

# BAYTEX

ENERGY CORP.

**Notice of  
Annual Meeting of Shareholders  
to be held on Tuesday, May 12, 2015**

The annual meeting of the shareholders of Baytex Energy Corp. will be held in the Devonian Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta on Tuesday, May 12, 2015 at 3:00 p.m. (Calgary time) to:

1. receive and consider our consolidated financial statements for the year ended December 31, 2014, together with the report of the auditors;
2. fix the number of directors to be elected at the meeting at nine (9) members;
3. elect nine (9) directors;
4. appoint the auditors and authorize the directors to fix their remuneration;
5. consider and, if thought fit, approve a resolution (the full text of which is set forth in the accompanying information circular - proxy statement) to accept our approach to executive compensation; and
6. transact such other business as may properly be brought before the meeting or any adjournment thereof.

The specific details of the matters proposed to be put before the meeting are set forth in the information circular - proxy statement accompanying this notice.

If you are unable to attend the meeting in person, we request that you date and sign the enclosed form of proxy and deposit it with Valiant Trust Company by mail or courier at Suite 310, 606 – 4th Street S.W., Calgary, Alberta, T2P 1T1 or by fax at (403) 233-2857. In order to be valid and acted upon at the meeting, forms of proxy must be returned to the aforesaid address or fax number not less than 48 hours before the time for holding the meeting or any adjournment thereof. Registered shareholders may also vote via the internet at <https://proxy.valianttrust.com/>. A vote submitted via the internet must be received by 3:00 p.m. (Calgary time) on May 8, 2015 or at least 48 hours prior to the time of any adjournment of the meeting. See the information circular - proxy statement for further instructions on internet voting.

Only shareholders of record at the close of business on March 23, 2015 will be entitled to vote at the meeting, unless that shareholder has transferred any shares subsequent to that date and the transferee shareholder, not later than ten days before the meeting, establishes ownership of the shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the meeting.

DATED at Calgary, Alberta, this 6<sup>th</sup> day of April, 2015.

**By order of the Board of Directors**

(signed) Murray J. Desrosiers  
Vice President, General Counsel  
and Corporate Secretary

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## **BAYTEX ENERGY CORP.**

### **Information Circular - Proxy Statement for the Annual Meeting to be held on Tuesday, May 12, 2015**

#### **BACKGROUND INFORMATION**

At year-end 2010, Baytex Energy Trust (the "**Trust**") completed a plan of arrangement under Section 193 of the *Business Corporations Act* (Alberta) pursuant to which it converted its legal structure from an income trust to a corporation (the "**Corporate Conversion**"). Pursuant to the Corporate Conversion: (i) on December 31, 2010, holders of trust units of the Trust exchanged their trust units for our common shares on a one-for-one basis; and (ii) on January 1, 2011, the Trust was dissolved and terminated, with the result that we became the successor to the Trust. We operate under the name "Baytex Energy Corp." and, together with our subsidiaries, own, directly or indirectly, the same assets owned by the Trust and its subsidiaries immediately prior to the Corporate Conversion. In this information circular - proxy statement, references to "**Baytex**", "**we**", "**us**" and "**our**" refer to Baytex Energy Corp.

Pursuant to the Corporate Conversion, the issued and outstanding trust units of the Trust were ultimately exchanged for our common shares on a one-for-one basis. In addition, as part of the Corporate Conversion, all outstanding rights to acquire trust units (the "**Trust Incentive Rights**") granted under the Trust Unit Rights Incentive Plan of the Trust (the "**Trust Incentive Plan**") were exchanged for equivalent rights to acquire our common shares (the "**Share Incentive Rights**"). The Share Incentive Rights are subject to the terms of our Common Share Rights Incentive Plan (the "**Share Incentive Plan**"), which is substantially similar to the Trust Incentive Plan. For a description of the Share Incentive Plan, see "Executive Compensation – Common Share Rights Incentive Plan".

In connection with the Corporate Conversion, on January 1, 2011 we adopted a new form of long-term incentive plan to replace the Share Incentive Plan as our primary long-term incentive program. As a result, no new Share Incentive Rights will be granted under the Share Incentive Plan but it will remain in place until such time as all outstanding Share Incentive Rights have been exercised, cancelled or expired. For a description of our new long-term incentive plan, see "Executive Compensation – Share Award Incentive Plan".

In this information circular - proxy statement, references to (i) our common shares for periods prior to January 1, 2011 are deemed to be references to the trust units of the Trust, (ii) our Share Incentive Plan for periods prior to January 1, 2011 is deemed to be a reference to the Trust Incentive Plan, (iii) our Share Incentive Rights for periods prior to January 1, 2011 are deemed to be references to Trust Incentive Rights, (iv) our Board for periods prior to January 1, 2011 is deemed to be a reference to the board of directors of Baytex Energy Ltd. ("**Baytex Energy**"), the former administrator of the Trust, and (v) dividends on common shares for periods prior to January 1, 2011 are deemed to be references to distributions on trust units of the Trust.

#### **SOLICITATION OF PROXIES**

This information circular - proxy statement is furnished in connection with the solicitation of proxies for use at the annual meeting of the shareholders of Baytex Energy Corp. to be held at 3:00 p.m. (Calgary time) on **Tuesday, May 12, 2015** in the Devonian Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta and at any adjournment thereof.

Forms of proxy must be deposited with Valiant Trust Company (by mail or courier at Suite 310, 606 – 4th Street S.W., Calgary, Alberta, T2P 1T1 or by fax at (403) 233-2857) not less than 48 hours before the time for holding the meeting or any adjournment thereof. Registered shareholders may also vote via the internet at <https://proxy.valianttrust.com/>. Shareholders will be prompted to enter the control number which is located on the form of proxy. A vote submitted via the internet must be received by 3:00 p.m. (Calgary time) on May 8, 2015 or at least 48 hours prior to the time of any adjournment of the meeting. The website may also be used to appoint a proxy holder to attend and vote at the meeting on the shareholder's behalf and to convey a shareholder's voting instructions.

Only shareholders of record at the close of business on March 23, 2015 will be entitled to vote at the meeting, unless that shareholder has transferred any shares subsequent to that date and the transferee shareholder, not later than ten days before the meeting, establishes ownership of the shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the meeting.

The instrument appointing a proxy must be in writing and must be executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation.

**The persons named in the enclosed form of proxy are our officers. As a shareholder you have the right to appoint a person, who need not be a shareholder, to represent you at the meeting. To exercise this right you should insert the name of the desired representative in the blank space provided on the form of proxy and strike out the other names or submit another appropriate proxy.**

### ADVICE TO BENEFICIAL HOLDERS OF COMMON SHARES

The information set forth in this section is of significant importance to you if you do not hold your common shares in your own name. Only proxies deposited by shareholders whose names appear on our records as the registered holders of common shares can be recognized and acted upon at the meeting. If common shares are listed in your account statement provided by your broker, then in almost all cases those common shares will not be registered in your name on our records. Such common shares will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co., the registration name for CDS Clearing and Depository Services Inc., which acts as nominee for many Canadian brokerage firms. Common shares held by your broker or their nominee can only be voted upon your instructions. Without specific instructions, your broker or their nominee is prohibited from voting your shares.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your shares are voted at the meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to a mailing/tabulating agent who mails a scannable voting instruction form in lieu of the form of proxy. You are asked to complete and return the voting instruction form to them by mail or facsimile. Alternatively, you can use their website or call their toll-free telephone number to instruct them how to vote your shares. They then tabulate the results of all instructions received and provide appropriate instructions respecting the voting of shares to be represented at the meeting. **If you receive a voting instruction form from a mailing/tabulating agent, it cannot be used as a proxy to vote shares directly at the meeting as it must be returned to the mailing/tabulating agent well in advance of the meeting in order to have the shares voted.**

### NOTICE-AND-ACCESS

We have elected to use the "notice-and-access" provisions under National Instrument 54-101 *Communications with Beneficial Owners of Securities of a Reporting Issuer* (the "**Notice-and-Access Provisions**") for the meeting in respect of mailings to beneficial holders of our common shares (i.e., a shareholder who holds their shares in the name of a broker or an agent) and registered holders of our common shares (i.e., a shareholder whose name appears on our records as a holder of common shares). The Notice-and-Access Provisions are a set of rules developed by the Canadian Securities Administrators that reduce the volume of materials which are mailed to shareholders by allowing a reporting issuer to post an information circular in respect of a meeting of its shareholders and related materials online.

We have also elected to use procedures known as 'stratification' in relation to our use of the Notice-and-Access Provisions. Stratification occurs when a reporting issuer using the Notice-and-Access Provisions provides a paper copy of an information circular and, if applicable, a paper copy of financial statements and related management's discussion and analysis ("**Financial Information**"), to some shareholders together with a notice of a meeting of its shareholders. A paper copy of the notice of meeting, this information circular – proxy statement, and a voting

direction will be mailed to those shareholders who do not hold their common shares in their own name but who have previously requested to receive paper copies of these materials. Furthermore, a paper copy of the Financial Information in respect of our most recently completed financial year was mailed to those registered and beneficial holders of our common shares who previously requested to receive such information.

We will be delivering proxy-related materials to non-objecting beneficial owners of our common shares directly with the assistance of Broadridge Investor Communications Solutions. We intend to pay for intermediaries to deliver proxy-related materials to objecting beneficial owners of our common shares.

### **REVOCABILITY OF PROXY**

You may revoke your proxy at any time prior to a vote. If you or the person you give your proxy attends personally at the meeting, you or such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation. To be effective the instrument in writing must be deposited either at our head office at any time up to and including the last business day before the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof.

### **PERSONS MAKING THE SOLICITATION**

**This solicitation is made on behalf of our management.** We will bear the costs incurred in the preparation and mailing of the form of proxy, notice of annual meeting and this information circular - proxy statement. In addition to mailing forms of proxy, proxies may be solicited by personal interviews, or by other means of communication, by our directors, officers and employees who will not be remunerated therefor.

### **EXERCISE OF DISCRETION BY PROXY**

The common shares represented by proxy in favour of management nominees will be voted on any poll at the meeting. Where you specify a choice with respect to any matter to be acted upon, the shares will be voted on any poll in accordance with the specification so made. **If you do not provide instructions, your shares will be voted in favour of the matters to be acted upon as set out herein. The persons appointed under the form of proxy which we have furnished are conferred with discretionary authority with respect to amendments or variations of those matters specified in the form of proxy and notice of annual meeting and with respect to any other matters which may properly be brought before the meeting or any adjournment thereof. At the time of printing this information circular - proxy statement, we know of no such amendment, variation or other matter.**

### **VOTING SHARES AND PRINCIPAL HOLDERS THEREOF**

We are authorized to issue an unlimited number of common shares without nominal or par value. As at March 23, 2015, there were 169,001,540 common shares issued and outstanding. As a holder of common shares you are entitled to one vote for each share you own.

When any common share is held jointly by several persons, any one of them may vote at the meeting in person or by proxy in respect of such share, but if more than one of them are present at the meeting in person or by proxy, and such joint owners of the proxy so present disagree as to any vote to be cast, the joint owner present or represented whose name appears in the register of shareholders maintained by Valiant Trust Company is entitled to cast such vote.

As at March 2, 2015, our directors and officers, as a group, beneficially owned, or controlled or directed, directly or indirectly, 1,818,308 common shares, representing approximately 1.1% of the issued and outstanding common shares (and the votes entitled to be cast at the meeting). To the knowledge of our directors and officers, as at

March 23, 2015, no person or company, beneficially owned, or controlled or directed, directly or indirectly, common shares entitled to more than 10% of the votes which may be cast at the meeting.

### QUORUM FOR MEETING

At the meeting, a quorum shall consist of two or more persons either present in person or represented by proxy and representing in the aggregate not less than twenty-five percent (25%) of the outstanding common shares. If a quorum is not present at the opening of the meeting, the shareholders present may adjourn the meeting to a fixed time and place but may not transact any other business.

### APPROVAL REQUIREMENTS

All of the matters to be considered at the meeting are ordinary resolutions requiring approval by more than fifty percent (50%) of the votes cast in respect of the resolution by or on behalf of shareholders present.

### MATTERS TO BE ACTED UPON AT THE MEETING

#### Fixing the Number of Directors of Baytex

The articles of Baytex provide for a minimum of three directors and a maximum of twelve directors. The by-laws of Baytex provide that the number of directors shall be fixed from time to time by the shareholders or the board of directors (the "**Board**"). There are currently nine directors on the Board. At the meeting, it is proposed that the number of directors of Baytex to be elected to hold office until the next annual meeting or until their successors are elected or appointed be set at nine (9). Unless otherwise directed, it is the intention of management to vote proxies in favour of setting the number of directors to be elected at nine (9).

#### Election of Directors of Baytex

The nine (9) nominees proposed for election as directors of Baytex are as follows:

James L. Bowzer	R.E.T. (Rusty) Goepel
John A. Brussa	Gregory K. Melchin
Raymond T. Chan	Mary Ellen Peters
Edward Chwyl	Dale O. Shwed
Naveen Dargan	

In the event that a vacancy among such nominees occurs because of death or for any reason prior to the meeting, the proxy shall not be voted with respect to such vacancy.

Voting for the election of directors will be conducted on an individual, and not slate, basis. **Management of Baytex recommends that shareholders vote FOR the election of each of these nominees. The persons named in the enclosed form of proxy intend to vote FOR the election of each of these nominees unless the shareholder specifies authority to do so is withheld.**

The Board has adopted a policy stipulating that if the votes in favour of the election of a director nominee at a shareholders' meeting represent less than a majority of the common shares voted and withheld, the nominee will submit his or her resignation promptly after the meeting for the Board's consideration. In determining whether the resignation should be accepted, the Board will consider all factors that it deems relevant, including, without limitation, whether acceptance of the resignation is in the best interests of Baytex and any extraordinary circumstances relating to the director nominee, the composition of the Board or the voting results. The Board's decision to accept or reject the resignation will be announced by way of press release within 90 days of the date of the shareholders' meeting. The policy does not apply in circumstances involving contested director elections.

For each person proposed to be nominated for election as a director of Baytex, the following table sets forth their name, age (at December 31, 2014), place of residence, committee memberships, the year in which they became a director, the votes for and withheld for their election at the last annual meeting of shareholders and a brief biography. This information is based partly on our records and partly on information received by us from the nominees.

Nominee for Election as Director	Age	Director Since <sup>(1)</sup>	Voting Results from the last Annual Meeting			
			Votes For		Votes Withheld	
			#	%	#	%
<b>James L. Bowzer</b> Calgary, AB	54	2012	68,358,398	96.94%	2,158,466	3.06%
			Mr. Bowzer was appointed President, Chief Executive Officer and a director of Baytex on September 4, 2012. Prior to joining Baytex, Mr. Bowzer worked for Marathon Oil Corporation for 30 years in various positions, including Vice President, North American Production Operations and Regional Vice President, International Production. Mr. Bowzer holds a Bachelor of Science degree in Petroleum Engineering from the University of Wyoming and completed the Advanced Management Program at the Graduate School of Business at Indiana University. He is currently a member of the Board of Governors of the Canadian Association of Petroleum Producers.			
<b>John A. Brussa</b> Calgary, AB	57	1997	51,934,933	73.65%	18,581,931	26.35%
Member of: - Reserves Committee - Nominating and Governance Committee			Mr. Brussa holds a Bachelor of Arts, History and Economics degree and a Bachelor of Laws degree. He is the Vice Chairman of Burnet, Duckworth & Palmer LLP, a Calgary-based energy law firm where he focuses on tax law. He is also a director of a number of energy and energy-related companies. Mr. Brussa is a past governor of the Canadian Tax Foundation.			
<b>Raymond T. Chan</b> Calgary, AB	59	1998	67,755,565	96.08%	2,761,299	3.92%
			Mr. Chan was appointed Chairman of the Board of Baytex on June 1, 2014. He originally joined Baytex Energy in October 1998 and has held the following positions: Senior Vice President and Chief Financial Officer (October 1998 to August 2003); President (September 2003 to November 2007); Chief Executive Officer (September 2003 to December 2008); Interim Chief Executive Officer (May 2012 to September 2012); and Executive Chairman (January 2009 to May 2014). Mr. Chan has held senior executive positions in the Canadian oil and gas industry since 1982, including chief financial officer titles at Tarragon Oil and Gas Limited, American Eagle Petroleums Ltd. and Gane Energy Corporation. Mr. Chan holds a Bachelor of Commerce degree and is a chartered accountant.			
<b>Edward Chwyl</b> Victoria, BC	71	2003	70,233,176	99.60%	283,688	0.40%
Member of: - Reserves Committee - Compensation Committee - Nominating and Governance Committee			Mr. Chwyl has been Lead Independent Director of Baytex and/or Baytex Energy since February 2009. From September 2003 to December 2008, Mr. Chwyl was the Chairman of the Board of Directors of Baytex Energy. Mr. Chwyl holds a Bachelor of Science degree in Chemical Engineering and a Master of Science degree in Petroleum Engineering. He is a retired businessman with over 35 years of experience in the oil and gas industry in North America, most notably as President and Chief Executive Officer of Tarragon Oil and Gas Limited from 1989 to 1998. Prior thereto, he held various technical and executive positions within the oil and gas industry in Canada and the United States.			

Nominee for Election as Director	Age	Director Since <sup>(1)</sup>	Voting Results from the last Annual Meeting			
			Votes For		Votes Withheld	
			#	%	#	%
<b>Naveen Dargan</b> Calgary, AB	57	2003	70,222,404	99.58%	294,460	0.42%
Member of: - Audit Committee - Compensation Committee	Mr. Dargan holds a Bachelor of Arts (Honours) degree in Mathematics and Economics, a Master of Business Administration degree and a Chartered Business Valuator designation. He has been an independent businessman since June 2003. Prior thereto, he worked for over 20 years in the investment banking business, finishing his career as Senior Managing Director and Head of Energy Investment Banking at Raymond James Ltd.					
<b>R.E.T. (Rusty) Goepel</b> Vancouver, BC	72	2005	70,328,299	99.73%	188,565	0.27%
Member of: - Nominating and Governance Committee	Mr. Goepel holds a Bachelor of Commerce (Honours) degree. He is currently Senior Vice President for Raymond James Ltd. He commenced his career in investment banking in 1968 and was President and co-founder of Goepel Shields & Partners, which later became Goepel McDermid Ltd. and was acquired by Raymond James Ltd. in 2001. He is past Chairman of the Vancouver 2010 Winter Olympics and The Business Council of British Columbia. He is a recipient of the Queen's Gold and Diamond Jubilee Medals for service to the community, financial industry and business.					
<b>Gregory K. Melchin</b> Calgary, AB	61	2008	70,342,600	99.75%	174,264	0.25%
Member of: - Audit Committee	Mr. Melchin holds a Bachelor of Science degree (major in accounting) and a Fellow Chartered Accountant designation from the Institute of Chartered Accountants of Alberta. He has also completed the Directors Education Program with the Institute of Corporate Directors. He is currently the Chairperson of the Board of Directors of ENMAX Corporation, a municipally-owned utility. Mr. Melchin was a member of the Legislative Assembly of Alberta from March 1997 to March 2008. Among his various assignments with the Government of Alberta, he was Minister of Energy, Minister of Seniors and Community Supports and Minister of Revenue. Prior to being elected to the Legislative Assembly of Alberta, he served in various management positions for 20 years in the Calgary business community.					
<b>Mary Ellen Peters</b> Highland, MI	58	2013	70,285,392	99.67%	231,472	0.33%
Member of: - Audit Committee - Compensation Committee	Ms. Peters holds a Bachelor of Science degree (major in finance) and a Master of Business Administration degree. She has also completed executive management programs at Penn State University and Indiana University and the Oxford Energy Seminar. She is a retired businesswoman with over 30 years of experience in the petroleum industry, most notably as Senior Vice President, Transportation and Logistics (2009-2010) and Senior Vice President, Marketing (1998-2009) at Marathon Petroleum Company LP. Prior thereto, she held various technical and management positions with Marathon.					
<b>Dale O. Shwed</b> Calgary, AB	56	1993	66,834,297	94.78%	3,682,567	5.22%
Member of: - Reserves Committee	Mr. Shwed holds a Bachelor of Science degree specializing in Geology. He has been President and Chief Executive Officer of Crew Energy Inc. since September 2003. Prior thereto, he was President and Chief Executive Officer of Baytex Energy from 1993 to August 2003. He commenced his career in the oil and gas industry in 1980.					

## Note:

- (1) The date referenced in the table is the year in which each nominee first became a director of Baytex or its wholly-owned subsidiary, Baytex Energy Ltd. (or its predecessor).

*Director Equity Ownership*

The following table summarizes the common shares and other securities beneficially owned, controlled or directed (directly or indirectly) by the individual members of the Board as of March 2, 2015 based on information provided by such individuals.

Name	Common Shares <sup>(1)</sup>		Performance Awards <sup>(2)</sup>		Restricted Awards <sup>(2)</sup>		Total Value (\$)
	Amount (#)	Value (\$)	Amount (#)	Value (\$)	Amount (#)	Value (\$)	
James L. Bowzer	78,035	1,535,729	156,002	3,070,119	39,002	767,559	5,373,408
John A. Brussa	380,912	7,496,348	7,387	145,376	1,852	36,447	7,678,172
Raymond T. Chan	662,108	13,030,285	29,008	570,877	7,249	142,660	13,743,823
Edward Chwyl	70,464	1,386,732	7,387	145,376	1,852	36,447	1,568,555
Naveen Dargan	153,978	3,030,287	7,387	145,376	1,852	36,447	3,212,111
R.E.T. (Rusty) Goepel	40,982	806,526	7,387	145,376	1,852	36,447	988,349
Gregory K. Melchin	39,842	784,091	7,387	145,376	1,852	36,447	965,914
Mary Ellen Peters	5,314	104,580	6,953	136,835	1,739	34,224	275,638
Dale O. Shwed	129,379	2,546,179	7,387	145,376	1,852	36,447	2,728,002

Notes:

- (1) The value of the common shares was calculated by multiplying the number of common shares by the closing price of the common shares on the Toronto Stock Exchange (the "TSX") on March 2, 2015 (\$19.68).
- (2) The value of the performance awards and the restricted awards was calculated by multiplying the number of awards by the closing price of the common shares on the TSX on March 2, 2015. For performance awards, a payout multiplier of 1x was assumed. The calculated value does not include the value of dividend equivalents that have accumulated on the awards.

### *Experience and Background of Directors*

The following table outlines the experience and background of, but not necessarily the technical expertise of, the individual members of the Board as of December 31, 2014 based on information provided by such individuals.

<b>Director</b>	<b>Enterprise Management<sup>(1)</sup></b>	<b>Business Development<sup>(2)</sup></b>	<b>Financial Literacy<sup>(3)</sup></b>	<b>Corporate Governance<sup>(4)</sup></b>	<b>Change Management<sup>(5)</sup></b>	<b>Operations<sup>(6)</sup></b>	<b>HS&amp;E Management<sup>(7)</sup></b>	<b>Financial Experience<sup>(8)</sup></b>	<b>International Experience<sup>(9)</sup></b>	<b>Human Resources<sup>(10)</sup></b>	<b>Reserves Evaluation<sup>(11)</sup></b>	<b>Risk Evaluation<sup>(12)</sup></b>
James L. Bowzer	√	√	√	√	√	√	√	√	√	√	√	√
John A. Brussa		√	√	√								√
Raymond T. Chan	√	√	√	√	√	√	√	√		√	√	√
Edward Chwyl	√	√	√	√		√				√	√	
Naveen Dargan	√	√	√	√	√		√	√		√		√
R.E.T. (Rusty) Goepel	√	√	√	√	√			√		√		√
Gregory K. Melchin	√	√	√	√		√	√	√		√		√
Mary Ellen Peters	√	√	√	√		√	√			√		√
Dale O. Shwed	√	√	√	√	√	√	√			√	√	√
<b>Total</b>	<b>8</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>1</b>	<b>8</b>	<b>4</b>	<b>8</b>

Notes:

- (1) Enterprise Management – senior executive experience leading an organization or major business line.
- (2) Business Development – experience identifying value creation opportunities.
- (3) Financial Literacy – ability to critically read and analyze financial statements.
- (4) Corporate Governance – understanding of the requirements of good corporate governance usually gained through experience as a senior executive or a board member of a public organization.
- (5) Change Management – experience leading a major organizational change or managing a significant merger or acquisition.
- (6) Operations – experience with oil and gas operations.
- (7) HS&E Management – understanding of the regulatory environment surrounding health, safety and environmental matters in the oil and gas industry.
- (8) Financial Experience – experience in financial accounting and reporting and corporate finance.
- (9) International Experience – experience in a multi-national organization providing understanding of the challenges faced in a different cultural, political or regulatory environment.
- (10) Human Resources – management or executive experience with responsibility for human resources.
- (11) Reserves Evaluation – experience with or executive responsibility for oil and gas reserves evaluation.
- (12) Risk Evaluation – experience in evaluating and managing the variety of risks faced by an organization.

### *Additional Disclosure Relating to Proposed Directors*

To the knowledge of our directors and executive officers, none of our proposed directors is, as of the date hereof, or was within ten years before the date hereof, a director, chief executive officer or chief financial officer of any company (including us), that was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "Order"), that was issued while that person was acting in the capacity as director, chief executive officer or chief financial officer or was subject to an Order that was issued after that person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Other than as disclosed below, none of our proposed directors is, as of the date hereof, or has been within the ten years before the date hereof, a director or executive officer of any company (including us) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold its assets or has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver-manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

John A. Brussa, one of our directors, was formerly a director of Calmena Energy Services Inc. (a public oilfield service company) which was placed in receivership on January 20, 2015. Mr. Brussa resigned as a director of Calmena on June 30, 2014.

In addition, none of our proposed directors has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making investment decisions.

### **Appointment of Auditors**

Management is soliciting proxies, in the accompanying form of proxy, in favour of the appointment of the firm of Deloitte LLP, Chartered Accountants, as our auditors, to hold office until the next annual meeting of shareholders and to authorize the directors to fix their remuneration. Deloitte LLP have acted as the auditors of Baytex/Baytex Energy Trust since September 2003.

The following table provides information about the fees billed to us and our subsidiaries for professional services rendered by Deloitte LLP during fiscal 2014 and 2013:

	<b>Aggregate fees billed (\$000s)</b>	
	<b>2014</b>	<b>2013</b>
Audit Fees	\$1,584	\$1,056
Audit-Related Fees	-	-
Tax Fees	-	21
All Other Fees	-	-
	<u>\$1,584</u>	<u>\$1,077</u>

*Audit Fees:* Audit fees consist of fees for the audit of our annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements. In addition to the fees for annual audits of financial statements and review of quarterly financial statements, services in this category for fiscal 2014 and 2013 also include amounts for audit work performed in relation to the requirements of Section 404 of the

*Sarbanes-Oxley Act of 2002* relating to internal control over financial reporting and reviews of a base shelf prospectus, a prospectus related to a public offering of subscription receipts and an offering memorandum related to a private placement of senior notes.

*Audit-Related Fees:* Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported as Audit Fees.

*Tax Fees:* Tax fees included tax planning and various taxation matters.

### **Advisory Vote on Executive Compensation**

The underlying principle for executive compensation throughout Baytex is "pay-for-performance". We believe that this philosophy achieves the goal of attracting and retaining excellent employees and executive officers, while rewarding the demonstrated behaviours that reinforce our values and help us to deliver on our corporate objectives. A detailed discussion of our executive compensation program is provided in the "Compensation Discussion & Analysis" section of this information circular - proxy statement. After monitoring recent developments and emerging trends in the practice of holding advisory votes on executive compensation (commonly referred to as "**Say on Pay**"), the Board has determined to provide shareholders with a "Say on Pay" advisory vote at the meeting. This non-binding advisory vote on executive compensation will provide you as a shareholder with the opportunity to vote "For" or "Against" our approach to executive compensation through the following resolution:

"Resolved, on an advisory basis and not to diminish the role and responsibilities of the Board, that the shareholders accept the approach to executive compensation disclosed in the information circular - proxy statement of Baytex dated April 6, 2015."

As this is an advisory vote, the results will not be binding upon the Board. However, the Board will consider the outcome of the vote as part of its ongoing review of executive compensation. The Board believes that it is essential for the shareholders to be well informed of Baytex's approach to executive compensation and considers this advisory vote to be an important part of the ongoing process of engagement between the shareholders and the Board.

## **DIRECTOR COMPENSATION**

### **General**

The Compensation Committee of the Board (the "**Compensation Committee**") is responsible for the development and implementation of a compensation plan for directors who are not also officers of Baytex. Officers of Baytex who are also directors are not paid any compensation for acting as a director.

The main objectives of our directors' compensation plan are: (a) to attract and retain the services of the most qualified individuals; (b) to compensate the directors in a manner that is commensurate with the risks and responsibilities assumed in board and committee membership and at a level that approximates the median compensation paid to directors of an industry-specific peer group; and (c) to align the interests of directors with our shareholders. To meet and maintain these objectives, the Compensation Committee annually performs a review of the directors' compensation plan, which includes surveying the compensation paid to directors of an industry-specific peer group (see "Compensation Discussion and Analysis – Compensation Review Process – Competitive Factors" for a listing of the peer group members). The Compensation Committee recommends any changes to the compensation plan to the Board for consideration and, if deemed appropriate, approval.

At a meeting held on December 12, 2013, the Compensation Committee reviewed the directors' compensation plan and the results of the peer group survey. As a result of this review, the Compensation Committee recommended that an annual retainer of \$10,000 be adopted for members of the Audit Committee (other than the Chair) effective January 1, 2014. This change was subsequently considered and approved by the Board at a meeting held on March 12, 2014.

At a meeting held on November 12, 2014, the Compensation Committee considered the adoption of a retainer for the Chairman of the Board. At this meeting, the Compensation Committee reviewed the results of a peer group survey of compensation paid to board chairman. As a result of this review, the Compensation Committee recommended that an annual retainer of \$260,000 be adopted for the Chairman of the Board effective June 1, 2014. This recommendation was subsequently considered and approved by the Board at a meeting held on December 8, 2014.

The following table sets forth the principal elements of the compensation plan for directors (who are not also officers) for the year ended December 31, 2014. In addition, directors were reimbursed for any expenses incurred to attend a board or committee meeting.

<b>Compensation Element</b>	<b>Amount (\$)</b>
Chairman of the Board Retainer – Annual	260,000
Board Retainer – Annual	40,000
Additional Lead Independent Director Retainer – Annual	25,000
Additional Chair Retainers - Annual:	
Audit	25,000
Compensation	8,000
Nominating and Governance	8,000
Reserves	8,000
Audit Committee Member Retainer – Annual	10,000
Meeting Attendance Fee	1,500

The following table sets forth the cash retainers and fees that were paid to each of the directors (who are not also officers) during the year ended December 31, 2014. Directors' fees are paid on a quarterly basis.

<b>Name</b>	<b>Board Retainer (\$)</b>	<b>Lead Independent Director Retainer (\$)</b>	<b>Committee Chair Retainer (\$)</b>	<b>Audit Committee Member Retainer (\$)</b>	<b>Meeting Attendance Fees (\$)</b>	<b>Total Fees Earned (\$)</b>
John A. Brussa	40,000	-	8,000	-	13,500	61,500
Raymond T. Chan <sup>(1)</sup>	151,667	-	-	-	12,000	163,667
Edward Chwyl	40,000	25,000	8,000	-	16,500	89,500
Naveen Dargan	40,000	-	25,000	-	19,500	84,500
R.E.T. (Rusty) Goepel	40,000	-	-	-	12,000	52,000
Gregory K. Melchin	40,000	-	-	10,000	16,500	66,500
Mary Ellen Peters	40,000	-	-	10,000	19,500	69,500
Dale O. Shwed	40,000	-	8,000	-	9,000	57,000

Note:

- (1) The amounts shown in the table represent the compensation paid to Mr. Chan in his capacity as Chairman of the Board from June 1 to December 31, 2014.

2015 Update: At a meeting held on December 8, 2014, the Compensation Committee reviewed the directors' compensation plan and the results of the peer group survey. The Compensation Committee did not recommend (and the Board did not approve) any changes to the cash retainers and fees for 2015.

### Long-Term Incentive Compensation

Effective January 1, 2011, we adopted a full-value award plan pursuant to which restricted awards and performance awards may be granted to the directors, officers, employees and other service providers of Baytex and its subsidiaries. The Share Award Incentive Plan contains the following restrictions on director participation: (1) the number of common shares issuable pursuant to the Share Award Incentive Plan to directors (who are not also officers), in aggregate, will be limited to a maximum of 0.25% of the issued and outstanding common shares; and (2) the value of all restricted awards and performance awards granted to any one director (who are not also an officer) during a calendar year, as calculated on the date of grant, cannot exceed \$100,000. For further information, see "Executive Compensation – Share Award Incentive Plan".

On December 12, 2013, the Compensation Committee approved the award of 472 restricted awards and 1,888 performance awards to each director (who was not also an officer) under the Share Award Incentive Plan. These awards were granted on March 17, 2014 with an issue date schedule of one-sixth on the first anniversary of the grant date and a further one-sixth every six months thereafter (with the last issuance to occur 42 months following the grant date).

On March 17, 2014, Mr. Chan was granted 5,000 restricted awards and 20,000 performance awards in his capacity as Executive Chairman of the Corporation. On June 1, 2014, Mr. Chan was appointed Chairman of the Board and ceased to be Executive Chairman. As a result of this change in his responsibilities, he voluntarily agreed to an adjustment of his 2014 share award grant to reflect (i) his service as Executive Chairman for five months of 2014 and (ii) his service as a non-executive director for seven months of 2014. As a result of this adjustment, he surrendered 2,642 restricted awards and 10,566 performance awards, resulting in a revised grant of 2,358 restricted awards and 9,434 performance awards.

The following table shows the number of common shares issuable to directors (who are not also officers) pursuant to the Share Award Incentive Plan and the Share Incentive Plan as at December 31, 2014:

	<b>Common Shares issuable as at December 31, 2014</b>	
	<u>#<sup>(1)</sup></u>	<u>%<sup>(2)</sup></u>
Share Award Incentive Plan <sup>(3)</sup>		
Restricted Awards	14,428	
Performance Awards	57,588	
Total	<u>72,016</u>	0.043

Notes:

- (1) On June 1, 2014, Raymond T. Chan was appointed Chairman of the Board and ceased to be Executive Chairman. The number of restricted awards and performance awards shown in the table include awards that were granted to Mr. Chan in his capacity as Executive Chairman.
- (2) Represents the number of common shares issuable as a percentage of the issued and outstanding common shares as at December 31, 2014.
- (3) The number of common shares issuable pursuant to the Share Award Incentive Plan does not include the dividend equivalents that will accumulate on the underlying grants and assumes a payout multiplier of 1x for the performance awards. If the payout multiplier was 2x, the total number of common shares would increase to 129,604, which represents 0.078% of the issued and outstanding common shares as at December 31, 2014.

For further information regarding the outstanding restricted awards and performance awards held by the directors (who are not also officers), see "Outstanding Option-based and Share-based Awards" and "Incentive Plan Awards – Value Vested or Earned during the Year" below.

### Summary Compensation Table

The following table sets forth the total compensation paid to directors (who are not also officers) for the year ended December 31, 2014.

Name	Fees earned (\$)	Share-based awards <sup>(1)</sup> (\$)	Option- based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
John A. Brussa <sup>(2)</sup>	61,500	99,993	-	-	-	-	161,493
Raymond T. Chan <sup>(3)</sup>	163,667	58,301	-	-	-	-	221,968
Edward Chwyl	89,500	99,993	-	-	-	-	189,493
Naveen Dargan	84,500	99,993	-	-	-	-	184,493
R.E.T. (Rusty) Goepel	52,000	99,993	-	-	-	-	151,993
Gregory K. Melchin	66,500	99,993	-	-	-	-	166,493
Mary Ellen Peters	69,500	99,993	-	-	-	-	169,493
Dale O. Shwed	57,000	99,993	-	-	-	-	156,993

Notes:

- (1) This column shows the total compensation value that was awarded as restricted awards and performance awards. The actual value realized pursuant to such restricted awards and performance awards may be greater or less than the indicated value. For additional information regarding the valuation methodology, see "Executive Compensation – Share Award Valuation" below.
- (2) Mr. Brussa is Vice Chairman of Burnet, Duckworth & Palmer LLP, a law firm which receives fees for the provision of legal services to Baytex. The Nominating and Governance Committee has reviewed and considered this relationship and determined that it does not interfere with the exercise of Mr. Brussa's independent judgement in his role as a member of the Board.
- (3) The amounts shown in table represent the compensation paid to Mr. Chan in his capacity as Chairman of the Board from June 1 to December 31, 2014. In his capacity as Executive Chairman of the Corporation from January 1 to May 31, 2014, Mr. Chan received total compensation of \$730,285, which was comprised of salary of \$135,417, share-based awards of \$441,326, cash bonus of \$140,000 and other compensation of \$13,542.

### Outstanding Option-based and Share-based Awards

The following table sets forth for each director (who is not also an officer) all option-based and share-based awards outstanding as at December 31, 2014.

Name	Option-based Awards					Share-based Awards		
	Number of securities underlying unexercised options (#)	Option exercise price		Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested <sup>(1)</sup> (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
		At Grant Date (\$)	At Year-end (\$)					
John A. Brussa	-	-	-	-	-	896 RA 3,564 PA	86,167	-
Raymond T. Chan	-	-	-	-	-	8,360 RA 33,436 PA	807,499	-
Edward Chwyl	-	-	-	-	-	896 RA 3,564 PA	86,167	-
Naveen Dargan	-	-	-	-	-	896 RA 3,564 PA	86,167	-
R.E.T. (Rusty) Goepel	-	-	-	-	-	896 RA 3,564 PA	86,167	-
Gregory K. Melchin	-	-	-	-	-	896 RA 3,564 PA	86,167	-
Mary Ellen Peters	-	-	-	-	-	692 RA 2,768 PA	66,847	-
Dale O. Shwed	-	-	-	-	-	896 RA 3,564 PA	86,167	-

Note:

- (1) Calculated by multiplying the number of restricted awards (RA) and performance awards (PA) by the closing price of the common shares on the TSX on December 31, 2014 (\$19.32). For performance awards, a payout multiplier of 1x is assumed. The calculated value does not include the value of dividend equivalents that have accumulated on the underlying grants.

### Incentive Plan Awards – Value Vested or Earned during the Year

The following table sets forth for each director (who is not also an officer) the value of option-based and share-based awards which vested during the year ended December 31, 2014 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2014.

Name	Option-based Awards Value vested during the year (\$)	Share-based Awards Value vested during the year <sup>(1)</sup> (\$)	Non-equity incentive plan compensation Value earned during the year (\$)
John A. Brussa	-	163,446	-
Raymond T. Chan <sup>(2)</sup>	-	1,937,209	-
Edward Chwyl	-	163,446	-
Naveen Dargan	-	163,446	-
R.E.T. (Rusty) Goepel	-	163,446	-
Gregory K. Melchin	-	163,446	-
Mary Ellen Peters	-	16,588	-
Dale O. Shwed	-	163,446	-

Notes:

- (1) Calculated by multiplying the number of common shares received upon the conversion of the performance awards and the restricted awards by the weighted average trading price of the common shares on the TSX for the five trading days preceding the issue date.
- (2) During 2014, Mr. Chan served as Executive Chairman of the Corporation from January 1 to May 31, 2014. In recognition of his service during this period, he was awarded a cash bonus of \$140,000.

### COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee is responsible for reviewing matters relating to human resource policies and compensation programs for Baytex and its affiliates. The Compensation Committee has established the following objectives for the compensation program: to award compensation that is commensurate with performance; to align the interests of management with the shareholders; and to attract and retain highly capable individuals.

The Compensation Committee has been delegated authority by the Board to establish the total compensation for all of the officers of Baytex Energy and its affiliates in the context of the general and administrative expense budget which is approved by the Board. The Compensation Committee meets at least annually with the President and Chief Executive Officer to review other employees' salaries but direct approval of those salaries is provided by the Board annually through the approval of the general and administrative expense budget.

#### Compensation Governance

The Compensation Committee is comprised of the following directors: Edward Chwyl (Chairman), Naveen Dargan and Mary Ellen Peters. The Nominating and Governance Committee has determined that each of these directors is independent. See "Statement of Corporate Governance Practices – Board of Directors".

All of the Compensation Committee members have direct experience in establishing and operating executive and corporate compensation programs. Mr. Chwyl is a retired businessman with over 35 years of experience in the oil and gas industry. His direct experience with executive compensation matters includes serving as the President and Chief Executive Officer of a publicly-traded intermediate oil and gas company for nine years and on the

compensation committees of several other public oil and gas companies. Mr. Dargan is a retired businessman with over 20 years of experience in the investment banking business (primarily focussed on the energy sector). His direct experience with executive compensation matters includes dealing with compensation matters in the investment banking business and serving on the compensation committees of several other public companies. Ms. Peters is a retired businesswoman with over 30 years of experience in the petroleum industry, most notably as Senior Vice President, Transportation and Logistics (2009-2010) and Senior Vice President, Marketing (1998-2009) at Marathon Petroleum Company LP. As a senior officer with Marathon, she had responsibility for managing a large staff and their compensation levels. For further information, see each member's biography under "Matters to be Acted Upon at the Meeting – Election of Directors" above.

Other than participation in an annual energy industry compensation survey conducted by Mercer Human Resources Consulting (an independent compensation consultant), a compensation consultant or advisor has not, at any time during the year ended December 31, 2014, been retained to assist in determining compensation for any of our directors and officers.

Our Disclosure, Trading and Confidentiality Policy prohibits directors, officers, employees and individual consultants or contractors from purchasing financial instruments (e.g., prepaid variable forward contracts, equity swaps, collars or units of exchange funds) that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by such individuals.

### **Compensation Risks**

The upstream oil and gas business is very complex and highly competitive. It involves numerous known and unknown risks and uncertainties, many of which are beyond the control of management. In establishing compensation programs for Baytex and its affiliates, the Compensation Committee's objective is to design programs that reward performance relative to industry peers and align the interest of management with the shareholders. The Compensation Committee seeks to achieve this objective by:

- Aligning the compensation framework with our annual budget and operating plans and our long-term strategic plan so that corporate objectives are a key factor in assessing the performance of our executives and employees.
- Ensuring that a significant portion of annual (cash bonuses) and long-term (share awards) incentive compensation is tied to corporate performance and, therefore, is at risk (not guaranteed) and variable year-over-year.
- Awarding a significant portion of long-term incentive compensation in the form of performance awards which, through the payout multiplier, provide a direct link between corporate performance and the level of payout received. If threshold performance is not met, the payout multiplier will be 0x and no payouts will be made under the performance awards.
- Using a variety of measures to assess corporate performance, such as total shareholder return, profitability of investment as measured by recycle ratio, which is calculated by dividing the actual historic cash flow from producing the reserves by the cost of finding and developing the reserves, annual production and health, safety and environmental performance metrics.

### **Identification of Named Executive Officers**

We are required to disclose the compensation paid to our Chief Executive Officer, Chief Financial Officer and each of the three other most highly compensated executive officers whose total annual compensation was more than \$150,000 (each a "**Named Executive Officer**" and collectively, the "**Named Executive Officers**"). Each of our officers is also an officer of our wholly-owned subsidiary, Baytex Energy Ltd. Our officers are compensated by Baytex Energy Ltd. and not us.

For the year ended December 31, 2014, the Named Executive Officers were: James L. Bowzer, President and Chief Executive Officer; Rodney D. Gray, Chief Financial Officer; Richard P. Ramsay, Chief Operating Officer; Geoffrey J. Darcy, Senior Vice President, Marketing; Michael L. Verm, Vice President, U.S. Business Unit; W. Derek Aylesworth, former Chief Financial Officer; and Marty L. Proctor, former Chief Operating Officer.

### Compensation Review Process

The Compensation Committee met in December 2014 to establish bonuses and long-term incentive plan awards for 2014 performance and base salaries for 2015. In establishing overall compensation levels, the Compensation Committee considered corporate and individual performance during the year ended December 31, 2014 and competitive factors in the local marketplace.

### *Performance*

In establishing overall compensation levels, the Compensation Committee first assesses performance at the corporate level. Measures commonly used by the Compensation Committee to assess corporate performance include total shareholder return, recycle ratio and annual production.

The Compensation Committee then assesses the individual performance of the President and Chief Executive Officer and each of the other officers of Baytex Energy. The Chairman of the Board assists the Compensation Committee with the performance assessment of the President and Chief Executive Officer. The President and Chief Executive Officer assists the Compensation Committee with the performance assessment of the other officers.

The following table presents the total shareholder return (assuming reinvestment of dividends) for us, the S&P/TSX Oil & Gas Exploration & Production Index, the S&P/TSX Composite Index and the S&P 500 Index for the periods indicated.

Period	Baytex Energy Corp.	S&P/TSX Oil & Gas Exploration & Production Index	S&P/TSX Composite Index	S&P 500 Index
Year ended December 31, 2014	-50.6%	-22.3%	10.8%	13.9%
Five-year period ended December 31, 2014 (compound annual return)	-2.7%	-6.1%	7.6%	15.4%

We achieved first quartile performance on a recycle ratio basis for the one and three-year periods ended December 31, 2013 relative to 15 comparable dividend-paying companies in the S&P/TSX Oil & Gas E&P Index. This comparator group excluded companies with significant international operations or a production mix that was predominantly natural gas.

During the year ended December 31, 2014, we achieved average annual production of 78,321 boe/d, which exceeded the upper end of our production guidance range of 74,000 to 76,000 boe/d announced in July 2014 (with capital expenditures in-line with guidance), generated the highest level of annual funds from operations in our history (\$879.8 million) and continued to advance the development of our cold heavy oil assets at Peace River and Lloydminster.

A significant achievement in 2014 was the optimization of our asset portfolio through the addition of a new core area and the divestiture of certain non-core assets. On June 11, 2014, we completed the acquisition of 22,350 net acres located in the Eagle Ford shale in South Texas for \$2.8 billion. The Eagle Ford is one of the premier oil resource plays in the United States and provides attractive capital efficiencies for future investment. This acquisition was 37% accretive to proved reserves per share, 23% accretive to proved plus probable reserves per share and 18% accretive to production per share. To finance this acquisition, we raised \$1.5 billion in equity and US\$800 million

in long-term debt and expanded our bank credit facilities. The equity financing represented one of the largest bought deal primary offerings completed in the Canadian oil and gas sector. The bond financing was completed at historically low interest rates (5.125% of the 7 year notes and 5.625% for the 10 year notes).

In anticipation of the completion of the acquisition of the Eagle Ford assets, we completed a portfolio review to identify assets that were not likely to command capital going forward given our plans to direct capital to the highest rate of return projects in our portfolio. We subsequently completed the divestiture of light oil assets in North Dakota, Wyoming and southeast Saskatchewan and natural gas assets in northeast British Columbia realizing aggregate proceeds of \$383.1 million.

### *Competitive Factors*

For Baytex to attract and retain qualified and experienced officers and employees, its overall compensation levels must be competitive with other participants in the Canadian oil and gas industry. To understand compensation practices in the marketplace, the President and Chief Executive Officer prepares, at the direction of the Compensation Committee, a comparative compensation analysis for our officers and employees on an annual basis.

As part of the comparative compensation analysis, the Compensation Committee is provided with (i) the results of an annual energy industry compensation survey conducted by Mercer Human Resources Consulting, an independent compensation consultant; and (ii) a summary (based on publicly available information) of the compensation paid to officers of an industry-specific peer group prepared by the President and Chief Executive Officer at the direction of the Compensation Committee. For 2014, the members of the peer group were:

ARC Resources Ltd.	MEG Energy Corp.	Twin Butte Energy Ltd.
Bonavista Energy Corporation	Pengrowth Energy Corporation	Vermilion Energy Inc.
Crescent Point Energy Corp.	Penn West Petroleum Ltd.	Whitecap Resources Inc.
Enerplus Corporation	Peyto Exploration & Development Corp.	
Lightstream Resources Ltd.	Trilogy Energy Corp.	

As a final check on the reasonableness of overall compensation at Baytex, the Compensation Committee compares our general and administrative costs per unit of production to the average for the members of the peer group listed above. The Compensation Committee's expectation is that our general and administrative costs per unit of production should approximate the average for the peer group. Based on publicly reported data for the nine month period ended September 30, 2014, our general and administrative costs per unit of production of \$2.14/boe were approximately 8% higher than the peer group average of \$1.98/boe.

### **Compensation Program Components**

Executive compensation at Baytex consists of essentially four components: (1) base salary; (2) bonuses; (3) long-term incentive compensation; and (4) other benefits. Each of these compensation components is summarized in the following sections.

#### *Base Salaries*

Base salaries are an important component of the overall compensation package for officers as they are usually the largest portion of annual cash compensation. The Compensation Committee ensures that the base salaries for the President and Chief Executive Officer and the other officers are comparable to the amounts paid to similar officers of other participants in the Canadian oil and gas industry. As described above under "Competitive Factors", the level of salaries relative to the Canadian oil and gas industry is verified using independent and industry-specific compensation data.

The Compensation Committee met in December 2014 to establish base salaries for the officers for 2015. Factors considered by the Compensation Committee included corporate and individual performance and competitive factors in the local marketplace. Based on its assessment of these factors, the Compensation Committee determined that an increase in base salaries was warranted. The base salaries for our Named Executive Officers were increased effective January 1, 2015 by an average of 2.4% from 2014 levels.

### *Bonuses*

An annual bonus may be paid based on the Compensation Committee's subjective assessment of Baytex's general performance and each officer's contribution to such performance. In a year where Baytex experiences significant growth resulting in a change to its peer group for comparison purposes, a bonus payment may be used to adjust the total cash compensation of the officers to reflect overall compensation levels at the new peer group. In the oil and gas industry, there is generally a direct relationship between corporate size and total cash compensation.

The Compensation Committee met in December 2014 to establish annual bonuses for the officers for performance during 2014. Factors considered by the Compensation Committee included attainment of 2014 corporate production targets, execution of 2014 capital expenditure program, completion of the strategic acquisition of assets in the Eagle Ford shale in South Texas for \$2.8 billion and associated equity, debt and bank financings, optimization of asset portfolio through the divestiture of non-core properties, first quartile performance on a recycle ratio basis, management of risk exposures and crude oil marketing to maximize product sales netbacks and completion of strategic planning initiatives. Based on its assessment of these factors and competitive factors in the local marketplace, the Compensation Committee determined that the payment of an annual bonus was warranted. The annual bonuses paid to our Named Executive Officers for performance during 2014 averaged 83.7% of their 2014 base salaries, which represented an 8.3% reduction from 2013 when annual bonuses averaged 91.3% of base salaries.

New for 2015: In 2015, annual bonuses for the Named Executive Officers will be based on corporate performance (weighting 70%) and individual performance (weighting 30%). The following measures (relative to pre-established targets) will be used to assess corporate performance: health, safety and environmental performance; average annual production rate; aggregate capital expenditures; production and operating expenses per unit of production; reserve additions; and finding and development costs.

### *Long-Term Incentive Compensation*

Our Share Award Incentive Plan forms the basis of our long-term incentive compensation program. This plan is a full-value award plan pursuant to which restricted awards and performance awards may be granted to the directors, officers, employees and other service providers of Baytex and its subsidiaries. For further information, see "Executive Compensation – Share Award Incentive Plan".

Each restricted award entitles the holder to be issued the number of common shares designated in the restricted award with such common shares to be issued on dates determined by the Compensation Committee, provided that the Compensation Committee will not establish issue dates for a restricted award that would result in all of the common shares awarded pursuant to such restricted award being issued prior to the third anniversary of the grant date of such restricted award. The number of common shares to be issued on the applicable issue date for a restricted award is adjusted to account for the payment of dividends from the grant date to the applicable issue date.

Each performance award entitles the holder to be issued the number of common shares designated in the performance award multiplied by a payout multiplier, with such common shares to be issued on dates determined by the Compensation Committee, provided that the Compensation Committee will not establish issue dates for a performance award that would result in all of the common shares awarded pursuant to such performance award being issued prior to the third anniversary of the grant date of such performance award. The payout multiplier is dependent on the performance of Baytex relative to pre-defined corporate performance measures for a particular period and can be one of 0x (for fourth quartile ranking), 1x (for third quartile ranking), 1.5x (for second quartile ranking) and 2x (for first quartile ranking). For those performance awards where the issue date is the second or third anniversary of the grant date, the payout multiplier will be the arithmetic average of the payout multiplier for each of

the two or three preceding fiscal years, respectively. The number of common shares to be issued on the applicable issue date for a performance award is adjusted to account for the payment of dividends from the grant date to the applicable issue date.

The Compensation Committee's practice is to issue common shares pursuant to restricted and performance awards as to one-sixth on the first anniversary of the grant date and as to one-sixth every six months thereafter (with the last issuance to occur 42 months following the grant date).

The Compensation Committee is responsible for determining the allocation of the share awards between restricted and performance awards. The performance awards, through the payout multiplier, provide a direct link between corporate performance and the level of payout received. The Compensation Committee believes that the pay for performance orientation of the performance awards is aligned with shareholder interests. The portion of performance awards received relative to restricted awards increases with greater levels of responsibility. As a result, a significant portion of the share awards granted to the Named Executive Officers are in the form of performance awards (see "2014 Awards" and "2015 Awards" below).

#### 2014 Awards

On December 12, 2013, the Compensation Committee approved the annual awards under the Share Award Incentive Plan. An aggregate of 407,000 restricted awards and 339,000 performance awards were approved for grant to eligible directors, officers, employees and other service providers of Baytex and its subsidiaries during 2014. The following table details the restricted and performance awards granted to each of the Named Executive Officers during 2014.

<b>Name</b>	<b>Restricted Awards<sup>(1)</sup> (#)</b>	<b>Performance Awards<sup>(1)</sup> (#)</b>	<b>Performance Awards as % of Total Award (%)</b>
James L. Bowzer	12,000	48,000	80
Rodney D. Gray <sup>(2)</sup>	12,500	37,500	75
Richard P. Ramsay	9,875	22,625	70
Geoffrey J. Darcy	5,950	11,050	65
Michael L. Verm <sup>(3)</sup>	5,000	15,000	75
W. Derek Aylesworth	7,500	22,500	75
Marty L. Proctor	7,500	22,500	75

Notes:

- (1) Depending on each grantee's historical grant cycle, these awards were either granted on (i) March 17, 2014 or (ii) July 1, 2014, in each case with an issue date schedule of one-sixth on the first anniversary date of the grant and a further one-sixth every six months thereafter (with the last issuance to occur 42 months following the grant date). The value of these grants is reported in the Summary Compensation Table.
- (2) Mr. Gray commenced employment with Baytex on April 1, 2014. In connection with his hiring, he was awarded 12,500 restricted awards and 37,500 performance awards, which were granted on July 11, 2014. The issue date schedule for these awards was 25.0% on July 11, 2014, 33.3% on January 18, 2015 and 8.3% every six months thereafter (with the last issuance to occur on July 1, 2017).
- (3) Mr. Verm commenced employment with Baytex on June 11, 2014. In connection with his hiring, he was awarded 5,000 restricted awards and 15,000 performance awards, which were granted on July 11, 2014. The issue date schedule for these awards is one-sixth on the first anniversary date of the grant and a further one-sixth every six months thereafter (with the last issuance to occur 42 months following the grant date).

On December 12, 2013, the Compensation Committee established the corporate performance measures listed in the table below (and the weighting of each measure) for purposes of calculating the 2014 payout multiplier, which is used to determine the number of common shares to be issued pursuant to performance awards with issue dates in

2015. The Compensation Committee met on December 8, 2014 to assess our performance relative to such corporate performance measures and to establish the 2014 payout multiplier. Listed below are the results of the assessment:

Corporate Performance Measure	Results / Quartile Ranking	Multiplier	Weighting	Weighted Multiplier
Relative Total Shareholder Return ("TSR") for one-year period ended November 30, 2014	Baytex's TSR of -39% ranked 25 out of the 37 member companies of the S&P/TSX Oil & Gas Exploration & Production Index for this period resulting in a third quartile ranking.	1.0	14.3%	0.143
Relative TSR for three-year period ended November 30, 2014	Baytex's TSR of -45% ranked 25 out of the 37 member companies of the S&P/TSX Oil & Gas Exploration & Production Index for this period resulting in a third quartile ranking.	1.0	14.3%	0.143
Relative TSR for five-year period ended November 30, 2014	Baytex's TSR of 14% ranked 14 out of the 37 member companies of the S&P/TSX Oil & Gas Exploration & Production Index for this period resulting in a second quartile ranking.	1.5	14.3%	0.215
Relative Recycle Ratio for one-year period ended December 31, 2013 (including future development costs)	Baytex ranked 8 out of the 16 comparable dividend-paying companies in the S&P/TSX Oil & Gas E&P Index resulting in a second quartile ranking.	1.5	14.3%	0.215
2014 Production Volumes	Actual 2014 production of 78,321 boe/d resulted in a first quartile ranking.	2.0	14.3%	0.286
Development and execution of strategic plan	The Compensation Committee evaluated management's performance and assigned a first quartile ranking.	2.0	14.3%	0.286
Attainment of Health, Safety and Environmental performance targets during 2014	Baytex exceeded the performance target on one of the four measures for this period resulting in a fourth quartile ranking.	0.0	14.3%	0.000
<b>Total</b>				1.288
<b>Payout Multiplier</b>				1.5x

Pursuant to the terms of the Share Award Incentive Plan, the aggregate weighted multiplier for the applicable period is rounded up or down to determine the payout multiplier, which will be one of 0x (for fourth quartile ranking), 1x (for third quartile ranking), 1.5x (for second quartile ranking) and 2x (for first quartile ranking). For 2014, the aggregate weighted multiplier of 1.288x was rounded up to 1.5x.

The following table sets forth the payout multipliers applicable to performance awards that were previously granted. For those performance awards where the issue date is the second or third anniversary of the grant date, the payout multiplier is calculated as the arithmetic average of the payout multiplier for each of the two or three preceding fiscal years, respectively. For example, performance awards that were granted in 2012 with an issue date in 2014 have a payout multiplier of 1.75x, being the arithmetic average of the 2012 payout multiplier of 2x and the 2013 payout multiplier of 1.5x.

Grant Year	Issue Year					
	2012	2013	2014	2015	2016	2017
2011	2x	2x	1.83x	-	-	-
2012	-	2x	1.75x	1.67x	-	-
2013	-	-	1.5x	1.5x	TBD	-
2014	-	-	-	1.5x	TBD	TBD

### 2015 Awards

On December 8, 2014, the Compensation Committee approved the annual awards under the Share Award Incentive Plan. An aggregate of 1,012,500 share awards were approved for grant to eligible directors, officers, employees and other service providers of Baytex and its subsidiaries during 2015. Depending on each grantee's historical grant cycle, these awards were granted on either January 19, 2015 or July 1, 2015, in each case with an issue date schedule of one-sixth on the first anniversary of the grant date and a further one-sixth every six months thereafter (with the last issuance to occur 42 months following the grant date).

The following table details the restricted and performance awards to be granted to each of the Named Executive Officers during 2015.

Name	Restricted Awards <sup>(1)</sup> (#)	Performance Awards <sup>(1)</sup> (#)	Performance Awards as % of Total Award (%)
James L. Bowzer	15,000	60,000	80
Rodney D. Gray	8,750	26,250	75
Richard P. Ramsay	9,250	27,750	75
Geoffrey J. Darcy	6,650	12,350	65
Michael L. Verm	7,000	13,000	65

Note:

- (1) These grants have an issue date schedule of one-sixth on the first anniversary of the grant date and a further one-sixth every six months thereafter (with the last issuance to occur 42 months following the grant date). These grants will be reported in the Summary Compensation Table next year.

The Compensation Committee established the following corporate performance measures for purposes of calculating the 2015 payout multiplier, which will be used to determine the number of common shares to be issued pursuant to performance awards with issue dates in 2016: (1) total shareholder return relative to the member companies in the S&P/TSX Oil & Gas Exploration & Production Index for the one and three year periods ended November 30, 2015 (weighting 25% each); (2) recycle ratio for the year ended December 31, 2014 relative to a custom peer group comprised of comparable dividend-paying companies in the S&P/TSX Oil & Gas Exploration & Production Index (weighting 12.5%); (3) attainment of corporate production targets during 2015 (weighting 12.5%); (4) development and execution of the strategic plan (weighting 12.5%); and (5) attainment of health, safety and environmental performance targets during 2015 (weighting 12.5%).

### Historical Grant Information

The following table shows the number of common shares issuable to all directors, officers, employees and other service providers of Baytex and its subsidiaries pursuant to the Share Award Incentive Plan as at December 31, 2014.

	<b>Common Shares issuable as at December 31, 2014</b>	
	<b>#</b>	<b>%<sup>(1)</sup></b>
Share Award Incentive Plan <sup>(2)</sup>		
Restricted Awards	746,000	
Performance Awards	613,000	
<b>Total</b>	<b>1,359,000</b>	<b>0.81</b>

Notes:

- (1) Represents the number of common shares issuable as a percentage of the issued and outstanding common shares as at December 31, 2014.
- (2) The number of common shares issuable pursuant to the Share Award Incentive Plan does not include the dividend equivalents that will accumulate on the underlying grants and assumes a payout multiplier of 1x for the performance awards. If the payout multiplier was 2x, the total number of common shares would increase to 1,972,000, which represents 1.18% of the issued and outstanding common shares as at December 31, 2014.

The following table summarizes the number of share awards granted during the periods noted below and the potential dilutive effect of such share awards.

<b>Period</b>	<b>Share Awards Granted</b>		<b>Weighted Average Common Shares Outstanding</b>	<b>Burn Rate<sup>(1)</sup> Assuming a Payout Multiplier of:</b>			
	<b>Restricted</b>	<b>Performance</b>		<b>0x</b>	<b>1x</b>	<b>1.5x</b>	<b>2x</b>
2011	389,000	243,000	115,960,000	0.34%	0.55%	0.65%	0.75%
2012	370,000	306,000	119,959,000	0.31%	0.56%	0.69%	0.82%
2013	437,000	374,000	123,749,000	0.35%	0.66%	0.81%	0.96%
2014	533,000	483,000	148,931,000	0.36%	0.68%	0.84%	1.01%

Note:

- (1) The Burn Rate for a given period is calculated by dividing the number of share awards granted during such period by the weighted average number of common shares outstanding during such period. The number of common shares issuable pursuant to the Share Award Incentive Plan does not include the dividend equivalents that will accumulate on the underlying grants.

For further information regarding the outstanding restricted awards and performance awards held by the Named Executive Officers, see "Executive Compensation – Outstanding Option-based and Share-based Awards" and "Executive Compensation – Incentive Plan Awards – Value Vested or Earned during the Year" below.

### *Other Benefits*

The employment benefits provided to employees are generally typical of those provided by participants in the Canadian oil and gas industry and include life and disability insurance and extended health and dental coverage. Officers also receive parking and certain perquisites.

Baytex has established a savings plan to assist its employees in meeting their savings goals. Under this plan, employees contribute a percentage of their gross salary to the plan each pay period. Baytex matches each

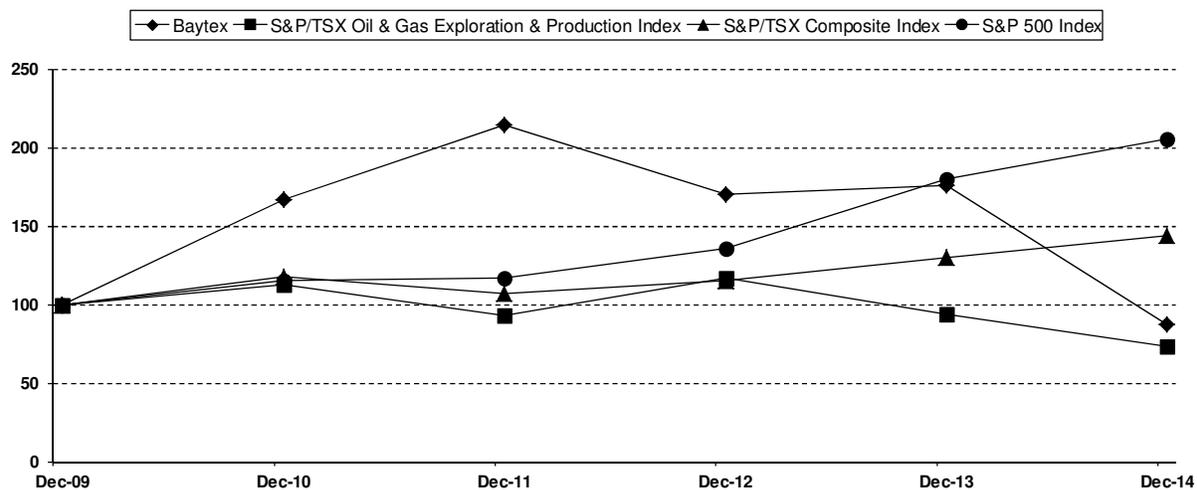
employee's contributions to a maximum of 10% of their gross salary. Baytex's contributions vest immediately in favour of the employee. The employee contributions are allocated by the employee to either an RRSP, a spousal RRSP or a tax-free savings account. Baytex's contributions are allocated by the employee to an RRSP, a spousal RRSP, a tax-free savings account, an investment account or a health spending account. Investment options under this plan include a suite of professionally managed investment funds and our common shares.

## Summary

The Compensation Committee believes that long term shareholder value is enhanced by compensation based upon corporate performance achievements. Through the plans described above, a significant portion of the compensation for all employees, including officers, is based on corporate performance, as well as industry-competitive pay practices.

## Performance Graph

The following graph presents the five-year cumulative total return from an investment of \$100 in each of Baytex Energy Corp. (and its predecessor Baytex Energy Trust), the S&P/TSX Oil & Gas Exploration & Production Index, the S&P/TSX Composite Index and the S&P 500 Index on December 31, 2009, assuming reinvestment of dividends and distributions.



	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014
Baytex Energy Trust / Baytex Energy Corp.	100	167	214	170	176	87
S&P/TSX Oil & Gas Exploration & Production Index	100	113	93	117	94	73
S&P/TSX Composite Index	100	118	107	115	130	144
S&P 500 Index	100	115	117	136	180	205

The compensation received by the Named Executive Officers generally corresponds with fluctuations in our total return over the periods indicated on the above graph (other than 2010 when the Named Executive Officers were not

granted any long-term incentive compensation as a result of the transition from the Share Incentive Plan to the Share Award Incentive Plan in connection with the Corporate Conversion at year-end 2010). Due to the inherent link between the value of our share awards and Share Incentive Rights and fluctuations in the market price of the common shares, the underlying value of long-term incentive awards naturally followed fluctuations in our total return.

The Compensation Committee met in December 2013 to approve 2014 base salaries for our Named Executive Officers. 2014 base salaries for our Named Executive Officers increased by an average of 5.3% from 2013 levels (in 2013 they increased by 6.0% from 2012 levels) (Note: These calculations only include three of our Named Executive Officers as the other two did not commence employment until 2014). The reduced level of base salary increases was reflective of our total shareholder return for the year ended December 31, 2013 of 3.5%, as compared to the S&P/TSX Oil & Gas Exploration & Production Index (+13.8%), the S&P/TSX Composite Index (+13.0%) and the S&P 500 Index (+32.4%).

The Compensation Committee met in December 2014 to approve annual bonuses for our Named Executive Officers for 2014 performance. The annual bonuses paid to our Named Executive Officers for performance during 2014 averaged 83.7% of their 2014 base salaries, which represented an 8.3% reduction from 2013 when annual bonuses averaged 91.3% of base salaries. This decrease was reflective of our total shareholder return for the year ended December 31, 2014 of -50.6%, as compared to the S&P/TSX Oil & Gas Exploration & Production Index (-22.3%), the S&P/TSX Composite Index (+10.8%) and the S&P 500 Index (+13.9%). For a description of the factors considered by the Compensation Committee in establishing annual bonuses for 2014 performance, see "– Compensation Program Components – Bonuses" above.

### Cost of Management Ratios

We evaluate cost of management on a long term basis relative to that of our industry peers and believe our total cost is aligned with our goal of creating value for our shareholders.

Parameter and Ratios	2011	2012	2013	2014
Total cash compensation for the Named Executive Officers (\$ millions)	\$4.4	\$3.9	\$3.8	\$3.4
As a % of total market capitalization <sup>(1)</sup>	0.07%	0.08%	0.07%	0.11%
As a % of funds from operations <sup>(2)</sup>	0.80%	0.74%	0.63%	0.39%
Total shareholder return	28.1%	-20.5%	3.5%	-50.6%

Notes:

- (1) Total market capitalization is calculated by multiplying the number of common shares outstanding at year-end by the closing price of the common shares on the last trading day of the year.
- (2) Funds from operations is a non-GAAP measure that represents cash generated from operating activities adjusted for finance costs, changes in non-cash operating working capital and other operating items. For a reconciliation of funds from operations to cash flow from operating activities, see Management's Discussion and Analysis of the operating and financial results for the year ended December 31, 2014.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

Each of our officers is also an officer of our wholly-owned subsidiary, Baytex Energy Ltd. Our officers are compensated by Baytex Energy Ltd. (or, in the case of Michael L. Verm, Baytex Energy USA, Inc.) and not us. The following table sets forth information concerning the compensation paid to our Named Executive Officers for the three most recently completed financial years.

Name and principal position	Year	Salary (\$)	Share-based awards <sup>(1)</sup> (\$)	Option-based awards (\$)	Non-equity incentive plan compensation		Pension value (\$)	All other compensation <sup>(3)</sup> (\$)	Total compensation (\$)
					Annual incentive plans <sup>(2)</sup> (\$)	Long-term incentive plans (\$)			
James L. Bowzer <sup>(4)</sup> President and Chief Executive Officer	2014	600,000	2,542,200	-	620,000	-	-	60,000	3,822,200
	2013	575,000	3,002,800	-	600,000	-	-	57,500	4,235,300
	2012	183,333	2,339,500	-	200,000	-	-	18,333	2,741,167
Rodney D. Gray <sup>(5)</sup> Chief Financial Officer	2014	255,000	2,404,000	-	240,000	-	-	25,500	2,924,500
Richard P. Ramsay Chief Operating Officer	2014	352,916	1,462,675	-	320,000	-	-	35,292	2,170,883
	2013	305,000	521,280	-	200,000	-	-	30,500	1,056,780
	2012	295,000	580,860	-	185,000	-	-	29,500	1,090,360
Geoffrey J. Darcy Senior Vice President, Marketing	2014	317,916	817,360	-	195,000	-	-	31,792	1,362,068
	2013	300,000	777,360	-	165,000	-	-	30,000	1,272,360
	2012	285,000	580,860	-	160,000	-	-	28,500	1,054,360
Michael L. Verm <sup>(6)</sup> Vice President, U.S. Business Unit	2014	232,108	988,307	-	121,495	-	-	23,211	1,365,120
W. Derek Aylesworth Former Chief Financial Officer	2014	176,201	1,271,100	-	-	-	-	17,620	1,464,921
	2013	360,000	1,303,200	-	320,000	-	-	36,000	2,019,200
	2012	345,000	1,282,636	-	315,000	-	-	34,500	1,977,136
Marty L. Proctor Former Chief Operating Officer	2014	174,759	1,271,100	-	-	-	-	17,476	1,463,335
	2013	360,000	1,303,200	-	320,000	-	-	36,000	2,019,200
	2012	330,000	968,100	-	290,000	-	-	33,000	1,621,100

Notes:

- (1) This column shows the total compensation value that was awarded as restricted awards and performance awards. The actual value realized pursuant to such restricted awards and performance awards may be greater or less than the indicated value. For additional information regarding the valuation methodology, see " – Share Award Valuation" below.
- (2) The amounts shown in the table above for 2014 represent the annual bonuses awarded for 2014, which were paid, at the option of the Named Executive Officer, in either December 2014 or January 2015. See "Compensation Discussion and Analysis – Compensation Program Components – Bonuses".
- (3) The amounts shown in the table above represent Baytex's matching contributions to the employee savings plan. See "Compensation Discussion and Analysis – Compensation Program Components – Other Benefits". The value of perquisites received by each of the Named Executive Officers, including property or other personal benefits provided to the Named Executive Officers that are not generally available to all employees, were not in the aggregate greater than \$50,000 or 10% of the Named Executive Officer's total salary for the financial year.
- (4) Mr. Bowzer commenced employment with Baytex on September 1, 2012. His annualized salary for 2012 was \$550,000.

- (5) Mr. Gray commenced employment with Baytex on April 1, 2014. His annualized salary for 2014 was \$340,000.
- (6) In connection with the acquisition by Baytex of Aurora Oil & Gas Limited ("**Aurora**") on June 11, 2014, Michael Verm (the Chief Operating Officer of Aurora) accepted a position with Baytex. The amounts shown in the table for Mr. Verm represent compensation paid by Baytex from June 11, 2014 to December 31, 2014 and do not include compensation that he received from Aurora in 2014. His annualized salary for 2014 was US\$410,000. All amounts shown in the table for Mr. Verm have been converted to Canadian dollars using an exchange rate of 1.1045 CAD/USD.

### Share Award Valuation

During 2014, share awards were granted on January 18, March 17 and July 1. Each of the directors and the Named Executive Officers were recipients of the awards granted either March 17, 2014 or July 1, 2014.

For purposes of this executive compensation disclosure, the fair value of the share awards was determined by multiplying the number of restricted and performance awards granted by the weighted average trading price of the common shares on the TSX for the five-day period ended prior to the grant date. This calculation assumes a payout multiplier of 1x for the performance awards and does not include the value of the dividend equivalents received on the restricted and performance awards under the Share Award Incentive Plan.

The fair value of the share awards presented in this executive compensation disclosure differs from the fair value determined in accordance with International Financial Reporting Standards ("**IFRS**") for financial statement purposes. Under IFRS 2 "Share-based Payment", the fair value of share awards is determined at the date of grant using the weighted average trading price of the common shares on the TSX for the five-day period ended prior to the grant date and, for performance awards, an estimated payout multiplier.

The main difference between Baytex's approach to calculating the fair value of the share awards for purposes of this executive compensation disclosure and IFRS is the estimated payout multiplier for purposes of valuing the performance awards.

Pursuant to the terms of the Share Award Incentive Plan, the payout multiplier for performance awards is dependent on the performance of Baytex relative to pre-defined corporate performance measures for a particular period and can be one of 0x (for fourth quartile ranking), 1x (for third quartile ranking), 1.5x (for second quartile ranking) and 2x (for first quartile ranking). For purposes of this executive compensation disclosure, the Compensation Committee determined to use a payout multiplier of 1x, being the mid-point of the low and high payout multipliers. Under IFRS, an initial estimated payout multiplier, based on historical performance, of 1.5x was used. This multiplier is adjusted on an on-going basis as new information becomes available. The current multipliers applied to the various tranches of each grant fall within a range of 1.5x to 1.67x. As there can be no assurance that future performance will match historical performance, the Compensation Committee prefers to use a mid-point payout multiplier. This approach is also consistent with the approach followed by other issuers in the peer group with similar plans and with the methodology specified in the Share Award Incentive Plan for calculating the value of any performance awards granted to directors (who are not also officers).

The following table sets forth the fair value of the share awards on the applicable grant date and the payout multipliers used by Baytex for this executive compensation disclosure and determined in accordance with IFRS.

Grant Date	Fair Value of Share Awards	Payout Multiplier for Performance Awards	
		Baytex	IFRS
January 18, 2014	\$40.36	1.0x	1.5x
March 17, 2014	\$40.36	1.0x	1.5x
July 1, 2014	\$49.25	1.0x	1.5x

### Outstanding Option-based and Share-based Awards

The following table sets forth for each Named Executive Officer all option-based and share-based awards outstanding as at December 31, 2014.

Name	Option-based Awards					Share-based Awards		
	Number of securities underlying unexercised options (#)	Option exercise price		Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested <sup>(1)</sup> (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
		At Grant Date (\$)	At Year-end (\$)					
James L. Bowzer	-	-	-	-	-	24,669 RA 98,669 PA	2,382,890	-
Rodney D. Gray	-	-	-	-	-	9,375 RA 28,125 PA	724,500	-
Richard P. Ramsay	-	-	-	-	-	14,075 RA 30,425 PA	859,746	-
Geoffrey J. Darcy	-	-	-	-	-	12,350 RA 22,650 PA	676,200	-
Michael L. Verm	-	-	-	-	-	5,000 RA 15,000 PA	386,400	-
W. Derek Aylesworth	-	-	-	-	-	nil RA nil PA	-	-
Marty L. Proctor	-	-	-	-	-	nil RA nil PA	-	-

Note:

- (1) Calculated by multiplying the number of restricted awards (RA) and performance awards (PA) by the closing price of the common shares on the TSX on December 31, 2014 (\$19.32). For performance awards, a payout multiplier of 1x is assumed. The calculated value does not include the value of dividend equivalents that have accumulated on the underlying grants.

### Incentive Plan Awards – Value Vested or Earned during the Year

The following table sets forth for each Named Executive Officer the value of option-based awards and share-based awards which vested during the year ended December 31, 2014 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2014.

Name	Option-based Awards Value vested during the year (\$)	Share-based Awards Value vested during the year <sup>(1)</sup> (\$)	Non-equity incentive plan compensation Value earned during the year <sup>(2)</sup> (\$)
James L. Bowzer	-	2,587,781	620,000
Rodney D. Gray	-	826,399	240,000
Richard P. Ramsay	-	863,903	320,000
Geoffrey J. Darcy	-	737,754	195,000
Michael L. Verm	-	-	121,495
W. Derek Aylesworth	-	3,199,136	-
Marty L. Proctor	-	1,696,897	-

Notes:

- (1) Calculated by multiplying the number of common shares received upon the conversion of the performance awards and the restricted awards by the weighted average trading price of the common shares on the TSX for the five trading days preceding the issue date.
- (2) The amounts shown in the table above for each of the Named Executive Officers represent the annual bonus awarded for 2014 and was paid, at the option of the Named Executive Officer, in either December 2014 or January 2015. See "Compensation Discussion and Analysis – Compensation Program Components – Bonuses".

Please note that the values in this table for option-based and share-based awards differ from the values shown in the Summary Compensation Table above. The values reported in this table represent the value of those awards that vested during the year. The values reported in the Summary Compensation Table represent an estimate of the fair value of awards that were granted during the year. See " – Share Award Valuation".

### Share Award Incentive Plan

At a special meeting held on December 9, 2010, the unitholders of the Trust approved the adoption by Baytex effective January 1, 2011 of a full-value award plan pursuant to which restricted awards and performance awards may be granted to the directors, officers, employees and other service providers of Baytex and its subsidiaries. At the annual and special meeting of shareholders held on May 14, 2013, the shareholders approved the unallocated share awards under the Share Award Incentive Plan for an additional three-year period (to May 14, 2016).

Listed below is a summary of the principal terms of the Share Award Incentive Plan. A copy of the Share Award Incentive Plan is accessible on the SEDAR website at [www.sedar.com](http://www.sedar.com) (filed on March 14, 2013 under the filing category Security holders documents). **Capitalized terms used but not defined in the following disclosure shall have the meanings ascribed thereto in the Share Award Incentive Plan.**

#### *Purpose of the Share Award Incentive Plan*

The principal purposes of the Share Award Incentive Plan are: (i) to retain and attract qualified Service Providers that Baytex and its affiliates require; (ii) to promote a proprietary interest in Baytex by such Service Providers and to encourage such persons to remain in the employ or service of Baytex and its affiliates and put forth maximum

efforts for the success of the business of Baytex and its affiliates; and (iii) to focus management of Baytex and its affiliates on operating and financial performance and long-term total shareholder return.

Incentive-based compensation such as the Share Award Incentive Plan is an integral component of compensation for Service Providers. The attraction and retention of qualified Service Providers has been identified as one of the key risks to Baytex's long-term strategic growth plan. The Share Award Incentive Plan is intended to maintain Baytex's competitiveness within the North American oil and gas industry to facilitate the achievement of its long-term goals. In addition, this incentive-based compensation is intended to reward Service Providers for meeting certain pre-defined operational and financial goals which have been identified for increasing long-term total shareholder return.

### *Overview*

The Board of Directors of Baytex has delegated the authority to administer the Share Award Incentive Plan to the Compensation Committee.

Under the terms of the Share Award Incentive Plan, any Service Provider may be granted Restricted Awards or Performance Awards. In determining the Service Providers to whom Share Awards may be granted ("**Grantees**"), the number of common shares to be covered by each Share Award and the allocation of the Share Award between Restricted Awards and Performance Awards, the Compensation Committee may take into account such factors as it shall determine in its sole discretion, including any one or more of the following factors:

- (a) compensation data for comparable benchmark positions among the Peer Comparison Group;
- (b) the duties, responsibilities, position and seniority of the Grantee;
- (c) the Corporate Performance Measures for the applicable period compared with internally established performance measures approved by the Compensation Committee and/or similar performance measures of members of the Peer Comparison Group for such period;
- (d) the individual contributions and potential contributions of the Grantee to the success of Baytex;
- (e) any bonus payments paid or to be paid to the Grantee in respect of his or her individual contributions and potential contributions to the success of Baytex;
- (f) the Fair Market Value or current market price of the common shares at the time of such Share Award; and
- (g) such other factors as the Compensation Committee shall deem relevant in its sole discretion in connection with accomplishing the purposes of the Share Award Incentive Plan.

### *Grant Practice*

The Compensation Committee's practice is to issue common shares pursuant to restricted and performance awards as to one-sixth on the first anniversary of the grant date and as to one-sixth every six months thereafter (with the last issuance to occur 42 months following the grant date).

### *Restricted Awards*

Each Restricted Award entitles the holder to be issued the number of common shares designated in the Restricted Award (plus dividend equivalents as described below) with such common shares to be issued on dates determined by the Compensation Committee, provided that the Compensation Committee will not establish Issue Dates for a Restricted Award that would result in all of the common shares awarded pursuant to such Restricted Award being issued prior to the third anniversary of the grant date of such Restricted Award.

### *Performance Awards*

Each Performance Award entitles the holder to be issued the number of common shares designated in the Performance Award (plus dividend equivalents as described below) multiplied by a Payout Multiplier, with such common shares to be issued on dates determined by the Compensation Committee, provided that the Compensation Committee will not establish Issue Dates for a Performance Award that would result in all of the common shares awarded pursuant to such Performance Award being issued prior to the third anniversary of the grant date of such Performance Award.

The Payout Multiplier is determined by the Compensation Committee based on an assessment of the achievement of the pre-defined Corporate Performance Measures in respect of the applicable period. Corporate Performance Measures may include: relative total shareholder return; recycle ratio; activities related to the growth of Baytex; average production volumes; unit costs of production; total proved reserves; health, safety and environmental performance; the execution of Baytex's strategic plan and such additional measures as the Compensation Committee shall consider appropriate in the circumstances. The Payout Multiplier for a particular period can be one of 0x (for fourth quartile ranking), 1x (for third quartile ranking), 1.5x (for second quartile ranking) or 2x (for first quartile ranking). For those Performance Awards where the Issue Date is the second or third anniversary of the grant date, the Payout Multiplier will be the arithmetic average of the Payout Multiplier for each of the two or three preceding fiscal years, respectively.

### *Dividend Equivalents*

The Share Award Incentive Plan provides for cumulative adjustments to the number of common shares to be issued pursuant to Share Awards on each date that dividends are paid on the common shares by an amount equal to a fraction having as its numerator the amount of the dividend per common share multiplied by the Adjustment Ratio immediately prior to the record date for such dividend and having as its denominator the price, expressed as an amount per common share, paid by participants in our dividend reinvestment plan to reinvest their dividends in additional common shares on the applicable dividend payment date, provided that if Baytex has suspended the operation of such plan or does not have such a plan, then the Reinvestment Price shall be equal to the Fair Market Value of the common shares on the trading day immediately preceding the dividend payment date.

Under the Share Award Incentive Plan, in the case of a non-cash dividend, including common shares or other securities or property, the Compensation Committee will, in its sole discretion and subject to the approval of the Exchange, determine whether or not such non-cash dividend will be provided to the Share Award holder and, if so provided, the form in which it shall be provided.

### *Limitation on Common Shares Reserved*

The Share Award Incentive Plan provides that the maximum number of common shares reserved for issuance from time to time pursuant to outstanding Share Awards (and any other long-term incentive plans) shall not exceed a number of common shares equal to 3.3% of the aggregate number of issued and outstanding common shares.

### *Limitations on Share Awards*

The aggregate number of Share Awards granted to any single Service Provider shall not exceed 5% of the issued and outstanding common shares, calculated on an undiluted basis. In addition: (i) the number of common shares issuable to insiders at any time, under all security based compensation arrangements of Baytex, shall not exceed 10% of the issued and outstanding common shares; and (ii) the number of common shares issued to insiders, within any one year period, under all security based compensation arrangements of Baytex, shall not exceed 10% of the issued and outstanding common shares. The number of common shares issuable pursuant to the Share Award Incentive Plan to Non-Management Directors, in aggregate, will be limited to a maximum of 0.25% of the issued and outstanding common shares and the value of all Share Awards granted to any one Non-Management Director during a calendar year, as calculated on the date of grant, cannot exceed \$100,000 (for purposes of monitoring compliance with these limitations, a Payout Multiplier of 1x will be assumed for any Performance Awards).

*Issue Dates*

If a Grantee is prohibited from trading in securities of Baytex as a result of the imposition by Baytex of a trading blackout (a "**Blackout Period**") and the Issue Date of a Share Award held by such Grantee falls within a Blackout Period, then the Issue Date of such Share Award shall be extended to the date that is three business days following the end of such Blackout Period.

*Payment of Share Awards*

On the Issue Date, Baytex shall have the option of settling any amount payable in respect of a Share Award by any of the following methods or by a combination of such methods:

- (a) common shares issued from the treasury of Baytex; or
- (b) with the consent of the Grantee, cash in an amount equal to the aggregate Fair Market Value of such common shares that would otherwise be delivered in consideration for the surrender by the Grantee to Baytex of the right to receive such common shares under such Share Award.

The Share Award Incentive Plan does not contain any provisions for financial assistance by Baytex in respect of Share Awards granted thereunder.

*Change of Control*

In the event of a Change of Control of Baytex, the Issue Date(s) applicable to the Share Awards will be accelerated such that the common shares to be issued pursuant to such Share Awards will be issued immediately prior to the date upon which the Change of Control is completed and the Payout Multiplier applicable to any Performance Awards shall be determined by the Compensation Committee.

Under the Share Award Incentive Plan, a Change of Control means:

- (a) a successful take-over bid, pursuant to which the offeror as a result of such take-over bid beneficially owns in excess of 50% of the outstanding common shares; or
- (b) any change in the beneficial ownership or control of the outstanding securities or other interests which results in (i) a person or group of persons acting jointly or in concert, or (ii) an affiliate or associate of such person or group of persons, holding, owning or controlling, directly or indirectly, more than 30% of the outstanding voting securities or other interests of Baytex; or
- (c) Incumbent Directors no longer constituting a majority of the Board; or
- (d) the completion of an arrangement, merger or other form of reorganization of Baytex where the holders of the outstanding voting securities or interests of Baytex immediately prior to the completion of the arrangement, merger or other form of reorganization will hold 50% or less of the outstanding voting securities or interests of the continuing entity upon completion of the arrangement, merger or other form of reorganization; or
- (e) the winding up or termination of Baytex or the sale, lease or transfer of all or substantially all of the directly or indirectly held assets of Baytex to any other person or persons (other than pursuant to an internal reorganization or in circumstances where the business of Baytex is continued and where the securityholdings in the continuing entity and the constitution of the board of directors or similar body of the continuing entity is such that the transaction would not be considered a Change of Control if paragraphs (b) and (c) above were applicable to the transaction); or

- (f) any determination by a majority of the Board that a Change of Control has occurred or is about to occur and any such determination shall be binding and conclusive for all purposes of the Share Award Incentive Plan;

provided that a Change of Control shall be deemed not to have occurred if a majority of the Board, in good faith, determines that a Change of Control was not intended to occur in the particular circumstances in question.

### *Early Termination Events*

Pursuant to the Share Award Incentive Plan, unless otherwise determined by the Compensation Committee or unless otherwise provided in a Share Award Agreement pertaining to a particular Share Award or any written employment or consulting agreement governing a Grantee's role as a Service Provider, the following provisions shall apply in the event that a Grantee ceases to be a Service Provider:

- (a) Death - If a Grantee ceases to be a Service Provider as a result of the Grantee's death, the Issue Date for all common shares awarded to such Grantee under any outstanding Share Award Agreements shall be accelerated to the Cessation Date, provided that the President and Chief Executive Officer of Baytex in the case of a Grantee who is not a director or officer and the Compensation Committee in all other cases, taking into consideration the performance of such Grantee and the performance of Baytex since the date of grant of the Share Award(s), may determine in its sole discretion the Payout Multiplier to be applied to any Performance Awards held by the Grantee.
- (b) Termination for Cause - If a Grantee ceases to be a Service Provider as a result of termination for cause, effective as of the Cessation Date all outstanding Share Award Agreements under which Share Awards have been made to such Grantee, whether Restricted Awards or Performance Awards, shall be immediately terminated and all rights to receive common shares thereunder shall be forfeited by the Grantee.
- (c) Voluntary Resignation - If a Grantee ceases to be a Service Provider as a result of a voluntary resignation, effective as of the day that is fourteen (14) days after the Cessation Date, all outstanding Share Award Agreements under which Share Awards have been made to such Grantee, whether Restricted Awards or Performance Awards, shall be terminated and all rights to receive common shares thereunder shall be forfeited by the Grantee.
- (d) Other Termination - If a Grantee ceases to be a Service Provider for any reason other than as provided for in (a), (b) and (c) above, effective as of the date that is sixty (60) days after the Cessation Date and notwithstanding any other severance entitlements or entitlement to notice or compensation in lieu thereof, all outstanding Share Award Agreements under which Share Awards have been made to such Grantee, whether Restricted Awards or Performance Awards, shall be terminated and all rights to receive common shares thereunder shall be forfeited by the Grantee.
- (e) Non-Management Directors - If a Grantee who is a Non-Management Director ceases to be a Service Provider as a result of: (A) a voluntary resignation or voluntarily not standing for re-election as a director of Baytex, such events shall be treated as a voluntary resignation under (c) above; or (B) failing to be re-elected as a director of Baytex by the Shareholders, such event shall be treated as a termination under (d) above.

### *Assignment*

Except in the case of death, the right to receive common shares pursuant to a Share Award granted to a Service Provider may only be exercised by such Service Provider personally. Except as otherwise provided in the Share Award Incentive Plan, no assignment, sale, transfer, pledge or charge of a Share Award, whether voluntary, involuntary, by operation of law or otherwise, vests any interest or right in such Share Award whatsoever in any assignee or transferee and, immediately upon any assignment, sale, transfer, pledge or charge or attempt to assign, sell, transfer, pledge or charge, such Share Award shall terminate and be of no further force or effect.

### *Amendment and Termination of Plan*

The Share Award Incentive Plan and any Share Awards granted pursuant thereto may, subject to any required approval of the Exchange, be amended, modified or terminated by the Board of Directors of Baytex without the approval of Shareholders. Notwithstanding the foregoing, the Share Award Incentive Plan or any Share Award may not be amended without Shareholder approval to:

- (a) increase the percentage of common shares reserved for issuance pursuant to Share Awards in excess of the limit currently prescribed in the Share Award Incentive Plan;
- (b) extend the Issue Date of any Share Awards issued under the Share Award Incentive Plan beyond the latest Issue Date specified in the Share Award Agreement (other than as permitted by the terms and conditions of the Share Award Incentive Plan);
- (c) permit a Grantee to transfer Share Awards to a new beneficial holder other than for estate settlement purposes;
- (d) change the limitations on the granting of Share Awards described above under "Limitations on Share Awards"; and
- (e) change the amending provision of the Share Award Incentive Plan.

In addition, no amendment to the Share Award Incentive Plan or any Share Awards granted pursuant thereto may be made without the consent of a Grantee if it adversely alters or impairs the rights of such Grantee in respect of any Share Award previously granted to such Grantee under the Share Award Incentive Plan.

### **Common Share Rights Incentive Plan**

In connection with the formation of Baytex Energy Trust in 2003, unitholders approved the adoption of the Trust Incentive Plan pursuant to which rights to acquire trust units could be granted to the directors, officers, employees and other service providers of Baytex Energy Trust and its subsidiaries.

Pursuant to the Corporate Conversion, all outstanding Trust Incentive Rights granted under the Trust Incentive Plan were exchanged for equivalent rights to acquire our common shares. The Share Incentive Rights are subject to the terms of our Share Incentive Plan, which is substantially similar to the Trust Incentive Plan.

In connection with the Corporate Conversion, on January 1, 2011 we adopted a new form of long-term incentive plan to replace the Share Incentive Plan as our primary long-term incentive program. We have not made any grants under the Share Incentive Plan since the adoption of the Share Award Incentive Plan and cannot make any grants without shareholder approval (as the three-year approval of the unallocated rights under the Share Incentive Plan expired on May 20, 2012). The Share Incentive Plan will remain in place until such time as all outstanding Share Incentive Rights have been exercised, cancelled or expired (which we expect to occur in 2015).

Listed below is a summary of the principal terms of the Share Incentive Plan. A copy of the Share Incentive Plan is accessible on the SEDAR website at [www.sedar.com](http://www.sedar.com) (filed on January 10, 2011 under the filing category Security holders documents). **Capitalized terms used but not defined in the following disclosure shall have the meanings ascribed thereto in the Share Incentive Plan.**

Limitation on Common Shares Reserved: A maximum of 10% of the aggregate number of our issued and outstanding common shares (the "**Total Shares**") are reserved for issuance under the Share Incentive Plan (and any other long-term incentive plans). As a result of an amendment to the Share Award Incentive Plan approved by the Board on March 6, 2013 (and the shareholders on May 14, 2013), the maximum number of common shares reserved for issuance under the Share Incentive Plan (and any other long-term incentive plans) has been effectively reduced to 3.3% of the outstanding common shares at the relevant time. See " – Share Award Incentive Plan".

As noted above, we cannot make any grants under the Share Incentive Plan without shareholder approval (as the three-year approval of the unallocated rights under such plan expired on May 20, 2012).

Eligible Participants: The directors, officers, employees and other service providers of Baytex and its subsidiaries (collectively, the "**Service Providers**") are eligible to participate in the Share Incentive Plan.

Limitations on Grants: The Share Incentive Plan contains the following limitations: (i) the aggregate number of common shares issuable to non-management directors at any time under the Share Incentive Plan cannot exceed 1% of the Total Shares; (ii) the value of all Share Incentive Rights granted to any one non-management director during a calendar year, as calculated on the date of grant, cannot exceed \$100,000; (iii) the aggregate number of Share Incentive Rights held by any one holder at any given time cannot exceed 1% of the Total Shares; and (iv) the aggregate number of common shares issued to insiders within any one-year period or issuable to insiders at any time under the Share Incentive Plan and any other security based compensation arrangements cannot exceed 10% of the Total Shares.

Exercise Period: Share Incentive Rights granted under the Share Incentive Plan may be exercised during a period not exceeding five (5) years from the date upon which they were granted (the "**Exercise Period**"). If the expiry date of any Share Incentive Right falls within any period of time during which certain persons may not trade in our securities (a "**Blackout Period**") (or within ten business days following the end of any Blackout Period), then the expiry date of any Share Incentive Right held by any person subject to a Blackout Period shall be extended to the date that is ten business days following the end of such Blackout Period.

Vesting Provisions: Under the terms of the Share Incentive Plan, the Board has the authority to determine the manner in which the Share Incentive Rights vest and become exercisable. The Board's historical practice has been for Share Incentive Rights to vest and become exercisable as to one-third on each of the first, second and third anniversaries of the grant date. The Share Incentive Plan also provides that the vesting provisions will be accelerated upon the occurrence of a "change of control" (as described below).

Grant Price: The grant price (the "**Grant Price**") for any Share Incentive Rights granted under the Share Incentive Plan is the closing price of the common shares on the Toronto Stock Exchange (or, in the case of Service Providers working in the United States, the New York Stock Exchange) on the trading day prior to the grant date.

Exercise Price: For Service Providers that are subject to income taxes in the United States, the exercise price ("**Exercise Price**") of a Share Incentive Right shall be equal to the Grant Price. For Service Providers that are not subject to income taxes in the United States, the Exercise Price of a Share Incentive Right shall be, at the election of such Service Provider, either (i) the Grant Price or (ii) calculated by deducting from the Grant Price all monthly dividends (or distributions), on a per share (or unit) basis, made by us after the grant date where all such monthly dividends (or distributions) represent a return of more than 0.833% of our recorded cost of oil and natural gas properties less accumulated depreciation and depletion and any future income tax liability associated with such oil and natural gas properties at the end of that month. In no event shall the Exercise Price be less than \$1.00 per right.

Termination: Upon any holder of Share Incentive Rights ceasing to be a Service Provider for any reason whatsoever, other than for cause or death, during the Exercise Period, all Share Incentive Rights which have not vested at such date shall terminate and become null and void, and such holder of Share Incentive Rights shall have until the earlier of: (a) 30 days from the date such holder ceased to be a Service Provider; or (b) the end of the Exercise Period, to exercise the portions of any outstanding Share Incentive Rights which have vested and, at the expiration of such period, any vested Share Incentive Rights which have not been exercised will terminate and become null and void. Upon the termination of any Service Provider for cause, our Board may, in its sole discretion, determine that all vested Share Incentive Rights which have not been exercised shall immediately terminate and become null and void. Upon the death of a Service Provider during the Exercise Period, any Share Incentive Rights which have not vested at such date shall terminate and become null and void, and the executor, administrator or personal representative of such holder will have until the earlier of: (a) six (6) months from the date of the death of such holder; or (b) the end of the Exercise Period, to exercise those outstanding Share Incentive Rights which had vested as at the date of death and, at the expiration of such period, any vested Share Incentive Rights which have not been exercised will terminate and become null and void.

**Change of Control:** On the effective date of a "change of control" of Baytex, the vesting provisions applicable to outstanding Share Incentive Rights shall be accelerated such that all unvested Share Incentive Rights shall immediately become exercisable. A "change of control" includes: (a) a successful take-over bid pursuant to which the offering party acquires ownership of more than fifty percent (50%) of the outstanding Total Shares; (b) the issuance to or acquisition by any person, or group of persons acting in concert, of fifty percent (50%) or more of the outstanding Total Shares; (c) the sale of all or substantially all of the assets of Baytex; and (d) the liquidation, winding-up or dissolution of Baytex, provided that a "change of control" shall be deemed to not have occurred pursuant to an arrangement, merger or other form of reorganization of Baytex where the holders of the outstanding voting securities or interests of Baytex immediately prior to the completion of the reorganization will hold more than ninety percent (90%) of the outstanding voting securities or interests of the continuing entity upon completion of the reorganization or if a majority of the Board determines that in substance the arrangement, merger or reorganization are such that a change of control should be deemed to not have occurred.

**Assignment:** Share Incentive Rights may not be transferred or assigned.

**Financial Assistance:** No financial assistance will be provided to Service Providers by Baytex or any of its affiliates to facilitate the exercise of Share Incentive Rights.

**Amendment:** Subject to the approval of the Toronto Stock Exchange, the Share Incentive Plan may be amended, modified or terminated by the Board without the approval of shareholders, provided that the following types of amendments must be approved by shareholders: (a) any increase in the percentage of common shares reserved for issuance under the plan; (b) any reduction in the exercise price of any outstanding Share Incentive Rights held by insiders; (c) any extension of the term of any outstanding Share Incentive Rights held by insiders beyond the original expiry date of such rights; (d) any amendment that would permit a holder to transfer or assign Share Incentive Rights (other than in the case of death of the holder); (e) any amendment to increase the number of common shares that may be issued to insiders; or (f) any amendment to the amendment provision of the Share Incentive Plan. In addition, no amendment to the Share Incentive Plan or any outstanding Share Incentive Rights may be made without the consent of the holder of such rights if such amendment adversely alters or impairs such holder's Share Incentive Rights.

### **Pension Plan Benefits**

We do not have any pension plans for our employees. We have established a savings plan to assist employees in meeting their savings goals. See "Compensation Discussion and Analysis – Compensation Program Components – Other Benefits".

### **Employment Contracts**

Baytex Energy has entered into agreements with each of the Named Executive Officers that provide for certain payments to be made in certain circumstances following the occurrence of a "change of control" of Baytex. The agreements define a "change of control" in the same manner as the Share Award Incentive Plan (see "Executive Compensation – Share Award Incentive Plan – Change of Control"). The agreements do not apply in the event of a termination of employment in advance of a change of control. In such circumstances, the Named Executive Officers' entitlements, other than Mr. Bowzer, would be based on the common law, statute and the rights granted to such individuals under the Share Award Incentive Plan and the Share Incentive Plan. In the case of Mr. Bowzer, his offer of employment provided that, in the event of a termination without cause in advance of a change of control, his severance payment would be based on the common law notice period, with credit given for years of service with his prior employer. In addition, Mr. Bowzer would be reimbursed for reasonable relocation expenses and receive a monetary amount in lieu of Share Awards that are forfeited during the common law notice period.

The following table shows the compensation arrangements that would be provided to the Named Executive Officers upon the occurrence of the termination events listed below.

<b>Termination Event</b>	<b>Applies to</b>	<b>Arrangement</b>
Change of Control and termination of employment by Baytex Energy or the executive (for any reason) <sup>(1)</sup>	President and Chief Executive Officer	Base Salary: to receive 30 months base salary. Bonus Consideration: to receive 2.5 times the annual bonus paid for the immediately preceding year plus a prorated amount for the portion of the current year worked. Benefits Plans: to receive 30 times the monthly payments made by Baytex. Share Awards: issue dates are accelerated to the date of the change of control.
Change of Control <u>and</u> a subsequent Termination without Cause or Constructive Dismissal or Involuntary Relocation <sup>(1)</sup>	All Named Executive Officers (other than the President and Chief Executive Officer)	Base Salary: to receive 24 months base salary. Bonus Consideration: to receive two times the annual bonus paid for the immediately preceding year plus a prorated amount for the portion of the current year worked. Benefits Plans: to receive 24 times the monthly payments made by Baytex. Share Awards: issue dates are accelerated to the date of the change of control.
Termination without Cause in advance of a Change of Control	President and Chief Executive Officer	Severance Payment: to receive amount based on common law notice period, with credit given for years of service with prior employer. Relocation: to receive reimbursement for reasonable relocation expenses. Share Awards: to receive payment in lieu of Share Awards that are forfeited during the common law notice period.

Note:

- (1) If following the occurrence of a change of control, the officer does not continue to be employed at a level of responsibility and compensation at least commensurate with their level of responsibility and compensation immediately prior to the change of control or the officer is relocated to a location other than Calgary, Alberta, without their consent, the officer may, within six months following the date of the change of control, treat their employment as being terminated. In addition, the agreement with the President and Chief Executive Officer provides him with the right, within six months following the date of the change of control, to treat his employment as being terminated.

The following table sets forth the estimated incremental payments that would be made to each of the Named Executive Officers assuming that a change of control and termination of employment occurred on December 31, 2014.

<b>Name</b>	<b>Severance Period (years)</b>	<b>Salary</b>	<b>Bonus</b>	<b>Benefits and Perquisites</b>	<b>Share Awards<sup>(1)</sup></b>	<b>Total Incremental Payment</b>
James L. Bowzer	2.5	1,500,000	1,550,000	173,604	2,382,890	5,606,495
Rodney D. Gray	2.0	680,000	640,000	80,466	724,500	2,124,966
Richard P. Ramsay	2.0	760,000	640,000	96,232	859,746	2,355,978
Geoffrey J. Darcy	2.0	640,000	370,000	79,541	676,200	1,765,741
Michael L. Verm	2.0	905,690	448,597	116,285	386,400	1,856,972

Note:

- (1) In the event of a change of control, the Share Award Incentive Plan provides that the issue date(s) applicable to the share awards will be accelerated such that the common shares to be issued pursuant to such share awards will be issued immediately prior to the date upon which the change of control is completed and the payout multiplier applicable to

any performance awards shall be determined by the Compensation Committee. The amounts shown in the table are calculated by multiplying the number of restricted awards and performance awards by the closing price of the common shares on the TSX on December 31, 2014 (\$19.32). For performance awards, a payout multiplier of 1x is assumed. The calculated value does not include the value of dividend equivalents that have accumulated on the underlying grants.

### Liability Insurance of Directors and Officers

We maintain directors' and officers' liability insurance coverage for losses to Baytex if it is required to reimburse directors and officers, where permitted, and for direct indemnity of directors and officers where corporate reimbursement is not permitted by law. This insurance protects us against liability (including costs), subject to standard policy exclusions, which may be incurred by directors and/or officers acting in such capacity for Baytex. All of our directors and officers are covered by the policy and the amount of insurance applies collectively to all. The annual cost for this insurance in 2014 was \$528,450.

In addition, we have entered into indemnity agreements with each of our directors and officers pursuant to which we have agreed to indemnify such directors and officers from liability arising in connection with the performance of their duties. Such indemnity agreements conform to the provisions of the *Business Corporations Act* (Alberta).

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The only compensation plans under which equity securities of Baytex may be issued are the Share Award Incentive Plan and the Share Incentive Plan. These plans reserve for issuance a maximum of 3.3% of the issued and outstanding common shares at any given time. See "Executive Compensation – Share Award Incentive Plan" and "Executive Compensation – Common Share Rights Incentive Plan".

The following table outlines all compensation plans under which equity securities of Baytex are authorized for issuance as of December 31, 2014.

	Number of Common Shares to be Issued Upon Conversion of Share Awards and Exercise of Share Incentive Rights	Weighted Average Exercise Price of Outstanding Rights		Number of Common Shares remaining available for future issuance under the equity compensation plans
		At Grant Date	At Year-end	
Equity compensation plans approved by shareholders: <sup>(1)</sup>				
Share Award Incentive Plan <sup>(2)</sup>	1,359,000	n/a	n/a	4,166,000
Share Incentive Plan <sup>(3)</sup>	22,500	\$35.94	\$25.01	<u>          </u> <sup>(4)</sup>
Equity compensation plans not approved by shareholders	n/a	n/a	n/a	n/a
<b>Total</b>	1,381,500	\$35.94	\$25.01	4,166,000

Notes:

- (1) The only compensation plans under which equity securities of Baytex may be issued are the Share Award Incentive Plan and the Share Incentive Plan. See "Executive Compensation – Share Award Incentive Plan" and "Executive Compensation – Common Share Rights Incentive Plan".
- (2) The number of common shares issuable pursuant to the Share Award Incentive Plan does not include the dividend equivalents that will accumulate on the underlying grants and assumes a payout multiplier of 1x for the performance awards.
- (3) Pursuant to our Share Incentive Plan, the exercise price of a Share Incentive Right granted to a service provider that is not subject to United States income tax may, at the election of the holder, be reduced to account for dividends paid on the common shares subsequent to the grant date, provided that certain performance benchmarks are achieved. See

"Executive Compensation – Common Share Rights Incentive Plan – Exercise Price". The weighted average remaining term of the outstanding Share Incentive Rights at December 31, 2014 was 0.7 of a year.

- (4) We have not made any grants under the Share Incentive Plan since the adoption of the Share Award Incentive Plan and cannot make any grants without shareholder approval (as the three-year approval of the unallocated rights under the Share Incentive Plan expired on May 20, 2012). The Share Incentive Plan will remain in place until such time as all outstanding Share Incentive Rights have been exercised, cancelled or expired (which we expect to occur in 2015).

### EQUITY OWNERSHIP

The following table summarizes the common shares and other securities beneficially owned, controlled or directed (directly or indirectly) by each of the Named Executive Officers, all other officers (as a whole) and all directors (as a whole) as of March 2, 2015 based on information provided by such individuals.

Name	Common Shares <sup>(1)</sup>		Performance Awards <sup>(2)</sup>		Restricted Awards <sup>(2)</sup>		Total Value (\$)
	Amount (#)	Value (\$)	Amount (#)	Value (\$)	Amount (#)	Value (\$)	
<b>Named Executive Officers:</b>							
James L. Bowzer	78,035	1,535,729	156,002	3,070,119	39,002	767,559	5,373,408
Rodney D. Gray	28,739	565,584	41,875	824,100	13,959	274,713	1,664,397
Richard P. Ramsay	49,828	980,615	53,680	1,056,422	20,905	411,410	2,448,448
Geoffrey J. Darcy	37,423	736,485	31,200	614,016	16,800	330,624	1,681,125
Michael L. Verm	12,000	236,160	28,000	551,040	12,000	236,160	1,023,360
<b>Total Named Executive Officers</b>	206,025	4,054,572	310,757	6,115,698	102,666	2,020,467	12,190,737
Other Officers	129,304	2,544,703	160,285	3,154,409	91,896	1,808,513	7,507,625
Directors	1,482,979	29,185,027	80,283	1,579,969	20,100	395,568	31,160,564
<b>Total Officers and Directors</b>	1,818,308	35,784,301	551,325	10,850,076	214,662	4,224,548	50,858,926

Notes:

- (1) The value of the common shares was calculated by multiplying the number of common shares by the closing price of the common shares on the TSX on March 2, 2015 (\$19.68).
- (2) The value of the performance awards and the restricted awards was calculated by multiplying the number of awards by the closing price of the common shares on the TSX on March 2, 2015. For performance awards, a payout multiplier of 1x was assumed. The calculated value does not include the value of dividend equivalents that have accumulated on the awards.

### OWNERSHIP GUIDELINES

The Board has established the following ownership guidelines for officers and directors. The President and Chief Executive Officer is required to acquire and hold common shares having a market value of at least three times his annual base salary, with such ownership level to be attained within a period of three years from the date of appointment. All other officers of the Corporation are required to acquire and hold common shares having a market value of at least one times their annual base salary, with such ownership level to be attained within a period of three years from the date of appointment or December 8, 2017, whichever is later. The Chairman of the Board and the independent directors are expected to own common shares having a market value of at least three times (i) the amount of their annual retainer and (ii) the value of their annual grant under the Share Award Incentive Plan, with such ownership level to be attained within a period of three years from their date of their election/appointment.

The following table sets out the common share ownership levels for each Named Executive Officer, the Chairman of the Board and each director as at March 2, 2015.

Name	Principal Position	Ownership Value Guideline <sup>(1)</sup> (\$)	Ownership Value <sup>(2)</sup> (\$)	Guideline Met (Y) or Investment Required to Meet Guideline
James L. Bowzer	President and Chief Executive Officer	1,800,000	1,535,729	\$264,271 <sup>(3)</sup>
Rodney D. Gray	Chief Financial Officer	340,000	565,584	Y
Richard P. Ramsay	Chief Operating Officer	380,000	980,615	Y
Geoffrey J. Darcy	Senior Vice President, Marketing	320,000	736,485	Y
Michael L. Verm	Vice President, U.S. Business Unit	452,845	236,160	\$216,685 <sup>(4)</sup>
John A. Brussa	Director	420,000	7,496,348	Y
Raymond T. Chan	Chairman of the Board	1,080,000	13,030,285	Y
Edward Chwyl	Director	420,000	1,386,732	Y
Naveen Dargan	Director	420,000	3,030,287	Y
R.E.T. (Rusty) Goepel	Director	420,000	806,526	Y
Gregory K. Melchin	Director	420,000	784,091	Y
Mary Ellen Peters	Director	420,000	104,580	\$315,420 <sup>(5)</sup>
Dale O. Shwed	Director	420,000	2,546,179	Y

Notes:

- (1) The ownership value guideline for the Named Executive Officers is based on 2014 base salaries.
- (2) Based on the closing price of the common shares on the TSX on March 2, 2015 (\$19.68).
- (3) Mr. Bowzer has until September 4, 2015 to meet the ownership guideline.
- (4) Mr. Verm has until December 8, 2017 to meet the ownership guideline.
- (5) Ms. Peters has until July 1, 2016 to meet the ownership guideline.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

### Board of Directors

Based on the definition of "independence" contained in National Instrument 58-101 "Disclosure of Corporate Governance Practices" and a review of the applicable factual circumstances (including financial, contractual and other relationships), the Nominating and Governance Committee has determined that seven of our nine directors, representing 77% of the directors, are independent. These seven independent directors are: John A. Brussa, Edward Chwyl, Naveen Dargan, R.E.T. (Rusty) Goepel, Gregory K. Melchin, Mary Ellen Peters and Dale O. Shwed.

James L. Bowzer is not considered to be independent as he currently serves as our President and Chief Executive Officer. Raymond T. Chan is not considered to be independent as he served as an executive officer within the last three years. Under National Instrument 58-101 "Disclosure of Corporate Governance Practices", Mr. Chan will not be considered to be independent until May 31, 2017.

Mr. Brussa is Vice Chairman of Burnet, Duckworth & Palmer LLP, a law firm which receives fees for the provision of legal services to Baytex. The Nominating and Governance Committee has reviewed and considered this relationship and determined that it does not interfere with the exercise of Mr. Brussa's independent judgement in his role as a member of the Board.

At each meeting of the Board and its committees, an opportunity is provided for the independent members to meet independently of the non-independent members and members of management (commonly referred to as an "in camera session"). During the year ended December 31, 2014, a total of 16 in camera sessions were held by the Board and its committees.

Raymond T. Chan resigned as our Executive Chairman on May 31, 2014 and was appointed Chairman of the Board on June 1, 2014. As Mr. Chan will not be considered to be independent for a period of three years following his resignation as an executive officer, we will continue to utilize a Lead Independent Director in our governance structure.

As Chairman of the Board, Mr. Chan provides overall leadership to our Board. Among other things, the Chairman of the Board maintains a liaison and communication with (i) the Lead Independent Director, the other directors and the committee chairs to co-ordinate input from directors and optimize the effectiveness of our Board and its committees and (ii) our Chief Executive Officer to ensure that our Board receives adequate and regular updates from the Chief Executive Officer on all issues important to the welfare and future of Baytex. Our Chairman of the Board is also responsible for the overall management of our Board.

Edward Chwyl was appointed Lead Independent Director of Baytex on January 11, 2011. The Lead Independent Director's primary role is to act as a liaison between management and the independent directors to ensure the Board is organized properly, functions effectively and independently of management and meets its obligations and responsibilities, including those matters set forth in the mandate of the Board. In this regard, the Lead Independent Director acts as chair of meetings of the Board in the absence of the Chairman of the Board, acts as chair of the in camera sessions held during meetings of the Board and ensures that reasonable procedures are in place for directors to engage outside advisors at Baytex's expense in appropriate circumstances.

The following table lists the names of other reporting issuers on which our directors serve as a director (or the equivalent):

Director	Names of Other Reporting Issuers
James L. Bowzer	None
John A. Brussa	Argent Energy Ltd. (the administrator of Argent Energy Trust), Cardinal Energy Ltd., Crew Energy Inc., Enseco Energy Services Corp., Just Energy Group Inc., Leucrotta Exploration Inc., Long Run Exploration Ltd., Pinecrest Energy Inc., RMP Energy Inc., Storm Resources Ltd., TORC Oil & Gas Ltd., Twin Butte Energy Ltd. and Yoho Resources Inc.
Raymond T. Chan	Telus Corporation and TORC Oil & Gas Ltd.
Edward Chwyl	Long Run Exploration Ltd. and US Oil Sands Inc.
Naveen Dargan	None
R.E.T. (Rusty) Goepel	Amerigo Resources Ltd. and Telus Corporation
Gregory K. Melchin	ENMAX Corporation and Total Energy Services Inc.
Mary Ellen Peters	Gibson Energy Inc.
Dale O. Shwed	Crew Energy Inc. and TORC Oil & Gas Ltd.

### Meeting Attendance

The following is a summary of attendance of our directors at meetings of our Board and its committees during the year ended December 31, 2014.

Name	Meetings Attended / Meetings Held					Overall Attendance
	Board	Audit Committee	Compensation Committee	Reserves Committee <sup>(2)</sup>	Nominating and Governance Committee	
James L. Bowzer <sup>(1)</sup>	8/8	4/4	1/1	1/1	2/2	100%
John A. Brussa	8/8	-	-	1/1	2/2	100%
Raymond T. Chan <sup>(1)</sup>	8/8	4/4	1/1	1/1	2/2	100%
Edward Chwyl	7/8	-	2/2	1/1	2/2	92%
Naveen Dargan	8/8	5/5	2/2	1/1	-	100%
R.E.T. (Rusty) Goepel	8/8	-	-	-	2/2	100%
Gregory K. Melchin	8/8	5/5	-	1/1	-	100%
Mary Ellen Peters	8/8	5/5	2/2	-	-	100%
Dale O. Shwed	6/8	-	-	1/1	-	78%

Notes:

- (1) During 2014, Mr. Chan served as our Executive Chairman (January to May) and Chairman of the Board (June to December) and Mr. Bowzer served as our President and Chief Executive Officer. In these capacities, they are typically invited to attend all committee meetings.
- (2) Members of the Audit Committee are invited to attend the meeting of the Reserves Committee where the year-end reserves evaluations are reviewed.

## **Board Mandate**

Our Board, either directly or through its committees, is responsible for the stewardship of Baytex. A copy of the mandate of our Board is attached as Schedule "A" hereto.

## **Board Committees**

Our 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. No separate committees have been established to deal with health, safety and environmental matters as the Board has retained overall responsibility for them.

### *Audit Committee*

The members of the Audit Committee are Naveen Dargan (Chairman), Gregory K. Melchin and Mary Ellen Peters. The committee's mandate includes:

- reviewing financial statements, management's discussion and analysis, annual information forms and all public disclosure containing audited or unaudited financial information prior to submission to our Board for approval;
- recommending to the Board the appointment of external auditors and the terms of their engagement;
- overseeing the work of the external auditors, including meeting with the external auditors independently of our management;
- reviewing and discussing accounting and reporting policies and changes in accounting principles;
- reviewing with the external auditors our internal control systems and procedures; and
- reviewing risk management policies and procedures.

### *Compensation Committee*

The members of the Compensation Committee are Edward Chwyl (Chairman), Naveen Dargan and Mary Ellen Peters. The committee's mandate includes:

- reviewing on a periodic basis the compensation policies and practices and overall philosophy of Baytex and, where appropriate, making recommendations to the Board regarding substantive changes to such compensation policies and practices and overall philosophy;
- reviewing and recommending to the Board the retainers and fees to be paid to members of the Board;
- reviewing on an annual basis the performance of the President and Chief Executive Officer (the "CEO");
- determining and approving the compensation and benefits package and bonuses for each of the officers of Baytex and, in connection therewith, receiving and considering the CEO's recommendations for, and appraisal of the performance of, the other officers;
- with respect to the compensation and benefits package and bonuses to be paid to the non-officer employees of Baytex, receiving and considering the recommendation of the CEO and determining and approving such compensation and benefits package and bonuses (with the allocation thereof to specific employees to be made by the CEO);
- reviewing the CEO's recommendations for the type of long-term incentive plans to be utilized by Baytex and making recommendations in respect thereof to the Board;
- administering our long-term incentive plans;

- considering performance objectives for the ensuing year for the CEO and, if appropriate, the other officers of Baytex; and
- preparing and recommending to the Board any required disclosures of compensation practices to be included in our information circular - proxy statement.

### *Nominating and Governance Committee*

The members of the Nominating and Governance Committee are John A. Brussa (Chairman), Edward Chwyl and R.E.T. (Rusty) Goepel. The committee's mandate includes:

- reviewing on a periodic basis the composition of the Board and its committees;
- assessing on a periodic basis the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors and considering the appropriate size of the Board;
- recommending suitable candidates as nominees for election or appointment as directors;
- assessing on a periodic basis the effectiveness of the Board and Management Diversity Policy;
- developing, for the review and approval of the Board, a mandate for the Board and each of its committees;
- developing, for the review and approval of the Board, position descriptions outlining the duties and responsibilities of the Chairman of the Board, the Lead Independent Director, the chairman of each of the Board committees and the CEO;
- developing, for the review and approval of the Board, a code of business conduct and ethics, disclosure policy, insider trading policy and share ownership guidelines; and
- preparing and recommending to the Board any required disclosures of governance practices to be included in our information circular - proxy statement.

### *Reserves Committee*

The members of the Reserves Committee are Dale O. Shwed (Chairman), John A. Brussa and Edward Chwyl. The committee's mandate includes:

- providing a recommendation to the Board as to the appointment of an independent qualified reserves evaluator or auditor (the "**Independent Evaluator**") to prepare an estimate of our proved and probable reserves and related future net revenue (the "**Reserves Data**") as at the last day of our financial year;
- if a change in the Independent Evaluator is proposed, determining the reason(s) therefor and whether there have been any disputes with management;
- with respect to the annual estimate of the Reserves Data prepared by the Independent Evaluator: (a) reviewing the scope of work of the Independent Evaluator; (b) reviewing the procedures for providing information to the Independent Evaluator; (c) reviewing the estimate of the Reserves Data prepared by the Independent Evaluator, including the major assumptions used in preparing such estimate; (d) reviewing any material changes in the Reserves Data from the prior year; (e) meeting separately with management and the Independent Evaluator to determine whether any restrictions placed by management affected the ability of the Independent Evaluator to report without reservation on the Reserves Data; and (f) providing a recommendation to the Board as to whether to approve the report on the Reserves Data prepared by the Independent Evaluator;
- providing a recommendation to the Board as to whether to approve the content and/or filing of the annual statement of the Reserves Data and other information prescribed by applicable securities laws, including any reports of the Independent Evaluator and of management in connection therewith; and

- reviewing all matters relating to the preparation, disclosure and/or filing of information related to our reserves and making a recommendation to the Board as to whether to approve the disclosure and/or filing of such information.

### **Orientation and Continuing Education**

Upon joining the Board, a new director is provided with a directors' information binder which includes a copy of the mandate of the Board and each of its committees, the Terms of Reference for the Chairman of the Board, Lead Independent Director, Chair of each Board committee and the Chief Executive Officer, our corporate policies and our by-laws. In addition, a new director is provided with copies of our continuous disclosure record and the minutes of the Board and committee meetings for the preceding 12 months and a copy of the materials from the last strategic planning session. A new director will also meet with the Chairman of the Board and Lead Independent Director (to discuss the functioning of the Board and our business strategy and governance structure), the Chair of each Board committee that the new director will be appointed to (to review the responsibilities of the committee) and with the CEO, the Chief Financial Officer, the Chief Operating Officer and the Vice President of each business unit and other key functions (to discuss our business and the industry in general).

No formal continuing education program currently exists for our directors. Each of our directors has the responsibility for ensuring that they maintain the skill and knowledge necessary to meet their obligations as a director. However, as part of their continuing education, our Board receives management presentations with respect to the operations and risks of our business in connection with our annual budgeting and planning process. In addition, the individual directors identify their continuing education needs through a variety of means, including discussions with management and at Board and committee meetings.

Our directors attend an annual strategy session with management. In 2014, the strategy session included a tour of the Eagle Ford operations in South Texas, which were acquired in June 2014, and a presentation by an independent industry specialist on the U.S. acquisition and divestiture market.

### **Retirement Policy / Board Tenure**

We do not have a formal retirement policy for our directors or officers or a policy for term limits for our directors. We believe it is important that directors understand our industry and our business and this requires a certain length of tenure on the Board. We also want diverse viewpoints and those often come from newer directors. It is important to achieve an appropriate balance of both to ensure that the Board functions effectively. As at December 31, 2014, the Board was comprised of nine directors with an average tenure of 10 years on the Board. The tenure of the directors currently on the Board is summarized below:

- 33 percent (three directors) have been on the Board for greater than 15 years;
- 22 percent (two directors) have been on the Board for a period of more than 10 years but less than 15 years;
- 22 percent (two directors) have been on the Board for a period of more than 5 years but less than 10 years; and
- 22 percent (two directors) have been on the Board for less than 5 years.

### **Ethical Business Conduct**

Our Board has adopted a code of business conduct and ethics (the "**Code**") that applies to all employees, consultants, officers and directors of Baytex. A copy of the Code is accessible on the SEDAR website at [www.sedar.com](http://www.sedar.com) (filed February 22, 2012) and on our website at [www.baytexenergy.com](http://www.baytexenergy.com). Each employee, consultant, officer and director is required to confirm annually that he or she has read, understood and complied with the Code. Any reports of variance from the Code will be reported to the Board. There have been no material change reports filed since the beginning of our last financial year that pertain to any conduct of a director or executive officer that constitutes a departure from the Code.

In accordance with the *Business Corporations Act* (Alberta), directors who are a party to, or are a director or an officer of a person who is a party to, a material contract or material transaction or a proposed material contract or proposed material transaction are required to disclose the nature and extent of their interest and abstain from voting on any resolution to approve the contract or transaction.

Our Audit Committee has also adopted a statement on reporting ethical violations which provides employees, contractors and suppliers with the ability to report, on a confidential and anonymous basis, any violations within our organization, including, without limitation, criminal conduct, falsification of financial records or unethical conduct. Our Board believes that providing a forum for employees, contractors and suppliers to raise concerns about ethical conduct and treating all complaints with the appropriate level of seriousness fosters a culture of ethical conduct. A copy of our statement on reporting ethical violations is accessible on our website at [www.baytexenergy.com](http://www.baytexenergy.com).

### **Nomination of Directors**

The Nominating and Governance Committee, which is composed entirely of independent directors, is responsible for identifying individuals qualified to become new board members and recommending to the Board the new director nominees for appointment or election at the next annual meeting of shareholders. This committee has written terms of reference that clearly establish the committee's purpose, responsibilities, membership qualification, appointment and removal, structure and operations, and manner of reporting to the Board.

In making its recommendations respecting the nomination of a director, the committee considers, among other factors, the competencies and skills the Board needs to possess as a whole, the competencies and skills that each existing director possesses, the competencies and skills each new nominee will bring to the position and whether or not each new nominee contributes to the diversity in gender, age and ethnicity of the Board. The committee also considers whether or not each new nominee can devote sufficient time and resources to their duties as a board member.

### **Assessments**

In March 2014, under the direction of the Nominating and Governance Committee, each director completed a confidential survey designed to provide directors with an opportunity to evaluate how effectively the Board and its committees are operating and to provide constructive input for the improvement of the Board and its committees (the "**Board and Committee Effectiveness Survey**"). The survey results were summarized and presented to the Board at a meeting on May 15, 2014.

In 2015, the assessment process was expanded to add additional surveys for director peer and self-assessment and the Chairman of the Board. In March 2015, under the direction of the Nominating and Governance Committee, each director completed three confidential surveys: (i) the Board and Committee Effectiveness Survey; (ii) the director peer and self-assessment survey; and (iii) the Chairman of the Board assessment survey.

The Results of the Board and Committee Effectiveness Survey will be presented to the Board at a future meeting for discussion and follow-up as required. The results of the director peer and self-assessment survey will be provided to the Chairman of the Board who will meet with each director individually to discuss any issues with an emphasis on maximizing the contribution of each director to the Board and continually improving the effectiveness of the Board. The results of the Chairman of the Board assessment survey (and the results of the director peer and self-assessment survey for the Chairman of the Board) will be provided to the Lead Independent Director who will meet with the Chairman of the Board to discuss the results and identify any action items.

### **Diversity Policy**

In March 2015, the Board adopted a written Board and Management Diversity Policy (the "**Diversity Policy**"). The Diversity Policy is applicable to both director and executive officer appointments and recognizes that it is in the best interest of the Corporation and all of its stakeholders to have diversity in gender, age and ethnicity within the Board and the management of the Corporation. Accordingly, the Mandate and Terms of Reference for the Nominating and Governance Committee includes as a specifically enumerated requirement that, when recommending individuals for

appointment or election to the Board, the committee consider whether or not the candidate would contribute to the diversity in gender, age and ethnicity of the Board. Whether or not the candidate contributes to the diversity in gender, age and ethnicity of management will also be considered when executive officer appointments are made. To ensure that the Diversity Policy is effectively implemented, the Nominating and Governance Committee will periodically assess its effectiveness and, if required, recommend changes.

#### *Board of Directors*

Baytex has not yet adopted a target for the number of women on the Board. The Board believes that there is a significant benefit to Baytex by having a board comprised of directors with diverse backgrounds and intends to increase the representation of women on the Board without imposing a target. Assuming that all director nominees are elected as contemplated in this information circular – proxy statement, three of nine (33%) of the directors on the Board will impart ethnic and gender diversity and one of nine (11%) of the directors on the Board will be a woman.

#### *Senior Management*

Baytex has not yet adopted a target for the number of women in executive management positions. Baytex is committed to having a diverse workplace in which women and other individuals of diverse backgrounds will have the opportunity to succeed. Baytex believes that this commitment and its Diversity Policy will be effective in allowing individuals of diverse backgrounds and women advance to leadership positions. Currently, 1 of 16 (6%) of the officers of Baytex and its material subsidiaries is a woman and, of Baytex's non-executive management, 8 of 27 (30%) are women.

#### **Position Descriptions**

Our Board has developed written position descriptions for the Chairman of the Board, the Lead Independent Director, the chairman of each of the committees of the Board and the CEO.

#### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as disclosed herein, there were no material interests, direct or indirect, of our insiders, proposed nominees for election as directors, or any associate or affiliate of such insiders or nominees since the beginning of our last financial year, or in any proposed transaction, which has affected or would materially affect us.

#### **INTEREST OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON**

Our management is not aware of any material interest of any director or executive officer or anyone who has held office as such since the beginning of our last financial year or of any associate or affiliate of any of the foregoing in any matter to be acted on at the meeting, except as disclosed herein.

#### **ADDITIONAL INFORMATION**

Our financial information is provided in our audited consolidated financial statements for the year ended December 31, 2014 and the related management's discussion and analysis of operating and financial results, which are contained in our 2014 annual report. Our annual information form also contains disclosure relating to our Audit Committee and the fees paid to Deloitte LLP in 2014. Copies of our annual report, annual information form, subsequent interim financial statements and this information circular - proxy statement may be obtained on request without charge from the Corporate Secretary of Baytex Energy Corp. at Suite 2800, Centennial Place, East Tower, 520 – 3rd Avenue S.W., Calgary, Alberta, T2P 0R3, telephone (587) 952-3000. These documents and other information relating to us are accessible on the SEDAR website at [www.sedar.com](http://www.sedar.com).

**OTHER MATTERS**

Our management knows of no amendment, variation or other matter to come before the meeting other than the matters referred to in the notice of annual meeting. However, if any other matter properly comes before the meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person voting the proxy.

Dated: April 6, 2015

## SCHEDULE "A"

### BAYTEX ENERGY CORP.

### BOARD OF DIRECTORS

### MANDATE AND TERMS OF REFERENCE

#### ROLE AND OBJECTIVE

The Board of Directors (the "**Board**") of Baytex Energy Corp. (the "**Corporation**") is responsible for the stewardship of the Corporation and any other subsidiary entities of the Corporation. In this Mandate and Terms of Reference, the Corporation and its subsidiary entities are collectively referred to as "**Baytex**". In discharging its responsibility, the Board will exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances and will act honestly and in good faith with a view to the best interests of Baytex.

The objectives of the Board are to:

- in consultation with the President and Chief Executive Officer of the Corporation (the "**CEO**"), define the principal objectives of Baytex;
- supervise the management of the business and affairs of Baytex with the goal of achieving the principal objectives of Baytex;
- discharge the duties imposed on the Board by applicable laws; and
- for the purpose of carrying out the foregoing responsibilities, take all such actions as the Board deems necessary or appropriate.

#### MEMBERSHIP

1. The Board shall be comprised of not less than three members, a majority of whom are "independent" directors (within the meaning of National Instrument 58-101 "Disclosure of Corporate Governance Practices").
2. The shareholders of the Corporation are entitled to nominate for election all of the members of the Board, to hold office until the close of the next annual meeting, by a vote at a meeting of shareholders. In accordance with the articles and by-laws of the Corporation, the members of the Board then in office have the authority to appoint additional directors and fill vacancies on the Board.
3. The members of the Board should have or obtain sufficient knowledge of Baytex and the oil and gas business to assist in providing advice and counsel on relevant issues.
4. Board members should offer their resignation from the Board to the Chairman of the Board (the "**Chairman**") following a change in personal circumstances which would reasonably interfere with their ability to serve as a Board member or reflect poorly on Baytex (for example, finding by a Court of fraud or conviction under the Criminal Code or securities legislation).

#### RESPONSIBILITIES

Without limiting the generality of the foregoing, the Board will perform the following duties:

##### *Strategic Direction and Capital and Financial Plans*

1. Require the CEO to present annually to the Board a strategic plan and annual operating and capital plans for Baytex's business, which plans must:
  - (a) be designed to achieve Baytex's principal objectives;

- (b) identify the principal strategic and operational opportunities and risks of Baytex's business; and
  - (c) be approved by the Board as a pre-condition to the implementation of such plans.
2. Review Baytex's progress towards the achievement of the goals established in the strategic, operating and capital plans and, if necessary, revise and alter such plans in light of changing circumstances.
  3. Approve acquisitions and dispositions in excess of expenditure limits established by the Board.
  4. Monitor the appropriateness of Baytex's capital structure, including:
    - (a) approving the borrowing of funds and the establishment of credit facilities; and
    - (b) approving issuances of additional shares or other securities of the Corporation, including securities convertible into shares, to the public and any offering documents, such as prospectuses.
  5. Approve the cash dividends to be paid on the shares of the Corporation.
  6. Approve all matters relating to a take-over bid for the securities of the Corporation.

*Finances and Controls*

1. Identify the principal risks of Baytex's business, take all reasonable steps to ensure the implementation of the appropriate systems to manage these risks and periodically evaluate the appropriateness of such systems.
2. Ensure systems are in place for the implementation and maintenance of the integrity of Baytex's internal control and information systems, including maintenance of all required records and documentation.
3. In consultation with the CEO, establish the limits of management's authority and responsibility in conducting Baytex's business.
4. In consultation with the CEO, establish a disclosure policy for Baytex with the objective of ensuring that all financial information made public by the Corporation (including its annual and interim financial statements) is accurate and complete and fairly presents its financial position and performance.
5. Ensure that the financial performance of the Corporation is properly reported to shareholders, other security holders and regulators on a timely and regular basis.
6. Ensure that information relating to the Corporation's oil and natural gas activities is prepared and disclosed in accordance with applicable securities laws.
7. In consultation with the CEO, establish the ethical standards to be observed by all officers and employees of Baytex and use reasonable efforts to ensure that a process is in place to monitor compliance with those standards.
8. Require that the CEO institute and monitor processes and systems designed to ensure compliance with applicable laws by Baytex and its officers and employees.
9. Approve any material contracts to be entered into by Baytex.
10. Recommend to the shareholders of the Corporation a firm of chartered accountants to be appointed as its auditors.

*Human Resources*

1. Monitor overall human resources policies and procedures, including compensation and succession planning.
2. Develop a position description for the CEO.
3. Appoint the CEO and determine the terms of the CEO's employment with Baytex.
4. Evaluate the performance of the CEO at least annually.
5. In consultation with the CEO, appoint all officers of the Corporation and approve the terms of each officer's employment.
6. Develop a system under which succession to senior management positions will occur in a timely manner.
7. Approve any proposed significant change in the management organization structure of Baytex.
8. Approve all retirement plans for officers and employees of Baytex.
9. Review annually the adequacy and form of the compensation of directors.

*Governance*

1. Develop position descriptions for the Chairman and, if applicable, the Lead Independent Director.
2. Select nominees for election to the Board.
3. Facilitate the continuity, effectiveness and independence of the Board by, amongst other things:
  - (a) appointing a Chairman and, if applicable, Lead Independent Director of the Board;
  - (b) appointing from amongst the directors an audit committee and such other committees of the Board as the Board deems appropriate;
  - (c) defining the mandate and terms of reference for each committee of the Board;
  - (d) developing a position description for the chair of each committee of the Board;
  - (e) ensuring that processes are in place and are utilized to assess the effectiveness of the Chairman, Executive Chairman and the Lead Independent Director of the Board, as applicable, the Board as a whole, each committee of the Board and each director; and
  - (f) establishing a system to enable any director to engage an outside adviser at the expense of the Corporation.
4. Review annually the composition of the Board and its committees.

*General*

1. The Board may delegate its duties to, and receive reports and recommendations from, any committee of the Board.
2. The Board shall have the authority to review any corporate report or material and to investigate any activity of Baytex and to request any employees to cooperate as requested by the Board.

## **MEETINGS AND ADMINISTRATIVE MATTERS**

1. At all meetings of the Board every question shall be decided by a majority of the votes cast. In case of an equality of votes, the chairman of the meeting shall be entitled to a second or casting vote.
2. The Chairman (or Executive Chairman) shall preside at all meetings of the Board, unless the Chairman (or Executive Chairman) is not present, in which case the Lead Independent Director shall act as chairman for purposes of the meeting.
3. A quorum for meetings of the Board shall be a majority of its members. The rules for calling, holding, conducting and adjourning meetings of the Board are contained in the by-laws of the Corporation.
4. Meetings of the Board should be scheduled to take place at least three times per year and at such other times as the Chairman may determine.
5. Agendas, approved by the Chairman, shall be circulated to Board members along with background information on a timely basis prior to the Board meetings.
6. The Board may invite those officers, directors and employees of the Corporation and its subsidiary entities as it may see fit from time to time to attend at meetings of the Board and assist thereat in the discussion and consideration of the matters being considered by the Board, provided that the CEO and the Chief Financial Officer of the Corporation shall attend all meetings of the Board, unless otherwise excused from all or part of any such meeting by the chairman of the meeting.
7. At each meeting of the Board, an opportunity will be provided for the independent members of the Board to meet without the non-independent members of the Board and members of management being present.
8. Minutes of the Board's meetings will be recorded and maintained and made available to any Board member upon request.
9. The Board may retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Corporation.

*Approved by the Board of Directors on December 8, 2014*