



A Culture of Commitment

2018

Sustainability Report

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To Our Stakeholders



Edward D. LaFehr

President and Chief Executive Officer

I am proud to share Baytex's fourth biennial corporate sustainability report. This report demonstrates our commitment to transparency and accountability, and our progress in managing the environmental and social impacts of our business.

2018 was marked by our strategic combination with Raging River. The merger has allowed us to deliver on our commitment to shareholders to decrease debt leverage, and reposition our portfolio for the future. Through the combination, we increased our production, light oil exposure and operational control of our properties. The new, stronger Baytex has a talented team with a depth of quality drilling inventory that will allow us to better adapt to changing market conditions.

At Baytex, everything we do starts with safety. We have robust safety systems and a strong safety culture. In the last five years, we have decreased our contractor lost-time injury rates by 89%, and our corporate spill volumes by 76%. In 2018, we moved more than 100,000 trucking loads of oil and water, with less than 12 barrels spilled. These results have galvanized our resolve to focus on excellence in all areas of our operations.

In July 2018, despite our strong commitment and safety achievements, one of our trucking contractors lost his life in a single-vehicle rollover. We are deeply saddened by this loss and want to ensure it never happens again. Following the incident, our senior management held safety stand-down meetings, which were attended by our office employees, field staff and contractors. We also reviewed our policies and procedures and continue to encourage safe behaviours that prevent driving accidents.

I am especially proud of the ingenuity and resourcefulness that our Peace River team has demonstrated in exceeding strict emission regulations. In the last five years, we have invested over \$100 million on vapour recovery and gas conservation activities in this region, which virtually eliminated methane emissions in our Peace River operations. In 2018, we also commissioned a gas processing plant that, on an annual basis, processes enough natural gas to heat 20,000 homes.

We believe our safety and environmental leadership will serve us well in addressing the new technical and environmental challenges we face in our new areas of operations. As a result of the merger, our baseline for water use and GHG emissions shifted significantly. While fracking gives us access to resources that were previously uneconomical, it requires large volumes of water. And while our new properties increased our production volumes,

“ Operating responsibly is how we earn the trust of investors, governments, partners and communities. ”



“ We are driven to safely and responsibly develop energy resources. We commit to evolve and strive for even better outcomes with the continued support of our shareholders, stakeholders and employees. ”

they also significantly increased the quantity of vented gas. In the next few years, we will focus on finding cost-effective ways to reduce venting in these properties. To that end, we have set a target to reduce our corporate emission intensity by 30% by 2021. I am confident we can draw on our experience and expertise from Peace River to reduce our footprint and emissions across our operations.

Operating responsibly is how we earn the trust of investors, governments, partners and communities. I want to share with you two examples. First, after years of working alongside the Woodland Cree First Nation, I am pleased to report that we signed an agreement for in-reserve development and in 2019 we drilled our first test well inside their Reserve boundary. Our hope is that this mutually beneficial relationship continues to prosper over many years. Another example of our commitment to building trust is listening to our shareholders. We have reduced the size and cost of our Board and executive management and we have recruited a second female Director which has allowed us to exceed our 20% diversity target one year early. We also completed a formal outreach to our major shareholders during the summer of 2019. Stay tuned for further enhancements as we progress our vision for the new Baytex.

Finally, we recognize that energy plays an important role in raising the standard of living for people around the world. At Baytex, as part of our core values, we are driven to safely and responsibly develop energy resources. We commit to evolve and strive for even better outcomes with the continued support of our shareholders, stakeholders and employees.

Edward D. LaFehr

President and Chief Executive Officer

September 25, 2019

Meeting Our Past Commitments

We align our actions with our values, and follow through on our commitments. The following table summarizes our progress over 2017-18.

2016 Commitments	2017-2018 Accomplishments	Status	Read More
OUR PEOPLE			
Completing actions as identified within the action plan resulting from the 2015 audit of our safety management system (COR audit)	We completed all of the actions including the following: we began tracking leading indicators, and 64 of our supervisors attended the Supervisor Responsibility training.	●	Page 13-14
Targeting to audit 10% of our transportation contractors	A transportation "Audit of Regulatory Compliance" was completed on 10% of our trucking contractors.	●	Page 16
Conducting hazard operability studies on our new facility designs	Since 2016, we have completed eight detailed hazard operability studies in Alberta and Saskatchewan. These studies ensure that technically complex projects are completed in a safe and compliant manner, and operated safely and reliably.	●	
ENVIRONMENT			
Responding to stricter regulations on methane emissions and venting	In the Peace River region, we invested \$34.6 million in a gas processing plant (completed in 2018) and associated infrastructure and achieved a 99.1% routine gas conservation in the area. Across the company, we continue working to reduce venting and emissions.	●	Page 28-29
Complement safety management system audits with environmental audits of our operations	We conducted environmental audits on 7 sites, covering all areas of our operations.	●	
COMMUNITIES & STAKEHOLDERS			
Extending our funding agreement for the Baytex Energy Centre in Peace River for the next 10 years	We signed a 10-year agreement to support the construction of this recreation centre, scheduled to open in the summer of 2019.	●	Page 39
Working with stakeholders throughout our operating areas	We have a dedicated team to proactively engage with communities and stakeholders.	●	Page 37
ETHICS & INTEGRITY			
Developing a management succession plan	We completed succession plans for all senior officer positions, which were reviewed by our Board and CEO. The succession plans include assessments of each individual's strengths and development requirements, readiness timeframe and plans for career development.	●	
Understanding compliance status of recently acquired assets and identifying any gaps	We achieved our corporate target for regulatory compliance in the Seal assets acquired in 2016. We are currently working on the assets acquired through the combination with Raging River.	●	Page 46

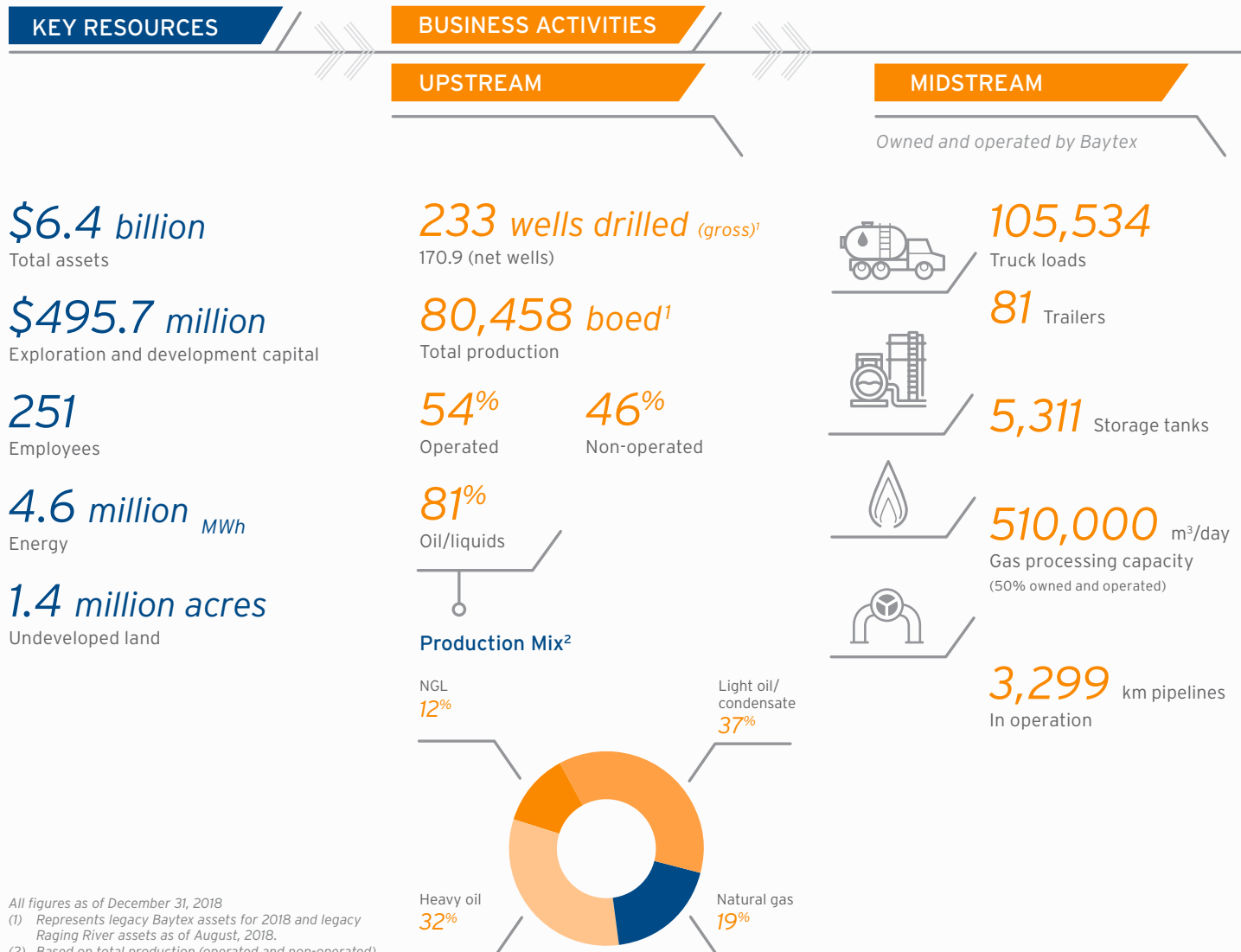
● Achieved ● In progress ● No progress during the reporting period

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 and the New York Stock Exchange under the symbol BTE.

Our Business

Our transformational strategic combination with Raging River in 2018 allowed us to recalibrate our portfolio, increasing our light oil exposure and operational control of our properties as well as significantly increasing our production and revenue. The diagram below describes our new stronger company.



All figures as of December 31, 2018
 (1) Represents legacy Baytex assets for 2018 and legacy Raging River assets as of August, 2018.
 (2) Based on total production (operated and non-operated)

Significant Operational Changes

- On August 22, 2018, Baytex and Raging River Exploration Inc. (Raging River) completed a strategic combination of the two companies. The strategic combination increased our light oil exposure and operational control of our properties while improving our leverage ratios. Production from the Raging River properties consists of approximately 90% high netback light oil from the Viking and Duvernay. The addition of these primarily operated assets to our portfolio increased our inventory of drilling prospects and diversified our product offering across the light-heavy oil spectrum.
- At the time of the strategic combination, we appointed Neil J. Roszell as the new Chairman of the Board.
- To streamline our Board, we proposed fewer Directors for re-election at our 2019 Annual General Meeting, and reduced the number of Directors from eleven to eight.

IMPACTS



1.3 million tonnes CO₂
GHG Emissions (scope 1 + scope 2)



623 thousand m³
Water withdrawal



145 m³
Spill volume



76%
Reduction in 5 years



129 wells
Undergoing reclamation

110 wells
Abandoned



0.14
Lost time injury rate (combined)



55%
Reduction in 5 years

VALUE CREATED

\$1,360 million Sales³

\$813.5 million // Suppliers

Procuring goods and services from local and global companies, potentially supporting the indirect employment of up to 3,000 people⁴

\$248 million // Landowners

Paying freehold royalties and lease costs to landowners

\$109 million // Governments

Paying taxes that help fund infrastructure, education and health care. Paying royalties to access resources on Crown land.

\$102 million // Providers of capital

Paying financing costs to lenders

\$47 million // Employees

Creating 251 direct jobs

\$2.2 million // Indigenous

Procurement from Indigenous business and royalties to First Nations and Metis communities

\$100 thousand // Communities and non-profit

Giving back to communities

(3) Total sales net of blending expenses

(4) Source: <https://www.capp.ca/publications-and-statistics/publications/234735>

Our Approach to Sustainability



HEALTH, SAFETY AND ENVIRONMENT POLICY

We demonstrate our commitment through:

Communication

We openly communicate with our employees, contractors, vendors, shareholders and government about our environmental and social plans and impacts. We report our progress to our stakeholders.

Action

We go beyond plans and policies and act on our commitments. Our initiatives aim to positively impact our performance, and we strive for continual improvement.

Responsibility

We aim to prevent activities or conditions that pose a threat to human health, safety or the environment. We integrate health, safety and environmental considerations into our economic decision making. We prevent and prepare for emergencies.

Excellence

We follow or exceed industry best practices in our approach to environmental and social impacts. We recognize our achievements and reward excellence in our employees.

At Baytex, we have a culture of commitment.

We recognize that individual decisions and actions determine our collective culture and, ultimately, the success of our company. In all areas of our business, we foster a culture of shared accountability in which employees are working towards common goals and take ownership of our collective results.

Our culture of commitment starts with safety. Our objective is simple: no one gets hurt today. A culture of commitment also means that we responsibly develop our assets and that we take into account the interests of all our stakeholders: shareholders, employees, contractors, communities and landowners.

We strive for excellence in our management of the environmental, social and governance (ESG) impacts of our business, which are outlined below.

A Culture of Commitment to:



OUR PEOPLE

- Employee Safety
- Contractor Safety
- Trucking Safety
- Employee Engagement
- Diversity and Respectful Workplace



ENVIRONMENT

- Spills
- GHG Emissions
- Air Quality
- Water
- Abandonment and Reclamation



COMMUNITIES & STAKEHOLDERS

- Community Engagement
- Indigenous Communities
- Economic Impact
- Community Investment






RESPONSIBLE BUSINESS PRACTICES

- Governance
- Executive Compensation
- Ethics
- Management of Corporate Responsibility
- Regulatory Compliance

How do sustainability and ESG Activities contribute to Value Creation?

Guided by our vision to be a **top tier North American oil producer** focused on per share value creation, we incorporate environmental, social and governance factors into our business. In doing so, we create value for our company and our shareholders. Some examples:

	Objective	What we've done	Result	How it contributes to value creation
 ENVIRONMENT	Responsibly develop our assets	Ensure our employees and contractors uphold our procedures for spill prevention, response and cleanup	76% reduction in corporate spill volumes, over 5 years	Reduces costs and maintains social license
	Exceed regulatory obligations	Invested more than \$100 million in gas conservation activities in Peace River in the last 5 years	99.1% routine gas conservation in Peace River	Helps to build trust with regulators and stakeholders
 SOCIAL	Create a culture of safety	Tie safety targets to annual performance incentive program	55% reduction in employee + contractor LTIF in 5 years	Supports the consistent and safe execution of our business plan
	Be a good neighbour	Build mutually beneficial relationships based on trust	\$32 million awarded in contracts to Indigenous contractors/companies in 2017-2018	Maintain social license and enables growth in our operations by reducing non-technical project delays
 GOVERNANCE	Ensure effective Board leadership	Ensure our Board is comprised of dedicated Directors who are invested in our success	100% Board meeting attendance and 25% women Board members, as of Sept. 2019	Sets strategic direction and improves decision making
	Be transparent and accountable	Communicate our ESG impacts by publishing biennial sustainability reports since 2012	Recognized by Corporate Knights as Future 40 Responsible Corporate Leaders in 2018	Enables shareholders and stakeholders to make informed decisions

Future Commitments

Our drive for continual improvement is an important element of our culture of commitment. Although we pursue excellence in all areas of our business, we selected the three targets below to narrow our focus and guide allocation of resources. These targets align with our most material environmental, social and governance topics, and focus on key areas of improvement.

GHG EMISSIONS



Objective

Reduce our corporate GHG emission intensity (tonnes of CO₂ per boe) by 30% by 2021. This equates to approximately a 10% year-over-year reduction. The baseline year will be 2018, incorporating full year emissions for both companies.

Target Date

2021

Read More

Page 31

WATER USE



Objective

Establish a water use baseline and evaluate new ways to reduce fresh water intensity.

Target Date

2020

Read More

Page 32

BOARD DIVERSITY



Objective

Ensure over 20% of our Board members are women.

Target Date

Ongoing

Read More

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DEFINING REPORT CONTENT

In March 2018, we held a workshop with our senior management to review the relevance of different environmental, social and governance topics and to shape the content of this report.

Material topics include environmental, social and governance topics that have an impact on our business and are of interest to our stakeholders. Our material topics, reflected on the diagram on page 8, remain mostly unchanged since 2016, with the addition of executive compensation, employee engagement and diversity.



SUSTAINABILITY/ESG REPORTING STANDARDS

To improve comparability, we cross-reference our disclosures to the following recognized standards:

GRI (GRI Reporting Standards)	page 53
SASB (Sustainability Accounting Standards Board)	page 55
TCFD (Task Force on Climate-related Financial Disclosures)	page 47

We also follow the principles outlined in the GRI Standards to determine report quality and content, including materiality.

About this report

This is Baytex's fourth biennial sustainability report. Through this report, we communicate our environmental, social and governance metrics, achievements and challenges, and key initiatives in corporate responsibility.

- Unless otherwise noted, this report covers quantitative performance for the five years ended December 31, 2018 and qualitative information for the 2017 and 2018 calendar years.
- We report environmental data on the basis of operational control, which means we include data for joint ventures in which Baytex holds the operating permit or is identified as the operating entity in the contract, regardless of financial ownership. All of our Eagle Ford assets (located in Texas) are operated by Marathon Oil EF LLC, a wholly owned subsidiary of Marathon Oil Corporation. Consequently, Baytex does not report environmental data for these assets. As a result, the production data for intensity calculations referenced in this report is different from the production data presented in our Annual Report, MD&A and Financial Statements.
- We include financial, safety, human resources and environmental data for the assets acquired through Baytex's Strategic Combination with Raging River, starting from the date of acquisition (i.e., since August 22, 2018, or prorated for the last 4 months of the year).
- Unless noted, data does not cover third-party service providers or temporary employees.
- If not industry standard, techniques for data measurements and calculations are stated with the data.
- Financial data is in Canadian dollars, environmental data is in metric units, and production data is in barrels of oil equivalent (boe). Natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (boe) by using the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 barrel).
- 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 for this report included financial and HSE performance audits. Third-party assurance of this report was not conducted.
- The terms Baytex, our, we, the company, and the corporation, refer to Baytex Energy Corp. and its subsidiaries.

People



Our commitment to our people is to provide a safe and respectful work environment that supports collaborative work towards our corporate goals. We focus on building a strong safety culture among our employees and contractors, preparing for emergencies, engaging our employees, and providing a respectful and inclusive work environment.

Highlights

Reduced our lost-time injury rate by 55% in the last five years

Consolidated our safety culture after the combination with Raging River

Challenges

Dealing with challenging economic conditions that resulted in staff reductions in 2017 and 2018

Balancing preventive maintenance needs with budget constraints, without sacrificing the safety of our assets or personnel

Looking Forward

Incorporate positive safety observations into our hazard observation system

Understand and track potential severity of events

Continue to install equipment that prevents incidents during trucking

Employee Safety

To set a strong foundation for safety behaviours, we develop robust safety systems and procedures, and strive to eliminate or mitigate hazards in our workplace and facilities. We also undergo regular external reviews of our systems. In 2018, we renewed our Certificate of Recognition (COR) following an independent third-party audit of our safety management system. Our safety initiatives for 2018 focused on: promoting safety leadership, documenting our personnel's competency development, tracking leading indicators, and increasing safety awareness among employees.

Promoting Safety Leadership

In 2018, 64 supervisors attended a 2-day Supervisor Leadership training session held at various locations (Calgary, Peace River, Lloydminster, Leduc and Kindersley). The training reinforced the key role that supervisors play in implementing our safety programs. Through facilitated activities, supervisors examined how their leadership style impacts worker safety, reviewed applicable safety legislation, and discussed strengths and weaknesses in our safety processes.

Developing Competencies

Since 2015, Baytex has used a Competency Management Development System (CMDS) to formally assess whether workers have the right skills for their positions. Currently, 270 employees are actively validating competencies through the system, and 19,391¹ competency validations have been completed to date.

Focusing on Leading Indicators

In 2018, we began tracking leading safety indicators to help us measure our safety performance in a more holistic way. We previously tracked lagging indicators only, which focus on measuring outcomes. Leading indicators help us measure inputs and proactive efforts to make our operations safer. Some of our leading indicators include:

Safety inspections: To proactively prevent injuries and incidents, our staff conducted 4,547 critical safety examinations of the workplace in 2018.

Hazard identification: In 2018, our employees and contractors corrected 1,641 hazards throughout our operations, helping prevent potential incidents.

Senior management site visits: To demonstrate their engagement and safety leadership, our senior management team conducted 127 site visits in 2018.

Increasing Safety Awareness

We believe that safety is a mindset, and we encourage safety awareness at all times, not just while at work. In 2017 and 2018, some of our activities included:

- In June 2017, we ran an awareness campaign to encourage employees to observe hazards outside the work environment and at home. Topics included carbon monoxide and radon awareness, as well as fire safety.
- In October 2018, 90% of our office employees attended a Health, Safety and Environment breakfast to increase awareness about protective equipment and first aid requirements. As a result of this event, several employees signed up to be fire wardens or attend first aid courses.
- With recent changes to Canadian legislation surrounding marijuana/cannabis use, we updated our internal policy to indicate that the use of these substances is not acceptable for staff whose positions are considered safety-sensitive.

⁽¹⁾ An individual employee might require knowledge of 200-300 competencies, which encompass key learnings and tasks that each employee must be able to properly execute. Some critical competencies must also be retested every year.

2018 LEADING METRICS



127

site visits by senior management

4,547

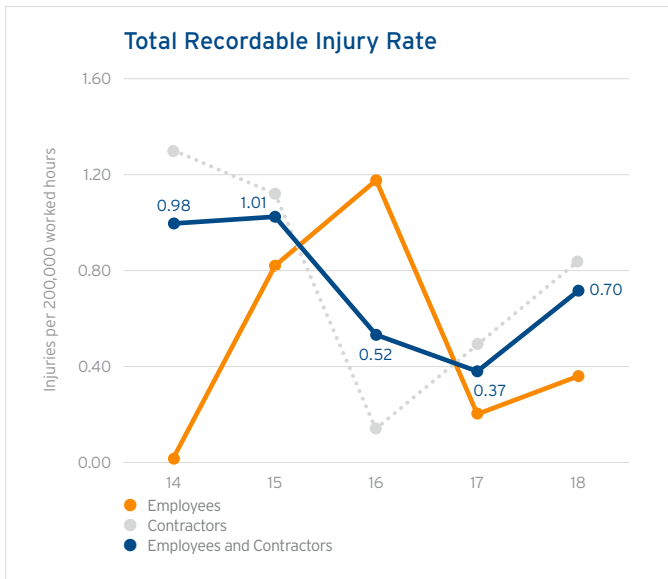
critical safety inspections

1,641

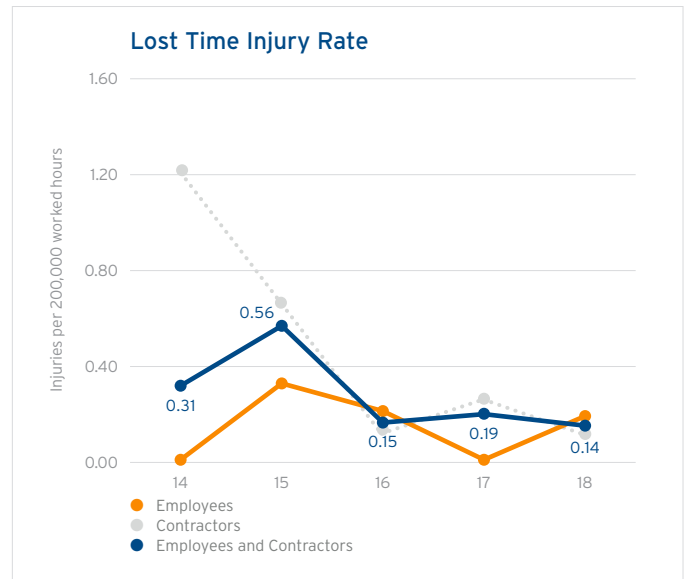
hazards identified and corrected throughout our operations

Combination with Raging River - Working Together Safely

To successfully and safely integrate our two corporate cultures, we undertook a strategic review of Raging River's operations. We found that both companies had well-established processes in place, including standard operating procedures, hazard identification and orientation/training. Raging River's safety culture also included strong frontline engagement as well as procedures and practices developed with operator input. We are currently incorporating and combining best practices from both companies into the safety culture of Baytex. By using a practical and hands-on approach, we are furthering field level buy-in.



We have *reduced our combined total recordable injury rate by 29%* in the last five years.



Over the last five years, we have *reduced our combined lost-time injury rate by 55%* and our contractor lost-time rate by *89%*.



INSPIRING EACH OTHER TO MAKE BETTER DECISIONS

At a 2018 townhall in Kindersley, Saskatchewan, the Vice President of our Viking Business Unit, Chad Lundberg, shared his perspective on how Baytex would be successful post-merger using the theme “Each Decision”. He challenged employees and contractors to stop, consider the risk and make the best choice for each decision.

To illustrate this theme, he shared a story from a rig manager in our Viking field. Every building on his rig has a green line painted down the middle. This green line is a constant visual reminder to the drilling team that “they can choose which side of the line they want to be on. They can be a team player or be in it for themselves. They can take a shortcut or do the task properly.” The manager wanted to inspire others to live a “never quit mentality” when it comes to safety and caring about your colleagues in the field. We like to share this story not only because it has been an inspiring message for our operators and other Baytex employees, but because it is a great example of how we can learn from each other.

Contractor Safety

We work with approximately 1,500 contractors, including individual operators and supervisors, as well as third-party companies. Contractors are an essential part of our operations, and conduct approximately 65% of our work (based on hours worked³ in 2018). We work to ensure our contractors understand and comply with our safety standards in the following ways:

Contractor Registry: We require all contractors to register with a third-party safety data management firm (ComplyWorks). ComplyWorks consolidates safety information on all of our contractors, including their safety programs, safety performance, Workers' Compensation Board experience ratings, insurance and other relevant information. ComplyWorks also verifies contractor compliance and certifications.

Contractor Pre-Qualification: We require all contractors to have a Certificate of Recognition (COR), which demonstrates that their safety management system has been audited by a third party. Since we implemented this requirement in 2016, we have seen an improvement in our contractors' quality of work, and increased awareness of safety responsibilities at our sites.

Contractor Orientation: All of our contractors receive in-person or online safety orientation sessions. We also hold on-site, pre-job meetings that address the specific safety requirements of each site.

(2) Employee work hours include all permanent employees and contracted individual operators. Contractor work hours are estimated using factors suggested by the Canadian Associations of Petroleum Producers (CAPP (source)).

Trucking Safety



Our wholly-owned transportation subsidiary, AIM Transport (AIM), operates in Alberta and Saskatchewan. Every day, AIM transports approximately 50,000 barrels of oil and produced water from our operations. AIM owns 81 trailers and has hauling agreements with 40 independent contractors (with a total of 53 trucks) that haul fluids for our company.

By operating our own trucking division, we are able to transport oil in a more cost-efficient manner, have flexibility in our transportation choices, and more quickly respond to the changing market demands of rail, pipeline and other third-party sales points.

In spite of significant improvements in our safety performance over the last five years, one of our contractors tragically lost his life in a single-vehicle rollover in July 2018. Senior management responded immediately by holding safety stand-down meetings which were attended by office employees, field staff and contractors. At these meetings, leaders emphasized the need for safe behaviours that prevent driving accidents. While external reports and our internal investigations did not indicate any wrongdoing on our part, we took this incident very seriously.

Assessments



ASSESSMENTS

We conduct regular assessments of our third-party service providers, including:

1. COR/SeCOR certification: We require all AIM contractors (that have two or more trucks) to be COR/SeCOR (Small Employer Certificate of Recognition) certified. All single truck owners must have a safety management system in place that is equivalent to the COR program.

We conduct regular assessments of our third-party service providers

2. Compliance assessment: For the past three years, we have worked with an external government-certified auditor to complete annual Assessment of Regulatory Compliance (ARC) audits on approximately 10% of our contractors. AIM and our trucking contractors have found these audits to be useful tools for ensuring we meet National Safety Code (NSC) regulations. The audits have also improved our internal NSC compliance by identifying our responsibilities as owners of commercial trailers.

Maintenance and inspection



MAINTENANCE AND INSPECTION

The following maintenance and inspection activities ensure our fleet (including third-party equipment) is properly maintained and safely operated:

1. Maintenance: We conduct in-house preventive maintenance inspections. Every trailer in service must undergo preventive maintenance at a certified shop at least once every 60 days.

Our maintenance and inspection activities ensure our fleet (including third-party equipment) is properly maintained and safely operated

2. Quarterly Inspections: In addition to the mandatory Commercial Vehicle Inspection Program (CVIP), our trucking operations supervisors conduct quarterly inspections of our entire fleet. We also require our contractors (with two or more trucks) to complete these inspections on their own trucks. Quarterly inspections ensure our contractors' documentation is in proper order (e.g., up-to-date hours of service records, safety fitness certificates, TDG hose certificates, driver training records). They also provide an opportunity for additional visual inspections on our trailers, between scheduled maintenance.

3. GPS tracking: We completed the installation of a GPS tracking system across our entire AIM fleet. GPS tracking enables AIM to monitor fleet movements at all times, recognize bottlenecks in the dispatch process, and reduce facility waiting times. We also use GPS to monitor driving behaviours such as speed, hard braking and adherence to designated haul routes.

SKILLS AND QUALIFICATIONS



4. Preventing wheel-offs: Along with our peers in the trucking industry, we are working to greatly reduce the likelihood of wheel-off incidents (i.e., recently reinstalled wheels that become loose during travel). Our work includes: updating our maintenance procedures to reflect best practices, coaching drivers to be diligent in identifying potential incidents, ensuring maintenance shops are following proper torque and re-torque procedures, and networking with industry peers to share best practices and outcomes. In 2018, we sampled a variety of products specifically made to prevent these incidents. As of July 2019, we have installed the preferred product in all of our trailers.

Skills and qualifications

To ensure that AIM drivers operate safely and have the necessary skills and qualifications, we do the following:

- 1. Driver qualification:** We review each new driver's five-year commercial abstract to ensure they meet our minimum hiring requirements. We then re-evaluate abstracts every six months.
- 2. Driver orientation:** All new AIM drivers must complete a driver orientation. After reviewing our site-specific procedures and policies, new drivers ride along with an experienced driver to get to know the areas and equipment, then complete a final review to confirm their readiness to work.
- 3. Safety meetings:** AIM hosts twelve safety meetings every year (six in Lloydminster and six in Peace River). Service providers and their personnel are required to attend these meetings. Non-attending personnel must review meeting minutes recorded in ComplyWorks.
- 4. Training:** In addition to standard safety-related training, all AIM drivers are required to take a one-day *oilfield driver awareness* course (valid for three years) to improve driving behaviours. This course includes a review of regulations, proper vehicle inspections and road hazard assessments, as well as defensive and off-highway driving skills. Some drivers are required to take a *professional driver improvement course* that focuses on safe driving practices for commercial vehicle drivers.
- 5. Fatigue management:** Fatigue is a major concern, and the root cause of many incidents in the trucking industry. Although it is the service provider's responsibility to ensure their drivers stay within the hours of service determined by provincial/federal regulations, we dispatch loads to stay within the limits for each driver, and re-allocate loads if necessary. All drivers must take fatigue management training as part of the course material covered in our mandated oilfield driver awareness course.
- 6. Work-alone safety:** Our GPS system has a worker check-in and safety alert monitoring solution for drivers working alone. When a driver leaves the truck, they start a timer that sends a detailed message to a 24-hour call center if the driver does not return in the allotted time. The work-alone system also includes a distress button in the event a driver needs immediate support.



EMERGENCY SIMULATIONS

Simulations help us practice and refine our responses. In our 2018 emergency exercises, we routinely practiced “man-down” drills that simulated the effects of hydrogen sulfide (H₂S), a colourless gas found in sour gas operations. Exposure to the gas can affect respiratory functions, and ultimately be fatal. Some of Baytex’s operations produce sour gas, and two of these operations have particularly high concentrations, requiring additional emergency response planning.

In one simulation conducted in September 2018, the crew responded to a worker who had theoretically been exposed to H₂S and a simultaneous “well kick” (forced fluid flow from a well). The focus of this exercise was to practice rescue skills and effectively dividing resources to simultaneously care for an injured worker and prevent a well blow-out.

Emergency Preparedness and Response

We strive to protect our people, as well as the communities and environment near our operations. To ensure our employees and contractors are prepared for emergencies, we clearly communicate our expectations and rehearse emergency response procedures.

In 2018, approximately 126 employees and contractors participated in 15 Baytex-led emergency response exercises. These included simulation exercises in the field and tabletops (i.e., discussions of procedures and theoretical problems/solutions in the context of an emergency scenario). The simulation exercises incorporated different functional groups including well servicing, drilling, constructions and operations, to test and strengthen inter-group effectiveness.

Following an incident, we investigate and implement recommendations to continually improve our safety practices and procedures. After a significant fire at our Reno field in 2016, we conducted a comprehensive third-party investigation, which concluded the incident was caused by oxygen entry in our vapour recovery system. We then completed a detailed Hazard and Operability Study of our facilities and implemented the recommendations to mitigate the risk of a future incident. These recommendations included the addition of redundant or additional valves on certain sites, increased pressure monitoring of the vapour recovery system, and most importantly a thorough review and implementation of management of change procedures.

In June 2017 we experienced an explosion on one of our work sites that occurred while the operations team was preparing to drain a production tank. The tank was heated and when the fluid in the tank was being removed there was a sudden thermal expansion which instantly displaced the tank lid. No one was injured during this incident. A third-party investigator identified the cause as ‘overpressure’ of the tank. The investigation recommended developing a safe operating procedure for tank draining including increased supervision by Baytex personnel. All recommendations have been implemented.

We also collaborate with peers and other stakeholders to improve industry safety practices and standards. Baytex actively participates in the Peace River Industry Working Group. This group, in collaboration with the Alberta Energy Regulator (AER), developed new purging guidelines and procedures for tank draining, filling and cleaning. Purging guidelines ensure that oxygen is removed from a tank after any procedure, eliminating a potentially explosive or flammable atmosphere. We implemented these guidelines in 2018 to further improve our tank management practices.

Employee Engagement

The success of our business depends on the productive efforts of engaged employees who are committed to the future of our company, and who are working towards a common goal. We strive to create a positive work environment that supports a productive and professional atmosphere.

Communication

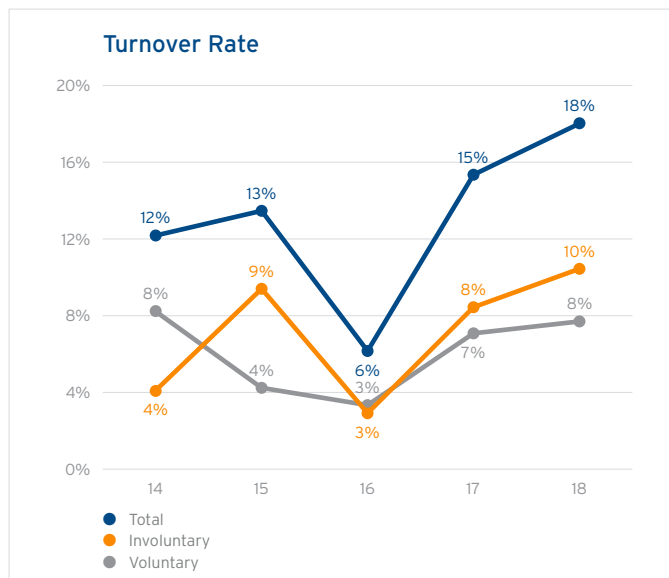
We believe that engagement goes hand-in-hand with good communication. Baytex maintains an open-door policy, and encourages all employees to speak openly about their concerns to our executives or human resource department. We also host quarterly town halls where our CEO Ed LaFehr, along with the rest of the executive team, communicates our successes, opportunities and challenges, and answers questions from employees.

Development and Opportunities for Growth

All Baytex office and field employees receive annual performance reviews, which includes opportunities for development and future growth. We are always looking for innovative ways to advance our employees' careers and provide development opportunities. In 2019, we have hosted "Lunch and Learns" to further collaboration and learning across a variety of topics.

Staff reductions

In recent years, low commodity prices have presented significant challenges to our entire industry, and have directly impacted Baytex's employees. To weather the challenging economic environment, while maintaining optimal staff and technical capabilities, we reduced staffing in 2017 and 2018.



To weather the challenging economic environment, we reduced staffing in 2017 and 2018.

Diversity and Respectful Workplace

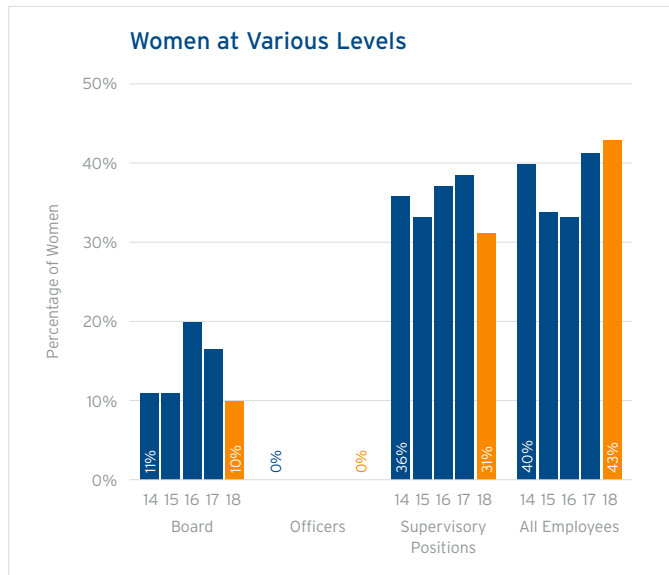
We are committed to treating all employees equally, fairly and justly regardless of race, national origin, colour, religion, sex, marital or family status, sexual orientation, or physical ability. This means we make decisions on hiring, promotion, job assignment, training and rewards based on qualifications, ability and performance. We encourage the development of all employees and provide a working environment where employees feel respected.

Women in Leadership

We strive for an encouraging workplace in which all individuals have the opportunity to succeed. Currently, 43% of Baytex's workforce and 31% of our non-executive management are women. Baytex does not currently have any female executive officers. Our goal is to ensure that over 20% of our Board members are female. We achieved this target on September 2019 with the appointment of our second female Board member. Please see page 43 for more information.

Respectful Workplace

As part of our commitment to provide a harassment-free work environment, we maintain a strict policy that prohibits harassment in any form, including verbal, physical and visual harassment. All reported complaints are taken seriously, and require investigation. If, after appropriate investigation, any person is found to have harassed or discriminated against another employee, they are subject to disciplinary action, up to and including dismissal. In 2017 and 2018, there were no formal complaints of harassment.



Over the last five years, we have seen an increase in the number of female employees. Additionally, in September of 2019, we appointed a second female Board member which increased the percentage of women on our Board from 10% to 25%.

Percentages are reported as of December 31 of each year. Note that as of September 2019, two of our Board members are women (25%).



“ **The success of our business depends on** the productive efforts of engaged employees who are committed to the future of our company, and who are working towards a common goal. ”



Environment

Our commitment to the environment is to responsibly develop our assets in a way that protects the air, land and water around our operations. We focus on minimizing spills, reducing emissions, preserving air quality, reducing water use and increasing our abandonment and reclamation activity.

Highlights

Achieved 76% reduction in the volume of reportable spills over the past five years

Commissioned a gas processing plant in Peace River that increased routine gas conservation in the area to 99.1%

.....

Challenges

Increased freshwater use as we added production that requires fracking

Increased levels of venting associated with Saskatchewan properties

.....

Looking Forward

Work towards our emissions reduction target

Install automated leak detection systems for selected pipelines, to enhance early detection and shutdown

Initiate two area-based abandonment/reclamation pilot projects in Saskatchewan

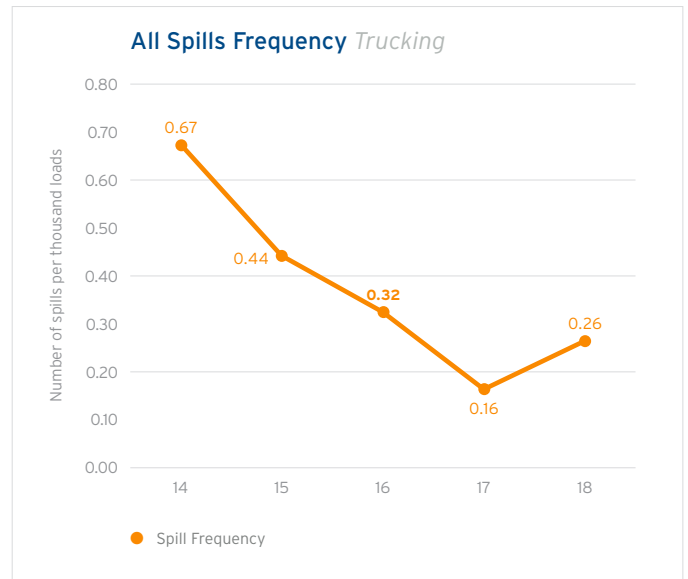
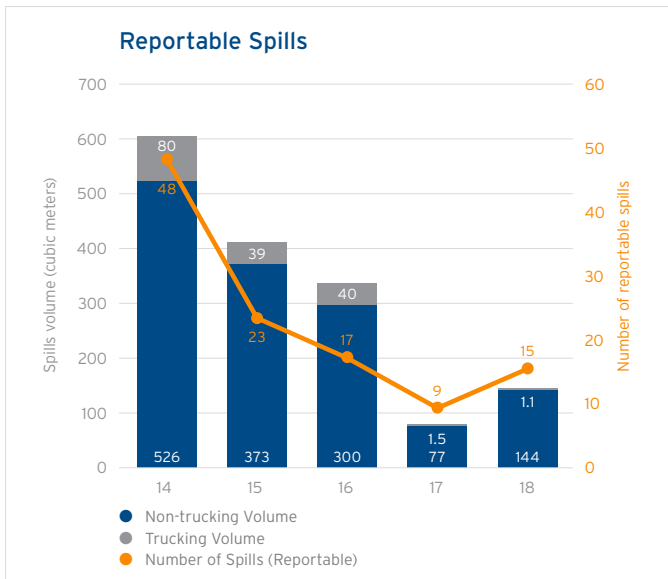
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Spills

We have a comprehensive approach to preventing and managing spills:

- We conduct routine inspections and maintenance of our equipment and facilities.
- Our facilities are designed to ensure that fluids from a spill do not reach waterways or environmentally sensitive areas.
- In the event of a spill, we minimize any spill volume by ensuring our employees and contractors uphold our procedures for spills prevention, response and cleanup.
- We promote a culture of shared accountability. Regardless of their position in the company, all employees and contractors are encouraged to identify and report any spill risks.

Most of our spills occur during trucking, tank storage and transportation activities, so our programs target each of these areas.



In the last five years, we have reduced our reportable spills volume by more than **76%**.

In the last five years, we have reduced the frequency of trucking spills by **63%**. Our low trucking spill rates reflect a combination of “right equipment, right mindset”. We have the right technology to prevent spills, along with employees and contractors who adhere to our high standards.

1. TRUCKING



81

tank trailers owned

105,534

loads in 2018 (by AIM Transport)

2. TANKS



5,311

storage tanks

3. PIPELINES



3,299 kms

of operating pipelines in AB & SK
(4,314 km licensed)

36% oil + 64% gas

62% metallic + 38% non-metallic

To prevent overfills, most trailers are equipped with liquid level indicators, and 90% of our trailers have audible overflow alarms.

1. Preventing Spills During Trucking

The most common causes of crude oil or produced water spills during trucking are overfilling of trucks, failed hoses and small equipment failures (e.g., fittings). To prevent overfills, most trailers are equipped with liquid level indicators, and 90% of our trailers have audible overflow alarms. We require all contracted trucks to have bypass or high-pressure shut down systems, to prevent hose pressures from exceeding a set limit during loading or unloading. To prevent equipment failure, we emphasize preventive maintenance, and reinforce this with quarterly spot inspections.

When it comes to preventing spills, skilled and experienced employees and contractors are just as important as technology. We award bonuses to truck owners, based on the number of trucks in their fleet that meet safety targets. Besides helping to improve our safety performance, this supports driver retention, a critical factor in a competitive market.

For details on our driver training, see page 17.

2. Preventing Spills From Tanks

On a monthly basis, we visually inspect our tanks for leaks or early signs of deterioration (e.g., bulging insulation). These inspections help prevent tank failure, often caused by small corrosion perforations. Every five years, we drain our large tanks to inspect the condition of the coating and internal surfaces, and to conduct thickness testing of the tank's wall, roof and floor (to check for material loss).

In accordance with regulations, 99.6% of our storage tanks currently in operation in Alberta have double walls or secondary containment systems. In the highly unlikely event of a tank rupture, the secondary containment or double wall would prevent tank contents from reaching the environment. Additionally, all of our sites are designed to prevent spills from leaving the site or reaching sensitive areas. The design includes tertiary site containment and site grading to prevent drainage to waterways.

3. Preventing Pipeline Spills

Baytex owns more than 4,000 km of pipeline in Alberta and Saskatchewan, 3,299 km of which is currently in operation. Through our asset integrity program, we steward the design, construction, maintenance and abandonment of our pipelines and assets, helping ensure the integrity of our equipment and protection of the surrounding environment. This program includes:

Visual inspections: Visual inspections help us detect leaks or external damage to pipelines. We use a rigorous checklist to conduct inspections along a pipeline's right-of-way, looking for leaking product or changes in the environment.

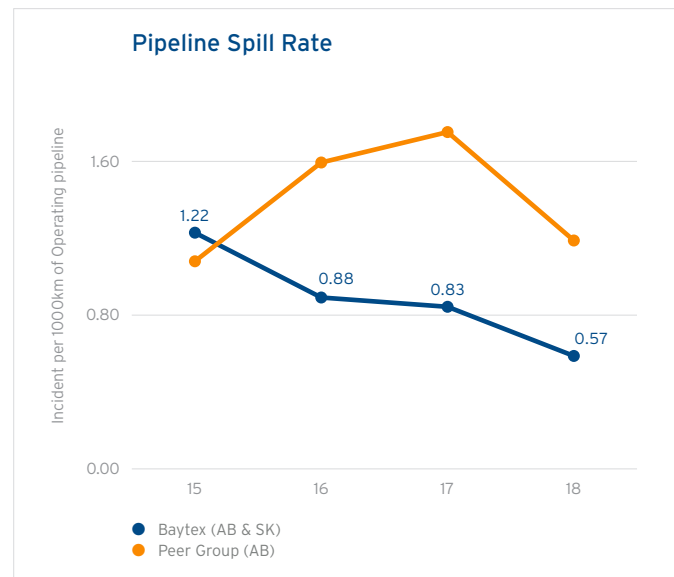
Aerial inspections: We conduct regular aerial inspections to give us a “bird’s-eye view” of the right-of-way. If there are any signs of risk to a pipeline (e.g., changes in vegetation, erosion of riverbanks, nearby construction activity), we immediately investigate the situation and repair if needed. Every two weeks, we conduct aerial and visual inspections of our two longest pipelines (85 km each) in the Peace River area.

Corrosion prevention: More than half of our operating pipelines are made of steel, and others have metallic components (e.g., risers). To prevent external corrosion and meet regulatory requirements, we use external protective coatings and cathodic protection systems³. To prevent internal corrosion, we apply corrosion inhibition chemicals on a batch or by continuously injecting it into the production stream.

In-line inspections: We also evaluate pipelines using “smart pigs”⁴ that travel the length of a pipeline to detect and measure the size, depth and location of internal/ external corrosion or dents/deformations. Based on a risk assessment, we conducted in-line inspections of 63 km of pipelines in 2017, and will inspect an additional 173 km in 2019 and 2020.

Monitoring technology and leak detection: We currently use technology to remotely monitor some of our pipelines (based on a risk assessment) which allows us to auto shut down the flow in case a leak is detected. Additionally, we are piloting the use of acoustic technology to detect very small leaks. Although the detection resolution of “smart pigs” continues to improve, acoustic tools (which are smaller and do not depend on magnetic properties) can theoretically be used to detect pin-hole-sized leaks in non-metallic and aluminum lines, and in pipelines with tight radius bends. In April 2019, we conducted two pilots using this technology, and did not find any leaks in the pipelines that were tested. We are currently evaluating the feasibility of applying this technology more broadly across our operations.

Due to our well-established pipeline integrity program, the frequency and volume of Baytex pipeline-related spills is below peer averages. Peers selected are companies operating between 1,500 and 3,500 km of total pipeline length. AER data is not available for 2014.



(3) Cathodic protection (CP) is a technique used to control the corrosion of a pipeline surface by making it the cathode of an electrochemical cell. While the cathode (pipe surface) is protected, metal loss occurs at the anode.
 (4) Pigs are devices that allow pipeline maintenance without stopping the flow. Smart pigs are devices used for internal pipeline inspections.

Air Quality

We believe that preserving air quality is part of being a good neighbour to the people who live and work near our operations. Managing emissions, odours and air quality continues to be a priority for us.

Industry and regulators place particular focus on air quality in the Peace River area, due to historical odour complaints and concentrated industrial activity in the area. There are approximately 4,000⁵ industrial facilities and installations in the Peace River region, including gas plants, flare stacks, wells, storage facilities, and pipeline infrastructure, all of which have the potential to emit hydrocarbons.

Air quality is measured by the concentration of air pollutants in the air. Air pollutants include but are not limited to: sulphur dioxide (SO₂), nitrous oxides (NO_x), volatile organic compounds (VOC), methane and particulate matter. While all of them affect air quality, not all of them cause odours. Peace River does not have an air quality index, so our company and regulators monitor concentrations of various emissions.

Our current initiatives focus on:

Odour Minimization During Truck Loading

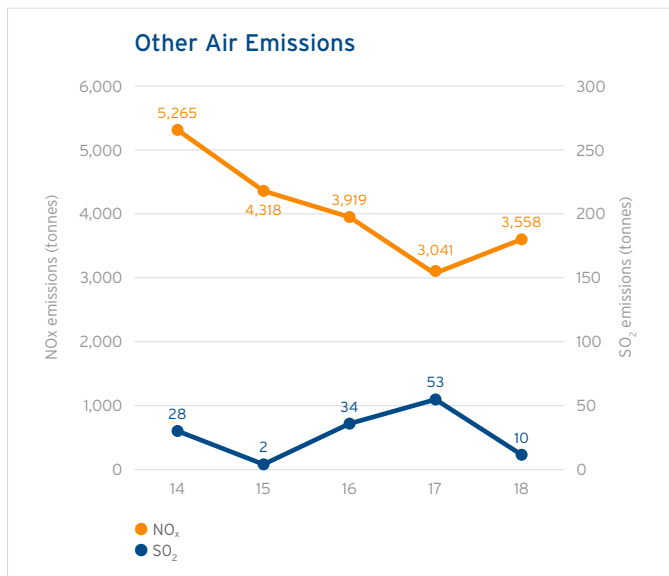
Truck loading activities can create odours during the filling process, when vapour inside a truck is displaced by liquid and released into the environment. Truck vapour scrubbing units (scrubbers) mitigate these odours by reducing volatile organic compounds (VOCs) and reduced sulphur compounds (RSCs), which are the odour-causing compounds in truck vent streams. In 2018, we installed 217 vapour scrubbing units on Baytex facilities in the Peace River region and select locations in Lloydminster.

Ambient Air Monitoring

A Baytex representative holds the role of co-chair/director on the Peace River Area Monitoring Program (PRAMP). Established in 2015, PRAMP is an independent, not-for-profit organization that works in collaboration with communities, industries and governments (municipal, provincial and Indigenous). PRAMP monitors and provides data on odours and emissions in the Peace River area. According to PRAMP (see the full report here), the number of odour complaints to the AER has decreased from 87 in 2014 to 13 in 2017⁵, due to process improvements and mitigation measure implemented by companies working in the area.

The number of odour complaints to the AER has decreased from 87 in 2014 to 13 in 2017⁵.

In the last five years, we have reduced our SO₂ emissions by **64%** and our NO_x emissions by **32%**.



(5) Includes all energy companies in the Peace River area. 2018 data not available. Source <https://prampairshed.ca/air-monitoring/monitoring-reports/annual-reports/>

GHG Emissions

Our commitment to the environment means that we understand, measure and aim to reduce our environmental impacts. Greenhouse gas (GHG) emissions associated with resource development are an important societal concern and industry challenge.

In the last five years, we have invested more than \$100 million towards our gas conservation initiatives in Peace River. We will continue investing resources and applying our skills in the pursuit of our GHG reduction target.

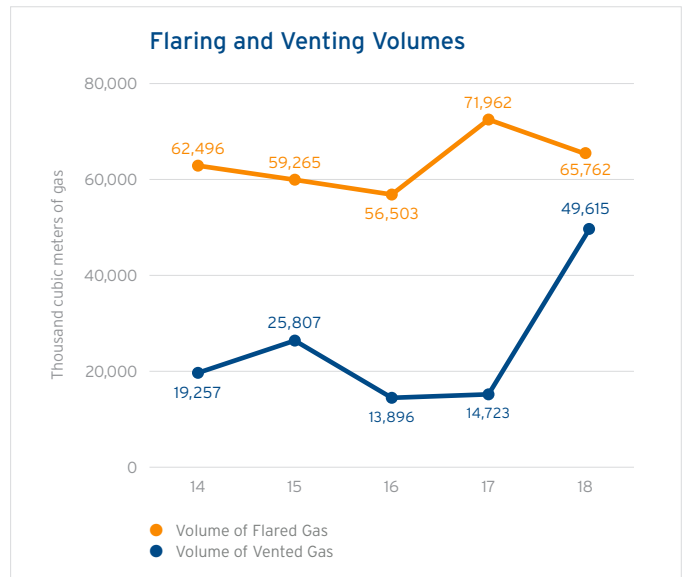
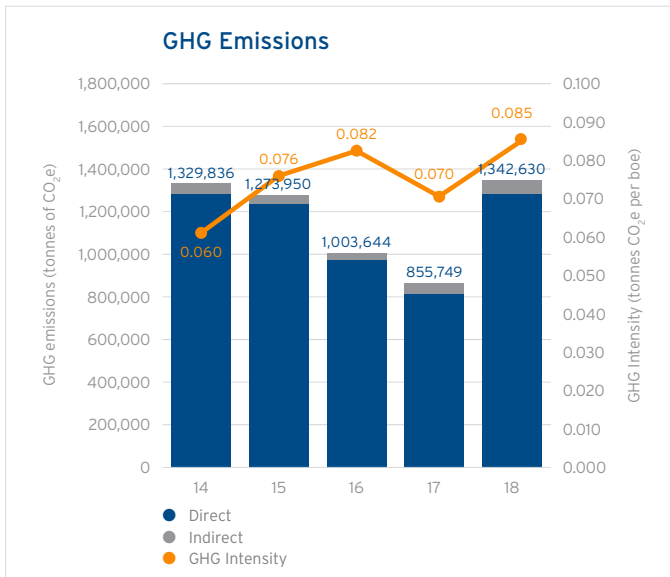
Pre-combination Emission Sources and Reduction Initiatives

Historically, combustion emissions have been our largest source of emissions. Combustion sources include completions equipment, pumps, steam generation, diesel/gas compressors, engines for pump jacks, tank burners and electrical generation units. Because this equipment is essential for oil production, we are limited by current technology to reduce emissions in this area. Therefore, we concentrate our efforts on other emission sources, where we can make the greatest impact.

In the last few years, our emissions reduction program has mainly used the following strategies:

- Reusing associated gas as fuel for field activities
- Increasing gas conservation
- Reducing emissions from storage tanks
- Monitoring and preventing fugitive emissions

These strategies helped us achieved a 99.1% routine gas conservation rate in 2018 in the Peace River area (which is subject to stringent, area-specific regulatory requirements). On pages 28-29, we summarize the results of our Peace River emission reduction efforts.



Through the combination with Raging River, the nature of our operations has shifted. We have set a target to reduce our GHG intensity by 30% by 2021. The baseline year will be 2018, incorporating full year emissions for both companies (2.3 million tonnes of CO₂).

To address the increased volumes of venting, we are starting a gas conservation project in the Viking. Read more on page 31.

Gas Conservation in Peace River

An Example of Success

We have reduced emissions at our Peace River operations in the following ways:

- Gas Conservation
- Reductions in Tank Venting
- Reductions in Fugitive Emissions

95% routine gas conservation required in Peace River

99.1% routine gas conservation achieved in Peace River



36% of associated gas is reused in the field

28.1 million m³ of gas conserved, since the plant was built in mid-2018

IN-FIELD USE



In 2018, we re-used 36% of the associated gas as fuel for field activities.

During the production stage, we use gas to operate gas compressors, power engine skids (which drive downhole pumps) and heat production tanks (which aids in oil/water separation).

GAS PROCESSING



In 2018, we completed the construction of the Harmon Valley Gas Plant, with a capacity of 510,000 m³ per day. During 2017-2018, we invested \$34.6 million in the construction of the plant and associated infrastructure.

The purpose of the gas processing plant, which we co-own with Obsidian Energy Ltd, is to process associated gas that would otherwise be flared, into sales-quality sweetened and dehydrated gas that can be transformed into electricity or heat.



VAPOUR RECOVERY

In Peace River, all active heavy oil tanks have vapour recovery units (VRUs) in place to capture emissions. A VRU collects produced vapours from tank tops and directs them to the gas gathering pipeline system. The gas can then be consumed as fuel, injected into underground storage, utilized for electricity generation, or processed at the Harmon Valley Gas Plant.

3,925

fugitive emission inspections

FLIR CAMERAS



All active storage tanks and facilities are inspected monthly for fugitive emission leaks. This is completed using a forward-looking infrared (FLIR) camera, which can detect very small gas leaks.

Using the FLIR camera, we also conduct semi-annual inspections of the 85km Seal-Nipsi pipelines.

All statistics from January to December 2018

37.9 million m³
of gas provided for power
generation in 2018

**POWER
GENERATION**



Baytex delivers associated gas to a gas-fired power generating facility owned by WCSB Power (formerly Genalta).

The project has a generation capacity of 20 megawatts of useful power from an otherwise flared gas source.

18.1 million m³
of gas injected for storage
in 2018

GAS STORAGE



Baytex injects a portion of the associated gas (due to gas plant and power generating downtime) into an underground gas storage reservoir.

In the future, these stored volumes will be withdrawn to be processed at the Harmon Valley Gas Plant, utilized for power generation or sold to third parties.

68.7 million m³
of gas sold to TC Energy
in 2018

GAS SALES



We currently sell to third parties any produced gas that is not consumed during field operating activities, used for power generation, or stored underground.

99.4% leaks repaired
within 5 days

INSPECTIONS



We monitor fugitive emissions through daily audio/ visual/ olfactory (AVO) surveillance of producing sites.

Every month we inspect an average of 165 facilities in the Peace River region.

In 2018, we repaired 99.4% of leaks found within 5 days.

2,550 tonnes of CO₂
estimated reductions from
2018-2022

PNEUMATIC DEVICES

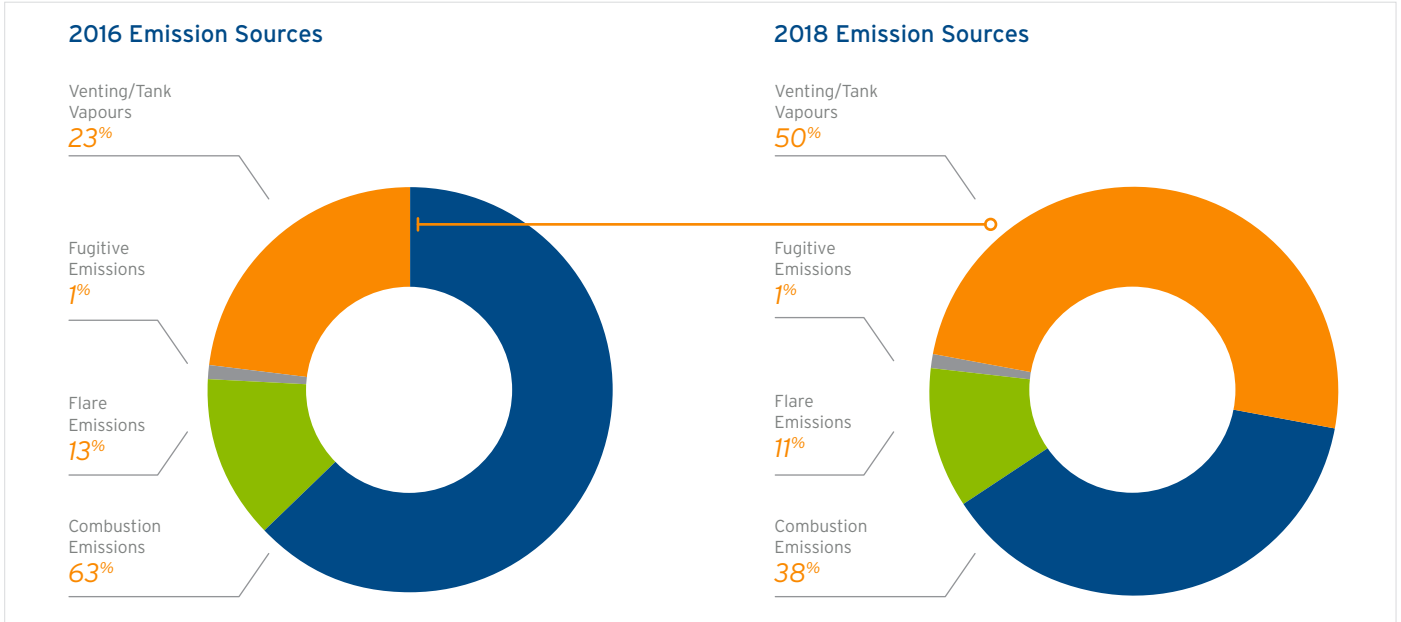


In 2018, to eliminate methane venting from natural gas-driven pneumatic devices, we converted several pads to utilize compressed air as a substitute for natural gas.

In the Reno field, this project generates carbon credits that we can use to offset our compliance obligations. These credits can also be transferred to other industrial emitters to offset their GHG emissions.

Shift in Emission Profile

Through the combination with Raging River, the nature of our operations has shifted. As a result, the largest contributor to our emissions is venting from our Saskatchewan sites, where we are venting small volumes of gas (less than 85 m³/day) from a large number of wells (over 1,000 sites).





GHG TARGET

We have set a target to reduce our corporate GHG emission intensity (tonnes of CO₂ per boe) by **30%** by 2021. This equates to approximately a **10%** year-over-year reduction.

GHG Reduction Target

We have set a target to reduce our corporate GHG emission intensity (tonnes of CO₂ per boe) by 30% by 2021. This equates to approximately a 10% year-over-year reduction. The baseline year will be 2018, incorporating full year emissions for both companies.

Our emissions profile changed significantly following the merger with Raging River. We expect to reduce the emission intensity of our Viking assets by approximately 50% within three years, using 2018 as a baseline.

As part of our culture of continual improvement, we are committed to reducing the GHG emissions from our operations. We will continue our current gas conservation strategies in the Peace River region. In Saskatchewan, we will explore both conventional and unconventional technologies to reduce GHGs in the most cost-effective manner.

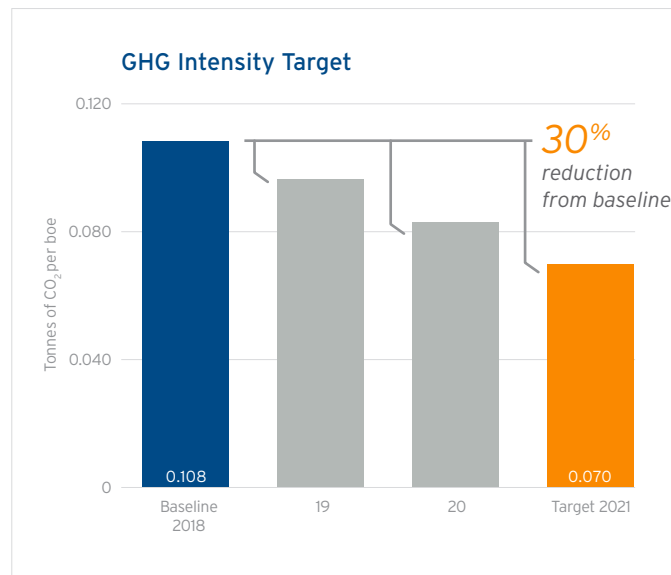
Viking Gas Conservation Project

Our first step towards emission reductions will be to reduce venting in Saskatchewan. For the vast majority of locations in this province, conservation of vented gas is not viable at this time. Therefore, we will initially substitute venting with flaring. Flaring releases carbon dioxide rather than methane, which lowers the atmospheric impact by 5 times. In 2019, we are running trials of combustion equipment to compare best technology, costs and reductions.

Multi-well Pad Site Development

Extended reach horizontal drilling and multi-well drilling technologies have allowed us to access resources that were previously considered uneconomical, while also providing environmental benefits. We are now drilling longer horizontal distances, from wells that were typically a half-mile in length in 2016 to wells now averaging one mile. More than 80% of the wells we currently drill in the Viking region are considered extended reach horizontal wells. In addition to extended reach, we are increasing the number of wells drilled per pad (from two wells per multi-well pad up to eight).

Combining the use of these two technologies results in fewer disruptions to landowners, less land disturbance and fewer access roads. Multi-well pads will also contribute to our GHG reduction strategy by increasing the volume of gas coming out of a single pad, and making gas conservation technically and economically viable for more of our Viking wells. By gathering gas from several wells, we can start using strategies that are currently not feasible, including gas sales and electricity production.





VIKING PILOT PROJECTS

To reduce freshwater use, we began a pilot project in 2018 in collaboration with a nearby potash mine in Saskatchewan. In the pilot, we used some of the mine's brine fluid (a by-product of their mining operations) as a substitute for for 20 to 30% of the water needed to complete a well. In the next two years, we plan to increase the scope of this pilot, for broader use across our properties.

To reduce water use during drilling, we are currently running another pilot that uses a combination of tanks and centrifuges to process drilling fluids. In a typical drilling process, centrifuges are used to separate solids so the drill cuttings can be landspread and the drilling fluid can be reused. After rigorous tests and inspections, the solids are landspread using a vacuum truck that requires mixing the solids with 7 to 10 m³ of water per load to form a slurry that can be vacuumed and spread. The process we are testing requires two thirds of the water volume to achieve the same results.

Water

For several years, Baytex has relied mainly on primary production methods to develop its heavy oil reserves in the Peace River and Lloydminster areas. These methods consist of open-hole horizontal wells and vertical wells using Cold Heavy Oil Production with Sand (CHOPS). These production techniques do not require the use of thermal or injection processes. For this reason, our water use intensity has historically been low.

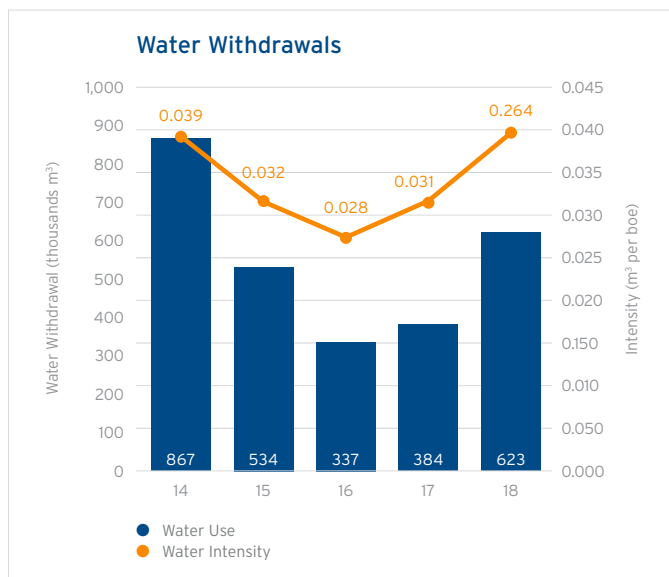
With the addition of Raging River's assets, we now use water-intensive processes that have significantly changed our water use baseline.

Water Use in the Viking

In the Viking, we mainly use fracking to extract light oil. Each one-mile horizontal well requires approximately 1,500 m³ of water during the completion phase of drilling operations. The large number of wells drilled in this area results in the use of a large volume of water. Our water reduction strategies in the Viking are twofold. For the drilling phase, our target is to significantly reduce the water needed to drill a well. For the completions phase, the volume is relatively fixed, so our focus is to transition to non-fresh water sources. Currently, wells do not produce usable volumes of produced water. However, we are looking for other ways to increase the use of non-fresh water (see sidebar). Over time we will use waterflooding (which uses primarily produced water) to enhance recovery.

Water Use in the Duvernay

The shale assets in the Duvernay require water-intensive completion operations. Due to the long lateral length of the wells, each well requires about 50,000 m³ of water during the completion phase of drilling operations. As the wells in the area move from early development into production, the total volumes of water required in the Duvernay will be larger, but we will be able to substitute some of the water volumes needed during completion with produced water from other wells.



Water-intensive processes needed to develop our new assets have significantly increased our company-wide water use.

Abandonment and Reclamation

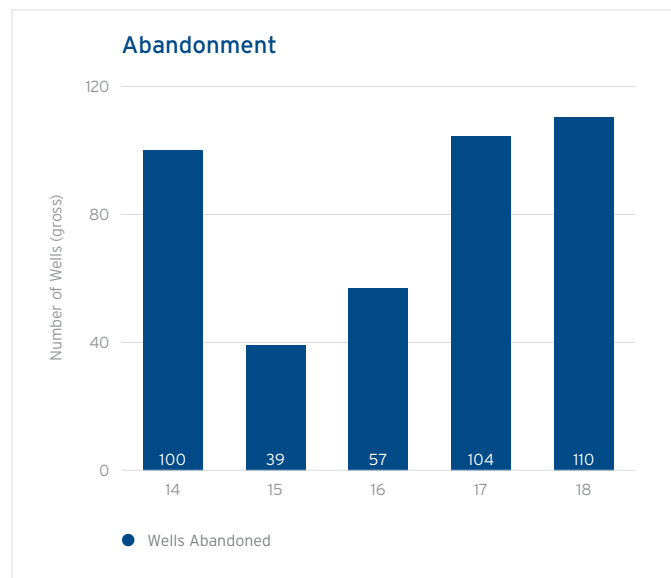
Our commitment to responsible development extends to the retirement of our assets. We remain focused on meeting or exceeding our abandonment obligations, and returning our inactive sites to their original land use. Baytex currently has 3,247 inactive wells (in part due to acquisitions), and approximately 1,000 km of inactive pipelines, which must be maintained in compliance with regulations. We plan for full lifecycle development of our properties which includes abandonment and reclamation, and doing so in an efficient and non-disruptive way for the communities around our operations.

Well Abandonment

A well becomes inactive when its economic limit is reached (i.e., it no longer produces enough volume to make continued production worthwhile). To abandon a well, we place cement and mechanical plugs deep in the well bore, verify that the groundwater is isolated (so fluid or gas from the well cannot adversely affect groundwater), cut and cap the well casing below the ground, and remove surface infrastructure. In the last four years, despite challenging economic circumstances, we have increased the number of wells we abandon every year to reach our abandonment levels of 2014, prior to the low commodity price environment (see graph).

Pipeline Abandonment

A pipeline becomes inactive when there is no longer a business need for it, or it reaches the end of its operating life. In Alberta, pipelines must be discontinued or abandoned within 12 months of becoming inactive. To discontinue a pipeline, it must be cleaned internally and maintained in a state suitable for future use. To abandon a pipeline, it must be cleaned internally, the risers must be removed, and the pipeline must be capped underground. In the last three years, we have discontinued 174 pipelines and abandoned another 164 pipelines.



We are now abandoning wells at the same rate as we did in 2014, prior to the low commodity price environment.

Since 2009, Baytex has returned more than **455 hectares** to their previous land use.

Reclamation

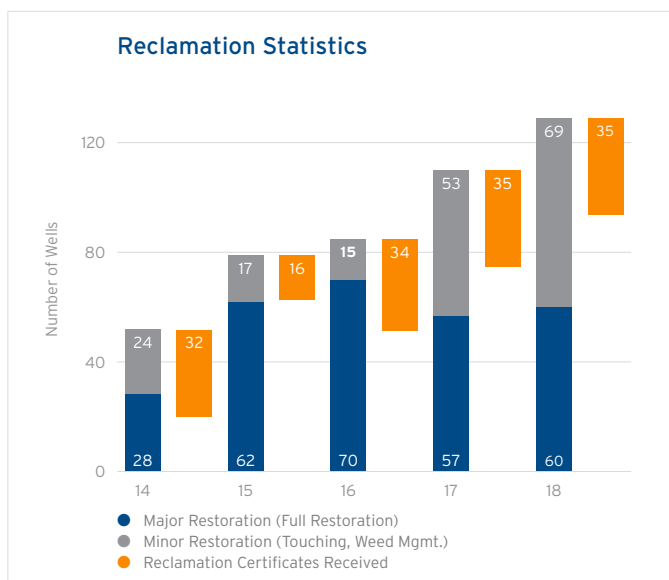
Reclamation involves returning land, previously used for oil or gas activities, to its prior state of natural productivity. At the end of this multi-year restoration process, operators receive a certificate (or equivalent) from the government certifying that the land has been reclaimed. Since 2009, Baytex has received more than 250 reclamation certificates and returned more than 455 hectares to their pre-disturbance condition.

Tree Planting

Reclamation requires land to be returned to the same state as adjacent land. Some of our properties are located in the boreal forested regions of Alberta, so we are collaborating with the appropriate forest area manager, and planting local varieties of trees on the former oil or gas production site.

Since 2016, Baytex has planted 59,668 tree seedlings on our reclaimed locations, with another planned 36,880 seedling plantings planned in 2019. Calculations⁶ indicate that a tree can absorb approximately 5.9 kg of CO₂ annually in the early years, which means that the trees planted in 2016 have theoretically absorbed 352 tonnes of CO₂. As these seedlings mature into larger trees, the anticipated CO₂ absorption values are expected to increase.

Reclamation often takes multiple years to complete, so the number of reclamation certificates we receive varies year to year.



(6) <https://treecanada.ca/wp-content/uploads/2017/10/Guide-1-EN-Trees-reduce-CO2.pdf>

Our ARO increased significantly due to the combination with Raging River. In 2019, we plan to spend \$15 million towards ARO.

Expenditures Toward our Obligations

We are committed to progressing our abandonment and reclamation efforts and have continued to spend towards our asset retirement obligations even during years of low commodity prices. In 2019, we plan to spend \$15 million towards asset retirement obligations.

		2014	2015	2016	2017	2018
Corporate/Financial Metrics						
Asset retirement obligations (ARO) ⁷ - discounted	\$ million	\$286.0	\$296.0	\$331.5	\$369.0	\$646.9
Spending in abandonment/reclamation	\$ million	14.5	10.9	5.6	13.5	14.0
Provincial regulatory metrics						
Liability Management Rating (LMR) ⁸ - Alberta	ratio	5.03	4.33	3.78	3.47	3.47
Licensee Liability Rating (LLR) ⁹ - Saskatchewan	ratio	N/A	N/A	2.60	2.30	3.64

Orphan Wells

In 2018, in line with our regulatory obligations as an oil and gas producer, we contributed \$481,020 to the *Orphan Well Association* (OWA). The OWA manages the environmental risks of oil and gas properties that do not have legally or financially accountable parties associated with them (referred to as orphan wells). We continue to engage with the OWA to resolve environmental and asset retirement concerns related to assets of insolvent producers in which Baytex holds a working interest. The OWA has relied on Baytex's technical and operational capacity to abandon and reclaim sites from three defunct operators.

Proactive Abandonment in Saskatchewan

As our Saskatchewan assets continue in their lifecycle, we have begun investing capital towards asset closure in more mature areas of the field. In 2019, we initiated an area-based abandonment and reclamation project that will leverage economies of scale to drive down per-abandonment costs. We plan to invest \$2 million of discretionary capital in the first year alone, exceeding regulatory requirements.

Definitions

- (7) Asset retirement obligations (ARO) are the estimated liabilities of abandoning and reclaiming all inactive facilities, as of end of the year. This represents management's best estimate of the present value of the future abandonment and reclamation costs required under current regulatory requirements
- (8) Liability Management Rating (LMR) = value of production assets divided by the cost of deemed liability to abandon wells and facilities
- (9) Licensee Liability Rating (LLR) is the value of production wells divided by the cost of deemed liability to abandon wells (only)

Communities & Stakeholders



Our commitment to communities and stakeholders is to earn and maintain their trust by actively listening to their concerns and working hard to be a good neighbour. We focus on engaging communities and stakeholders, building mutually beneficial relationships with Indigenous communities, contributing positively to the economy and giving back to our communities.

Highlights

Moved forward in our agreement with the Woodland Cree First Nations and drilled the first test well within their Reserve boundary

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Challenges

Meeting the needs of diverse communities

.....

Looking Forward

Build new relationships and address concerns in new areas of operations

.....



MINIMIZING TRAFFIC DISRUPTIONS

Our GPS tracking system allows us to monitor truck locations at all times, set alerts for high-risk roads, and set speed limits. In 2016 we began placing traffic restrictions on a Peace River highway that is used by school buses. We do not allow our trucks to drive on that highway during school drop-off and pick-up times. If a truck passes through the area during this time, we receive an alert from the GPS system.

In another instance, in 2018, residents near Lloydminster shared their concerns about increased traffic due to increased production in the area. To reduce dust and road deterioration, we restricted our trucks to a speed of 30 km/hr in the area of concern, and we receive real-time alerts if the speed is exceeded. The improvement has been well received by landowners.

Stakeholder Engagement and Community Relations

We believe stakeholder engagement is key to the execution of our projects. As part of our corporate culture, we participate in multi-stakeholder collaboration efforts, respond to community concerns, and create a positive impact in the communities in which we operate.

Synergy Groups

Baytex is a member of four *Synergy Groups* in Alberta (all the groups relevant to Baytex's operating areas). Synergy Groups hold monthly meetings with community members, stakeholders, government, regulatory body representatives, and oil and gas industry representatives, at which they provide updates and discuss changes or concerns related to the operating area. Throughout the year, Synergy Groups host public information sessions for neighbouring communities.

Synergy Groups provide the opportunity for communities to have ongoing, meaningful participation in decisions that directly affect them. These groups work together to resolve issues, lessen impacts and encourage the use of best practices in the areas of health, safety and the environment. They are a visible and affirmative example of oil and gas industry best practices in action.

Responsive to Community and Landowner Concerns

We work hard to understand each community's concerns. As a baseline, we follow government policies and regulations, but tailor our approach to fit the individual needs of each community. As part of our ongoing dialogue, we engage with our stakeholders every week. Where feasible, we make every effort to accommodate community needs and concerns. Below are some examples of community concerns, along with our responses:

Concern	Region	Specific Concerns	What we did
Traffic	Lloydminster, AB	Increased truck traffic in populated areas, creating noise, dust and other disruptions	We use GPS tracking to manage the impacts of traffic (see sidebar story for more details).
Noise	Duvernay, AB	Noises created by completion activity	During fracking operations, we reduce noise by erecting sound-blocking walls around lease boundaries.
Odours	Peace River, AB	Historical complaints about odours around our areas of operation	We work diligently to minimize odours during operations and truck loading operations. See page 26 for more details.
Trucking	Duvernay, AB	Increased activity resulting in increased traffic	We installed a network of temporary pipelines to transport water for fracturing to the sites, which significantly reduces trucking traffic.

Relationship-Building with Indigenous Communities

We are committed to building and maintaining respectful relationships with Indigenous communities. In our operations, we aim to create opportunities for meaningful economic participation and inclusion, which we believe is at the heart of sustainable long-lasting relationships.

The majority of our development lands are located within private or provincial Crown lands and outside of First Nations Reserves or Métis Settlements. However, we have a legal and constitutional duty to consult First Nations and Métis Settlements around our operations. Our activities have the potential to adversely affect First Nations' Treaty rights or traditional uses (which include burial grounds, gathering sites, and historical or ceremonial locations), as well as the Métis Settlement's harvesting or traditional use activities. Due to the importance we place on these relationships, we dedicate resources to collaborating with First Nations and Métis communities.

In 2018, as part of the renewal process of the Aboriginal Consultation Policy, Alberta's Minister of Indigenous Relations invited us to provide input on ways to improve the consultation process.

We use the following principles as a guide when engaging with Indigenous communities:

Respectful relationships: We recognize and respect the existing treaty and harvesting rights of the Indigenous peoples of Canada, and seek respectful and mutually beneficial relationships with these communities. We engage in constructive dialogue to advance mutual understanding of interests, while working together collaboratively.

Respecting unique culture and traditions: We seek to understand Indigenous culture and strive to minimize our impacts on traditional lands and harvesting areas.

Respect for the environment: Throughout the full life cycle of our projects, we respect the environment and acknowledge the unique connection Indigenous peoples have to the land and the environment.

Sustainable benefits: We provide opportunities and benefits for Indigenous communities in a sustainable manner that supports our mutual prosperity.



WOODLAND CREE PARTNERSHIP

For more than 15 years, we have worked alongside the Woodland Cree Nation in the Peace River area of Alberta, and have built a relationship based on mutual trust and respect.

In 2018, as a result of this long-term relationship, we signed an agreement with the Woodland Cree Nation to drill on their Reserve land in exchange for royalties, capacity building and jobs.

When working with any Indigenous community, we strive to build local capacity by incorporating local suppliers and service providers, while ensuring quality service at a reasonable cost.

The project with the Woodland Cree has the potential to spur economic development through training, direct employment and contracts with Indigenous suppliers.

This on-reserve development encompasses approximately 13,000 acres. In 2019, we drilled our first test well.

Community Investment

Healthy and thriving communities underpin our company's success. We dedicate time and resources - both as individuals and as a company - to enhance the quality of life in the communities in which we operate. This includes: making corporate donations, matching employees' charitable donations and offering volunteering opportunities during work hours.

Our community investment program focuses on three pillars of support: healthcare and research, community living, and education and training. These pillars directly reflect our values, and guide us in making positive differences to the communities in which we live and work.

We encourage our employees to actively contribute to our communities, by making private donations and by volunteering their time during work hours. Examples of this continued support include:

Adopt a Family: For the last two years, many of our employees have participated in the *Calgary Sun's* Christmas Adopt-a-Family program, which supports families who are facing difficulties over the holidays. Through this program, employees donate groceries, clothing and gifts to family members.

Fundraising tournaments: More than two thirds of our employees participated in our annual pool and bowling tournaments, raising \$15,750 for organizations that support different needs in our communities: *Alberta Cancer Foundation, CUPS, Kara Life Program* and *Sonshine*.

Camp Kindle: In June 2018, 25 employees volunteered their time at Camp Kindle, an organization that offers camp experiences for children with cancer. In preparation for the camp's High Hopes Challenge (a key fundraiser), Baytex staff helped clean facilities, paint/build fences and clear brush.

Fundraising: Our employees raised \$6,800 for the Canada Red Cross in 2017, and \$11,800 for United Way in 2018.



MULTI-YEAR COMMITMENTS

We believe that multi-year community commitments make the greatest impact, as they provide stability to non-profit organizations and enable the construction of larger projects. We have committed \$800,000 over the next ten years towards the following projects:

Recreation Centre in Peace River:

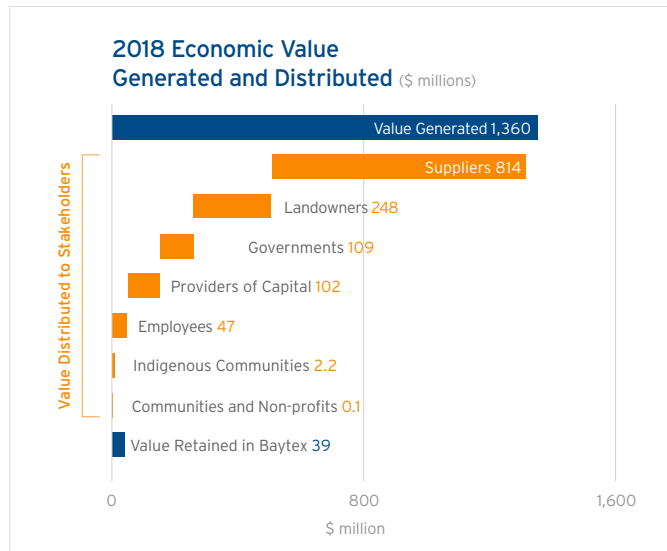
As the main sponsor for the Baytex Energy Centre, we support the recreational needs of region. The facilities include an indoor ice rink, multi-use fieldhouse, fitness area, dance studio and multi-purpose spaces. The Centre opened in the summer of 2019.

Community Projects in Kindersley:

We are also supporting the construction of two projects in Kindersley, Saskatchewan. First, we have contributed to the construction of a community swimming pool. Second, we also invested in the construction of the West Central Crisis Centre. The Centre will provide transition housing to individuals and families experiencing violence and crisis in their lives.

Economic Impact

Our community contributions go beyond charitable and philanthropic efforts. Part of this contribution takes the form of royalties and taxes paid to provincial and federal governments, which we disclose in detail through our report responding to the Canadian Extractive Sector Transparency Measures Act (ESTMA). We also create economic prosperity in communities across Canada through job creation, payments to landowners, and the hiring of small and large companies that provide products and services.





“ Our commitment to communities and stakeholders is to earn and maintain their trust by actively listening to their concerns and working hard to be a good neighbour. ”

Responsible Business Practices



Our commitment to responsible business practices means that we aim to create a culture of honesty, respect and accountability across all levels of the company. We focus on following best practices in governance and executive compensation, upholding ethical behaviour in all of our relationships, integrating the management of corporate responsibility into our business, and achieving high rates of regulatory compliance.

Highlights

Welcomed new Directors to our Board
Set a Board diversity target

.....

Challenges

Fully integrating Raging River's assets into all of our processes and levels of compliance

.....

Looking Forward

Engage with investors on executive compensation (Board activity)

Corporate Governance

We believe strong corporate governance sets the foundation for good decisions and ensures alignment between our Board, shareholders and management. In 2018, we made some notable changes to our governance structure and policies.

Board Structure

To streamline our Board, we proposed fewer Directors for re-election at our 2019 Annual General Meeting. Our Board is now composed of eight Directors, compared to eleven the previous year. Six of the elected Directors are independent. Our Board continues to execute its *mandate* through four committees: the Audit Committee, the Human Resources and Compensation Committee, the Nominating and Governance Committee, and the Reserves Committee. All of our committees, including Committee Chairs, are comprised entirely of independent directors.

Board Diversity

After reviewing the effectiveness of our Board Diversity Policy, which had been in place since 2015, we modified the policy in 2018 to include a written target to ensure at least 20% of our Board consists of women, by the end of 2020. As of May 2019, one of our Board members is a woman (12.5%). In September 2019, we appointed a second female Director which allowed us to meet our target one year early.

Board Renewal

We do not have term limits or a formal retirement policy for Board members. We believe it is important that Directors understand our industry and business, and that we preserve a certain amount of institutional knowledge on our Board. This requires some Directors to have a longer tenure than others. We also want diverse viewpoints. Therefore, we seek to achieve an appropriate balance of long-standing and new Board members to ensure the Board functions effectively. The average age of our Board members is 58 years old, and the average tenure is five years.

Dedication of Board Members

Baytex does not have any “overboarded” Board members. Directors are considered “overboarded” if they hold multiple directorships that could reasonably result in time commitment issues, and an inability to provide full value to Baytex shareholders. Currently, five of our eight Board members sit on two boards (including Baytex), and one Board member sits on three boards (including Baytex). All of our Board members are dedicated to their roles, as evidenced by their 100% meeting attendance in 2018.

We have exceeded our 2020 target of ensuring at least **20% of our Board** consists of women.

In 2018, we had 100% Board meeting attendance.

Board and Governance Information			
Board Composition and Independence		Board Renewal and Diversity	
Size of Board	8	Annual Election of Directors	Yes
Number of Independent Directors	6	Majority Voting Policy	Yes
Separate Chair and CEO	Yes	Average Age of Directors	58
Independent Chair Required	No	Mandatory Retirement Age	No
Annual Board Assessment Process	Yes	Average Director Tenure	5 years
Board Meetings Held in 2018	10	Women Board Members (after 2019 AGM)	12.5%
Average Meeting Attendance	100%	Board Diversity Policy	Yes

Board composition reflects elected directors in our 2019 AGM



Executive Compensation

80% of our CEO compensation is at risk.

This is our **fourth** consecutive year of flat salaries for named executives.

The underlying principles for compensation in our company are: pay-for-performance (linking compensation to specific goals), alignment of management and shareholder interests, and attraction and retention of highly capable individuals. We believe this philosophy helps us achieve our goal of rewarding behaviours that reinforce our values, and deliver on our corporate objectives.

At our 2019 annual meeting, 58% of voting shareholders voted in favour of accepting our approach to executive compensation. We want to do better. As a result, we changed our executive compensation program for 2019 to better align management incentives with shareholder returns.

This is the fourth consecutive year of flat salaries for named executives¹⁰ and 80% of our CEO compensation is at risk. In 2018, we modified the variable component of executive compensation in the following ways:

Short term (annual bonus):

- We made changes to the cash bonus multiplier. The multiplier now ranges from 0% to 200%. This means that positive performance is rewarded, while poor performance can result in executives receiving no bonus.
- Bonuses are now better aligned with shareholder returns. If the one-year shareholder return for Baytex's shares is negative, the bonus pool is capped.
- We also made changes to our bonus scorecard, and added two new metrics (PDP recycle ratio and increase in 2P NAV per share) that we believe are proxies for value creation and should align with shareholder returns. Read more in our [Information Circular](#).

Long-term (share awards):

- Share awards granted in 2019 vest 1/3 every 12 months, instead of 1/6 every 6 months.
- Total shareholder return has always accounted for 50% of the criteria used to determine the payout multiplier applied to performance awards. In 2019, we added a new performance factor: a three-year proved and probable reserves recycle ratio (measure of how profitability per barrel compares to the cost of replacing that barrel). This recycle ratio accounts for 25% of the criteria. The remaining 25% is based on the development and execution of our strategic plan.

Board and Governance Information

Shareholder Rights	
Proxy Access	No
Say on Pay Advisory Vote	Yes
Votes in Favour of Compensation, 2019 AGM	58%
Shareholding	
Stock Ownership Guidelines for Directors	Yes
Stock Ownership Guidelines for Executive Officers	Yes
Policy on Share Trading and Hedging	Yes

⁽¹⁰⁾ Named Executive Officers are the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and our three most highly compensated executive officers



INCREASING ANTI-FRAUD AWARENESS

Every year, we host a roundtable for fraud risk assessment, with the goal of identifying, managing and mitigating our company's fraud risk. Attendees include senior and executive management from all divisions of the organization. The last roundtable took place in October 2018.

Through the roundtable, we aim to raise awareness of the different types of fraud that may occur in the environment in which Baytex operates. The participants begin by identifying fraud risks and evaluating the potential damages that these risks may pose (considering the likelihood of occurrence and potential financial and reputational loss). They also determine whether we have effective mitigating internal controls in place (based on determined magnitude of potential damage) or if there is a need to implement additional internal controls.

Some examples of the risks discussed by the group:

- Management override
- Financial statement fraud
- Asset misappropriation
- Bribery and corruption

Ethics

Honesty and integrity are critical factors in earning and maintaining trust with our stakeholders. Our Code of Business Conduct and Ethics (COBC) outlines our expectations for ethical behaviour, and applies to all employees, consultants, officers and directors of Baytex. Everyone is required to annually confirm that they have read, understood and complied with the COBC. Our employees must also confirm in writing their commitment to our:

Disclosure, Trading and Confidentiality Policy
Health, Safety and Environment Policy
Drug and Alcohol Policy

We encourage employees to report any misconduct. They can do so through our confidential Whistleblower line, through their manager or a senior executive, or to our Audit Committee or legal department. As outlined in our [Statement on Reporting Ethical Violations](#), 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 about any investigations on a quarterly basis. There were no substantiated reports filed in 2017 or 2018.

Governance for Sustainability

Baytex's Board of Directors (not individual Board committees) has responsibility for safety, environmental and social matters. To implement our commitment to sustainability across the organization, Baytex looks to the following internal groups: Health, Safety and Environment; Regulatory; Integrity Management; Human Resources; Legal; and Investor Relations. These groups execute our strategy, monitor best practices, develop company policies and standards, and support our operations in adhering to these policies and standards.

In 2018, we hosted our annual Operational Excellence Meeting, in which approximately 90 employees met over two days to discuss the role that safety, compliance and environmental protection play in our business. For 2017 and 2018, 20% of the annual bonus pool for management and staff was linked to our safety and spills target. To make performance visible and increase accountability throughout the company, we share our safety and environmental performance with all employees via monthly emails, and quarterly in our town halls.

Regulatory Compliance

We are committed to maintaining high levels of regulatory compliance. We firmly believe this sets us apart from our peers, helps us maintain our social license, reduces costs and contributes to a strong safety and environmental culture.

Managing our Compliance

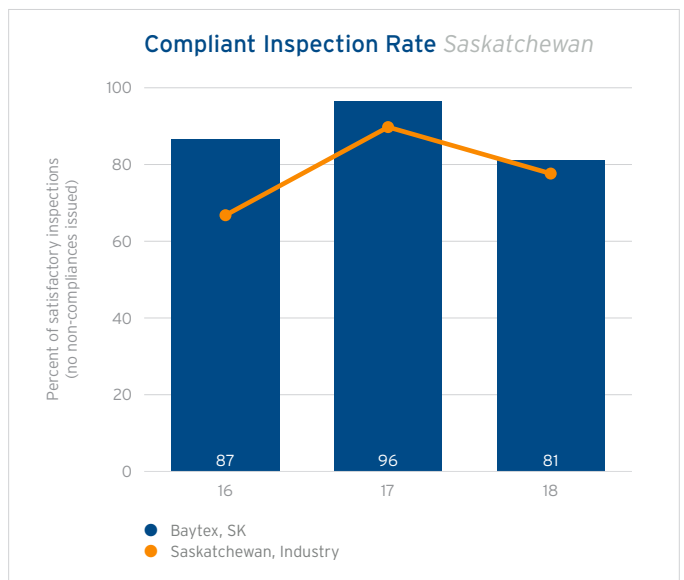
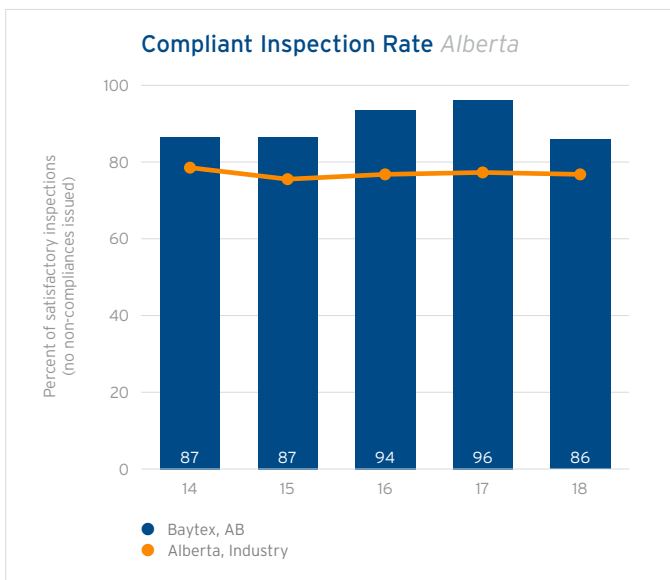
Since 2015, we have used a third-party information and data-aggregation platform (ClearCompliance) as an integral part of our Inactive Wells Management Program. This platform allows us to monitor the compliance status of our inactive wells, manage site inspections and data submissions, track corporate asset retirement liabilities, and plan our annual compliance activities.

Maintenance of Inactive Wells

All oil and gas companies have the legal responsibility to maintain their wells (active or inactive) in a safe and compliant state. Inactive wells must have proper signage and be inspected every year. With 3,247 inactive wells, we make a significant effort to maintain compliance in this area.

Performance

In 2018, we were inspected 734 times by provincial regulators in Alberta and Saskatchewan. We track compliance results closely to identify trends and proactively resolve evolving regulatory concerns. Compliance results (see graphs) are reported to business unit leaders on a monthly basis and senior management on a quarterly basis. Many of our non-compliances are of low consequence (e.g., site housekeeping). Since the last corporate responsibility report, we have received two material notices of violation regarding events that occurred in 2016 which resulted in \$94,000 in fines. One event was a serious injury at one of our sites and the other a fire at a production tank in Reno, Alberta. To prevent similar tank fires, we initiated a detailed engineering review and have improved our tank purging and tank warming guidelines warming guidelines, raised awareness among our staff and changed procedures. (read more on page 18).



Compliant inspection rate is defined as the percentage of site inspections conducted by the regulator in which the site was deemed satisfactory and the regulator did not issue any “non-compliances”.
Baytex has consistently outperformed the industry average on this metric.

Appendix

1. Climate-Related Risks (TCFD Disclosures)

We agree that investors, insurers and banks can make better decisions on the basis of improved climate-related disclosures. Baytex responds annually to the CDP (formerly Carbon Disclosure Project) survey on greenhouse gas emissions and related programs.

This year, we are expanding our disclosures in alignment with the *Task Force on Climate-related Disclosures* (TCFD).

We have identified two types of climate-related risks: 1) physical risks, which are risks associated with physical impacts from climate change, and 2) transition risks, which are regulatory and business risks related to the transition to a lower-carbon economy.

Physical Risks

Our operated assets are located in Alberta and Saskatchewan. These two provinces are not affected by rising sea levels, and do not have a history of hurricanes or earthquakes. Our field operations could be impacted by extreme weather events including flooding, wildfires, lightening and tornadoes as well as heavy precipitation events and temperature extremes (atypically hot and atypically cold events). In the past the company has had to temporarily shut-in production due to flooding and wildfires. These risks are largely unpredictable and uncontrollable, however Baytex has systems in place for the rapid implementation of emergency response and contingencies to reroute production to sales points via trucks and rail if required. We have business interruption insurance for key infrastructure and property insurance coverage on larger facilities. In addition, we participate in wildfire control planning and emergency response exercises.

Our non-operated assets are in the Eagle Ford basin in Texas. The Eagle Ford stretches from the Texas-Mexico border to several kilometers inland. During Hurricane Harvey in 2017, the field was only shut down for one day. We will continue assessing physical risks to our assets.

Transition Risks

The carbon-related regulations most relevant to our company are:

Canadian Federal Carbon Pricing

In 2018, the federal Greenhouse Gas Pollution Pricing Act came into effect in Canada. The Act is designed to lower the country's carbon emissions so that Canada can meet the reduction targets as agreed in the *Paris Agreement*. The Act implements a federal carbon pollution cost that is applied to fuel and combustible waste. The carbon pricing is \$10/tonne CO₂e in 2018 and increases \$10/tonne annually to \$50/tonne in 2022. This federal pricing impacts provincial jurisdictions that do not have an equivalent pricing system in place. The federal program took effect in Saskatchewan on April 1, 2019 and will take effect in Alberta on January 1, 2020. Baytex currently estimates the 2019 impact of the increased pricing of GHG emissions to be \$3 million. The financial impact in 2020 and into the future will be impacted by the development of Output Based Performance Standard programs by the provinces, and their ability to achieve federal equivalency for these programs.

Baytex is actively participating with regulatory bodies and industry groups in Alberta and Saskatchewan on the development of federally equivalent Output Based Performance Standard Programs. These programs, OBPS in Saskatchewan and TIER in Alberta, would significantly limit the company's exposure to the federal carbon tax. Oil and gas facilities under their auspices would not be subject to the federal carbon tax when performance standards are met or exceeded. Baytex will apply to have its producing sites included in the offset programs as they are developed by both provinces. In the jurisdictions Baytex operates, management monitors and reviews developments to provincial and federal carbon pricing policies and the implementation of carbon pricing schemes to be able to adapt accordingly.



Methane Regulations

In addition to the federal carbon pricing, the following programs aiming to specifically reduce methane emissions from oil and gas production apply to our operations:

- Alberta, Methane Emissions Reduction Program. A suite of fleet and site-specific regulations focused on the reduction of venting and fugitive emissions at upstream oil and gas sites. Elements of the program include: Fugitive Emissions Management Plans (FEMP), the Methane Reduction and Retrofit Compliance Plan (MRRCP) which obligates operators to swap out higher venting equipment and routine venting limits for all sites. Regulations will come into effect on January 1, 2020.
- Saskatchewan, Oil and Gas Emissions Management Regulations (OGEMR). These are fleet-based and production class based regulations designed to progressively reduce an operators GHG "emissions intensity"⁽¹⁾ over time. Regulations came into effect on January 1, 2019 with emissions intensity limits starting in 2020 and final target emission intensities being reached by 2025.
- Federal Backstop Program, Methane Regulations for the Upstream Oil & Gas Sector. These are site -specific regulations focused on venting and fugitive emissions. Elements of the program include: Leak Detection and Repair (LDAR) programs, venting limits for compressors and pneumatic devices and total venting limits for all sites. Regulations come into effect on January 1, 2020. The federal government will implement this program if provincial programs are deemed insufficient to meet provincial GHG reduction targets.

Baytex continues to develop plans that will ensure compliance with any emissions reduction regulation that comes into force. Negotiations continue between the provinces and the federal government, however neither provincial program has been granted equivalency.

Directive 084

Directive 084 was created in response to the January 2014 Peace River Hearings to address odours and emissions generated by heavy oil operations in the Peace River region (Three Creeks, Walrus, Seal Lake and Reno). As of January 1, 2018, companies operating in the Peace River region are required to conserve 95% of all gas produced. This required conservation rate excludes non-routine flaring. In 2018, our gas conservation rate in the region was 99.1%, exceeding these regulations.

2. Board's oversight

Baytex's Health, Safety & Environment (HS&E) Committee assists the Board with its responsibility for due diligence by making recommendations related to the development and implementation of policies and standards for HS&E matters. This includes the review of and discussion of progress in relation to climate change, reduction of carbon footprint and future opportunities. The HS&E committee's members are: the Chief Executive Officer, Chief Operating Officer, General Counsel and Corporate Secretary, Business Unit Vice Presidents and HSE Manager. This committee meets quarterly, reviews initiatives to manage climate-related risks and reports to the Board as important matters arise.

3. Climate-related metrics and targets

Emissions data is reported publicly through the National Pollutant Release Inventory (NPRI), the CDP (formerly Carbon Disclosure Project) and this report. Baytex uses third party expertise to quantify and monitor its emissions profile. In 2019, Baytex has established a formal GHG emissions reduction program using 2018 as the baseline year. Read more about our emissions and target on page 31.

(1) "Emissions intensity" defined as the ratio of actual GHG emissions emitted from a site or fleet of sites relative to the potential emissions that would occur from the theoretical venting of all associated gas.

2. Frequently Asked Questions

Some of our stakeholders, including rating agencies via surveys, ask questions about ESG risks not covered previously in this report. Here are some facts and views on various topics:

Do you operate in the Canadian oil sands?

Do you have tailing ponds?

The Peace River region where we produce heavy oil is considered a part of the oil sands deposits in the provinces of Alberta. However, we do not participate in open pit mining operations that require tailing ponds. Although we extract heavy oil, it is deeper in the ground and cannot be extracted through surface excavation. We rely mainly on primary production techniques to extract our heavy oil.

Do you have significant impacts on biodiversity?

Do you operate near the Caribou habitat?

We acknowledge that Woodland caribou populations are in decline in Alberta and British Columbia, and that resource development activity can potentially affect ecosystems and biodiversity. Our operations in Northern Alberta intersect with the Caribou Protection Areas, and we comply with the government's strict requirements for operating within these areas.

Do you have a human rights policy?

In our business and operations, we aim to respect human rights, and expect everyone working for us, or on our behalf, to respect human rights. We currently do not have a specific human rights policy; all of our operations are in North America, and subject to strong Canadian and U.S. human rights and labour laws that protect the rights of individuals.

Do you have formal lobbying efforts? How do you provide input to public policy development?

We mainly work through industry associations such as the Explorers and Producers Association of Canada (EPAC) and other organization such as Canada Action to support industry positions and to stay informed of policy development.

Have you had any induced seismicity events due to fracking?

To date, Baytex has no knowledge of seismic events related to its completion operations. Most recently the Alberta Energy Regulator (AER) has implemented a monitoring program for fracture-induced seismic events in the Red Deer and Brazeau areas (in addition to the existing Fox Creek Subsurface Order) where Duvernay drilling and completion operations have been ongoing. Baytex will evaluate completion operations and ensure mitigation measures are in place in the event that seismic activity is triggered by fracturing within the Duvernay Formation.

3. Performance Table

	Units	2014	2015	2016	2017	2018	5-year Trend
Daily Production (Operated Properties)	boe/d	60,301	46,202	33,546	33,564	43,382	-28%
Environment ¹							
Greenhouse Gas Emissions ¹							
Total	CO ₂ e tonnes	1,329,836	1,273,950	1,003,644	855,749	1,342,630	1%
Direct	CO ₂ e tonnes	1,284,090	1,236,121	972,834	805,018	1,278,240	0%
Indirect	CO ₂ e tonnes	45,746	37,829	30,810	50,731	64,390	41%
Intensity (Scope 1 and Scope 2)	tonnes CO ₂ e/boe	0.060	0.076	0.082	0.070	0.085	40%
Direct Emissions by Source							
Combustion Emissions	CO ₂ e tonnes	799,534	672,758	609,757	402,789	484,792	-39%
Flare Emissions	CO ₂ e tonnes	158,550	135,225	126,098	157,899	140,921	-11%
Fugitive Emissions	CO ₂ e tonnes	16,975	16,327	15,600	15,318	17,425	3%
Venting	CO ₂ e tonnes	309,032	411,812	221,379	229,012	635,084	106%
Volume of Flared Gas	thousand m ³	62,496	59,265	56,503	71,962	65,762	5%
Volume of Vented Gas	thousand m ³	19,257	25,807	13,896	14,723	49,615	158%
Other Air Emissions							
Sulfur Dioxide (SO ₂)	tonnes	28	2	34	53	10	-64%
Nitrogen Oxides (NO _x)	tonnes	5,265	4,318	3,919	3,041	3,558	-32%
Water							
Water Withdrawal	m ³	867	534	337	384	623	-28%
Water Intensity	m ³ /boe	0.04	0.03	0.03	0.03	0.04	0%
Abandonment							
Abandoned Wells	wells (gross)	100	39	57	104	110	10%
Reclamation							
Sites Undergoing Major Restoration	sites	28	62	70	57	60	114%
Sites Undergoing Minor Restoration	sites	24	17	15	53	69	188%
Reclamation Certificates Received	count	32	16	34	35	35	9%
Reclaimed Land	hectares	51	27	60	72	77	52%
Spills							
Reportable Spills	count	48	23	17	9	15	-69%
Trucking, Reportable Spills	count	16	5	5	1	4	-75%
Volume of Reportable Spills	m ³	606	412	340	78	145	-76%
Trucking, Volume of Reportable Spills	m ³	80	39	40	1.5	1.1	-99%
Pipeline Incident Rate	incidents per 1,000 kms	n/a	1.22	0.88	0.83	0.57	

(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. For the reporting period noted above, the majority of our Eagle Ford assets (located in Texas) were 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.



	Units	2014	2015	2016	2017	2018	5-year Trend
Safety							
Recordable Injury Rate - Employees	cases per 200,000 work hours	0.00	0.81	1.17	0.19	0.35	
Recordable Injury Rate - Contractors	cases per 200,000 work hours	1.29	1.11	0.12	0.47	0.83	-36%
Recordable Injury Rate - Combined		0.98	1.01	0.52	0.37	0.70	-29%
Lost-time Injury Rate - Employees	cases per 200,000 work hours	0.00	0.32	0.20	0.00	0.18	
Lost-time Injury Rate - Contractors	cases per 200,000 work hours	1.23	0.66	0.12	0.28	0.13	-89%
Lost-time Injury Rate - Combined		0.31	0.56	0.15	0.19	0.14	-55%
Fatalities - Employees and Contractors	count	0	0	0	0	1	
Employees							
Workforce Profile	count	332	271	250	230	251	-24%
Full-time	count	332	271	250	230	251	-24%
Part-time	count	0	0	0	0	0	
Employees Covered by Collective Bargaining Agreements	count	0	0	0	0	0	
Employees by Country							
US	count	27	29	22	0	0	
Canada	count	305	242	228	227	251	-18%
Women at Various levels							
Board	percent	11%	11%	20%	17%	10%	-10%
Officers	percent	0%	0%	0%	0%	0%	
Supervisory Positions	percent	36%	33%	37%	39%	31%	-13%
All Employees	percent	40%	34%	33%	41%	43%	7%

	Units	2014	2015	2016	2017	2018	5-year Trend
Employees							
Employee Age Categories							
30 Years and Under	percent	n/a	n/a	n/a	1%	6%	
30 to 50	percent	n/a	n/a	n/a	66%	67%	
50 Plus	percent	n/a	n/a	n/a	33%	26%	
Turnover Rate							
Total	percent	12%	13%	6%	15%	18%	49%
Voluntary	percent	4%	9%	3%	8%	10%	165%
Involuntary	percent	8%	4%	3%	7%	8%	-7%
Spending per Employee	\$/employee	689	388	84	287	219	-68%
Economic							
Value Generated ^{2,3}	millions of \$	2,321.0	1,322.7	941.5	1,110.5	1,360.4	-41%
Value Distributed to:							
Suppliers ⁴	millions of \$	1,263.3	881.2	471.0	612.1	813.5	-36%
Employees (wages and benefits) ⁴	millions of \$	57.3	56.8	45.8	48.9	47.0	-18%
Providers of Capital	millions of \$	405.7	210.1	104.2	98.8	102.2	-75%
Governments (taxes and royalties)⁶							
Domestic Governments	millions of \$	361.3	74.5	54.0	63.7	79.4	-78%
Foreign Governments	millions of \$	78.5	37.0	21.6	21.8	29.1	-63%
Landowners ⁷	millions of \$	18.3	168.2	137.6	184.8	248.1	1257%
Communities & Non-Profits (charitable contributions)	millions of \$	0.6	0.3	0.2	0.2	0.1	-78%
Indigenous Communities (purchases and royalties) ⁸	millions of \$	6.1	1.6	0.6	1.1	2.2	-64%
Value Retained ⁹	millions of \$	129.8	-107.0	106.7	79.2	38.5	-70%
Purchases from Indigenous Suppliers ¹⁰	millions of \$	2.4	1.1	0.4	0.9	2.2	-7%

(2) Corporate acquisitions and funds raised or borrowed to finance corporate acquisitions have been excluded.

(3) Value generated includes revenues from petroleum and natural gas sales, realized gain/losses from derivatives or foreign exchange and net proceeds from divestitures.

(4) Payments to suppliers and employees for 2014-2016 have been restated since the publication of our 2016 Corporate Responsibility report to better align our methodology with the GRI Standards requirements.

(5) Payments to providers of capitals for 2015-2016 have been restated since the publication of our 2016 Corporate Responsibility to align with our financial reporting.

(6) Payments to Governments: Baytex is committed to transparency and responsible tax payments. We are guided by tax principles that follow the intent of the law in our tax calculations and payments. Income tax paid has decreased due to a decrease in profit before tax.

(7) Payments to landowners include freehold royalties and lease costs.

(8) Payments to Indigenous communities only includes direct purchases and royalties paid to Indigenous communities but excludes a significant amount of indirect contributions through private contractors who we encourage to provide jobs to and sub-contract with Indigenous individuals and companies.

(9) Value retained is value generated minus value distributed. This is not a financial reporting indicator and should not be compared with retained earnings.

(10) Businesses owned at least 50 percent by First Nations, Inuit, Métis or by a band.

4. GRI Index

This report references the GRI Standards but has not fulfilled all the requirements to be “in accordance”. The index below list key performance indicators and qualitative disclosures as suggested by the GRI Standards.

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* Partially meets the disclosure requirements suggested by the GRI Standards

5. SASB Index

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NR0101-03	Description of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	31
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NR0101-04	Air emissions for the following pollutants: NO _x (excluding N ₂ O), SO _x , volatile organic compounds (VOCs), and particulate matter (PM)	26, 50*
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NR0101-05	Total fresh water withdrawn, percentage recycled, percentage in regions with High or Extremely High Baseline Water Stress	32, 50*
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NR0101-09	Description of environmental management policies and practices for active sites	49
NR0101-10	Number and aggregate volume of hydrocarbon spills, volume in Arctic, volume near shorelines with ESI rankings 8-10, and volume recovered	23, 50*
SASB Suggested Disclosures		Page
Security, Human Rights, and Rights of Indigenous Peoples		
NR0101-12	(1) Proved and (2) probable reserves in or near areas of conflict	Does not apply
NR0101-13	(1) Proved and (2) probable reserves in or near indigenous land	38*



SASB Suggested Disclosures		Page
Community Relations		
NR0101-15	Discussion of process to manage risks and opportunities associated with community rights and interests	37-38
NR0101-16	Number and duration of non-technical delays	Zero
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NR0101-17	(1) Total Recordable Injury Rate (TRIR), (2) Fatality Rate, and (3) Near Miss Frequency Rate for (a) full-time employees, (b) contract employees, and (c) short-service employees	51*
Health, Safety, and Emergency Management		
NR0101-19	Discussion of management systems used to integrate a culture of safety and emergency preparedness throughout the value chain and throughout the exploration and production lifecycle	18
Business Ethics and Payments Transparency		
NR0101-20	(1) Proved and (2) probable reserves in countries that have the 20 lowest rankings in Transparency International's Corruption Perception Index	Zero

6. Glossary of Terms and Abbreviations

BOE	Barrel of oil equivalent
Board	Board of Directors of Baytex
CEO	Chief Executive Officer
CO₂	Carbon dioxide
COR	A Certificate of Recognition (COR) is awarded to companies with a safety management systems after it has been audited by a third party, A COR needs to be renewed every three years.
COBC	Code of Business Conduct and Conflict of Interest Policy
GRI	Global Reporting Initiative Sustainability Reporting Standards
Information Circular	Baytex management information circular dated March 14, 2019 for the annual and special meeting of Shareholders to be held May 2, 2019.
km	Kilometers
m³	Cubic meters
SASB	Sustainability Accounting Standards Board
Shareholder	A holder of common shares in the capital of Baytex
TCFD	Task Force on Climate-related Financial Disclosures

7. Forward-Looking Statements

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 quality of our drilling inventory; plans, targets and goals in respect of emissions, emissions intensity, water use, spills, site reclamation, the health, safety and environment of our employees and contractors, corporate governance, and community and stakeholder engagement, relationship building with Indigenous communities and community investment. 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 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, 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 initiative:

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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