



TCFD REPORT

2021

TCFD: CLIMATE-RELATED FINANCIAL DISCLOSURES

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TCFD: Climate-related Financial Disclosures

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TCFD: CLIMATE-RELATED FINANCIAL DISCLOSURES

We believe that investors, insurers, and banks can make better decisions on the basis of improved climate-related disclosures. We are therefore expanding on our previous disclosures with this report, to further align with the Task Force on Climate-related Financial Disclosures (TCFD).



We respond annually to the CDP (formerly 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 680 institutional investors with \$130 trillion in assets under management. You can access our disclosure [here](#).



ABOUT BAYTEX

Baytex Energy Corp. (“Baytex”) is a North American-focused energy company based in Calgary, Alberta, with assets located in Canada and the United States. The Canadian operated segment includes light oil assets in the Viking and Duvernay, heavy oil assets in Peace River and Lloydminster as well as conventional oil and natural gas assets across Western Canada. The U.S. segment includes non-operated Eagle Ford assets in eastern Texas. Baytex’s common shares trade on the Toronto Stock Exchange under the symbol BTE.

This document is one part of our suite of corporate disclosures, which includes:

- » ESG Report (annual)
- » CDP questionnaire
- » Annual Report and Financial Statements
- » Management’s Discussion and Analysis
- » Annual Information Form
- » Information Circular
- » Extractive Sector Transparency Measures Act (ESTMA) Report



ADVANCING CLIMATE-RELATED DISCLOSURES

Baytex has been reporting climate-related information since 2018, when the Task Force on Climate-related Financial Disclosures (TCFD) first published its reporting framework. **For the last five years, we have been taking a pragmatic and phased approach to identifying and managing climate-related risks.** In 2022, securities regulators in Canada and the U.S. published draft rules based in part on the TCFD framework. We continue to improve our TCFD climate disclosures to keep ahead of mandatory requirements and provide meaningful disclosure to our stakeholders.

ADVANCING CLIMATE DISCLOSURE AND EMISSIONS REDUCTION



2012-2016

- » Produced biannual sustainability reports
- » Disclosed our GHG emissions and GHG intensity, benchmarked against CAPP members
- » Described our GHG reduction activities

CARBON DISCLOSURE PROJECT (CDP)

In 2012, we submitted our first response to the Carbon Disclosure Project.

2018

SET OUR FIRST GHG TARGET

*“Reduce our corporate GHG emission by **30%** from 2018 to 2021”*

TCFD

We started reporting our governance for climate-related risks and describing our regulatory risk.

CDP

We improved our score on the CDP questionnaire.

2020

RELEASED A NEW, MORE AMBITIOUS GHG TARGET

*“Reduce our corporate GHG emission by **65%** from 2018 to 2025”*

TCFD

Included in our ESG Report a TCFD section covering the four pillars:

- » governance
- » risk management
- » strategy
- » metrics and targets

CDP

We continued our annual disclosure in the CDP.

2021

CONTINUED WORKING TOWARDS OUR TARGET

We achieved a 52% reduction in GHG intensity from 2018 to 2021.

TCFD

- » Conducted enterprise risk assessment with a focus on climate risks
- » Evaluated the qualitative impact of transition-related risks and associated timeframes
- » Conducted qualitative transition scenario analysis using the IEA's Net Zero by 2050 and Announced Pledges scenarios
- » Conducted sensitivity analysis under various carbon prices and methane regulations
- » Completed third-party reasonable assurance of our 2021 emissions

LOOKING FORWARD

- » Annually update enterprise risks
- » Quantify the impact of climate risks
- » Advance scenario analysis
- » Continue investing and working towards our GHG target

I. GOVERNANCE OF CLIMATE-RELATED ISSUES

BOARD'S OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

Our Board of Directors has four committees:

- » the Audit Committee
- » the Human Resources and Compensation Committee
- » the Nominating and Governance Committee
- » the Reserves and Sustainability Committee

The Reserves Committee changed its name and mandate in 2019 to ensure sustainability-related matters had formal oversight at the Board level. The Reserves and Sustainability Committee has the highest level of oversight for sustainability-related matters, including health, safety, environment, and climate. Its responsibilities include sustainability strategy, benchmarking, setting performance targets, and reviewing progress and achievement against those targets. Specifically, in relation to climate change and the reduction of our company's GHG emissions, the committee provides oversight of targets and objectives, reviews performance, and discusses future opportunities. This committee meets twice a year and reports to the Board after each committee meeting. The Reserves and Sustainability Committee is currently composed of three independent members of the Board, one of whom chairs the committee.

MANAGEMENT'S ROLE IN ASSESSING AND MANAGING CLIMATE-RELATED RISKS

Our executive officers (management) report to the Reserves and Sustainability Committee and the full Board on environmental and social risks and opportunities. Executives are also responsible for approving budgets for the implementation of emission reduction plans and reviewing and approving the company's disclosures of the major risks faced by Baytex, which include climate-related risks. In 2021, we appointed Chad Lundberg as Chief Operating and Sustainability Officer to lead our sustainability efforts and to reinforce Baytex's commitment to responsible energy development by integrating our sustainability priorities into our capital allocation and strategic planning processes.

Our efforts to reduce our emissions and manage climate-related risk are supported by two groups within the company, the Health, Safety, and Environment Committee and the Environmental Sustainability Team.

» **The Health, Safety, and Environment Committee** is composed of:

- » the Chief Executive Officer
- » Chief Operating and Sustainability Officer
- » Vice President, General Counsel and Corporate Secretary
- » the Operations Vice Presidents
- » the Health and Safety Manager, and
- » the Environment and Regulatory Manager.

The committee reports to the Reserves and Sustainability Committee and the Board on issues related to health, safety, and environment.

» **The Environmental Sustainability Team (EST)** is a cross-functional team of employees and managers that are responsible for reporting climate-related issues and initiatives to the Chief Operating and Sustainability Officer and Operations Vice Presidents. The EST is led by the Sustainability and Energy Transformation Manager and is responsible for monitoring, implementing, and managing systems required to support climate-related initiatives. In relation to climate change and the reduction of the company's GHG emissions, this committee is responsible for the assessment and setting of our targets and the oversight of the preparation of our public disclosures of our performance in this area. See page 13 of our [ESG Report](#) for details.

II. RISK IDENTIFICATION AND INTEGRATION

BAYTEX'S PROCESSES FOR IDENTIFYING, ASSESSING, AND MANAGING CLIMATE-RELATED RISKS

We evaluate a variety of risks to our organization, including climate and transition-related risks. Risks that could have a material future adverse effect on the value and amount of our reserves and on the operations, financial condition, and future sustainability of the business are considered substantive by the company. Our approach to risk management includes:

RISK IDENTIFICATION AND ASSESSMENT

For many years, Baytex has had quarterly and annual long-range planning reviews and reporting processes in place to ensure risks, including environmental and social ones, were appropriately identified and managed. To enhance our processes, in 2021 we engaged a third-party consultant to assist us with an additional enterprise risk identification and assessment exercise.

The enterprise risk identification process included:

- » Interviews with risk owners across the company, including two Board members;
- » Identification of a complete list of enterprise risks that could impact Baytex from achieving its strategic objectives, including climate-related physical and transition risks;
- » The assessment of each risk based on expected impact and likelihood of occurrence;
- » Identification and alignment of top risks; and
- » Assignment of the top risks to key executives as risk owners, who then identified key risk indicators that will be monitored.

After this comprehensive assessment, our risk update process includes:

- » **Quarterly:** We plan to update the Audit Committee on the status of the top risks identified and any significant developments related to the other risks.
- » **Annually:** We plan to review all risks with the Board at our annual strategy meeting to ensure alignment between our corporate strategy and risk assessment.

In addition to the enterprise risk assessment process, when climate-related risks directly impact a business unit, a specific risk assessment and mitigation planning process is undertaken. For example, emerging GHG emission regulations and changes to existing regulations are assessed by the Environmental Sustainability Team to understand the current and future impacts on the business. Findings and recommendations are communicated to the executive management team and, where significant, to the Reserves and Sustainability Committee.

RISK INTEGRATION INTO FINANCIAL PLANNING PROCESSES

Once climate-related risks have been identified, we incorporate them into the following aspects of our business:

Operating Costs:

We conduct financial analysis on the potential increase to operating costs in jurisdictions with carbon pricing schemes, including factors such as regulatory compliance costs, compliance program fees, and the operations and maintenance of GHG mitigation infrastructure.

GHG Mitigation Budget:

To continue reducing our GHG emissions, we have a dedicated GHG mitigation budget embedded within our capital budgeting process for exploration and development expenditures. In 2022, we allocated \$10 million to GHG reduction efforts. Individual projects are ranked and evaluated on a dollar per tonne annual mitigation metric. A variety of trial projects are included in this budget to pilot future mitigation program applications.

Capital Expenditures and Capital Allocation:

We factor opportunities to reduce energy consumption, reduce emissions, and ensure regulatory compliance into our capital budget. We also evaluate the economics of gas conservation and GHG mitigation projects, consider the costs and benefits of such initiatives, and track project costs and subsequent performance. The availability of government grants to lower the capital expenditures of emission reductions or new energy projects is also a consideration.

Acquisitions and Divestments:

When Baytex evaluates acquiring or divesting of assets, we consider the emissions intensity of the assets, methane regulatory compliance in future years, and a transaction's potential impact on our corporate emissions profile. Our management team also considers the potential financial impacts that acquired properties may have in terms of future emissions intensity reduction initiatives and regulatory compliance costs.

Revenues:

A long-term supply or demand disruption could have a meaningful positive or negative impact on our sales revenues.

Compensation:

ESG matters form part of our annual budget and performance objectives, which are monitored and reported on regularly. For many years, we have included safety and spill metrics as part of our scorecard. Since 2020, our GHG emissions intensity target has been part of our short-term incentive plan scorecard. The short-term incentive plan scorecard is assessed annually and impacts annual compensation for our executive team and all employees.



III. STRATEGY

RESILIENCE OF BAYTEX'S STRATEGY, TAKING INTO CONSIDERATION DIFFERENT CLIMATE-RELATED SCENARIOS, INCLUDING A 2°C OR LOWER SCENARIO

SCENARIO ANALYSIS

Qualitative scenario analysis for this report involved five senior leaders, including three executive officers, who participated in several facilitated climate change scenario analysis workshops over the course of three months. To allow for comparability with other companies and alignment with the TCFD recommendations, we used two transition-risk scenarios developed by the International Energy Agency (IEA):

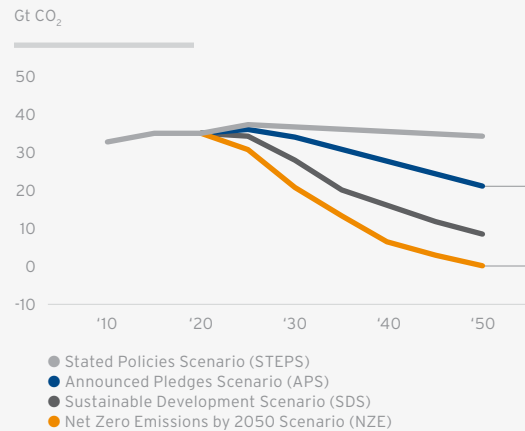
- » the Announced Pledges Scenario (APS); and
- » the Net Zero Emissions by 2050 scenario (NZE).

An overview of the qualitative scenario analysis was reviewed with management.

Scenarios Overview

Scenarios were used to discuss our resiliency and further integrate climate related risks and opportunities into our decision-making. However, it is important to note that scenarios are hypothetical constructs that use assumptions and estimates to highlight central elements of a possible future, and are not a forecast, prediction, or sensitivity analysis. In the figure to the right, we outline some of the key assumptions contained in the IEA scenarios we analyzed.

CO₂ from the Energy and Industrial Processes, WEO Scenarios Compared to IPCC Scenarios with Temperature Rise of 1.5-1.6°C in 2100



ANNOUNCED PLEDGES SCENARIO (APS)

Key assumptions

- » Results in warming of approximately 2.1°C in 2100.
- » Global oil demand is **96.1 million barrels per day (mbd) in 2030** and **76.7 mbd in 2050**.
- » Global heavy oil land bitumen production rises from 3.3 mbd in 2020 to 3.8 mbd in 2030, before falling to 2.3 mbd in 2050.
- » The WTI price of **USD \$67/barrel in 2030** and **USD \$64/barrel in 2050**.

NET ZERO EMISSIONS BY 2050 SCENARIO (NZE)

Key assumptions

- » Energy sector and consumption actions required to limit warming to 1.5°C.
- » Global oil demand falls to **72 mbd in 2030** and to **24 mbd in 2050**.
- » The WTI price is **USD \$35/barrel in 2030** and **USD \$25/barrel in 2050**.

SOURCES OF RESILIENCY TO 2030

In this discussion, resiliency refers to our ability to respond and withstand regulatory and market challenges brought on by the energy transition. Our preliminary scenario analysis indicates that we can remain competitive and resilient in an Announced Pledges Scenario (APS) in the near and medium-term. However, new technologies or business lines would be needed to remain resilient under a Net Zero by 2050 scenario. Additional insights related to our longer-term resiliency can be found on [page 11](#).

The following four characteristics contribute to the resiliency of our business in the near and medium-term, in an environment that is comparable to the APS.

1. Financial resiliency

We have a self-funded development program, which means that we can execute our drilling plans and develop our assets for the entirety of our five-year outlook, without external sources of capital.

To continue strengthening our business, in 2021, we allocated 100 per cent of our free cash flow to debt repayment, and reduced net debt¹ to \$1.3 billion as of March 31, 2022. In May 2022, we maintained 75 per cent of free cash flow² for debt repayment and began allocating 25 per cent to share buybacks. Once we achieve a net debt level of \$800 million, we plan to further increase shareholder returns. We feel this will provide us with ultimate flexibility to run our business through the commodity price cycles and generate meaningful shareholder returns.

In April 2021, we shared our five-year outlook (2021 to 2025) with investors to communicate our financial and operational resiliency. We have since rolled our plan forward, from 2022 to 2026. The oil price used for our base case planning (US\$65 WTI) aligns with oil prices in the Announced Pledges Scenario (US\$67 WTI in 2030). Using our base case, we expect to generate \$2.1 billion of cumulative free cash flow² over the next five years (see **Figure 1**) and grow production to approximately 90,000 boe per day. Without acquiring new assets, our current reserves will last until 2036.

We continue to focus on cost management and have a competitive break-even oil price (US\$45 WTI). We define break-even price as the lowest oil price at which we can generate a positive internal rate of return (IRR) considering the capital and operating costs of all of our assets. This price is much lower than the price illustrated in the Announced Pledges Scenario (**Figure 2**).

Free Cash Flow² Profile (After-tax) at \$US 65 WTI for Baytex Planning Base Case³

Cumulative Free Cash Flow (\$ Millions)

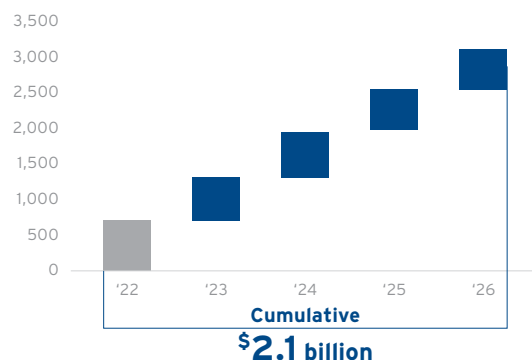


Figure 1:
Five-year free cash flow

WTI

(\$US/barrel)

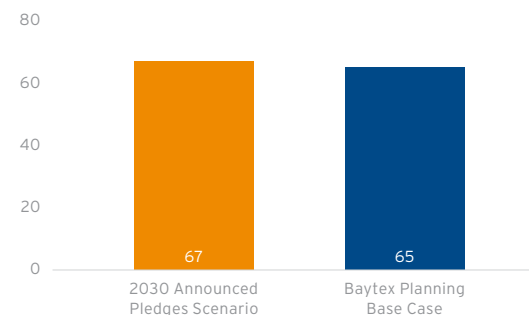


Figure 2:
Oil price in our planning base case compared to 2030 oil price in APS.

¹ Capital management measure. See "Specified Financial Measures" in the 2022 Q2 MD&A for information on this measure, which information is incorporated by reference into this document.

² Specified financial measure that is not a standardized financial measure under IFRS and may not be comparable to similar measures disclosed by other issuers. See "Specified Financial Measures" in the 2021 Annual MD&A for information on this measure, which information is incorporated by reference into this document.

³ Based on 2022 actual results and assuming US\$65 WTI for the remaining years (2023 to 2026).

2. Diversification

We are exposed to different regulations in the various jurisdictions where we operate. In 2021, 38 per cent of our production came from non-operated assets in the U.S. with no exposure to current carbon pricing or methane regulations. Our Canadian production is split between the provinces of Alberta and Saskatchewan that also have different regulations with different instruments for compliance (Figure 3).

2021 Production by Region

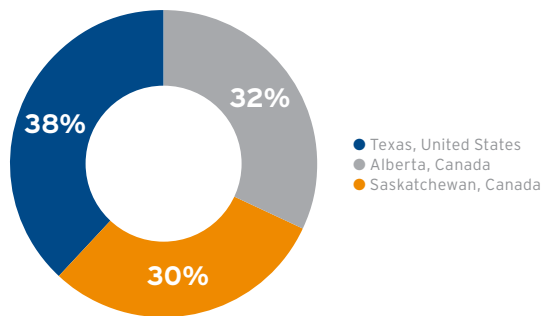


Figure 3: 2021 production by geographic area

3. Track record of implementing GHG reductions

There are administrative and reporting requirements associated with maintaining good standing in the regulations that apply to our business. We have invested in methane and GHG emission reductions across our properties to reduce this impact. Our Peace River assets are subject to some of the most stringent regulations in Canada and we consistently meet or exceed our obligations. We have applied learnings from Peace River in developing and implementing our plans for our Viking assets, showcasing our organizational adaptability and the resilience of our teams.

In 2020, we set a target to reduce our GHG intensity by 65 per cent from 2018 to 2025, which is equivalent to 39 kg of CO₂e per boe in 2025. This target will take Baytex below the global average (see Figure 4) and reduce future compliance costs.

GHG Reductions and Target

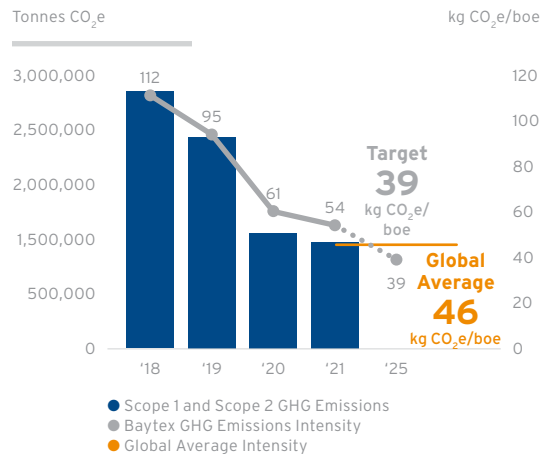


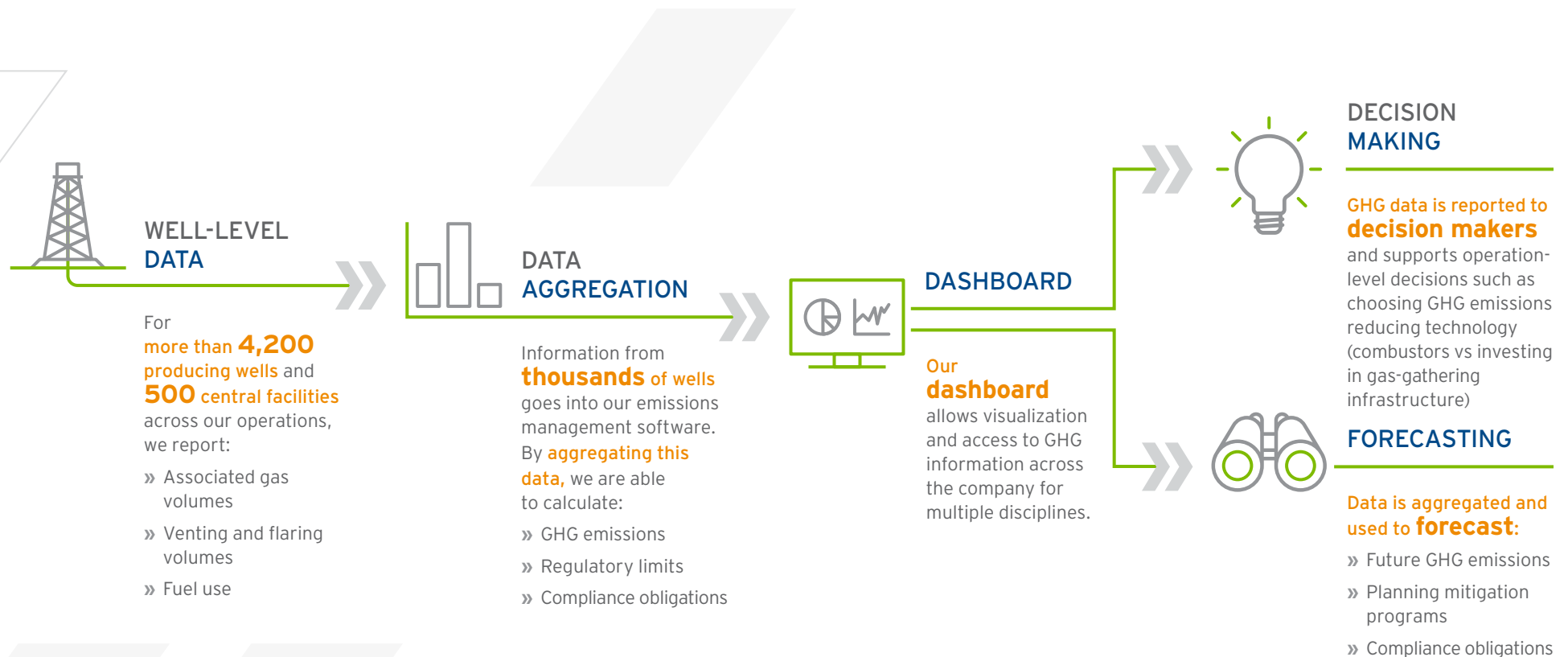
Figure 4: Reductions achieved and targeted in comparison with global average GHG intensity. Global GHG intensity average (WEO 2018)

4. Carbon decision tools

We currently have GHG emissions data and related tools to make informed and effective capital and operating cost decisions. However, we see an additional opportunity to further embed carbon into decision making processes at the operational level. See the [next page](#) for details about our current processes and tools to use GHG-related information.

ENHANCING CARBON-BASED **DECISION MAKING**

We believe that accurate measurement and a strong understanding of our GHG emissions leads to better decision making. This information enables us to remain competitive and choose the most effective way to comply with carbon regulations in the jurisdictions where we operate.



OUR LONG-TERM THINKING, BEYOND 2030

Scenario analysis is an iterative process. We expect to assess the transition-related impacts of scenarios and the resiliency of our business regularly, especially as governments announce and implement additional carbon-related policies. We have been able to operate in a lower carbon policy environment over the past few years, and have a track record of adapting to fast changing regulations during years of low oil prices. As we consider impacts beyond 2030, we believe we can apply some of our past experiences and learnings to enhance the resiliency of our business longer-term.

In a Net Zero by 2050 scenario, the IEA expects that global oil demand would need to reach 24 million barrels per day in 2050 and WTI oil prices would need to be around \$25 per barrel in 2050. Keeping in mind that this scenario is not a forecast, in order to compete in a market with such low demand and low oil prices, we would need to make significant changes to our business. Although there are no current levers that we have that would allow us to compete in this environment, activities that we could pursue in the Net Zero scenario are:

1. Optimize our business

To remain competitive, we would have to substantially lower the cost structure associated with our business or complete a portfolio shift that would give us different assets that are commercial at the stated commodity prices.

2. Further reduce our GHG intensity

We would need to reduce our GHG intensity below the current target through selective application of technology or by changing our product portfolio (e.g., focus on lower carbon oil, acquire natural gas resources or production). In order to achieve further reductions, technologies that reduce the carbon footprint of our operations, which do not currently exist, would need to be invented and commercially deployed. Additional changes could include maximizing production from low-cost and low-carbon resources or we could divest of or limit production from our higher carbon assets.

3. Refine our capital allocation and development approach

In order to balance financial resources and regulatory needs, we could change the timing of development and/or invest in gas gathering infrastructure or other emissions reduction technologies which are economically viable in an even higher carbon cost environment.

4. Explore other technologies and partnerships

To stay up to speed on regulations and new technologies, we will continue to be part of industry groups, such as the EPAC Climate and Saskatchewan Methane Emissions Management working groups. In the Net Zero by 2050 scenario, we would significantly enhance our collaboration efforts to identify shared pathways to reduce emissions and may explore joint ventures and other opportunities to diversify into lower carbon solutions such as carbon capture or hydrogen.



As we consider impacts beyond 2030, we believe we can apply some of our past experiences and learnings to **enhance the resiliency of our business longer-term.**

CLIMATE-RELATED PHYSICAL RISKS AND THEIR IMPACT

Physical risks are risks associated with the physical impacts from climate change. We evaluate their impact on our company, qualitatively or quantitatively, and where practical we implement actions to mitigate that impact.

Physical risk	Impact mechanism	Risk mitigation
<p>Acute physical (Canada)</p> <p>Severe weather events that could impact our operated properties in Western Canada include flooding, wildfires, heavy precipitation events, and extreme temperatures.</p>	<p>Decreased revenues</p> <p>Reduced production capacity can impact our sales revenues.</p> <p>Damage to assets</p> <p>In the past the company has had to temporarily shut-in production due to flooding and wildfires.</p>	<p>For our operated assets, where there could be an impact, we:</p> <ul style="list-style-type: none"> » Have systems that allow for the rapid implementation of emergency response measures. » Have contingencies to re-route production to sales via trucks and rail, if required. » Participate in wildfire control planning and emergency response exercises. » Have business interruption insurance for key infrastructure and property insurance coverage on larger facilities. <p>For our non-operated assets:</p> <ul style="list-style-type: none"> » The Eagle Ford asset is managed by a reputable operator with emergency response measures in place. We maintain a strong working relationship with the operator of the asset. » We carry general liability insurance to cover our working interest share.
<p>Acute physical (U.S.)</p> <p>Tropical cyclones can impact production and refining capacity in various offshore producing regions (e.g., U.S. Gulf Coast). This could directly impact our non-operated properties near San Antonio, Texas, in the Eagle Ford Basin.</p>	<p>Decreased revenues</p> <p>Negative impact on commodity prices can result from supply and/or demand disruptions. Longer-term supply or demand disruption could have a meaningful impact on the company's revenues.</p>	
<p>Chronic physical</p> <p>Precipitation events and temperature extremes (atypically hot and/or cold events).</p>	<p>No material impact</p> <p>We do not anticipate that moderate changes to temperature or precipitation would result in a material impact to our assets or operations.</p>	
<p>Water scarcity</p> <p>To develop some of our resources using hydraulic fracturing, SAGD or waterflooding, we need to have access to sufficient volumes of water, or other liquids.</p>	<p>Decreased revenues</p> <p>Limited access to water may reduce the amount of oil and natural gas that we are able to produce and therefore can decrease our revenues.</p>	

CLIMATE-RELATED TRANSITION RISKS AND THEIR IMPACT, AS IDENTIFIED OVER THE SHORT, MEDIUM, AND LONG-TERM.


Transition-related risks are regulatory, market, technological and reputational risks arising from the energy transition. The table below outlines our current understanding of the most important transition-related risks that can impact Baytex.



Some of these risks are considered enterprise risks (identified in our Enterprise Risk assessment) and as such are disclosed and described in our *2021 Annual Information Form (AIF)*.







Estimated impact

We use the symbols:

 to mean **low**
  to mean **medium**
  to mean **high**

As we have not yet completed an impact quantification analysis, the arrows indicate *relative* impact. For example  means lower relative to other risks.

Transition-related risks	Impact mechanism	Estimated impact	Timeframe	Risk mitigation
<p>MARKET</p> <p>Lower oil prices</p> <p>Some scenarios suggest that we will have an accelerated decline in oil prices, which will be sustained during the energy transition.</p>	<p>Decreased revenues</p> <p>This presents a risk if we reach prices lower than our break-even price, or if they stay low for a longer period of time.</p>	<p></p> <p><i>Page 33 of our 2021 AIF</i></p>	<p>1-3 years / 3-10 years / 10-30 years</p>	<ul style="list-style-type: none"> » We use a hedging program to mitigate the volatility that can occur through low commodity price periods. » Discipline and flexibility are key features of our capital program that allows us to adapt to longer-term commodity price changes. » In the future, we can focus on low-cost assets (including carbon costs) and may divest some higher cost assets.
<p>REGULATORY</p> <p>GHG regulation for large emitters</p> <p>Canadian provincial and federal regulations on carbon impact our operating cost and business plans. Regulations for large emitters (TIER, OPBS) might become more stringent to align with Canada's commitment to net-zero by 2050 and potentially include the implementation of a cap on emissions from oil and gas production.</p> <p><i>Read more details in this report.</i></p>	<p>Increased cost</p> <p>There are direct costs as well as inflationary influences on the costs of services and products as the cost of carbon increases.</p>	<p></p> <p><i>Pages 47-49 of our 2021 AIF</i></p>	<p>1-3 years / 3-10 years / 10-30 years</p>	<ul style="list-style-type: none"> » Our risk assessments consider the current and proposed legislative methane and emission requirements. » We are registered in performance standards in Alberta and Saskatchewan that significantly lower our direct costs and financial exposure to carbon pricing in our operations. » Emissions reduction initiatives are focused on maintaining compliance in a tightening regulatory environment and reducing our financial exposure to carbon pricing in the future.

Transition-related risks	Impact mechanism	Estimated impact	Timeframe	Risk mitigation
<p>REGULATORY</p> <p>Methane regulation</p> <p>Tightening methane regulations in future years may require additional equipment, equipment upgrades, GHG reduction project planning, air monitoring, and additional reporting requirements.</p> <p><i>Read more details in this report.</i></p>	<p>Increased cost</p> <p>Additional future costs will be associated with equipment, projects, monitoring, and reporting.</p>	 <p><i>Page 49 of our 2021 AIF</i></p>	 <p>1-3 years / 3-10 years / 10-30 years</p>	<ul style="list-style-type: none"> » We set emissions reduction targets to ensure our continued compliance with methane regulations and to lower our financial exposure to carbon pricing. » We maintain an emissions database which is used for regulatory filings. It is also used for internal reporting and analysis of GHG emissions.
<p>MARKET</p> <p>Carbon competitiveness</p> <p>Regulatory or market changes that consider upstream and downstream GHG emission intensity that may result in preferential access (or premium pricing) for lower carbon intensity oil.</p>	<p>Increased costs</p> <p>The cost to further reduce the carbon intensity to competitive levels might not be economic in a lower price environment.</p>		 <p>1-3 years / 3-10 years / 10-30 years</p>	<ul style="list-style-type: none"> » We regularly review emerging GHG regulations and participate in government/industry working groups to (1) provide input into the regulations as they are being developed and (2) better understand the future impact the regulations will have on the company. » We use internal staff where possible to undertake planning, evaluation, operations, and reporting activities. This includes the Environmental Sustainability Team, facilities engineering, operations, and sustainability reporting. » We engage specialized third parties when needed in areas of environmental engineering, verification, measurement, and grant writing.
<p>MARKET</p> <p>Reduced demand for oil in North America</p> <p>Accelerated adoption of electric vehicles in advanced economies and increased use of biofuels, may lead to faster declines in oil demand in North America.</p>	<p>Decreased revenues</p> <p>In a lower demand environment, preference might be given to lower cost and lower carbon oil.</p>	 <p><i>Page 35 of our 2021 AIF</i></p>	 <p>1-3 years / 3-10 years / 10-30 years</p>	<ul style="list-style-type: none"> » Capital discipline and flexibility in our capital program allows us to adapt to reductions in demand. » In the future, market and product diversification can help us withstand a market contraction.

Transition-related risks	Impact mechanism	Estimated impact	Timeframe	Risk mitigation
<p>TECHNOLOGY</p> <p>Technology risks</p> <p>Technology risks include the risk of not utilizing appropriate technology to mitigate emissions or the risk of not having appropriate emissions technology available (i.e., still in the development stage and not ready for deployment).</p>	<p>Increased cost</p> <p>The cost to choose and invest in the right mitigation technology</p>	<p>▲</p>	<p>1-3 years / 3-10 years / 10-30 years</p>	<ul style="list-style-type: none"> » We invest in various technologies aimed at reducing our GHG emission intensity. These technologies are trialed in smaller pilot projects before being deployed on a large scale. » To remain current on technology and innovation we are exploring membership in some industry groups and have an internal technology working group. Employees collaborate on technological developments, including emissions reduction opportunities. Staying current and encouraging collaboration within the company and with peers reduces our technology related risks.
<p>REPUTATIONAL</p> <p>Perceived inaction</p> <p>Baytex could be perceived as not taking meaningful action to reduce its GHG emissions or address climate change.</p>	<p>Reduced access to talent</p> <p>Reduced access to capital</p>	<p>▲</p>	<p>1-3 years / 3-10 years / 10-30 years</p>	<ul style="list-style-type: none"> » Continue to invest in GHG emission reduction technology. » Work towards our GHG intensity target. » Disclose our emissions performance and reduction efforts. We report emissions to the CDP, the National Pollutant Release Inventory (NPRI), and the EPA using the Electronic Greenhouse Gas Reporting Tool (e-GGRT).
<p>REPUTATIONAL</p> <p>Perceptions around fossil fuels</p> <p>Social perceptions of our industry could impact our social license to operate or ability to access financing.</p>	<p>Reduced access to talent</p> <p>Reduced access to capital</p>	<p>▲</p> <p><i>Page 38 of our 2021 AIF</i></p>	<p>1-3 years / 3-10 years / 10-30 years</p>	<ul style="list-style-type: none"> » Participate in industry groups, such as the EPAC Methane and Saskatchewan Methane Emissions Management working groups. » Continue looking for opportunities to collaborate with others in our industry.

CURRENT GHG REGULATIONS

The GHG-limiting regulations most relevant to our company are:

Carbon Pricing Systems

Carbon pricing in Canada increased from \$40 per tonne of CO₂e (tCO₂e) in 2021 to \$50 per tCO₂e in 2022, and will continue to increase \$15 per tCO₂e annually to \$170 per tCO₂e in 2030. There are direct costs of compliance fees in performance standards, as well as inflationary influences on the cost of services and products as carbon pricing increases. Registering our facilities in provincial performance standards limits the financial exposure of compliance fees.

In the Province of Saskatchewan, the Output-Based Performance Standard regulation applies to facilities emitting more than 25,000 tCO₂e. We elected to register our Kerrobert SAGD facility, even though it is under this threshold. For the remainder of our operated facilities in Saskatchewan, we have opted into this provincial regulation by aggregating them. As a result our operated facilities are not directly subject to the federal carbon pollution pricing system. This provincial program requires

an annual 1.25 per cent reduction in stationary combustion emissions escalating to a total 15 per cent reduction by 2030 when compared to a 2019 baseline. To the extent a company does not meet the required reduction, annual compliance fees apply to the excess regulated emissions. At a minimum, the province matches the federal carbon pricing schedule and applies this price to the excess emissions.

In the Province of Alberta, the Technology Innovation and Emission Reduction regulation applies to facilities that emit more than 100,000 tCO₂e. None of our facilities meet these criteria; however, we chose to opt into this provincial regulation by aggregating our operated facilities. By opting in we fall under the provincial regulations, and are not subject to the federal carbon pricing system. The Alberta regulation requires an immediate 10 per cent reduction from a 2020 benchmark. To the extent a company does not meet the required reduction (which can be met through abatement, offsets or payment into a compliance fund), annual compliance fees apply to the excess regulated emissions. At a minimum, the province matches the federal carbon pricing schedule and applies this price to the excess emissions.



SENSITIVITY ANALYSIS

As part of the scenario analysis we conducted in 2022, we tested the impact of different carbon prices. We included prices announced by the Canadian Federal government (\$170 in 2030) and different taxable rates. As the details of implementation of the *Canadian 2030 Emissions Reduction Plan* become clearer, **we will share more of our analysis with our investors.**

Methane Regulations

In 2018, Environment and Climate Change Canada set in place federal regulations for methane emissions from the oil and gas sector which came into force January 1, 2020. These regulations are set to achieve a methane reduction from upstream oil and gas facilities of 40-45 per cent below 2012 levels by 2025. In October 2021, the government of Canada committed to expanding its oil and gas methane emissions reduction target to at least a 75 per cent reduction below 2012 levels by 2030.

The Provinces take responsibility for energy and natural resources within their boundaries and have bodies to govern these activities. The Provinces of Alberta and Saskatchewan have developed GHG emissions reduction programs of their own that have achieved equivalency under the federal methane regulations. These programs have increasing regulatory stringency in subsequent years and, if specified climate-related outcomes are not met, additional regulations could come into force.

Tightening methane regulations in future years may require retrofitting existing sites, equipment upgrades, GHG reduction project planning, capital investment, air

monitoring, and other reporting requirements. Additional future costs will be associated with equipment, projects, monitoring, and reporting.

The Saskatchewan methane regulations are performance-based and require a 40 per cent reduction in methane emissions between 2020 and 2025. Unlike other regulations, like the carbon pricing systems, there is no payment option to allow for not meeting reduction targets. Companies must achieve annual emissions intensity targets or face regulatory penalties. We have reduced our venting volumes significantly and exceeded the regulatory required reduction for 2021.

Methane has been the focus of our GHG emissions reduction efforts for the last four years and we have achieved an impressive 80 per cent reduction of our methane emissions during that time period (**Figure 5**). Although most federal and provincial commitments are stated from a 2012 baseline, the baseline year for the regulation is still not finalized. We continue to monitor ongoing developments and proposed regulations to ensure regulatory compliance can be achieved.

Emissions from Methane

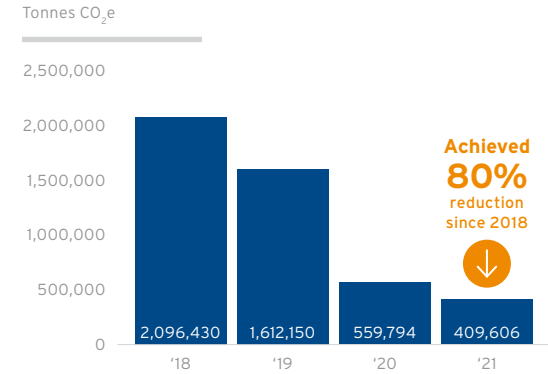


Figure 5:
Baytex's reduction in methane emissions

IV. METRICS AND TARGETS

METRICS USED TO ASSESS CLIMATE-RELATED RISKS AND OPPORTUNITIES IN LINE WITH STRATEGY AND RISK MANAGEMENT PROCESS

We have measured and reported our controlled GHG emissions (scope 1 and scope 2) since 2012. Read more about how we manage our GHG emissions on pages 11-13 of our [ESG Report](#).

GHG emissions	Unit	2018	2019	2020	2021
Scope 1 GHG emissions	tonnes CO ₂ e	2,739,887	2,230,163	1,188,227	1,078,283
Scope 2 GHG emissions	tonnes CO ₂ e	102,703	112,475	89,642	95,395
Scope 1 and Scope 2 GHG emissions	tonnes CO ₂ e	2,842,590	2,342,638	1,277,869	1,173,678
Baytex GHG emissions intensity	tonnes CO ₂ e/boe	0.112	0.095	0.061	0.054



We have reduced more than **1.7 million tonnes** of CO₂e annually compared to our 2018 GHG emissions levels, which is equivalent to taking approximately **520,000 cars¹** off the road.

Our current climate-related target is to reduce our emissions intensity by 65 per cent from our 2018 baseline. To date, we have reduced our emissions intensity by 52 per cent from our 2018 baseline, and are progressing towards our target.

GHG Emissions Assurance

We engaged an independent third-party, GHD Limited, to verify our 2021 reported GHG emissions data. The assurance engagement was conducted in accordance with the ISO Standard ISO 14064-3:2006 and The GHG Protocol Corporate Accounting and Reporting Standard. A reasonable assurance opinion was provided on our 2021 Scope 1 and Scope 2 emissions. The assurance letter can be found on pages 21-23 of the [this report](#).

¹ <https://oee.nrcan.gc.ca/corporate/statistics/neud/dpa/calculator/ghg-calculator.cfm>

FORWARD LOOKING STATEMENT

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; our target to reduce our GHG emissions intensity by 65 per cent by 2025 from our 2018 baseline; our intended enterprise risk identification process; the expected impact of the announced pledge scenario and the net zero emissions by 2050 scenario on our business and the steps we would expect to take in such scenarios; our free cash flow profile at \$65 WTI; and that we will undertake risk mitigation with respect to physical and transition risks associated with the impacts of climate change. Readers are cautioned not to place undue reliance on forward-looking statements as our actual results may differ materially from those expressed or implied.

Forward-looking statements are based on Baytex's current expectations, estimates, projections and assumptions that were made by the company in light of information available at the time the statement was made and consider Baytex's experience and its perception of historical trends, including expectations and assumptions concerning: petroleum and natural gas prices and differentials between light, medium and heavy oil prices; well production rates and reserve volumes; our ability to add production and reserves through our exploration and development activities; capital expenditure levels; our ability to borrow under our credit agreements; the receipt, in a timely manner, of regulatory and other required approvals for our operating activities; the availability and cost of labour and other industry services; interest and foreign exchange rates; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; our ability to develop our crude oil and natural gas properties in the manner currently contemplated; and current industry conditions, laws and regulations continuing in effect (or, where changes are proposed, such changes being

adopted as anticipated). Baytex believes the expectations and assumptions reflected in the forward-looking information are reasonable but no assurance can be given that these factors, expectations, and assumptions will prove to be correct.

The forward-looking statements included in this report are not a guarantee of future performance and should not be unduly relied upon. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements, these are described under "Forward-Looking Statements" in the Management's Discussion and Analysis contained in our most Interim Report and for a full discussion of our material risk factors, see "Risk Factors" in our Annual Information Form or Form 40-F for our most recently completed financial year, and such risk factors are incorporated herein by reference. 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 disclaims 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 laws.

SPECIFIED FINANCIAL MEASURES

This report includes references to certain financial measures which do not have standardized meanings prescribed by IFRS. These financial measures are considered non-standardized measures and therefore are unlikely to be comparable with similar measures presented by other issuers.

NON-GAAP FINANCIAL MEASURES

Free cash flow

We use free cash flow to evaluate our financial performance and to assess the cash available for debt repayment, common share repurchases, dividends and acquisition opportunities. Free cash flow is comprised of cash flows from operating activities adjusted for changes in non-cash working capital, additions to exploration and evaluation assets, additions to oil and gas properties and payments on lease obligations. For additional information and quantitative reconciliations related to this specified financial measure, which has been incorporated by reference into this document, please see the Management's Discussion and Analysis, dated February 24, 2022 and July 27, 2022, of Baytex's operating and financial results as at year ended December 31, 2021 and three and six months ended June 30, 2022 respectively. Copies are available on SEDAR at www.sedar.com, on the EDGAR section of the SEC's website at www.sec.gov and our website at www.baytexenergy.com.

CAPITAL MANAGEMENT MEASURES

Net debt

We use net debt to monitor our current financial position and to evaluate existing sources of liquidity. We also use net debt projections to estimate future liquidity and whether additional sources of capital are required to fund ongoing operations. Net debt is comprised our credit facilities and long-term notes outstanding adjusted for unamortized debt issuance costs, trade and other payables, cash, and trade and other receivables. For additional information and quantitative reconciliations related to this specified financial measure, which has been incorporated by reference into this document, please see the Management's Discussion and Analysis, dated February 24, 2022 and July 27, 2022, of Baytex's operating and financial results as at year ended December 31, 2021 and three and six months ended June 30, 2022 respectively. Copies are available on SEDAR at www.sedar.com, on the EDGAR section of the SEC's website at www.sec.gov and our website at www.baytexenergy.com.



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July 25, 2022

RE: Baytex Energy Ltd – Assurance Opinion for 2021 Greenhouse Gas Inventory

Introduction

Baytex Energy Ltd (Baytex) retained GHD Limited (GHD) to complete an independent verification of its greenhouse gas (GHG) inventory report (GHG Inventory) for the period of January 1 to December 31, 2021. The purpose of verification was to have an independent third-party assess Baytex's 2021 GHG inventory and to provide Baytex with an assurance opinion as to whether there are any material misstatements in the 2021 GHG Inventory. GHD understands that Baytex intends to use the GHG inventory to support its submission to the CDP (formerly Carbon Disclosure Project).

GHD is accredited by the ANSI National Accreditation Board (ANAB) under ISO 14065 as a Greenhouse Gas Validation and Verification Body. GHD completed the verification in accordance with ISO 14064-3^[1].

Scope

The verification included all Baytex corporate operations, which are located in Alberta and Saskatchewan, Canada. Baytex's GHG Inventory includes emissions and production from 2,164 facilities. The reporting period verified was January 1 to December 31, 2021. The verification was conducted to a reasonable level of assurance. Materiality for the verification was ± 5 percent of the total reported GHG emissions, and ± 5 percent of the total reported production. The GHG emission sources and production types included within the scope of the verification were as follows:

- Scope 1 – Direct Emissions Sources:
 - Stationary combustion
 - Flaring
 - Venting
 - Fugitive emissions
- Scope 2 – Indirect Emissions Sources:
 - Imported Electricity
- Production
 - Throughput (BOE^[2])

¹ ISO 14064 Greenhouse gases - Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions, ISO, March 2006.

² BOE - Barrel of Oil Equivalent.

Methodology

The purpose of GHD's verification procedures was to assess the following critical items:

1. Accuracy and completeness of annual GHG emissions
2. Uncertainty of external data sources used
3. Emission assumptions
4. Accuracy of emission calculations
5. Potential magnitude of errors and omissions

The GHD verification team identified and determined risks related to emissions during both the desktop reviews and the follow-up interviews. The components of the document review and follow-up interviews were:

- Document Review:
 - Review of data and information to confirm the reasonableness of presented information via comparison to previous years and industry averages
 - Cross-checks between information provided in the GHG Report and information from independent background investigations
- Follow-up Interviews:
 - Via telephone
 - Voice over Internet Protocol (VoIP) using Microsoft Teams (or similar programs)
 - Via email

The GHD verification team's document review during the verification process comprised of, but was not limited to, an evaluation of the following:

- Documentation is complete and comprehensive and follows the structure and criteria given in ISO 14064-3
- Monitoring methodologies are justified and appropriate
- Activity data are of an appropriate type
- Emission factors used are current and correct
- Calculation of the inventory is appropriate and uses conservative assumptions

The GHD verification team interviewed Baytex staff in order to:

- Cross-check information provided
- Review data management and recording procedures
- Test the correctness of critical formulae and calculations

The review of the data management system ensured the following:

- Access to the data is protected from tampering or alteration
- The equipment associated with the monitoring and measurement of GHG data is adequately calibrated and maintained
- Methods prevent breaches of information security

Summary of Assertions

GHD verified the following emissions and production assertions from Baytex's GHG Inventory:

Total Entity-Wide Emissions Verified:	1,173,678 tonnes CO ₂ e ^[3]
Total Scope 1 Emissions:	1,078,283 tonnes CO ₂ e
Total Scope 2 Emissions:	95,395 tonnes CO ₂ e
Production (Throughput):	21,554,219.00 BOE
Emissions Intensity:	0.054 tonnes CO ₂ e/BOE

Conclusions

Based on the verification conducted by GHD per the methods above, the assertions in Baytex's GHG Inventory were determined to be free of material misstatements, fairly presented, and substantiated by sufficient and appropriate evidence.

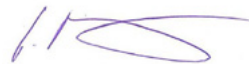
Please note, this letter is a summary of GHD's verification. Detailed findings are provided in GHD's verification report dated July 22, 2022.

Regards,



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³ CO₂e - carbon dioxide equivalent



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