowable return on rate base after considering a variety of factors, including the degree of risk associated with the Company's business and the cost of capital.

The Company continues to monitor the competitiveness of its natural gas retail rates relative to alternative heating sources in its service area. Substantial increases in gas supply commodity prices over the last few years, combined with increases in the Company's delivery margins for residential, commercial and small industrial customers for its western system, have led to retail gas rates which are similar to the cost of electricity. Although economic conditions in the western system area remain weak, the Company is encouraged by higher gas deliveries in the three month period ending March 31, 2004 as noted in the section on Overall Performance below.

The Company's strategic focus in 2004 will be to enhance shareholder value by pursuing a recapitalization under an income trust ownership structure. On January 30, 2004, the Company filed

an application with the Commission seeking the approvals required pursuant to the Utilities Commission Act to transfer the ownership of the Company from the current common shareholders to an income trust called the "PNG Income Trust". The PNG Income Trust would be owned by unit holders that would be comprised of the current shareholders that would exchange their common shares for units and new investors under an initial public offering of PNG Income Trust units. The recapitalization under an income trust ownership structure is expected to improve the Company's access to capital and improve its ability to pursue growth and diversification strategies.

The application was reviewed at a two day public hearing before the Commission in mid April 2004. A decision by the Commission is expected to be rendered by the end of the second quarter of 2004. Any transfer of ownership would also require the approval of the shareholders of the Company, court approval, and acceptable market conditions. The Company can give no assurances that the required approvals will be obtained, or that the conversion to an income trust ownership structure will occur.

Overall Performance

The Company's earnings in the first three months of 2004 represented a small improvement relative to the same period in 2003, with net income up \$0.16 million. The rate stabilization adjustment mechanism approved by the Commission continues to contribute to the stability of the Company's earnings though the impact in the first three months of 2004 was not material as deliveries were down only slightly relative to forecast as a result of weather being warmer than normal in the Company's service areas. This mechanism allows the Company to record the after-tax revenue variances arising from differences between actual and forecast sales volumes for residential and small commercial customers in a deferral account for collection in future rates.

Despite weather being slightly warmer on average in the Company's service areas, deliveries to all customer classes increased in the first three months of 2004 relative to the same period in 2003. Residential and commercial deliveries were up 4 percent and industrial deliveries increased 1 percent.

Costs incurred to pursue strategies to improve shareholder value were reduced in the first quarter of 2004 relative to the same period in 2003, contributing to a portion of the improved results. In addition, net income in the first three months of 2004 benefited from lower statutory tax rates relative to the same period in 2003.

Selected Annual Information

The following financial information has been prepared in accordance with Canadian GAAP and is shown in Canadian dollars.

<i>Thousands of dollars except per share amounts</i>	2003	2002	2001
Operating revenues	\$133,727	\$109,063	\$138,595
Net income	5,668	4,590	5,715
Earnings per common share basic	1.49	1.20	1.52
Net income per common share diluted	1.46	1.18	1.51
Total assets	206,414	212,506	207,113
Total long-term financial liabilities	101,257	105,677	94,739
Dividends per common share	0.80	2.75	0
Dividends per preferred share	1.69	1.69	1.69

Natural gas commodity prices, which are passed through to the Company's sales customers without mark-up, are very volatile and result in significant variability of the Company's reported operating revenues.

Net income was reduced by \$1.9 million in 2002 as a result of rates to customers being set too low when the Commission imposed the use of a sales volume forecast which was unrealistically high. In 2003 the Commission approved the implementation of a rate stabilization adjustment mechanism which allows the Company to record the after-tax revenue variances arising from differences between actual and forecast sales volumes for residential and small commercial customers in a deferral account. At the end of 2003, \$0.9 million was recorded in that deferral account, to be collected from customers over the 2004 through 2006 period.

In late 2002 the Company arranged a new debt financing of \$15 million after having signed a new long-term gas transportation agreement with its largest customer, Methanex Corporation, a portion of these proceeds were used by the Company to reduce the equity on its balance sheet, by way of a special dividend of \$2.75 per common share, to more closely align its actual capital structure with the capital structure imputed by the Commission for the purpose of determining the Company's rates.

Results of Operations

Operating revenues in 2003 increased to \$133.7 million as compared with \$109.1 million in 2002, largely due to the increase in the commodity cost of natural gas that is passed through to customers without markup as well as an increase of \$14.6 million in sales of gas surplus to the needs of the Company's sales customers ("off system gas sales").

Operating revenues in the first quarter of 2004 increased to \$43.6 million as compared to \$41.7 million in the first quarter of 2003. Of this increase, approximately two-thirds was the result of the higher commodity cost of gas. The remainder of the increase is a result of higher rates, approved on an interim basis by the Commission effective January 1, 2004, reflecting the Company's increased operating and administration costs.

During the first quarter of 2004, the Company entered into a Memorandum of Agreement with West Fraser Mills Ltd. (formerly referred to as Eurocan) ("West Fraser"), its second largest customer, for a new 10-year transportation service agreement starting January 1, 2004. West Fraser will have the right to terminate the agreement under certain circumstances at the end of five years without further payment and at any time during the term of the agreement by making a lump sum payment to the Company that approximates the remaining fair market value of the contract. The agreement, which provides for a toll approximately 30 percent lower than the toll currently in effect, is subject to approval by the Commission.

In February 2004 the Company filed an update to its 2004 revenue requirements application reflecting, among other things, the Memorandum of Agreement signed with West Fraser. The update to the application contained adjustments to other customers' rates required to ensure the Company remains revenue neutral assuming the agreement is approved by the Commission as filed. The 2004 revenue requirements application for the western system, the new agreement with West Fraser and the Company's application to recapitalize under an income trust ownership structure are being reviewed through a public hearing process. Decisions by the Commission on these matters are expected by the end of the second quarter of 2004.

The Company filed a report with the Commission in March 2004 on forecast gas supply prices. On the basis of the report, the Commission issued an order for the Company to increase the gas supply commodity component of its rates effective April 1, 2004 by approximately \$0.42 per gigajoule, on average.

Summary of Quarterly Results for Eight Quarters Ending March 31, 2004

<i>Thousands of dollars except per share amounts</i>	Mar 31, 2004	Dec 31, 2003	Sept 30, 2003	Jun 30, 2003	Mar 31, 2003	Dec 31, 2002	Sept 30, 2002	Jun 30, 2002
Operating Revenues	\$43,584	\$39,448	\$24,025	\$28,571	\$41,683	\$32,889	\$16,714	\$23,370
Net Income ¹	3,848	2,623	(709)	61	3,693	1,270	(889)	893
- per share	1.05	0.71	(0.22)	(0.01)	1.01	0.34	(0.28)	0.23
- per share diluted	1.03	0.69	(0.22)	(0.01)	0.99	0.34	(0.28)	0.22

¹ The Company did not have any extraordinary items which impacted net income over the most recently completed eight quarters.

The Company's natural gas distribution business is very seasonal, with higher sales in the colder winter months and lower sales in warmer months as a result of a substantial portion of its gas sales being used for space heating purposes. As a result, the Company earns the majority of its net income in the first and fourth quarters of its fiscal year and often realizes losses in the other quarters. Net income in the quarter ended June 30, 2003 was below the net income for the same quarter of 2002 as a result of increased administrative and maintenance costs incurred in 2003. Net income in the three months ended December 31, 2002 was below net income in the same period in 2003 as a result of weather which was approximately 10 percent warmer in 2002 relative to 2003. Deliveries to residential and commercial customers were up 7 percent in the last quarter of 2003 relative to the same period in 2002, reflecting the impact of those weather patterns.

Liquidity

Contractual Obligations

<i>Thousands of dollars</i>	Payments Due by Period as of December 31, 2003				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long Term Debt	\$90,209	\$4,382	\$9,264	\$9,762	\$66,156
Purchase Obligations	67,899	63,537	4,362	0	0
Total Contractual Obligations	\$158,108	\$67,919	\$13,626	\$9,762	\$66,156

The purchase obligations in the table above represent commitments by the Company to purchase natural gas from its suppliers. The Company enters into a number of arrangements to purchase gas on a seasonal basis for resale to its customers during the heating season. The seasonal contracts for gas supply during the heating season terminate by the end of March and as a result, the majority of the Company's purchase obligations arising in 2004 have been satisfied.

The Company purchases gas for resale to its customers and passes through the commodity cost of gas to those customers without markup. The rates charged by the Company are based, in part, on projected gas supply prices. The Company's liquidity requirements are affected by delays between increases or decreases in the cost of gas purchased by the Company and regulatory approval of rate adjustments to reflect the cost increases or decreases.

Amounts available to the Company under its bank operating line are subject to borrowing base requirements which are determined in relation to the Company's accounts receivable and inventories. As a result of the seasonality in operations, the Company's accounts receivable are significantly reduced in the second and third quarters, compared to the winter heating season, constraining the availability of credit at certain times of the year. The Company's working capital requirements, while somewhat seasonal in nature, do not closely follow the pattern of credit available under its bank operating line. For this reason, the Company carefully monitors the availability of credit under its bank line on a prospective basis and remains prepared to adjust its capital expenditures to ensure it has sufficient liquidity available for its working capital requirements.

The Company's bank operating line, which is payable on demand, contains a number of covenants related to financial measures including a working capital ratio, a debt service ratio and a debt capitalization ratio. These covenants have been complied with through the end of March 2004.

Capital Resources

The Company has not made any material commitments for capital expenditures at this time. It has plans for capital expenditures of \$9.6 million in 2004 in order to maintain its transmission and distribution system in good working order and to provide for minor expansions of its distribution system to service new customers. Of this amount, \$1.8 million is budgeted for replacing a dual-line underwater crossing of the Salmon River on the Company's transmission system. In the near term, the Company expects to fund these expenditures through a combination of draws on its operating line and cash flows. To the extent available to it on reasonable terms, the Company will arrange additional long-term debt financing to refinance any capital expenditures funded by use of its operating line.

Off-Balance Sheet Arrangements

As of March 31, 2004, the Company had no off-balance sheet arrangements. For the period December 1, 2003 through March 31, 2004 the Company had a commitment of \$2 million to its operating lender related to the provision of a letter of credit to a third party as credit support for a natural gas commodity hedge.

Transactions with Related Parties

The transactions described in items (a) to (e) were conducted with entities that are no longer affiliates of the Company as a result of the sale of 100 percent of the interest in the capital of the Company held by Westcoast Energy Inc. ("Westcoast") to Tricor Acquisition (STP) Inc. ("Tricor") which closed on December 18, 2003. The Company has determined that Tricor is not a related party.

- (a) During the fiscal year ended on December 31, 2003, the Company paid \$876,000 to Westcoast for the transportation of natural gas through Westcoast's natural gas pipeline system. The National Energy Board of Canada regulates the rates and tolls charged for, and the terms and conditions under which natural gas is processed and transported by Westcoast through its pipeline system. The services provided to the Company during 2003 were provided on the same terms as those provided to all other shippers of gas on Westcoast's pipeline system.
- (b) During the fiscal year ended on December 31, 2003, the Company paid \$463,000 to Westcoast for various materials and services provided by Westcoast. The Company believes that the terms of those transactions are no less favourable than those that could have been arranged with unrelated third parties.
- (c) During the fiscal year ended on December 31, 2003, the Company paid \$2,253,000 to Westcoast Energy Risk Inc., a subsidiary of Westcoast, in premiums for various insurance programs and coverage for a period spanning November 2002 through the first half of 2004. A portion of these premiums were refunded in 2004 following the sale of Westcoast's interest in the Company on December 18, 2003. The Company believes that the terms of those transactions are no less favourable than those that could have been arranged with unrelated third parties.
- (d) During the fiscal year ended on December 31, 2003, the Company paid \$197,000 to Engage Energy Canada, L.P. ("Engage Energy"), an affiliate of Westcoast, for gas supply management services. In addition, for the period from January 1, 2003 through May 31, 2003 the Company sold gas on a daily basis that it was required to purchase under its supply contracts but that was excess to its system needs to Engage Energy. During the fiscal year ended December 31,

2003, Engage Energy paid the Company \$23,121,000 for such excess gas supplies. The Company believes that the terms of those transactions are no less favourable than those that could have been arranged with unrelated third parties.

- (e) During the fiscal year ended on December 31, 2003, the Company paid \$19,385,000 to Duke Energy Marketing LP, an affiliate of Westcoast, for seasonal gas supply requirements during the months of January, February and March 2003. The Company believes that the terms of those transactions are no less favourable than those that could have been arranged with unrelated third parties.

Critical Accounting Estimates

Operating revenues include natural gas sales that are recorded on the basis of regular meter readings and estimates of customer usage from the last meter reading date to the end of the reporting period for such operating revenues. These estimates are made assuming normal consumption patterns which may differ from actual consumption patterns. The estimates of unbilled operating revenue comprise 14 percent of the Company's operating revenues to March 31, 2004. Through future meter readings the usage estimates are replaced with actual delivered volumes which become reflected in the Company's financial results at that time.

Certain gas purchase volumes for deliveries in March have also been estimated as the meter readings were not available from the Company's supplier at the time the Company completes its financial statements. These estimates were based on previous years' delivery volumes in March for the supply locations in question.

The Company reviews the adequacy of its allowance for doubtful accounts on a regular basis. The provision is based on the Company's collections history from its smaller customers and any unique circumstances related to collections from large customers.

Changes in Accounting Policies including Initial Adoption

Effective January 1, 2003, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") standard for stock-based compensation on a prospective basis. Under the fair value method, compensation expense is measured at the grant date and recognized over the service period. The Company accounts for stock-based compensation in accordance with the fair value method and expensed stock-based compensation of \$56,000 in 2003 and expensed \$23,000 in the quarter ended March 31, 2004 in respect of stock options granted after January 1, 2003.

In 2003, the CICA approved a new accounting standard for the recognition, measurement and disclosure of the impairment of long-lived assets (Section 3063). The new standard applies to non-monetary long-lived assets, including property, plant and equipment, and intangible assets with finite useful lives. Under the new requirements, an impairment loss is recognized when the carrying amount of an asset to be held and used exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. An impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value. The Company has adopted the new accounting standard effective January 1, 2004 with no material effect on the Company's financial position or earnings in the quarter ending March 31, 2004.

In 2003, the CICA approved a new accounting standard for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs (Section 3110). A company is required to recognize the fair value of a liability for an asset retirement obligation in the period in which the obligation is incurred when a reasonable estimate of fair value can be made. The Company has adopted the new accounting standard prospectively beginning January 1, 2004 with no material effect on the Company's financial position or earnings in the quarter ending March 31, 2004.

In 2003, the CICA approved new guidelines relating to the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting (Accounting Guideline AcG-13). Specific documentation is required to qualify for hedge accounting prior to, at inception, and throughout the term of the hedging relationship, including risk management policies, specific designation of hedging relationships, the nature of risk being hedged, the hedge objective or strategy, effectiveness assessment methodologies, and accounting policies for hedge relationships, including income recognition. Retroactive and prospective effectiveness assessments will be required throughout the term of the hedge. The Company has adopted the new accounting guideline beginning January 1, 2004 with no effect on the Company's results reported for the quarter ending March 31, 2004.

Financial Instruments and Other Instruments

The Company utilizes natural gas commodity hedging contracts in order to manage the volatility inherent in the prices of its natural gas purchases. It also utilizes interest rate hedging contracts to reduce the volatility of the interest expense associated with its floating rate debt instruments. As of March 31, 2004 the Company had no natural gas commodity hedging contracts outstanding and had one interest rate hedging contract outstanding.

Expenses or income associated with the natural gas commodity hedging contracts are passed through to the Company's customers, subject to the approval of the Commission. In order to reduce the risk of any disallowance of any expense, the Company follows a structured process with respect to implementation of natural gas commodity hedges. A price management plan is developed annually and is reviewed and approved by the Company's price management committee, composed of the executives of the Company. Through implementation of the plan, the Company targets reasonably predictable gas costs which help minimize customer rate changes and improve the predictability of the Company's cash flows. The plan is reviewed by the Commission, amended if necessary, and accepted once it is considered to adequately address ratepayers' interests. Implementation of each hedge, in accordance with the plan, is approved by the price management committee.

The Company's interest rate hedging contract was arranged with the intent of achieving a fixed rate of interest on certain floating rate debt instruments. The Company's rates to its customers include a provision for a fixed rate of interest on an amount of debt equal to the amount hedged. The Company has implemented accounting guideline AcG-13 and has determined that its interest rate hedge qualifies for hedge accounting. As a result, the Company defers the impact of changes in the market value of this contract until such time as the associated transactions are completed. During the year 2003 the Company expensed \$0.4 million associated with transactions under its interest rate hedging contract and expensed \$0.1 million in the quarter ending March 31, 2004. The Company's interest rate hedging contract terminates on June 10, 2004.

Other

The Company files an Annual Information Form on SEDAR which can be accessed at www.sedar.com.

Pacific Northern Gas Ltd. had 3,598,580 common shares outstanding as of March 31, 2004. These are the only issued voting securities of the Company and it has no securities outstanding which may be converted into voting or equity securities.

"Roy G. Dyce"
President and Chief Executive Officer

May 4, 2004

PACIFIC NORTHERN GAS LTD.
CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31, 2004 AND DECEMBER 31, 2003

(in thousands)

	March 31, <u>2004</u>	December 31, <u>2003</u>
ASSETS		
Current assets:		
Cash	\$ 782	\$ 313
Accounts receivable	23,564	25,100
Inventory of supplies and natural gas	1,813	2,215
Prepaid expenses	<u>1,263</u>	<u>133</u>
	<u>27,422</u>	<u>27,761</u>
Plant, property and equipment	<u>173,080</u>	<u>174,348</u>
Deferred charges:		
Debt expense	877	915
Rate stabilization adjustment mechanism	834	864
Pipeline rehabilitation costs	1,132	1,093
Other	<u>1,171</u>	<u>1,433</u>
	<u>4,014</u>	<u>4,305</u>
	<u>\$ 204,516</u>	<u>\$ 206,414</u>
LIABILITIES		
Current liabilities:		
Bank indebtedness	\$ -	\$ 2,900
Accounts payable and accrued liabilities	13,334	15,054
Gas purchase variance payable	2,515	3,562
Income and other taxes payable	3,906	2,737
Long term debt due within one year	<u>4,382</u>	<u>4,382</u>
	<u>24,137</u>	<u>28,635</u>
Long term debt	<u>85,182</u>	<u>85,827</u>
Deferred income taxes	<u>15,424</u>	<u>15,430</u>
SHAREHOLDERS' EQUITY		
Preferred shares	<u>5,000</u>	<u>5,000</u>
Common shares	8,994	8,960
Contributed surplus	2,467	2,379
Retained earnings	<u>63,312</u>	<u>60,183</u>
	<u>74,773</u>	<u>71,522</u>
	<u>79,773</u>	<u>76,522</u>
	<u>\$ 204,516</u>	<u>\$ 206,414</u>

ON BEHALF OF THE BOARD

"Robert F. Chase"
Director

"Roy G. Dyce"
Director

PACIFIC NORTHERN GAS LTD.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands)

	Three months ended March 31	
	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 43,584	\$ 41,683
Cost of sales	<u>27,119</u>	<u>25,860</u>
Operating margin	<u>16,465</u>	<u>15,823</u>
Operating and maintenance	3,376	3,069
Administrative and general	1,780	1,534
Amortization of deferred charges	172	149
Municipal and other taxes	985	1,006
Depreciation	<u>1,971</u>	<u>1,907</u>
	<u>8,284</u>	<u>7,665</u>
Operating income	8,181	8,158
Investment and other income	<u>5</u>	<u>27</u>
	<u>8,186</u>	<u>8,185</u>
Income deductions:		
Interest on long term debt	1,844	1,880
Other interest	<u>197</u>	<u>177</u>
	<u>2,041</u>	<u>2,057</u>
Income before income taxes	<u>6,145</u>	<u>6,128</u>
Income taxes		
- Currently payable	1,767	(1,228)
- Deferred	<u>530</u>	<u>3,663</u>
	<u>2,297</u>	<u>2,435</u>
Net income for the period	<u>\$ 3,848</u>	<u>\$ 3,693</u>
For common shares:		
Net income for the period	\$ 3,848	\$ 3,693
Provision for dividends on preferred shares	<u>84</u>	<u>84</u>
Net income applicable to common shares	<u>\$ 3,764</u>	<u>\$ 3,609</u>
Earnings per common share:		
Basic	<u>\$ 1.05</u>	<u>\$ 1.01</u>
Diluted	<u>\$ 1.03</u>	<u>\$ 0.99</u>

PACIFIC NORTHERN GAS LTD.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in thousands)

	For the three months ended March 31	
	<u>2004</u>	<u>2003</u>
Balance, beginning of period	\$ 60,183	\$ 57,719
Net income for the period	-	3,693
	<u>60,183</u>	<u>61,412</u>
Common dividends	<u>(719)</u>	<u>(716)</u>
Balance, end of period	<u>\$ 59,464</u>	<u>\$ 60,696</u>

CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands)

	For the three months ended March 31	
	<u>2004</u>	<u>2003</u>
Operating activities:		
Net income for the period	\$ 3,848	\$ 3,693
Add (deduct) items not involving cash		
Deferred income taxes	530	3,663
Depreciation and amortization	2,143	2,056
Stock option expense	23	-
Other	<u>(536)</u>	<u>(3,669)</u>
Operating cash flow	6,008	5,743
Non-cash working capital changes	<u>257</u>	<u>1,124</u>
Net cash provided by operating activities	<u>6,265</u>	<u>6,867</u>
Investing activities:		
Additions to plant, property and equipment	(703)	(967)
Increase in deferred charges	<u>(928)</u>	<u>(6,363)</u>
Net cash used in investing activities	<u>(1,631)</u>	<u>(7,330)</u>
Financing activities:		
Increase (decrease) in bank indebtedness	(2,900)	2,643
Repayment of long term debt	(645)	(657)
Issue of common shares	99	23
Dividends paid	<u>(719)</u>	<u>(10,568)</u>
Net cash used in financing activities	<u>(4,165)</u>	<u>(8,559)</u>
Increase (decrease) in cash during the period	469	(9,022)
Cash, beginning of period	<u>313</u>	<u>10,027</u>
Cash, end of period	<u>\$ 782</u>	<u>\$ 1,005</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim consolidated financial statements are prepared, from the records of the Company, in accordance with Canadian generally accepted accounting principles, except that disclosures do not conform, in all respects, to the requirements for annual consolidated financial statements. While management believes that the disclosures presented are adequate to make the information not misleading, these consolidated financial statements and notes should be read in conjunction with the Company's most recent annual consolidated financial statements.

These interim consolidated financial statements follow the same accounting policies and methods of their application as the Company's most recent annual consolidated financial statements.

Earnings for the interim periods may not be indicative of results for the fiscal year due to weather variations and other factors.

STOCK-BASED COMPENSATION

The Company does not have any plans which result in the direct award of stock, stock appreciation rights and awards that call for settlement in cash or other assets. The Company has one stock-based compensation plan. In March 2004, 25,900 options were issued at an average exercise price of \$20.80.

The Company has adopted the fair-value based method to account for stock based transactions with employees. In the period ending March 31, 2003 the Company used the intrinsic value based method to account for stock-based compensation. If the Company had used the fair-value based method to account for stock-based compensation for the period ending March 31, 2003, pro forma net income and earnings per common share would have been as follows:

<i>[\$000's, except per share amounts]</i>	<i>Period ending March 31</i>	2003
Net income	As reported	\$3,693
	Pro forma	\$3,659
Net income applicable to common shares	As reported	\$3,608
	Pro forma	\$3,575
Basic earnings per common share	As reported	\$1.01
	Pro forma	\$1.00
Diluted earnings per common share	As reported	\$0.99
	Pro forma	\$0.98

The following is a summary of the significant assumptions used in measuring the Company's pro-forma earnings and earnings per share:

	2003
Risk free interest rate	3%
Expected volatility (annualized)	44%
Expected years of option life (average)	7
Expected annual rate of dividends	4%

The Company has not included those options outstanding at the date of adoption on January 1, 2002 in its assessment of the pro-forma impact of adopting this standard.

SEASONALITY

Due to the seasonal nature of natural gas sales, more than 85 percent of the Company's net income is generally reported in the first and fourth quarters of the year, representing the typical timing of the heating season.

PREFERRED SHARES

The 6.75 percent preferred shares are redeemable at the option of the Company at \$26 per share plus any accrued and unpaid dividends at the date of the redemption.

COMMON SHARES

The Company has outstanding stock options for 283,400 common shares, of which 217,600 are exercisable as at March 31, 2004. At March 31, 2004, there were 64,800 stock options outstanding that could potentially dilute basic earnings per share in the future but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

<i>[Number of shares]</i>	<i>Period ending March 31</i>	2004	2003
Weighted average number of common shares outstanding – basic		3,589,143	3,582,657
Effect of dilutive stock options		79,419	46,918
Weighted average number of common shares outstanding – diluted		3,668,562	3,629,575

CONTINGENCY AND MEASUREMENT UNCERTAINTY

Pacific Northern Gas (N.E.) Ltd. is involved in a dispute with a customer over the payment for gas transported to the customer. The dispute relates to the customer's obligation to supply its own gas for transportation to its facilities, or failing that, to pay for gas delivered to those facilities. The Company believes it has a substantial case for recovery of the amounts billed and has recorded the related accounts receivable at management's best estimate of the amount ultimately recoverable. Approximately \$2 million relating to the dispute has been included in accounts receivable at March 31, 2004 and December 31, 2003.

COMPARATIVE FIGURES

Certain items in the consolidated financial statements have been reclassified to conform to the 2004 presentation.

I, Roy G. Dyce, the Chief Executive Officer of Pacific Northern Gas Ltd., certify that:

1. I have reviewed the interim filings of Pacific Northern Gas Ltd., (the issuer) for the interim period ending March 31, 2004;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings; and
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.

"Roy G. Dyce"

Roy G. Dyce
Chief Executive Officer

Date: May 4, 2004

◆—————◆

I, Kevin R. Teitge, the Chief Financial Officer of Pacific Northern Gas Ltd., certify that:

1. I have reviewed the interim filings of Pacific Northern Gas Ltd., (the issuer) for the interim period ending March 31, 2004;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings; and
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.

"Kevin R. Teitge"

Kevin R. Teitge
Chief Financial Officer

Date: May 4, 2004