



Q3

Quarterly report for  
the period ended  
September 30, 2003

**KeySpan Facilities Income Fund (TSX:KEY.UN)  
Announces Third Quarter Results  
And Declares November Cash Distribution**

***Highlights***

- Reported net income of \$8.3 million in the third quarter (\$8.3 million in 2002) and \$30.5 million year to date (\$19.8 million in 2002).
- Distributed \$4.6 million (\$0.2724 per Trust Unit) to Unitholders in the quarter, in line with expectations.
- Acquired an additional 4.7% of the Rimbey Pipe Line Co. Ltd. in August, to own 45.3%.
- Continued high utilization of natural gas liquids processing, pipeline and terminal assets.
- Completed scheduled plant turnarounds at the Rimbey and Bigoray facilities.
- Announced November cash distribution of \$0.0908 per Trust Unit, payable December 15, 2003.

***Message to Unitholders***

Our third quarter results are in line with last year despite two scheduled plant turnarounds completed in September. Year-to-date results continue to run significantly ahead of last year. The combination of the turnarounds and a number of small capital projects resulted in higher capital spending in the quarter.

The financial results reflect the seasonality of our business. The second and third quarters of the year generally require higher maintenance capital and working capital levels relative to other quarters as facilities maintenance is typically scheduled to take advantage of the favourable weather conditions. Plant turnaround cycles can also introduce variations year over year. In the marketing business, sales are typically lower in the third quarter due to lower product demand. The impact of these cycles is discussed in more detail in the business review.

**We are also pleased to announce a cash distribution of 9.08 cents per Trust Unit for November, 2003. The distribution will be payable on December 15, 2003 to Unitholders of record on November 28, 2003. The ex-distribution date is November 26, 2003.**

Distributions to Unitholders are on track with expectations. We do not expect annual distributions to Unitholders to be affected by normal seasonal fluctuations. Our intent is to stabilize monthly distributions through utilization of working capital and bank facilities. We anticipate the fourth quarter will follow the seasonal trend and result in higher income.

We are committed to creating value for Unitholders by focusing on sour gas processing, building on our core assets, maintaining a strong balance sheet and pursuing growth opportunities when they fit our vision.

On behalf of the Fund's trustees, directors and management team, I look forward to your continued support.

Jim V. Bertram  
 President and CEO  
 KeySpan Facilities Income Fund

**This report includes separate financial statements for the Partnership, which encompasses all of the business of KeySpan, and for the Fund, which represents a 39.1% ownership interest in the Partnership. Except where noted, this report describes the business of KeySpan Energy Canada Partnership.**

## ***Business Review***

KeySpan Energy Canada Partnership (the "Partnership" or "KeySpan") operates one of the largest natural gas midstream businesses in Canada. Its gathering and processing facilities consists of 13 natural gas processing plants and associated gathering pipelines and compressors, strategically located in the west central and foothills areas of Alberta. KeySpan also has an extensive natural gas liquids (NGLs) infrastructure consisting of pipelines, processing and storage in Edmonton and Fort Saskatchewan, Alberta, and markets NGLs to customers throughout North America.

KeySpan's revenues are largely derived from geographically diverse natural gas processing plants and associated assets. These revenues are fee-for-service based with no exposure to commodity prices. The remainder of KeySpan's revenues are derived from its NGL marketing business, focused on the marketing of by-products recovered from the processing of raw gas, including NGLs and sulphur. KeySpan's facilities infrastructure provides significant competitive advantage to its NGL marketing business. KeySpan has diversified sources of NGL supply and a diversified customer base across North America.

The following table shows the contribution of each of KeySpan's operating segments, and includes inter-segment transactions between the facilities and marketing segments that are eliminated in the Partnership's financial statements.

<b>Contribution by Operating Segment \$ millions</b>	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Facilities contribution <sup>1</sup>	<b>13.4</b>	13.1	<b>39.3</b>	35.1
Marketing contribution <sup>2</sup>	<b>3.1</b>	3.3	<b>14.6</b>	6.6
Corporate	<b>0.4</b>	0.1	<b>0.5</b>	0.1
<b>Total contribution</b>	<b>16.9</b>	16.5	<b>54.4</b>	41.8
Other expenses <sup>3</sup>	<b>(8.6)</b>	(8.2)	<b>(23.9)</b>	(22.0)
<b>Net income</b>	<b>\$8.3</b>	\$8.3	<b>\$30.5</b>	\$19.8

Notes:

Facilities contribution and Marketing contribution, as defined below, are not standard measures under Canadian generally accepted accounting principles. Therefore, these measures may not be comparable with the calculation of similar measures for other companies.

1. Facilities contribution includes revenues for processing and storage services provided to KeySpan's marketing business
2. Marketing contribution includes expenses for processing and storage services provided by KeySpan's facilities and direct marketing general and administrative costs.
3. Other expenses include corporate general and administrative, depreciation and amortization, site restoration, interest and income tax. Corporate general and administrative and other costs exclude the direct marketing general and administrative costs.

## **Facilities**

### ***Gathering and Processing***

The third quarter of 2003 was a period of high activity at KeySpan facilities with a number of small capital projects undertaken and plant turnarounds completed in September at the Rimbey and Bigoray gas plants. As a result of the turnarounds, third quarter plant utilization was down from last year.

In August, gas was directed to the Strachan gas plant as a result of a plant consolidation in the area, adding an additional 10 million cubic feet per day to plant throughput. This increase was offset by production and compression problems encountered throughout the quarter by a large producer in the area. Throughput is up slightly at Nordegg River with ongoing drilling activity expected to add additional volumes in the fourth quarter. Gas recently tied in at Brazeau River from an active development area is high in H<sub>2</sub>S (“Hydrogen Sulphide”) content, therefore attracting higher fees.

An expansion at the Easyford battery was completed in July, increasing the production of solution gas delivered to the Bigoray plant. The gas produced through this facility is very high in H<sub>2</sub>S and, in order to increase throughput, an amendment to the Bigoray sulphur license was received. Process modifications to accommodate the higher H<sub>2</sub>S gas are expected to be completed in the second quarter of 2004.

Properly maintained facilities are crucial to the safety, well being and economic viability of the Fund, its employees and the environment. Accordingly, KeySpan has developed a program of scheduled maintenance, which includes periodic turnarounds during which the plant is shut down for major maintenance and inspection. Prudent operating practice, regulatory requirements and the composition of gas processed contribute to the time between turnarounds and the scope of work involved. KeySpan has been able to extend the turnaround cycle at most of its facilities to four years, due to its comprehensive maintenance and inspection programs and the expertise of its staff. Plant turnarounds most often occur in the late spring or early fall, when the weather is favourable and required trades are available.

The Rimbey plant turnaround was the most extensive in recent history, with over 68,000 manhours expended over the 18-day outage. In addition to planned maintenance, inspection and repairs, a number of significant projects were completed to meet customers’ needs, to ensure the continued integrity of the facility and to comply with new regulations. Capital spent on these projects is recovered over time in the fee structure. During the turnaround, gas was diverted to the Gilby gas plant to minimize revenue loss and disruption to certain producers. The next scheduled turnaround at Rimbey is expected to be in 2007.

Piping modifications and tie-in work associated with the new CO<sub>2</sub> facility were also completed during the turnaround. Construction of the CO<sub>2</sub> facility continues on budget and on time for the scheduled start up at the end of the first quarter of 2004.

The Bigoray turnaround was smaller in scope and completed in 10 days. Routine maintenance, a compressor overhaul and process modifications were completed. The next scheduled turnaround at Bigoray is expected to be in 2006.

These turnarounds complete the 2003 schedule. The next scheduled KeySpan plant turnaround will occur at the Nordegg River plant in mid 2004.

### ***NGL Facilities***

NGL processing facilities operated at high utilization rates over the quarter, with the Fort Saskatchewan plants operating at full capacity. The entire NGL infrastructure system has benefited from a new NGL truck-loading terminal at the Strachan plant that was commissioned in the second quarter. NGL offload facilities at Rimbey reached full capacity in the quarter with volumes trucked from Strachan and other plants in the area. The increase in NGL products produced at the Rimbey plant contributed to record volumes for Rimbey Pipe Line Co. Ltd.

KeySpan completed the acquisition of an additional 4.7% interest in the Rimbey Pipe Line Co. Ltd. in August, raising its interest to 45.3%.

## **Marketing**

The NGL marketing business is subject to significant swings in sales between the summer and winter seasons. While there are industrial, petrochemical and refinery markets for NGLs year round, demand is typically much stronger in the winter months, particularly for propane, which plays a significant role as a heating fuel in North American markets. Because NGLs are a by-product of natural gas, production is relatively steady throughout the year. To meet the winter demand, KeySpan stores NGLs throughout the summer months in its underground storage caverns in Fort Saskatchewan. These market characteristics mean that the NGL marketing business typically has lower sales in the summer months than in the winter.

## **Distributions to Unitholders**

Distributions to Unitholders of \$0.2724 per Unit for the third quarter of 2003 were consistent with expectations and the subsequent October and November distributions continue that trend. The Fund is focused on ensuring stable long-term distributions that grow over time. The seasonality of the business, as seen in the third quarter, causes some variability in the financial results during the year. The Fund used its working capital and bank facilities to stabilize distributions in the third quarter.

## **Taxability of 2003 Distributions**

For Canadian Unitholders, the Fund expects its 2003 distributions will be fully tax-deferred. This tax deferral results primarily from the Partnership's ability to shelter its taxable income with capital cost allowance claims on its facilities. Unitholders should seek independent tax advice in respect of the consequences to them of acquiring, holding and disposing of Units.

## **Management's Discussion and Analysis**

*The following discussion and analysis as provided by Management should be read in conjunction with the accompanying unaudited consolidated financial statements of KeySpan Facilities Income Fund (the "Fund") and KeySpan Energy Canada Partnership (the "Partnership" or "KeySpan") for the quarter ended September 30, 2003 and the notes thereto as well as the audited financial statements of the Fund and the Partnership and the related management's discussion and analysis contained in the Fund's May 22, 2003 Prospectus.*

The Fund began operations on May 30, 2003 acquiring a 34.5% indirect interest in the Partnership, and later an additional 4.6% indirect interest. The Partnership acquired KeySpan Energy Facilities Limited ("KEFL") and KeySpan Energy Canada Co. ("KECC"), ("subsidiaries") on May 30, 2003. The Statement of Operations contained in the consolidated financial statements of the Partnership presents the results of operations of the Partnership and its subsidiaries for the full third quarter, July 1 to September 30, 2003. The results of operations reported for the nine months ended September 30, 2003 represent the results of operations of the Partnership for the full nine-month period and the results of operations of the subsidiaries from the time of acquisition, May 30 to September 30, 2003. The information presented by the Partnership for the comparative periods of 2002 represents only the results of operations for the Partnership. Accordingly, some of the variances described in this report include the effect of these acquisitions and readers are cautioned that certain information included in the financial statements for prior periods may not be directly comparable.

Distributable Cash Flow as defined in the Partnership Agreement and described in note 3 of the interim consolidated financial statements of the Partnership is not a standard measure under Canadian generally accepted accounting principles and therefore may not be comparable with the calculation of similar measures for other companies.

## **KEYSPAN FACILITIES INCOME FUND**

### **Results of Operations**

The Fund reported net earnings of \$3.2 million or \$0.1870 per Trust Unit for the third quarter based upon 17,000,000 Units outstanding at the end of the period. The earnings were attributable to the Fund's 39.1% interest in the consolidated earnings of KeySpan Energy Canada Partnership for the period July 1 to September 30.

Since its inception on April 3, 2003 and commencement of operations on May 30, 2003, the Fund had net earnings of \$4.5 million or \$0.2667 per Trust Unit based upon 17,000,000 Units outstanding (\$0.3945 per Trust Unit based upon the weighted average number of units outstanding during the period since inception).

### **Liquidity and Capital Resources**

The Fund does not actively operate a business and is dependent upon distributions from its subsidiaries for earnings. Since commencing operation, the Fund has received \$4.6 million of distributions and paid distributions to Unitholders of \$4.6 million.

At September 30, 2003, the Fund has accrued \$1.5 million of distributions receivable and \$1.5 million of distributions payable to Unitholders. It has no cash from operations, no cash on hand and no external debt.

## **KEYSPAN ENERGY CANADA PARTNERSHIP**

### **Results of Operations**

Net income earned during the third quarter of 2003 was unchanged from the same period last year. On a year-to-date basis, net income rose 54%, primarily due to the stronger performance of the NGL marketing business during the first half of 2003.

#### **Operating Margins**

Facilities activities represent approximately 71% of the operating margin\* for the third quarter of 2003 and 66% of the operating margin for the year-to-date. This proportion is less than historical norms due to the strong performance of the NGL marketing business during the first half of the year.

<b>Operating Margin - \$ millions</b>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
Facilities	<b>11.9</b>	13.1	<b>36.3</b>	34.5
Marketing	<b>4.4</b>	3.8	<b>18.4</b>	8.9
Corporate	<b>0.4</b>	0.1	<b>0.5</b>	0.1
	<b>\$16.7</b>	\$17.0	<b>\$55.2</b>	\$43.5

\* Operating margin, which is defined as operating revenues minus operating expenses, is not a standard measure under Canadian generally accepted accounting principles and therefore may not be comparable with the calculation of similar measures for other companies.

#### **Facilities**

The operating margin generated from gathering, processing and pipeline activities is not significantly exposed to changes in operating costs as much of the revenue stream is generated on a cost-of-service basis. This fee arrangement provides a mechanism for the recovery of operating costs plus a return on capital.

For the three months ended September 30, 2003, facilities operating margin was \$1.2 million lower than the same period last year, primarily because of lower throughput caused by the plant turnarounds at Rimbey and Bigoray, as well as one-time take-or-pay revenues included in 2002. Offsetting this is the inclusion of the results of KEFL after May 30, 2003, higher acid gas injection fees at Brazeau River during 2003 and lower payments in 2003 on the electricity hedge contracts.

Year to date, the operating margin generated from facilities in 2003 was higher than the same period last year primarily attributable to the inclusion of KEFL's results and lower payments on the electricity hedge contract. Excluding the effects of these items, operating margin from facilities declined by approximately \$1.4 million from the same period last year. This decrease is primarily attributable to the factors discussed above and lower volumes in the Rimbey region.

In order to fix the price of electricity consumed at its plants and facilities until December 31, 2003, KeySpan entered into financial price swap contracts to purchase electricity at an average price of \$88.06 per Megawatt hour. KeySpan Energy Development Co. ("KEDCO"), a subsidiary of KeySpan Corporation, is responsible for all payments by and to the Partnership under these hedging agreements. During the third quarter of 2003, KeySpan paid \$0.4 million (2002 - \$0.9 million) pursuant to these contracts and \$1.1 million (2002 - \$2.6 million) year to date.

As a result, distributions to KEDCO were reduced by \$0.4 million during the third quarter of 2003 and by \$0.7 million for the period May 30 to September 30.

At September 30, 2003, the fair value of the contracts was a loss of \$0.5 million and the notional volume remaining was 17,664 Megawatt hours. The fair value represents an estimate of the amount that KeySpan would pay or receive if those contracts were closed on September 30, 2003.

### **Marketing**

The increase in overall marketing operating margin for the third quarter of last year was primarily attributable to lower natural gas marketing revenues in 2002. The NGL marketing operating margin remained virtually unchanged, as lower unit margins were offset by increased sales volumes. For the quarter, sales volumes averaged approximately 33,800 barrels per day compared to 28,400 barrels per day during the same period last year.

The marketing results for the third quarter also contained \$1.2 million of fees (2002 - \$1.4 million) related to the termination of a gas marketing services contract. KEDCO is responsible for this contract and, as a result, distributions to KEDCO were increased by \$0.7 million during the third quarter of 2003 and \$1.1 million for the period May 30 to September 30.

Year to date, the marketing operating margin for 2003 was significantly higher than 2002, primarily due to strong North American demand for propane in the first quarter, which resulted in higher sales and margins. Year to date NGL sales volumes for 2003 were approximately 34,700 barrels per day (2002 - 32,300 barrels per day).

### **Non-Operating Expenses**

Non-operating expenses during the third quarter of 2003 were \$8.7 million, unchanged from a year ago. Year to date, non-operating expenses were \$24.8 million, up \$1.1 million from 2002.

For the three months ended September 30, 2003, depreciation and amortization expense of \$5.6 million rose \$0.8 million from the same period last year. Year to date September 30, 2003, depreciation and amortization expense of \$15.7 million was \$2.0 million higher than in 2002. These increases are largely the result of the acquisition of an interest in the Paddle River plant from an affiliated company in late 2002.

In the third quarter of 2003, general and administrative expenses of \$2.3 million were \$1.5 million lower than the same period last year, due primarily to the timing of overhead recoveries and lower incentive compensation

accruals. Year to date, general and administrative expenses of \$8.0 million were down \$1.8 million compared with the prior year for the same reasons.

### Liquidity and Capital Resources

During the three months ended September 30, 2003, cash used in operating activities was \$6.6 million compared to the use of \$1.9 million in the same period last year. Year to date, cash provided by operating activities was \$70.7 million compared to the use of \$12.4 million last year. These changes result from the increase in earnings and the receipt of funds due from related parties. Working capital at the end of the quarter was \$35.4 million, down from \$88.3 million at December 31, 2002. Included in working capital at the end of the third quarter, the Partnership had \$21.5 million of borrowings under a short-term borrowing agreement with KEDCO. During the third quarter, the Partnership declared \$9.8 million of distributions to partners. Cash and short-term borrowings were used to fund the increase in NGL inventory and capital spending.

On August 26, 2003 Keyspan issued \$125 million of long-term notes through a private placement to investors in the U.S. and Canada. Proceeds received from these notes were used to repay \$125 million of short-term loans.

Standard and Poor's has assigned the Fund an SR-3 stability rating, indicating the expectation of a high level of stability in distributions.

	Three months ended		Nine months ended	
	September 30		September 30	
	2003	2002	2003	2002
<b>Capital Spending - \$ millions</b>	<b>\$8.2</b>	<b>\$4.3</b>	<b>\$13.6</b>	<b>\$8.4</b>

In the third quarter, additions to property, plant and equipment amounted to \$8.2 million. Upgrades to the flare system at the Rimbey plant and the turnarounds at the Rimbey and Bigoray plants accounted for the majority of the \$4.5 million of maintenance capital expenditures. Growth capital expenditures (\$2.9 million) consisted of the acquisition of an incremental working interest in the Rimbey Pipe Line Co. Ltd. and a number of smaller capital projects. Other capital expenditures of \$0.8 million includes expenditures for leasehold improvements, as a result of the relocation of KeySpan's head office, which will be recovered from the landlord. Year to date, expenditures were \$13.6 million and consisted of \$6.3 million of maintenance capital, \$6.1 million of growth capital and \$1.2 million of other capital. Included were the items discussed above as well as other maintenance and the acquisition of an interest in the Dow Fort Saskatchewan fractionation facility.

### Distributable Cash Flow

The Partnership pays distributions to Partners on a monthly basis from its Distributable Cash Flow, as defined in the Partnership Agreement. Distributable Cash Flow for each month will generally be all of its cash flow from operations for such month, including dividends received from subsidiaries, after satisfaction of its debt service obligations (principal and interest), reclamation expenditures, maintenance capital expenditures, other expense obligations and reasonable reserves for working capital and capital expenditures as may be considered appropriate by the Board of Directors of the Managing Partner.

<b>Distributable Cash Flow - \$ millions</b>	<b>Three months ended September 30, 2003</b>	<b>Period from May 30, 2003 to September 30, 2003</b>
Net income	8.3	11.8
Maintenance capital	(4.5)	(5.6)
Other items	5.8	7.4
<b>Partnership Distributable Cash Flow*</b>	<b>9.6</b>	<b>13.6</b>
<b>Distributions to Partners</b>	<b>12.2</b>	<b>16.2</b>
To KEDCO	5.9	7.8
To other Partners	1.7	2.2
<b>To the Fund</b>	<b>\$4.6</b>	<b>\$6.2</b>

\* A full reconciliation of Distributable Cash Flow is provided in note 3 of the interim consolidated financial statements of the Partnership.

The share of Distributable Cash Flow paid to KEDCO is adjusted to include 100% of the net receipts (or payments) of the terminated gas marketing and electricity hedge contracts. For the third quarter and year to date, the Partnership's Distributions to Partners exceeded Distributable Cash Flow by \$2.6 million, largely as a result of higher maintenance capital in the third quarter.

## Forward Looking Statements

This document contains certain forward-looking statements that involve significant known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, many of which are beyond the control of the Fund and KeySpan. Some of these factors are discussed in the Fund's public filings with Canadian Securities Administrators, filed on [www.sedar.com](http://www.sedar.com). No assurances can be given that actual results will be consistent with these forward-looking statements. Forward-looking statements in this document are presented as of November 17, 2003, and are subject to changes after this date. However, the Fund disclaims any intention to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

## Third Quarter Results Conference Call and Webcast

KeySpan will be conducting a conference call and webcast for investors, analysts, brokers and media representatives to discuss the third quarter at 8:00 am MST (10 am EST) on Tuesday, November 18, 2003. Callers may participate by either dialing 800-814-4853 or 416-640-4127. A recording of the call will be available for replay until midnight, November 25, 2003 by dialing 877-289-8525 or 416-640-1917 and entering passcode 21024539 followed by the # key.

Internet users can listen to the call live on KeySpan's website at [www.keyspancanada.com](http://www.keyspancanada.com) under Investor Information, Webcasts. Shortly after the call, an audio archive will be posted on the website for 90 days.

## Questions

KeySpan welcomes questions from interested parties. Calls should be directed to John Cobb, Director, Investor Relations at 403-205-7670, or toll free at 888-699-4853. Information on KeySpan can also be found on our website at [www.keyspancanada.com](http://www.keyspancanada.com).

## KeySpan Facilities Income Fund

### Interim Consolidated Statement of Financial Position

(all amounts expressed in Canadian dollars)

As at	September 30, 2003 \$ (unaudited)	April 3, 2003 \$ (audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	—	10
Distributions receivable	1,543,600	—
	1,543,600	10
Investment in KeySpan Energy Canada Partnership (note 3)	156,576,836	—
Investment in KeySpan Canada Management Ltd. (note 3)	8,469	—
	158,128,905	10
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Distributions payable	1,543,600	—
	1,543,600	—
Unitholders' equity (note 4)	156,585,305	10
	158,128,905	10
	158,128,905	10

See accompanying notes to the consolidated financial statements

## KeySpan Facilities Income Fund

### Interim Consolidated Statement of Income and Unitholders' Equity

(all amounts expressed Canadian dollars)  
(unaudited)

	Three months ended September 30, 2003 \$	April 3 to September 30, 2003 \$
<b>Revenues</b>		
Equity earnings from KeySpan Energy Canada Partnership and KeySpan Canada Management Ltd. (note 2(d))	3,179,486	4,534,705
	<b>3,179,486</b>	<b>4,534,705</b>
<b>Expenses</b>		
Management and administrative (note 6)	—	—
	—	—
<b>Net earnings</b>	<b>3,179,486</b>	<b>4,534,705</b>
<hr/>		
Number of trust units outstanding at the end of the period	17,000,000	17,000,000
Net earnings per trust unit (basic and diluted)	0.1870	0.2667
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Weighted average number of trust units outstanding	17,000,000	11,494,444
Net earnings per weighted average trust unit	0.1870	0.3945

### Consolidated Statement of Unitholders' Equity

<b>Unitholders' equity, beginning of period</b>	158,036,619	10
Net earnings	3,179,486	4,534,705
Units issued, net of transaction fees (note 4)	—	158,225,000
Units cancelled	—	(10)
Distributions	(4,630,800)	(6,174,400)
<b>Unitholders' equity, end of period</b>	<b>156,585,305</b>	<b>156,585,305</b>

Distributions to Unitholders and Distributions per trust unit – See note 7

See accompanying notes to the interim consolidated financial statements

## KeySpan Facilities Income Fund

### Interim Consolidated Statement of Cash Flows

(all amounts expressed in Canadian dollars)  
(unaudited)

	Three months ended September 30, 2003 \$	April 3 to September 30, 2003 \$
<b>OPERATING ACTIVITIES</b>		
Net earnings	3,179,486	4,534,705
Items not requiring cash:		
Equity earnings from KeySpan Energy Canada Partnership and KeySpan Canada Management Ltd.	(3,179,486)	(4,534,705)
Distributions received from KeySpan Energy Canada Partnership	—	—
	—	—
Changes in non-cash working capital	—	—
Cash provided by operating activities	—	—
<b>INVESTING ACTIVITIES</b>		
Acquisition of interest in KeySpan Energy Canada Partnership	—	(158,217,111)
Acquisition of interest in KeySpan Canada Management Ltd.	—	(7,889)
Cash used in investing activities	—	(158,225,000)
<b>FINANCING ACTIVITIES</b>		
Issuance of trust units, net of transaction fees (note 4)	—	158,225,000
Cancellation of trust unit	—	(10)
Distributions paid	—	—
Cash provided by financing activities	—	158,224,990
<b>Decrease in cash and cash equivalents</b>	<b>—</b>	<b>(10)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>—</b>	<b>10</b>
<b>Cash and cash equivalents, end of period</b>	<b>—</b>	<b>—</b>

See accompanying notes to the interim consolidated financial statements

**KeySpan Facilities Income Fund**  
**Notes to Consolidated Interim Financial Statements**  
**September 30, 2003**

(all amounts expressed in thousands of Canadian dollars, except where otherwise noted) (unaudited)

**1. STRUCTURE OF THE FUND**

KeySpan Facilities Income Fund (the "Fund") is an unincorporated open-ended trust established under the laws of the Province of Alberta pursuant to the Fund Declaration of Trust dated April 3, 2003. The Fund indirectly owns a 39.1% interest in Keyspan Energy Canada Partnership ("KECP").

The Fund commenced operations on May 30, 2003, with the initial acquisition of a 34.5% interest in KECP. The acquisition of the Fund's indirect interest in KECP has been accounted for based on the Fund's cost (see note 3).

KECP is involved in the business of gathering, processing, transporting, buying and selling petroleum, natural gas, natural gas liquids and related products, electricity and thermal energy and other related businesses.

KECP is managed by KeySpan Canada Management Ltd. (the "Managing Partner" or "KCML").

The Fund makes monthly cash distributions to Unitholders of record on the last business day of each month. The amount of the distributions per trust unit are equal to the pro rata share of the distribution received from KECP and, in the event of the termination of the Fund, participating pro rata in the net assets remaining after satisfaction of all liabilities.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The Fund's significant accounting policies are as follows:

**(a) Basis of consolidation**

The consolidated financial statements include the accounts of the Fund and all controlled entities. All interfund and intercompany transactions are eliminated.

**(b) Measurement uncertainty**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These include the recoverability of the investments, which depend on estimates of future cash flows from related investments. The recognized amounts of such items are based on management's best information and judgment.

**(c) Cash and cash equivalents**

Cash and cash equivalents presented in the consolidated financial statements include short-term investments with a maturity of three months or less when purchased.

**(d) Investments**

The Fund's 39.1% interest in KECP is accounted for using the equity basis of accounting whereby the cost of the investment is increased or decreased for net earnings or losses and reduced by cash distributions paid to the Fund.

The Fund has a 39.1% interest in KCML, the managing partner of KECP. This investment is accounted for using the equity basis of accounting whereby the cost of the investment is increased or decreased for net earnings or losses and reduced by cash distributions paid to the Fund.

The Fund reviews and evaluates the carrying value of its investments for impairment annually. More frequent reviews are conducted as conditions necessitate. In the event a decrease in the value of a investment is other than a temporary decline, the investment will be written down to recognize any impairment in the carrying value.

**(e) Financial instruments**

The carrying value of the Fund's financial instruments including its current assets and current liabilities approximate fair value due to their short-term nature.

**(f) Revenue recognition**

Revenues are primarily derived from equity earnings of KECP.

**(g) Income taxes**

Under the terms of the Income Tax Act (Canada), the Fund, as a trust, will not be subject to income taxes to the extent that its taxable income and taxable capital gains are paid or payable to Unitholders. Accordingly, no provision for current income taxes is made. In addition, the Fund is contractually committed to distribute to its unitholders all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable to it, and the Fund intends to continue not to be subject to income taxes.

**(h) Distributions to Unitholders of the Fund**

The amount of the distributions to Unitholders ("Distributions to Unitholders") of the Fund to be distributed monthly is as defined in the Fund Declaration of Trust. The computation of the Distributions to Unitholders is comprised of cash amounts received or receivable as distributions or interest income and any net proceeds from the issuance of trust units, less any amounts that relate to the redemption of trust units and any expenses of the Fund.

The Fund makes distributions, in respect of each month, to the Unitholders of record on the last day of such month. Payments are made on or about the 15<sup>th</sup> day of the month after each record date.

Distributions to Unitholders, as defined above, is not a measure under Canadian generally accepted accounting principles and there is no standardized measure of Distributions to Unitholders. Distributions to Unitholders, as presented, may not be comparable to similar measures presented by other income trusts.

*notes to unaudited consolidated interim financial statements*

The Fund is dependent upon the operation of its subsidiaries for earnings. Accordingly, Distributions to Unitholders from the Fund are not assured.

**(i) Net earnings and distributions per weighted average trust unit**

Net earnings and distributions accruing to Unitholders per trust unit are calculated by dividing net earnings and Distributions accruing to Unitholders, respectively, by the weighted average number of trust units outstanding during the period. For the purposes of the weighted average number of trust units calculation, trust units are determined to be outstanding from the date they are issued.

**3. ACQUISITIONS**

On May 30, 2003, the Fund issued 15,000,000 trust units as an initial public offering (the “Initial Offering”) at a price of \$10.00 per Unit for net proceeds of \$139,375,000 after transaction fees of \$10,625,000.

Net proceeds received for the Initial Offering were used to purchase a 34.5% indirect interest in KECP for consideration of \$139,368,031. At the same time, the Fund acquired 34,490 shares of the KCML, the managing partner of KECP, representing a 34.5% interest in KCML, for consideration of \$6,969. KCML has a 0.005% interest in KECP.

On June 10, 2003, under the over-allotment option, the Fund issued an additional 2,000,000 trust units at a price of \$10.00 per Unit for net proceeds of \$18,850,000 after transaction fees of \$1,150,000. The proceeds were used to purchase an additional 4.6% interest in KECP for \$18,849,080 and an additional 4,600 common shares of KCML for \$920.

At September 30, 2003 the equity investment in KECP was comprised of:

	\$
Acquisition cost	158,217,111
Net earnings	4,534,125
Distributions to the Fund	(6,174,400)
<b>Investment in KECP</b>	<b>156,576,836</b>

At September 30, 2003 the equity investment in KCML was comprised of:

	\$
Acquisition cost	7,889
Net earnings	580
<b>Investment in KCML</b>	<b>8,469</b>

**4. UNITHOLDERS’ EQUITY**

The Fund Declaration of Trust provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, and represents an equal undivided beneficial interest in any distribution from the Fund and in the net assets of the Fund in the event of termination or winding-up of the Fund. All trust units are of the same class with equal rights and privileges.

*notes to unaudited consolidated interim financial statements*

The Declaration of Trust also provides for the issuance of an unlimited number of special trust units that will be used solely for providing voting rights to persons holding securities that are directly or indirectly exchangeable for Units and that, by their terms, have voting rights in the Fund.

The trust units are redeemable at the holder's option at an amount equal to the lesser of: (i) 90% of the weighted average price per Unit at which the Units during the period of the last 10 days during which the trust units were traded on the Toronto Stock Exchange; and (ii) an amount equal to (a) the closing market price of the Units; (b) an amount equal to the average of the highest and lowest prices of Units if there was trading on the date on which the Units were tendered for redemption; or (c) the average of the last bid and ask prices if there was no trading on the date on which the Units were tendered for redemption. Redemptions are subject to a maximum of \$50,000 cash redemptions in any particular month. Redemptions in excess of this amount will be paid by way of a distribution in specie of assets of the Fund which may include CT Series 2 notes.

<b>TRUST UNITS ISSUED AND UNITHOLDERS' EQUITY</b>	<b>Number of Units</b>	<b>Amount \$</b>
Initial Offering, net of transaction fees of \$11,775,000	17,000,000	158,225,000
Net earnings		1,355,219
Distributions declared		(1,543,600)
<b>As at June 30, 2003</b>	<b>17,000,000</b>	<b>158,036,619</b>
Net earnings		3,179,486
Distributions declared		(4,630,800)
<b>As at September 30, 2003</b>	<b>17,000,000</b>	<b>156,585,305</b>

The weighted average number of trust units outstanding for the period from inception to June 30 and September 30, 2003 were 5,738,636 and 11,494,444 respectively.

Transaction costs of \$11,775,000 were incurred by the Fund in issuing trust units. These costs are deductible for income tax purposes on a straight-line basis over a five-year period. Each Unitholder will be required to include in computing income for tax purposes for a particular taxation year their pro rata share of the Fund's income that was paid or payable in that year to the Unitholder and that was deducted by the Fund in computing its income.

## 5. RELATED PARTY TRANSACTIONS

KCML is a 39.1% owned subsidiary of the Fund and is the managing partner of KECP. KeySpan Energy Development Co. owns the remaining 60.9% interest in KCML. KCML provides management and administrative services to the Fund and KECP on a cost recovery basis.

As at September 30, 2003, the Fund had the following balances receivable from related parties in the normal course of business:

	<b>Amount</b>
Distributions receivable from KECP	<b>\$1,543,600</b>

*notes to unaudited consolidated interim financial statements*

## 6. ECONOMIC DEPENDENCE

For the purposes of declaring distributions, the Fund is entirely dependent on cash distributions received from KECP.

## 7. RECONCILIATION OF DISTRIBUTIONS ACCRUING TO UNITHOLDERS

For	Three months ended September 30, 2003	From April 3 to September 30, 2003
Net earnings	3,179,486	4,534,705
Add:		
Distributions receivable from KECP	4,630,800	6,174,400
Less:		
Equity earnings from KECP and the Managing Partner	(3,179,486)	(4,534,705)
<b>Distributions accruing to Unitholders during the period</b>	<b>4,630,800</b>	<b>6,174,400</b>
Number of trust units outstanding at the end of the period	17,000,000	17,000,000
Distributions accruing to Unitholders per trust unit outstanding at the end of the period	0.2724	0.3632
Weighted average number of trust units outstanding	17,000,000	11,494,444
Distributions accruing to Unitholders per weighted average trust unit	0.2724	0.5372

*notes to unaudited consolidated interim financial statements*

## KeySpan Energy Canada Partnership

### Interim Consolidated Statement of Financial Position

(all amounts expressed in thousands of Canadian dollars)

As at

	September 30, 2003 \$ (unaudited)	December 31, 2002 \$ (audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	—	4,760
Margin deposit	—	229
Accounts receivable	115,292	135,821
Inventory	38,944	19,034
Due from related parties (note 7)	5,495	40,470
Prepaid expenses	1,281	642
	<b>161,012</b>	<b>200,956</b>
Property, plant and equipment	558,429	529,838
Other assets	13,716	13,728
Long-term investments (note 4)	14,649	1,218
Intangible assets	6,775	7,276
Deferred costs (note 6)	1,047	—
Future tax asset (note 8)	3,593	—
	<b>759,221</b>	<b>753,016</b>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness	1,149	—
Accounts payable and accrued liabilities	89,835	106,865
Deposits payable	1,465	1,445
Due to related parties (note 7)	5,252	4,362
Distribution payable	6,430	—
Current portion of debt (note 6)	21,500	—
	<b>125,631</b>	<b>112,672</b>
Long-term debt (note 6)	125,000	—
Future site restoration	6,081	5,870
	<b>256,712</b>	<b>118,542</b>
Commitments and contingencies (note 9)		
<b>Partners' equity</b>		
Comprehensive revaluation	(98,433)	(98,433)
Related party transaction adjustment	15,069	4,196
Partners' equity	585,873	728,711
	<b>502,509</b>	<b>634,474</b>
	<b>759,221</b>	<b>753,016</b>

See accompanying notes to the interim consolidated financial statements

## KeySpan Energy Canada Partnership

### Interim Consolidated Statement of Income and Partners' Equity

(all amounts expressed in thousands of Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2003 \$ (unaudited)	2002 \$ (unaudited)	2003 \$ (unaudited)	2002 \$ (unaudited)
<b>Operating revenues</b>				
Marketing sales	122,503	110,726	486,035	351,706
Facilities – gathering, processing and pipelines	24,676	23,808	72,279	62,545
Marketing service fees	1,231	1,441	4,348	3,565
Other revenue	365	53	530	107
	<b>148,775</b>	136,028	<b>563,192</b>	417,923
<b>Operating expenses</b>				
Marketing cost of goods sold	119,289	108,313	471,977	346,295
Facilities – gathering, processing and pipelines	12,826	10,711	35,974	28,081
	<b>132,115</b>	119,024	<b>507,951</b>	374,376
	<b>16,660</b>	17,004	<b>55,241</b>	43,547
Depreciation and amortization	5,613	4,844	15,693	13,685
General and administrative	2,319	3,776	7,997	9,813
Site restoration and abandonment	88	127	336	360
Interest expense (income)	1,177	(32)	1,557	(142)
Equity (earnings) loss from investment (note 4)	(576)	—	(742)	18
	<b>8,621</b>	8,715	<b>24,841</b>	23,734
<b>Income before tax</b>	<b>8,039</b>	8,289	<b>30,400</b>	19,813
Income tax (recovery) (note 8)	(237)	—	(53)	—
<b>Net income</b>	<b>8,276</b>	8,289	<b>30,453</b>	19,813
<b>Partners' equity, beginning of period</b>	<b>589,776</b>	679,508	<b>728,711</b>	667,984
Partners' capital contribution (notes 3 and 4)	—	28,453	7,306	28,453
Partners' distributions (notes 1 and 3)	(12,179)	—	(180,597)	—
<b>Partners' equity, end of period</b>	<b>585,873</b>	716,250	<b>585,873</b>	716,250

See accompanying notes to the interim consolidated financial statements

## KeySpan Energy Canada Partnership

### Interim Consolidated Statement of Cash Flows

(all amounts expressed in thousands of Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2003 \$ (unaudited)	2002 \$ (unaudited)	2003 \$ (unaudited)	2002 \$ (unaudited)
<b>OPERATING ACTIVITIES</b>				
Net income	8,276	8,289	30,453	19,813
Items not requiring cash:				
Depreciation and amortization	5,613	4,844	15,693	13,685
Site restoration and abandonment	88	127	336	360
Equity (earnings) loss from investment	(576)	—	(742)	18
Future income tax (recovery) expense	(348)	—	(212)	—
Loss on sale of asset	—	—	6	—
Foreign exchange (gain) loss	(136)	(143)	—	309
	<b>12,917</b>	<b>13,117</b>	<b>45,534</b>	<b>34,185</b>
Changes in non-cash working capital	(19,527)	(15,062)	25,175	(46,609)
Cash provided by (used in) operating activities	<b>(6,610)</b>	<b>(1,945)</b>	<b>70,709</b>	<b>(12,424)</b>
<b>INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	(8,156)	(4,269)	(13,558)	(8,415)
Site restoration expenditures	(84)	(21)	(277)	(87)
Proceeds on sale of asset	—	—	748	—
Investment in Rimbey Pipe Line Co. Ltd.	(2,021)	—	(2,021)	—
Dividends received from investment	1,359	—	1,359	—
Increase in other assets	—	(3)	—	(1,361)
Cash used in investing activities	<b>(8,902)</b>	<b>(4,293)</b>	<b>(13,749)</b>	<b>(9,863)</b>
<b>FINANCING ACTIVITIES</b>				
Issuance of debt (note 6)	21,500	—	146,500	—
Repayment of promissory notes	—	—	(31,442)	—
Distributions paid	(9,760)	—	(174,167)	—
Increase in deferred costs	(1,059)	—	(1,059)	—
Changes in non-cash working capital	(1,945)	995	(2,701)	—
Cash provided by (used in) financing activities	<b>8,736</b>	<b>995</b>	<b>(62,869)</b>	<b>—</b>
<b>(Decrease) increase in cash</b>	<b>(6,776)</b>	<b>(5,243)</b>	<b>(5,909)</b>	<b>(22,287)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>5,627</b>	<b>11,363</b>	<b>4,760</b>	<b>28,407</b>
<b>Cash and cash equivalents (bank indebtedness), end of period</b>	<b>(1,149)</b>	<b>6,120</b>	<b>(1,149)</b>	<b>6,120</b>

See accompanying notes to the interim consolidated financial statements

**KeySpan Energy Canada Partnership**  
**Notes to Consolidated Interim Financial Statements**  
**September 30, 2003**

(all amounts expressed in thousands of Canadian dollars, except where otherwise noted) (unaudited)

**1. REORGANIZATION**

On May 30, 2003 (the "Closing"), the ownership of KeySpan Energy Canada Partnership (the "Partnership" or "KeySpan") was restructured in accordance with the terms of an Initial Public Offering ("the Initial Public Offering") of KeySpan Facilities Income Fund (the "Fund").

The Fund is an unincorporated open-ended trust established under the laws of the Province of Alberta that was created to acquire an indirect interest in the Partnership from KeySpan Energy Development Co. ("KEDCO"). On Closing, the Fund acquired approximately a 34.5% interest in the Partnership for cash consideration of \$139,368. On June 10, 2003, an additional 4.6% interest was acquired for cash consideration of \$18,849. As at September 30, 2003, KEDCO and the Fund have an interest of approximately 60.9% (December 31, 2002 – 100%) and 39.1% (December 31, 2002 – nil), respectively.

On May 29, 2003, before the Closing, the following transactions were completed:

- (a) The Partnership acquired 100% of the outstanding common shares of KeySpan Energy Facilities Limited ("KEFL"), a wholly owned subsidiary of KEDCO, in exchange for a \$7,287 capital contribution in the Partnership. The transaction has been recorded in these financial statements at the carrying amount of KEFL's assets and liabilities as shown on the following table. The difference between the capital contribution and the carrying values, of \$8,068, has been credited to related party transaction adjustment. The results of KEFL's operations have been included in the consolidated financial statements since that date. KEFL provides gas processing and fractionation services and held a 40.606% beneficial interest in Rimbey Pipe Line Co. Ltd.

The carrying values of KEFL's assets and liabilities as at May 29, 2003 were:

	\$
Current assets	8,355
Investment in Rimbey Pipe Line Co. Ltd.	12,027
Property, plant and equipment	30,967
Future income taxes	580
Current liabilities	(4,979)
Notes payable	(31,442)
Future site restoration provision	(153)
	15,355

- (b) The Partnership also acquired 100% of the outstanding common shares of Keyspan Energy Canada Company ("KECC") (formerly Keyspan Energy Canada Inc.), a wholly owned subsidiary of KEDCO in exchange for a \$20 capital contribution in the Partnership. The transaction has been recorded in these financial statements at the carrying value of KECC's assets and liabilities. The difference between the capital contribution and the carrying value has been charged to related party transaction adjustment.
- (c) The Partnership distributed \$164,407 to KEDCO and its subsidiaries.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Partnership have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies applied are consistent with those outlined in the Partnership's annual financial statements for the period ended December 31, 2002. These consolidated financial statements for the nine months ended September 30, 2003, do not include all disclosures required in the annual financial statements and should be read in conjunction with the audited financial statements included on page F-30 of the Fund's Initial Offering document filed on May 22, 2003.

Interim periods may not be representative of the results expected for the full year of operations due to seasonality.

Certain amounts in these financial statements have been reclassified to reflect current year financial statement presentation.

## 3. DISTRIBUTABLE CASH FLOW

The amount of Distributable Cash Flow, as defined in the Partnership Agreement, will generally be, on a monthly basis, the Partnership's cash flow from operations for such month (including dividends received from subsidiaries), after (i) satisfaction of its debt service obligations (principal and interest) and income tax and large corporations tax expenses; (ii) satisfaction of funding requirements in respect of any reclamation fund; (iii) providing for maintenance capital expenditures; (iv) satisfaction of its other expense obligations including general and administrative expenses and those relating to incentive compensation; and (v) retaining reasonable reserves for administrative and other expense obligations and reasonable reserves for working capital and capital expenditures as may be considered appropriate by the Board of Directors of the Managing Partner. KEDCO's share of Distributable Cash Flow shall also include 100% of the net receipts (or payments) for contracts entered into regarding termination of certain natural gas services and an electricity hedge.

Distributable Cash Flow, as defined above, is not a measure under Canadian generally accepted accounting principles and there is no standardized measure of distributable cash flow. Distributable Cash Flow, as presented, may not be comparable to similar measures presented by other entities.

The Partnership makes monthly distributions to holders of record on the last day of each month. Payments are made on or about the 15<sup>th</sup> day of the following month.

### 3. DISTRIBUTABLE CASH FLOW (continued)

The following table calculates the Distributable Cash Flow under the terms of the Partnership Agreement for 2003:

	Three months ended September 30, 2003	Period from May 30 to September 30, 2003
	\$	\$
<b>Net income</b>	8,276	11,760
Add (deduct):		
Depreciation and amortization	5,613	7,290
Site restoration provision	88	132
Equity earnings from investment	(576)	(742)
Dividends received from investment	1,359	1,359
Future income tax (recovery) expense	(348)	(212)
Loss on sale of asset	—	6
Foreign exchange (gain) loss	(222)	(180)
Site restoration expenditures	(84)	(158)
Maintenance capital	(4,532)	(5,626)
<b>Cash available for distribution for the period</b>	<b>9,574</b>	<b>13,629</b>
<b>Distributions to partners:</b>	<b>12,179</b>	<b>16,190</b>
To KEDCO	5,525	7,367
To KEDCO, electricity hedge and gas services contract	331	393
To all other Partners	1,692	2,255
To the Fund	4,631	6,175

### 4. LONG-TERM INVESTMENTS

	September 30, 2003	December 31, 2002
	\$	\$
Rimbey Pipe Line Co. Ltd. (i)	13,431	—
Alberta Laterals Company Ltd.	1,218	1,218
	<b>14,649</b>	<b>1,218</b>

(i) The Partnership owns a 45.3% beneficial interest in Rimbey Pipe Line Co. Ltd. through its 100% ownership of KEFL. The investment is accounted for using the equity method.

	September 30, 2003	December 31, 2002
	\$	\$
Acquisition	14,048	-
Equity in earnings	742	-
Dividends received	(1,359)	-
<b>Carrying value</b>	<b>13,431</b>	<b>-</b>

KEYSPAN ENERGY CANADA PARTNERSHIP  
notes to unaudited consolidated interim financial statements

## 5. FINANCIAL INSTRUMENTS

The Partnership enters into contracts to purchase and sell natural gas and natural gas liquids. These contracts are exposed to commodity price risk between the time contracted volumes are purchased and sold. The Partnership actively manages this risk by using energy-related futures, forwards, swaps and options and by balancing physical and financial contracts in terms of volumes, timing of performance and delivery obligations. Management monitors the Partnership's exposure to the above risks and regularly reviews its financial instrument activities and all outstanding positions.

### Energy price risk management

The Partnership routinely enters into price swap and option agreements to mitigate its exposure to fluctuations in the price of natural gas, natural gas liquids and electricity. Price swap agreements require payments to (or receipts from) counter parties based on the differential between fixed and variable prices for commodities. Management monitors the Partnership's exposure to the above risks and regularly reviews its use of financial instruments and all outstanding positions. The fair values of the derivatives listed below represent an estimate of the amount that the Partnership would receive or pay if these instruments were closed out at the end of the period.

September 30, 2003	Carrying Amount	Notional Volume	Fair Value \$
<b>Natural gas liquids:</b>			
Price swaps (maturing by August 2004)	—	677,817 Bbls	(1,138)
Price swaps (maturing by August 2004)	—	865,670 Bbls	2,877
<b>Gas:</b>			
Price swaps (maturing by October 2003)	—	31,000 GJs	(5)
<b>Gas:</b>			
Options (maturing by November 2003)	—	307,500 GJs	—
Options (maturing by November 2003)	—	307,500 GJs	13
<b>Hedge of electricity for processing plants:</b>			
Price swaps (maturing by December 2003)	—	4,416 MWh	146
Price swaps (maturing by December 2003)	—	22,080 MWh	(668)

The estimated fair value of all financial instruments is based on quoted market prices and, if not available, on estimates from third-party brokers or dealers. The carrying value of cash and cash equivalents, bank indebtedness, margin deposit, accounts receivable, due from/to related parties, accounts payable and accrued liabilities approximates their fair value because the instruments are near maturity or have no fixed repayment terms. The fair value of the bank credit facilities approximates fair value due to their floating rates of interest.

Pursuant to an agreement between the Partnership and KEDCO, KEDCO is responsible for all payments by and to the Partnership under the above electricity hedging contracts.

## 6. DEBT

	September 30, 2003 \$	December 31, 2002 \$
Bank credit facilities (i)	—	—
Advance from KEDCO (ii)	21,500	—
Senior Secured Notes (iii)	125,000	—
	<b>146,500</b>	—
Less: current portion of debt	(21,500)	—
Long-term debt	<b>125,000</b>	—

- (i) On May 30, 2003, the Partnership and certain financial institutions, led by the Royal Bank of Canada, entered into a credit agreement for CAD\$100,000 and US\$50,000 under three separate Tranches. Tranche A of CAD\$50,000 matures on May 29, 2004 but may be extended for one year beyond the term date. Tranche B of CAD\$50,000 matures on May 30, 2005. Tranche C was a non-revolving bridge facility of US\$50,000 maturing on November 26, 2003 and was repaid and cancelled on August 26, 2003. Security is provided by first charge over the Partnership's assets. As at September 30, 2003, the balance outstanding on the bank credit facilities is nil.
- (ii) The balance outstanding at September 30 is \$21,500. The loan is non-interest bearing and matures on December 31, 2003.
- (iii) A long-term debt secured notes issue by the Partnership and KEFL was completed on August 26, 2003 of \$20 and \$105 million respectively. The proceeds of the issue, \$125 million, were used to repay the outstanding short-term borrowings under the existing bank credit facilities.

The new debt issue consists of three parts: Series A of \$52,500 due in 2010, bearing interest at 5.79%, Series B of \$52,500 due in 2013, bearing interest at 6.155%, and \$20,000 of 5.42% senior secured notes due in 2008. Interest is payable monthly. Security is provided by first charge over the Partnership's assets.

As at September 30, 2003, \$1,059 of financing costs has been incurred to complete the senior secured notes issue by the Partnership and KEFL. These costs have been deferred and are amortized over the remaining terms of the related debt. Amortization expense of \$12 has been recorded.

## 7. RELATED PARTY TRANSACTIONS

The following table summarizes the Partnership's related party transactions:

	Three months ended		Nine months ended	
	September 30		September 30	
	2003	2002	2003	2002
	\$	\$	\$	\$
Tariff expense for use of pipeline and NGL purchases:				
Corporation over which Partnership has significant influence	3,617	3,717	5,043	5,015
Operating allocation and NGL revenue:				
Corporation controlled by a partner with significant influence	862	913	3,104	2,754
Equity Earnings:				
Corporation over which Partnership has significant influence	576	—	742	—
Dividends:				
Corporation over which Partnership has significant influence	141	—	1,359	—
Operating expense and general and administrative cost	—	6,607	7,566	14,159

The transactions summarized in the above table were made in the normal course of operations and were measured at the exchange value or on a cost recovery basis, which represented the amount of consideration established and agreed to by the related parties.

The amounts due to the related parties are non-interest bearing, with no fixed terms of repayment.

	September 30, 2003	December 31, 2002
	\$	\$
Trade accounts receivable:		
Partners and corporations controlled by a partner with significant influence	5,495	2,058
Advance to Partner	—	38,412
<b>Total due from related parties</b>	<b>5,495</b>	<b>40,470</b>
Trade accounts payable:		
Partners and corporations controlled by a partner with significant influence	5,252	4,362
<b>Total due to related parties</b>	<b>5,252</b>	<b>4,362</b>

Excluded from the due to related parties balance is an advance from KEDCO. The balance outstanding at September 30, 2003 is \$21,500 (December 31, 2002 - \$nil). The loan is non-interest bearing and matures on December 31, 2003.

KEYSPAN ENERGY CANADA PARTNERSHIP  
notes to unaudited consolidated interim financial statements

## 8. INCOME TAXES

Income tax expense (recovery) is comprised of:

	September 30, 2003 \$
Current income tax	159
Future income tax	(212)
	(53)

Income taxes differ from the amounts, which would be obtained by applying statutory income tax rates as follows:

	September 30, 2003 \$
Income before tax expense	30,400
Non-taxable income attributable to the Partnership	(30,314)
Taxable income	86
Income tax at statutory rate of 38.74%	
Equity in earnings from investments	(287)
Resource allowance	(316)
Large corporation tax	159
Other	305
	(53)

The temporary differences comprising the future income tax asset are as follows:

	September 30, 2003 \$
Property, plant and equipment	(941)
Non-capital losses carry forward	5,490
Equity investment	(594)
Intangible assets	(29)
Future site restoration	56
Other	(389)
Future income tax asset	3,593

## 9. COMMITMENTS AND CONTINGENCIES

The Partnership is involved in various contractual agreements with ConocoPhillips. The agreements range from one to sixteen years and comprise the purchase and processing of ConocoPhillips' natural gas and NGL production in the areas specified in the agreements. The purchase prices are based on current period market prices.

KECP has lease commitments relating to railway tank cars, vehicles, computer hardware, office space and natural gas transportation agreements. The estimated annual minimum operating lease rental payments from these commitments are as follows:

	\$
Remainder of 2003	2,450
2004	4,941
2005	2,112
2006	1,424
2007	1,002
Thereafter	6,406
	<b>18,335</b>

There are legal actions involving the Partnership for which the ultimate results cannot be ascertained at this time. Management believes the resolution of these matters will not have a material adverse effect upon the financial position or results of operations of the Partnership.

## 10. SEGMENTED INFORMATION

The Partnership has two reportable segments: Facilities and Marketing. The accounting policies of the segments are the same as those disclosed in note 2.

Three months ended September 30, 2003	Facilities	Marketing	Corporate	Total
Revenue <sup>1</sup>	25,621	123,734	365	149,720
Intersegment revenue	(369)	—	—	(369)
External revenue	25,252	123,734	365	149,351
Cost of sales and operating expenses	(12,826)	(119,289)	—	(132,115)
	12,426	4,445	365	17,236
Depreciation and amortization	(5,032)	(166)	(415)	(5,613)
General and administrative and interest	—	—	(3,496)	(3,496)
Site restoration	(88)	—	—	(88)
Income (loss) before tax	7,306	4,279	(3,546)	8,039

KEYSPAN ENERGY CANADA PARTNERSHIP  
notes to unaudited consolidated interim financial statements

## 10. SEGMENTED INFORMATION (continued)

Three months ended September 30, 2002	Facilities	Marketing	Corporate	Total
Revenue <sup>1</sup>	23,808	112,167	53	136,028
Intersegment revenue	—	—	—	—
External revenue	23,808	112,167	53	136,028
Cost of sales and operating expenses	(10,711)	(108,313)	—	(119,024)
	13,097	3,854	53	17,004
Depreciation and amortization	(4,311)	(166)	(367)	(4,844)
General and administrative and interest	—	—	(3,744)	(3,744)
Site restoration	(127)	—	—	(127)
Income (loss) before tax	8,659	3,688	(4,058)	8,289

<sup>1</sup> Facilities revenue includes equity earnings from investment in Rimbey Pipe Line Co. Ltd. of \$576 and \$nil for three months ended September 30, 2003 and 2002 respectively.

<b>Nine months ended September 30, 2003</b>	<b>Facilities</b>	<b>Marketing</b>	<b>Corporate</b>	<b>Total</b>
<b>Revenue<sup>2</sup></b>	<b>74,408</b>	<b>490,383</b>	<b>530</b>	<b>565,321</b>
<b>Intersegment revenue</b>	<b>(1,387)</b>	<b>—</b>	<b>—</b>	<b>(1,387)</b>
<b>External revenue</b>	<b>73,021</b>	<b>490,383</b>	<b>530</b>	<b>563,934</b>
<b>Cost of sales and operating expenses</b>	<b>(35,974)</b>	<b>(471,977)</b>	<b>—</b>	<b>(507,951)</b>
	<b>37,047</b>	<b>18,406</b>	<b>530</b>	<b>55,983</b>
<b>Depreciation and amortization</b>	<b>(14,064)</b>	<b>(500)</b>	<b>(1,129)</b>	<b>(15,693)</b>
<b>General and administrative and interest</b>	<b>—</b>	<b>—</b>	<b>(9,554)</b>	<b>(9,554)</b>
<b>Site restoration</b>	<b>(336)</b>	<b>—</b>	<b>—</b>	<b>(336)</b>
<b>Income (loss) before tax</b>	<b>22,647</b>	<b>17,906</b>	<b>(10,153)</b>	<b>30,400</b>
<b>Identifiable assets</b>	<b>618,032</b>	<b>126,038</b>	<b>15,151</b>	<b>759,221</b>
<b>Capital expenditures</b>	<b>12,247</b>	<b>—</b>	<b>1,311</b>	<b>13,558</b>

KEYSPAN ENERGY CANADA PARTNERSHIP  
notes to unaudited consolidated interim financial statements

## 10. SEGMENTED INFORMATION (continued)

Nine months ended September 30, 2002	Facilities	Marketing	Corporate	Total
Revenue <sup>2</sup>	63,211	355,271	107	418,589
Intersegment revenue	(684)	—	—	(684)
External revenue	62,527	355,271	107	417,905
Cost of sales and operating expenses	(28,081)	(346,295)	—	(374,376)
	34,446	8,976	107	43,529
Depreciation and amortization	(12,109)	(500)	(1,076)	(13,685)
General and administrative and interest	—	—	(9,671)	(9,671)
Site restoration	(360)	—	—	(360)
Income (loss) before tax	21,977	8,476	(10,640)	19,813
<b>As at December 31, 2002</b>				
Identifiable assets	582,862	121,512	48,642	753,016
Capital expenditures	11,854	—	13	11,867

<sup>2</sup> Facilities revenue includes equity earnings (loss) from investment in Rimbey Pipe Line Co. Ltd. of \$742 and \$(18) for nine months end September 30, 2003 and 2002 respectively.

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Marketing revenue derived from export sales to United States	<b>4,272</b>	1,195	<b>15,581</b>	9,979

Revenue is attributed to the United States based on final known destination of the product.

# Corporate Information

## Board of Directors

**E. Peter Lougheed** <sup>(1)(3)(5)</sup>  
Counsel  
Bennett Jones LLP  
Calgary, Alberta

**James V. Bertram** <sup>(4)</sup>  
President and CEO  
KeySpan Canada Management Ltd.  
Calgary, Alberta

**Robert B. Catell**  
Chairman and CEO  
KeySpan Corporation  
New York, New York

**Michael B.C. Davies** <sup>(2)</sup>  
Principal  
Davies & Co.  
Banff, Alberta

**Nancy M. Laird** <sup>(1)(3)</sup>  
Corporate Director  
Calgary, Alberta

**Gerald Luterman**  
Executive Vice President and CFO  
KeySpan Corporation  
New York, New York

**H. Neil Nichols** <sup>(3)(4)</sup>  
President  
KeySpan Energy Development Corporation  
Mississauga, Ontario

**William R. Stedman** <sup>(1)(2)(4)</sup>  
Chairman and CEO  
ENTx Capital Corporation  
Calgary, Alberta

**Wesley R. Twiss** <sup>(2)</sup>  
Corporate Director  
Calgary, Alberta

- (1) Trustee of the Fund
- (2) Member of the Audit Committee
- (3) Member of the Compensation and Governance Committee
- (4) Member of the Health, Safety and Environment Committee
- (5) Chairman of the Board

## Officers

**Jim V. Bertram**  
President & CEO

**David G. Smith**  
Senior Vice President, CFO and Secretary

**Ken W. Merritt**  
Vice President, Rimbey Corridor and Marketing

**David A. Sentes**  
Vice President and Comptroller

**K. Jamie Urquhart**  
Vice President, Foothills Region

## Stock Exchange Listing

The Toronto Stock Exchange  
Trading Symbol KEY.UN

### Unit Trading Summary to September 30, 2003

#### TSX:KEY.UN – Cdn \$

High	\$11.89
Low	\$10.29
Close	\$11.09
Volume	4,111,651
Average Daily Volume	65,264

## Investor Relations

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