1. **Purpose**

Through its subsidiary entities, Baytex Energy Corp. is engaged in the exploration, development, acquisition, production and marketing of petroleum and natural gas reserves. As a result, Baytex is ordinarily exposed to risks that are common to participants in the "upstream" segment of the oil and gas industry. The general philosophy of Baytex is to manage such risks to acceptable levels and to avoid unnecessary risks.

The purpose of this policy is to provide a framework for management to utilize "Permitted Hedging" (as defined below) in an effort to minimize the volatility of Baytex's funds from operations due to fluctuations in commodity prices, foreign exchange rates and interest rates. In this policy, references to "Baytex" are to Baytex Energy Corp. and its subsidiary entities on a consolidated basis, unless the context requires otherwise.

2. **Definitions**

"Baytex Credit Facility" means the Credit Agreement dated as of July 9, 2003, as amended and restated as of September 3, 2003, as further amended and restated as of June 9, 2006, as further amended and restated as of November 29, 2007, as further amended and restated as of June 14, 2011, as further amended and restated from time to time, between Baytex Energy Ltd., The Toronto-Dominion Bank, as Agent, and the Lender parties thereto;

"Board" means the board of directors of Baytex Energy Corp.

"Commodity Hedging Agreement" means any agreement for the making or taking of delivery of any Petroleum Substance including any forward purchase or sale agreements, any commodity swap agreement, floor, cap or collar agreement or commodity future or option or other similar agreements or arrangements, or any combination thereof, entered into by Baytex, where the subject matter of the same is any commodity or the price, value or amount payable thereunder is dependent or based upon the price of any Petroleum Substance or fluctuations in the price of any Petroleum Substance as in effect from time to time. For greater certainty, any agreement for the delivery or receipt of Baytex’s physical Petroleum Substances beyond the normal prompt-month trade cycle and for which any pricing element is fixed at the time of the transaction is a Commodity Hedging Agreement and subject to this policy. However, any purchase or sale agreement for Baytex’s physical Petroleum Substances that (i) is entered into in the ordinary course of selling or buying of Baytex’s Petroleum Substances and (ii) is priced using monthly index pricing, and either (iii) has a term of twelve (12) months or less, or (iv) is a monthly contract that can be terminated or cancelled with one-month’s notice, is deemed to be a normal business activity and not subject to this policy.

"Committee" has the meaning ascribed to it in Section 3(c);
"Currency Hedging Agreement" means any currency swap agreement, cross currency agreement, forward agreement, floor, cap or collar agreement, futures or options, insurance or other similar agreement or arrangement, or any combination thereof, entered into by Baytex where the subject matter of the same is currency exchange rates or the price, value or amount payable thereunder is dependent or based upon currency exchange rates or fluctuations in currency exchange rates as in effect from time to time.

"Hedging Instrument" means any Commodity Hedging Agreement, Currency Hedging Agreement, or Interest Hedging Agreement.

"Interest Hedging Agreement" means any interest swap agreement, forward rate agreement, floor, cap or collar agreement, futures or options, insurance or other similar agreement or arrangement, or any combination thereof, entered into by Baytex where the subject matter of the same is interest rates or the price, value or amount payable thereunder is dependent or based upon the interest rates or fluctuations in interest rates in effect from time to time (but, for certainty, shall exclude conventional floating rate debt).

"Letter of Credit" or "LC" means an irrevocable, non-transferable standby letter of credit issued by a lender acting at the request of and in accordance with the instructions of the applicant of such letter of credit with such changes to its terms as are acceptable to the party in whose favour the letter of credit is issued.

"Moody's" means Moody's Investors Service, Inc. and any successors thereto.

"Permitted Hedging" means Hedging Instruments entered into by Baytex:

(a) which are entered into in the ordinary course of business and for hedging purposes and not for speculative purposes; for certainty, Interest Hedging Agreements having as a subject matter principal amounts (either individually or in the aggregate, but determined on a net basis taking into account transactions or agreements entered into to reverse the position or limit the exposure under an existing Interest Hedging Agreement) greater than the aggregate liability of Baytex for borrowed money shall be deemed to be for speculative purposes; and

(b) which have a term of thirty-six (36) months or less in respect of Commodity Hedging Agreements, Currency Hedging Agreements and Interest Hedging Agreements and for greater certainty, for all purposes relating thereto, (i) the term of any Hedging Instrument shall commence on the date that the Hedging Instrument in question is entered into notwithstanding the fact that the effective date of such Hedging Instrument, or other date from which payments or deliveries are to be made or determined thereunder, is subsequent to the date such Hedging Instrument is entered into and (ii) without limiting the foregoing, and in addition thereto, the term of a swap transaction or other transaction entered into pursuant to or governed by a Master Agreement published by the International Swaps and Derivatives Association, Inc. (or any successor thereto) ("ISDA Master Agreement") shall commence on the trade date thereof; and

(c) which, taken in the aggregate with other outstanding Hedging Instruments and as determined at the time such Hedging Instrument is entered into, shall not result in Baytex having entered into Hedging Instruments in excess of sixty (60) percent of the
underlying Baytex exposure being hedged (such percentage as measured using the current budget amounts of the particular underlying Baytex exposure); and

(d) which comply with the definition of Permitted Hedging or other hedging requirements so defined in any Baytex Credit Facility in effect at the time the Hedging Instrument is executed

"Petroleum Substances" means any one or more of crude oil, crude bitumen, synthetic crude oil, petroleum, natural gas, natural gas liquids, related hydrocarbons and any and all other substances, whether liquid, solid or gaseous, whether hydrocarbons or not, produced or producible in association with any of the foregoing, including hydrogen sulphide and sulphur.

3. Risk Management Organizational Structure

(a) The Board is responsible for the stewardship of Baytex. In discharging this responsibility, the Board's duties include identifying the principal risks of Baytex's business and taking all reasonable steps to ensure the implementation of the appropriate systems to manage these risks and periodically evaluating the appropriateness of such systems.

(b) The Audit Committee is a committee of the Board to which the Board has delegated certain responsibilities including, reviewing the risk management policies and procedures of Baytex.

(c) Pursuant to this policy, the Audit Committee has authorized the establishment of a committee to be known as the Risk Management Committee (the "Committee"). The primary responsibility of the Committee is to oversee the administration of this policy. The following employees of Baytex Energy Ltd. shall be members of the Committee: President and Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), the Vice President, Marketing, the Marketing Manager and the Risk Manager.

The Committee may invite such other employees of Baytex as it may see fit from time to time to attend at meetings of the Committee and assist thereat in the discussion and consideration of the matters being considered by the Committee. The Committee may retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling its responsibilities at the expense of Baytex. The Committee will meet as required to review all Permitted Hedging activities and to plan future risk management goals and objectives.

(d) On a day to day basis, the CEO and/or the CFO are responsible for the Permitted Hedging activities of Baytex. At their discretion, they may delegate transactional authority to individual members of the Committee.

4. Permitted Hedging

(a) Permitted Hedging is allowed for management of Baytex’s exposure to market risks. Baytex shall not enter into, transact or have outstanding any Hedging Instruments other than Permitted Hedging. Should the Committee at any time seek to increase hedge positions beyond the limits specified in this policy (not to exceed the limits required by the Baytex Credit Facility), the CEO or CFO must first seek Board approval prior to any such transaction.
(b) Each Permitted Hedging transaction will be done with the goal of maximizing value to Baytex, within reasonable means and without any partiality to any counterparty.

(c) In the future, should the Baytex Credit Facility be amended to specify Permitted Hedging limits that are different from the limits stated herein, Baytex will revise this policy so as to align it with the terms of that amended Baytex Credit Facility.

5. **Counterparty Requirements**

(a) Any counterparty to a Permitted Hedging transaction must meet one of the following credit criteria:

   (i) The counterparty is a current member of Baytex Credit Facility (or is a wholly-owned subsidiary thereof); or

   (ii) The counterparty has, at a minimum, an investment-grade credit rating by a major credit rating agency (e.g., Moody’s Baa3 or better); or

   (iii) The counterparty provides a Letter of Credit in form and substance acceptable to Baytex; or

   (iv) The counterparty provides a guarantee of payment by a party which has an investment-grade credit rating that is acceptable to Baytex; or

   (v) If the counterparty does not meet any of the preceding credit criteria, open credit may be granted only by written authorization from either the CFO or the CEO prior to Baytex entering into a Hedging Instrument with that counterparty.

(b) In addition, a mutually acceptable ISDA Master Agreement between Baytex and any potential counterparty, which has received prior approval of Baytex’s legal department, must be fully executed by both parties prior to entering into any Hedging Instrument to which this policy applies.

6. **Transaction Confirmation and Recording**

The following activities will be undertaken to ensure the accurate management and stewardship of the risk management activities for internal and external assessment and compliance:

(a) Within two (2) business days of the finalization of a binding verbal commitment to any Permitted Hedging transaction, the transacting member of the Committee will send an email with the transaction specifics to the other members of the Committee and to Baytex’s accounting department;

(b) Upon receipt of a written transaction confirmation from the counterparty, such confirmation will be checked for accuracy by the Baytex employee who entered into the transaction;
(c) Each transaction confirmation must be signed by the Vice President, Marketing of Baytex Energy Ltd., the CFO or the CEO and returned to the counterparty;

(d) Both Baytex's Risk Manager and accounting financial analyst will capture the transactions in their respective hedge tracking systems. Copies of all executed and signed transaction confirms will be retained by both the Baytex marketing and accounting departments;

(e) On a quarterly basis, Baytex's Risk Manager will verify all hedge positions with the accounting financial analyst to validate the accuracy of hedge positions in both marketing and accounting systems;

(f) Counterparties shall be required to provide the Baytex accounting department with monthly statements listing the active Hedging Instruments between Baytex and that counterparty, including a profit/loss statement for each Hedging Instrument; and

(g) At the request of the Baytex accounting department, the Risk Manager will independently evaluate specific hedge transactions to assess the accuracy of the monthly profit/loss statement provided by the counterparty.

7. Reporting

On a quarterly basis, a member of the Committee will report to the Audit Committee regarding Permitted Hedging activity and positions.

Approved by the Board of Directors of Baytex Energy Corp. on December 3, 2012