In order to assist analysts and investors in understanding heavy oil pricing, we provide this quarterly heavy oil pricing update. Our production mix is approximately 81% liquids (36% heavy oil, 31% light oil and condensate, and 14% natural gas liquids) and 19% natural gas, based on a 6:1 natural gas-to-oil energy equivalency. Canadian heavy crude oil is priced off the Western Canadian Select ("WCS") benchmark. The WCS Index quoted represents a blended volume weighted average of Net Energy and Shorcan trades.

Benchmark prices for the first quarter of 2018 were as follows:

- WTI – US$62.87/bbl
- WCS Benchmark – US$38.59/bbl
- WCS Dollar Differential – US$24.28/bbl
- WCS % Differential – 39%
- FX Rate (US$/C$) - $0.7907

The discount for Canadian heavy oil, as measured by the WCS price differential to WTI, averaged US$24.28/bbl (or 39%) in Q1/2018 as compared to US$12.26/bbl (or 22%) in Q4/2017. The WCS differentials for the January, February and March trade months averaged US$21.13/bbl, US$24.46/bbl and US$27.24/bbl, respectively. Recall that the heavy oil differential on a trading basis is set one month in advance of WTI, so these differentials were set during December, January and February calendar months.

While WTI and Brent benchmark prices continue to strengthen and perform well from a global market perspective, WCS differentials widened following the leak on the Keystone Pipeline in mid-November. With pipelines out of western Canada running at or near capacity, the shut-down of the Keystone Pipeline caused inventories in Western Canada to build which drove spot prices for heavy oil down and led to the widening of the WCS differential.

We see these wide differentials as temporary as the industry works to alleviate the bottlenecks through crude by rail and existing pipeline optimization and reconfigurations. The WCS differential averaged US$25.86/bbl for the April trade month and has narrowed to approximately US$17.00/bbl in recent trading. The forward curve for the second half of 2018 currently sits at approximately US$19.50/bbl.

You will find historical benchmark prices for WTI and WCS on our website at the following link – Benchmark Heavy Oil Prices

We receive a discount to the WCS benchmark price which has historically reflected: i) the cost of blending our heavy oil with diluent to meet pipeline specifications, and ii) certain quality discounts associated with our heavy oil production.

For pipeline volumes, the cost of blending is influenced by both the amount of diluent required to blend with the heavy oil (i.e. the blend ratio) and the actual cost of the diluent (i.e. a premium or discount to WTI). Our corporate blend ratio is approximately 0.236, meaning that for every blended barrel of crude oil shipped on the pipeline, 23.6% of that barrel is diluent and 76.4% is heavy crude oil. This blend ratio can
vary depending on the quality of the diluent used. During the first quarter, our condensate cost averaged approximately a US$0.17/bbl premium to WTI (versus a US$2.57/bbl premium to WTI in Q4/2017).

On our website you will also find a heavy oil calculator which allows you to input your own pricing assumptions. The heavy oil calculator will then provide an indicative price of what a typical raw heavy oil barrel will receive at Hardisty, Alberta prior to deductions for transportation. Note that our Peace River volumes will typically receive a discount to this Hardisty price. Here is the link to our heavy oil calculator - Heavy Oil Calculator.

Baytex actively employs risk mitigation strategies to mitigate the volatility in WCS price differentials. For 2018, we have entered into hedges on approximately 33% of our net WCS differential exposure at a differential to WTI of US$14.19/bbl. We also transport crude oil to markets by rail when economics warrant. In Q1/2018, approximately 25% of our heavy oil volumes were delivered to market by rail.

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