interim statement

September 30, 2004

Pacific Northern Gas Ltd.
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Pacific Northern Gas Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Period Ended September 30, 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 Environment

High natural gas supply prices and weak economic conditions in the west-central region of northern British Columbia continue to reduce the quantity of gas sold and delivered to the Company's customers in this area of the province. In the third quarter of 2004, two small industrial sawmill customers with estimated revenue of $0.7 million in 2004 terminated their transportation service contracts effective October 31, 2005. A more vibrant economy in northeastern British Columbia as a result of activity in the oil and gas exploration sector is helping to maintain gas deliveries closer to historical levels on a system-wide basis.

In January 2004, the Company applied to the British Columbia Utilities Commission (the "Commission") to recapitalize under an income trust ownership structure. The Commission denied the application in the third quarter in a decision released on July 29, 2004. The Company is considering its options having regard to the views expressed by the Commission in this decision.

Overall Performance

Net income for the first nine months of 2004 was $2.7 million, compared with $3.0 million for the corresponding period in 2003. After providing for preferred share dividends, earnings per common share in the first nine months of 2004 were $0.69 compared with $0.77 for the first nine months of 2003. The decrease in net income is primarily the result of higher expense for gas used in operations, net of tax, of approximately $0.25 million.

Net loss for the quarter ended September 30, 2004 was $1.4 million, compared with $0.7 million for the quarter ended September 30, 2003. After providing for preferred share dividends, the loss per common share in the quarter ended September 30, 2004 was $0.42 compared with a loss of $0.22 in the corresponding period in 2003. The increase in net loss in the third quarter of 2004 is largely due to refunds to customers of $0.6 million as permanent rates established by the Commission in its decisions issued July 29, 2004 were lower than interim rates implemented January 1, 2004.

The rate stabilization adjustment mechanism approved by the Commission continues to contribute to the stability of the Company's earnings. 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 or refund in future rates. Net income was $0.2 million lower for the three months ended September 30, 2004 and $0.5 million higher for the nine months ended September 30, 2004 as a result of this account.

Residential deliveries were lower by 5 percent in the first nine months of 2004 and were higher by 2 percent in the three months ended September 30, 2004, relative to deliveries over the same periods in 2003. Weather was a prime contributor to reduced residential sales, as it was 5 percent warmer in the nine months ended September 30, 2004 compared to the same period in 2003. Commercial deliveries were lower by 3 percent in the first nine months of 2004 and were higher by 14 percent in the three months ended September 30, 2004, as deliveries to commercial customers tend to be less temperature sensitive and a large commercial customer was added in the Northeast region during the quarter. Industrial deliveries increased by 35 percent for the third quarter and were 9 percent higher than in 2003 for the 9 months ended September 30, 2004 due to higher deliveries to the Company's two largest industrial customers in 2004 as these customers had experienced closures due to a maintenance shutdown and labour dispute, respectively, for a significant portion of the third quarter in 2003.

Results of Operations

Operating revenues in the first nine months of 2004 increased to $97.0 million as compared with $94.3 million in the first nine months of 2003. The increase in operating revenues was due to an increase in sales of gas surplus to the needs of the Company's sales customers ("off-system sales") of $8.0 million in the first nine months of 2004, compared with the corresponding period in 2003. This was offset by a $5.3 million decline in revenues from the Company's sales and transportation customers which mainly reflects lower gas supply costs embedded in sales customers' rates compared to the same period in 2003.

Operating revenues in the third quarter of 2004 increased to $25.2 million as compared to $24.0 million in the third quarter of 2003. This increase in operating revenues was the result of an increase in off-system sales of $3.0 million, offset by a $1.8 million decline in revenues from transportation and sales customers, largely reflective of lower gas supply costs charged to customers in this period in 2004 relative to 2003. In addition, in the third quarter of 2003, the Company recorded revenue of $0.7 million, as approved by the Commission, in respect of the New Skeena Forest Products pulp mill in Prince Rupert as this mill was expected to reopen by mid-June 2003. The pulp mill, however, remained idle and the Company's 2004 interim and permanent rates were then set assuming no revenue would be realized from service to the facility in 2004. This assumption resulted in rate increases to other customers which are applied to deliveries throughout 2004, of which approximately 75 percent would be recorded in the first and fourth quarters.

During the second quarter of 2004, the public hearing into the Company's proposed new 10-year transportation service agreement with West Fraser Mills Ltd., the Company's 2004 revenue requirements applications and the Company's application to recapitalize under an income trust ownership structure was completed.

On July 29, 2004, the Commission released its decisions on the matters subject to the public hearing. The 2004 revenue requirement decisions resulted in the allowed cost of service for 2004 being less than what had been applied for by the Company and on which interim rates were based effective January 1, 2004. The lower permanent rates were implemented as of September 1, 2004 and customers received refunds on gas deliveries from January 1 to August 31, 2004 to the extent of the interim to permanent rates reductions. The Commission approved the new 10-year transportation service agreement between the Company and West Fraser Mills Ltd., effective January 1, 2004, but denied the Company's application to recapitalize under an income trust ownership structure.

Operating revenues for the nine months ended September 30, 2004 are based on permanent rates that have been approved by the Commission. Operating revenues reported to June 30, 2004 were based on interim rates. In the third quarter, following the release of the Commission's decisions on the Company's 2004 rate applications, the Company recorded a reduction of approximately $0.6 million to operating revenues previously reported to June 30, 2004.

Operating margin in the first nine months of 2004 declined to $34.1 million, as compared with $34.7 million in the first nine months of 2003. Operating margin also decreased in the third quarter of 2004 relative to the same period in 2003, to $7.2 million from $8.6 million. These decreases in operating margin are largely a result of the differences between interim and permanent rates arising from the Commission's decisions.

The Company filed a report with the Commission in September 2004 on forecast gas supply prices. On the basis of the report, the Commission approved the Company's recommendation that no adjustments be made to current natural gas supply commodity rates. The Granisle propane rate was increased as of October 1, 2004 by $0.91 per gigajoule or 5.2 percent on average.

Summary of Quarterly Results for Eight Quarters Ending September 30, 2004

Thousands of dollars except per share amounts	Sept 30, 2004	Jun 30, 2004	Mar 31, 2004	Dec 31, 2003 [3]	Sept 30, 2003 [3]	Jun 30, 2003 [3]	Mar 31, 2003 [3]	Dec 31, 2002
Operating Revenues	$25,169	$28,245	$43,584	$39,448	$24,025	$28,571	$41,683	$32,889
Net Income (loss)[1]	(1,427)	317	3,848	2,665	(723)	47	3,679	1,270
- per share[2]	(0.42)	0.06	1.05	0.72	(0.22)	(0.01)	1.00	0.34
- per share diluted[2]	(0.42)	0.06	1.03	0.70	(0.22)	(0.01)	0.99	0.34

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

[2] Per share amounts are after provision for preferred share dividends of $84 thousand per quarter.

[3] Restated to reflect the fair value method of accounting for stock options in 2003 (see Note 1 to the Consolidated Financial Statements)

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.

Liquidity

Amounts available to the Company under its bank operating line are generally 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.

The Company continues to be in compliance with the covenants under its operating line through the end of September 2004.

Capital Resources

The Company has commitments for capital expenditures of $1.9 million at September 30, 2004, relating to the replacement of a dual-line underwater crossing of the Salmon River on the Company's transmission system. The Company expects to fund this expenditure through a combination of draws on its operating line and cash flows.

Off-Balance Sheet Arrangements

As of September 30, 2004, the Company had no off-balance sheet arrangements, other than the natural gas hedging contracts described in Financial and Other Instruments below.

Transactions with Related Parties

The Company has not had any transactions with related parties during the first nine months of 2004.

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 2.5 percent of the Company's operating revenues to September 30, 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.

The Company's subsidiary 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 September 30, 2004 and December 31, 2003.

Financial 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 September 30, 2004 the Company had no interest rate hedging contracts outstanding.

During the second quarter the Company completed its annual gas contracting and gas supply price management plan and filed it with the Commission for review and acceptance. The Commission accepted the plan as filed early in the third quarter of 2004. The plan calls for gas price hedging, covering purchases over the period November 1, 2004 through October 31, 2005, to be completed in stages over the mid-July to mid-October 2004 period. Each hedging transaction is subject to approval by the Company's price management committee.

At September 30, 2004, the Company had outstanding fixed price contracts covering approximately 3.6 million gigajoules of natural gas to be delivered in the months from October 2004 through October 2005 (representing approximately 27 percent of forecast annual system gas supply) at prices ranging from $4.92 to $7.90 per gigajoule. The fair value receivable under the fixed price contracts at September 30, 2004 was $2.9 million. The fair value reflects the estimated amounts that the Company would receive or pay at September 30, 2004 to terminate the fixed price contracts, based on the estimated net cash flows under the terms of each contract.

Dividends

The Board of Directors declared a quarterly dividend of 20 cents per share on the Company's Common Shares, payable December 23, 2004 to shareholders of record at the close of business on December 6, 2004.

The Board of Directors also declared a semi-annual dividend of 84.375 cents per share on the Company's 6-3/4 percent cumulative, redeemable preferred shares, payable January 1, 2005 to shareholders of record at the close of business on December 9, 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 September 30, 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

November 5, 2004

Notice Required Under Part 4.3(3) of National Instrument 51-102

TO THE SHAREHOLDERS OF PACIFIC NORTHERN GAS LTD.

The interim financial statements of Pacific Northern Gas Ltd. for the period ended September 30, 2004 have not been reviewed by an auditor.

PACIFIC NORTHERN GAS LTD.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands)

	For the nine months ended September 30		For the three months ended September 30	
	2004	2003	**2004**	2003
Operating revenues	**$ 96,998**	$ 94,279	**$ 25,169**	$ 24,025
Cost of sales	**62,936**	59,609	**17,978**	15,411
Operating margin	**34,062**	34,670	**7,191**	8,614
Operating and maintenance	**8,654**	8,850	**2,576**	2,975
Administrative and general	**4,921**	4,641	**1,424**	1,360
Amortization of deferred charges	**491**	383	**146**	121
Municipal and other taxes	**2,956**	2,976	**986**	1,005
Depreciation	**5,913**	5,881	**1,971**	1,970
	22,935	22,731	**7,103**	7,431
Operating income	**11,127**	11,939	**88**	1,183
Investment and other income	**36**	36	**12**	4
	11,163	11,975	**100**	1,187
Income deductions:				
Interest on long term debt	**5,701**	5,664	**1,889**	1,930
Other	**414**	439	**46**	73
	6,115	6,103	**1,935**	2,003
Income (loss) before income taxes	**5,048**	5,872	**(1,835)**	(816)
Income taxes - Currently payable	**1,617**	1,413	**(255)**	595
- Deferred	**693**	1,456	**(153)**	(688)
	2,310	2,869	**(408)**	(93)
Net income (loss) for the period	**$ 2,738**	$ 3,003	**$ (1,427)**	$ (723)
For common shares:				
Net income (loss) for the period	**$ 2,738**	$ 3,003	**$ (1,427)**	$ (723)
Provision for dividends on preferred shares	**253**	253	**85**	85
Net income (loss) applicable to common shares	**$ 2,485**	$ 2,750	**$ (1,512)**	$ (808)
Per common share:				
Basic	**$ 0.69**	$ 0.77	**$ (0.42)**	$ (0.22)
Diluted	**$ 0.68**	$ 0.76	**$ (0.42)**	$ (0.22)

PACIFIC NORTHERN GAS LTD.
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30, 2004 AND DECEMBER 31, 2003
(in thousands)

	September 30 2004	December 31, 2003
ASSETS		
Current assets:		
Cash	$ 820	$ 313
Accounts receivable	12,321	25,100
Income taxes recoverable	1,392	-
Inventory of supplies and natural gas	1,885	2,215
Prepaid expenses	1,586	133
	18,004	27,761
Plant, property and equipment	174,536	174,348
Deferred charges:		
Debt expense	804	915
Rate stabilization adjustment mechanism	1,238	864
Pipeline rehabilitation costs	1,058	1,093
Other	1,079	1,433
	4,179	4,305
	$ 196,719	$ 206,414
LIABILITIES		
Current liabilities:		
Bank indebtedness	$ -	$ 2,900
Accounts payable and accrued liabilities	11,689	15,054
Gas purchase variance payable	2,906	3,562
Income and other taxes payable	1,807	2,737
Long term debt due within one year	4,380	4,382
	20,782	28,635
Long term debt	83,394	85,827
Deferred income taxes	15,430	15,430
SHAREHOLDERS' EQUITY		
Preferred shares	5,000	5,000
Common shares	8,996	8,960
Contributed surplus	2,524	2,379
Retained earnings	60,593	60,183
	72,113	71,522
	77,113	76,522
	$ 196,719	$ 206,414

ON BEHALF OF THE BOARD

"Robert F. Chase"
Director

"Roy G. Dyce"
Director

PACIFIC NORTHERN GAS LTD.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(in thousands)

	For the nine months ended September 30		For the three months ended September 30	
	2004	2003	**2004**	2003
	$	$		$
Balance, beginning of period	**60,183**	57,719	**$ 62,740**	59,843
Net income (loss) for the period	**2,738**	3,003	**(1,427)**	(723)
	62,921	60,722	**61,313**	59,120
Preferred Dividends	**169**	168	**-**	-
Common dividends	**2,159**	2,151	**720**	717
	2,328	2,319	**720**	717
Balance, end of period	**$ 60,593**	$ 58,403	**$ 60,593**	$ 58,403

CONSOLIDATED STATEMENTS OF CASH FLOW
(in thousands)

	For the nine months ended September 30		For the three months ended September 30	
	2004	2003	**2004**	2003
Operating activities:				
Net income (loss) for the period	**$ 2,738**	$ 3,003	**$ (1,427)**	$ (723)
Add (deduct) items not involving cash				
Deferred income taxes	**693**	1,456	**(153)**	(688)
Depreciation and amortization	**6,404**	6,264	**2,117**	2,091
Stock option expense	**70**	42	**23**	14
Other	**(693)**	(1,474)	**165**	682
Operating cash flow	**9,212**	9,291	**725**	1,376
Non-cash working capital changes	**5,969**	2,540	**(1,533)**	837
Net cash provided by (used in) operating activities	**15,181**	11,831	**(808)**	2,213
Investing activities:				
Additions to plant, property and equipment	**(6,101)**	(3,750)	**(3,148)**	(1,465)
Decrease (increase) in deferred charges	**(1,021)**	(2,662)	**448**	1,070
Net cash used in investing activities	**(7,122)**	(6,412)	**(2,700)**	(395)
Financing activities:				
Decrease in bank indebtedness	**(2,900)**	-	**-**	-
Repayment of long term debt	**(2,435)**	(1,950)	**(1,147)**	(645)
Issue of common shares	**111**	69	**-**	14
Redemption of junior preferred shares	**-**	-	**-**	-
Dividends paid	**(2,328)**	(12,171)	**(720)**	(717)
Net cash used in financing activities	**(7,552)**	(14,052)	**(1,867)**	(1,348)
Increase (decrease) in cash during the period	**507**	(8,633)	**(5,375)**	470
Cash, beginning of period	**313**	10,027	**6,195**	924
Cash, end of period	**$ 820**	$ 1,394	**$ 820**	$ 1,394

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.

1. 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 prospectively effective January 1, 2003 and as a result has restated the comparative figures for the three and nine month periods ending September 30, 2003. Previously the Company's reported results reflected the intrinsic value based method to account for stock-based compensation. The adjustment to reflect the fair value method to account for stock options results in a reduction of net income of $42 thousand for the nine months ended September 30, 2003 and $14 thousand for the three months ended September 30, 2003. As a result of the adjustment, reported basic earnings per share and reported diluted earnings per share decline by $0.01 for the nine months ended September 30, 2003, while reported earnings per share decline $0.01 for the three months ended September 30, 2003, with reported diluted earnings per share unchanged for the same period.

The following is a summary of the significant assumptions used in adjusting the Company's earnings:

	Nine months ended September 30 2003	**Three months ended September 30 2003**
Risk free interest rate	**3%**	**3%**
Expected volatility (annualized)	**44%**	**44%**
Expected years of option life (average)	**7**	**7**
Expected annual rate of dividends	**4%**	**4%**

2. SEASONALITY

Due to the seasonal nature of natural gas sales, more than 95 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.

3. 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.

4. COMMON SHARES

The Company has outstanding stock options for 283,400 common shares, of which 217,600 are exercisable as at September 30, 2004. At September 30, 2004, there were 84,200 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.

[Thousands of shares]	**Nine months ended September 30** **2004**	**2003**	**Three months ended September 30** **2004**	**2003**
Weighted average number of common shares outstanding – basic	3,595.5	3,583.0	3,598.6	3,583.5
Effect of dilutive stock options	74.8	50.7	68.4	59.4
Weighted average number of common shares outstanding – diluted	3,670.3	3,633.7	3,667.0	3,642.9

5. 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 September 30, 2004 and December 31, 2003.

6. COMPARATIVE FIGURES

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

I, Roy 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 September 30, 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: November 5, 2004

I, Elizabeth A. Fletcher, 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 September 30, 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.

"Elizabeth A. Fletcher"

Elizabeth A. Fletcher
Chief Financial Officer

Date: November 5, 2004