



interim statement

For the three months ended September 30, 2005

October 27, 2005

Pacific Northern Gas Ltd.
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Pacific Northern Gas Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Three Months Ended September 30, 2005

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

The Company continues to monitor the competitiveness of its natural gas retail sales relative to alternative heating sources in its service areas. There were significant increases in the commodity cost of natural gas in the third quarter of 2005. Spot commodity prices during the month of September 2005 were approximately 62 percent higher on average than prices in the twelve month period ended June 30, 2005. 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 located in the west-central region of northern British Columbia continue to be a factor in reducing the quantity of gas sold and delivered to the Company's customers in this area of the province. In contrast, a more vibrant economy in northeastern British Columbia as a result of activity in the oil and gas exploration and coal sectors is helping to maintain gas deliveries closer to historical levels on a system-wide basis.

Kitimat LNG Inc. is in the process of obtaining a Project Approval Certificate from the British Columbia Environmental Assessment Office and the Canadian Environmental Assessment Agency for its proposed liquidified natural gas ("LNG") import, regasification and send-out terminal to be located near Kitimat, B.C. The Company is working with Kitimat LNG Inc. to utilize the Company's natural gas transportation services to deliver the regasified LNG into the Duke Energy Gas Transmission ("Duke") system at the point of the existing interconnection. If the terminal is constructed as planned, the Company will seek the necessary approvals to reverse the flow of its pipeline and expand pipeline capacity from the current 115 million cubic feet ("MMcf") per day to accommodate the delivery of 610 MMcf per day into the Duke system (the Kitimat to Summit Lake Looping ("KSL") project). On October 27, 2005 the Company engaged two international banks as co-arrangers for the project financing of the proposed KSL project. These banks were also concurrently engaged by Kitimat LNG Inc. as co-arrangers for the project financing of the proposed regasification terminal. The Company can give no assurances that the necessary approvals for the construction of the terminal by Kitimat LNG Inc. or for the expansion of the Company's pipeline will be obtained.

Termination of Transportation Service Agreement by Methanex

On August 30, 2005, Methanex Corporation ("Methanex") gave notice of termination of its Firm and Interruptible Gas Transportation Service Agreement with the Company. The agreement would otherwise have expired on October 31, 2009. Under the terms of the agreement, Methanex is required to make a termination payment to PNG of approximately \$23.3 million on February 28, 2006, the effective date of termination.

During 2004, deliveries to Methanex accounted for approximately 67 percent of the volumes delivered by PNG and approximately 9 percent of the Company's operating revenues, or \$12.2 million. The Company does not expect any impact on net income in 2005 arising from the termination of the agreement. For subsequent years, the impact on net income will depend on future regulatory decisions, including the appropriate regulatory treatment of the termination payment and future adjustments to the rates to be paid by the Company's customers.

Income Trust Decision and Reconsideration Application

By decision dated September 9, 2005 (the "income trust decision"), the British Columbia Utilities Commission (the "Commission") granted conditional approval of the Company's December 2004 application to recapitalize under an income trust ownership structure. The approval included a reduction in the interest rate on subordinated debt compared to that applied for by the Company which would, on its own, have the effect of reducing cash flow to the income trust by approximately \$0.9 million annually. On October 7, 2005, the Company applied for reconsideration and variance of the income trust decision, requesting the Commission to approve the interest rates on the subordinated debt as originally applied for by the Company. The reconsideration application was reviewed by the Commission at an oral public hearing on October 20, 2005. The Commission's decision on the reconsideration application is expected by the end of October. In addition to the approvals granted by the Commission in the income trust decision, the approval of the shareholders of the Company, court approval, a provincial Order in Council, consent of the existing bondholders and acceptable market conditions will also be necessary for the conversion to proceed. No assurances can be given by the Company that the required approvals will be obtained, or that the change to an income trust will occur.

Negotiated Settlement of 2005 Revenue Requirements Application

On October 13, 2005 a settlement of the 2005 revenue requirements application for the western system was reached between the Company and customer representatives through a negotiated settlement process facilitated by Commission staff. Commission approval of the settlement agreement is expected by early November 2005. The results of operations reported by the Company in the first and second quarters of 2005 were recorded on the basis of interim rates approved effective January 1, 2005 and reflected adjustments to recognize decreases in the cost of service set forth in the Company's February 18, 2005 update to its original application. As a result of the settlement, the interim rates were made permanent for 2005 and a portion of the costs included in a deferral account in 2004 were disallowed, and other elements of the cost of service were adjusted. If the terms of the settlement had been known at the time, the Company's net income reported to June 30, 2005 would have been increased by approximately \$83,000. The net earnings reported to September 30, 2005 reflect the changes agreed to under the negotiated settlement.

Overall Performance

Net loss for the three months ended September 30, 2005 was \$0.8 million, compared with \$1.4 million for the corresponding period in 2004. After providing for preferred share dividends, the loss per common share in the three months ended September 30, 2005 was \$0.24 compared with \$0.42 for the same period in 2004. The lower net loss in 2005 is primarily the result of refunds to customers of \$0.6 million which were issued in the third quarter of 2004 when permanent rates established by the Commission were determined to be lower than interim rates implemented January 1, 2004. The third quarter of 2005 also reflects a reduction in the net loss of approximately \$0.1 million due to the negotiated settlement of the western system revenue requirements application.

Net income for the nine months ended September 30, 2005 was \$3.3 million, compared with \$2.7 million for the corresponding period in 2004. After providing for preferred share dividends, earnings per common share in the nine months ended September 30, 2005 were \$0.86 compared with \$0.69 for the same period in 2004. The increase in net income is primarily the result of lower operating

and administrative expenses, as well as increased returns from the negotiated settlement of the western system revenue requirements application.

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. While the Company's net loss for the three months ended September 30, 2005 was not impacted by the stabilization adjustment mechanism, net income was \$0.5 million higher for the nine months ended September 30, 2005 as a result of this account.

Residential deliveries were lower by 9.8 percent in the three months ended September 30, 2005 and were lower by 2.6 percent in the nine months ended September 30, 2005 relative to deliveries over the same periods in 2004. The reduction in deliveries to residential customers in the quarter is attributable to customer reaction to increased prices. Weather was not a prime contributor to reduced residential sales in the quarter, as it was 2.6 percent colder in the three months ended September 30, 2005 compared to the same quarter in 2004. However, weather was a factor in the lower level of deliveries over the nine months ended September 30, 2005, as it was 3.6 percent warmer compared to the same period in 2004.

Commercial deliveries were lower by 8.6 percent in the third quarter of 2005 and were higher by 2.0 percent in the first nine months of 2005 relative to deliveries over the same periods in 2004. Deliveries to commercial customers tend to be less temperature sensitive and a large commercial customer was added in the northeastern region during the third quarter of 2004.

Industrial deliveries for the three month and nine month periods ended September 30, 2005 were lower by 10.5 percent and 4.2 percent, respectively, compared to the same periods in 2004. The reduction in industrial deliveries is primarily attributable to lower deliveries to three large industrial customers. Due to the significant increase in the commodity price of natural gas in 2005, a number of industrial customers have reduced their consumption. A deferral account is in place that recovers or refunds margin differences resulting from large industrial customers' demand varying from the forecast approved for ratemaking purposes.

Results of Operations

Operating revenues in the three months ended September 30, 2005 increased to \$32.2 million as compared with \$25.2 million in the corresponding period in 2004. The increase in operating revenues was primarily due to an increase of \$5.9 million in revenues from the sale of gas surplus to the needs of the Company's sales customers ("off system gas sales"), as well as higher gas supply costs embedded in sales customers' rates compared with the corresponding period in 2004. 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 reported operating revenues, but do not affect net income. Any profit or loss realized on off system gas sales is deferred for future recovery from, or refund to, the Company's sales customers.

Operating revenues in the first nine months of 2005 increased to \$110.3 million as compared with \$97.0 million in the first nine months of 2004. The increase in operating revenues was primarily due to higher gas supply costs embedded in sales customers' rates compared with the corresponding period in 2004, as well as an increase of \$7.1 million in off system gas sales.

Operating margin in the three months ended September 30, 2005 increased to \$8.5 million, as compared with \$7.2 million in the same period in 2004. Operating margin in the first nine months of 2005 increased to \$34.4 million, as compared with \$34.1 million in the first nine months of 2004. The increases in operating margin are largely a result of increased equity returns from the negotiated settlement of the western system revenue requirements application.

The Company filed a report with the Commission in September 2005 on past and projected gas supply costs compared to gas cost recoveries from customers. On the basis of the report, and at the Company's request, the Commission issued an order, effective October 1, 2005, to increase the gas supply commodity and rate rider components of rates for customers in the PNG-West and Fort St. John/Dawson Creek divisions by \$1.50 per gigajoule and to increase the corresponding Tumbler Ridge division gas supply rates by \$2.50 per gigajoule.

Summary of Quarterly Results for Eight Quarters Ending September 30, 2005

<i>Thousands of dollars except per share amounts</i>	Sept 30, 2005	June 30, 2005	Mar 31, 2005	Dec 31, 2004	Sept 30, 2004	June 30, 2004	Mar. 31, 2004	Dec 31, 2003
Operating Revenues	\$32,238	\$30,293	\$47,798	\$40,757	\$25,169	\$28,245	\$43,584	\$39,448
Net income (loss) ¹	(772)	137	3,984	2,670	(1,427)	317	3,848	2,665
- per share ²	(0.24)	0.02	1.08	0.72	(0.42)	0.06	1.05	0.72
- per share diluted ²	(0.24)	0.01	1.06	0.71	(0.42)	0.06	1.03	0.70

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 approximately \$84,000 per quarter.

The Company's natural gas distribution business is very seasonal, with higher sales in the colder winter months and lower sales in warmer months. Given that a substantial portion of its gas sales are used for space heating purposes, 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

In January 2005, the Company arranged new credit facilities, which include a \$20 million operating line and a \$15 million risk management facility. The new operating line is subject to borrowing base requirements and financial covenants which may act to restrict the amount the Company can borrow under the operating line. As of September 30, 2005, the calculated borrowing base was \$16.7 million, of which \$0.2 million had been drawn. The credit facilities are collateralized by the pledge of a \$40 million debenture and a charge on certain accounts receivables and inventories.

In addition to the borrowing base, the Company has provided certain financial covenants to its operating lender. One of these covenants is a restricted payments test which, in essence, prevents the Company from borrowing under the operating line to fund capital expenditures, making scheduled debt amortization payments, or making dividend payments. The Company is in compliance with the covenants under its operating line through the end of September 2005.

The risk management facility allows the Company to hedge natural gas purchases in accordance with its annual gas contracting and gas supply price management plan and to enter into interest rate hedging transactions to the extent of a total maximum exposure of \$15 million, with exposure calculated by the facility provider using its standard methodology.

Accounts receivable at September 30, 2005 are \$8.7 million lower than at December 31, 2004 due to customer billings for the peak winter season being collected by the end of the second quarter. In addition, accounts payable and accrued liabilities at the end of the third quarter are \$2.3 million lower than at December 31, 2004 despite significant increases in the commodity price of natural gas, as lower gas volumes are generally purchased in the month of September compared to December.

The Company purchases gas for resale to its gas sales customers and passes through the commodity cost of gas to those customers without mark-up. The rates charged to gas sales customers 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.

The Company's subsidiary Pacific Northern Gas (N.E.) Ltd. was involved in a dispute with a customer over the payment for gas transported to the customer. The dispute related to the customer's failure to offset gas delivered to the customer by PNG(NE) over an approximate two year period in 2001 and 2002. On April 22, 2003, PNG(NE) commenced an action in the Supreme Court of British Columbia against the customer, claiming damages for breach of contract and, in the alternative, restitution for unjust enrichment. On September 29, 2005, a settlement was negotiated between the parties, and payment of the agreed amount was received on October 11, 2005. There was no impact on net income in 2005 arising from the settlement of the dispute.

Capital Resources

The Company has not made any material commitments for capital expenditures at this time. It has plans for capital expenditures of approximately \$3.7 million in the last quarter of 2005 in order to maintain its transmission and distribution system and to provide for minor expansions of its distribution system to service new customers. The Company expects to finance these expenditures through operating cash flows.

On September 1, 2005, Dominion Bond Rating Service ("DBRS") placed the ratings of the Company's secured debentures (currently rated BBB(low)) and cumulative redeemable preferred shares (currently rated Pfd-3(low)) under review with negative implications. In taking this action, DBRS indicated that the key reasons were rising natural gas prices, the potential for dual-heating source residential customers (wood and natural gas) to reduce gas use, and the announced closure of the Methanex Kitimat methanol/ammonia facility.

Off-Balance Sheet Arrangements

As of September 30, 2005, 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 2005.

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, adjusted for weather variations, which may differ from actual consumption patterns. The estimates of unbilled operating revenue at September 30, 2005 comprise 2.1 percent of the Company's operating revenues for the nine month period ended September 30, 2005. Through future meter readings, the usage estimates are replaced with actual delivered volumes which will be reflected in the Company's financial results at that time.

Operating revenues for the PNG West division for the nine months and three months ended September 30, 2005 are based on interim rates approved by the Commission which were recently agreed between the Company and customer representatives to be the permanent rates for 2005 under a negotiated settlement agreement. Formal Commission approval of the settlement agreement is expected by early November 2005.

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, 2005 the Company had no interest rate hedging contracts outstanding.

During the first quarter of 2005 the Company completed its annual gas contracting and gas supply price management plan and filed it with the Commission. Review and acceptance of the plan by the Commission was received on June 22, 2005. The plan calls for gas price hedging, covering purchases over the period November 1, 2005 through October 31, 2006, to be completed in stages over the mid-June to mid-September 2005 period. Each hedging transaction is subject to approval by the Company's price management plan committee.

At September 30, 2005, the Company had outstanding fixed price contracts, natural gas swap contracts, and call options relating to natural gas supply as follows:

Financial instrument	Notional Quantity (GJ's)	Percent of Annual Gas Purchases	Delivery period	Price Range (per GJ)	Estimated Fair Value Receivable
Fixed price contracts	910 000	8.7	Oct. 2005 to Mar. 2006	\$5.83 to \$8.977	\$4,068,700
Natural gas swap contracts	1 621 000	15.5	Nov. 2005 to Oct. 2006	\$7.85 to \$10.60	\$5,567,800
Call options	1 634 000	15.6	Nov. 2005 to March 2006	Caps from \$10.00 to \$15.00	\$3,339,000
Total	4,165,000	39.8			\$12,975,500

The fair value reflects the estimated amounts that the Company would receive at September 30, 2005 to terminate the fixed price contracts, natural gas swap contracts, or call options, based on the estimated net cash flows under the terms of each contract. These estimated fair market values have no impact on earnings due to the regulated nature of the Company's operations. Based on the current regulatory process, any gains or losses arising from utility related financial instruments would be treated as part of the cost of service.

Dividends

The Board of Directors 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, 2006 to shareholders of record at the close of business on December 12, 2005.

The Board of Directors also declared a quarterly dividend of 20 cents per share on the Company's Common Shares, payable December 23, 2005 to shareholders of record at the close of business on December 7, 2005.

Other

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

Pacific Northern Gas Ltd. had 3,626,180 common shares and 200,000 preferred shares outstanding as of October 27, 2005. These are the only issued 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

October 27, 2005

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, 2005 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	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Operating revenues	\$110,329	\$96,998	\$32,238	\$25,169
Cost of sales	75,925	62,936	23,740	17,798
Operating margin	34,404	34,062	8,498	7,191
Operating and maintenance	8,201	8,654	2,609	2,576
Administrative and general	4,799	4,921	1,565	1,424
Amortization of deferred charges	564	491	135	146
Municipal and other taxes	3,090	2,956	1,030	986
Depreciation	6,011	5,913	2,007	1,971
	22,665	22,935	7,346	7,103
Operating income	11,739	11,127	1,152	88
Investment and other income	15	36	12	12
	11,574	11,163	1,164	100
Income deductions:				
Interest on long term debt	5,335	5,701	1,777	1,889
Other	387	414	279	46
	5,722	6,115	2,056	1,935
Income (loss) before income taxes	6,032	5,048	(892)	(1,835)
Income taxes				
- Currently payable	2,289	1,617	(58)	(255)
- Deferred	394	693	(62)	(153)
	2,683	2,3210	(120)	(408)
Net income (loss) for the period	\$3,349	\$2,738	(\$772)	(\$1,427)
For common shares:				
Net income (loss) for the period	\$3,349	\$2,738	(\$772)	(\$1,427)
Dividends on preferred shares	253	253	84	85
Net income (loss) applicable to common shares	\$3,096	\$2,485	(\$856)	(\$1,512)
Per common share:				
Basic	\$0.86	\$0.69	(\$0.24)	(\$0.42)
Diluted	\$0.84	\$0.68	(\$0.24)	(\$0.42)
Weighted average number of common shares outstanding:				
Basic	3,617,356	3,595,446	3,626,180	3,598,580
Diluted	3,676,510	3,670,261	3,679,336	3,666,958

**PACIFIC NORTHERN GAS LTD.
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30, 2005 AND DECEMBER 31, 2004
(in thousands)**

	September 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Accounts receivable	\$14,592	\$ 23,304
Income taxes recoverable	398	362
Inventory of supplies and natural gas	1,900	1,725
Prepaid expenses	1,320	215
	18,210	25,606
Plant, property and equipment	174,771	176,780
Deferred charges:		
Debt expense	650	754
Rate stabilization adjustment mechanism	1,903	1,788
Pipeline rehabilitation costs	1,033	1,128
Other	1,515	1,601
	5,101	5,271
	\$198,082	\$207,657
LIABILITIES		
Current liabilities:		
Bank indebtedness	\$ 209	\$ 6,046
Accounts payable and accrued liabilities	13,708	16,037
Gas purchase variance payable	2,257	2,232
Income and other taxes payable	2,326	2,726
Long term debt due within one year	4,382	4,382
	22,882	31,423
Non-current liabilities	513	407
Long term debt, non-current portion	79,012	81,447
Deferred income taxes	15,430	15,430
	94,957	97,284
	117,836	128,707
SHAREHOLDERS' EQUITY		
Preferred shares	5,000	5,000
Common shares	9,065	9,009
Contributed surplus	2,798	2,567
Retained earnings	63,382	62,374
	75,245	73,950
	80,245	78,950
	\$198,082	\$207,657

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	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Balance, beginning of period	\$62,374	\$60,183	\$64,879	\$62,740
Net income (loss) for the period	3,349	2,738	(772)	(1,427)
	<u>65,723</u>	<u>62,921</u>	<u>64,107</u>	<u>61,313</u>
Preferred Dividends	169	169	-	-
Common dividends	2,172	2,159	725	720
	<u>2,341</u>	<u>2,328</u>	<u>725</u>	<u>720</u>
Balance, end of period	<u>\$63,382</u>	<u>\$60,593</u>	<u>\$63,382</u>	<u>\$60,593</u>

CONSOLIDATED STATEMENTS OF CASH FLOW
(in thousands)

	For the nine months ended September 30		For the three months ended September 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Operating activities:				
Net income (loss) for the period	\$3,349	\$2,738	(\$772)	(\$1,427)
Add (deduct) items not involving cash:				
Deferred income taxes	394	693	(62)	(153)
Depreciation and amortization	6,679	6,615	2,143	2,153
Stock option expense	102	70	55	23
Other	(169)	(693)	217	165
	<u>10,355</u>	<u>9,323</u>	<u>1,616</u>	<u>761</u>
Operating cash flow	10,355	9,323	1,616	761
Non-cash working capital changes	4,692	5,969	5,420	(1,533)
	<u>15,047</u>	<u>15,292</u>	<u>7,036</u>	<u>(772)</u>
Net cash provided by operating activities	15,047	15,292	7,036	(772)
Investing activities:				
Additions to plant, property and equipment	(3,759)	(6,101)	(1,558)	(3,148)
Decrease (increase) in deferred charges	(860)	(1,132)	(390)	412
Net cash used in investing activities	<u>(4,619)</u>	<u>(7,233)</u>	<u>(1,948)</u>	<u>(2,736)</u>
Financing activities:				
Decrease in bank indebtedness	(5,837)	(2,900)	(3,217)	-
Repayment of long term debt	(2,435)	(2,435)	(1,145)	(1,147)
Issue of common shares	185	111	-	-
Dividends paid	(2,341)	(2,328)	(725)	(720)
Net cash used in financing activities	<u>(10,428)</u>	<u>(7,552)</u>	<u>(5,088)</u>	<u>(1,867)</u>
Increase (decrease) in cash during the period	-	507	-	(5,375)
Cash, beginning of period	-	313	-	6,195
Cash, end of period	<u>\$ -</u>	<u>\$ 820</u>	<u>\$ -</u>	<u>\$ 820</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.

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 August 2005, the Company issued 31,200 options at an exercise price of \$19.70. The compensation cost that has been charged against income (and credited to contributed surplus) in the quarter ended September 30, 2005 is \$55,000 [2004 - \$23,000] and represents expense for options issued in the current and previous periods which are being amortized over their vesting period.

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

	Nine months ended September 30 2005	Three months ended September 30 2005
Risk free interest rate	3.73%	3.73%
Expected volatility (annualized)	29%	29%
Expected years of option life (average)	7.5	7.5
Expected annual rate of dividends	4.06%	4.06%

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 287,000 common shares, of which 225,960 are exercisable as at September 30, 2005. There were 64,800 stock options outstanding at September 30, 2005 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. During the quarter ended September 30, 2005, the Company did not issue any common shares.

5. NEGOTIATED SETTLEMENT OF REGULATORY APPLICATION

On October 13, 2005 a settlement of the 2005 revenue requirements application for the western system was reached between the Company and customer representatives through a negotiated settlement process facilitated by Commission staff. Commission approval of the settlement agreement is expected by early November 2005. The results of operations reported by the Company in the first and second quarters of 2005 were recorded on the basis of interim rates approved effective January 1, 2005 and reflected adjustments to recognize decreases in the cost of service set forth in the Company's February 18, 2005 update to its original application. As a result of the settlement, the interim rates were made permanent for 2005 and a portion of the costs included in a deferral account in 2004 were disallowed, and other elements of the cost of service were adjusted.

The impact of the settlement on net income, by quarter, is as follows:

	(in thousands)
2004	\$(120)
2005, First Quarter	30
2005, Second Quarter	173
	<u>\$ 83</u>

6. Termination of Transportation Service Agreement by Major Customer

On August 30, 2005, Methanex Corporation ("Methanex") gave notice of termination of its Firm and Interruptible Gas Transportation Service Agreement with the Company. The agreement would otherwise have expired on October 31, 2009. Under the terms of the agreement, Methanex is required to make a termination payment to PNG of approximately \$23.3 million on February 28, 2006, the effective date of termination.

During 2004, deliveries to Methanex accounted for approximately 67 percent of the volumes delivered by PNG and approximately 9 percent of the Company's operating revenues, or \$12.2 million. The Company does not expect any impact on net income in 2005 arising from the termination of the agreement. For subsequent years, the impact on net income will depend on future regulatory decisions, including the appropriate regulatory treatment of the termination payment.

7. COMPARATIVE FIGURES

Certain items in the consolidated financial statements have been reclassified to conform to the 2005 presentation.

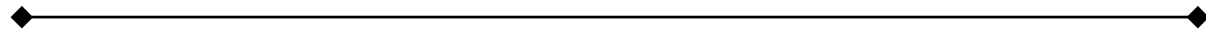
I, Roy Dyce, the Chief Executive Officer of Pacific Northern Gas Ltd., certify that:

1. I have reviewed the interim filings of Pacific Northern Gas Ltd., (the issuer) for the interim period ending September 30, 2005;
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: October 27, 2005



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, 2005;
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: October 27, 2005