

# BAYTEX

ENERGY CORP.

## Q2 2019 Heavy Oil Pricing Update – July 8, 2019

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 83% liquids (46% light oil and condensate, 27% heavy oil and 10% natural gas liquids) and 17% 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 CalRock trades.

Benchmark prices for the second quarter of 2019 were as follows:

WTI – US\$59.81/bbl  
WCS Benchmark – US\$49.13/bbl  
WCS Dollar Differential – US\$10.68/bbl  
WCS % Differential – 18%  
FX Rate (US\$/C\$) - \$0.7476

The discount for Canadian heavy oil, as measured by the WCS price differential to WTI, averaged US\$10.68/bbl (or 18%) in Q2/2019 as compared to US\$12.29/bbl (or 23%) in Q1/2019. The WCS differentials for the April, May and June trade months averaged US\$10.62/bbl, US\$8.43/bbl and US\$12.97/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 March, April and May calendar months.

During the second quarter, the WCS price differential to WTI tightened as crude oil production was curtailed in western Canada in an effort to reduce inventory levels and refinery demand for heavy oil remained strong in the U.S Gulf Coast. In addition, industry continued to work toward alleviating bottlenecks through increased crude by rail and existing pipeline optimization and reconfigurations.

The WCS differential averaged US\$12.85/bbl for the July trade month. The forward curve for the balance of 2019 currently sits at approximately US\$18/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 second quarter, our condensate cost averaged approximately a US\$3.96/bbl discount to WTI (versus a US\$4.34/bbl discount to WTI in Q1/2019).

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. Crude-by-rail is an integral part of this egress and marketing strategy. For 2019, we expect to deliver 11,500 bbl/d (approximately 40%) of our heavy oil volumes to market by rail. In addition, for the last nine months of 2019, we have entered into WCS differential hedges on approximately 13% of our net heavy oil exposure at a WTI-WCS differential of US\$17.49/bbl.

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