

CORPORATE  
RESPONSIBILITY  
REPORT

# OUR **PATH** OF **RESPONSIBILITY**

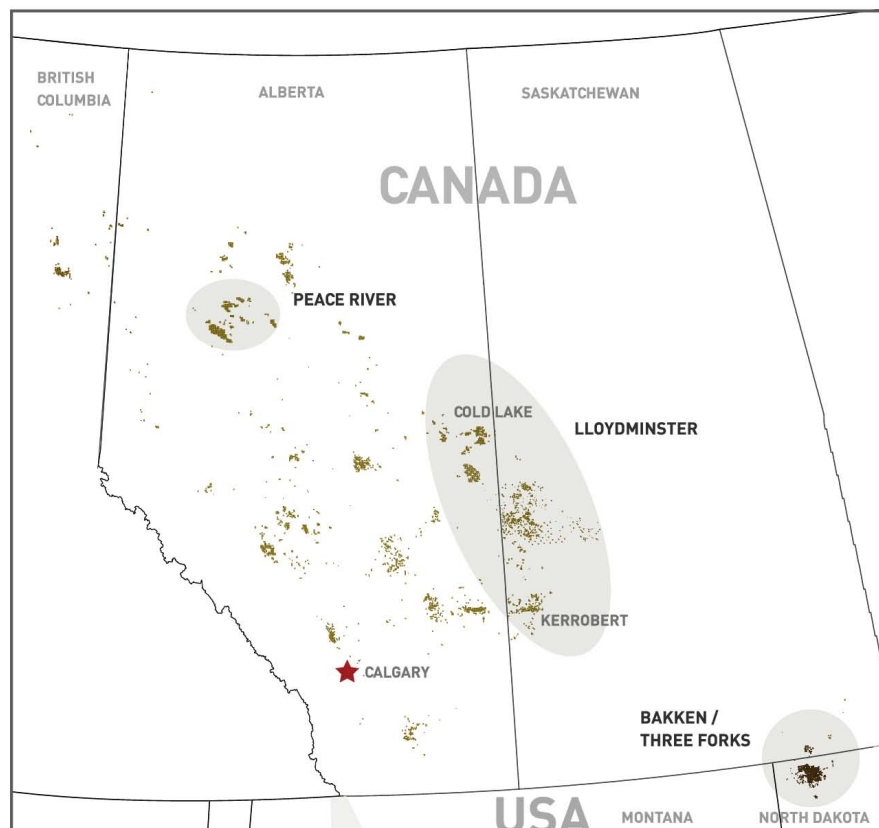
2012

**BAYTEX**  
ENERGY CORP.

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## OPERATING AREAS



## Responsible Value Creation

We believe that by acting as a responsible company in all aspects of our operations, not just financial, we create long-term value for all stakeholders. That value can come in the form of employee opportunities for personal growth, an improved quality of life in communities where we operate, greater business opportunities for Aboriginal groups, and an attractive return on investment for shareholders. More broadly, society benefits from environmentally responsible development that produces reliable energy at a reasonable cost. Developing oil and gas resources requires a long-term commitment. Accordingly, we will continue to focus on creating value for all stakeholders over the long-term.

This is our first biannual corporate responsibility report, but it does not mean we recently discovered the subject. We have been committed to operating in a manner that respects people and the environment since our founding 20 years ago. Our values-based focus on environmental protection and the well-being of communities and employees is supported by strong ethics.

While this report is primarily designed for you, our stakeholders, it is also a key tool to assist us in identifying areas for improvement and articulating our plans. Our performance on numerous environmental, safety, employee and economic issues is highlighted throughout the report and is summarized in a table on page 21. Given our commitment to continual improvement in corporate responsibility at Baytex, we have included a Looking Ahead section for each major subject.

I am delighted to work at Baytex with employees and a Board of Directors who are exceptionally talented. I interact with a broad range of employees daily. I'm impressed with their strong initiative as well as their desire to take on new challenges and their ability to always know the right things to do. I want to thank them and the Board for their dedication and integrity.

Corporate responsibility is not a destination—it's a daily journey marked by diligent behavior that demonstrates, with action, that Baytex staff will do what is right. We will continue to evolve our corporate responsibility programs, thinking and reporting. But it's not a solitary pursuit. We will need your help and input. We look forward to collaborating with you in the coming years.

**JAMES L. BOWZER**

President and Chief Executive Officer  
November 29, 2013

## Key Financial and Operating Indicators – Year Ended December 31, 2012

### OPERATING HIGHLIGHTS

#### PRODUCTION

Light Oil & NGL (bbl/d)	7,360
Heavy Oil (bbl/d)	39,447
Natural Gas (mmcf/d)	43.1
TOTAL (boe/d) <sup>(1)</sup>	53,986
Wells Drilled (net)	163
Total Proved plus Probable Reserves (mmboe)	292
FD&A Costs (\$/boe proved plus probable) <sup>(2)</sup>	\$11.61

### FINANCIAL HIGHLIGHTS

Petroleum and Natural Gas Sales (millions)	\$1,219.5
Funds from Operations (millions) <sup>(3)</sup>	\$532.7
Dividends Declared (per share)	\$2.64
Exploration and Development Capital Expenditures (millions)	\$418.6
Market Capitalization (billions) <sup>(4)</sup>	\$5.2
Total Monetary Debt (millions) <sup>(5)</sup>	\$599.8

<sup>(1)</sup> Barrel of oil equivalent (boe) amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. See Advisory on the inside back cover.

<sup>(2)</sup> Finding, Development & Acquisition (FD&A) costs include exploration, development and acquisition capital expenditures.

<sup>(3)</sup> Funds from Operations is cash flow from operating activities adjusted for financing costs, changes in non-cash operating working capital and other operating items, and is a non-GAAP measure as referenced in the Advisory on the inside back cover.

<sup>(4)</sup> Market Capitalization is the product of the closing price on the Toronto Stock Exchange and shares outstanding as at December 31, 2012.

<sup>(5)</sup> Total Monetary Debt is as of December 31, 2012, and is a non-GAAP measure which we define to be the sum of monetary working capital (which is current assets less current liabilities [excluding non-cash items such as unrealized gains or losses on financial derivatives]), the principal amount of long-term debt, and long-term bank loan.

## ABOUT BAYTEX

Baytex is an oil and gas corporation based in Calgary, Alberta. We acquire, develop and produce crude oil and natural gas in western Canada and the United States.

Baytex is committed to maintaining its production and asset base through internal property development and delivering consistent returns to its shareholders. Baytex pays a monthly dividend on its common shares, which are traded on the Toronto Stock Exchange and the New York Stock Exchange under the symbol BTE. Visit our website at [www.baytex.ab.ca](http://www.baytex.ab.ca) to learn more about our company.

## ABOUT THIS REPORT

- ▶ Unless otherwise noted, this report covers performance for the 2010-2012 calendar years, for Baytex Energy Corp. and its subsidiaries.
- ▶ Senior Baytex leaders conducted a materiality assessment in June of 2013 to determine which topics are most relevant to stakeholders and to the success of our business. An independent consultant, who presented the group with a list of more than 30 sustainability issues extracted from reporting guidance and industry reports, facilitated the meeting. The group discussed each topic and agreed to its priority level.
- ▶ We used the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.1 to help determine report content. Under the GRI Guidelines we achieved a C Level report. The GRI index on page 22 indicates where specific disclosures are addressed.
- ▶ We include data for joint ventures for which Baytex holds the operating permit, or is identified as the operating entity in the contract, regardless of financial ownership. The treatment of joint ventures may be addressed differently in Baytex's 2012 Annual Report with respect to financial performance.
- ▶ In some cases, we are able to provide information for only a portion of our operations. Data limitations are explicitly noted on page 21.
- ▶ Unless noted, data does not cover contractors or temporary employees.
- ▶ Techniques for data measurements and calculations, if not industry standard, are stated with the data.
- ▶ For some environmental and safety indicators we are able to compare our performance against industry averages from the Canadian Association of Petroleum Producers (CAPP).
- ▶ Financial data is in Canadian dollars and environmental data is in metric units.
- ▶ The accuracy of this report for our readers is of significant importance. Senior management and relevant staff have reviewed all information and believe it is an accurate representation of our performance. Internal assurance activities covering the information presented in this report included financial, and environmental, health and safety performance. Third-party assurance of our corporate responsibility report was not conducted.
- ▶ The terms Baytex, our, we, the company, and the corporation, refer to Baytex Energy Corp. and its subsidiaries as a whole.

# THE FOUNDATIONS OF CORPORATE RESPONSIBILITY

For Baytex, corporate responsibility is about developing oil and gas resources in a way that ensures community members are engaged in decisions, employees are treated respectfully, and resources are extracted with the least negative environmental impacts possible. Weaving corporate responsibility into our company's fabric requires strategic integration into our business plans and practices. This is an ongoing process and we are committed to working with all levels and disciplines within the company to continually improve.

The foundations of a responsible company include strong governance, solid business ethics, a rigorous management approach, and meaningful stakeholder engagement. These cornerstones guide our actions on the specific subject areas of corporate responsibility.

## Governance

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

Our Board of Directors (the Board) is ultimately responsible for the stewardship of Baytex, and is accountable to our shareholders. The Board has four committees: the Audit Committee; the Compensation Committee; the Nominating and Governance Committee; and the Reserves Committee. Each of the committees is composed entirely of independent directors. The overall Board, not a separate committee, has responsibility for health, safety and environmental matters.

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

Shareholders, employees and other interested parties may contact the Board by sending correspondence, marked to the attention of the Executive Chairman. Through attendance at the Annual General Meeting (AGM) or through the use of proxies for voting, shareholders are given the opportunity to vote on matters affecting Baytex. In addition, subject to statutory provisions, shareholders may submit their own resolution for consideration at the AGM. Shareholders also have the opportunity to raise questions from the floor during the question and answer portion of the AGM.

## Ethics

Baytex is committed to maintaining the highest standards of honesty and accountability in our business activities. Our employees, officers and directors are likely to be the first to know when someone inside the company or connected with us is acting improperly. We have a Statement on Reporting Ethical Violations that encourages all Baytex employees to report any misconduct. The associated procedure ensures that Baytex employees can report misconduct on a confidential and anonymous basis without the threat or fear of dismissal, harassment or other retaliation. Our legal department follows up on all reports and informs the Audit Committee of the Board quarterly on all investigations. The Statement on Reporting Ethical Violations is available on our website.

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



Baytex is committed to maintaining

**the highest standards of honesty and accountability**

in our business activities.

## Management Approach

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

We adopted an updated HSE policy in 2012 to help guide our approach in this key area. Our current HSE Management System, which was not yet in place in 2012, provides a framework that details expectations of all levels of management and describes how managers can implement the system with respect to corporate values and policy. The system comprises a broad-based set of expectations governing how health, safety and environment are managed. Managers will define and set direction for loss prevention activities, forecast and allocate resources, and consistently strive to deliver improved HSE performance. Implementation of specific programs, procedures and processes will meet the objectives set by corporate policy.

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

## Stakeholder Engagement

Our continued success depends on understanding and respecting the needs and interests of stakeholders at every stage of our operations.

We listen to stakeholder concerns and strive to incorporate their suggestions into our operational plans. Our inclusive approach to stakeholder engagement, and efforts to maintain an honest and mutually-beneficial relationship with stakeholders, helps ensure stable operations and timely access to land. Stakeholder engagement is an integral part of our business.

The type and frequency of our stakeholder engagement is based on the scope and potential impacts of our operations, and the degree to which parties wish to be involved.

Our interactions take different shapes to achieve a variety of objectives:



### Employees

Through town halls and training to keep employees informed, and through an employee survey to have their suggestions heard.



### Communities/Landowners

Through open houses, workshops, committees, formal hearings and informal meetings to understand and address concerns.



### Governments/Regulators

We work with governments, industry organizations, and other stakeholders to interpret and help develop balanced legislation, regulations, practices, procedures and standards.

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

We have included examples of how we are addressing stakeholders' concerns throughout this report.



## ENVIRONMENT

Harnessing any energy source creates environmental impacts. It is our aim to minimize the impacts of oil and gas extraction on the air, water and land. For Baytex, regulatory compliance is considered the bare minimum. We are pursuing new technologies for restoring well sites, and for reducing the water and energy used to extract oil and gas resources. We are also voluntarily employing practices that help us reduce greenhouse gas and other air emissions.

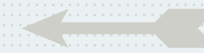
### Environmental Management

In 2012, we adopted an updated HSE policy, which spells out our commitments and is based on CARE (Communication, Action, Responsibility, and Excellence). To view our HSE policy, please visit our website.

We also formed an HSE Management Committee in 2012, consisting of the Chief Executive Officer, Chief Operating Officer, Business Unit Vice Presidents and the HSE Manager. The committee assists the Board with its responsibility for due diligence by making recommendations on the development and implementation of HSE policies and standards.

To support implementation of our policy, we began developing an HSE management system in 2012, which will include elements addressing training, auditing, documentation, procedures, and goal setting. Business units will steward toward the management system requirements.

### LOOKING BACK



**Developed key governance elements, including an updated HSE Policy and an HSE Management Committee**

**Began a gas gathering project in the Peace River region that substantially reduces greenhouse gas emissions**

**Reduced spill volumes by 41 percent from 2010 to 2012**

### LOOKING AHEAD



**Develop an HSE Management System, and update our current Canadian and USA guidelines**

**Continue to identify and implement practices to reduce greenhouse gas and other air emissions**

## Air

Baytex is aware that climate change issues are important to many of our stakeholders, and therefore, managing greenhouse gas (GHG) emissions is integrated into our business strategy. We are also acutely aware that GHG emissions have financial impacts. In 2012, Baytex paid approximately \$1 million in carbon taxes to the Province of British Columbia.

We took the following steps in 2012 to reduce our GHG emissions:



In our Peace River operating region, we made a business decision to participate in a \$16-million natural gas capture and conservation project. Previously, the gas was vented into the atmosphere. Based on standard calculations, the volume of gas captured in 2012 is equivalent to

**avoiding approximately 410,000 tonnes of carbon dioxide emissions, or taking 85,000 cars off the road for a year.**



In our North Dakota operating region, we entered into an agreement that will

**capture natural gas that was previously flared.**

Construction of required infrastructure will be completed in 2013.



We began developing a commercial arrangement with a third party to

**collect previously flared or vented gas in the Peace River area**

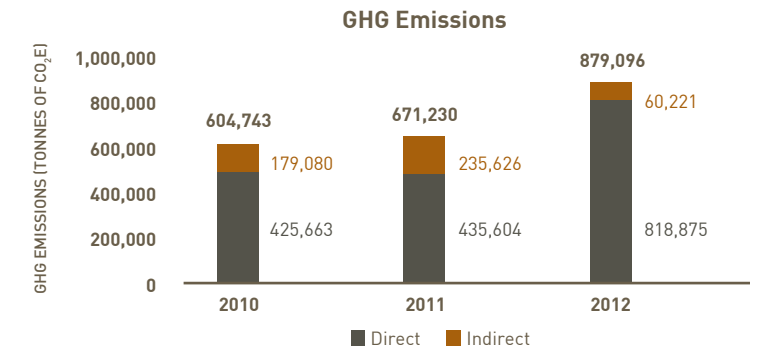
for use in power generation starting in 2013.

**Flaring and Venting**

Flaring and venting are practices that emit GHGs. Flaring is a controlled burn of unusable natural gas captured from wells. Venting is the release of uncombusted gases directly to the air.

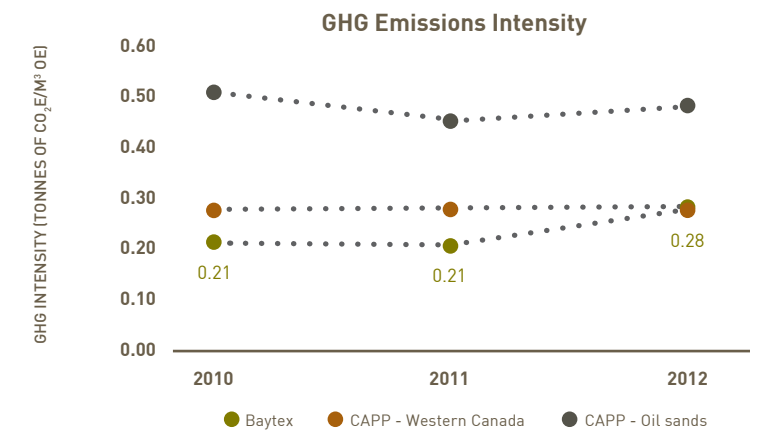
## GHG Emissions

The increase in reported emissions is due to increased development activities and an improvement in measurement methodologies throughout our operating areas.



## GHG Emissions Intensity

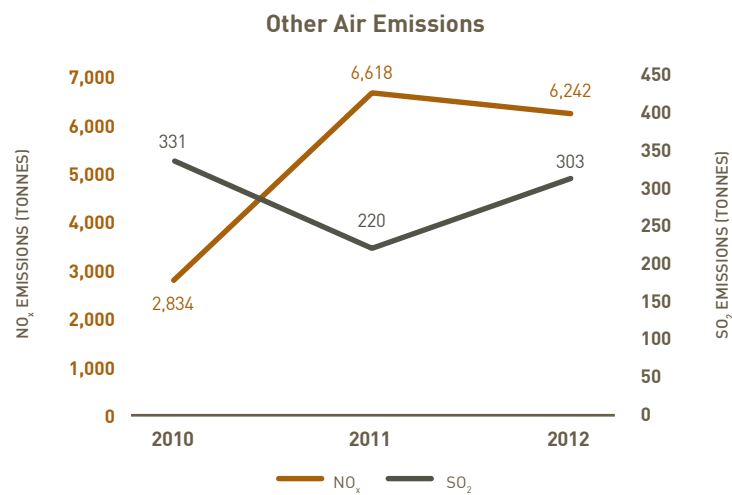
Emissions intensity is increasing mainly due to production growth in areas where gas gathering systems are not fully developed. Although our emissions intensity is generally below the range of other companies with western Canada conventional or oil sands operations, we expect our intensity to increase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



Baytex has engaged with regulators in Saskatchewan and Alberta on new regulations related to gas conservation, flaring, incinerating and venting. We believe transparency on GHG emissions is an essential component of corporate responsibility and accordingly, participate in the Carbon Disclosure Project. This project 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.

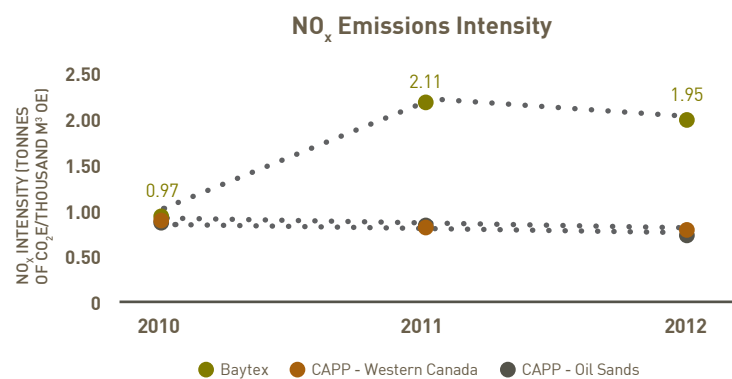
**Direct and Indirect GHG Emissions**

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



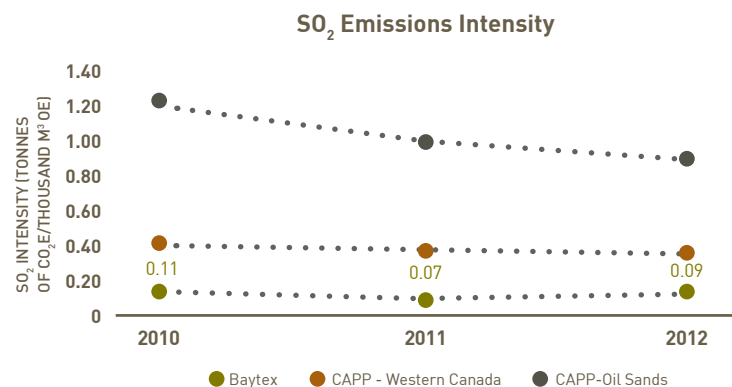
## Other Air Emissions

Oil and gas production also generates air emissions such as sulphur dioxide (SO<sub>2</sub>) and nitrogen oxides (NO<sub>x</sub>) that have regional impacts. The addition of thermal enhanced oil recovery systems resulted in an increase in NO<sub>x</sub> emissions in 2011. In the past year we have decreased NO<sub>x</sub> emissions through operational efficiencies.



## NO<sub>x</sub> Emissions Intensity

Baytex had a higher NO<sub>x</sub> emissions intensity than industry due to our growing thermal enhanced recovery systems, which utilize more fuel to create steam and heat the reservoirs.



## SO<sub>2</sub> Emissions Intensity

Baytex had a lower SO<sub>2</sub> emissions intensity than industry due to the relatively lower proportion of natural gas production in our portfolio, and due to relatively lower use of sour gas.



Where possible, we try to  
**recycle or reuse water, and use deep well or saline water.**

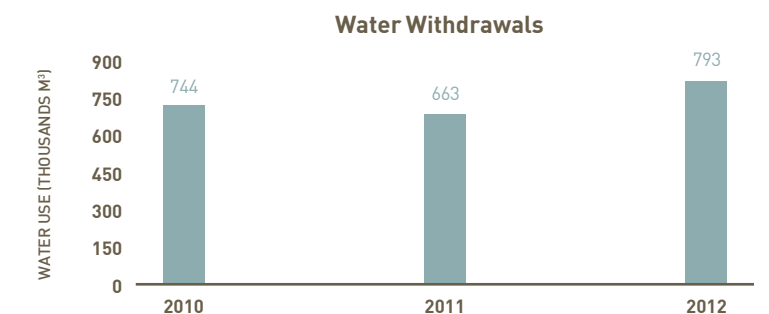
## Water

Water is essential to our operations for drilling and for generating steam for heavy oil extraction. We operate three steam projects, which account for approximately five percent of our production. Consequently, our water requirements are much less relative to larger operators. Where possible, we try to recycle or reuse water, and use deep well or saline water (water that is not suitable for animal or human consumption or for agriculture). As we increase our use of steam for thermal heavy oil extraction, we will need to continually investigate and employ water use reduction and recycling techniques.

While Baytex does employ hydraulic fracturing to enhance recovery, this technology is used on less than seven percent of the wells we drill. To ensure groundwater protection, we follow stringent requirements that regulators have placed on how wells must be completed. We also participate in the USA and Canadian FracFocus online disclosure registry, which involves listing, by well, the chemical constituents in the fracturing fluid and the amount of water used.

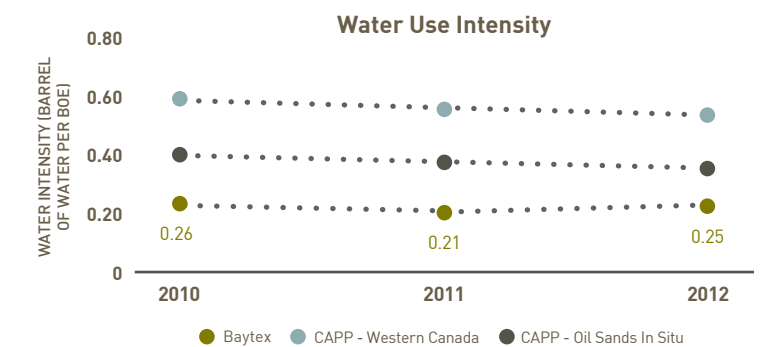
## Water Withdrawals

Our water withdrawals on an absolute basis have generally increased in line with increasing production.



## Water Use Intensity

On an intensity basis, our water withdrawals have improved slightly. Baytex's water withdrawals are currently tracked for facilities where permits require monthly regulatory reporting. It does not include water from municipal sources or from water trucks.



Water quality is just as important to us as water use. Where flowback (water used in the fracturing process) or produced water (naturally occurring in the formation) cannot be recycled, it is disposed of responsibly (often into deep formations) to avoid contaminating freshwater resources or land. Before discharging any rainwater from our leases to the environment, we conduct testing and analysis to ensure it meets all regulatory requirements.

## Land

As part of our environmental responsibility, we understand the importance of respecting the land. We work to limit the amount of land we develop and any negative impacts on it. When our operations are complete, we restore the land to its pre-development state.

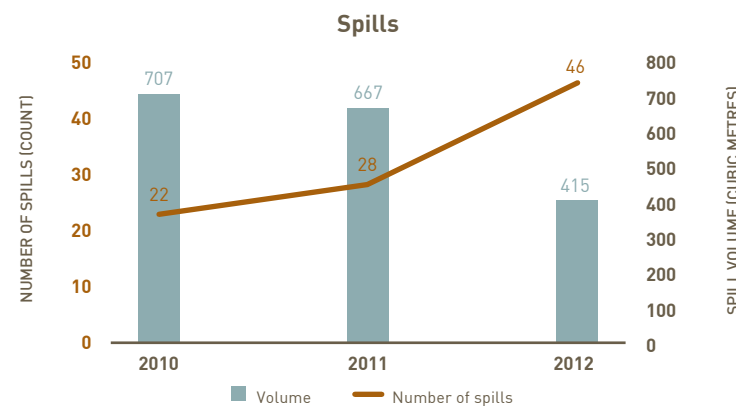
In many of our operations, we drill multiple wells from single pads to minimize the surface impact. As well, we try to use existing infrastructure (e.g., roads, bridges, pipelines) as much as possible, rather than creating new land disturbances. Although we have operations in the oil sands area, Baytex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

We reclaim inactive leases by returning the land to a state comparable to conditions prior to disturbance. More than 200 Baytex well sites were undergoing active reclamation in 2012. Some sites have soils with hydrocarbons at elevated levels that require remediation before reclamation. The innovative testing of phytoremediation (using plants to degrade or remove contaminants from soil) at our Red Earth operations in Alberta is proving successful. We have shared this new solution at conferences so others in the industry can benefit.

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



More than 200 Baytex well sites were undergoing active reclamation in 2012.



## Spills

Through spill mitigation practices we have been able to reduce spill volumes. We are focusing future prevention efforts on internal spill reduction targets to continue improvement in this area.

# EMPLOYEES

We strive to provide a workplace that is safe, fair, ethical, respectful, and engaging.

Our corporate culture encourages employees to take initiative. Baytex staff, including the executive team, maintain an open door policy. We are light on bureaucracy and heavy on collaboration, creating strong and versatile teams.

## Attracting New Staff

We expect that our stable management, strong financials, and commitment to corporate responsibility are characteristics that attract new employees. Due in part to our size, employees feel they are making significant contributions immediately, and can be called on in a wide variety of roles. Finally, our competitive compensation and benefits programs also play a role. The employee benefit package includes flex days, retirement savings plan matching, health spending accounts, and a full-value share award plan that includes restricted and performance share awards.

## LOOKING BACK

Our employee recordable injury rate continues to decline

Our employee turnover rate has declined significantly

## LOOKING AHEAD

Enhance a Competency Management and Development System to ensure employees are qualified and trained to safely conduct their work

Develop an HSE Management System

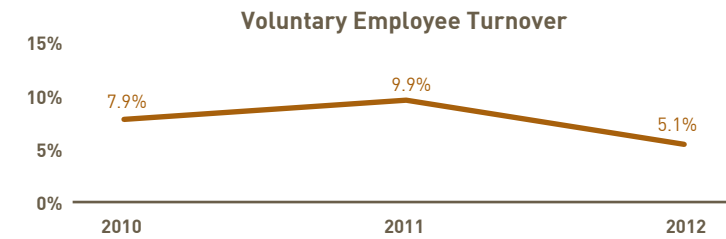
Connect employee long-term incentive plan to implementation of HSE management system and continuous improvement performance metrics



## Retaining Current Staff

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

At a smaller company, succession planning can be a challenge. We work to develop leaders from within. Our senior managers offer informal mentorship, and we strongly support peer-to-peer mentoring as well.



## Employee Commitment

Employee commitment is measured at Baytex periodically through a company-wide survey, the most recent of which was conducted in 2011. Our year-end employee review process also provides the opportunity for staff to provide feedback to the company. Business managers have been tasked with understanding the feedback and making recommendations for improvement. As an example, feedback from the employee survey identified that employees would like to be rewarded based on the company's performance, which led us to offer performance share awards to all employees. Performance share awards only convert to common shares if certain company-wide performance criteria are met.

Open and frequent communication is an essential means of engaging our employees. We hold town halls where senior management members share the company direction and field questions from staff. We have also increased the use of our internal website to inform and engage employees.

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

## Voluntary Employee Turnover

Employee turnover from 2010 to 2012 has improved. Historically, Baytex has had low levels of turnover.



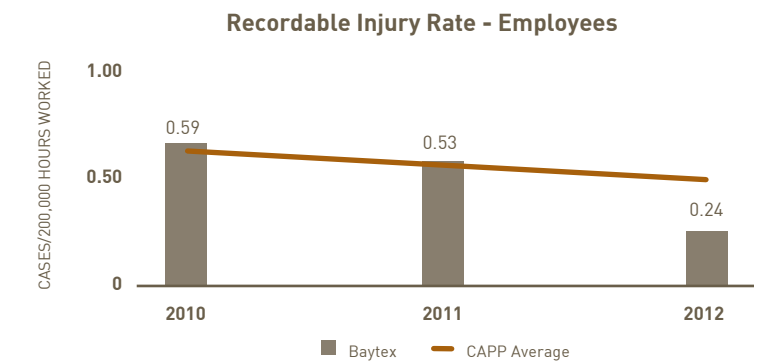
Baytex fosters giving back by

**matching employee charitable donations up to \$500**

per person per year.

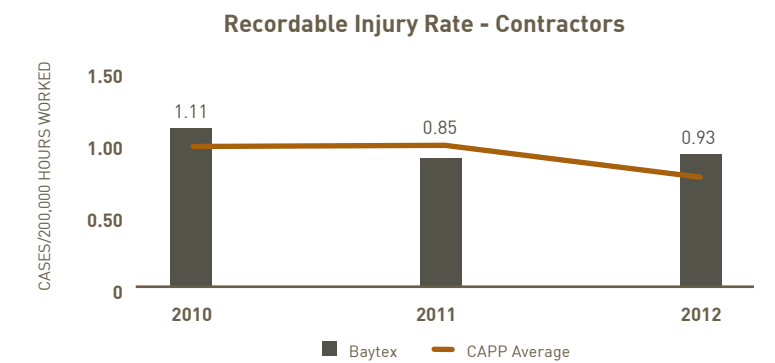
## Recordable Injury Rate - Employees

Our commitment to implementing guidance in our safety manuals has translated into a continually declining employee recordable injury rate.



## Recordable Injury Rate - Contractors

The decrease in the contractor rate is partially attributable to the requirement that our employees verify that contractors have the appropriate safety programs, insurance, and certifications before hiring.



## Safety

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

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

# SOCIETY

We place a premium on the quality of life and prosperity that comes from developing a responsible business. This means we develop energy resources in a manner that contributes to the economic and social sustainability of the communities in which we operate. We seek an interactive process that enables us to develop our investments in a way that benefits the communities where we work. We engage with local and Aboriginal communities to develop relationships based on trust and respect. We work to understand their concerns, involve them early in our project planning process and keep them informed of our ongoing operations. Baytex also supports not-for-profit organizations that meet compelling needs within these communities.

## Community Engagement

Baytex strives to develop and maintain long-term relationships with the communities in which we operate. We are committed to conducting our business in a way that contributes to prosperous communities and a healthy environment, now and in the future.

The foundation of our community relations is our promise of acting with respect and striving to build trust, while always placing people, safety and healthy environments at the forefront of our operations. This approach means we work at a personal level with stakeholders within the communities. We collaborate to address key issues such as traffic, dust, noise, air quality and safety.

Every year, we partner with local authorities to conduct required emergency response exercises at our facilities. In 2012, we organized a dedicated emergency response room at our head office and conducted several sour gas emergency response exercises.

We participate in multi-stakeholder "synergy" groups in many of our Alberta operations. Synergy groups are formed locally and engage communities in an ongoing and meaningful way regarding resource development decisions that directly affect them. Participants often include landowners, residents, regulators, non-profit organizations, and municipal and industry representatives. The groups focus on working together to resolve issues, lessen impacts and encourage the use of HSE best practices. In 2012, we worked with the Battle Lake Synergy Group to develop and implement modified management practices in our nearby operations regarding noise, lighting, traffic, and reclamation.

## LOOKING BACK

**Led the development of industry best practices in the Three Creeks Industry Working Group**

**Enhanced emergency response capabilities and established a dedicated response centre**

**Formalized charitable donations guidelines**

**Held formal community open houses in the Peace River and Lloydminster regions**

**Distributed more than \$1 billion in economic value in 2012**

## LOOKING AHEAD

**Develop a company-wide stakeholder engagement approach and structure**

**Further engage with Peace River area residents and provide additional communications regarding our plans for improving air quality in the area**

**Implement the Baytex Good Neighbour Program for all employees and contractors throughout our operations**

**Work to further engage Aboriginal contractors throughout our operations**

## Community Investment

We believe in making the communities where we work better off as a result of Baytex doing business in the area. Baytex supports not-for-profit organizations that meet compelling needs within these communities. Before investing, we work to understand the needs of the community and to find ways of addressing those needs. In addition to our corporate investments, we provide each of our field superintendents with a budget to invest in key activities within the communities where they work.

In 2012, we established a framework for our community investments that defines our goals for investing and outlines the steps for requesting support. Our community investment program is focused on three pillars: healthcare and research, community living, and education and training.

We supported a number of organizations in 2012, including the Alberta Children's Hospital, the Sunshine Foundation, UNICEF Canada, the Tom Baker Cancer Centre, Camp Kindle, Sonshine Community Services, Kidsport Canada – Alberta, Children's Cottage Society, Calgary Drop-In Centre, the Peace River Regional Pool, a school lunch and milk program within the Cold Lake First Nations, and several community school scholarships.

Our single largest community investment project started in 2012. We began a five-year sponsorship of the local arena in Peace River, Alberta. The multi-purpose arena provides a space for local sports teams to play, for cultural activities, and for the community to unite. To learn more about our numerous community investments, please visit our website.



Our community investment program is focused on three pillars:

**healthcare and research, community living, and education and training.**

## Addressing Concerns in the Peace River Region

### Reno Field

In 2011, we acquired the Reno oil field southeast of Peace River, Alberta. While the existing production facilities met, and continue to meet, regulations, the existing facilities did not have all of the emission recovery equipment that Baytex employs in new wells and tanks. After an initial five-well drilling program we began to hear concerns from local residents about our operations. We responded immediately by suspending our drilling program, initiating an independent air quality study, developing additional plans to further reduce the emissions associated with the older operations, and increasing gas transmission capabilities to improve operational efficiency.

The independent study confirmed that the air quality meets Alberta government standards. However, we continue to pursue additional operational improvements to further enhance our emissions capture program and to increase our gas gathering capabilities. Pending additional regulatory approval we will seek further operational enhancements to add to the improvements we have already made.

### Seal Oilsands

We participate in the Three Creeks Industry Group in our Seal operations. This group, representing area operators, was established to share best practices, consider cumulative effects and undertake numerous initiatives to minimize the industry's impact on communities and the environment. We have installed equipment on all of our Seal area facilities to reduce natural gas venting. These operational improvements have included the installation of tank-top recovery systems, a gas conservation pipeline connection to all well site locations and a commercial arrangement to sell excess gas to a co-generation power operator in the area. We will seek additional operational improvements to further reduce gas venting and flaring and will continue to communicate progress with area residents.

## Aboriginal and Native American Relations

In Canada, Aboriginal people include the First Nations, Inuit and Métis people that have occupied the land for thousands of years. We respect the constitutional rights of the First Nations, Métis and Inuit communities across Canada, as well as the inherent rights of Native American Tribes in the United States.

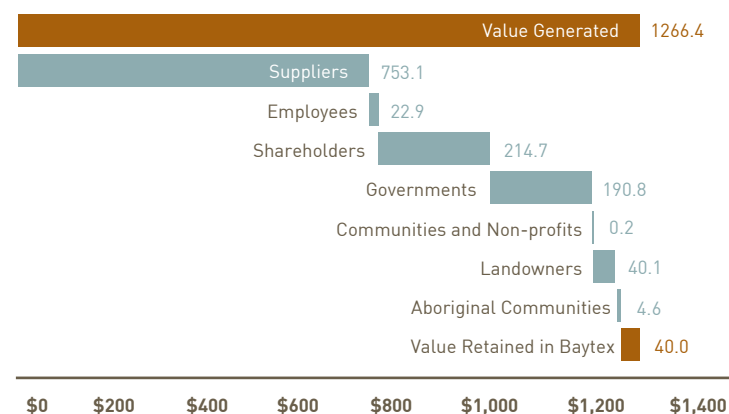
We also have relationship agreements with four other First Nations, clearly defining expectations and commitments of all parties in these long-term relationships.

We aspire to increase the engagement of Aboriginal contractors throughout our operations. Baytex will collaborate with communities to understand their local labor capacity and contractor expertise. We will work with local leadership representatives from the communities and all levels of government to further develop business relationships. We encourage Aboriginal and local contractors to bid on work resulting from our operations near their communities. In 2012, purchases from Aboriginal suppliers exceeded \$2 million, and purchases from local suppliers exceeded \$200 million.

## Economic Impact

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

### 2012 Economic Value Generated and Distributed (\$ million)



See the Performance Summary on page 21 for further details on which financial indicators are represented in each of the bars above.



In 2012, purchases from Aboriginal suppliers

**exceeded \$2 million**

# PERFORMANCE SUMMARY

Baytex is committed to measuring and reporting our sustainability performance in a transparent manner. Transparency holds us accountable to our stakeholders and drives our behaviour. We see this report as a management tool to identify areas where we can make further investments of resources to improve our performance.

INDICATOR	UNITS	2010	2011	2012
<b>Environment<sup>(1)</sup></b>				
Greenhouse Gas Emissions				
Direct	tonnes CO <sub>2</sub> e	425,663	435,604	818,875
Indirect	tonnes CO <sub>2</sub> e	179,080	235,626	60,221
Total	tonnes CO <sub>2</sub> e	604,743	671,230	879,096
Intensity	total tonnes CO <sub>2</sub> e/boe	0.033	0.034	0.044
Other Air Emissions				
SO <sub>2</sub>	tonnes	331	220	303
NO <sub>x</sub>	tonnes	2,834	6,618	6,242
Water				
Withdrawals	thousand m <sup>3</sup>	744	663	793
Intensity	m <sup>3</sup> /boe	0.041	0.034	0.039
Reclamation				
Wells Undergoing Active Reclamation	#	204	143	218
Reclamation Certificates/Releases Received	#	1	22	20
Spills				
Reportable	#	22	28	46
Volume	m <sup>3</sup>	707	667	415

### Employees

Employees	#	204	214	231
Voluntary Turnover Rate	%	7.9	9.9	5.1
Women in Workforce	%	45	44	42
<b>Safety</b>				
Recordable injury rate – employees	Cases/200,000 hours worked	0.59	0.53	0.24

Recordable injury rate – contractors	Cases/200,000 hours worked	1.11	0.85	0.93
Fatalities – employees and contractors	#	0	1	0
<b>INDICATOR</b>				
<b>Society</b>				
Economic Value Generated <sup>(2)</sup>	\$ million	782.0	973.5	1,266.4
Economic Value Distributed to:				
Suppliers (expenses, G&A)	\$ million	441.2	685.7	753.1
Employees (wages and benefits)	\$ million	21.9	20.1	22.9
Shareholders (dividends)	\$ million	188.6	204.3	214.7
Governments (taxes and royalties)	\$ million	157.5	197.2	190.8
Landowners (lease payments and royalties)	\$ million	34.6	38.8	40.1
Communities & Non-profits (charitable contributions)	\$ million	0.1	0.2	0.2
Aboriginal Communities (purchases and royalties)	\$ million	3.4	4.4	4.6
Value Retained in Baytex <sup>(3)</sup>	\$ million	(65.3)	(177.3)	40.0
Purchases from Local Suppliers <sup>(4)</sup>	\$ million	108.4	168.4	210.4
Purchases from Aboriginal Suppliers <sup>(5)</sup>	\$ million	1.7	2.8	2.6

### Notes

<sup>(1)</sup> Except for direct greenhouse gas emissions and intensity, all environmental data covers our Canadian operations only. Our Canadian operations accounted for approximately 95 percent of our production at the end of 2012.

<sup>(2)</sup> Includes revenues from petroleum and natural gas sales, and net proceeds from acquisitions and divestitures.

<sup>(3)</sup> Value retained is simply value generated minus value distributed. This is not a financial reporting indicator and should not be confused with retained earnings.

<sup>(4)</sup> Businesses located in and around the areas where we operate.

<sup>(5)</sup> Businesses owned at least 50 percent by First Nations, Inuit, Métis or by a band.

# GRI CONTENT INDEX

This report has been prepared using the Global Reporting Initiative's (GRI) G3.1 Sustainability Reporting Guidelines. We self-declare this report as achieving Application Level C. For more information on the GRI please visit [www.globalreporting.org](http://www.globalreporting.org).

CATEGORY	GRI INDICATOR	DESCRIPTION	PAGE #	CATEGORY	GRI INDICATOR	DESCRIPTION	PAGE #	
Strategy & Analysis	1.1	CEO statement	3	Governance, Commitments & Engagement	4.1	Governance structure, including major committees under the Board	6	
	Organizational Profile	2.1	Company name		5	4.2	Independence of Board chair	6
		2.2	Primary brands, products, and/or services		4	4.3	Independent, non-executive directors on Board	6
		2.3	Operational structure		4	4.4	Mechanisms for shareholder participation	6
		2.4	Location of headquarters		4	4.13	Adoption of externally developed sustainability principles	Inside Back Cover
		2.5	Countries where Baytex operates		4	4.14	Stakeholder groups engaged	8
		2.6	Nature of ownership and legal form		4	4.15	Basis for identification and selection of stakeholders with whom to engage	8
		2.7	Nature of markets served		4	4.16	Approaches to stakeholder engagement	8,18
		2.8	Scale of the company		4	4.17	Key concerns raised through stakeholder engagement	18,19
		2.9	Significant changes during reporting period		NA	Economic	EC1	Economic value generated and distributed
2.10	Awards received	NA	EC6	Local purchases	20			
Report Parameters	3.1	Reporting period	5	Environmental	EN8		Water use	13
	3.2	Date of most recent previous report	NA		EN13		Habitats protected or restored	14
	3.3	Reporting cycle	3		EN16		Greenhouse gas emissions	10, 11
	3.4	Contact point for questions	Back Cover		EN18		Initiatives to reduce greenhouse gas emissions	10
	3.5	Process for defining report content	5	EN20	NO <sub>x</sub> , SO <sub>x</sub> , and other significant emissions		12	
	3.6	Boundary of report	5	Social	EN23		Spills	14
	3.7	Limitations on report scope or boundary	5, 21		LA2		Employee turnover rate	16
	3.8	Basis for reporting on non-wholly owned operations	5		LA7		Standard injury and lost day rates and fatalities	17
	3.10	Explanation of information restatements	NA		LA13	Diversity	21	
	3.11	Significant changes in measurement	NA		S02	Business units analyzed for risks related to corruption	7	
	3.12	List of GRI indicators addressed	22		S05	Participation in public policy development	11	

NA - not applicable

## Advisories

### OIL AND GAS INFORMATION

Baytex has adopted the standard of 6 Mcf:1 BOE when converting natural gas to barrels of oil equivalent (BOEs). BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 BOE is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

### NON-GAAP FINANCIAL MEASURES

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

Total monetary debt is not a measurement based on GAAP. Baytex defines total monetary debt as the sum of monetary working capital (which is current assets less current liabilities (excluding non-cash items such as unrealized gains or losses on financial derivatives)), the principal amount of long-term debt and long-term bank loan. Baytex believes that this measure assists in providing a more complete understanding of our cash liabilities.

### FORWARD-LOOKING STATEMENTS

In the interest of providing our shareholders and potential investors with information regarding Baytex, including management's assessment of the Company's future plans and operations, certain statements in this document are "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and "forward-looking information" within the meaning of applicable Canadian securities legislation (collectively, "forward-looking statements"). In some cases, forward-looking statements can be identified by terminology such as "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "intend", "may", "objective", "ongoing", "outlook", "potential", "project", "plan", "should", "target", "would", "will" or similar expressions and includes suggestions of future outcomes, including statements about our business strategies, plans and objectives, environmental plans, targets and goals, emissions and intensities of emissions, including GHG emissions, water usage, including our efforts to recycle or reuse water, our goal of minimizing the surface impact of our operations and returning all disturbed lands to a state comparable to conditions prior to disturbance, our efforts to reduce spills through spill mitigation practices and future use and development of technology. Readers are cautioned not to place undue reliance on forward-looking statements as our actual results may differ materially from those expressed or implied.

Developing forward-looking statements involves reliance on a number of assumptions and consideration of certain risks and uncertainties, some of which are specific to Baytex and others that apply to the industry generally. The assumptions on which the forward-looking statements are based and the risk factors and uncertainties that could cause our actual results to differ materially are discussed under "Forward-Looking Statements" in the Management's Discussion and Analysis contained in our most recent Interim Report. For a full discussion of our material risk factors, see "Risk Factors" in our Annual Information Form or Annual Report on Form 40-F for the most recently completed financial year which are available at [www.baytex.ab.ca](http://www.baytex.ab.ca). 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](http://www.sedar.com), [www.sec.gov](http://www.sec.gov) and [www.baytex.ab.ca](http://www.baytex.ab.ca).

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



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

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