



BAYTEX
ENERGY CORP.

Creating
Value
Responsibly

Corporate Responsibility Report | 2014



Table of Contents

To Our Stakeholders	4
Progress on Plans	5
About This Report	6
Business Practices	8
Environment	11
Workplace	16
Communities and Stakeholders	20
Performance Summary	25
GRI Content Index	28

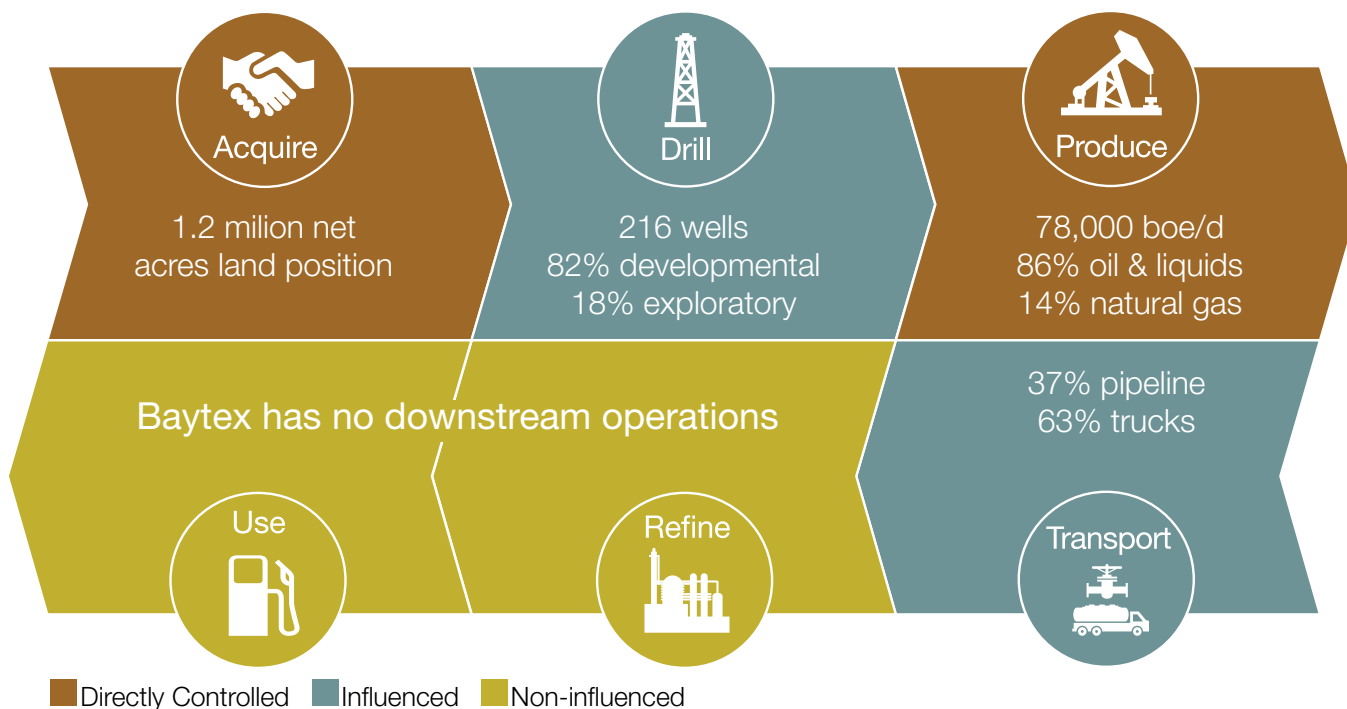
About Baytex

Baytex Energy Corp. is an oil and gas corporation based in Calgary, Alberta. The company is engaged in the acquisition, development and production of crude oil and natural gas in the Western Canadian Sedimentary Basin and in the Eagle Ford in the United States. Approximately 82% of Baytex's production is weighted toward crude oil and natural gas liquids. Baytex's common shares trade on the Toronto Stock Exchange and the New York Stock Exchange under the symbol BTE.

BAYTEX CORE AREAS



Baytex Operations in Context – 2014



Key Financial and Operating Indicators – Year Ended December 31, 2014

OPERATING HIGHLIGHTS	
Production	
Heavy Oil (bbl/d)	44,948
Light Oil & Condensate (bbl/d)	17,681
Natural Gas Liquids (bbl/d)	4,819
Natural Gas (mmcf/d)	65.2
TOTAL (boe/d) ¹	78,321
Wells Drilled (net)	216
Total Proved plus Probable Reserves (mmboe)	432
FD&A Costs (\$/boe proved plus probable) ²	\$31.10

FINANCIAL HIGHLIGHTS	
Petroleum and Natural Gas Sales (millions)	\$1,969.0
Funds from Operations (millions) ³	\$879.8
Dividends Declared (per share)	\$2.64
Exploration and Development Capital Expenditures (millions)	\$766.1
Market Capitalization (billions) ⁴	\$3.2
Shares Outstanding (millions)	168.1
Total Monetary Debt (billions) ⁵	\$2.3

1. Barrel of oil equivalent (boe) amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. See Advisory regarding Oil and Gas information on [page 30](#).
2. Finding, Development & Acquisition (FD&A) costs include exploration, development and acquisition capital expenditures.
3. Funds from Operations is a non-GAAP measure that we define as cash flow from operating activities adjusted for financing costs, changes in non-cash operating working capital and other operating items. See Non-GAAP Financial Measures on [page 30](#).
4. Market Capitalization is the product of the closing price on the Toronto Stock Exchange and shares outstanding on December 31, 2014.
5. Total Monetary Debt is as of December 31, 2014, and is a non-GAAP measure that we define as the sum of monetary working capital (current assets less current liabilities (excluding non-cash items such as unrealized gains or losses on financial derivatives)), the principal amount of long-term debt, and long-term bank loans.

Operational Changes Since Our Last Report

- » Acquired Aurora Oil & Gas Limited and its Eagle Ford assets in Texas in June 2014.
- » In September 2014, we divested our North Dakota assets and closed our Denver office. We also disposed of some non-core Canadian assets.



To Our Stakeholders

Baytex plans to prosper over the long term. To do so, we must create value for all of our stakeholders. This is what is called shared value. It's not about simply making donations. Shared value is when our normal course of business responsibly creates value for all stakeholders.

We believe that by acting as a responsible company in all aspects of our operations, we create long-term value for all stakeholders. We focus on employee opportunities for personal growth, an improved quality of life in communities where we operate, business opportunities for Aboriginal groups, and an attractive return on investment for shareholders. Oil and gas development can provide significant benefits to communities, landowners, suppliers and others, often in areas where limited economic development opportunities exist. In the end, society benefits from environmentally responsible development that produces reliable energy at a reasonable cost.

Recently, we suspended our dividend to shareholders. We continue to believe in returning a portion of our funds from operations to shareholders. Taking into consideration the low commodity price environment and a view that it is likely to last longer than earlier anticipated, we would not generate sufficient funds from operations to pay a dividend. We plan to reinstate our dividend when commodity prices recover to a supportive level.

Developing oil and gas resources requires long-term commitment. Collaboration with a broad range of engaged stakeholders is important to achieve enduring success in resource development. In 2014, we implemented a Good Neighbour Program company-wide.

The Good Neighbour Program strives to create social and economic benefits for the community while mitigating the impacts related to our operations. The Good Neighbour Program is a real-life expression of responsibly creating value.

Collaboration with other companies can also create value for the broader public. Subsequent to the end of 2014, we announced commissioning of the first phase of Genalta Power's Peace River Power Centre. This new facility is located near our Peace River operations and is designed to conserve Baytex's solution gas, while providing low-emission electricity to Alberta's power grid. The second phase of this project was completed in mid-2015, further increasing our gas conservation efforts in the region.

I can assure you that our focus on environmental protection and the well-being of communities and employees is underpinned by strong ethics and values. Baytex's success is due to our dedicated and talented team of employees who implement our strategy, consistently execute on our plans and responsibly create value for our stakeholders. Sincere thanks go to them, but also to you, our stakeholders. Your continued engagement helps us to understand what people outside of Baytex value and how we can help respect that – responsibly.

James L. Bowzer
President and Chief Executive Officer
October 5, 2015

Progress on Plans

This report is a key tool for holding ourselves accountable. In our 2012 Corporate Responsibility Report, we looked forward and noted activities we planned to undertake to ensure continual improvement. The following table explains how we delivered on those plans.

WHAT WE PLANNED	WHAT WE DID
Environment	
Develop a Health, Safety, and Environment (HSE) Management System, and update our current manuals for Canada and the USA.	We implemented our HSE Management System for our Canadian operations in 2014, and began to implement the system in our US operations in 2014. Manuals were developed in 2013.
Continue to identify and implement practices to reduce greenhouse gas and other air emissions.	We installed vapour recovery units on every significant piece of equipment in our Peace River operations. A new tank farm in Saskatchewan now also has vapour recovery units. To read more about our emissions performance, see pages 12-13 .
Employees	
Enhance our Competency Management and Development System to ensure employees are qualified and trained to safely conduct their work.	In 2014, we improved our Competency Management and Development System by assigning staff and deploying resources to steward the system and training modules related to key competencies.
Connect employees' long-term incentive plan to implementation of HSE Management System and continual improvement performance metrics.	In 2014, we added HSE performance to the measures used for determining the payout of performance-based awards granted under our long-term incentive plan.
Society	
Develop a company-wide stakeholder engagement approach and structure.	Our stakeholder and community relations approach was developed in 2013-2014. To read more about how we engage stakeholders, see page 22 .
Further engage with Peace River area residents and provide additional communications regarding our plans for improving air quality in the area.	We implemented several physical and administrative changes to address this issue. See an update on page 21 .
Implement the Baytex Good Neighbour Program for all employees and contractors throughout our operations.	The Good Neighbour Program was launched in 2014. To read more, see page 23 .
Work to further engage Aboriginal contractors throughout our operations.	Signed a contract with Peace River area First Nations contractors for a multi-million dollar construction services agreement.

About This Report

This is Baytex's second biennial corporate responsibility report. It focuses on environmental, social and economic metrics, highlights our achievements and challenges and describes key sustainability initiatives.

- » Unless otherwise noted, this report covers performance for the 2013 and 2014 calendar years, of Baytex Energy Corp.
- » We used the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines to help determine report content. The report contains Standard Disclosures from the Guidelines but has not fulfilled all the requirements to be 'in accordance'. The GRI index on [page 28](#) indicates where specific disclosures are addressed.
- » We include data for joint ventures for which Baytex holds the operating permit, or is identified as the operating entity in the contract, regardless of financial ownership. The majority of the assets of Aurora Oil & Gas Limited we acquired in June 2014 are operated by Marathon Oil EF LLC, a wholly-owned subsidiary of Marathon Oil Corporation, pursuant to the terms of industry-standard joint-operating agreements. Consequently, Baytex does not report environmental data for these assets. The treatment of joint ventures may be addressed differently in Baytex's 2014 Annual Report with respect to financial performance.
- » We have not included environmental data for the assets we divested in 2014, except for certain British Columbia assets that we sold in December 2014.
- » We continually strive to better define performance indicators and improve our measurement systems. Although we have reduced reporting exceptions since our previous report, any remaining exceptions are noted with the data.
- » Unless noted, data does not cover contract service providers or temporary employees.
- » Techniques for data measurements and calculations, if not industry standard, are stated with the data.
- » For some environmental and safety indicators we are able to compare our performance against industry averages provided by the Canadian Association of Petroleum Producers (CAPP).

- » Financial data is in Canadian dollars and environmental data is in metric units.
- » The accuracy of this report is of significant importance. Senior management and relevant staff have reviewed all information and believe it is an accurate representation of our performance. Internal assurance activities covering the information presented in this report included financial and environmental, health and safety performance audits. Third-party assurance of this corporate responsibility report was not conducted.
- » The terms Baytex, our, we, the company, and the corporation, refer to Baytex Energy Corp. and its subsidiaries as a whole.

Defining Report Content

To help determine the content of this report, we engaged external stakeholders and senior leaders at Baytex in separate workshops to identify which sustainability topics are most relevant to stakeholders and to the success of our business. Stakeholders represented such groups as:

- » Investors;
- » Academia;
- » Suppliers;
- » Employees;
- » Aboriginal and nearby communities; and
- » Industry.

An independent consultant presented the two groups with a list of more than 30 sustainability topics extracted from reporting guidance and industry reports, and facilitated the workshops. The groups discussed each topic and agreed to its priority level.

Topics considered of high relevance to both Baytex and our stakeholders were considered material. The following material topics were identified:

- » Air Emissions
- » Ethics
- » Spills
- » Stakeholder Engagement
- » Water Use and Quality

These are important topics and, accordingly, they receive greater attention than other topics in this report. For topics not considered of highest priority, we still provide discussion of our related initiatives, and in some cases, quantitative performance figures.

Material Topics and Their Boundaries

Many of the material topics are relevant for not only our own operations, but also can have a significant impact on external stakeholders. Although we do not report quantitative figures for performance beyond Baytex's internal boundaries, we do provide qualitative discussion about how we are managing our impacts on stakeholders.

For each of the material topics, we assessed (1) which entities inside our company can most affect our performance on that particular topic, and (2) which stakeholders are most affected by our performance on that topic. We recognize that this is not an extensive list and that all stakeholders can be affected by all topics. However, we are focusing on the groups that are most affected. The results of this assessment are summarized in the table below.

TOPIC	ENTITIES WITHIN BAYTEX THAT CAN MOST AFFECT PERFORMANCE	STAKEHOLDERS MOST AFFECTED		
		NEIGHBOURS	SUPPLIERS	GOVERNMENTS
Air Emissions	Operations	✓	✓	
Ethics	All employees; Board		✓	✓
Spills	Operations	✓	✓	
Stakeholder Engagement	Field staff	✓		✓
Water Use and Quality	Operations	✓	✓	



Business Practices

How well we perform on financial and non-financial matters depends on how well we operate. Our values, systems, structures and practices help to ensure that performance is a result of focused management and implementation.

Embedding corporate responsibility into our company requires strategic integration of our business plans and practices. This is an ongoing process and we are committed to working with all levels and disciplines within the company to continually improve.

The foundations of a responsible company include:

- » strong governance;
- » rigorous management;
- » solid business ethics; and
- » an unwavering commitment to regulatory compliance.

These cornerstones guide our actions on specific corporate responsibility topics such as safety and environmental protection.

Governance

The pillars of our corporate governance practices are transparency and accountability.

Our Board of Directors (the Board) is ultimately responsible for the stewardship of Baytex, and is accountable to our shareholders. The Board determines the direction of the company and ensures that management acts in the best long-term interests of Baytex shareholders.

The Board has four committees: the Audit Committee, the Compensation Committee, the Nominating and Governance Committee and the Reserves Committee. Each of the committees is composed entirely of independent directors. The overall Board has responsibility for health, safety and environmental matters.

Seven of our nine Board directors are considered independent. The Chairman of the Board is not considered an independent director due to his previous role as an executive officer of Baytex. The other non-independent director is our CEO. However, Baytex has appointed a Lead Independent Director to ensure the Board functions independently of management.

Shareholders, employees and other interested parties may contact the Board by sending correspondence, marked to the attention of the Chairman. Through attendance at the Annual General Meeting (AGM) or through the use of proxies for voting, shareholders are given the opportunity to vote on matters affecting Baytex. Our shareholders have a “say on pay” and approve, on an

advisory basis, our approach to executive compensation. In addition, subject to statutory provisions, shareholders may submit their own resolution for consideration at the AGM. Shareholders also have the opportunity to raise questions from the floor during the question and answer portion of the AGM.

Management Approach

Baytex’s commitment to corporate responsibility is broadly held across the company, but is a specific focus of the following groups: Executive, Health, Safety and Environment (HSE), Human Resources, Legal, and Stakeholder and Community Relations. These groups set the tone for the company and work to monitor best practices, develop company policies and standards and support Baytex’s operations in adhering to these policies and standards.

Our HSE Management System provides a framework that details expectations of all levels of management and describes how managers can implement the system with respect to corporate values and policy. The system comprises a broad-based set of expectations governing how health, safety and environment are managed. Managers will define and set direction for loss prevention activities, forecast and allocate resources and consistently strive to deliver improved HSE performance. Implementation of specific programs, procedures and processes aim to meet the objectives set in corporate policy.

We analyze organizational risk, including risk related to corruption on an annual basis. Risks and opportunities are assessed at the asset level, and are managed to ensure we achieve our goals and minimize our risks.

Like many oil and gas companies, Baytex relies on contract service providers to perform a significant amount of work. We require that all contract service providers supply pertinent safety data about their company to a third-party registry to assist us with our contracting process. We utilize master service agreements to ensure contract service providers are aware of our corporate policies and procedures and that they agree to comply with them.

Ethics

At Baytex, integrity, accountability and honesty are the foundations of our ethical business practices. Our employees and contractors are obligated to act in the best interests of Baytex at all times and in a safe and environmentally responsible manner.

Our Code of Business Conduct and Ethics (the Code) is a statement of the principles to which Baytex is committed and is designed to direct all employees, officers, directors and independent contractors that conduct activities on behalf of Baytex in the practice of ethical business conduct. Among other issues, it addresses: conflict of interest, fair dealings, gifts, legal compliance and confidentiality. Directors, officers and employees must know these standards and agree annually in writing to comply with the Code. The Code is available on our [website](#).

Baytex has a Statement on Reporting Ethical Violations that encourages employees to report misconduct. The associated procedure ensures that Baytex employees can report misconduct on a confidential and anonymous basis without the threat or fear of dismissal, harassment or other retaliation. Our legal department follows up on all reports and informs the Audit Committee of the Board quarterly on all investigations. We received notice of one alleged violation in 2014, which is consistent with previous years. The issue was investigated and resolved without incident. The Statement on Reporting Ethical Violations is available on our [website](#).

Regulatory Compliance

Baytex strives to operate our facilities in accordance with regulations, legal requirements, and industry codes of practice. Our stakeholders and Baytex expect no less. Our operations are subject to numerous local, provincial, state and federal environmental, safety, financial and reporting regulations.

Regulators issue Notices of Violation (NOV) for many reasons, including administrative issues. Baytex considers a NOV to be material when it results in a monetary fine or the suspension of operations. In the past two years we received seven NOVs that we considered material: four in 2013 and three in 2014. All the violations were mitigated and compliance was achieved.

Baytex received a fine in 2013 for \$2,000, and two fines in 2014 totaling US\$53,000.

Looking Forward

- » Adopt a diversity policy that applies to the Board and senior management
- » Ensure that all Canadian contract service providers have a Certificate of Recognition (COR) by the end of the first quarter of 2016. (The Alberta, British Columbia and Saskatchewan governments award CORs to employers who develop health and safety programs that meet established standards.)



Environment

The environment supports our economy, but more importantly it supports all life. At Baytex, a healthy environment is not a choice we make; it's just the way we do business. We aim to constantly minimize our impacts on the air, water, land and wildlife.

Highlights

- » Launched HSE Management System
- » Began a gas gathering project in the Peace River region that substantially reduces greenhouse gas emissions
- » Reduced spill volumes by 14 percent from 2010 to 2014

Challenges

- » Managing the long-term increase in the number of reportable spills
- » Maintaining or reducing total greenhouse gas emissions while increasing production

Our operations are designed to avoid adverse impacts on the environment. However, good design needs the support of diligent management to ensure environmental protection. Our HSE Management System, which is described in greater detail in the Safety Management section on [page 17](#), guides our environmental management.

ACCOUNTING FOR EAGLE FORD

We include environmental data for joint ventures for which Baytex holds the operating permit, or is identified as the operating entity in the contract, regardless of financial ownership. We are not the operator of a substantial majority of our assets in the Eagle Ford and, therefore, we are not able to control environmental practices or directly track performance. However, the operator has programs that are designed to achieve a similar degree of environmental stewardship.

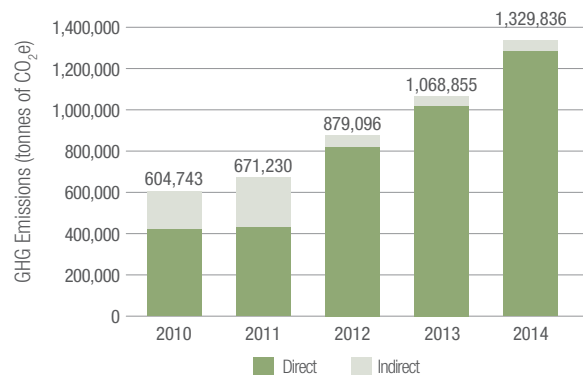
Greenhouse Gases and Other Air Emissions

Baytex is aware that climate change issues are important to many of our stakeholders, and therefore, managing greenhouse gas (GHG) emissions is integrated into our business strategy. We are also acutely aware that GHG emissions have financial impacts. In 2013-2014, Baytex paid approximately \$2 million in carbon taxes to the Province of British Columbia.

Our major initiative in reducing greenhouse gases during the past two years has been our collaboration with Genalta Power Inc. Baytex delivers the majority of the excess natural gas production associated with our heavy oil production in the Peace River area to Genalta's recently completed gas-fired power generating facilities.

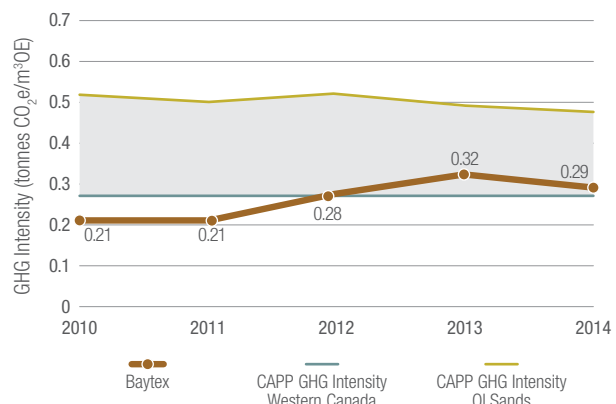
Baytex constructed a pipeline that connected our existing integrated gas collection system in the Harmon Valley and West Harmon areas to the Genalta facility. The new facility conserves previously flared solution gas in the area, while providing a new source of low emissions electricity into Alberta's power grid. This is Baytex's second gas conservation project in conjunction with Genalta. The project is currently generating 16MW of the 20MW total. We expect that the remaining 4MW will be brought on stream when power transmission upgrading is completed at the end of 2015.

GHG EMISSIONS



The increase in reported emissions is due to increased development activities, which create more emissions than regular operations, and an improvement in measurement methodologies throughout our operating areas. We anticipate that our emissions may continue to increase should we increase production from thermal heavy oil assets.

GHG INTENSITY



Emissions intensity is increasing mainly due to production growth in areas where gas gathering systems are not fully developed. Although our emissions intensity is generally in the lower range of companies with western Canadian conventional or oil sands operations, we expect our intensity may increase should we increase production from thermal heavy oil assets.

DIRECT AND INDIRECT GHG EMISSIONS

Direct emissions are from burning natural gas and other fuels at our operations. Indirect emissions are from the offsite generation of purchased electricity, steam and heat.

We took additional steps in 2013-2014 to reduce our GHG emissions as follows:

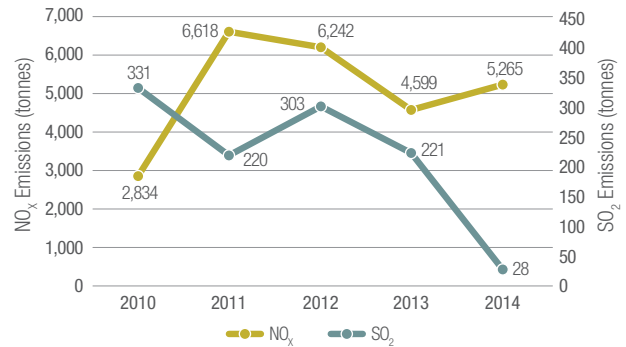
- » In 2013, previously flared solution gas from 70 of the U.S. facilities associated with our North Dakota operations was tied into a gas gathering system. These facilities were sold in September 2014.
- » In our Peace River operating region, we made a business decision to participate in an estimated \$15-million natural gas capture and conservation project. By capturing gas that was previously flared into the atmosphere, we are able to prevent more than 29,000 tonnes of carbon dioxide equivalent (CO₂e) emissions.

Baytex has engaged with regulators in Saskatchewan and Alberta on new regulations related to gas conservation, flaring, incinerating and venting. We believe transparency on GHG emissions is an essential component of corporate responsibility and accordingly, participate in the Carbon Disclosure Project. This initiative requests standardized climate change information from companies around the world through an annual questionnaire sent on behalf of more than 700 institutional investors with \$87 trillion in assets under management.

FLARING AND VENTING

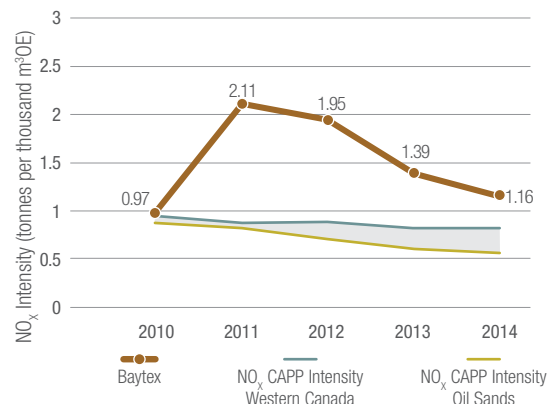
Flaring and venting are practices that emit GHGs. Flaring is a controlled burn of unusable natural gas captured from wells. Venting is the release of uncombusted gases directly to the air. Flaring releases mainly carbon dioxide, whereas venting releases mainly methane, which has a global warming potential more than 20 times higher than carbon dioxide.

OTHER AIR EMISSIONS



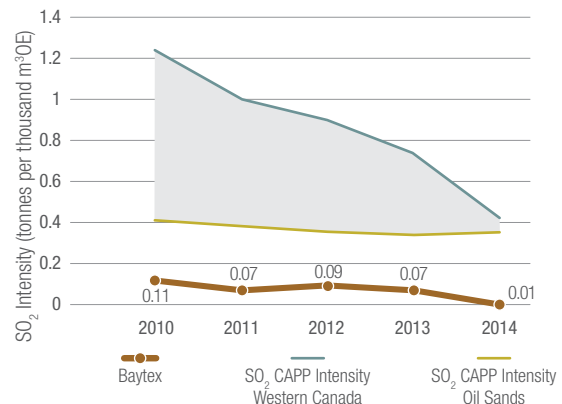
Oil and gas production also generates air emissions such as sulphur dioxide (SO₂) and nitrogen oxides (NO_x) that have regional impacts. With increased gas conservation, less gas is flared, which has led to significant decreases in SO₂ emissions. The addition of new thermal enhanced recovery systems in 2014 resulted in the recent increase in NO_x emissions.

NO_x INTENSITY



Through increased gas conservation and the use of lower NO_x emitting equipment, we have managed to decrease NO_x intensity since 2011. The upgrades of our emulsion storage heating systems and the suspension of two thermal oil recovery projects in 2015 should reduce our NO_x emissions in future years.

SO₂ INTENSITY



Baytex's lower SO₂ emissions intensity than industry is due to the relatively lower proportion of natural gas production in our portfolio, and due to the relatively lower use of sour gas.

Water Use and Quality

Water is used for many of our energy development activities, including drilling, fracking, dust suppression and for generating steam for thermal heavy oil extraction. Where possible, we try to recycle or reuse water, and use brackish or saline water (water that is not suitable for human or animal consumption or for agriculture). If we must use fresh water, a water diversion license from regulatory authorities is required. These licenses provide the terms and conditions under which this water must be used.

We directly use hydraulic fracturing in some of our operations, and indirectly through ownership of our Eagle Ford assets, which are operated by another company. We communicate directly with stakeholders and neighbours of these wells regarding the responsible use of this technology. To ensure groundwater protection, we follow stringent requirements that regulators have placed on how wells must be completed. We also participate in the Canadian and USA FracFocus online disclosure registry, which involves listing, by well, the chemical constituents in the fracturing fluid and the amount of water used.

In a limited number of areas, hydraulic fracturing is currently not allowed; however, during this reporting period, we did not own any properties where such restrictions were in place.

Water quality is just as important to us as water use. Where flowback or produced water cannot be recycled, it is disposed of responsibly. Most of our produced water is disposed of into deep geological formations, where the risk of contaminating freshwater resources is minimized. Before discharging any rainwater or snow melt from our leases to the environment, we conduct testing and analysis to ensure it meets all regulatory requirements.

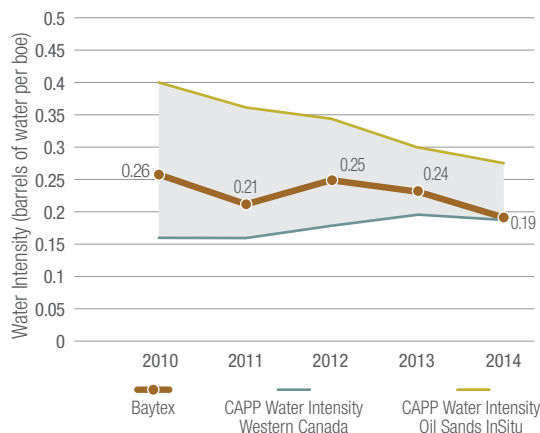
FLOWBACK AND PRODUCED WATER

Flowback is water-based fracturing fluid that flows back from the wellbore after hydraulic fracturing is completed. Produced water occurs naturally in a formation and is extracted along with the oil or gas.

WATER WITHDRAWALS



WATER INTENSITY



On an intensity basis, our water withdrawals have improved since 2010, and on an absolute basis have generally increased in line with production. If we increase our use of steam for thermal heavy oil extraction, we will need to investigate and employ water use reduction and recycling techniques. Baytex's water withdrawals are currently tracked for facilities where permits require monthly regulatory reporting. Water from municipal sources or water trucks, the majority of which is used in offices and work camps, is not currently tracked and is estimated to be a minor amount.

Land and Spills

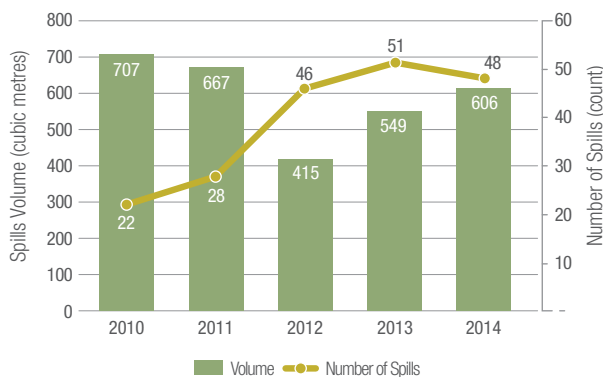
As part of our environmental responsibility, we understand the importance of respecting the land. We work to limit the amount of land we develop, and to avoid any negative impacts on it. When our operations are complete, we restore the land to a state comparable to conditions prior to disturbance.

In our heavy oil operations, we drill multiple wells from single pads to minimize the surface impact. As well, we try to use existing infrastructure (e.g., roads, bridges, pipelines) as much as possible, rather than creating new land disturbances. Although we have operations in the oil sands area, Baytex does not engage in any surface mining operations. The footprint of one of our typical operations in the oilsands area is comparable to that of conventional oil wells elsewhere.

During production, we work to keep hydrocarbons and chemicals properly contained and away from the environment. Although we employ numerous spill reduction techniques, including secondary containment, emergency shutoffs, and employee training, spills do happen. When spills occur, we work to identify causes and to prevent recurrence.

During the past two years, we have undertaken extensive asset integrity activities to help prevent spills and process safety incidents. In addition to addressing all of our stationary assets, in 2014 we enhanced our inspection program on fluid hauling equipment to ensure greater compliance and to minimize spills.

SPILLS



Through spill mitigation practices we have been able to reduce spill volumes since 2010. We are focusing future prevention efforts on non-pipeline transportation of our liquids as a high number of the spills occur during this stage. Spills include all reportable spills following the applicable regulations in each jurisdiction where we operate. Reportable spills include oil and other substances that exceed regulatory requirements.

More than 300 Baytex well sites were undergoing active reclamation in 2014. Some sites have soils with hydrocarbons and salts at elevated levels that require remediation before reclamation. In 2014, we updated our well abandonment procedures with the implementation of a liability management program that prioritizes abandonment activities based on assumed risk.

Looking Forward

- » Reduce flaring by using more solution gas for process purposes or by storing it
- » Increase burner efficiency to lower GHG emissions
- » Install overfill alarms on truck tanks to prevent spills



Workplace

Our employees make us who we are. We strive to provide our colleagues a workplace that is safe, fair, ethical, respectful, and engaging.

Highlights

- » Enhanced our Competency Management and Development System to ensure employees can safely conduct their work
- » No employee recordable injuries in 2014
- » Increased investment in training and learning

Challenges

- » Rising contractor safety incident rates
- » Staff variability due to asset sales and purchases
- » Understanding local labour dynamics as we expand into new areas

Safety Management

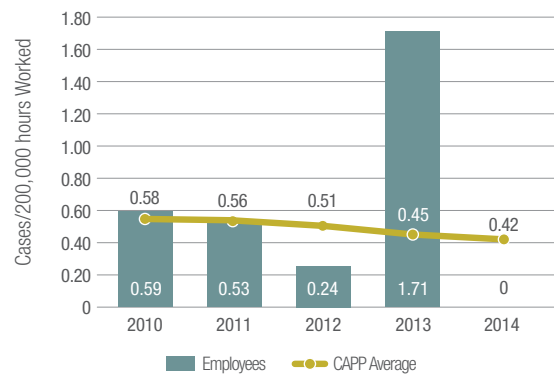
Safe and healthy employees make a stronger company. We are committed to ensuring that all staff and contract service providers on a Baytex work site have the resources, equipment and training required to complete the work safely. We believe our employees deserve productive, healthy careers in an incident-free workplace.

Our HSE policy spells out our commitments and is reviewed annually. To view our HSE policy, please visit our [website](#). To support implementation of our policy, we launched our newly developed HSE management system in 2013. It addresses training, auditing, documentation, procedures and goal setting. Each of our business units is utilizing this system to facilitate the achievement of these requirements.

We conducted an internal HSE management system audit in 2014. Corrective actions were developed for areas where we identified room for improvement. Also in 2014, we added HSE performance to the measures used for determining the payout of performance-based awards granted under our long-term incentive plan to our employees and other service providers.

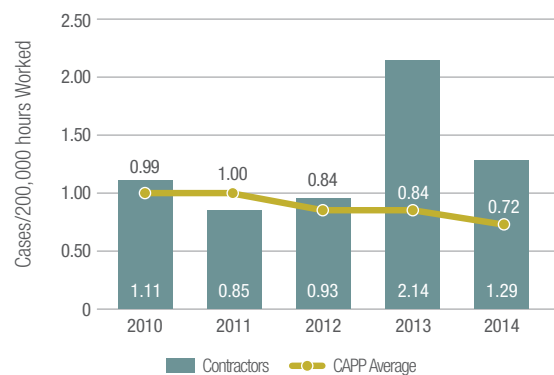
Our HSE Management Committee consists of the Chief Executive Officer, Chief Operating Officer, Business Unit Vice Presidents and the HSE Manager. The Committee assists the Board with its responsibility for due diligence by monitoring performance against identified metrics, making recommendations on the development and implementation of HSE policies and standards and by ensuring that all necessary resources, equipment and training are provided.

RECORDABLE INJURY RATE - EMPLOYEES



Excluding 2013, employee injury rates have declined since 2010, achieving zero in 2014. Injury rates exclude employees in our US operations.

RECORDABLE INJURY RATE - CONTRACT SERVICE PROVIDERS



Contractor injury rates increased from previous levels, in 2013 and 2014. Although some of the increase might be attributable to an increased focus on reporting, we are dedicating additional resources to contractor safety to address this increase. Injury rates exclude contractors in our US operations.

Safety Training

Safety awareness is a fundamental principle at Baytex. Safety training is provided throughout the company. Our monthly newsletter increases safety knowledge by providing injury statistics, healthy living tips and information on safety regulations.

As Baytex grows and more employees become involved in operational work, we have enhanced our Competency Management and Development System (CMDS) to ensure employees can safely conduct their work. The CMDS specifies operational and safety requirements and training for each field position. In 2014, we launched our implementation plan and assigned staff to organize the CMDS.

Baytex has engaged contract service providers in pre-work safety discussions for a number of years. We have recently focused on adding worksite training during ongoing operations to address any issues that arise in a timely fashion.

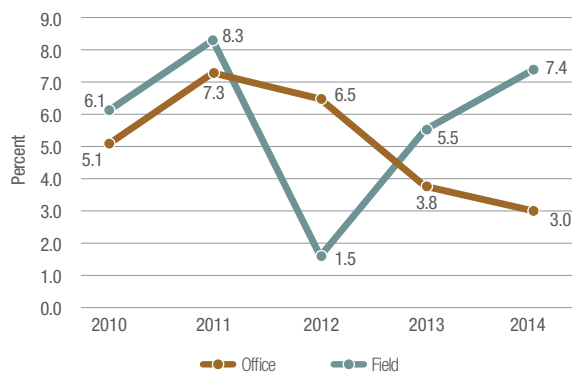
Baytex maintains emergency response plans for all of our operations, including site-specific sour gas response plans. These plans are updated on an annual basis and changes are communicated to employees and stakeholders. In addition to conducting annual site-specific sour gas exercises, we also conduct annual emergency response exercises at our other facilities. We often partner with local authorities to gain mutual benefits from these exercises.

Attraction and Retention

Through solid and reputable management, strong financials and commitment to corporate responsibility, we expect to attract new employees. Employees generally feel they are making significant contributions, and can be called on in a wide variety of roles. Finally, our competitive compensation and benefits programs also play a role. The employee benefit package includes flex days, retirement savings plan matching, health spending accounts and a long-term incentive plan that includes restricted and performance share awards.

Retaining employees is just as important as attracting them. In addition to the benefits listed above, we strive to create an environment that fosters opportunities for development, learning and engagement to keep employees committed. Each year, every Baytex employee has a development discussion with their manager to set and discuss objectives for the upcoming year and to discuss their career plan. We also provide financial support for continuing education, which provides opportunities to strengthen the knowledge base of our employees. Our investment in training and learning

VOLUNTARY TURNOVER RATE



Our field employee turnover rate varies based on operational changes, and the broad impact of asset acquisitions and divestitures.

increased by 19 percent from 2013 to 2014, to an average of \$778 per person.

At Baytex, we work to develop leaders from within. Our senior managers offer informal mentorship, and we strongly support peer-to-peer mentoring. Several of our senior leaders moved up through their respective business units and many field operators have moved up to lead positions. We feel that offering training, and promoting from within helps to create opportunities for advancement, and enhances trust and loyalty from both sides.

Baytex believes it is in the best interest of the company and all of our stakeholders to have diversity in gender, age and ethnicity within the company.

Employee Engagement

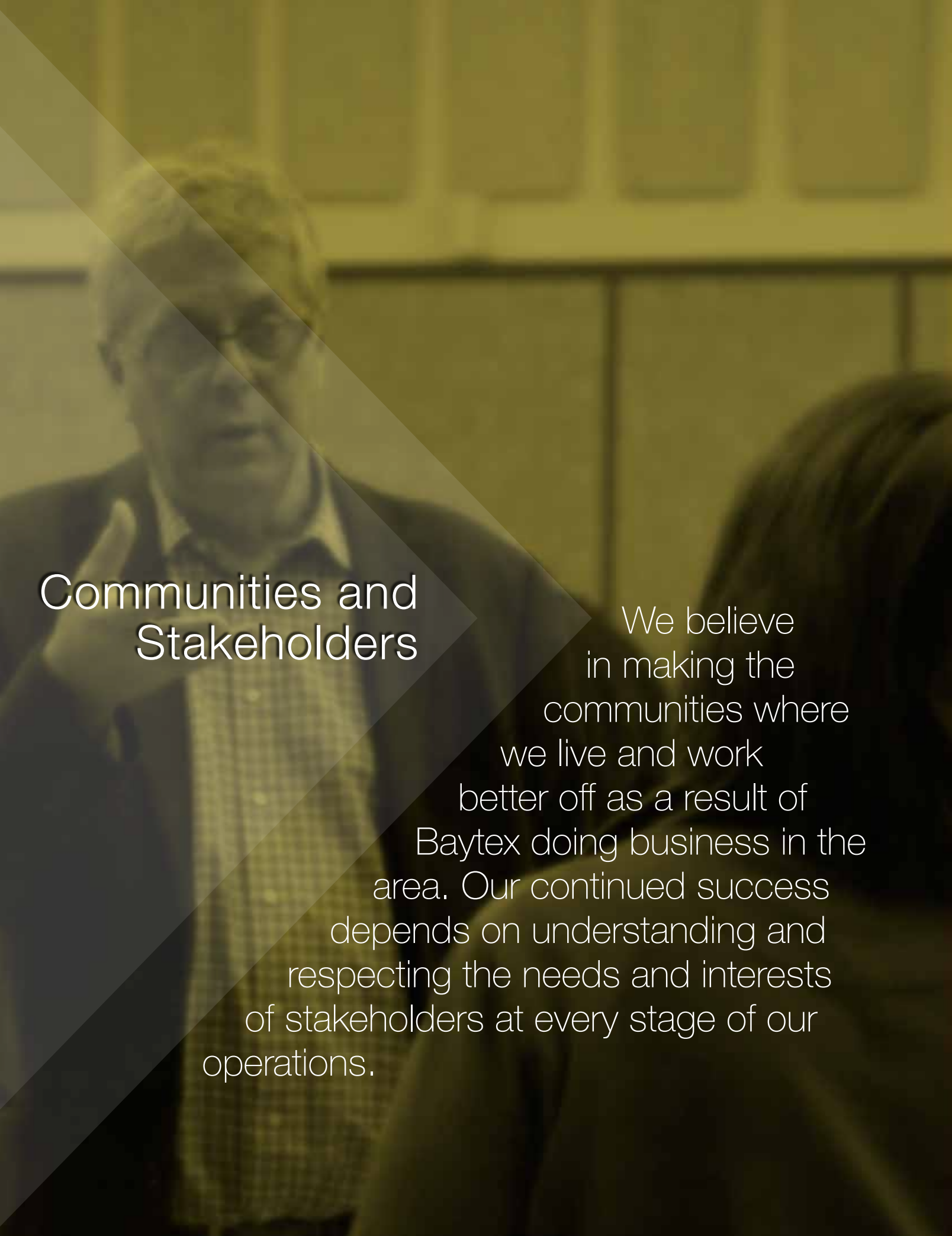
The past couple of years have brought an exciting new direction for Baytex. Because acquisitions and divestitures directly affect joining and departing employees, we held town hall meetings to help draw everyone together and make sure that any communication to our employees regarding the changes was timely, consistent and honest. To make transitions easier, we work with new employees to explain Baytex policies, procedures and company benefits. When employees leave the organization due to disposition activities, we have helped employees with the transition by explaining all anticipated changes, including benefit plans.

In addition to the specific meetings noted above, we also hold regular town halls where senior management members share the company direction and field questions from staff. We have also used our internal website to inform and engage employees.

Employees have told us that they appreciate when Baytex enables an opportunity to give back to the community. One way we help is by facilitating volunteer opportunities for employees to get involved in their communities. Likewise, Baytex fosters giving back by matching employee charitable donations up to \$500 per person per year. We also arrange quarterly social events in Calgary, which, along with building fellowship amongst employees, all have a charitable component for employees and the company to donate to a variety of worthwhile causes.

Looking Forward

- » Assign additional resources to contractor safety initiatives
- » Include HSE performance (injury rates and spills) to the measures used for determining awards under our short-term incentive plan
- » Continue timely and open communications about company changes to help address rising field employee turnover



Communities and Stakeholders

We believe in making the communities where we live and work better off as a result of Baytex doing business in the area. Our continued success depends on understanding and respecting the needs and interests of stakeholders at every stage of our operations.

Highlights

- » Peace River public inquiry produced workable solutions to concerns
- » Launched Good Neighbour Program
- » Collaborated on road improvements
- » Established a Donations Committee

Challenges

- » Addressing stakeholder expectations in a transparent world
- » Managing operational odours

We develop energy resources in a manner that contributes to the economic and social sustainability of the communities in which we operate. We engage with local and Aboriginal communities to develop relationships based on trust and respect. We work to understand their concerns, involve them early in our project planning process and keep them informed of our ongoing operations.

Stakeholder Engagement

Since 2012, we have developed a company-wide stakeholder engagement approach and structure. Our Stakeholder and Community Relations department collaborates with our Regulatory Affairs and Operations departments to proactively engage stakeholders before, during and after our operations. We also work together to resolve issues, should they arise.

We listen to stakeholder concerns and strive to incorporate their suggestions into our operational plans. Our inclusive approach to stakeholder engagement, and efforts to maintain an honest relationship with stakeholders, helps ensure stable ongoing operations and timely access to land.

We define stakeholders as persons or groups who are directly or indirectly affected by a project or operation, as well as those who might have interests in a project or have the ability to influence its outcome. The type and frequency of our stakeholder engagement is based on the scope and potential impacts of our operations, and the degree to which parties wish to be involved. Our interactions with various parties take different shapes. In addition to one-on-one meetings and project information open houses, which we use with all stakeholders, we undertake additional engagement activities, as shown in the table on [page 22](#).

Aboriginal and Native American Relations

Baytex has certain operations that overlap lands traditionally used by Aboriginal peoples. We proactively engage these peoples wherever they are affected by our operations. Engagement occurs through meaningful discussions regarding our operations, working to understand traditional environmental knowledge, and identifying opportunities for economic development.

We respect the constitutional rights of the First Nations, Métis and Inuit communities across Canada, as well as the inherent rights of Native American Tribes in the United States.

ADDRESSING CONCERNS IN THE PEACE RIVER REGION – AN UPDATE

Since our last report, much progress has been made in addressing concerns from area residents about odours and emissions from heavy oil operations in the Peace River region.

Starting in 2013, an Alberta Energy Regulator (AER) panel conducted a public proceeding into the matter, which involved gathering input from residents and subject experts, and a public hearing. The AER panel provided a highly credible, science-based venue for addressing and finding solutions to resident concerns. Baytex was an active participant throughout the proceeding.

Baytex supports the regulatory initiatives that the AER announced in April 2014 governing heavy oil development in the Peace River region.

Our gas conservation activities and plans are consistent with the AER directives. In Three Creeks, along with our partner Genalta Power Inc., an expansion to existing gas conservation facilities commenced in 2014. In the Reno field, excess natural gas is conserved through the connection of our recently constructed pipelines to the TransCanada pipeline system, and work is complete to fulfill our commitment of capturing tank top vapours from all existing and future well sites in the area.

We take the concerns of residents in the Peace River region about odour seriously. In 2012, Baytex developed an odour response protocol. The protocol involves actively investigating each resident concern by physically checking our locations and reporting back to the resident with our findings.

How We Engage Stakeholders

STAKEHOLDER GROUP	HOW WE ENGAGE	WHAT WE DISCUSS	HOW WE ADDRESS CONCERNS
Aboriginal Communities	Direct engagement	Project impacts	Resource Certainty Agreements; community investments
	Project updates	Full project disclosure; individual concerns	Site visits
Communities	Community advisory panels	Environmental impacts	Reduce emissions, enhance environmental performance
	Newsletters	Project information	Adapt project plans, support infrastructure projects
	Good Neighbour toll-free line	Road use/dust; trucking safety	Increased focus on safety; follow up
	Communication network	Urgent issues	Explain oil spills, road closures, rig moves, operational successes and our actions
	Direct engagement	Support for community events; business opportunities	Community investments; direct employment and contracting
Contractors and Suppliers	Safety meetings	Workplace safety	Third-party verification
	Contract management	Costs and reliability	Contractor performance reviews; competitive bidding process
Employees	Town halls	Company strategy/updates	Employee presentations/emails breaking down the message
	Learning and development	Growth opportunities	Training, mentorship, education assistance
	Community involvement	Volunteer opportunities, donation requests	Employee-based Donations Committee; ask employees to donate money or time
	Internal newsletter	Company and business unit activities	Provide up to date information
Government	Input through industry associations	Regulations and fiscal regime	Meet regulatory standards
	Project details and updates	Project schedules, taxes and infrastructure, environmental impacts	Contribute to local projects; use best in class technology and practices
Industry Peers	Industry associations	Regulatory challenges; industry best practices	Fund industry research
	Area operators' groups	Project impacts; industry best practices	Make operational improvements
Media	Interviews	Stakeholder concerns; company activity	Follow up with information requests
	Press releases; reports	Corporate development plans and updates	Provide up to date information
Non-Governmental Organizations (NGOs)	Direct engagement	Area improvements	Operational upgrades, technology spend in the area
	Reports and newsletters	Corporate development plans; water/road use updates	Consultation on new agreements/ environmental stewardship update
Shareholders	Quarterly conference calls	Operational and financial results	Conservative management approach
	Annual General Meeting; marketing roadshows	Governance; our business strategies and objectives	Corporate strategy implementation

Baytex engages with several First Nations and Métis communities throughout our Western Canadian operations. We have established relationships that have been fostered through formal and informal agreements. These agreements define expectations and commitments of all the parties, including consultation obligations, and the provision of employment and business opportunities.

Community Relations

We believe that strong community relationships based on trust and personal integrity are key components of our success. Baytex strives to develop and maintain long-term relationships with the communities in which we operate. We are committed to conducting our business in a way that contributes to prosperous communities and a healthy environment, now and in the future.

Baytex interacts directly with community residents and landowners, and also with regional and municipal governments. For example, in Northern Sunrise County, Baytex collaborated with the County Council and three other oil producers active in the area to develop and fund an alternative industrial transportation corridor, Township Road 840. The costs were paid roughly one-third by the County and two-thirds by industry. A collaborative approach to this development was essential for developing a safe year-round corridor that has the support of all invested stakeholders.

We also participate in multi-stakeholder “synergy” groups in many of our Alberta operations. Synergy groups are formed locally and engage communities in an ongoing and meaningful way regarding resource development decisions that directly affect them. Participants often include landowners, residents, regulators, non-profit organizations, and municipal and industry representatives. The groups focus on working together to resolve issues, lessen impacts and encourage the use of HSE best practices.

Community Investment

We contribute to sustainable development in the communities in which we operate by providing financial and human resources to support community-based initiatives. We view community investment and donations as multi-year and strategic for our operations.

Our community charitable giving program is focused on three pillars: healthcare, community living, and education and training. To support this program we established an employee-based Donations Committee in 2014 to evaluate and provide recommendations on an ongoing basis regarding which charitable causes Baytex should support.

GOOD NEIGHBOUR PROGRAM

In 2014, Baytex launched the Good Neighbour Program, which is a code of conduct that Baytex employees and contractors follow to ensure ongoing positive relations. As a prime objective, the Good Neighbour Program strives to provide social and economic benefits to the community while mitigating operating impacts.

Baytex seeks to promote five Good Neighbour values that are at the core of corporate responsibility: safety and integrity; community responsiveness; community investment; environmental stewardship; and economic contribution.

To support the program with stakeholder insights, we established a Good Neighbour Advisory Board in the Peace River region, comprising seven independent members from the region's communities. The Board met three times in 2014. Baytex and the Board have developed a report card to gauge Baytex's performance against the five values. To read this report, please visit our [website](#).

Also, a well-publicized toll-free community line is available 24 hours a day for stakeholders to voice their concerns. We target to respond to calls within two business days.

We immediately disclose reportable incidents (e.g., spills, accidents, upset conditions) to the public through our Good Neighbour distribution network.

In addition to our corporate investments, we provide our field superintendents with a budget to invest in key activities within the communities where they work.

In 2013-2014, Baytex supported a number of organizations, including:

- » Baytex Energy Centre - we continue our five-year sponsorship of this local arena in Peace River, Alberta. The multi-purpose arena provides a space for local sports teams to play, for cultural activities, and for the community to unite. This program, which started in 2012, is our single largest community investment.
- » Inside Education – This charitable organization provides programs to help Canadian students and teachers understand science, technology, natural resources and the environment. Our support has enabled students to attend youth education summits and events.
- » Dare to Care – This anti-bullying organization involves students, teachers and parents through forums, education, facilitation and events. In 2014, Baytex

assisted Dare to Care in creating the world's longest lemonade stand.

- » Nampa and District Historical Society – Baytex provided funding and expertise to help create a comprehensive permanent oil and gas exhibit for the local museum.
- » Education Foundation of Harris County – Our Houston, Texas office supported this foundation, which works to advance public education through teacher training, and urban planning and robotics competitions.
- » Donnelly Recreational Society – Baytex supported tree planting at Park Regalo in the village of Donnelly, Alberta.

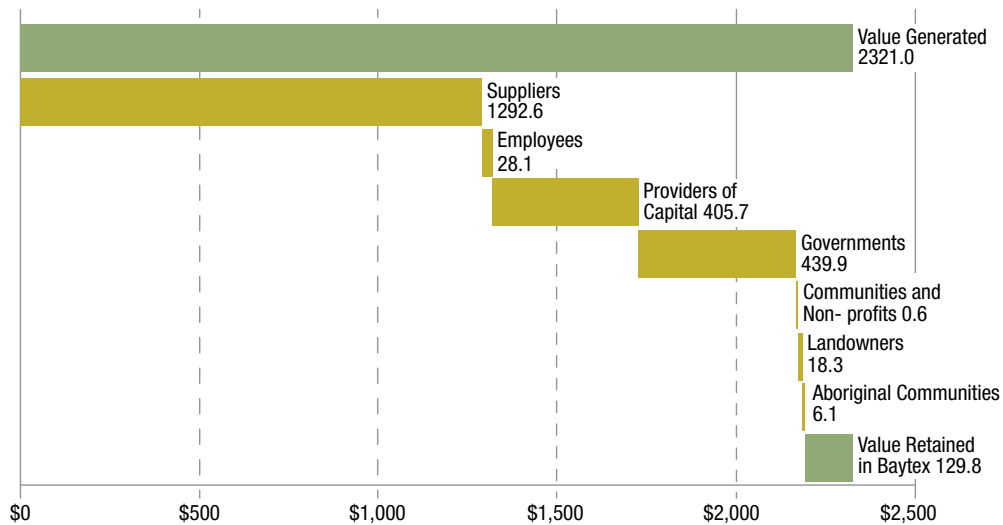
- » Falher & Area Beautification & Leisure Activities Society – Baytex supported the renovation of the Honey Capital Playground Park in the Town of Falher, Alberta.

To learn more about our community investment program, please visit our [website](#).

Economic Impact

Baytex plays an integral role in providing energy to society. Beyond the products we produce, we contribute to economic vitality in society by creating jobs, purchasing goods and services, generating royalties, and making tax and lease payments. The chart below shows how our operations economically benefit numerous stakeholders.

2014 ECONOMIC VALUE GENERATED AND DISTRIBUTED (\$ MILLION)



See the Performance Summary on [page 27](#) for further details on which economic indicators are represented in each of the bars above.

Looking Forward

- » Release a report card on our Good Neighbour activities and performance
- » Investigate improved systems for tracking purchases from Aboriginal suppliers and for stakeholder engagement
- » Learn about leading community relations practices from our joint venture partner in Houston, Texas



Performance Summary

Baytex is committed to measuring and reporting our sustainability performance in a transparent manner.

Transparency holds us accountable to our stakeholders, and drives our behaviour. We see this report as a management tool to identify areas where we can make further investments of resources to improve our performance.

Performance Summary

Indicator	Units	2010	2011	2012	2013	2014
Environment¹						
Greenhouse Gas Emissions						
Direct	tonnes CO ₂ e	425,663	435,604	818,875	1,020,570	1,284,090
Indirect	tonnes CO ₂ e	179,080	235,626	60,221	48,286	45,746
Total	tonnes CO ₂ e	604,743	671,230	879,096	1,068,855	1,329,836
Intensity	total tonnes CO ₂ e/m ³	0.21	0.21	0.28	0.32	0.29
Other Air Emissions						
SO ₂	tonnes	331	220	303	221	28
NOx	tonnes	2,834	6,618	6,242	4,599	5,265
Water						
Withdrawals	thousand m ³	744	663	793	781	867
Intensity	barrel of water per boe	0.26	0.21	0.25	0.24	0.19
Reclamation						
Wells Undergoing Active Reclamation	#	204	143	218	240	306
Reclamation Certificates/Releases Received	#	1	22	20	24	32
Spills						
Reportable	#	22	28	46	51	48
Volume	m ³	707	667	415	549	606
Employees						
Employees	#	204	214	231	281	294
Full Time	#	-	-	-	264	278
Part Time	#	-	-	-	17	16
Voluntary Turnover Rate - Field	%	5.1	7.3	6.5	3.8	3.0
Voluntary Turnover Rate - Office	%	6.1	8.3	1.5	5.5	7.4
Women in Workforce	%	45	44	42	41	40
Spending on Training	\$/employee	-	-	-	652	778

Indicator	Units	2010	2011	2012	2013	2014
Safety						
Recordable Injury Rate - Employees	Cases/200,000 hours worked	0.59	0.53	0.24	1.71	0.00
Recordable Injury Rate - Contractors	Cases/200,000 hours worked	1.11	0.85	0.93	2.14	1.29
Lost-time Injury Rate - Employees	Cases/200,000 hours worked	–	–	–	1.71	0.00
Lost-time Injury Rate - Contractors	Cases/200,000 hours worked	–	–	–	0.54	1.23
Fatalities – Employees and Contractors	#	0	1	0	0	0
Society²						
Economic Value Generated ³	\$ million	931.0	1,168.4	1,442.4	1,339.5	2,321.0
Economic Value Distributed to:⁴						
Suppliers	\$ million	474.5	720.9	893.8	969.9	1,292.6
Employees (Wages and Benefits)	\$ million	21.9	20.1	22.9	22.5	28.1
Providers of Capital	\$ million	217.1	239.0	257.0	280.9	405.7
Governments (Taxes and Royalties)						
Domestic Governments	\$ million	172.6	208.4	182.7	186.0	361.3
Foreign Governments	\$ million	2.1	4.7	17.6	5.3	78.5
Landowners	\$ million	20.9	21.2	19.1	18.7	18.3
Communities & Non-Profits (Charitable Contributions)	\$ million	0.1	0.2	0.2	0.5	0.6
Aboriginal Communities (Purchases and Royalties)	\$ million	3.4	4.4	4.6	13.9	6.1
Value Retained in Baytex ⁵	\$ million	18.4	-50.4	44.5	-158.1	129.8
Purchases from Local Suppliers ⁶	\$ million	108.4	168.4	210.4	251.5	231.1
Purchases from Aboriginal Suppliers ⁷	\$ million	1.7	2.8	2.6	9.2	2.4

Notes:

1. We include data for joint ventures for which Baytex holds the operating permit, or is identified as the operating entity in the contract, regardless of financial ownership. The majority of the assets of Aurora Oil & Gas Limited, which we acquired in June 2014, are operated by Marathon Oil EF LLC, a wholly-owned subsidiary of Marathon Oil Corporation, pursuant to the terms of industry-standard joint-operating agreements. Consequently, Baytex does not report environmental data for these assets. The treatment of joint ventures may be addressed differently in Baytex's 2014 Annual Report with respect to financial performance.
2. Corporate acquisitions and funds raised or borrowed to finance corporate acquisitions have been excluded. Figures in our 2012 Corporate Responsibility Report for Economic Value Generated, Economic Value Distributed to Suppliers and Landowners, and Value Retained in Baytex are restated to reflect revised indicator definitions.
3. Includes revenues from petroleum and natural gas sales, realized gain/losses from derivatives or foreign exchange and net proceeds from divestitures.
4. Certain numbers previously reported have been reclassified to conform to the current presentation.
5. Value retained is simply value generated minus value distributed. This is not a financial reporting indicator and should not be confused with retained earnings.
6. Businesses located in and around the areas where we operate.
7. Businesses owned at least 50 percent by First Nations, Inuit, Métis or by a band.

GRI Content Index

We used the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines to help determine report content. The report contains Standard Disclosures from the Guidelines but has not fulfilled all the requirements to be 'in accordance'. For more information on the GRI, please visit www.globalreporting.org.

GRI INDICATORS		Page
G4-1	CEO statement	4
Organizational Profile		
G4-3	Company name	2
G4-4	Primary brands, products and services	2
G4-5	Location of headquarters	2
G4-6	Countries where company operates	2
G4-7	Nature of ownership and legal form	2
G4-9	Scale of the company: number of employees, number of operations, revenues	3
G4-10	Employee numbers breakdown (full and part time, by gender, by region)	26
G4-13	Significant changes during reporting period	3
G4-15	Externally developed economic, environmental and social principles or other initiatives endorsed by Baytex	Inside Back Cover
Identified Material Aspects and Boundaries		
G4-17	List all entities included in financial statements and whether they are included	6
G4-18	Describe process for defining report content and boundaries	6-7
G4-19	List all aspects deemed material	7
G4-20	For each material aspect, describe the boundary (specific to the aspect)	7
G4-21	For each material aspect, describe if the boundary falls outside the organization and how	7
G4-22	Explanation of information restatements	27
Stakeholder Engagement		
G4-24	List of stakeholders groups engaged	22
G4-26	Approaches to stakeholder engagement	22
G4-27	Key topics raised through stakeholder engagement and response	22
Report Profile		
G4-28	Reporting period	6
G4-29	Date of most recent previous report	6
G4-31	Contact point for questions	Back Cover
G4-32	In accordance option and list of GRI indicators addressed	6, 28
G4-33	Policy and current practice on external assurance of report and whether the Board is involved in seeking assurance	6
Governance and Ethics		
G4-34	Governance structure, including committees of the Board	9
G4-39	Independence of the Chair of the Board	9
G4-45	Role of the Board in managing sustainability impacts, risks and opportunities	9
G4-49	Process to communicate critical concerns to the Board	9
G4-56	Describe values, standards and code of conduct	10
G4-58	Mechanism for reporting concerns about unethical or unlawful behaviour	10
Economic		
EC1	Direct economic value generated and distributed	24, 27
EC2	Financial implications of climate change	12
EC9	Spending on local suppliers	27

Environment		
EN8	Total water withdrawal by source	14, 26
EN15	Direct GHG emissions (Scope 1)	12, 26
EN16	Energy indirect GHG emissions (Scope 2)	12, 26
EN18	GHG emissions intensity	12, 26
EN19	GHG emissions reductions achieved	13
EN21	NOx, SOx, and other significant air emissions	13
EN22	Total water discharge by destination	26
EN24	Total number and volume of significant spills	15, 26
EN29	Fines and non-monetary sanctions for non-compliance with environmental laws and regulations	10
Social		
LA1	Total and rate of new employee hires and turnover by age, gender and region	18, 26
LA6	Injury rates, lost day rates, and fatalities	17, 27

Non-GAAP Financial Measures

Funds from operations is not a measurement based on Generally Accepted Accounting Principles (“GAAP”) in Canada, but is a financial term commonly used in the oil and gas industry. Funds from operations represents cash generated from operating activities adjusted for financing costs, changes in non-cash operating working capital and other operating items. Baytex’s determination of funds from operations may not be comparable with the calculation of similar measures for other entities. Baytex considers funds from operations a key measure of performance as it demonstrates its ability to generate the cash flow necessary to fund future dividends to shareholders and capital investments. The most directly comparable measures calculated in accordance with GAAP are cash flow from operating activities and net income.

Advisory Regarding Oil and Gas Information

When converting volumes of natural gas to oil equivalent amounts, Baytex has adopted a conversion factor of six million cubic feet of natural gas being equivalent to one barrel of oil, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Oil equivalent amounts may be misleading, particularly if used in isolation.

Advisory Regarding Forward-Looking Statements

In the interest of providing information regarding Baytex, including management’s assessment of Baytex’s future plans and operations, certain statements in this document are “forward-looking statements” or “forward-looking information” within the meaning of applicable Canadian and United States securities legislation (collectively, “forward-looking statements”). In some cases, forward-looking statements can be identified by terminology such as “anticipate”, “believe”, “continue”, “estimate”, “expect”, “forecast”, “may”, “might”, “objective”, “ongoing”, “potential”, “project”, “plan”, “seek”, “should”, “target”, “will” or similar expressions and includes suggestions of future outcomes. Specifically, this document contains forward-looking statements relating to: our business strategies, plans and objectives; the make-up of our production; our plan to reinstate the dividend on our common shares when commodity prices recover; our reserves, average production rates and cost to find, develop and acquire reserves; the completion and expected performance of the second phase of the Peace River Power Centre; plans, targets and goals in respect of emissions,

emissions intensity, water use, spills, site reclamation, the health and safety of our employees and contractors and the attraction and the retention of our employees; community and stakeholder engagement and investment; and aboriginal and native American relations and procurement practices. Readers are cautioned not to place undue reliance on forward-looking statements as our actual results may differ materially from those expressed or implied.

Developing forward-looking statements involves reliance on a number of assumptions and consideration of certain risks and uncertainties, some of which are specific to Baytex and others that apply to the industry generally. The assumptions on which the forward-looking statements are based and the risk factors and uncertainties that could cause our actual results to differ materially are discussed under “Forward-Looking Statements” in the Management’s Discussion and Analysis contained in our most recent Interim Report and for a full discussion of our material risk factors, see “Risk Factors” in our Annual Information Form or Annual Report on Form 40-F for our most recently completed financial year, both are available at www.baytexenergy.com. Readers should also refer to the risk factors described in other documents we file from time to time with securities regulatory authorities, which are available at www.sedar.com, www.sec.gov and www.baytexenergy.com.

The forward-looking statements contained in this document speak only as of the date of this document and are expressly qualified by this cautionary statement. There is no representation by Baytex that actual results achieved during the forecast period will be the same in whole or in part as those forecast and Baytex does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities law.

Baytex participates in the following initiatives:



Baytex participates in the Canadian Association of Petroleum Producers' Responsible Canadian Energy program. This program sets consistent safety and environmental standards throughout the Canadian oil and gas industry.



Baytex responds to the Carbon Disclosure Project survey on greenhouse gas emissions and related programs. The CDP requests standardized climate change information from companies around the world through an annual questionnaire sent on behalf of more than 700 institutional investors with \$87 trillion in assets under management.

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