

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

____ Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934
 X Annual Report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2010
Commission File Number: 001-32754

BAYTEX ENERGY CORP.

(Exact name of Registrant as specified in its charter)

Alberta
(Province or other jurisdiction of incorporation or organization)

1381

(Primary Standard Industrial Classification Code Number (if applicable))

Not applicable
(I.R.S. Employer Identification Number (if applicable))

2800, 520 – 3rd Avenue S.W.

Calgary, Alberta

T2P 0R3

(587) 952-3000

(Address and telephone number of registrant's principle executive offices)

Baytex Energy USA Ltd.

600 17th St., Suite 1600 S.

Denver, CO 80202

(303) 825-2777

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:
COMMON SHARES

Name of each exchange on which registered:
New York Stock Exchange
Toronto Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE

For annual reports, indicate by check mark the information filed with this form:

X Annual Information Form X Audited Annual Financial Statements

Indicate the number of outstanding shares of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **113,712,158**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ____ No ____

The Annual Report on Form 40-F shall be incorporated by reference into or as an exhibit to, as applicable, the Registrant's Registration Statements under the Securities Act of 1933 on Form S-8 (File Nos. 333-163289 and 333-171568) and Form F-3 (File No. 333-171866).

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 40-F are forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act") and Section 27A of the Securities Act of 1933, as amended. Please see "Special Note Regarding Forward-Looking Statements" on page 4 of the Annual Information Form, which is Exhibit 99.1 of this Annual Report on Form 40-F.

Principal Documents

The following documents have been filed as part of this Annual Report on Form 40-F:

A. Annual Information Form

For the Registrant's Annual Information Form for the year ended December 31, 2010, see Exhibit 99.1 of this Annual Report on Form 40-F.

B. Audited Annual Financial Statements

For the Registrant's Audited Consolidated Financial Statements for the year ended December 31, 2010, including the report of its Independent Registered Chartered Accountants with respect thereto, see Exhibit 99.2 of this Annual Report on Form 40-F. For a reconciliation of differences between Canadian and United States generally accepted accounting principles, see Note 21 to the Audited Consolidated Financial Statements.

C. Management's Discussion and Analysis

For the Registrant's Management's Discussion and Analysis of the operating and financial results for the year ended December 31, 2010, see Exhibit 99.3 of this Annual Report on Form 40-F.

Except where otherwise indicated, all dollar amounts stated in this Annual Report on Form 40-F are in Canadian dollars.

Controls and Procedures

A. Certifications

The required disclosure is included in Exhibits 99.4, 99.5, 99.6 and 99.7 of this Annual Report on Form 40-F.

B. Disclosure Controls and Procedures

As of the year ended December 31, 2010, an internal evaluation was conducted by the Registrant's management with the participation of the principal executive officer and principal financial officer of the effectiveness of the Registrant's "disclosure controls and procedures" as defined in the United States by Rule 13a-15(e) and 15d-15(e) under Exchange Act and in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the Registrant's disclosure controls and procedures are effective to ensure that the information required to be disclosed in the reports that the Registrant files or submits under the Exchange Act or under Canadian securities legislation is (i) recorded, processed, summarized and reported, within the time periods specified in the rules and forms therein and (ii) accumulated and communicated to the Registrant's management, including the President and Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding the required disclosure.

It should be noted that while the President and Chief Executive Officer and the Chief Financial Officer believe that the Registrant's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Registrant's disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

C. Management's Annual Report on Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting is included in the Management's Report that accompanies the Registrant's Audited Consolidated Financial Statements for the year ended December 31, 2010, included as Exhibit 99.2 of this Annual Report of Form 40-F.

D. Attestation of Report of Independent Registered Chartered Accountants

The Attestation Report of the Registrant's Auditor is included in the Report of Independent Registered Chartered Accountants that accompanies the Registrant's Audited Consolidated Financial Statements for the year ended December 31, 2010, included as Exhibit 99.2 of this Annual Report of Form 40-F.

E. Changes in Internal Control Over Financial Reporting

During the year ended December 31, 2010, there were no changes in the Registrant's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Notices Pursuant to Regulation BTR.

None.

Audit Committee Financial Expert

The Company's Board of Directors has determined that Mr. Naveen Dargan is an audit committee financial expert (as defined in paragraph 8(b) of General Instruction B to Form 40-F) serving on its audit committee. Mr. Dargan is a corporate director and meets the New York Stock Exchange definition of independence. For a description of Mr. Dargan's relevant experience in financial matters, see the biographical description for Mr. Dargan under "Directors and Officers" in the Registrant's Annual Information Form for the year ended December 31, 2010, which is included as Exhibit 99.1 to this Annual Report on Form 40-F.

Code of Ethics

The Registrant has adopted a code of ethics (as that term is defined in Form 40-F) ("Code of Ethics"), which is applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. The Code of Ethics is posted on the Registrant's website at www.baytex.ab.ca.

In the past fiscal year, the Registrant has not amended any provision of its Code of Ethics that relates to any element of the code of ethics definition enumerated in paragraph (9)(b) of General Instruction B to Form 40-F, or granted any waiver, including an implicit waiver, from any provision of its Code of Ethics.

Principal Accountant Fees and Services

The required disclosure is included under the heading "Audit Committee Information – External Auditor Service Fees" in the Registrant's Annual Information Form for the year ended December 31, 2010, which is included as Exhibit 99.1 to this Annual Report on Form 40-F.

Pre-Approval Policies and Procedures

The required disclosure is included under the heading "Audit Committee Information – Pre-Approval Policies and Procedures" in the Registrant's Annual Information Form for the year ended December 31, 2010, which is included as Exhibit 99.1 to this Annual Report on Form 40-F.

Off-Balance Sheet Arrangements

The Registrant does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Tabular Disclosure of Contractual Obligations

The required disclosure is included under the heading "Liquidity and Capital Resources – Contractual Obligations" in the Registrant's Management's Discussion and Analysis of the operating and financial results for the year ended December 31, 2010, which is included as Exhibit 99.3 to this Annual Report on Form 40-F.

Identification of the Audit Committee

The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Company's Audit Committee members consist of Mr. Dargan, Mr. R.E.T. (Rusty) Goepel, and Mr. G. Melchin.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

CONSENT TO SERVICE OF PROCESS

The Registrant has previously filed a Form F-X in connection with the class of securities in relation to which the obligation to file this report arises.

Any change to the name and address of the agent for service for service of process of the Registrant shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of the relevant registration statement.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized on March 28, 2011.

BAYTEX ENERGY CORP.

By: (signed) "W. Derek Aylesworth"
Name: W. Derek Aylesworth, CA
Title: Chief Financial Officer

Form 40-F Table of Contents

| Exhibit No. | Document |
|-------------|---|
| 99.1 | Annual Information Form of the Registrant for the fiscal year ended December 31, 2010. |
| 99.2 | Audited Consolidated Financial Statements of the Registrant for the year ended December 31, 2010, including reconciliation to United States generally accepted accounting principles, together with the Auditors' Report thereon. |
| 99.3 | Management's Discussion and Analysis of the operating and financial results of the Registrant for the year ended December 31, 2010. |
| 99.4 | Certification of Chief Executive Officer under Section 302 of the <i>Sarbanes-Oxley Act of 2002</i> . |
| 99.5 | Certification of Chief Financial Officer under Section 302 of the <i>Sarbanes-Oxley Act of 2002</i> . |
| 99.6 | Certification of Chief Executive Officer under Section 906 of the <i>Sarbanes-Oxley Act of 2002</i> . |
| 99.7 | Certification of Chief Financial Officer under Section 906 of the <i>Sarbanes-Oxley Act of 2002</i> . |
| 99.8 | Consent of Deloitte & Touche LLP, Independent Registered Chartered Accountants. |
| 99.9 | Consent of Sproule Associates Limited, independent engineers. |

BAYTEX

ENERGY CORP.

ANNUAL INFORMATION FORM

2010

MARCH 28, 2011

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APPENDICES:

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| APPENDIX B | REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR |
| APPENDIX C | AUDIT COMMITTEE MANDATE |

SELECTED TERMS

Capitalized terms in this Annual Information Form have the meanings set forth below:

Entities

Baytex or the **Corporation** means Baytex Energy Corp., a corporation incorporated under the ABCA.

Baytex Commercial Trusts mean, collectively, Baytex Commercial Trust 1, Baytex Commercial Trust 2, Baytex Commercial Trust 3, Baytex Commercial Trust 4, Baytex Commercial Trust 5, Baytex Commercial Trust 6 and Baytex Commercial Trust 7.

Baytex Energy means Baytex Energy Ltd., a corporation amalgamated under the ABCA.

Baytex Partnership means Baytex Energy Partnership, a general partnership, the partners of which are Baytex Energy, Baytex Holdings Limited Partnership, Baytex Oil & Gas Ltd. and Baytex Resources Corp.

Baytex USA means Baytex Energy USA Ltd.

Board of Directors means the board of directors of Baytex.

OPEC means the Organization of the Petroleum Exporting Countries.

Operating Entities means our subsidiaries that are actively involved in the acquisition, production, processing, transportation and marketing of crude oil, natural gas liquids and natural gas, being Baytex Energy, Baytex Partnership, Baytex Resources Corp. and Baytex USA, each a direct or indirect wholly-owned subsidiary of us, and "**Operating Subsidiary**" means any one of them, as applicable.

SEC means the United States Securities and Exchange Commission.

Shareholders mean the holders from time to time of Common Shares.

subsidiary has the meaning ascribed thereto in the *Securities Act* (Ontario) and, for greater certainty, includes all corporations, partnerships and trusts owned, controlled or directed, directly or indirectly, by us.

Trust means Baytex Energy Trust, a trust created under the laws of the Province of Alberta on July 24, 2003 pursuant to the Trust Indenture and which was dissolved into the Corporation on January 1, 2011 in connection with the Corporate Conversion.

we, us and **our** means Baytex and all its subsidiaries on a consolidated basis unless the context requires otherwise.

Independent Engineering

COGE Handbook means the Canadian Oil and Gas Evaluation Handbook.

NI 51-101 means National Instrument 51-101 "Standards of Disclosure for Oil and Natural Gas Activities" of the Canadian Securities Administrators.

Sproule means Sproule Associates Limited, independent petroleum consultants of Calgary, Alberta.

Sproule Report means the report prepared by Sproule dated March 14, 2011 entitled "*Evaluation of the P&NG Reserves of Baytex Energy Corp. (As of December 31, 2010)*".

Securities and Other Terms

2016 Debentures means our \$150 million 9.15% series A senior unsecured debentures due August 26, 2016 and issued pursuant to the Debenture Indenture.

2021 Debentures means our US\$150 million 6.75% series B senior unsecured debentures due February 17, 2021 and issued pursuant to the Debenture Indenture.

ABCA means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder.

Canadian GAAP means generally accepted accounting principles in Canada.

Common Shares means the common shares of Baytex.

Corporate Conversion means the conversion of the legal structure of the Trust from a trust to a corporation effective December 31, 2010 pursuant to a plan of arrangement under the ABCA.

Credit Facilities means, collectively, the 364-day revolving operating loan that Baytex Energy has with a chartered bank and a 364-day revolving loan that Baytex Energy has with a syndicate of chartered banks, in an aggregate amount of \$650 million. The revolving period under the Credit Facilities will expire on June 27, 2011 unless it is extended for an additional one-year term. In the event that the revolving period is not extended by June 27, 2011, all amounts then outstanding under the Credit Facilities will be payable on June 27, 2012.

Debenture Indenture means the amended and restated trust indenture among us, as issuer, Baytex Energy, Baytex Oil & Gas Ltd., Baytex Partnership, Baytex Marketing Ltd. and Baytex USA, as guarantors, and Valiant Trust Company, as indenture trustee, dated January 1, 2011, which is an amendment and restatement of a trust indenture dated August 26, 2009, as supplemented by a supplemental indenture dated February 17, 2011.

Debentures means, collectively, the 2016 Debentures and the 2021 Debentures.

Notes mean the unsecured subordinated promissory notes issued by Baytex Energy and certain other Operating Entities to us.

Tax Act means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1 (5th Supp.), as amended, including the regulations promulgated thereunder, as amended from time to time.

Trust Indenture means the third amended and restated trust indenture between Valiant Trust Company, and Baytex Energy dated May 20, 2008, as amended by a supplemental indenture dated December 31, 2010.

Trust Unit or **Unit** means a unit issued by the Trust, each unit representing an equal undivided beneficial interest in the Trust's assets.

U.S. GAAP means generally accepted accounting principles in the United States.

ABBREVIATIONS

| <u>Oil and Natural Gas Liquids</u> | | <u>Natural Gas</u> | |
|------------------------------------|---|--------------------|-------------------------------|
| bbbl | barrel | Mcf | thousand cubic feet |
| Mbbl | thousand barrels | MMcf | million cubic feet |
| MMbbl | million barrels | Bcf | billion cubic feet |
| NGL | natural gas liquids | Mcf/d | thousand cubic feet per day |
| bbbl/d | barrels per day | MMcf/d | million cubic feet per day |
| | | m ³ | cubic metres |
| | | MMbtu | million British Thermal Units |
| | | GJ | gigajoule |
| Other | | | |
| BOE or boe | barrel of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one bbl of oil. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. | | |
| Mboe | thousand barrels of oil equivalent. | | |
| MMboe | million barrels of oil equivalent. | | |
| boe/d | barrels of oil equivalent per day. | | |
| WTI | West Texas Intermediate. | | |
| API | the measure of the density or gravity of liquid petroleum products derived from a specific gravity. | | |
| \$ Million | means millions of dollars. | | |
| \$000s | means thousands of dollars. | | |

CONVERSIONS

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

| <u>To Convert From</u> | <u>To</u> | <u>Multiply By</u> |
|------------------------|--------------|--------------------|
| Mcf | Cubic metres | 28.174 |
| Cubic metres | Cubic feet | 35.494 |
| Bbl | Cubic metres | 0.159 |
| Cubic metres | Bbl | 6.293 |
| Feet | Metres | 0.305 |
| Metres | Feet | 3.281 |
| Miles | Kilometres | 1.609 |
| Kilometres | Miles | 0.621 |
| Acres | Hectares | 0.405 |
| Hectares | Acres | 2.471 |
| Gigajoules | MMbtu | 0.948 |

CONVENTIONS

Certain terms used herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings in this Annual Information Form as in NI 51-101. Unless otherwise indicated, references in this Annual Information Form to "\$" or "dollars" are to Canadian dollars and references to "US\$" are to United States dollars. All financial information contained in this Annual Information Form has been presented in Canadian dollars in accordance with Canadian GAAP. Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders. All operational information contained in this Annual Information Form relates to our consolidated operations unless the context otherwise requires.

SPECIAL NOTES TO READER

Forward-Looking Statements

In the interest of providing our Shareholders and potential investors with information about us, including management's assessment of our future plans and operations, certain statements in this Annual Information Form are "forward-looking statements" within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and "forward-looking information" within the meaning of applicable Canadian securities legislation (collectively, "**forward-looking statements**"). In some cases, forward-looking statements can be identified by terminology such as "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "intend", "may", "objective", "ongoing", "outlook", "potential", "project", "plan", "should", "target", "would", "will" or similar words suggesting future outcomes, events or performance. The forward-looking statements contained in this Annual Information Form speak only as of the date hereof and are expressly qualified by this cautionary statement.

Specifically, this Annual Information Form contains forward-looking statements relating to: our business strategies, plans and objectives; the portion of our funds from operations to be allocated to our capital program; our ability to maintain production levels by investing approximately half of our internally generated funds from operations; our ability to grow our reserve base and add to production levels through exploration and development activities complemented by strategic acquisitions; our petroleum and natural gas reserves, including the quantum thereof and the present value of the future net revenue to be derived therefrom; the contingent resource estimates for our oil resource plays at Seal, North Dakota, Redwater and Dodsland/Kerrobert; development plans for our properties, including number of potential drilling locations, number of wells to be drilled in 2011, initial production rates from new wells and recovery factors; our Viking light oil resource play at Dodsland/Kerrobert, including the resource potential of our undeveloped land, initial production rates from new wells and the number of potential drilling locations; our steam-assisted gravity drainage project at Kerrobert, including initial production rates from new wells, the cost to drill new wells and the number of potential drilling locations; our heavy oil resource play at Seal, including the resource potential of our undeveloped land, initial production rates from new wells, the ability to recover incremental reserves using waterflood and cyclic steam recovery methods, our assessment of our cyclic steam stimulation pilot projects; and the estimated cost of completing a commercial-scale cyclic steam stimulation project; our light oil resource play in North Dakota, including our assessment of the number of wells to be drilled, initial production rates from new wells and average recoveries per well; our ability to utilize our tax pools to reduce our taxable income; our working interest production volume for 2011; the existence, operation and strategy of our risk management program; our dividend policy and level; funding sources for development capital expenditures and dividend payments; and the impact of existing and proposed governmental and environmental regulation. Cash dividends on our common shares are paid at the discretion of our Board of Directors and can fluctuate. The level of future cash dividends will depend on the amount of funds from operations generated by our operations and our prevailing financial circumstances at the time.

In addition, there are forward looking statements in this Annual Information Form under the heading "*Description of Our Business and Operations – Statement of Reserves Data and Other Oil and Gas Information*" (as to our reserves and future net revenues from our reserves, pricing and inflation rates, future development costs, the development of our proved undeveloped reserves and probable undeveloped reserves, future development costs, contingent resources, reclamation and abandonment obligations, tax horizon, exploration and development activities and production estimates). Information and statements relating to reserves and resources are deemed to be forward-looking statements, as they involve implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in quantities predicted or estimated, and that the reserves and resources can be profitably produced in the future.

These forward-looking statements are based on certain key assumptions regarding, among other things: petroleum and natural gas prices and the pricing differentials between light, medium and heavy gravity crude oils; well production rates and reserve volumes; our ability to add production and reserves through our exploration and development activities; capital expenditure levels; the availability and cost of labour and other industry services; the amount of future cash dividends that we intend to pay; interest and foreign exchange rates; and the continuance of existing and, in certain circumstances, proposed tax and royalty regimes. Readers are cautioned that such assumptions, although considered reasonable by Baytex at the time of preparation, may prove to be incorrect.

Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: declines in oil and natural gas prices; variations in interest rates and foreign exchange rates; uncertainties in the credit markets may restrict the availability of credit or increase the cost of borrowing; refinancing risk for existing debt and debt service costs; access to external sources of capital; risks associated with our hedging activities; third party credit risk; risks associated with the exploitation of our properties and our ability to acquire reserves; government regulation and changes in governmental legislation; changes in income tax or other laws or government incentive programs; uncertainties associated with estimating petroleum and natural gas reserves; risks associated with acquiring, developing and exploring for oil and natural gas and other aspects of our operations; risks associated with properties operated by third parties; risks associated with delays in business operations; risks associated with the marketing of our petroleum and natural gas production; risks associated with large projects or expansion of our activities; the failure to realize anticipated benefits of acquisitions and dispositions or to manage growth; changes in climate change laws and other environmental, health and safety regulations; competition in the oil and gas industry for, among other things, acquisitions of reserves, undeveloped lands, skilled personnel and drilling and related equipment; the application of accounting policies; the activities of our Operating Entities and their key personnel; depletion of our reserves; risks associated with securing and maintaining title to our properties; seasonality; our permitted investments; risks associated with the ownership of our securities, including the discretionary nature of dividend payments and changes in market-based factors; risks for United States and other non-resident shareholders and other factors, many of which are beyond the control of Baytex.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. New risk factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Readers should also carefully consider the matters discussed under the heading "*Risk Factors*" in this Annual Information Form.

There is no representation by Baytex that actual results achieved during the forecast period will be the same in whole or in part as those forecast and Baytex does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities law. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement.

Contingent Resources

This Annual Information Form contains estimates of "contingent resources". "Contingent resources" are not, and should not be confused with, petroleum and natural gas reserves. "Contingent resources" are defined in the Canadian Oil and Gas Evaluation Handbook as "those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage." There is no certainty that it will be commercially viable to produce any portion of the contingent resources or that Baytex will produce any portion of the volumes currently classified as contingent resources. A "best estimate" of contingent resources means that it is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate, and if probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the best estimate.

The recovery and resource estimates provided herein are estimates only. Actual contingent resources (and any volumes that may be reclassified as reserves) and future production from such contingent resources may be greater than or less than the estimates provided herein.

Description of Funds from Operations

This Annual Information Form contains references to funds from operations derived from cash flow from operating activities before changes in non-cash working capital and other operating items. The term "funds from operations" as presented does not have any standardized meaning prescribed by Canadian GAAP, and therefore it may not be comparable with the calculation of similar measures for other entities. Funds from operations as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow provided by operating activities, net income or other measures of financial performance calculated in accordance with Canadian GAAP.

For more information, see our "*Management's Discussion and Analysis of the operating and financial results*" which includes a definition of "funds from operations" and a reconciliation to cash flow from operating activities and is accessible on the SEDAR website at www.sedar.com.

New York Stock Exchange

As a Canadian issuer listed on the New York Stock Exchange (the "NYSE"), we are not required to comply with most of the NYSE rules and listing standards and instead may comply with domestic requirements. As a general matter, we are only required to comply with three of the NYSE rules: 1) we must have an audit committee that satisfies the requirements of the *United States Securities Exchange Act of 1934*; 2) our Chief Executive Officer must promptly notify the NYSE in writing after an executive officer becomes aware of any material non-compliance with the applicable NYSE rules; and 3) we must provide a brief description of any significant differences between our corporate governance practices and those followed by U.S. companies listed under the NYSE. We have reviewed the NYSE listing standards applicable to U.S. companies and confirm that our corporate governance practices do not differ significantly from such standards.

Access to Documents

Any document referred to in this Annual Information and described as being accessible on the SEDAR website at www.sedar.com (including those documents referred to as being incorporated by reference in this Annual Information Form) may be obtained free of charge from us at Suite 2800, Centennial Place, East Tower, 520 - 3rd Avenue S.W., Calgary, Alberta, Canada, T2P 0R3.

BAYTEX ENERGY CORP.

General

We were incorporated on October 22, 2010 pursuant to the provisions of the ABCA, as an indirect wholly-owned subsidiary of the Trust, for the sole purpose of participating in a plan of arrangement under the ABCA to effect the conversion of the legal structure of the Trust from a trust to a corporation. The Corporate Conversion was implemented as a result of changes to laws regarding the taxation of trusts in Canada that took effect on January 1, 2011.

Pursuant to the Corporate Conversion: (i) on December 31, 2010, holders of Trust Units exchanged their Trust Units for Common Shares on a one-for-one basis; and (ii) on January 1, 2011, the Trust was dissolved and terminated, with the Corporation being the successor to the Trust.

Our head and principal office is located at Suite 2800, Centennial Place, East Tower, 520 – 3rd Avenue S.W., Calgary, Alberta, Canada, T2P 0R3. Our registered office is located at 1400, 350 – 7th Avenue S.W., Calgary, Alberta, Canada, T2P 3N9.

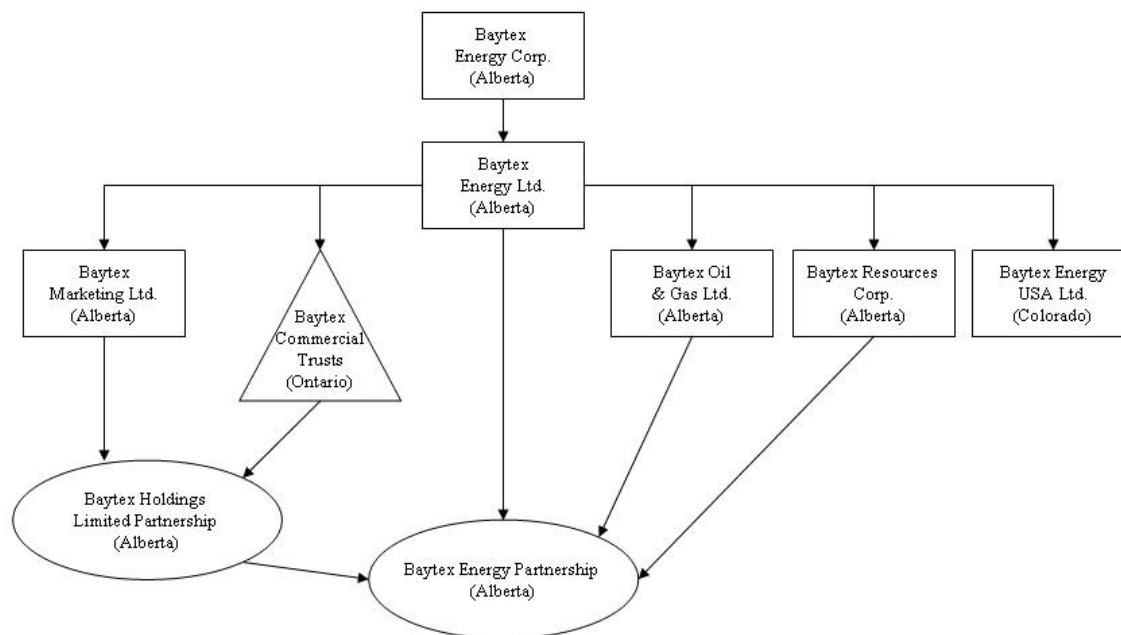
Inter-Corporate Relationships

The following table provides the name, the percentage of voting securities owned by us and the jurisdiction of incorporation, continuance, formation or organization of our subsidiaries either, direct and indirect, as at the date hereof.

| | Percentage of voting securities (directly or indirectly) | Jurisdiction of Incorporation/ Formation |
|-------------------------------------|---|---|
| Baytex Energy Ltd. | 100% | Alberta |
| Baytex Marketing Ltd. | 100% | Alberta |
| Baytex Commercial Trusts | 100% | Ontario |
| Baytex Oil & Gas Ltd. | 100% | Alberta |
| Baytex Resources Corp. | 100% | Alberta |
| Baytex Energy USA Ltd. | 100% | Colorado |
| Baytex Holdings Limited Partnership | 100% | Alberta |
| Baytex Energy Partnership | 100% | Alberta |

Our Organizational Structure

The following diagram describes the inter-corporate relationships among us and our material subsidiaries.



GENERAL DEVELOPMENT OF OUR BUSINESS

History and Development

In this section, references to "we", "us" and "our" for events occurring prior to January 1, 2011 refer to the Trust and its subsidiaries on a consolidated basis, unless the context requires otherwise.

On June 4, 2008, we acquired all of the issued and outstanding shares of Burmis Energy Inc. ("**Burmis**") on the basis of 0.1525 of a Trust Unit for each Burmis common share. Approximately 6.38 million Trust Units were issued pursuant to this transaction, which was valued at approximately \$180.5 million. Pursuant to this transaction, we acquired multi-zone, liquids-rich natural gas and light oil properties located in west central Alberta and approximately 110,300 net acres of undeveloped land. Production from the Burmis properties averaged 3,791 boe/d during the first quarter of 2008.

During the third quarter of 2008, we acquired a significant land position in a Bakken/Three Forks light oil resource play in the Williston Basin in northwest North Dakota from a private company (the "**North Dakota Project**"). Upon making all deferred payments associated with the transaction, we will have acquired a 37.5% interest in 263,000 (98,600 net) acres, 94% of which are undeveloped. In addition, we acquired approximately 300 boe/d (95% oil) of production. The seller retained the remaining 62.5% interest in the project lands and production.

On April 14, 2009, we completed a public offering of 7,935,000 Trust Units at a price of \$14.50 per Trust Unit for gross proceeds of \$115,057,500. The net proceeds of the offering were used to repay outstanding bank indebtedness.

On July 30, 2009, we completed the acquisition of predominantly heavy oil assets located in the Kerrobert and Coleville areas of southwest Saskatchewan, plus certain natural gas assets located in the Ferrier area of west central Alberta effective May 1, 2009. Aggregate cash consideration for the acquisition was \$86.2 million, net of adjustments such as net operating income for the interim period from May 1, 2009 to July 30, 2009 and prepaid items. The acquired assets were producing approximately 3,000 boe/d (72% heavy oil and 28% natural gas) at the time of the acquisition. The acquired assets included approximately 47,700 net acres of developed land and 63,300 net acres of undeveloped land in close proximity to our existing assets in the Lloydminster area.

On August 26, 2009, we completed a public offering of \$150 million principal amount of 9.15% series A senior unsecured debentures due August 26, 2016. The net proceeds of the offering along with funds drawn on the Credit Facilities were used to fund the redemption effective September 25, 2009 of the following senior subordinated notes of Baytex Energy: 9.625% notes due July 15, 2010 (principal amount US\$179.7 million) and 10.5% notes due February 15, 2011 (principal amount US\$0.2 million).

In November, 2009, we reached an agreement with our joint venture partner in the North Dakota Project to pre-pay the remaining deferred acquisition payments. The original participation agreement with the joint venture partner called for deferred acquisition payments totalling approximately US\$36 million to be made prior to the spud date of each of the remaining 24 earning wells, occurring more or less ratably until approximately January 2011. On December 15, 2009, we paid our joint venture partner US\$33.2 million to complete the remaining deferred acquisition payments and to earn the right to operate a portion of the joint project area effective at the beginning of 2010.

On May 26, 2010, we completed the acquisition of a private company with heavy oil assets in the Lloydminster area of southwest Saskatchewan for aggregate net cash consideration of \$40.9 million. The acquired assets were producing approximately 900 bbl/d of heavy oil at the time of the acquisition. The acquired assets included approximately 32,100 net acres of undeveloped land in close proximity to our existing assets in the Lloydminster area.

On September 30, 2010, we closed the sale of our 50% interest in the lands and wells comprising phase one of an in-situ combustion project located in the Kerrobert area of southwest Saskatchewan for \$18 million and a gross overriding royalty on the divested lands. We retained our 50% interest in the area of mutual interest surrounding the phase one lands. Our other Kerrobert interests, including our 100% working interest in our steam-assisted gravity drainage project, were unaffected by the sale.

On December 31, 2010 / January 1, 2011, the Corporate Conversion was completed which resulted in holders of Trust Units exchanging their Trust Units for Common Shares on a one-for-one basis and the dissolution and termination of the Trust, with the Corporation being the successor to the Trust.

On February 3, 2011, we completed the acquisition of heavy oil assets located in the Seal area of northern Alberta and the Lloydminster area of western Saskatchewan for aggregate net cash consideration of \$159.4 million. The acquired assets are expected to produce approximately 2,600 bbl/d of heavy oil for the remainder of 2011, of which 65% is from the Seal area and 35% is from the Lloydminster area. The acquired assets included approximately 95,600 net acres of undeveloped land in close proximity to our existing assets in the Seal area.

On February 17, 2011, we completed a private placement of US\$150 million principal amount of 6.75% series B senior unsecured debentures due February 17, 2021. The net proceeds of the offering were used to repay existing indebtedness under the Credit Facilities and for general corporate purposes.

Significant Acquisitions

During the year ended December 31, 2010, we did not complete any acquisitions for which disclosure was required under Part 8 of National Instrument 51-102.

RISK FACTORS

You should carefully consider the following risk factors, as well as the other information contained in this Annual Information Form and our other public filings before making an investment decision. If any of the risks described below materialize, our business, financial condition or results of operations could be materially and adversely affected. Additional risks and uncertainties not currently known to us that we currently view as immaterial may also materially and adversely affect our business, financial condition or results of operations. Residents of the United States and other non-residents of Canada should have additional regard to the risk factors under the heading " – *Certain Risks for United States and other non-resident Shareholders* ".

The information set forth below contains "forward-looking statements", which are qualified by the information contained in the section of this Annual Information Form entitled "*Special Notes to Reader – Forward-Looking Statements*".

Risks Relating to Our Business and Operations

Declines in oil and natural gas prices will adversely affect our financial condition

Our operational results and financial condition, and therefore the amounts we pay to Shareholders as dividends, will be dependent on the prices received for our oil and natural gas production. The extreme volatility of oil and natural gas prices over the past few years has affected the monthly distributions per Trust Unit paid by our predecessor, which reached a high of \$0.25 for June to November 2008, before being reduced to \$0.18 for December 2008 and January 2009 and \$0.12 for February to November 2009. With the recovery in oil and natural gas prices, monthly distributions per Trust Unit were increased to \$0.18 in December 2009 and to \$0.20 in December 2010. Declines in oil and natural gas prices may result in declines in, or the elimination of, dividends to Shareholders.

Oil and natural gas prices are determined by economic factors and in the case of oil prices, political factors and a variety of additional factors beyond our control. These factors include economic conditions in the United States and Canada and worldwide, the actions of OPEC, governmental regulation, political stability in the Middle East and elsewhere, weather conditions including weather-related disruptions to the North American natural gas supply, the foreign supply of oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the carrying value of our proved and probable reserves, net asset value, borrowing capacity, revenues, profitability and funds from operations and ultimately on our financial condition and may, therefore, affect the amount of dividends that we pay to our Shareholders. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Variations in interest rates and foreign exchange rates could affect our financial condition

There is a risk that the interest rates will increase given the current historical low level of interest rates. An increase in interest rates could result in a significant increase in the amount we pay to service debt, potentially resulting in a decrease in dividends to Shareholders, and could impact the market price of the Common Shares.

World oil prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canada/U.S. foreign exchange rate that may fluctuate over time. A material increase in the value of the Canadian dollar may negatively impact our production revenue and our ability to maintain dividends to Shareholders in the future. Future Canada/U.S. foreign exchange rates could also impact the future value of our reserves as determined by our independent evaluator.

A decline in the value of the Canadian dollar relative to the United States dollar provides a competitive advantage to United States companies in acquiring Canadian oil and gas properties and may make it more difficult for us to replace reserves through acquisitions.

Uncertainty in the credit markets may restrict the availability or increase the cost of borrowing required for future development and acquisitions

Uncertainty in domestic and international credit markets could materially affect our ability to access sufficient capital for our capital expenditures and acquisitions and, as a result, may have a material adverse effect on our ability to execute our business strategy and on our financial condition. There can be no assurance that financing will be available or sufficient to meet these requirements or for other corporate purposes or, if financing is available, that it will be on terms appropriate and acceptable to us. Should the lack of financing and uncertainty in the capital markets adversely impact our ability to refinance debt, additional equity may be issued resulting in a dilutive effect on current and future Shareholders.

Our bank credit facilities will need to be renewed prior to June 27, 2011 and failure to renew, in whole or in part, or higher interest charges will adversely affect our financial condition

Our existing Credit Facilities and any replacement credit facilities may not provide sufficient liquidity. The amounts available under our existing Credit Facilities may not be sufficient for future operations, or we may not be able to obtain additional financing on economic terms attractive to us, if at all. We currently have Credit Facilities in the amount of \$650 million. In the event that the Credit Facilities are not extended before June 27, 2011, indebtedness under the Credit Facilities will be repayable on June 27, 2012. The interest charged on the Credit Facilities is calculated based on a sliding scale ratio of our debt to EBITDA ratio. Repayment of all outstanding amounts under the Credit Facilities may be demanded on relatively short notice if an event of default occurs, which is continuing. If this occurs, we may need to obtain alternate financing. Any failure to obtain suitable replacement financing may have a material adverse effect on our business, and dividends to Shareholders may be materially reduced. There is also a risk that the Credit Facilities will not be renewed for the same amount or on the same terms.

As at December 31, 2010, our outstanding indebtedness included \$150 million of 2016 Debentures which mature on August 26, 2016. We intend to fund these debt maturities with our existing Credit Facilities; however, we are subject to limitations on the amounts we can draw on our Credit Facilities in order to repay the 2016 Debentures. Subject to certain rights we have under our Credit Facilities to the extent the amounts outstanding thereunder have been reduced by payments sourced from equity issues, asset sales or the unwinding of hedges, the maximum amount we may draw for any such repayments is 20% of the amount of our Credit Facilities and this amount is reduced to nil if the amount drawn on our Credit Facilities exceeds 75% of the amount thereof. In the event we are unable to refinance our debt obligations, it may impact our ability to fund our ongoing operations and to pay dividends.

We are required to comply with covenants under the Credit Facilities and the 2016 Debentures. In the event that we do not comply with these covenants, our access to capital could be restricted or repayment could be required on an accelerated basis by our lenders, and the ability to pay dividends to our Shareholders may be restricted. The lenders under the Credit Facilities have security over substantially all of our assets. If we become unable to pay our debt service charges or otherwise commit an event of default, such as breach of our financial covenants, the lenders under the Credit Facilities may foreclose on or sell our working interests in our properties.

Amounts paid in respect of interest and principal on debt may reduce dividends to Shareholders. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment of dividends. Certain covenants in the agreements with our lenders under the Credit Facilities and the holders of the 2016 Debentures may also limit dividends. Although we believe the Credit Facilities will be sufficient for our immediate requirements, there can be no assurance that the amount will be adequate for our future financial obligations including our future capital expenditure program, or that we will be able to obtain additional funds.

From time to time we may enter into transactions which may be financed in whole or in part with debt. The level of our indebtedness from time to time could impair our ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

We have been historically reliant on external sources of capital, borrowings and equity sales and, if unavailable, our financial condition will be adversely affected

As future capital expenditures will be financed out of funds from operations, borrowings and possible future equity sales, our ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry and our securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, our ability to make capital investments and maintain or expand existing assets and reserves may be impaired, and our assets, liabilities, business, financial condition, results of operations and dividends to Shareholders may be materially and adversely affected as a result.

Shareholders may suffer dilution in connection with future issuances of Common Shares. One of our objectives is to continually add to our reserves through acquisitions and through development. Our success is, in part, dependent on our ability to raise capital from time to time by selling additional Common Shares. Shareholders will suffer dilution as a result of these offerings if, for example, the cash flow, production or reserves from the acquired assets do not reflect the additional number of Common Shares issued to acquire those assets. Shareholders may also suffer dilution in connection with future issuances of Common Shares to complete acquisitions.

We believe that estimated funds from operations, together with the Credit Facilities, will be sufficient to substantially finance our current operations, dividends to Shareholders and planned capital expenditures for the ensuing year. The timing of most of our capital expenditures is discretionary and there are no material long-term capital expenditure commitments. The level of dividends is also discretionary, and we have the ability to modify dividend levels should funds from operations be negatively affected by a reduction in commodity prices or other factors. However, if funds from operations are lower than expected or capital costs for these projects exceed current estimates, or if we incur major unanticipated expenses related to development or maintenance of our existing properties, we may be required to seek additional capital to maintain our capital expenditures at planned levels. Failure to obtain any financing necessary for our capital expenditure plans may result in a delay in development or production on our properties or a decrease in dividends to Shareholders.

Our hedging activities may negatively impact our income and our financial condition

We may manage the risk associated with changes in commodity prices by entering into petroleum or natural gas price hedges. If we hedge our commodity price exposure, we may forego some of the benefits we would otherwise experience if commodity prices were to increase. For more information in relation to our commodity hedging program, see "Statement of Reserves Data and Other Oil and Natural Gas Information – Other Oil and Gas Information – Forward Contracts". We may initiate certain hedges to attempt to mitigate the risk of the Canadian dollar appreciating against the U.S. dollar. An increase in the Canada/U.S. foreign exchange rate will impact future dividends and the future value of our reserves as determined by independent evaluators. These hedging activities could expose us to losses and to credit risk associated with counterparties with which we contract.

Failure of third parties to meet their contractual obligations to us may have a material adverse effect on our financial condition

We are exposed to third party credit risk through our contractual arrangements with our current or future joint venture partners, third party operators, marketers of our petroleum and natural gas production, hedge counterparties and other parties. In the event such parties fail to meet their contractual obligations to us, such failures may have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in our ongoing capital program, potentially delaying the program and the results of such program until we find a suitable alternative partner.

Our ability to add to our petroleum and natural gas reserves is highly dependent on our success in exploiting existing properties and acquiring additional reserves

Our long-term commercial success depends on our ability to find, acquire, develop and commercially produce petroleum and natural gas reserves. Future oil and natural gas exploration may involve unprofitable efforts, not only from unsuccessful wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completion, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion, operating and other costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. New wells we drill or participate in may not become productive and we may not recover all or any portion of our investment in wells we drill or participate in. The cost of drilling, completing and operating a well is often uncertain, and cost factors can adversely affect the economics of a project.

Higher operating costs for our underlying properties will directly decrease the amount of cash flow received by us and, therefore, may reduce dividends to Shareholders. Labour costs, electricity, gas processing, well servicing and chemicals are a few of our operating costs that are susceptible to material fluctuation. There is no assurance that further commercial quantities of petroleum and natural gas will be discovered or acquired by us.

There is no assurance we will be successful in developing additional reserves or acquiring additional reserves on terms that meet our investment objectives. Without these reserves additions, our reserves will deplete and as a consequence, either production from, or the average reserves life of, our properties will decline, which will result in a reduction in the value of Common Shares and in a reduction in funds from operations available for dividends to Shareholders.

Changes in government regulations that affect the oil and natural gas industry could adversely affect us and reduce our dividends to our Shareholders

The oil and gas industry in Canada is subject to federal, provincial and municipal legislation and regulation governing such matters as land tenure, prices, royalties, production rates, environmental protection controls, the exportation of crude oil, natural gas and other products, as well as other matters. The industry is also subject to regulation by governments in such matters as the awarding or acquisition of exploration and production rights, oil sands or other interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields and mine sites (including restrictions on production) and possibly expropriation or cancellation of contract rights.

Government regulations may change from time to time in response to economic or political conditions. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing regulations affecting the crude oil and natural gas industry could reduce demand for crude oil and natural gas or increase our costs, either of which would have a material adverse impact on us. See "Industry Conditions".

Income tax laws or other laws or government incentive programs or regulations relating to our industry may in the future be changed or interpreted in a manner that adversely affects us and our Shareholders

Changes in tax and other laws may adversely affect Shareholders. Income tax laws, other laws or government incentive programs relating to the oil and gas industry, such as resource allowance, may in the future be changed or interpreted in a manner that adversely affects us and our Shareholders. Tax authorities having jurisdiction over us or our Shareholders may disagree with the manner in which we calculate our income for tax purposes or could change their administrative practices to our detriment or the detriment of Shareholders.

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation, and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta, British Columbia, Saskatchewan, the United States, North Dakota and Wyoming, all of which should be carefully considered by investors in the oil and gas industry. All of such controls, regulations and legislation are subject to revocation, amendment or administrative change, some of which have historically been material and in some cases materially adverse and there can be no assurance that there will not be further revocation, amendment or administrative change which will be materially adverse to our assets, reserves, financial condition or results of operations or prospects and our ability to maintain dividends to Shareholders.

We cannot assure you that income tax laws and government incentive programs relating to the oil and natural gas industry generally will not change in a manner that adversely affects the market price of the Common Shares.

There are numerous uncertainties inherent in estimating quantities of recoverable petroleum and natural gas reserves, including many factors beyond our control

Although we, together with Sproule, have carefully prepared the reserves figures included in the Annual Information Form and believe that the methods of estimating reserves have been verified by operating experience, such figures are estimates and no assurance can be given that the indicated levels of reserves will be produced.

In general, estimates of economically recoverable petroleum and natural gas reserves and resources and the future net revenues therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of petroleum and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. All such estimates are based on professional judgment and classifications of reserves, which, by their nature have a high degree of subjectivity. For those reasons, estimates of the economically recoverable petroleum and natural gas reserves or estimates of resources attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary.

The reserves and recovery information contained in the Sproule Report is only an estimate and the actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by Sproule and such variations could be material. The Sproule Report has been prepared using certain commodity price assumptions which are described in the notes to the reserves tables. If we realize lower prices for crude oil, natural gas liquids and natural gas and they are substituted for the price assumptions utilized in the Sproule Report, the present value of estimated future net revenues for our reserves and our net asset value would be reduced and the reduction could be significant. The estimates in the Sproule Report are based in part on the timing and success of activities we intend to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the Sproule Report will be reduced, in future years, to the extent that such activities do not achieve the level of success assumed in the Sproule Report.

Estimates of proved undeveloped reserves are sometimes based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

Acquiring, developing and exploring for oil and natural gas involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome

These risks include, but are not limited to, encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, craterings, equipment failures and other accidents, sour gas releases and spills, uncontrollable flows of oil, natural gas or well fluids, the invasion of water into producing formations, adverse weather conditions, pollution, other environmental risks, fires, spills and delays in payments between parties caused by operation or economic matters which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment, personal injuries, loss of life and other hazards, all of which could result in liability. These risks will increase as we undertake more exploratory activity. Although we maintain insurance in accordance with customary industry practice, we are not fully insured against all of these risks nor are all such risks insurable and in certain circumstances we may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. In addition, the nature of these risks is such that liabilities could exceed policy limits, in which event we could incur significant costs that could have a material adverse effect upon our financial condition.

Exploration and development risks arise due to the uncertain results of searching for and producing petroleum and natural gas using imperfect scientific methods. These risks are mitigated by using highly skilled staff, focusing exploration efforts in areas in which we have existing knowledge and expertise or access to such expertise, using up-to-date technology to enhance methods and controlling costs to maximize returns.

Losses resulting from the occurrence of any of these risks may have a material adverse effect on our business, financial condition, results of operations, prospects and our ability to maintain dividends to Shareholders.

The operation of a portion of our properties is largely dependent on the ability of third party operators, and harm to their business could cause delays and additional expenses in our receiving revenues

The continuing production from a property, and to some extent the marketing of production, is dependent upon the ability of the operators of our properties. If, in situations where we are not the operator, the operator fails to perform these functions properly or becomes insolvent, revenues may be reduced. Revenues from production generally flow through the operator and, where we are not the operator, there is a risk of delay and additional expense in receiving such revenues.

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the properties, and by the operator to our Operating Entities, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of properties or the establishment by the operator of reserves for such expenses.

The operation of wells located on properties not operated by us is generally governed by operating agreements which typically require the operator to conduct operations in a good and workman-like manner. Operating agreements generally provide, however, that the operator will have no liability to the other non-operating working interest owners for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct. In addition, third-party operators are generally not fiduciaries with respect to us or our Shareholders. As owner of working interests in properties not operated by us, we will generally have a cause of action for damages arising from a breach of the operator's duty. Although not established by definitive legal precedent, it is unlikely that we or our Shareholders would be entitled to bring suit against third party operators to enforce the terms of the operating agreements. Therefore, our Shareholders will be dependent upon us, as owner of the working interest, to enforce such rights.

Delays in business operations could adversely affect our income and financial condition

Delays in business operations could adversely affect our income and financial condition and may affect our ability to pay dividends to Shareholders and the market price of our Common Shares. In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of our properties, and the delays of those operators in remitting payment to us, payments between any of these parties may also be delayed by:

- restrictions imposed by lenders;
- accounting delays;
- delays in the sale or delivery of products;
- delays in the connection of wells to a gathering system;
- restrictions due to limited pipeline capacity;
- blowouts or other accidents;
- adjustments for prior periods;
- recovery by the operator of expenses incurred in the operation of the properties; or
- the establishment by the operator of reserves for these expenses.

Any of these delays could reduce the amount of cash available to pay dividends to Shareholders in a given period and expose us to additional third party credit risks.

The marketability of petroleum and natural gas that may be acquired or discovered by us will be affected by numerous factors beyond our control

These factors include demand for petroleum and natural gas, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulations, including regulations relating to environmental protection, royalties, allowable production, pricing, importing and exporting of oil and natural gas and political events throughout the world that cause disruptions in the supply of oil. Any particular event could result in a material decline in prices and therefore result in a reduction of our net production revenue. The availability of markets is beyond our control. In addition, our oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of our properties, wells or facilities are the subject of terrorist attack it could have a material adverse effect on our financial condition. We do not have insurance to protect against the risk from terrorism.

We may participate in larger projects and may have more concentrated risk in certain areas of our operations

We manage a variety of small and large projects in the conduct of our business. Project delays may impact expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Our ability to execute projects and market oil and natural gas depends upon numerous factors beyond our control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, we could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that we produce.

We only operate in western Canada and the United States and expansion outside of these areas may increase our risk exposure

Our operations and expertise are currently primarily focused on oil and gas production and development in the Western Canadian Sedimentary Basin and the United States. In the future, we may acquire oil and gas properties outside of these geographic areas. In addition, we could acquire other energy related assets, such as oil and natural gas processing plants or pipelines, or an interest in an oil sands project. Expansion of our activities into new areas may present new additional risks or alternatively, significantly increase the exposure to one or more of the present risk factors which may adversely affect our business, financial condition or results of operations.

We may not be able to realize the anticipated benefits of acquisitions and dispositions or to manage growth

We make acquisitions and dispositions of businesses and assets in the ordinary course of our business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as our ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with our operations. There is no assurance that we will be able to continue to complete acquisitions or dispositions of oil and natural gas properties which realize all the synergistic benefits.

We periodically dispose of non-core assets so that management can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain of our non-core assets, if disposed of, could be expected to realize less than their carrying value on our financial statements.

The price we pay for the purchase of any material properties is based on several criteria, including engineering and economic assessments made by independent engineers modified to reflect our technical and economic views. These assessments include a series of assumptions regarding such factors as recoverability and marketability of petroleum and natural gas, future prices of petroleum and natural gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond our control. All such assessments involve a measure of geologic and engineering uncertainty which could result in lower than anticipated production and reserves. Consequently, the reserves acquired may be less than expected, which could adversely impact cash flow from operating activities and dividends to Shareholders.

We may be subject to growth-related risks including capacity constraints and pressure on our internal systems and controls. Our ability to manage growth effectively will require us to continue to implement and improve our operational and financial systems and to expand, train and manage our employee base. Our inability to deal with this growth could have a material adverse effect on our business, financial condition, results of operations and prospects.

Climate change laws and related environmental, health and safety regulation may impose restrictions or costs on our business which may adversely affect our financial condition and our ability to maintain dividends

Nearly all aspects of our operations are subject to environmental, health and safety regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of us or our properties, some of which may be material. We may also be exposed to civil liability for environmental matters or for the conduct of third parties, including private parties commencing actions and new theories of liability, regardless of negligence or fault. Furthermore, management believes the political climate appears to favour new programs for environmental laws and regulation, particularly in relation to the reduction of emissions or emissions intensity, and there is no assurance that any such programs, laws or regulations, if proposed and enacted, will not contain emission reduction targets which we cannot meet, and financial penalties or charges could be incurred as a result of the failure to meet such targets. For more information on the evolution and status of climate change and related environmental legislation, see "*Industry Conditions – Climate Change Regulation*".

There has been much public debate with respect to the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies by either the provinces in which we operate our business or by the Government of Canada, and whether to meet international agreed limits, or as otherwise determined, for reducing greenhouse gases could have a material impact on the nature of oil and natural gas operations, including ours. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on us and our operations and financial condition. Although we provide for the necessary amounts in our annual capital budget to fund our currently estimated environmental and reclamation obligations, there can be no assurance that we will be able to satisfy our actual future environmental and reclamation obligations from such funds.

Although we believe that we are in material compliance with current applicable environmental, health and safety regulations, no assurance can be given that such regulations will not result in a curtailment of production, a reduction of product demand, a material increase in the costs of production, development or exploration activities or otherwise adversely affect our business, financial condition, results of operations or prospects. Future changes in other environmental, health and safety legislation could occur and result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, which could have a material adverse effect on our financial condition or results of operations and prospects. See "*Industry Conditions – Environmental Regulation*".

There is strong competition relating to all aspects of the oil and gas industry

There are numerous companies in the oil and gas industry, who are competing with us for the acquisitions of properties with longer life reserves, properties with exploitation and development opportunities and undeveloped land. As a result of such competition, it may be more difficult for us to acquire reserves on beneficial terms. Some of those organizations not only explore for, develop and produce oil and natural gas but also carry on refining operations and market oil and other products on a world-wide basis and, as such, have greater technical, financial and operational resources than us.

We compete with other oil and gas companies to hire and retain skilled personnel necessary for running our daily operations, including planning, capitalizing on available technical advances and the execution of our exploration and development program. The inability to hire and retain skilled personnel could adversely impact certain of our operational and financial results.

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to us and may delay exploration and development activities.

Application of Canadian GAAP or U.S. GAAP to our financial results may result in non-cash losses which may adversely affect the market price of our Common Shares

Generally accepted accounting principles require that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in our consolidated financial statements. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the financial statements. Such non-cash charges and write-downs may be viewed unfavourably by the market and may result in an inability to borrow funds and/or may result in a decline in the market price of our Common Shares.

Under Canadian GAAP, the net amounts at which petroleum and natural gas costs on a property or project basis are carried are subject to a cost-recovery test which is based in part upon estimated future net revenues from reserves. If net capitalized costs exceed the estimated recoverable amounts, we will have to charge the amounts of the excess to earnings. A decline in the future net revenues from reserves could cause capitalized costs to exceed the cost ceiling, resulting in a charge against earnings. The future net revenues from reserves are highly dependent upon the prices for petroleum and natural gas.

Under U.S. GAAP, companies using the full cost method of accounting for oil and gas producing activities perform a ceiling test on each cost centre using discounted estimated future net revenue from proved petroleum and natural gas reserves using a discount rate of 10 percent. Prices used in the U.S. GAAP ceiling tests are based on the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period. For further information, see Note 21 to our audited consolidated financial statements for the year ended December 31, 2010.

Under Canadian GAAP, the accounting for derivatives may result in non-cash charges against net income as a result of changes in the fair market value of derivative instruments. A decrease in the fair market value of the derivative instruments as the result of fluctuations in commodity prices, interest rates and foreign exchange rates may result in a write-down of net assets and a non-cash charge against net income. Such write-downs and non-cash charges may be temporary in nature if the fair market value subsequently increases.

Changes to accounting policies, including the implementation of IFRS, may result in significant adjustments to our financial results, which could negatively impact our business

In January 2006, the CICA Accounting Standards Board ("**AcSB**") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that IFRS will replace Canadian GAAP in 2011 for Canadian publicly accountable enterprises. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences that must be evaluated. The implementation of IFRS may result in significant adjustments to our financial results, which could negatively impact our business. At this time, we cannot reasonably quantify the full impact that adopting IFRS will have on our financial position and future results. For information regarding the impact that IFRS will have on our accounting policies and financial statements, see "*Changes in Accounting Policies – International Financial Reporting Standards*" in our management's discussion and analysis of operating and financial results for the year ended December 31, 2010.

Our success depends in large measure on the activities of our Operating Entities and their key personnel

We are entirely dependent upon the operations and assets of our Operating Entities through our ownership, directly and indirectly, of securities of our Operating Entities, including the Notes. Accordingly, our ability to pay dividends to Shareholders is dependent upon the ability of our Operating Entities to meet their interest, principal, dividend and other distribution obligations on their securities. Our Operating Entities' income is derived from the production of petroleum and natural gas from their resource properties and is susceptible to the risks and uncertainties associated with the oil and natural gas industry generally. If the petroleum and natural gas reserves associated with our Operating Entities' resource properties are not supplemented through additional development or the acquisition of additional oil and natural gas properties, the ability of our Operating Entities to meet their obligations to us and our ability to pay dividends to Shareholders may be adversely affected.

Our Shareholders are entirely dependent on our management with respect to the acquisition of oil and gas properties, the development and acquisition of additional reserves, the management and administration of all matters relating to our properties, including the safekeeping of our primary workspace and computer systems. The loss of the services of key personnel may have a material adverse effect on our business, financial condition, results of operations and prospects. The contributions of the existing management team to our immediate and near term operations are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that we will be able to continue to attract and retain all personnel necessary for the development and operation of our business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of our management.

Our petroleum and natural gas reserves are a depleting resource and decline as such reserves are produced

Absent commodity price increases or cost effective acquisition and development activities, our funds from operations will decline over time in a manner consistent with declining production from typical petroleum and natural gas reserves. Our future petroleum and natural gas reserves and production, and therefore our funds from operations, will be highly dependent on our success in exploiting our reserves base and acquiring additional reserves. Without reserves additions through acquisition or development activities, our reserves and production may decline over time as reserves are produced.

We also distribute a significant proportion of our funds from operations to Shareholders rather than reinvesting it in reserves additions. Accordingly, if external sources of capital, including the issuance of additional Common Shares, become limited or unavailable on commercially reasonable terms, our ability to make the necessary capital investments to maintain or expand our petroleum and natural gas reserves may be impaired. To the extent that we use funds from operations to finance capital expenditures or property acquisitions, the level of funds from operations available for distribution to Shareholders will be reduced. There can be no assurance that we will be successful in developing or acquiring additional reserves on terms that meet our investment objectives.

Securing and maintaining title to our properties is subject to certain risks

Our properties are held in the form of licenses and leases and working interests in licenses and leases. If we or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of a license or lease or the working interest relating to a license or lease may have a material adverse affect on our results of operations and business. In addition title to the properties can become subject to dispute and defeat our claim to title over certain of our properties.

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada and have also made claims that certain developments, including oil and gas exploration and development, may have been proceeding without the Crown carrying out appropriate consultations in the course of allowing such developments to proceed. We are not aware of any material claims having been made in respect of our properties and assets; however, if a claim arose and was successful this may have a material adverse affect on our results of operations and business.

Although title reviews are conducted prior to any purchase of significant resource assets, such reviews cannot guarantee that an unforeseen defect in the chain of title will not arise to defeat our title to certain assets. Such defects could reduce the amount of funds from operations, possibly resulting in lower dividends to our Shareholders which could result in a lower market price of the Common Shares.

We are affected by seasonality

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for crude oil and natural gas.

Our permitted investments may be risky

An investment in us should be made with the understanding that the value of any of our investments may fluctuate in accordance with changes in the financial condition of such investments, the value of similar securities, and other factors. For example, the prices of Canadian government securities, bankers' acceptances and commercial paper react to economic developments and changes in interest rates. Commercial paper is also subject to issuer credit risk. Investments in energy-related companies and partnerships will be subject to the general risks of investing in equity securities. These include the risk that the financial condition of issuers may become impaired, or that the energy sector may suffer a market downturn. Securities markets in general are affected by a variety of factors, including governmental, environmental and regulatory policies, inflation and interest rates, economic cycles, and global, regional and national events. The value of our Common Shares could be affected by adverse changes in the market values of such investments.

Risks Relating to Ownership of Securities

Our Board of Directors has discretion in the payment of dividends and may choose not to maintain dividends in certain circumstances

The amount of future cash dividends, if any, will be subject to the discretion of our Board of Directors and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by the ABCA for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of our Board of Directors and management team, we will change our dividend policy from time to time and, as a result, future cash dividends could be reduced or suspended entirely. The market value of the Common Shares may deteriorate if we reduce or suspend the amount of the cash dividends that we pay in the future and such deterioration may be material. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of our dividends and potential legislative and regulatory changes.

Dividends may be reduced during periods of lower funds from operations, which result from lower commodity prices and the decision by us to finance capital expenditures using funds from operations. A reduction in dividends could also negatively affect the market price of the Common Shares.

Production and development costs incurred with respect to properties, including power costs and the costs of injection fluids associated with tertiary recovery operations, reduce the income that we receive and, consequently, the amounts we can distribute to our Shareholders.

The timing and amount of capital expenditures will directly affect the amount of income available for dividends to our Shareholders. Dividends may be reduced, or even eliminated, at times when significant capital or other expenditures are planned. To the extent that external sources of capital, including the issuance of additional Common Shares, become limited or unavailable, our ability to make the necessary capital investments to maintain or expand petroleum and natural gas reserves and to invest in assets, as the case may be, will be impaired. To the extent that we are required to use funds from operations to finance capital expenditures or property acquisitions, the cash we receive will be reduced, resulting in reductions to the amount of cash we are able to distribute to our Shareholders. A reduction in the amount of cash distributed to Shareholders may negatively affect the market price of the Common Shares.

Changes in market-based factors may adversely affect the trading price of the Common Shares

The market price of our Common Shares is sensitive to a variety of market based factors including, but not limited to, interest rates, foreign exchange rates and the comparability of the Common Shares to other yield-oriented securities. Any changes in these market-based factors may adversely affect the trading price of the Common Shares.

Certain Risks for United States and other non-resident Shareholders

The ability of investors resident in the United States to enforce civil remedies is limited

We are a corporation incorporated under the laws of the Province of Alberta, Canada and our principal office is located in Calgary, Alberta. Most of our directors and officers and the representatives of the experts who provide services to us (such as our auditors and our independent reserve engineers), and all or a substantial portion of our assets and the assets of such persons are located outside the United States. As a result, it may be difficult for investors in the United States to effect service of process within the United States upon such directors, officers and representatives of experts who are not residents of the United States or to enforce against them judgements of the United States courts based upon civil liability under the United States federal securities laws or the securities laws of any state within the United States. There is doubt as to the enforceability in Canada against us or any of our directors, officers or representatives of experts who are not residents of the United States, in original actions or in actions for enforcement of judgements of United States courts of liabilities based solely upon the United States federal securities laws or securities laws of any state within the United States.

Canadian and United States practices differ in reporting reserves and production and our estimates may not be comparable to those of companies in the United States

We report our production and reserve quantities in accordance with Canadian practices and specifically in accordance with NI 51-101. These practices are different from the practices used to report production and to estimate reserves in reports and other materials filed with the SEC by companies in the United States.

We incorporate additional information with respect to production and reserves which is either not required to be included or prohibited under rules of the SEC and practices in the United States. We follow the Canadian practice of reporting gross production and reserve volumes (before deduction of Crown and other royalties); however, we also follow the United States practice of separately reporting reserve volumes on a net basis (after the deduction of royalties and similar payments). We also follow the Canadian practice of using forecast prices and costs when we estimate our reserves; whereas the SEC rules require that a 12-month average price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, be utilized.

We included in the Annual Information Form estimates of proved and proved plus probable reserves. Probable reserves have a lower certainty of recovery than proved reserves. The SEC requires oil and gas issuers in their filings with the SEC to disclose only proved reserves but permits the optional disclosure of probable reserves. The SEC definitions of proved reserves and probable reserves are different than NI 51-101; therefore, proved, probable and proved plus probable reserves disclosed in the Annual Information Form may not be comparable to United States standards.

As a consequence of the foregoing, our reserve estimates and production volumes in the Annual Information Form may not be comparable to those made by companies utilizing United States reporting and disclosure standards.

We also included in the Annual Information Form estimates of contingent resources. Contingent resources represent the quantity of petroleum and natural gas estimated to be potentially recoverable from known accumulations using established technology or technology under development, but which do not currently qualify as reserves or commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. The SEC does not permit the inclusion of estimates of resources in reports filed with it by United States companies.

There is additional taxation applicable to non-residents

The Tax Act imposes a withholding tax at the rate of 25% on the dividends or other property paid by us to Shareholders who are non-residents of Canada, unless the rate is reduced under the provisions of a tax treaty between Canada and the non-resident Shareholder's jurisdiction of residence. These taxes may change from time to time. Where the non-resident Shareholder is a United States resident entitled to benefits under the Canada-United States Income Tax Convention, 1980 and is the beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends is generally reduced to 15%. Additionally, the reduced rates of taxation on qualified dividend income under current U.S. tax laws are scheduled to expire at the end of 2012 and there is no assurance that the reduced tax rates will be re-enacted in the future.

There is a foreign exchange risk for non-resident Shareholders

Our dividends are declared in Canadian dollars and converted to foreign denominated currencies at the spot exchange rate at the time of payment. As a consequence, investors are subject to foreign exchange risk. To the extent that the Canadian dollar strengthens with respect to their currency, the amount of the dividend will be reduced when converted to their home currency.

DESCRIPTION OF OUR BUSINESS AND OPERATIONS

Overview

Through our subsidiaries, we are engaged in the business of acquiring, developing, exploiting and holding interests in petroleum and natural gas properties and related assets in Canada (primarily in the provinces of British Columbia, Alberta and Saskatchewan) and in the United States (primarily in the states of North Dakota and Wyoming). We act as the primary financing vehicle for our subsidiaries by providing access to debt and equity capital markets. As at the date of this Annual Information Form, our primary assets are the shares of Baytex Energy that we own and the Notes. Cash flow from the business carried on by our subsidiaries is flowed to us by way of dividends and interest and principal repayments on the Notes.

We pay monthly cash dividends to holders of our Common Shares in accordance with our dividend policy. In the event that we do not comply with covenants under the Credit Facilities and the Debenture Indenture, our ability to pay dividends to Shareholders may be restricted. See "*Description of Capital Structure – Dividend Policy*".

Baytex Energy Ltd.

Baytex Energy is a corporation amalgamated under the ABCA and is actively engaged in the business of oil and natural gas exploration, exploitation, development, acquisition and production in Canada. Baytex Energy acts as the managing partner of Baytex Partnership. Baytex Energy is a wholly-owned subsidiary of the Corporation.

Baytex Energy Partnership

Baytex Partnership is a general partnership governed by the laws of the Province of Alberta. As at the date of this Annual Information Form, the partners of Baytex Partnership are Baytex Energy, Baytex Holdings Limited Partnership, Baytex Oil & Gas Ltd. and Baytex Resources Corp. Baytex Partnership holds the material operating assets in Canada from which we generate cash flow.

Baytex Resources Corp.

Baytex Resources Corp. is a corporation amalgamated under the ABCA and is actively engaged in the business of oil and natural gas exploration, exploitation, development, acquisition and production in Canada. Baytex Resources Corp. is a wholly-owned subsidiary of Baytex Energy.

Baytex Energy USA Ltd.

Baytex USA is a corporation incorporated under the laws of the State of Colorado and is actively engaged in the business of oil and natural gas exploration, exploitation, development, acquisition and production in the United States. Baytex USA holds all of the operating assets in the United States from which we generate cash flow. Baytex USA is a wholly-owned subsidiary of Baytex Energy.

Personnel

As at December 31, 2010, we had 157 employees in our Calgary head office, 17 employees in our Denver office and 45 employees in our field operations.

Notes

From time to time we advance funds to our subsidiaries which are evidenced by promissory notes. The terms of the notes are set at the time of issue. All of these advances are subordinate to all senior indebtedness to our senior lenders.

Statement of Reserves Data and Other Oil and Natural Gas Information

The statement of reserves data and other oil and natural gas information set forth below is dated December 31, 2010. The statement is effective as of December 31, 2010 and the preparation date of the statement by Sproule is March 14, 2011. The Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 and the Report on Reserves Data by Sproule in Form 51-101F2 are attached as Appendices A and B to this Annual Information Form.

Disclosure of Reserves Data

The reserves data set forth below is based upon an evaluation by Sproule with an effective date of December 31, 2010 as contained in the Sproule Report. The reserves data summarizes our crude oil, natural gas liquids and natural gas reserves and the net present values of future net revenue for these reserves using forecast prices and costs, not including the impact of any hedging activities. The Sproule Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101. Sproule was engaged by us to provide an evaluation of our proved and proved plus probable reserves and no attempt was made to evaluate possible reserves. See also "*Definitions and Other Notes to Reserve Data Tables*" below.

Our reserves are located in Canada, specifically in the provinces of Alberta, British Columbia and Saskatchewan, and in the United States, specifically in the states of North Dakota and Wyoming.

All evaluations of future net revenue are after the deduction of future income tax expenses (unless otherwise noted in the tables), royalties, development costs, production costs and well abandonment costs but before consideration of indirect costs such as administrative, overhead and other miscellaneous expenses. The estimated future net revenue contained in the following tables does not necessarily represent the fair market value of our reserves. There is no assurance that the forecast price and cost assumptions contained in the Sproule Report will be attained and variations could be material. Other assumptions and qualifications relating to costs and other matters are summarized in the notes to or following the tables below. The recovery and reserve estimates described herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Readers should review the definitions and information contained in "Definitions and Notes to Reserves Data Tables" in conjunction with the following tables and notes. For more information as to the risks involved, see "Risk Factors".

**SUMMARY OF OIL AND NATURAL GAS RESERVES
AS OF DECEMBER 31, 2010
FORECAST PRICES AND COSTS**

| CANADA | | | | | | |
|-----------------------------------|-----------------------------|--------------------|-----------------------|--------------------|----------------------------|--------------------|
| RESERVES CATEGORY | LIGHT AND MEDIUM OIL | | HEAVY OIL | | NATURAL GAS LIQUIDS | |
| | Gross (Mbbbl) | Net (Mbbbl) | Gross (Mbbbl) | Net (Mbbbl) | Gross (Mbbbl) | Net (Mbbbl) |
| PROVED: | | | | | | |
| Developed Producing | 4,891.0 | 4,019.4 | 35,750.8 | 29,030.1 | 2,056.9 | 1,460.6 |
| Developed Non-Producing | 414.9 | 330.3 | 14,609.7 | 12,280.8 | 337.4 | 247.2 |
| Undeveloped | 5,011.0 | 4,339.2 | 54,617.7 | 46,072.8 | 430.4 | 306.9 |
| TOTAL PROVED | 10,316.8 | 8,688.9 | 104,978.1 | 87,383.7 | 2,824.6 | 2,014.7 |
| PROBABLE | 6,535.2 | 5,588.6 | 62,435.4 | 51,284.1 | 1,215.2 | 862.6 |
| TOTAL PROVED PLUS PROBABLE | 16,852.0 | 14,277.4 | 167,413.5 | 138,667.8 | 4,039.8 | 2,877.3 |
| NATURAL GAS | | | | | | |
| RESERVES CATEGORY | NATURAL GAS | | TOTAL RESERVES | | | |
| | Gross (MMcf) | Net (MMcf) | Gross (Mboe) | Net (Mboe) | | |
| PROVED: | | | | | | |
| Developed Producing | 62,042 | 52,390 | 53,039.0 | 43,241.8 | | |
| Developed Non-Producing | 7,914 | 6,690 | 16,681.0 | 13,973.3 | | |
| Undeveloped | 8,225 | 6,588 | 61,429.9 | 51,816.9 | | |
| TOTAL PROVED | 78,182 | 65,668 | 131,149.8 | 109,032.0 | | |
| PROBABLE | 33,580 | 28,005 | 75,782.5 | 62,402.8 | | |
| TOTAL PROVED PLUS PROBABLE | 111,762 | 93,673 | 206,932.3 | 171,434.7 | | |

UNITED STATES

| RESERVES CATEGORY | LIGHT AND MEDIUM OIL | | HEAVY OIL | | NATURAL GAS LIQUIDS | |
|----------------------------|----------------------|-------------|---------------|-------------|---------------------|-------------|
| | Gross (Mbbbl) | Net (Mbbbl) | Gross (Mbbbl) | Net (Mbbbl) | Gross (Mbbbl) | Net (Mbbbl) |
| PROVED: | | | | | | |
| Developed Producing | 2,119.5 | 1,744.8 | - | - | - | - |
| Developed Non-Producing | 219.2 | 178.6 | - | - | - | - |
| Undeveloped | 5,760.4 | 4,722.9 | - | - | - | - |
| TOTAL PROVED | 8,099.2 | 6,646.3 | - | - | - | - |
| PROBABLE | 11,407.5 | 9,368.0 | - | - | - | - |
| TOTAL PROVED PLUS PROBABLE | 19,506.6 | 16,014.3 | - | - | - | - |

| RESERVES CATEGORY | NATURAL GAS | | TOTAL RESERVES | |
|----------------------------|--------------|------------|----------------|------------|
| | Gross (MMcf) | Net (MMcf) | Gross (Mboe) | Net (Mboe) |
| PROVED: | | | | |
| Developed Producing | 150 | 123 | 2,144.5 | 1,765.3 |
| Developed Non-Producing | - | - | 219.2 | 178.6 |
| Undeveloped | 5,492 | 4,503 | 6,675.7 | 5,473.4 |
| TOTAL PROVED | 5,643 | 4,626 | 9,039.7 | 7,417.3 |
| PROBABLE | 9,873 | 8,084 | 13,053.0 | 10,715.3 |
| TOTAL PROVED PLUS PROBABLE | 15,516 | 12,710 | 22,092.6 | 18,132.6 |

| RESERVES CATEGORY | LIGHT AND MEDIUM OIL | | HEAVY OIL | | NATURAL GAS LIQUIDS | |
|----------------------------|----------------------|-------------|---------------|-------------|---------------------|-------------|
| | Gross (Mbbbl) | Net (Mbbbl) | Gross (Mbbbl) | Net (Mbbbl) | Gross (Mbbbl) | Net (Mbbbl) |
| PROVED: | | | | | | |
| Developed Producing | 7,010.5 | 5,764.1 | 35,750.8 | 29,030.1 | 2,056.9 | 1,460.6 |
| Developed Non-Producing | 634.1 | 508.9 | 14,609.7 | 12,280.8 | 337.4 | 247.2 |
| Undeveloped | 10,771.4 | 9,062.1 | 54,617.7 | 46,072.8 | 430.4 | 306.9 |
| TOTAL PROVED | 18,416.0 | 15,335.2 | 104,978.1 | 87,383.7 | 2,824.6 | 2,014.7 |
| PROBABLE | 17,942.7 | 14,956.5 | 62,435.4 | 51,284.1 | 1,215.2 | 862.6 |
| TOTAL PROVED PLUS PROBABLE | 36,358.7 | 30,291.7 | 167,413.5 | 138,667.8 | 4,039.8 | 2,877.3 |

| RESERVES CATEGORY | NATURAL GAS | | TOTAL RESERVES | |
|----------------------------|--------------|------------|----------------|------------|
| | Gross (MMcf) | Net (MMcf) | Gross (Mboe) | Net (Mboe) |
| PROVED: | | | | |
| Developed Producing | 62,193 | 52,513 | 55,183.5 | 45,007.1 |
| Developed Non-Producing | 7,914 | 6,690 | 16,900.2 | 14,151.9 |
| Undeveloped | 13,718 | 11,091 | 68,105.7 | 57,290.3 |
| TOTAL PROVED | 83,824 | 70,294 | 140,189.5 | 116,449.3 |
| PROBABLE | 43,453 | 36,089 | 88,835.5 | 73,118.1 |
| TOTAL PROVED PLUS PROBABLE | 127,277 | 106,383 | 229,024.9 | 189,567.3 |

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE
AS OF DECEMBER 31, 2010
FORECAST PRICES AND COSTS

| CANADA | BEFORE INCOME TAXES DISCOUNTED AT (%/year) | | | | |
|-----------------------------------|---|------------------|------------------|------------------|------------------|
| RESERVES CATEGORY | 0% | 5% | 10% | 15% | 20% |
| PROVED: | (\$000s) | (\$000s) | (\$000s) | (\$000s) | (\$000s) |
| Developed Producing | 1,922,786 | 1,601,031 | 1,394,686 | 1,249,113 | 1,139,647 |
| Developed Non-Producing | 605,767 | 444,780 | 340,149 | 268,911 | 218,469 |
| Undeveloped | 2,080,899 | 1,470,753 | 1,094,730 | 850,246 | 681,969 |
| TOTAL PROVED | 4,609,451 | 3,516,564 | 2,829,566 | 2,368,270 | 2,040,084 |
| PROBABLE | 2,604,998 | 1,557,757 | 1,047,435 | 763,517 | 588,941 |
| TOTAL PROVED PLUS PROBABLE | 7,214,449 | 5,074,321 | 3,877,001 | 3,131,787 | 2,629,025 |
| UNITED STATES | | | | | |
| RESERVES CATEGORY | | | | | |
| PROVED: | | | | | |
| Developed Producing | 114,484 | 83,239 | 66,155 | 55,530 | 48,306 |
| Developed Non-Producing | 10,989 | 8,244 | 6,535 | 5,384 | 4,561 |
| Undeveloped | 217,771 | 128,320 | 78,102 | 47,201 | 26,916 |
| TOTAL PROVED | 343,243 | 219,803 | 150,792 | 108,115 | 79,783 |
| PROBABLE | 639,724 | 277,807 | 147,155 | 87,085 | 54,507 |
| TOTAL PROVED PLUS PROBABLE | 982,967 | 497,610 | 297,947 | 195,200 | 134,290 |
| TOTAL | | | | | |
| RESERVES CATEGORY | | | | | |
| PROVED: | | | | | |
| Developed Producing | 2,037,270 | 1,684,270 | 1,460,841 | 1,304,643 | 1,187,953 |
| Developed Non-Producing | 616,756 | 453,024 | 346,684 | 274,295 | 223,029 |
| Undeveloped | 2,298,670 | 1,599,073 | 1,172,832 | 897,447 | 708,885 |
| TOTAL PROVED | 4,952,695 | 3,736,367 | 2,980,358 | 2,476,385 | 2,119,867 |
| PROBABLE | 3,244,722 | 1,835,564 | 1,194,590 | 850,602 | 643,448 |
| TOTAL PROVED PLUS PROBABLE | 8,197,417 | 5,571,931 | 4,174,948 | 3,326,987 | 2,763,315 |

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE
AS OF DECEMBER 31, 2010
FORECAST PRICES AND COSTS

| CANADA | AFTER INCOME TAXES DISCOUNTED AT (%/year) | | | | |
|-----------------------------------|---|------------------|------------------|------------------|------------------|
| | 0% | 5% | 10% | 15% | 20% |
| RESERVES CATEGORY | (\$000s) | (\$000s) | (\$000s) | (\$000s) | (\$000s) |
| PROVED: | | | | | |
| Developed Producing | 1,774,288 | 1,491,594 | 1,309,603 | 1,180,503 | 1,082,858 |
| Developed Non-Producing | 438,696 | 321,440 | 245,407 | 193,742 | 157,225 |
| Undeveloped | 1,525,226 | 1,067,665 | 783,079 | 598,077 | 471,104 |
| TOTAL PROVED | 3,738,210 | 2,880,699 | 2,338,088 | 1,972,322 | 1,711,187 |
| PROBABLE | 1,933,417 | 1,143,719 | 760,988 | 549,068 | 419,467 |
| TOTAL PROVED PLUS PROBABLE | 5,671,627 | 4,024,418 | 3,099,076 | 2,521,390 | 2,130,654 |

| UNITED STATES | | | | | |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| RESERVES CATEGORY | 0% | 5% | 10% | 15% | 20% |
| | (\$000s) | (\$000s) | (\$000s) | (\$000s) | (\$000s) |
| PROVED: | | | | | |
| Developed Producing | 114,484 | 83,239 | 66,155 | 55,530 | 48,306 |
| Developed Non-Producing | 10,989 | 8,244 | 6,535 | 5,384 | 4,561 |
| Undeveloped | 169,647 | 106,292 | 67,193 | 41,467 | 23,755 |
| TOTAL PROVED | 295,119 | 197,774 | 139,883 | 102,381 | 76,622 |
| PROBABLE | 372,216 | 163,903 | 88,291 | 52,885 | 33,114 |
| TOTAL PROVED PLUS PROBABLE | 667,335 | 361,677 | 228,174 | 155,266 | 109,737 |

| TOTAL | | | | | | |
|-----------------------------------|----------|------------------|------------------|------------------|------------------|------------------|
| CATEGORY | RESERVES | 0% | 5% | 10% | 15% | 20% |
| | | (\$000s) | (\$000s) | (\$000s) | (\$000s) | (\$000s) |
| PROVED: | | | | | | |
| Developed Producing | | 1,888,771 | 1,574,833 | 1,375,758 | 1,236,033 | 1,131,164 |
| Developed Non-Producing | | 449,685 | 329,683 | 251,941 | 199,126 | 161,786 |
| Undeveloped | | 1,694,873 | 1,173,957 | 850,272 | 639,544 | 494,860 |
| TOTAL PROVED | | 4,033,329 | 3,078,473 | 2,477,971 | 2,074,703 | 1,787,809 |
| PROBABLE | | 2,305,633 | 1,307,621 | 849,278 | 601,953 | 452,580 |
| TOTAL PROVED PLUS PROBABLE | | 6,338,962 | 4,386,095 | 3,327,249 | 2,676,656 | 2,240,390 |

TOTAL FUTURE NET REVENUE (UNDISCOUNTED)
AS OF DECEMBER 31, 2010
FORECAST PRICES AND COSTS

| TOTAL PROVED RESERVES | REVENUE | ROYALTIES | OPERAT-ING | DEVELOP- | WELL | FUTURE NET | INCOME | FUTURE NET |
|--|-------------------|------------------|------------------|------------------|----------------|------------------|------------------|------------------|
| | (\$000s) | (\$000s) | COSTS | MENT COSTS | ABANDON- | REVENUE | TAXES | REVENUE |
| | | | (\$000s) | (\$000s) | MENT COSTS | BEFORE | (\$000s) | AFTER INCOME |
| | | | | | (\$000s) | TAXES | (\$000s) | TAXES |
| | | | | | | (\$000s) | | (\$000s) |
| Canada | 9,451,637 | 1,505,768 | 2,547,527 | 643,083 | 145,809 | 4,609,451 | 871,242 | 3,738,210 |
| United States | 805,501 | 247,070 | 78,341 | 136,847 | - | 343,243 | 48,124 | 295,119 |
| Total | 10,257,140 | 1,752,838 | 2,625,869 | 779,931 | 145,809 | 4,952,695 | 919,365 | 4,033,329 |
| TOTAL PROVED PLUS PROBABLE RESERVES | | | | | | | | |
| Canada | 15,412,950 | 2,534,134 | 4,526,018 | 957,458 | 180,887 | 7,214,449 | 1,542,823 | 5,671,627 |
| United States | 2,131,182 | 650,729 | 234,643 | 262,841 | - | 982,967 | 315,633 | 667,335 |
| Total | 17,544,130 | 3,184,864 | 4,760,663 | 1,220,299 | 180,887 | 8,197,417 | 1,858,455 | 6,338,962 |

**FUTURE NET REVENUE BY PRODUCTION GROUP
AS OF DECEMBER 31, 2010
FORECAST PRICES AND COSTS**

| RESERVES CATEGORY | PRODUCTION GROUP | FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (\$000s) | UNIT VALUE (\$/boe) ⁽¹⁾ |
|----------------------|--|---|---------------------------------------|
| CANADA | | | |
| Proved | Light and Medium Crude Oil (including solution gas and other by-products) | 293,685 | 30.45 |
| | Heavy Oil (including solution gas and other by-products) | 2,329,865 | 26.58 |
| | Natural Gas (including by-products but excluding natural gas from oil wells) | 206,017 | 17.56 |
| | Total Canada | <u>2,829,567</u> | |
| Proved plus Probable | Light and Medium Crude Oil (including solution gas and other by-products) | 446,209 | 28.43 |
| | Heavy Oil (including solution gas and other by-products) | 3,148,214 | 22.64 |
| | Natural Gas (including by-products but excluding natural gas from oil wells) | 282,578 | 16.96 |
| | Total Canada | <u>3,877,001</u> | |
| UNITED STATES | | | |
| Proved | Light and Medium Crude Oil (including solution gas and other by-products) | 150,792 | 20.33 |
| | Heavy Oil (including solution gas and other by-products) | - | - |
| | Natural Gas (including by-products but excluding natural gas from oil wells) | - | - |
| | Total United States | <u>150,792</u> | |
| Proved plus Probable | Light and Medium Crude Oil (including solution gas and other by-products) | 297,947 | 16.43 |
| | Heavy Oil (including solution gas and other by-products) | - | - |
| | Natural Gas (including by-products but excluding natural gas from oil wells) | - | - |
| | Total United States | <u>297,947</u> | |
| TOTAL | | | |
| Proved | Light and Medium Crude Oil (including solution gas and other by-products) | 444,476 | 26.05 |
| | Heavy Oil (including solution gas and other by-products) | 2,329,865 | 26.58 |
| | Natural Gas (including by-products but excluding natural gas from oil wells) | 206,017 | 17.56 |
| | Total | <u>2,980,358</u> | |
| Proved plus Probable | Light and Medium Crude Oil (including solution gas and other by-products) | 744,156 | 22.00 |
| | Heavy Oil (including solution gas and other by-products) | 3,148,214 | 22.64 |
| | Natural Gas (including by-products but excluding natural gas from oil wells) | 282,578 | 16.96 |
| | Total | <u>4,174,948</u> | |

Note:

(1) Unit values are based on net reserve volumes.

Definitions and Notes to Reserves Data Tables

In the tables set forth above under the subheading "*Disclosure of Reserves Data*" and elsewhere in this Annual Information Form the following definitions and other notes are applicable:

1. "**Gross**" means:

- (a) in relation to our interest in production and reserves, our interest (operating and non-operating) share before deduction of royalties and without including any of our royalty interests;
- (b) in relation to wells, the total number of wells in which we have an interest; and
- (c) in relation to properties, the total area of properties in which we have an interest.

2. "**Net**" means:

- (a) in relation to our interest in production and reserves, our interest (operating and non-operating) share after deduction of royalty obligations, plus our royalty interest in production or reserves;
- (b) in relation to wells, the number of wells obtained by aggregating our working interest in each of our gross wells; and
- (c) in relation to our interest in a property, the total area in which we have an interest multiplied by our working interest.

3. Definitions used for reserve categories are as follows:

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on

- (a) analysis of drilling, geological, geophysical and engineering data;
- (b) the use of established technology; and
- (c) specified economic conditions (see the discussion of "*Economic Assumptions*" below).

Reserves are classified according to the degree of certainty associated with the estimates.

- (a) Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- (c) "Economic Assumptions" will be the forecast prices and costs used in the estimate.

Development and Production Status

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

- (a) Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
 - (i) Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
 - (ii) Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (b) Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

- 4. "**Exploratory well**" means a well that is not a development well, a service well or a stratigraphic test well.
- 5. "**Development costs**" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:
 - (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground draining, road building, and relocating public roads, gas lines and power lines, pumping equipment and wellhead assembly;
 - (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;

- (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
 - (d) provide improved recovery systems.
6. "**Development well**" means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.
7. "**Exploration costs**" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:
- (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;
 - (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;
 - (c) dry hole contributions and bottom hole contributions;
 - (d) costs of drilling and equipping exploratory wells; and
 - (e) costs of drilling exploratory type stratigraphic test wells.
8. "**Service well**" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.
9. "**Forecast Prices and Costs**"
- These are prices and costs that are:
- (a) generally acceptable as being a reasonable outlook of the future; and
 - (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which Baytex is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).
10. Numbers may not add due to rounding.
11. The estimates of future net revenue presented in the tables above do not represent fair market value.
12. This year we have reported the estimates of our bitumen reserves with our heavy oil reserves. As the volume of bitumen reserves is relatively small compared to our volume of heavy oil reserves, this inclusion is permitted under NI 51-101 and COGE Handbook. This reporting is consistent in all of the reserves disclosure in this Annual Information Form.

In Canadian Securities Administrators Staff Notice 51-324, "Glossary to NI 51-101 Standards of Disclosure for Oil and Gas Activities" bitumen is defined as:

"A naturally occurring viscous mixture consisting mainly of pentanes and heavier hydrocarbons. Its viscosity is greater than 10,000 mPa-s (cp) measured at original temperature in the reservoir and atmospheric pressure, on a gas-free basis. Crude bitumen may contain sulphur and other non-hydrocarbon compounds."

Paragraphs 1.1(u) and 1.1(v) of NI 51-101 clarify that bitumen would be recovered by non-conventional oil and gas activities.

Almost all the oil we produce at Seal has a viscosity greater than 10,000 mPa-s (cp) measured at original temperature in the reservoir and atmospheric pressure, on a gas-free basis. We currently produce all of our oil at Seal by conventional oil and gas activities, drilling horizontal wells, recovering the oil by primary recovery, as the oil flows to our wells in its native state. Much of our oil produced by conventional oil and gas activities at Seal is classed as "ultra-heavy" oil for the purposes of paying Crown royalties. By calling this oil produced by conventional methods "heavy oil", we provide investors with a clearer and more logical description of our oil and gas activities.

We have classified the oil that would be produced from our non-conventional thermal in-situ projects at Seal as "bitumen". By calling this oil produced by non-conventional methods "bitumen", we provide investors with a clearer and more logical description of our oil and gas activities.

As of December 31, 2010, Sproule attributed gross proved undeveloped bitumen reserves of 5,109.6 Mbbl and gross proved plus probable undeveloped bitumen reserves of 30,335.6 Mbbl to our permanent steam project at Seal, Alberta. As a comparison, as of December 31, 2009, Sproule did not attribute any proved undeveloped bitumen reserves and Sproule attributed 8,196.3 Mbbl of gross probable undeveloped bitumen reserves to this project. Sproule has not attributed any bitumen reserves whatsoever to Baytex's holdings in any other area.

After deducting the volumes of gross bitumen reserves, Sproule's estimates of our total gross proved heavy oil reserves were 99,869.0 Mbbl, and its estimates of our total gross proved plus probable heavy oil reserves were 137,077.9 Mbbl as of December 31, 2010.

13. On March 11, 2010, the Alberta government announced changes to Alberta's royalty system intended to increase Alberta's competitiveness in the oil and natural gas industry, which included a decrease in the maximum royalty rates for conventional oil and natural gas production effective for the January 2011 production month and certain temporary incentive programs currently in place being made permanent. See "*Industry Conditions*".

Pricing Assumptions

The forecast cost and price assumptions include increases in actual wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil, heavy oil, natural gas and natural gas liquids benchmark reference pricing, as at December 31, 2010, inflation and exchange rates utilized in the Sproule Report were as follows:

**SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS
FORECAST PRICES AND COSTS AS AT DECEMBER 31, 2009**

| | OIL | | | NATURAL GAS | INFLATION RATES ⁽¹⁾ %/year | EXCHANGE RATE ⁽²⁾ (\$US/\$Cdn) |
|-------------------|---------------------------------------|--|--|-------------------------|---|---|
| | WTI Cushing Oklahoma (\$US/bbl) | Edmonton Par Price 40° API (\$Cdn/bbl) | Hardisty Heavy 12° API (\$Cdn/bbl) | AECO-C (\$Cdn/MMbtu) | | |
| Historical | | | | | | |
| 2006 | 66.09 | 73.30 | 43.32 | 7.16 | 1.5 | 0.882 |
| 2007 | 72.27 | 77.06 | 44.77 | 6.65 | 2.0 | 0.935 |
| 2008 | 99.59 | 102.85 | 76.32 | 8.15 | 1.0 | 0.943 |
| 2009 | 61.63 | 66.20 | 55.65 | 4.19 | 2.0 | 0.880 |
| 2010 Est. | 79.43 | 77.81 | 62.29 | 4.16 | 1.0 | 0.971 |
| Forecast | | | | | | |
| 2011 | 88.40 | 93.08 | 74.46 | 4.04 | 1.5 | 0.932 |
| 2012 | 89.14 | 93.85 | 75.08 | 4.66 | 1.5 | 0.932 |
| 2013 | 88.77 | 93.43 | 72.87 | 4.99 | 1.5 | 0.932 |
| 2014 | 88.88 | 93.54 | 71.09 | 6.58 | 1.5 | 0.932 |
| 2015 | 90.22 | 94.95 | 72.16 | 6.69 | 1.5 | 0.932 |

Thereafter Various escalation rates

Notes:

- (1) Inflation rates for forecasting prices and costs.
(2) Exchange rate used to generate the benchmark reference prices in this table.

Weighted average prices realized by us for the year ended December 31, 2010, excluding hedging activities, were \$4.32/Mcf for natural gas, \$65.90/bbl for light oil and NGL and \$59.40/bbl for heavy oil.

**RECONCILIATION OF
GROSS RESERVES
BY PRINCIPAL PRODUCT TYPE
FORECAST PRICES AND COSTS**

| CANADA | LIGHT AND MEDIUM OIL | | | HEAVY OIL | | |
|--------------------------|----------------------|---------------------|------------------------------------|-------------------|---------------------|---------------------------------|
| | Proved (Mbbbl) | Probable (Mbbbl) | Proved Plus Probable (Mbbbl) | Proved (Mbbbl) | Probable (Mbbbl) | Proved Plus Probable (Mbbbl) |
| December 31, 2009 | 8,860.8 | 4,232.3 | 13,093.2 | 97,054.5 | 48,542.3 | 145,596.8 |
| Extensions | 2,316.9 | 2,711.1 | 5,028.0 | 14,141.5 | 2,533.0 | 16,674.5 |
| Improved Recovery | - | - | - | 1,640.5 | 19,058.1 | 20,698.6 |
| Technical Revisions | (76.3) | (1,443.5) | (1,519.9) | 1,313.6 | (8,251.8) | (6,938.2) |
| Discoveries | - | - | - | 93.1 | 37.6 | 130.7 |
| Acquisitions | 587.5 | 1,020.0 | 1,607.5 | 1,482.6 | 772.4 | 2,255.0 |
| Dispositions | - | - | - | (101.7) | (34.4) | (136.1) |
| Economic Factors | 20.0 | 15.3 | 35.3 | (212.5) | (221.8) | (434.3) |
| Production | (1,392.1) | - | (1,392.1) | (10,433.5) | - | (10,433.5) |
| December 31, 2010 | 10,316.8 | 6,535.2 | 16,852.0 | 104,978.1 | 62,435.4 | 167,413.5 |

**ASSOCIATED, NON-ASSOCIATED
AND SOLUTION GAS**

| <i>CANADA</i> | ASSOCIATED, NON-ASSOCIATED AND SOLUTION GAS | | | NATURAL GAS LIQUIDS | | |
|--------------------------|--|--------------------|-----------------------------------|---------------------|---------------------|---------------------------------|
| | Proved (MMcf) | Probable (MMcf) | Proved Plus Probable (MMcf) | Proved (Mbbbl) | Probable (Mbbbl) | Proved Plus Probable (Mbbbl) |
| December 31, 2009 | 87,155 | 41,045 | 128,200 | 2,818.1 | 1,500.3 | 4,318.3 |
| Extensions | 5,196 | 3,313 | 8,508 | 253.0 | 142.7 | 395.7 |
| Improved Recovery | - | - | 1 | - | - | - |
| Technical Revisions | 10,026 | (9,329) | 697 | 553.8 | (395.6) | 158.2 |
| Discoveries | - | - | - | - | - | - |
| Acquisitions | - | - | - | - | - | - |
| Dispositions | - | - | - | - | - | - |
| Economic Factors | (4,025) | (1,450) | (5,475) | (73.9) | (32.2) | (106.1) |
| Production | (20,170) | - | (20,170) | (726.4) | - | (726.4) |
| December 31, 2010 | 78,182 | 33,580 | 111,762 | 2,824.6 | 1,215.2 | 4,039.8 |

OIL EQUIVALENT

| <i>CANADA</i> | OIL EQUIVALENT | | |
|--------------------------|------------------|--------------------|--------------------------------|
| | Proved (Mboe) | Probable (Mboe) | Proved Plus Probable (Mboe) |
| December 31, 2009 | 123,259.2 | 61,115.7 | 184,375.2 |
| Extensions | 17,577.4 | 5,939.0 | 23,516.2 |
| Improved Recovery | 1,640.5 | 19,058.1 | 20,698.8 |
| Technical Revisions | 3,462.1 | (11,645.7) | (8,183.7) |
| Discoveries | 93.1 | 37.6 | 130.7 |
| Acquisitions | 2,070.1 | 1,792.4 | 3,862.5 |
| Dispositions | (101.7) | (34.4) | (136.1) |
| Economic Factors | (937.2) | (480.4) | (1,417.6) |
| Production | (15,913.7) | - | (15,913.7) |
| December 31, 2010 | 131,149.8 | 75,782.3 | 206,931.9 |

LIGHT AND MEDIUM OIL

| <i>UNITED STATES</i> | LIGHT AND MEDIUM OIL | | | ASSOCIATED, NON-ASSOCIATED AND SOLUTION GAS | | |
|--------------------------|----------------------|---------------------|------------------------------------|--|--------------------|--------------------------------|
| | Proved (Mbbbl) | Probable (Mbbbl) | Proved Plus Probable (Mbbbl) | Proved (MMcf) | Probable (MMcf) | Proved Plus Probable (MMcf) |
| December 31, 2009 | 5,707.1 | 6,000.7 | 11,707.8 | 2,503 | 3,045 | 5,548 |
| Extensions | 2,614.3 | 6,362.3 | 8,976.6 | 2,083 | 5,934 | 8,017 |
| Improved Recovery | - | - | - | - | - | - |
| Technical Revisions | (142.9) | (1,320.3) | (1,463.3) | 1,062 | 889 | 1,951 |
| Discoveries | - | - | - | - | - | - |
| Acquisitions | 166.5 | 361.4 | 527.9 | - | - | - |
| Dispositions | - | - | - | - | - | - |
| Economic Factors | 22.5 | 3.4 | 25.9 | 11 | 4 | 15 |
| Production | (268.3) | - | (268.3) | (15) | - | (15) |
| December 31, 2010 | 8,099.2 | 11,407.5 | 19,506.6 | 5,643 | 9,873 | 15,516 |

| STATES | UNITED | OIL EQUIVALENT | | |
|--------------------------|--------|----------------|-----------------|-----------------------------|
| | | Proved (Mboe) | Probable (Mboe) | Proved Plus Probable (Mboe) |
| December 31, 2009 | | 6,124.3 | 6,508.2 | 12,632.5 |
| Extensions | | 2,961.5 | 7,351.3 | 10,312.8 |
| Improved Recovery | | - | - | - |
| Technical Revisions | | 34.1 | (1,172.1) | (1,138.1) |
| Discoveries | | - | - | - |
| Acquisitions | | 166.5 | 361.4 | 527.9 |
| Dispositions | | - | - | - |
| Economic Factors | | 24.3 | 4.1 | 28.4 |
| Production | | (270.8) | - | (270.8) |
| December 31, 2010 | | 9,039.7 | 13,053.0 | 22,092.6 |

| TOTAL | LIGHT AND MEDIUM OIL | | | HEAVY OIL | | |
|--------------------------|----------------------|------------------|------------------------------|----------------|------------------|------------------------------|
| | Proved (Mbbbl) | Probable (Mbbbl) | Proved Plus Probable (Mbbbl) | Proved (Mbbbl) | Probable (Mbbbl) | Proved Plus Probable (Mbbbl) |
| December 31, 2009 | 14,567.9 | 10,233.1 | 24,801.0 | 97,054.5 | 48,542.3 | 145,596.8 |
| Extensions | 4,931.2 | 9,073.4 | 14,004.6 | 14,141.5 | 2,533.0 | 16,674.5 |
| Improved Recovery | - | - | - | 1,640.5 | 19,058.1 | 20,698.6 |
| Technical Revisions | (219.2) | (2,763.9) | (2,983.2) | 1,313.6 | (8,251.8) | (6,938.2) |
| Discoveries | - | - | - | 93.1 | 37.6 | 130.7 |
| Acquisitions | 754.0 | 1,381.4 | 2,135.4 | 1,482.6 | 772.4 | 2,255.0 |
| Dispositions | - | - | - | (101.7) | (34.4) | (136.1) |
| Economic Factors | 42.5 | 18.7 | 61.2 | (212.5) | (221.8) | (434.3) |
| Production | (1,660.4) | - | (1,660.4) | (10,433.5) | - | (10,433.5) |
| December 31, 2010 | 18,416.0 | 17,942.7 | 36,358.7 | 104,978.1 | 62,435.4 | 167,413.5 |

| TOTAL | ASSOCIATED, NON-ASSOCIATED AND SOLUTION GAS | | | NATURAL GAS LIQUIDS | | |
|--------------------------|---|-----------------|-----------------------------|---------------------|-----------------|-----------------------------|
| | Proved (MMcf) | Probable (MMcf) | Proved Plus Probable (MMcf) | Proved (MMcf) | Probable (MMcf) | Proved Plus Probable (MMcf) |
| December 31, 2009 | 89,658 | 44,090 | 133,748 | 2,818.1 | 1,500.3 | 4,318.3 |
| Extensions | 7,278 | 9,247 | 16,525 | 253.0 | 142.7 | 395.7 |
| Improved Recovery | - | - | 1 | - | - | - |
| Technical Revisions | 11,088 | (8,439) | 2,648 | 553.8 | (395.6) | 158.2 |
| Discoveries | - | - | - | - | - | - |
| Acquisitions | - | - | - | - | - | - |
| Dispositions | - | - | - | - | - | - |
| Economic Factors | (4,015) | (1,445) | (5,460) | (73.9) | (32.2) | (106.1) |
| Production | (20,185) | - | (20,185) | (726.4) | - | (726.4) |
| December 31, 2010 | 83,825 | 43,453 | 127,278 | 2,824.6 | 1,215.2 | 4,039.8 |

| <i>TOTAL</i> | OIL EQUIVALENT | | |
|--------------------------|------------------|--------------------|--------------------------------|
| | Proved (Mboe) | Probable (Mboe) | Proved Plus Probable (Mboe) |
| December 31, 2009 | 129,383.5 | 67,623.9 | 197,007.4 |
| Extensions | 20,538.7 | 13,290.3 | 33,829.0 |
| Improved Recovery | 1,640.5 | 19,058.1 | 20,698.8 |
| Technical Revisions | 3,496.2 | (12,817.8) | (9,321.9) |
| Discoveries | 93.1 | 37.6 | 130.7 |
| Acquisitions | 2,236.6 | 2,153.8 | 4,390.4 |
| Dispositions | (101.7) | (34.4) | (136.1) |
| Economic Factors | (913.1) | (476.1) | (1,389.2) |
| Production | (16,184.5) | - | (16,184.5) |
| December 31, 2010 | 140,189.5 | 88,835.5 | 229,024.8 |

Additional Information Relating to Reserves Data

Undeveloped Reserves

Undeveloped reserves are attributed by Sproule in accordance with standards and procedures contained in the COGE Handbook. Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production. Probable undeveloped reserves are those reserves that are less certain to be recovered than proved reserves and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

Our operating budget typically allocates approximately half of our expected funds from operations to capital expenditures related to exploration and development activities. We allocate development capital to our assets in an efficient and disciplined process. We reduce risk by technically assessing the results of each of our development programs before committing additional capital. This disciplined approach to investing in development means that in most cases it will take longer than two years to develop our proved undeveloped and probable undeveloped reserves. We plan to develop the majority of our proved undeveloped reserves and probable undeveloped reserves over the next six years.

Our capital spending on development projects is budgeted annually for each of our business units. Once a development program is executed, we measure and analyze the results of that capital investment, make any changes to the program that are necessary, and then repeat the process until all economic oil and gas reserves are developed. There are a number of factors that could result in delayed or cancelled development, including the following: (i) changing economic conditions (due to pricing, operating and capital expenditure fluctuations); (ii) changing technical conditions (including production anomalies, such as water breakthrough or accelerated depletion); (iii) multi-zone developments (for instance, a prospective formation completion may be delayed until the initial completion is no longer economic); (iv) a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and (v) surface access issues (including those relating to land owners, weather conditions and regulatory approvals). For more information, see "Risk Factors".

Proved Undeveloped Reserves

The following table discloses, for each product type, the volumes of proved undeveloped reserves that were attributed in each of the most recent three financial years and, in the aggregate, before that time.

| Year | Light and Medium Oil Gross (Mbbbl) | | Heavy Oil Gross (Mbbbl) | | NGLs Gross (Mbbbl) | | Natural Gas Gross (MMcf) | |
|-------|---------------------------------------|----------------|----------------------------|----------------|-----------------------|----------------|-----------------------------|----------------|
| | First | Booked at Year | First | Booked at Year | First | Booked at Year | First | Booked at Year |
| | Attributed | End | Attributed | End | Attributed | End | Attributed | End |
| Prior | 4,078.6 | 8,495.9 | 46,378.9 | 116,874.7 | 888.5 | 2,008.0 | 22,628 | 59,880 |
| 2008 | 2,830.6 | 6,234.1 | 2,175.9 | 37,584.1 | 37.3 | 375.4 | 3,234 | 15,446 |
| 2009 | 1,874.4 | 8,002.4 | 18,084.9 | 49,363.6 | 106.1 | 312.9 | 3,123 | 9,331 |
| 2010 | 4,412.8 | 10,771.4 | 17,548.8 | 54,617.7 | 156.4 | 430.4 | 5,353 | 13,717 |

Sproule assigned a total of 506 well locations to the proved undeveloped reserve category, of which 419 are located on our Canadian heavy oil properties. With respect to the heavy oil locations, 399 are primary locations which are scheduled to be drilled over the next five years and 20 are thermal locations at Seal which are scheduled to be drilled over the next three years. Fifty-nine of the proved undeveloped locations are located on our Canadian light oil and natural gas properties and are scheduled to be drilled over the next five years. The remaining 28 proved undeveloped locations are in the United States within Divide County, North Dakota and are scheduled to be drilled over the next four years.

It would not be prudent from both a financial and technical perspective for us to develop all of our proved undeveloped reserves over the next two years. Our operating budget typically allocates approximately half of expected funds from operations to exploration and development activities. This restricts the number of development wells we drill in any given year. Not all of the development wells that we drill in any given year are contained within the Sproule defined proved undeveloped inventory. At our current pace of investment and drilling it will take approximately five years to develop all the currently identified proved undeveloped reserves in the Sproule Report.

Probable Undeveloped Reserves

The following table discloses, for each product type, the volumes of probable undeveloped reserves that were first attributed in each of the most recent three financial years and, in the aggregate, before that time.

| Year | Light and Medium Oil Gross (Mbbbl) | | Heavy Oil Gross (Mbbbl) | | NGLs Gross (Mbbbl) | | Natural Gas Gross (MMcf) | |
|-------|---------------------------------------|----------------|----------------------------|----------------|-----------------------|----------------|-----------------------------|----------------|
| | First | Booked at Year | First | Booked at Year | First | Booked at Year | First | Booked at Year |
| | Attributed | End | Attributed | End | Attributed | End | Attributed | End |
| Prior | 1,735.7 | 3,279.1 | 22,921.1 | 62,975.3 | 1,184.5 | 1,588.1 | 19,626 | 37,361 |
| 2008 | 5,179.3 | 6,404.7 | 7,296.9 | 23,098.4 | 76.3 | 362.2 | 5,467 | 13,587 |
| 2009 | 3,457.1 | 7,518.2 | 19,426.4 | 31,494.5 | 135.4 | 368.2 | 4,444 | 11,210 |
| 2010 | 9,459.4 | 14,845.8 | 18,202.5 | 46,859.2 | 99.7 | 325.0 | 8,236 | 17,212 |

Sproule assigned a total of 257 well locations to the probable undeveloped reserve category, of which 196 are located on our Canadian heavy oil properties. With respect to the heavy oil locations, 156 are primary locations which are scheduled to be drilled over the next five years and 40 are thermal locations at Seal which are scheduled to be drilled over the next four years. Thirty-four of the probable undeveloped locations are located on our Canadian light oil and natural gas properties and are scheduled to be drilled over the next five years. The remaining 27 probable undeveloped locations are in the United States within Divide County, North Dakota and are scheduled to be drilled over the next four years.

For the same reasons given above, we will not develop all of our probable undeveloped reserves over the next two years. Our operating budget typically allocates approximately half of our expected funds from operations to exploration and development activities. This restricts the number of development wells we drill in any given year. Not all of the development wells that we drill in any given year are contained within the Sproule defined proved undeveloped or probable undeveloped inventory. At our current pace of investment and drilling it will take approximately six years to develop all the currently identified probable undeveloped reserves.

Significant Factors or Uncertainties

We have a significant amount of proved non-producing and proved undeveloped reserves assigned to our Canadian heavy oil properties located in the Province of Saskatchewan and at our Seal, Ardmore and Cold Lake heavy oil properties located in the Province of Alberta. Our conventional light oil and gas properties in Stoddart, British Columbia, the Pembina and Ferrier areas of Alberta and Divide County, North Dakota, USA also contain a significant quantity of proved non-producing and proved undeveloped reserves. As well, we have a significant amount of probable non-producing and probable undeveloped reserves assigned to these same properties. At the current prices, these development activities are expected to be economic. However, should oil and natural gas prices fall materially, these activities may not be economic and we could defer their implementation. In addition, reserves can be affected significantly by fluctuations in capital expenditures, operating costs, royalty regimes, and well performance that are beyond our control and which could impact our development decisions. See also "Risk Factors".

Future Development Costs

The following table sets forth development costs deducted in the estimation of the future net revenue attributable to the reserve categories noted below (using forecast prices and costs).

| (\$000s) | CANADA | | UNITED STATES | | TOTAL | |
|----------------------|-----------------|-------------------------------|-----------------|-------------------------------|-----------------|-------------------------------|
| | Proved Reserves | Proved plus Probable Reserves | Proved Reserves | Proved plus Probable Reserves | Proved Reserves | Proved plus Probable Reserves |
| 2011 | 210,437 | 248,066 | 45,154 | 79,394 | 255,591 | 327,460 |
| 2012 | 141,293 | 201,123 | 52,762 | 81,638 | 194,055 | 282,761 |
| 2013 | 77,055 | 140,750 | 26,929 | 59,264 | 103,984 | 200,014 |
| 2014 | 63,808 | 107,600 | 12,001 | 42,546 | 75,809 | 150,146 |
| 2015 | 54,939 | 152,561 | - | - | 54,939 | 152,561 |
| Remaining | 95,551 | 107,349 | - | - | 95,553 | 107,348 |
| Total (undiscounted) | 643,083 | 957,449 | 136,846 | 262,842 | 779,931 | 1,220,290 |

We expect to fund the development costs of our reserves through a combination of internally generated funds from operations, debt and equity financings. Our operating budget typically allocates approximately half of our expected funds from operations to exploration and development activities.

There can be no guarantee that funds will be available or that our Board of Directors will allocate funding to develop all of the reserves attributed in the Sproule Report. Failure to develop those reserves could have a negative impact on our future funds from operations.

The interest or other costs of external funding are not included in the reserves and future net revenue estimates set forth herein and would reduce reserves and future net revenue to some degree depending upon the funding sources utilized. We do not anticipate that interest or other funding costs would make development of any of these properties uneconomic.

Contingent Resource

We commissioned Sproule to conduct an assessment of contingent resource effective December 31, 2010 on three of our oil resource plays: the Bluesky in the Seal area of Alberta, the Bakken/Three Forks in North Dakota and the Viking in southeast Alberta and southwest Saskatchewan. Contingent resource represents the quantity of petroleum estimated to be potentially recoverable from known accumulations using established technology or technology under development, but which do not currently qualify as reserves or commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets.

For the total of these three plays, Sproule's estimate of contingent resource ranges from 528 million barrels of oil and bitumen in the "low estimate" (C1) to 1.02 billion barrels of oil and bitumen in the "high estimate" (C3), with a "best estimate" (C2) of 668 million barrels of oil and bitumen. Contingent resources are in addition to currently booked reserves. The table below summarizes Sproule's estimates of gross reserves and contingent resource for the three plays by geographic area.

| (millions of barrels of oil and bitumen) ⁽¹⁾ | Proved plus Probable Gross Reserves ⁽²⁾ As at Dec. 31, 2010 | Contingent Resources ⁽³⁾ As at Dec. 31, 2010 | | |
|---|---|--|---------------------|---------------------|
| | | Low ⁽⁴⁾ | Best ⁽⁵⁾ | High ⁽⁶⁾ |
| Bluesky – Seal, Alberta | 83.9 | 486.6 | 570.7 | 840.8 |
| Bakken/Three Forks – North Dakota, USA | 19.4 | 31.2 | 77.9 | 145.4 |
| Viking – Redwater, Alberta | 3.9 | 4.6 | 9.7 | 18.3 |
| Viking – Dodsland/Kerrobart, Saskatchewan | 2.9 | 5.8 | 10.0 | 16.8 |
| Total | 110.1 | 528.2 | 668.3 | 1,021.3 |

Notes:

- (1) Under NI 51-101, naturally occurring hydrocarbons with a viscosity greater than 10,000 centipoise are classed as bitumen. The majority of the contingent resource at Seal that will be recovered by thermal processes has a viscosity greater than this value; therefore, this component of the contingent resource is classified as bitumen under NI 51-101.
- (2) Proved plus probable gross reserve volumes are based on the Sproule Report.
- (3) Sproule prepared the estimates of contingent resource shown for each property using deterministic principles and methods. Probabilistic aggregation of the low and high property estimates shown in the table might produce different total volumes than the arithmetic sums shown in the table.
- (4) Low estimate (C1) is considered to be a conservative estimate of the quantity of resources that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. Those resources at the low end of the estimate range have the highest degree of certainty - a 90% confidence level - that the actual quantities recovered will be equal or exceed the estimate.
- (5) Best estimate (C2) is considered to be the best estimate of the quantity of resources that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. Those resources that fall within the best estimate have a 50% confidence level that the actual quantities recovered will be equal or exceed the estimate.
- (6) High estimate (C3) is considered to be an optimistic estimate of the quantity of resources that will actually be recovered. It is unlikely that the actual remaining quantities of resources recovered will meet or exceed the high estimate. Those resources at the high end of the estimate range have a lower degree of certainty - a 10% confidence level - that the actual quantities recovered will equal or exceed the estimate.

There is no certainty that it will be commercially viable to produce any portion of the contingent resources or that we will produce any portion of the volumes currently classified as contingent resources. The recovery and resource estimates provided herein are estimates only. Actual contingent resources (and any volumes that may be reclassified as reserves) and future production from such contingent resources may be greater than or less than the estimates provided herein.

Other Oil and Gas Information

Oil and Natural Gas Properties

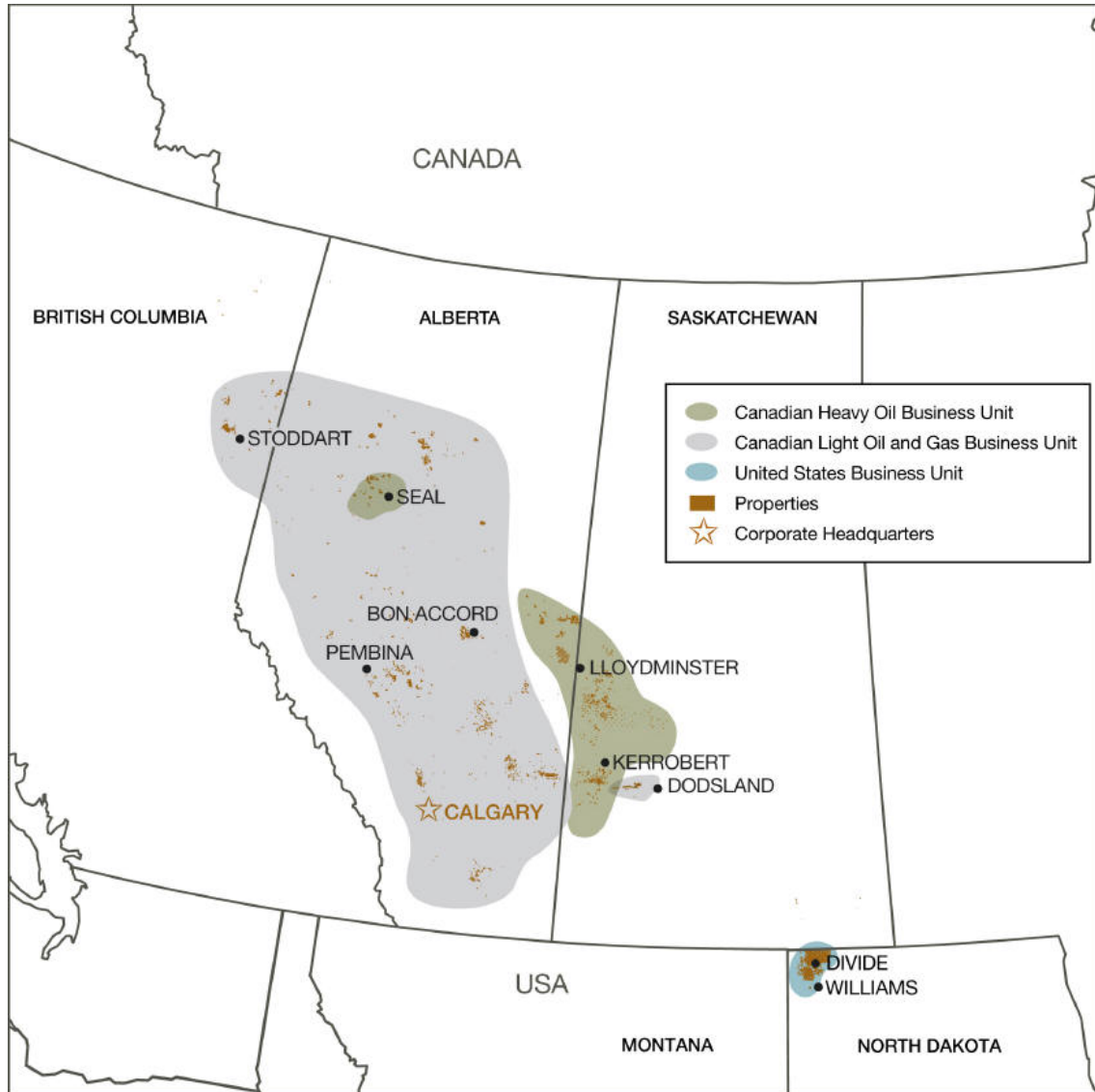
The following is a description of our principal oil and natural gas properties on production or under development as at December 31, 2010. Unless otherwise specified, gross and net acres and well count information are as at December 31, 2010. Well counts indicate gross wells, except where otherwise indicated. Production information represents average working interest production, for the year ended December 31, 2010, except where otherwise indicated.

Our crude oil and natural gas operations are organized into three business units: Canadian Heavy Oil, Canadian Light Oil and Gas and United States. Each business unit has a portfolio of mineral leases, operated and non-operated properties and development prospects. Within these business units, Baytex has established a total of eleven geographically-organized teams with a full complement of technical professionals (engineers, geoscientists and landmen) within each team. This comprehensive technical approach is intended to result in thorough identification and evaluation of exploration, development and acquisition investment opportunities and cost-efficient execution of those opportunities.

Baytex invested approximately \$131 million in undeveloped land over the past three years targeting light oil resource plays. These plays include the Bakken/Three Forks in the Williston Basin of North Dakota and the Viking in southwestern Saskatchewan and eastern Alberta. These light oil resource plays provide the opportunity for long term light oil production and reserve growth to complement our heavy oil growth projects. These resource plays are described in more detail in the business unit descriptions below.

The map below highlights the geographic location of our principal properties.

Baytex Energy Corp. – Principal Properties



Canadian Heavy Oil Business Unit

The Canadian Heavy Oil Business Unit accounts for more than 67% of current production and more than 73% of oil-equivalent reserves. Baytex's heavy oil operations consist predominantly of cold primary production (i.e., production without the assistance of steam injection). In some cases, Baytex's heavy oil reservoirs are waterflooded, occasionally with hot water. Baytex's heavy oil fields often have multiple productive zones, some of which can be commingled within the same producing wellbore. Production is generated from vertical, slant and horizontal wells using progressive cavity pumps capable of handling large volumes of heavy oil combined with gas, water and sand. Initial production from these wells usually averages between 40 and 500 bbl/d of crude oil with gravities ranging from 11 to 18 degrees API. Once produced, the oil is trucked or pipelined to markets in both Canada and the United States. Heavy crude is usually blended with light-hydrocarbon diluents (such as condensate) prior to being introduced into a sales pipeline. The blended crude oil is then sold by Baytex and may be upgraded into lighter grades of crude or refined into petroleum products such as fuel oil, lubricants and asphalt by the crude purchasers. All production rates reported are for heavy crude only, before the addition of diluents.

In 2010, production in the Canadian Heavy Oil Business Unit averaged approximately 30,058 boe/d, which was comprised of 28,585 bbl/d of heavy oil, 178 bbl/d of light oil and 7,768 Mcf/d of natural gas. During 2010, Baytex drilled 98 (87.6 net) wells in the Canadian Heavy Oil Business Unit resulting in 82 (71.9 net) oil wells, one (0.7 net) natural gas well, seven (7.0 net) stratigraphic test wells, five (5.0 net) service wells and three (3.0 net) dry and abandoned wells, for a success rate of 97%.

The Canadian Heavy Oil Business Unit possesses a large inventory of development projects within the operating areas of west-central Saskatchewan and Cold Lake/Ardmore and Peace River in Alberta. Baytex's ability to generate relatively low-cost replacement production through conventional cold production methods has been key to maintaining our overall production rate. Due to the size of inventory of heavy oil projects, we are able to select from a wide range of investment opportunities to attempt to maintain heavy oil production rates.

Baytex will continue to build value through internal heavy oil property development and selective acquisitions. Future heavy oil development will focus both on the Peace River oil sands area and Baytex's historical area of emphasis around Lloydminster. Our net undeveloped lands in the Canadian Heavy Oil Business Unit totalled approximately 393,000 acres at year-end 2010.

Listed below is a brief description of the principal properties within the Canadian Heavy Oil Business Unit:

Ardmore, Alberta: Acquired in 2002, this property has since been extensively developed in the Sparky, McLaren and Colony formations. Average production during 2010 was approximately 840 bbl/d of oil and 228 Mcf/d of natural gas (878 boe/d). One well was drilled in the area during 2010. Baytex anticipates drilling one well in this area in 2011. At year-end 2010, Baytex had 34,400 net undeveloped acres in this area.

Carruthers, Saskatchewan: The Carruthers property was acquired by Baytex in 1997. This property consists of separate "North" and "South" oil pools in the Cummings formation. Ten new wells were drilled in 2010 which, combined with relatively low production declines due mostly to strong performance of the ongoing waterflood, led to a year-over-year production increase. The waterflood was expanded in 2009 and 2010. We plan to drill 12 horizontal wells and 14 vertical wells in the Carruthers area in 2011. Average production in 2010 was approximately 2,204 bbl/d of heavy oil and 524 Mcf/d of natural gas (2,291 boe/d). At year-end 2010, Baytex had 12,100 net undeveloped acres in this area.

Celtic, Saskatchewan: This producing property was acquired by Baytex in 2005, in a transaction where Baytex purchased cold heavy oil production of 1,600 bbl/d and natural gas production of 900 Mcf/d. As a result of Baytex's well re-completion and drilling activities, production averaged 3,767 bbl/d of heavy oil and 666 Mcf/d of natural gas (3,878 boe/d) during 2010. The heavy oil at Celtic is relatively highly gas-saturated and the existing infrastructure allows for efficient capture and marketing of co-produced solution gas. Celtic is a key asset for Baytex because, like the adjacent Tangleflags property, it contains a large resource base with multiple prospective horizons. As a result, the Celtic property provides a multi-year inventory of drilling locations and re-completion opportunities. Baytex drilled eight oil wells and one service well in the area in 2010. Baytex plans to drill seven new wells in this area in 2011. At year-end 2010, Baytex had 8,700 net undeveloped acres in this area.

Cold Lake, Alberta: This heavy oil property was initially acquired by Baytex in 2001. Production is primarily from the Colony formation. Average oil production during 2010 was approximately 341 bbl/d. Baytex plans to drill six new wells in this area in 2011. At year-end 2010, Baytex had 11,200 net undeveloped acres in this area.

Dodsland, Saskatchewan: During 2008, Baytex developed a new resource play in the Viking sand in southwest Saskatchewan. The zone is regionally charged with light oil (34 degrees API) and, in its more permeable areas, has been a prolific oil horizon since the 1960s. Baytex targeted the less permeable but undeveloped areas of the play and drilled a 1,400 metre horizontal well in 2008. The horizontal well was completed with 7 fracture stimulations, applying the same multi-zone fracture technology that is used to stimulate horizontal wells in the Bakken oil play in southeast Saskatchewan and North Dakota. Baytex drilled eight additional horizontal Viking tests in 2010. Much of our 2010 drilling was focused on validating licenses acquired during 2008 that were approaching expiry. Our drilling has now validated all of the licenses acquired at that time, converting them to leases with new five-year terms. To date in the Saskatchewan Viking play, excluding a sub-economic well drilled on the eastern fringe of the play, we have achieved a 30-day average peak rate of 67 bbl/d per well from seven wells that have been fully completed and placed on production. At year-end 2010, Baytex had leased 39,500 net acres in the play. We plan to drill approximately four horizontal Viking wells in this area in 2011. We believe that our Viking lands at both Dodsland and Kerrobert may contain up to 230 net drilling locations.

Kerrobert/Coleville, Saskatchewan: Baytex acquired assets in the Kerrobert and Coleville areas of Saskatchewan in 2009. The acquisition provides numerous opportunities for cold infill drilling and steam-assisted gravity drainage ("SAGD") optimization. In addition, the Kerrobert area offers significant potential for light oil development in the Viking formation using horizontal wells with multi-stage hydraulic fractures, similar to the Dodsland Viking opportunities described above. In 2010, we closed the sale of our 50% interest in the lands and wells comprising Phase 1 of an in-situ combustion project at Kerrobert for \$18 million and a gross overriding royalty on the divested lands. We retained our 50% interest in the area of mutual interest surrounding the Phase 1 lands. Our other Kerrobert interests, including our 100% working interest in our SAGD project, were unaffected by the sale.

In our Kerrobert SAGD project, we placed a new well pair on production late in the third quarter of 2010 and the well pair produced at a 30-day average rate of approximately 1,000 bbl/d with a steam-oil ratio of approximately 2.4 barrels of steam per barrel of oil. The total cost of the well pair, including the cost of an expansion of the steam distribution system which can be used to serve future well pairs, was \$6.8 million. We believe that, through the remaining life of this project, we can drill 11 additional well pairs with incremental costs of approximately \$3.5 to \$4.0 million per well pair. Average production in 2010 was approximately 2,485 bbl/d of heavy oil and 2,911 Mcf/d of natural gas (2,970 boe/d). Baytex drilled 13 oil wells, one natural gas well, one service well and one dry and abandoned well in this area in 2010. Baytex plans to drill eight wells in this area in 2011. At year-end 2010, Baytex had 43,500 net undeveloped acres in this area.

Lindbergh, Alberta: Lindbergh is a primarily non-operated heavy oil property that was purchased in 2007. Baytex has a 21.25% working interest in this property, which is operated by a senior Canadian producer. Average production in this area during 2010 was approximately 639 bbl/d of heavy oil and 59 Mcf/d of natural gas (649 boe/d). Like Tangleflags and Celtic, Lindbergh is a multi-zone property that is expected to provide future development projects for many years. Thus far, economic production has been obtained from the Dina, Cummings, General Petroleum, Sparky and Colony formations. In 2010, 11 (2.3 net) wells were drilled in this area. At year-end 2010, Baytex had 800 net undeveloped acres in this area.

Marsden/Epping/Macklin/Silverdale, Saskatchewan: This area of Saskatchewan is characterized by low access costs and generally higher quality crude oil that ranges up to 18 degrees API. Initial per well production rates are typically 40 to 70 bbl/d. Primary recovery factors can be as high as 30% of the original oil in-place because of the relatively high oil gravity and the existence of strong water drive in many of the oil pools in this area. Average production in this area during 2010 was approximately 2,749 bbl/d of oil and 308 Mcf/d of natural gas (2,800 boe/d). Twelve successful oil wells and one service well were drilled in this area in 2010. For 2011, a further seven wells are planned. At year-end 2010, Baytex had 23,700 net undeveloped acres in this area.

Seal, Alberta: Seal is a highly prospective property located in the Peace River oil sands area of northern Alberta. Prior to obtaining approximately 158 net section of additional lands through an acquisition in the first quarter of 2011, Baytex held a 100% working interest in 105 sections of long-term oil sands leases. In certain parts of this land base, heavy oil can be produced using horizontal wells at initial production rates of 150 to 500 bbl/d per well, without employing more cost-intensive methods such as steam injection. In 2010, Baytex drilled seven stratigraphic test wells, designed to improve delineation of our land base and guide development well trajectories, and 15 horizontal production wells, bringing the total number of producing wells to 77. Also in 2010, Baytex re-entered eight existing producers and drilled 7 to 16 new laterals per well to access undrained areas of the reservoir. Average production in this area during 2010 was 9,135 bbl/d of heavy oil.

Reservoir analysis of the Seal property has indicated that both waterflood and cyclic steam recovery methods have the potential to increase economic oil reserves beyond what is achievable with cold primary recovery. Our first cyclic steam stimulation ("CSS") pilot project was carried out on an existing horizontal producer during 2008 to validate our numerical reservoir simulation models of CSS.

We conducted a second successful CSS pilot at Seal during the second and third quarters of 2010. This test was conducted in the Cliffdale area, located seven miles to the east of our first steam pilot in the Harmon Valley area. Cliffdale is an area in which, at this point, we do not envision large scale cold development. Oil viscosities at the subsurface elevation steamed at Cliffdale are approximately four times higher than in the Harmon Valley test and prior removal of cold oil through primary production at Cliffdale was minimal. The objectives of the 2010 CSS pilot were four-fold: 1) to prove that steam injectivity, into the bottom half of the Bluesky Sand and at higher oil viscosities than in the earlier Harmon Valley pilot, would hit target levels; 2) to conduct a multi-cycle test with improvement in injectivity and production in the second cycle; 3) to validate our numerical reservoir simulation so that long-term performance on subsequent cycles can be more accurately predicted; and 4) to achieve economic levels of production and steam-oil ratio. All of these objectives were met in the 2010 Cliffdale pilot test. Our numerical reservoir simulation indicates that injectivity, oil rate and steam-oil ratio should continue to improve on subsequent cycles as heating of the reservoir progresses. The cost of the pilot was \$7.7 million, which included installation of much of the infrastructure and steam plant to be used in a permanent project at this site.

In the fourth quarter of 2010, we received regulatory approvals to drill additional CSS wells at Cliffdale. In 2011, we intend to drill nine CSS wells at Cliffdale. The cost for the remaining nine CSS wells and completion of the infrastructure and steam plant is projected to be approximately \$23 million. As the region continues to develop, the Seal property will take an increasingly more prominent role in our production profile. During 2011, Baytex plans to drill approximately ten stratigraphic test wells, 22 cold horizontal production wells and nine CSS wells. Excluding the additional lands acquired through an acquisition in the first quarter of 2011, Baytex held 61,400 net undeveloped acres in this area at year-end 2010.

Tangleflags, Saskatchewan: Baytex acquired the Tangleflags property in 2000. Tangleflags is characterized by multiple-zone reservoirs with production from the Colony, McLaren, Waseca, Sparky, General Petroleum and Lloydminster formations. In 2010, Baytex drilled seven oil wells and one dry and abandoned well in the area. We plan to drill approximately 29 wells in the area in 2011. Average production during 2010 was approximately 2,141 bbl/d of heavy oil and 822 Mcf/d of natural gas (2,278 boe/d). At year-end 2010, Baytex had 8,400 net undeveloped acres in this area.

Canadian Light Oil and Gas Business Unit

Baytex possesses an array of light oil and natural gas properties. In addition to Baytex's historical light oil and natural gas properties in northern and south-eastern Alberta, the geographic scope of our conventional oil and gas operations has expanded to central Alberta and northeast British Columbia, providing exposure to some of the most prospective areas in Western Canada.

The Canadian Light Oil and Gas Business Unit produces light and medium gravity crude oil, natural gas and natural gas liquids from various fields in Alberta and British Columbia. During 2010, production from this business unit averaged 13,541 boe/d, which was comprised of 47.5 MMcf/d of natural gas and 5,626 bbl/d of light oil and NGL. During 2010, the Canadian Light Oil and Gas Business Unit drilled 31 (21.1 net) wells resulting in six (4.8 net) natural gas wells and 25 (16.2 net) oil wells for a success rate of 100%. Our net undeveloped lands in this business unit were approximately 253,000 acres at year-end 2010.

Listed below is a brief description of the principal properties within the Canadian Light Oil and Gas Business Unit:

Bon Accord, Alberta: Baytex acquired its initial position in this multi-zone property in 1997 and has further expanded its presence through Crown land sales. Production is obtained from the Belly River, Viking and Mannville formations. During 2010, production for the area averaged approximately 1,886 Mcf/d of natural gas and 611 bbl/d of light oil (925 boe/d). Natural gas is processed at two Baytex-operated plants and oil is treated at three Baytex-operated batteries. In the past two years, Baytex has begun to exploit the Viking sand utilizing multi-lateral horizontal drilling technology. In this area, Baytex drilled seven (6.3 net) horizontal Viking oil wells in 2010 and plans to drill approximately 12 multi-lateral horizontal Viking oil wells in 2011. At year-end 2010, Baytex had 18,800 net undeveloped acres in this area.

Darwin/Nina/Goodfish/Lafond, Alberta: The properties in this winter-access area produce natural gas from the Bluesky formation. Natural gas production is processed at three Baytex-operated gas plants and one gas plant operated by a senior producer in which Baytex holds a 30% interest. Production during 2010 averaged approximately 4,392 Mcf/d of natural gas (732 boe/d). At year-end 2010, Baytex had 5,700 net undeveloped acres in this area.

Leahurst, Alberta: Production averaged approximately 3,084 Mcf/d of natural gas and 12 bbl/d of NGL (526 boe/d) during 2010 from this multi-zone, year-round access area. Natural gas production from the Edmonton, Belly River, Viking and Mannville formations is processed at several plants, one of which is Baytex-operated. During 2010, Baytex drilled one natural gas well in the area. At year-end 2010, Baytex had 7,700 net undeveloped acres in this area.

Pembina, Alberta: Baytex acquired its initial position in Pembina in 2007 and further expanded its presence in the area through the acquisition of Burmis in 2008. Production is primarily from the Nisku formation and to a lesser extent from Cretaceous and Jurassic age formations including the Ellerslie, Glauconite, Notikewin, Rock Creek and Nordegg. The majority of Baytex's production in this area is treated at a Baytex-operated oil battery with the remaining production treated at a third party-operated oil battery. Natural gas production is delivered to a combination of four mid-stream gas processing facilities and two producer-operated gas processing facilities. Baytex owns a working interest in one of the producer-operated gas processing facilities and a minor working interest in one of the mid-stream gas processing facilities. During 2010, Pembina production averaged 2,967 bbl/d of light oil and NGL and 23,860 Mcf/d of natural gas (6,944 boe/d). Baytex participated in drilling ten (9.3 net) operated and seven (0.7 net) non-operated locations in 2010. Two wells (2.0 net) were drilled to test Nisku prospects, resulting in two (2.0 net) oil wells. Eleven (4.7 net) Cardium horizontal wells were successfully drilled and completed with multi-stage fracture stimulations. Four (3.3 net) wells were drilled for development of multi-zone potential in the region in 2010, resulting in three (2.8 net) natural gas wells and one (1.0 net) oil well. The 2011 drilling program for Pembina is planned to include approximately five additional Cardium oil tests, two wells to evaluate Nisku prospects and approximately four wells for multi-zone Cretaceous potential. At year-end 2010, Baytex had 27,500 net undeveloped acres in this area.

Red Earth Alberta: This primarily winter-access, multi-zone property was acquired by Baytex in 1997. Oil production from Granite Wash and Slave Point pools is treated at two Baytex-operated sweet oil batteries. Production from this area during 2010 averaged approximately 43 Mcf/d of natural gas and 515 bbl/d of light oil and NGL (522 boe/d). Baytex participated in two (1.5 net) successful oil wells in this area in 2010. We plan to drill three wells in the area in 2011. At year-end 2010, Baytex had 28,300 net undeveloped acres in this area.

Richdale/Sedalia, Alberta: Baytex acquired its initial position in this area in 2001 and significantly increased its presence with a 2004 acquisition of a private company. During 2010, production averaged approximately 4,697 Mcf/d of natural gas and 12 bbl/d of NGL (795 boe/d). This area has year-round access and multi-zone potential in the Second White Specks, Viking and Mannville formations. Most of the natural gas produced from this area is processed at two Baytex-operated gas plants. At year-end 2010, Baytex had 28,500 net undeveloped acres in this area.

Stoddart, British Columbia: The Stoddart asset acquisition was completed in 2004. Oil and liquids-rich gas production in this largely year-round-access area comes from the Doig, Halfway, Baldonnel, Coplin and Bluesky formations. Oil is treated at two Baytex-operated batteries and natural gas is compressed at four Baytex-operated sites and sent for further processing at two third party-operated gas plants. Production from this area during 2010 averaged approximately 5,445 Mcf/d of natural gas and 917 bbl/d of oil and NGL (1,825 boe/d). Baytex drilled one (1.0 net) successful oil well in this area in 2010. At year-end 2010, Baytex had 24,100 net undeveloped acres in this area.

Turin, Alberta: This multi-zone, year-round access property was acquired in 2004. Production during 2010 averaged approximately 408 bbl/d of oil and NGL and 1,012 Mcf/d of natural gas (577 boe/d). Production is from the Second White Specks, Milk River, Bow Island, Mannville, Sawtooth and Livingstone formations. Oil production is treated at three Baytex-operated batteries and natural gas is processed at two third party-operated gas plants. Baytex drilled one (1.0 net) oil well in this area in 2010. At year-end 2010, Baytex had 7,400 net undeveloped acres in this area.

United States Business Unit

Baytex acquired significant land positions in the Powder River and Williston basins in 2007 and 2008. During 2010, we focused our activities on the light oil resource play located in the Divide and Williams Counties of North Dakota. Production is primarily from horizontal wells using multi-stage hydraulic fracturing in the Bakken and Three Forks formations. We have invested in approximately 303,400 (126,400 net) acres of land, of which 257,985 (109,435 net) acres were undeveloped at year-end 2010. In 2010, Baytex drilled 26 (9.5 net) wells, including 25 (9.1 net) oil wells in the Bakken/Three Forks and one (0.4 net) dry and abandoned well in a Lodgepole conventional target, for a success rate of 96%. In 2011, Baytex plans to drill approximately 22 (9.4 net) horizontal wells. Ultimately, the project has the potential to include 100 to 300 wells with average initial production rates expected to be approximately 420 boe/d per well and average recoveries expected to be approximately 420 Mboe per well, based on drilling two-mile (or 1,280-acre spacing unit) wells. Despite some wells not yet having been completed due to constraints in oilfield services, net production from the United States properties averaged 742 boe/d in 2010, as compared to 408 boe/d in 2009, and grew steadily through the year, reaching approximately 1,100 boe/d in December 2010.

Average Production

The following table indicates our average daily production from our principal areas for the year ended December 31, 2010.

| | Light Oil and NGL (bbl/d) | Heavy Oil (bbl/d) | Natural Gas (Mcf/d) | Oil Equivalent (boe/d) |
|---|------------------------------|----------------------|------------------------|---------------------------|
| Canadian Heavy Oil Business Unit | | | | |
| Ardmore | - | 840 | 228 | 878 |
| Carruthers | - | 2,204 | 524 | 2,291 |
| Celtic | - | 3,767 | 666 | 3,878 |
| Cold Lake | - | 341 | - | 341 |
| Golden Lake | - | 913 | - | 913 |
| Greenstreet | - | 38 | 854 | 180 |
| Hoosier | - | 473 | - | 473 |
| Kerrobert / Coleville | 178 | 2,306 | 2,911 | 2,970 |
| Lindbergh | - | 639 | 59 | 649 |
| Maidstone | - | 586 | - | 586 |
| Marsden / Epping / Macklin / Silverdale | - | 2,749 | 308 | 2,800 |
| Neilburg | - | 785 | - | 785 |
| Poundmaker / Freemont | - | 1,380 | 309 | 1,432 |
| Seal | - | 9,135 | - | 9,135 |
| Sugden | - | 231 | - | 231 |
| Tangleflags | - | 2,141 | 822 | 2,278 |
| Remaining properties | - | 57 | 1,087 | 238 |
| Total Canadian Heavy Oil Business Unit | 178 | 28,585 | 7,768 | 30,058 |
| Canadian Light Oil and Gas Business Unit | | | | |
| Bon Accord | 611 | - | 1,886 | 925 |
| Darwin / Nina / Goodfish / Lafond | - | - | 4,392 | 732 |
| Leahurst | 12 | - | 3,084 | 526 |
| Pembina | 2,967 | - | 23,860 | 6,944 |
| Red Earth | 515 | - | 43 | 522 |
| Richdale / Sedalia | 12 | - | 4,697 | 795 |
| Stoddart | 917 | - | 5,445 | 1,825 |
| Turin | 408 | - | 1,012 | 577 |
| Remaining Properties | 184 | - | 3,071 | 695 |
| Total Canadian Light Oil and Gas Business Unit | 5,626 | - | 47,490 | 13,541 |

| | Light Oil and NGL (bbl/d) | Heavy Oil (bbl/d) | Natural Gas (Mcf/d) | Oil Equivalent (boe/d) |
|------------------------------------|------------------------------|----------------------|------------------------|---------------------------|
| United States Business Unit | | | | |
| Williston Basin | 682 | - | 41 | 689 |
| Remaining properties | 53 | - | - | 53 |
| Total United States Business Unit | 735 | - | 41 | 742 |
| Grand Total | 6,539 | 28,585 | 55,299 | 44,341 |

Costs Incurred

The following table summarizes the property acquisition, exploration and development costs by country for the year ended December 31, 2010:

| (\$000s) | Canada | United States | Total |
|--|-------------------|------------------|-------------------|
| Property acquisition costs ⁽¹⁾ | | | |
| Proved properties | \$ 40,914 | \$ - | \$ 40,914 |
| Unproved properties | 16,730 | 8,033 | 24,763 |
| Property disposition | (19,033) | - | (19,033) |
| Total Property acquisition costs, net | 38,611 | 8,033 | 46,644 |
| Development Costs ⁽²⁾ | 174,428 | 55,788 | 230,216 |
| Exploration Costs ⁽³⁾ | 6,925 | (162) | 6,763 |
| Total | \$ 219,964 | \$ 63,659 | \$ 283,623 |

Notes:

- (1) Property acquisition costs include the acquisition of a private company that held assets in the Lloydminster area of southwest Saskatchewan.
- (2) Development and facilities expenditures.
- (3) Cost of geological and geophysical capital expenditures and drilling costs for 2010 exploratory wells drilled.

Oil and Gas Wells

The following table sets forth the number and status of wells in which we have a working interest as at December 31, 2010.

| | Oil Wells | | | | Natural Gas Wells | | | |
|------------------|-----------|---------|---------------|---------|-------------------|-------|---------------|-------|
| | Producing | | Non-Producing | | Producing | | Non-Producing | |
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| Alberta | 738 | 454.0 | 945 | 515.2 | 554 | 404.3 | 396 | 299.4 |
| British Columbia | 45 | 44.7 | 35 | 33.4 | 39 | 35.5 | 10 | 9.5 |
| Saskatchewan | 1,259 | 1,140.3 | 1,083 | 1,006.3 | 51 | 45.7 | 118 | 105.3 |
| North Dakota | 66 | 19.7 | 13 | 2.6 | - | - | - | - |
| Wyoming | 4 | 1.7 | 3 | 1.9 | - | - | - | - |
| Total | 2,112 | 1,660.4 | 2,079 | 1,559.4 | 644 | 485.5 | 524 | 414.2 |

Undeveloped Land Holdings

The following table sets forth our undeveloped land holdings as at December 31, 2010.

| | Undeveloped Acres | |
|------------------|-------------------|---------|
| | Gross | Net |
| Canada | | |
| Alberta | 529,763 | 391,175 |
| British Columbia | 71,358 | 37,050 |
| Saskatchewan | 243,642 | 217,598 |
| Total Canada | 844,763 | 645,823 |

| | Undeveloped Acres | |
|----------------------|-------------------|---------|
| | Gross | Net |
| United States | | |
| New Mexico | 14,480 | 14,480 |
| North Dakota | 261,013 | 110,720 |
| Utah | 180 | 90 |
| Wyoming | 39,185 | 21,770 |
| Total United States | 314,858 | 147,060 |
| Grand Total | 1,159,621 | 792,883 |

We estimate the value of our net undeveloped land holdings at December 31, 2010 to be approximately \$391 million, as compared to \$220 million at December 31, 2009. This internal evaluation generally represents the estimated replacement cost of our undeveloped land. In determining replacement cost, we analyzed land sale prices paid at Provincial Crown and State land sales for the properties in the vicinity of our undeveloped land holdings, less an allowance for near-term expiries.

We expect that rights to explore, develop and exploit approximately 108,250 net acres of our undeveloped land holdings may expire on or before December 31, 2011. There are no material drilling commitments associated with the land holdings expiring by December 31, 2011.

Exploration and Development Activities

The following table sets forth the gross and net exploratory and development wells in which we participated during the year ended December 31, 2010.

| | Exploratory Wells | | Development Wells | |
|-------------|-------------------|------|-------------------|-------|
| | Gross | Net | Gross | Net |
| Oil | 9 | 9.0 | 123 | 88.2 |
| Natural Gas | - | - | 7 | 5.6 |
| Evaluation | 6 | 6.0 | - | - |
| Service | - | - | 6 | 6.0 |
| Dry | - | - | 4 | 3.4 |
| Total | 15 | 15.0 | 140 | 103.2 |

Forward Contracts

For details on our contractual commitments to sell natural gas and crude oil which were outstanding at December 31, 2010, see Note 17 to our audited consolidated financial statements for the year ended December 31, 2010.

Tax Horizon

Based on the current tax regime and Baytex's available tax pools and anticipated level of funds from operations and capital spending, Baytex does not expect to pay material amounts of cash income taxes (other than Saskatchewan Resource Surcharge) prior to 2012. This estimate is highly sensitive to assumptions regarding commodity prices, production, funds from operations and capital expenditure levels. As at December 31, 2010, Baytex's total Canadian tax pools were estimated to be \$1.55 billion, including \$236 million for tangibles, \$541 million for intangibles and \$773 million in non-capital loss carryforwards. In addition, as at December 31, 2010, Baytex's total United States tax pools were estimated to be \$230 million, including \$13 million for tangibles, \$153 million for intangibles and \$64 million in non-capital loss carryforwards.

Additional Information Concerning Abandonment and Reclamation Costs

The following table sets forth information respecting future abandonment and reclamation costs for surface leases, wells, facilities, and pipelines which are expected to be incurred by us for the periods indicated.

| Period | Abandonment and Reclamation Costs Escalated at 2% Undiscounted (\$ millions) | Abandonment and Reclamation Costs Escalated at 2% Discounted at 10% (\$ millions) |
|---|--|---|
| Total liability as at December 31, 2010 | 288.84 | 37.97 |
| Anticipated to be paid in 2011 | 1.26 | 1.21 |
| Anticipated to be paid in 2012 | 1.29 | 1.16 |
| Anticipated to be paid in 2013 | 5.23 | 4.33 |

We will be liable for our share of ongoing environmental obligations and for the ultimate reclamation of the surface leases, wells, facilities, and pipelines held by us upon abandonment. Expenditures related to environmental obligations are expected to be funded out of funds from operations.

We estimate the costs to abandon and reclaim all of our producing and shut in wells, facilities, and pipelines. In the table above, no estimate of salvage value is netted against the estimated cost. Using public data and our own experience, we estimate the amount and timing of future abandonment and reclamation expenditures at an operating area level. Wells within each operating area are assigned an average cost per well to abandon and reclaim the well. The estimated expenditures are based on current regulatory standards and actual abandonment cost history.

The number of net wells for which we estimated we will incur reclamation and abandonment costs is 4,888 wells. This estimate includes all producing wells, all non-producing wells, all standing cased wells and all suspended wells. The number of net wells for which Sproule estimated we will incur reclamation and abandonment costs is 778 wells which are all the proved undeveloped and probable undeveloped wells. The latter two well groups had not been drilled as of December 31, 2010. Abandonment and reclamation costs have been estimated over a 52-year period. Facility reclamation costs are scheduled to be incurred two years following the end of the reserve life of its associated producing area. Only well abandonment costs, net of downhole salvage value, were deducted by Sproule in estimating future net revenue in the Sproule Report. The additional liability associated with our existing wells, pipelines and facility reclamation costs, net of salvage, which was estimated to be \$288.9 million (\$38.0 million discounted at 10 percent), was not deducted in estimating future net revenue.

Production Estimates

The following table sets out the volumes of our working interest production estimated for the year ended December 31, 2011, which is reflected in the estimate of future net revenue disclosed in the forecast price tables contained under "Description of Our Business and Operations – Statement of Reserves Data and Other Oil and Gas Information – Disclosure of Reserves Data and Oil and Natural Gas Information".

| | Light and Medium Oil (bbl/d) | Heavy Oil (bbl/d) | Natural Gas liquids (bbl/d) | Natural Gas (Mcf/d) | Oil Equivalent (boe/d) |
|----------------------------|------------------------------|-------------------|-----------------------------|---------------------|------------------------|
| CANADA | | | | | |
| Total Proved | 5,376 | 30,172 | 1,721 | 45,961 | 44,929 |
| Total Proved plus Probable | 5,679 | 33,488 | 1,847 | 49,462 | 49,258 |
| UNITED STATES | | | | | |
| Total Proved | 1,247 | - | - | 310 | 1,298 |
| Total Proved plus Probable | 1,672 | - | - | 655 | 1,781 |
| TOTAL | | | | | |
| Total Proved | 6,623 | 30,172 | 1,721 | 46,271 | 46,227 |
| Total Proved plus Probable | 7,351 | 33,488 | 1,847 | 50,117 | 51,039 |

The only property that accounts for 20% or more of the estimated 2011 production volumes is Seal, Alberta. Estimated 2011 production volumes for Seal are 10,540 boe/d on a total proved basis and 11,480 boe/d on a total proved plus probable basis.

Production History

The following table summarizes certain information in respect of the production, product prices received, royalties paid, production costs and resulting netback associated with our reserves data for the periods indicated below.

| | Three Months Ended | | | | Year Ended |
|--|--------------------|---------------|---------------|---------------|---------------|
| | Dec. 31, 2010 | Sept 30, 2010 | June 30, 2010 | Mar. 31, 2010 | Dec. 31, 2010 |
| Average Daily Production ⁽¹⁾ | | | | | |
| Light Oil and NGL (bbl/d) ⁽²⁾ | 6,457 | 6,600 | 6,443 | 6,660 | 6,539 |
| Heavy Oil (bbl/d) | 29,808 | 28,959 | 28,263 | 27,278 | 28,585 |
| Natural Gas (Mcf/d) | 52,496 | 55,440 | 56,370 | 56,922 | 55,300 |
| Total (boe/d) | 45,015 | 44,799 | 44,104 | 43,425 | 44,341 |
| Average Net Production Prices Received | | | | | |
| Light Oil and NGL(\$/bbl) ⁽²⁾ | 68.07 | 63.13 | 64.38 | 68.04 | 65.90 |
| Heavy Oil (\$/bbl) | 60.10 | 57.97 | 57.59 | 62.07 | 59.40 |
| Natural Gas (\$/Mcf) | 3.84 | 3.89 | 4.19 | 5.31 | 4.32 |
| Total (\$/boe) | 53.99 | 51.59 | 51.67 | 56.41 | 53.39 |
| Royalties Paid | | | | | |
| Light Oil and NGL(\$/bbl) ⁽²⁾ | 17.31 | 13.95 | 21.86 | 20.59 | 18.40 |
| Heavy Oil (\$/bbl) | 9.47 | 11.09 | 9.81 | 12.85 | 10.77 |
| Natural Gas (\$/Mcf) | 0.17 | 0.32 | 0.10 | 0.64 | 0.31 |
| Total (\$/boe) | 8.95 | 9.61 | 9.61 | 12.07 | 10.04 |
| Production Costs ⁽³⁾⁽⁴⁾ | | | | | |
| Light Oil and NGL(\$/bbl) ⁽²⁾ | 9.73 | 10.32 | 13.29 | 8.72 | 10.50 |
| Heavy Oil (\$/bbl) | 10.87 | 10.69 | 10.58 | 10.23 | 10.60 |
| Natural Gas (\$/Mcf) | 1.62 | 1.74 | 1.50 | 2.31 | 1.80 |
| Total (\$/boe) | 10.48 | 10.58 | 10.64 | 10.78 | 10.62 |
| Transportation | | | | | |
| Light Oil and NGL(\$/bbl) ⁽²⁾ | 0.36 | 0.33 | 0.67 | 0.36 | 0.43 |
| Heavy Oil (\$/bbl) | 3.76 | 4.10 | 4.17 | 4.19 | 4.05 |
| Natural Gas (\$/Mcf) | 0.20 | 0.19 | 0.18 | 0.19 | 0.19 |
| Total (\$/boe) | 2.77 | 2.94 | 3.01 | 2.95 | 2.92 |
| Netback Received ⁽⁵⁾ | | | | | |
| Light Oil and NGL(\$/bbl) ⁽²⁾ | 40.67 | 38.53 | 28.56 | 38.37 | 36.57 |
| Heavy Oil (\$/bbl) | 36.00 | 32.09 | 33.03 | 34.80 | 33.98 |
| Natural Gas (\$/Mcf) | 1.85 | 1.67 | 2.41 | 2.17 | 2.02 |
| Total (\$/boe) | 31.79 | 28.46 | 28.41 | 30.61 | 29.81 |
| Financial Instruments gain (\$/boe) ⁽⁶⁾ | 2.75 | 3.70 | 3.09 | 2.34 | 2.98 |
| Netback Received after hedging (\$/boe) | 34.54 | 32.16 | 31.50 | 32.95 | 32.79 |

Notes:

(1) Before deduction of royalties.

(2) Our NGL volumes are not material, and have been grouped with light oil for reporting purposes.

(3) Operating expenses are composed of direct costs incurred to operate both oil and gas wells. A number of assumptions are required to allocate these costs between oil, natural gas and natural gas liquids production.

(4) Operating recoveries associated with operated properties are charged to operating costs and accounted for as a reduction to general and administrative costs.

(5) Netbacks are calculated by subtracting royalties, operating costs, transportation and losses/gains on commodity and foreign exchange contracts from revenues.

(6) Financial instruments reflect only realized derivative gains (losses).

Marketing Arrangements

Baytex continues to market its oil and natural gas production with attention to maximizing value and counterparty performance. We maintain a portfolio of sales contracts with a variety of pricing mechanisms, term commitments and customers. We engage a number of reputable counterparties in our bid process to ensure competitiveness, while also managing counterparty credit exposure.

Natural Gas

North American natural gas prices in 2010 were only marginally higher than in 2009, reflecting continuing pressure on prices due to a number of factors. The NYMEX Henry Hub price averaged US\$4.3925/MMBtu in 2010, as compared to US\$3.9862/MMBtu in 2009. The most significant factor was the continued growth in U.S. natural gas production from shale plays, enabled by improving horizontal drilling and improving multi-stage fracturing technology. In spite of increased natural gas demand from winter and summer weather, record U.S. natural gas supplies weighed on the market and resulted in high natural gas storage levels relative to historic norms. As a result, natural gas prices gradually declined over 2010 from a high of US\$6.009/MMBtu on January 6, 2010 to a low of US\$3.292/MMBtu on October 27, 2010.

For 2010, Baytex's average physical natural gas sales price (inclusive of physical forward sales contracts) was \$4.32/mcf, as compared to \$4.35/mcf in 2009.

Oil and NGL

Oil prices in 2010 were volatile, but generally higher than in 2009. During 2010, daily NYMEX WTI prices fluctuated between US\$68.01/bbl in May and US\$91.51/bbl near the end of December, averaging US\$79.53/bbl for the year. This compares to an average of US\$61.80/bbl in 2009. Over the course of 2010, the benchmark WTI price was supported by an improving global outlook, together with strong oil demand growth from China and other emerging market countries. In spite of a mid-year oil price set-back related to European economic uncertainty, oil prices staged a sustained fourth-quarter rally, driven by continued global oil demand growth.

For 2010, Baytex's light oil and NGL prices averaged \$65.90/bbl, while heavy oil sales prices averaged \$59.40/bbl (net of physical forward sales losses of \$0.68/bbl). In contrast, for 2009 Baytex averaged \$54.25/bbl for light oil and NGL and \$49.88/bbl for heavy oil sales (net of physical forward sales losses of \$5.13/bbl). Baytex's total oil and NGL price in 2010 was \$60.61/bbl (net), compared with \$50.85/bbl (net) in 2009.

Environmental Policies

We have an active program to monitor and comply with all environmental laws, rules and regulations applicable to our operations. Our policies require that all employees and contractors report all breaches or potential breaches of environmental laws, rules and regulations to our senior management and all applicable governmental authorities. Any material breaches of environmental law, rules and regulations must be reported to the Board of Directors.

DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence, age as at December 31, 2010, position held with Baytex and principal occupation of each of the directors and officers of Baytex.

| Name and Municipality of Residence | Age | Position with Baytex | Principal Occupation |
|--|-----|---|---|
| John A. Brussa ^{(2) (3) (4) (6)} Calgary, Alberta | 53 | Director | Partner with Burnet, Duckworth & Palmer LLP |
| Raymond T. Chan Calgary, Alberta | 55 | Director and Executive Chairman | Executive Chairman of Baytex |
| Edward Chwyl ^{(2) (3) (4)} Victoria, B.C. | 67 | Director | Independent Businessman |
| Naveen Dargan ^{(1) (2) (4)} Calgary, Alberta | 53 | Director | Independent Businessman |
| R.E.T. (Rusty) Goepel ⁽¹⁾ Vancouver, B.C. | 68 | Director | Senior Vice President of Raymond James Ltd. |
| Anthony W. Marino Calgary, Alberta | 50 | Director, President and Chief Executive Officer | President and Chief Executive Officer of Baytex |
| Gregory K. Melchin ⁽¹⁾ Calgary, Alberta | 57 | Director | Independent Businessman |
| Dale O. Shwed ⁽³⁾ Calgary, Alberta | 52 | Director | President and Chief Executive Officer of Crew Energy Inc. |
| W. Derek Aylesworth Calgary, Alberta | 48 | Chief Financial Officer | Chief Financial Officer of Baytex |
| Randal J. Best Calgary, Alberta | 54 | Senior Vice President, Corporate Development | Senior Vice President, Corporate Development of Baytex |
| Stephen Brownridge Calgary, Alberta | 51 | Vice President, Exploration | Vice President, Exploration of Baytex |
| Murray J. Desrosiers Calgary, Alberta | 41 | Vice President, General Counsel and Corporate Secretary | Vice President, General Counsel and Corporate Secretary of Baytex |
| Brett J. McDonald Calgary, Alberta | 48 | Vice President, Land | Vice President, Land of Baytex |
| Timothy R. Morris Denver, Colorado | 54 | Vice President, US Business Development | Vice President of Baytex USA |
| R. Shaun Paterson Calgary, Alberta | 57 | Vice President, Marketing | Vice President, Marketing of Baytex |
| Marty L. Proctor Calgary, Alberta | 50 | Chief Operating Officer | Chief Operating Officer of Baytex |
| Richard P. Ramsay Calgary, Alberta | 47 | Vice President, Heavy Oil | Vice President, Heavy Oil of Baytex |
| Mark F. Smith Calgary, Alberta | 53 | Vice President, Conventional Oil & Gas | Vice President, Conventional Oil & Gas of Baytex |

Notes:

- (1) Member of our Audit Committee.
- (2) Member of our Compensation Committee.
- (3) Member of our Reserves Committee.
- (4) Member of our Nominating and Governance Committee.
- (5) Baytex's directors hold office until the next annual general meeting of Shareholders or until each director's successor is appointed or elected pursuant to the *Business Corporations Act* (Alberta).
- (6) Mr. Brussa was a director of Imperial Metals Limited, a corporation engaged in both oil and gas and mining operations, in the year prior to that corporation implementing a plan of arrangement under the *Company Act* (British Columbia) and under the *Companies' Creditors Arrangement Act* (Canada) which resulted in the separation of its two businesses and the creation of two public corporations: Imperial Metals Corporation and IEL Energy Inc. (which became Rider Resources Ltd.). The plan of arrangement was completed in April 2002.

Listed below is a biographical description for each of our directors and officers, including their principal occupations during the five preceding years.

John A. Brussa became a Director of Baytex on December 31, 2010 and has been a director of Baytex Energy since October 8, 1997. He is a partner at Burnet, Duckworth & Palmer LLP and focuses on tax law. He was admitted to the Alberta bar in 1982. Mr. Brussa is a director of several public companies including Chinook Energy Inc., Crew Energy Inc., Just Energy Group Inc., Penn West Petroleum Ltd., Progress Energy Resources Corp. and Storm Resources Ltd. He holds a Bachelor of Laws degree from the University of Windsor where he was a gold medalist and a Bachelor of Arts, History and Economics degree also from the University of Windsor.

Raymond T. Chan was appointed Executive Chairman of Baytex on December 31, 2010 and has held the same position with Baytex Energy since January 1, 2009. 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 and Chief Executive Officer (September 2003 to November 2007); and Chief Executive Officer (November 2007 to December 2008). Mr. Chan has been a director of Baytex Energy since October 1998. 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 Petroleum Ltd. and Gane Energy Corporation. Mr. Chan holds a Bachelor of Commerce degree and is a chartered accountant.

Edward Chwyl became a Director of Baytex on December 31, 2010 and has been a director of Baytex Energy since May 27, 2003. Mr. Chwyl was Chairman of the Board of Directors of Baytex Energy from September 2003 to December 2008. He was appointed Lead Independent Director of Baytex on January 11, 2011 and has held the same position with Baytex Energy since February 17, 2009. He 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 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.

Naveen Dargan became a Director of Baytex on December 31, 2010 and has been a director of Baytex Energy since September 1, 2003. He has been an independent businessman since June 2003. Prior to this, he held the position of Senior Managing Director and Head of Energy Investment Banking at Raymond James Ltd., an investment banking firm and its predecessor companies. Mr Dargan is a director of Trinidad Drilling Ltd. and CCS Corporation. He holds a Bachelor of Arts (Honours) degree in Mathematics and Economics, a Master of Business Administration degree and a Chartered Business Valuator designation.

R.E.T. (Rusty) Goepel became a Director of Baytex on December 31, 2010 and has been a director of Baytex Energy since May 11, 2005. 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. Mr. Goepel holds a Bachelor of Commerce (Honours) degree.

Anthony W. Marino was appointed President, Chief Executive Officer and director of Baytex on October 22, 2010 and has held the same position with Baytex Energy since January 1, 2009. Mr. Marino joined Baytex Energy in November 2004 as Chief Operating Officer and was promoted to President and Chief Operating Officer in November 2007. Prior to joining Baytex Energy, Mr. Marino was President and Chief Executive Officer of Dominion Exploration Canada Ltd. (a subsidiary of Dominion Resources Inc.). Mr. Marino's earlier experience included managing the Jonah/Pinedale asset area for AEC Oil and Gas (USA) Inc., operations and business development management for Santa Fe Snyder Corp. and several technical and management positions with Atlantic Richfield Company. He is a registered professional engineer and a Chartered Financial Analyst, and has over 25 years of experience in the North American oil and gas industry. Mr. Marino has a Bachelor of Science degree with Highest Distinction in Petroleum Engineering from the University of Kansas and a Masters of Business Administration degree from California State University at Bakersfield. He was previously a member of both the Board of Governors for the Canadian Association of Petroleum Producers and the Board of Directors for the Independent Petroleum Association of Mountain States in the United States.

Gregory K. Melchin became a director of Baytex on December 31, 2010 and has been a director of Baytex Energy since May 20, 2008. He is currently the Chairperson of PPP Canada Inc., the Canadian federal government's public-private partnership office. He was a member of the Legislative Assembly of Alberta from 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. He 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.

Dale O. Shwed became a Director of Baytex on December 31, 2010 and has been a director of Baytex Energy since June 3, 1993. He has held the position of President and Chief Executive Officer of Crew Energy Inc., a public oil and gas company, since September 2003. Prior thereto, he was President and Chief Executive Officer of Baytex Energy from 1993 to August 2003. Mr. Shwed holds a Bachelor of Science degree specializing in Geology.

W. Derek Aylesworth was appointed Chief Financial Officer of Baytex on October 22, 2010 and has held the same position with Baytex Energy since November 2005. He is responsible for Baytex's capital markets, financial reporting and compliance, financial risk management, tax and treasury functions. Prior to joining Baytex Energy, Mr. Aylesworth held the position of Commercial Manager of the Ecuador Region business unit at EnCana Corporation. Prior thereto, he was the Division Vice President for the International New Ventures Exploration business unit of the same company. Mr. Aylesworth has over 20 years of experience in the Canadian oil and gas industry. Mr. Aylesworth holds a Bachelor of Commerce degree and is a chartered accountant with expertise in taxation and has experience as a tax advisor in both the oil and gas industry and public practice in Calgary.

Randal J. Best was appointed Senior Vice President, Corporate Development of Baytex on December 31, 2010 and has held the same position with Baytex Energy since December 2006. He is responsible for asset and corporate acquisitions and divestitures, corporate planning and reserves. Prior thereto, he was Vice President, Corporate Development of Baytex Energy since September 2003. From 2000 to 2003 he was Managing Director of Waterous Securities, a private oil & gas investment bank specializing in mergers and acquisitions, and previous to that he was President and Chief Executive Officer of Enercap Corporation, a private investment company. Mr. Best has over 25 years of experience in the Canadian oil and gas industry and is a professional engineer. He holds a Bachelor of Applied Science degree in Chemical Engineering from the University of Waterloo and is a practicing member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

Stephen Brownridge was appointed Vice President, Exploration of Baytex on December 31, 2010 and has held the same position with Baytex Energy since January 5, 2010. Mr. Brownridge has over 20 years experience in the Canadian oil and gas industry. He joined Baytex Energy in 1997 and held the position of Manager of the Heavy Oil Business Unit from September 2003 to December 2006 and Vice President, Heavy Oil from December 2006 to January 2010. Prior to joining Baytex Energy, Mr. Brownridge held technical positions with Koch Exploration Canada Corporation and Rigel Oil and Gas Ltd. Mr. Brownridge holds a Bachelor of Science degree with Honours in Geology from the University of Manitoba, and a Master of Science Degree in Geology obtained jointly from the University of Alberta and Louisiana State University.

Murray J. Desrosiers was appointed Vice President, General Counsel and Corporate Secretary of Baytex on October 22, 2010 and has held the same position with Baytex Energy since May 20, 2009. Mr. Desrosiers is a corporate lawyer with over 15 years of experience advising energy companies in the areas of corporate finance, mergers and acquisitions, corporate governance and securities compliance matters. He joined Baytex Energy in July 2008 and held the position of General Counsel from August 2008 to May 2009. Prior to joining Baytex Energy, he held senior legal positions with PrimeWest Energy Inc. (the operating company of PrimeWest Energy Trust), Shiningbank Energy Ltd. (the operating company of Shiningbank Energy Income Fund), Enbridge Inc. and Enbridge Management Services Inc. (the manager of Enbridge Income Fund). Mr. Desrosiers holds a Bachelor of Laws from the University of Alberta and a Bachelor of Commerce (Finance) from the University of Calgary and is a member of the Law Society of Alberta.

Brett J. McDonald was appointed Vice President, Land of Baytex on December 31, 2010 and has held the same position with Baytex Energy since December 1, 2006. Mr. McDonald has over 25 years of experience in the Canadian oil and gas industry. He joined Baytex Energy in 2000 and held the position of General Manager of Land from September 2003 to December 2006. Prior to joining Baytex Energy, Mr. McDonald held senior land negotiating positions with Newport Petroleum Corporation, Stampeder Exploration Ltd. and Murphy Oil Company Ltd. Mr. McDonald is a member of the Canadian Association of Petroleum Landmen.

Timothy R. Morris was appointed Vice President, U.S. Business Development of Baytex on December 31, 2010 and has held the same position with Baytex Energy since November 12, 2007. He joined Baytex Energy in April 2007 as Managing Director, U.S. Business Development. Mr. Morris has over 30 years of experience in the United States oil and gas industry. Prior to joining Baytex Energy, he held senior management positions with Berco Resources, LLC, Santa Fe Snyder Corporation, Snyder Oil Corporation, Petroleum, Inc. and Sohio Petroleum Corp. He received a Bachelor of Science degree with an area of emphasis in Minerals Land Management from the University of Colorado and is a Certified Professional Landman. He is a member of the Independent Petroleum Association of Mountain States, Denver Association of Petroleum Landmen and the American Association of Professional Landmen.

R. Shaun Paterson was appointed Vice President, Marketing of Baytex on December 31, 2010 and has held the same position with Baytex Energy since December 11, 2006. He is responsible for the transportation and marketing of Baytex's production and implementing its commodity price risk mitigation strategies. Mr. Paterson has over 30 years of experience in the Canadian oil and gas industry. Prior to joining Baytex Energy, he worked for EnCana Corporation as Vice President of Domestic Crude Oil Marketing. Prior to this assignment, Mr. Paterson held senior marketing and business development positions with Dynegy and Chevron. Mr. Paterson holds a Bachelor of Science degree in Mechanical Engineering from the University of Alberta.

Marty L. Proctor was appointed Chief Operating Officer of Baytex on December 31, 2010 and has held the same position with Baytex Energy since January 14, 2009. Mr. Proctor has over 25 years of experience in the Canadian and international oil and gas industries, with particular emphasis in heavy oil operations. Prior to joining Baytex Energy, he was Senior Vice President responsible for upstream operations for StatoilHydro Canada. Prior to that, Mr. Proctor was Senior Vice President of North American Oil Sands Corporation and Vice President of Murphy Oil Company. Earlier in his career, he held technical and management positions with Maxx Petroleum, Central Resources (USA), BP Resources Canada and Husky Oil. Mr. Proctor earned both Bachelor and Master of Science degrees in Petroleum Engineering from the University of Alberta, where his research focused on thermal oil recovery. Mr. Proctor is a practicing member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta, and is a member of the Canadian Heavy Oil Association and the Society of Petroleum Engineers.

Richard P. Ramsay was appointed Vice President, Heavy Oil of Baytex on December 31, 2010 and has held the same position with Baytex Energy since January 5, 2010. Mr. Ramsay has over 20 years of experience in the Canadian oil and gas industry and was formerly Chief Operating Officer of TAQA North Ltd. He previously held a variety of technical and management positions with Northrock Resources Ltd., Fletcher Challenge Energy Canada Inc., Amoco Canada Petroleum Ltd. and Dome Petroleum Ltd. Mr. Ramsay has a Bachelor of Science degree with Distinction in Mechanical Engineering from the University of Saskatchewan and is a practicing member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

Mark F. Smith was appointed Vice President, Conventional Oil and Gas of Baytex on December 31, 2010 and has held the same position with Baytex Energy since November 20, 2006. Mr. Smith has over 25 years of industry experience primarily focused in the Western Canadian Sedimentary Basin. Prior to joining Baytex Energy, Mr. Smith was Vice President, Development of the North Business Unit of Burlington Resources Canada/ConocoPhillips Canada. Prior to this assignment, Mr. Smith held a variety of management and operations positions with Burlington Resources Canada and Poco Petroleum Ltd. Mr. Smith holds a Bachelor of Chemical Engineering Science Degree from the University of Western Ontario and is a practicing member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

Ownership of Securities by Management

As at March 1, 2011, the directors and executive officers of Baytex, as a group, beneficially owned, or controlled or directed, directly or indirectly, 1,626,691 Common Shares, or approximately 1.4 percent of the issued and outstanding Common Shares. No Debentures were owned by this same group.

Corporate Cease Trade Orders, Bankruptcies or Penalties or Sanctions

No director or executive officer of Baytex (nor any personal holding company of any of such persons) is, as of the date of this Annual Information Form, or was within ten years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including Baytex), 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 the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer or was subject to an order that was issued after the director or executive officer 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.

Except as disclosed above under "*Directors and Officers*", no director or executive officer of Baytex (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of our securities of to materially affect control of us, is, as of the date of this Annual Information Form, or has been within the ten years before the date of this Annual Information Form, a director or executive officer of any company (including Baytex) 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 of this Annual Information Form, 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.

In addition, no director or executive officer of Baytex (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of our securities of to materially affect control of us, 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 an investment decision.

Conflicts

There are potential conflicts of interest to which the directors and officers of Baytex will be subject in connection with the operations of Baytex. In particular, certain of the directors and officers of Baytex are involved in managerial or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of Baytex and us or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Baytex and us. Conflicts, if any, will be subject to the procedures and remedies available under the *Business Corporations Act* (Alberta). The *Business Corporations Act* (Alberta) provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director will disclose his interest in such contract or agreement and will refrain from voting on any matter in respect of such contract or agreement unless otherwise provided in the *Business Corporations Act* (Alberta).

AUDIT COMMITTEE INFORMATION

Audit Committee Mandate and Terms of Reference

The text of the Audit Committees' Mandate and Terms of Reference is attached as Appendix C.

Composition of the Audit Committee

The members of our Audit Committee are Naveen Dargan, R.E.T. (Rusty) Goepel and Gregory K. Melchin, each of whom is "independent" and "financially literate", with the meaning of National Instrument 52-110 "Audit Committees". The relevant education and experience of each Audit Committee member is outlined below:

| Name | Independent | Financially Literate | Relevant Education and Experience |
|-----------------------|-------------|----------------------|---|
| Naveen Dargan | Yes | Yes | Bachelor of Arts (Honours) degree in Mathematics and Economics, Master of Business Administration degree and Chartered Business Valuator designation. Independent businessman since June 2003; prior thereto Senior Managing Director and Head of Energy Investment Banking of Raymond James Ltd. |
| R.E.T. (Rusty) Goepel | Yes | Yes | Bachelor of Commerce (Honours) degree. Has over 40 years experience in the investment industry. Currently a Senior Vice President with Raymond James Ltd. (investment dealer). From 2004 to 2009, he was a member of the Audit Committee of TELUS Corporation, a telecommunications company that is listed on the TSX and the NYSE. |
| Gregory K. Melchin | Yes | Yes | Bachelor of Science degree (major in accounting) and a Fellow Chartered Accountant designation from the Institute of Chartered Accountants of Alberta. Also completed the Directors Education Program with the Institute of Corporate Directors. Member of the Legislative Assembly of Alberta from 1997 to March 2008. Prior to being elected to the Legislative Assembly of Alberta, served in various management positions for 20 years in the Calgary business community. |

Pre-Approval of Policies and Procedures

Although the Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services by our auditors, it does pre-approve all non-audit services to be provided to us and our subsidiaries by the external auditors. The pre-approval for recurring services such as preliminary work on the integrated audit, securities filings, planning for conversion to International Financial Reporting Standards, translation of our financial statements and related management's discussion and analysis into the French language and tax and tax-related services is provided on an annual basis and other services are subject to pre-approval as required.

External Auditor Service Fees

The following table provides information about the fees billed to us and our subsidiaries for professional services rendered by Deloitte & Touche LLP, our external auditors, during fiscal 2010 and 2009:

| | Aggregate fees billed (\$000s) | |
|--------------------|--------------------------------|-----------------|
| | 2010 | 2009 |
| Audit Fees | \$ 848 | \$ 1,253 |
| Audit-Related Fees | - | - |
| Tax Fees | 854 | 193 |
| | <u>\$ 1,702</u> | <u>\$ 1,446</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 results, services in this category for fiscal 2010 and 2009 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, review of our documents and processes for the conversion of our consolidated financial statements to International Financial Reporting Standards and review of documentation relating to the Corporate Conversion.

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.

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

Baytex is authorized to issue an unlimited number of Common Shares without nominal or par value and 10,000,000 preferred shares, without nominal or par value, issuable in series. As at the date of this Annual Information Form, there were no preferred shares outstanding.

The following is a summary of certain provisions of the share capital of Baytex. For a complete description of the share provisions, reference should be made to the Articles of Incorporation of Baytex, a copy of which is accessible on the SEDAR website at www.sedar.com (filed on January 10, 2011).

Common Shares

Holders of Common Shares are entitled to notice of, to attend and to one vote per share held at any meeting of the shareholders of the Corporation (other than meetings of a class or series of shares of the Corporation other than the Common Shares as such).

Holders of Common Shares will be entitled to receive dividends as and when declared by the Board of Directors on the Common Shares as a class, subject to prior satisfaction of all preferential rights to dividends attached to shares of other classes of shares of the Corporation ranking in priority to the Common Shares in respect of dividends.

Holders of Common Shares will be entitled in the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, and subject to prior satisfaction of all preferential rights to return of capital on dissolution attached to all shares of other classes of shares of the Corporation ranking in priority to the Common Shares in respect of return of capital on dissolution, to share rateably, together with the holders of shares of any other class of shares of the Corporation ranking equally with the Common Shares in respect of return of capital on dissolution, in such assets of the Corporation as are available for distribution.

Preferred Shares

The preferred shares may be issued in one or more series, at any time or from time to time. Before any shares of a particular series are issued, the Board of Directors will fix the number of shares that will form such series and will, subject to the limitations set out in the preferred share terms described below, fix the designation, rights, privileges, restrictions and conditions to be attached to the preferred shares of such series, including, but without in any way limiting or restricting the generality of the foregoing, the rate, amount or method of calculation of dividends thereon, the time and place of payment of dividends, the consideration for and the terms and conditions of any purchase for cancellation, retraction or redemption thereof, conversion or exchange rights (if any), and whether into or for securities of Baytex or otherwise, voting rights attached thereto (if any), the terms and conditions of any share purchase or retirement plan or sinking fund, and restrictions on the payment of dividends on any shares other than preferred shares or payment in respect of capital on any shares in the capital of Baytex or creation or issue of debt or equity securities; the whole subject to filing of Articles of Amendment setting forth a description of such series including the designation, rights, privileges, restrictions and conditions attached to the shares of such series. Notwithstanding the foregoing: (a) the Board of Directors may at any time or from time to time change the rights, privileges, restrictions and conditions attached to unissued shares of any series of preferred shares; and (b) other than in the case of a failure to declare or pay dividends specified in any series of the Preferred Share, the voting rights attached to the preferred shares will be limited to one vote per Preferred Share at any meeting where the preferred shares and Common Shares vote together as a single class.

The preferred shares of each series will rank on a parity with the preferred shares of every other series with respect to accumulated dividends and return of capital. The preferred shares will be entitled to a preference over the Common Shares and over any other shares of Baytex ranking junior to the preferred shares with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of Baytex, whether voluntary or involuntary, or any other distribution of the assets of Baytex among its shareholders for the purpose of winding-up its affairs. If any cumulative dividends or amounts payable on a return of capital are not paid in full, the preferred shares of all series will participate rateably in respect of such dividends, including accumulations, if any, in accordance with the sums that would be payable on such shares if all such dividends were declared and paid in full, and in respect of any repayment of capital in accordance with the sums that would be payable on such repayment of capital if all sums so payable were paid in full; provided, however, that in the event of there being insufficient assets to satisfy in full all such claims as aforesaid, the claims of the holders of the preferred shares with respect to repayment of capital will first be paid and satisfied and any assets remaining thereafter shall be applied towards the payment in satisfaction of claims in respect of dividends. The preferred shares of any series may also be given such other preferences not inconsistent with the terms of the preferred shares over the Common Shares and any other shares ranking junior to the preferred shares as may be determined in the case of each such series of preferred shares.

The rights, privileges, restrictions and conditions attaching to the preferred shares may be repealed, altered, modified, amended or amplified or otherwise varied only with the sanction of the holders of the preferred shares given in such manner as may then be required by law, subject to a minimum requirement that such approval be given by resolution passed by the affirmative vote of a least two-thirds of the votes cast at a meeting of holders of preferred shares duly called for such purpose and held upon at least 21 days' notice at which a quorum is present comprising at least two persons present, holding or representing by proxy at least 10% per cent of the outstanding preferred shares or by a resolution in writing of all holders of the outstanding preferred shares. If any such quorum is not present within half an hour after the time appointed for the meeting, then the meeting shall be adjourned to a date being not less than 7 days later and at such time and place as may be appointed by the chairman and at such meeting a quorum will consist of that number of shareholders present in person or represented by proxy. The formalities to be observed with respect to the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those which may from time to time be prescribed in the by-laws of Baytex with respect to meetings of Shareholders. On every vote taken at every such meeting or adjourned meeting each holder of a Preferred Share shall be entitled to one vote in respect of each one dollar of stated value of preferred shares held.

Debentures

On August 26, 2009, the Trust issued \$150 million principal amount of 9.15% series A senior unsecured debentures. The 2016 Debentures pay interest semi-annually and mature on August 26, 2016 at which time they are due and payable. The 2016 Debentures are unsecured and therefore, for all practical purposes, are subordinate to the Credit Facilities. After August 26 of each of the following years, the 2016 Debentures are redeemable at our option, in whole or in part, with not less than 30 nor more than 60 days' notice at the following redemption prices (expressed as a percentage of the principal amount of the 2016 Debentures) plus accrued and unpaid interest thereon, if any: 2012 at 104.575%; 2013 at 103.050%; 2014 at 101.525%; and 2015 at 100%. In connection with the Corporate Conversion, Baytex assumed all of the rights and obligations of the Trust under the Debenture Indenture.

On February 17, 2011, we issued US\$150 million principal amount of 6.75% series B senior unsecured debentures. The 2021 Debentures pay interest semi-annually and mature on February 21, 2017 at which time they are due and payable. The 2021 Debentures are unsecured and therefore, for all practical purposes, are subordinate to the Credit Facilities. After February 17 of each of the following years, the 2021 Debentures are redeemable at our option, in whole or in part, with not less than 30 nor more than 60 days' notice at the following redemption prices (expressed as a percentage of the principal amount of the 2021 Debentures) plus accrued and unpaid interest thereon, if any: 2016 at 103.375%; 2017 at 102.250%; 2018 at 101.125%; and 2019 at 100%.

For a complete description of the Debentures, reference should be made to the Debenture Indenture, a copy of which is accessible on the SEDAR website at www.sedar.com (filed on September 3, 2009 and February 22, 2011).

Credit Facilities

As at March 1, 2011, Baytex Energy had Credit Facilities with a syndicate of chartered banks totalling \$650 million. The Credit Facilities are secured by a floating charge and a security interest over all of our and our material subsidiaries' present and after acquired real and personal property and are guaranteed by our material subsidiaries. The Credit Facilities permit funds to be drawn in either Canadian or United States funds and bear interest at the agent bank's prime lending rate, bankers' acceptance rates plus applicable margins or LIBOR rates plus applicable margins. The Credit Facilities constitute a revolving facility for a 364-day term which is extendible annually for a further 364-day revolving period, subject to a one-year term maturity should the lenders not agree to an annual extension. The next annual review of the Credit Facilities is anticipated to take place before June 27, 2011.

The Credit Facilities contain restrictions on Baytex Energy's ability to make distributions to us, including the declaration or payment of any dividend or distribution to us as the holder of the capital stock of Baytex Energy and the payment of interest or principal on subordinated debt owed to us. Baytex Energy and its subsidiaries are restricted from making distributions to us when (i) a default or event of default under the Credit Facilities has occurred and is continuing, (ii) distributions would be reasonably expected to have a material adverse effect on or impair the ability of Baytex Energy to fulfill its financial obligations to its lenders under the Credit Facilities, or (iii) outstanding loans under the Credit Facilities exceed the borrowing base set by the lenders thereunder until such time as such outstanding loans are reduced below the borrowing base. The borrowing base is generally re-determined by the lenders on a semi-annual basis and upon the acquisition or disposition of assets beyond certain defined limits. See also "*Risk Factors – Risks Related to our Business and Operations – Our bank credit facilities will need to be renewed prior to June 27, 2011 and failure to renew, in whole or in part, or higher interest charges will adversely affect our financial condition*".

DIVIDENDS

Dividend Policy

Our dividend policy is to pay a monthly dividend on our Common Shares on or about the 15th day following the end of each calendar month to Shareholders of record on or about the last business day of each such calendar month. Our dividend policy follows the general corporate philosophy of financial self sufficiency whereby, over the long term, development capital expenditures and dividend payments are planned to be financed from internally generated funds from operations. Unless otherwise indicated, all dividends paid or to be paid on our common shares are designated as "eligible dividends" for Canadian income tax purposes.

The amount of future cash dividends, if any, will be subject to the discretion of the Board of Directors and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens and foreign exchange rates. In addition, the payment of dividends by a corporation is governed by the liquidity and insolvency tests described in the ABCA. Pursuant to the ABCA, after the payment of a dividend, we must be able to pay our liabilities as they become due and the realizable value of our assets must be greater than our liabilities and the legal stated capital of our outstanding securities. As at December 31, 2010, our legal stated capital was approximately \$1.4 billion. Cash dividends to Shareholders are not assured or guaranteed and there can be no guarantee that Baytex will maintain its dividend policy. See "*Record of Dividends and Distributions*" and "*Risk Factors*".

Pursuant to the Credit Facilities, we are restricted from paying dividends to Shareholders if a default or event of default has occurred and is continuing and, if no default or event of default has occurred which is continuing, where (i) the dividend would or would reasonably be expected to have a material adverse effect on us or on our or our subsidiaries' ability to fulfill their obligations under the Credit Facilities or under any hedge agreements with lenders (or their affiliates) under the Credit Facilities (ii) a material borrowing base shortfall exists or (iii) a borrowing base shortfall which is not material exists, provided in this case any dividend which has previously been publicly announced may still be paid.

The Debenture Indenture also contains certain limitations on maximum cumulative dividends. Restricted payments include the declaration or payment of any dividend or distribution by us and the payment of interest or principal on subordinated debt owed by us. We and certain of our subsidiaries are restricted from making any restricted payments unless at the time of, and immediately after giving effect to, the proposed restricted payment, no default or event of default under the Debenture Indenture has occurred and is continuing, and either: (i) (a) we could incur at least \$1.00 of additional indebtedness (other than certain permitted debt) in accordance with the "Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock" covenant in the Debenture Indenture; (b) the ratio of consolidated debt to consolidated cash flow from operations does not exceed 3.0 to 1.0; and (c) the aggregate amount of all restricted payments declared or made after August 26, 2009 (other than certain permitted restricted payments) does not exceed the sum of: (A) 80% of consolidated cash flow from operations accrued on a cumulative basis since August 26, 2009, plus (B) 100% of the aggregate net cash proceeds received by us after August 26, 2009 from (x) the issuance by us of convertible debentures, or (y) capital contributions in respect of certain permitted equity that we receive from any person; plus (C) the aggregate net proceeds, including the fair market value of property received after August 26, 2009 other than cash (as determined by the Board of Directors), received by us from any person, other than a subsidiary, from the issuance or sale of debt securities (including convertible debentures) or disqualified stock that have been converted into or exchanged for certain permitted equity of us, plus the aggregate net cash proceeds received by us at the time of such conversion or exchange; or (ii) the aggregate amount of all restricted payments declared or made pursuant to paragraph (i) does not exceed the sum of certain unpaid funds from restricted payments not previously expended under paragraph (i), plus \$50,000,000. As at the date of this Annual Information Form, we are in compliance with these covenants.

Cash dividends are not guaranteed. Our historical cash dividends (and the Trust's historical cash distributions) may not be reflective of future cash dividends, which will be subject to review by the Board of Directors taking into account our prevailing financial circumstances at the relevant time. Although we intend to pay dividends to Shareholders, these cash dividends may be reduced or suspended. The actual amount distributed will depend on numerous factors, including profitability, debt covenants and obligations, fluctuations in working capital, the timing and amount of capital expenditures, applicable law and other factors beyond our control. See "Risk Factors".

Record of Dividends and Distributions

Our dividend policy is to pay a monthly dividend on our Common Shares on or about the 15th day following the end of each calendar month to Shareholders of record on or about the last business day of each such calendar month. See "*Dividends – Dividend Policy*".

Since we commenced operations on January 1, 2011, the following Common Share dividends have been declared by us.

| Record Date | Payment Date | Amount per Common Share |
|--------------------|---------------------|------------------------------------|
| January 31, 2011 | February 15, 2011 | \$ 0.20 |
| February 28, 2011 | March 15, 2011 | \$ 0.20 |
| March 31, 2011 | April 15, 2011 | \$ 0.20 |

Our predecessor, the Trust, paid a monthly distribution on its Trust Units on or about the 15th day following the end of each calendar month to unitholders of record on or about the last business day of each such calendar month. The following table sets forth the distributions paid by the Trust from September 2003 to December 2010.

| Month | Distributions per Trust Unit (\$) | | | | | | | | |
|--------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------|
| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | |
| January | 0.18 | 0.18 | 0.18 | 0.18 | 0.18 | 0.15 | 0.15 | - | - |
| February | 0.18 | 0.12 | 0.18 | 0.18 | 0.18 | 0.15 | 0.15 | - | - |
| March | 0.18 | 0.12 | 0.20 | 0.18 | 0.18 | 0.15 | 0.15 | - | - |
| April | 0.18 | 0.12 | 0.20 | 0.18 | 0.18 | 0.15 | 0.15 | - | - |
| May | 0.18 | 0.12 | 0.20 | 0.18 | 0.18 | 0.15 | 0.15 | - | - |
| June | 0.18 | 0.12 | 0.25 | 0.18 | 0.18 | 0.15 | 0.15 | - | - |
| July | 0.18 | 0.12 | 0.25 | 0.18 | 0.18 | 0.15 | 0.15 | - | - |
| August | 0.18 | 0.12 | 0.25 | 0.18 | 0.18 | 0.15 | 0.15 | - | - |
| September | 0.18 | 0.12 | 0.25 | 0.18 | 0.18 | 0.15 | 0.15 | 0.15 | 0.15 |
| October | 0.18 | 0.12 | 0.25 | 0.18 | 0.18 | 0.15 | 0.15 | 0.15 | 0.15 |
| November | 0.18 | 0.12 | 0.25 | 0.18 | 0.18 | 0.15 | 0.15 | 0.15 | 0.15 |
| December | 0.20 | 0.18 | 0.18 | 0.18 | 0.18 | 0.15 | 0.15 | 0.15 | 0.15 |
| Total | \$2.18 | \$1.56 | \$2.64 | \$2.16 | \$2.16 | \$1.80 | \$1.80 | \$0.60 | |

Dividend Reinvestment Plan

Baytex has a Dividend Reinvestment Plan (the "DRIP") that provides a convenient and cost-effective method for eligible holders in Canada and the United States to maximize their investment in Baytex by reinvesting their monthly cash dividends to acquire additional Common Shares. At the discretion of Baytex, Common Shares will either be issued from treasury or acquired in the open market at prevailing market prices. Pursuant to the terms of the DRIP, Common Shares issued from treasury are currently issued at a five percent discount to the "average market price" (as defined in the DRIP). Baytex reserves the right at any time to change or eliminate the discount on Common Shares acquired from treasury. Shareholders are not required to participate in the DRIP. A Shareholder who does not participate will continue to receive monthly cash dividends on their Common Shares in the normal manner.

MARKET FOR SECURITIES

The Common Shares are listed and posted for trading on the TSX and the NYSE under the trading symbol "BTE". The Common Shares commenced trading on the TSX on January 7, 2011 and on the NYSE on January 3, 2011. The following table sets forth certain trading information for the Common Shares on the TSX and in the United States for the periods indicated.

| | Toronto Stock Exchange | | | United States Composite Trading | | |
|------------------------|------------------------|----------|---------------|---------------------------------|------------|---------------|
| | Price Range | | Volume Traded | Price Range | | Volume Traded |
| | High (\$) | Low (\$) | | High (\$US) | Low (\$US) | |
| 2011 | | | | | | |
| January ⁽¹⁾ | 49.75 | 46.00 | 14,232,848 | 49.81 | 46.25 | 4,567,720 |
| February | 56.03 | 49.34 | 7,944,413 | 57.63 | 49.66 | 4,075,803 |

Note:

(1) The trading data for the Toronto Stock Exchange is for the period from January 7 to 31, 2011. The trading data for United States Composite Trading is for the period from January 3 to 31, 2011.

In connection with the Corporate Conversion, effective December 31, 2010, holders of Trust Units exchanged their Trust Units for Common Shares on a one-for-one basis. From September 8, 2003 to January 5, 2011, the Trust Units were listed and posted for trading on the TSX under the trading symbol "BTE.UN". From March 27, 2006 to December 31, 2010, the Trust Units were listed and posted for trading on the NYSE under the trading symbol "BTE". The following table sets forth certain trading information for the Trust Units on the TSX and in the United States for the periods indicated.

| | Toronto Stock Exchange | | | United States Composite Trading | | |
|---------------|------------------------|----------|---------------|---------------------------------|------------|---------------|
| | Price Range | | Volume Traded | Price Range | | Volume Traded |
| | High (\$) | Low (\$) | | High (\$US) | Low (\$US) | |
| 2003 | 10.89 | 9.19 | 40,973,662 | - | - | - |
| 2004 | 14.00 | 9.78 | 93,252,808 | - | - | - |
| 2005 | 18.78 | 12.42 | 87,481,272 | - | - | - |
| 2006 | 28.66 | 16.81 | 102,652,240 | 25.87 | 16.63 | 33,615,100 |
| 2007 | 22.92 | 16.68 | 86,185,013 | 21.75 | 15.51 | 46,189,896 |
| 2008 | 35.37 | 12.81 | 123,417,418 | 35.20 | 9.81 | 97,403,098 |
| 2009 | 30.50 | 9.77 | 112,146,455 | 29.33 | 7.84 | 88,314,675 |
| 2010 | | | | | | |
| January | 32.02 | 29.64 | 6,047,742 | 31.07 | 28.48 | 3,745,254 |
| February | 33.74 | 29.50 | 5,564,579 | 32.19 | 27.56 | 3,971,414 |
| March | 36.80 | 33.36 | 10,835,877 | 36.11 | 31.93 | 4,685,221 |
| April | 36.31 | 32.65 | 7,627,149 | 36.31 | 32.03 | 4,510,953 |
| May | 34.67 | 27.72 | 11,288,447 | 34.28 | 25.00 | 8,401,827 |
| June | 35.07 | 30.73 | 9,525,705 | 34.57 | 29.14 | 5,650,320 |
| July | 35.12 | 31.27 | 6,254,320 | 34.15 | 29.14 | 3,617,389 |
| August | 35.49 | 32.61 | 8,451,254 | 33.86 | 31.14 | 3,132,144 |
| September | 37.86 | 33.94 | 7,211,148 | 36.91 | 32.62 | 3,360,415 |
| October | 39.12 | 37.12 | 8,695,456 | 38.50 | 35.94 | 4,484,768 |
| November | 43.45 | 37.31 | 15,931,906 | 43.37 | 36.93 | 4,106,441 |
| December | 48.15 | 42.96 | 7,951,809 | 47.92 | 42.23 | 3,302,036 |
| 2011 | | | | | | |
| January (1-6) | 47.63 | 46.39 | 3,899,246 | - | - | - |

RATINGS

The following information relating to our credit ratings is provided as it relates to our financing costs, liquidity and operations. Specifically, credit ratings affect our ability to obtain short-term and long-term financing and the cost of such financing. A reduction in our current credit ratings by the rating agencies, particularly a downgrade below the current ratings or a negative change in the ratings outlook, could adversely affect our cost of financing and our access to sources of liquidity and capital. In addition, changes in credit ratings may affect our ability to, and the associated costs of, (i) enter into ordinary course derivative or hedging transactions and may require us to post additional collateral under certain of its contracts, and (ii) enter into and maintain ordinary course contracts with customers and suppliers on acceptable terms.

Baytex Energy has been assigned a corporate credit rating of BB/Positive and our Debentures have been assigned a credit rating of BB- by Standard and Poor's Rating Services, a division of McGraw-Hill Companies (Canada) Corporation ("**S&P**"). S&P's credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. According to the S&P rating system, debt rated "BB" is considered less vulnerable to non-payment than other speculative issues, however it faces ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inability to meet its financial obligations. The ratings from AA to CCC may be modified by the addition of a plus (+) or a minus (-) sign to show relative standing within the major rating categories. In addition, S&P may add a rating outlook of "positive", "negative" or "stable" which assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years).

Baytex Energy has been assigned a corporate family credit rating of B1 and our Debentures have been assigned a credit rating of B3, each with a stable outlook by Moody's Investor Service Inc. ("**Moody's**"). Moody's credit ratings are on a long-term debt rating scale that ranges from AAA to C, which represents the range from highest to lowest quality of such securities rated. According to the Moody's rating system, securities rated "B" are considered speculative and are subject to high credit risk. Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from AA through C. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of its generic rating category.

The credit ratings accorded to Baytex Energy and us by S&P and Moody's are not recommendations to purchase, hold or sell any of our securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings that we are or were a party to, or that any of our property is or was the subject of, during our most recently completed financial year, that were or are material to us, and there are no such material legal proceedings that we are currently aware of that are contemplated.

There were no: (i) penalties or sanctions imposed against us by a court relating to securities legislation or by a securities regulatory authority during our most recently completed financial year; (ii) other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements we entered into with a court relating to securities legislation or with a securities regulatory authority during our most recently completed financial year.

INTEREST OF INSIDERS AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of our directors and executive officers, any holder of Common Shares who beneficially owns or controls or directs, directly or indirectly, more than 10 percent of the outstanding Common Shares, or any known associate or affiliate of such persons, in any transactions since our inception or since the beginning of our last completed financial year which has materially affected or is reasonably expected to materially affect us.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Deloitte & Touche LLP, Chartered Accountants, Calgary, Alberta, is our auditor and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

Valiant Trust Company, at its principal offices in Calgary, Alberta and Toronto, Ontario, is the transfer agent and registrar for the Common Shares and the Debentures in Canada. Registrar and Transfer Company, at its principal office in Cranford, New Jersey, is the transfer agent and registrar for the Common Shares in the United States.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by us during, or related to, our most recently completed financial year other than Sproule, our independent engineering evaluator. None of the designated professionals of Sproule have any registered or beneficial interests, direct or indirect, in any of our securities or other property or of our associates or affiliates either at the time they prepared a report, valuation, statement or opinion, at any time thereafter or to be received by them.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of Baytex or of any associate or affiliate of Baytex, except for John Brussa, a director of Baytex, who is a partner at Burnet, Duckworth & Palmer LLP, a law firm that renders legal services to us.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts entered into by us within the most recently completed financial year, or before the most recently completed financial year but are still material and are still in effect, are the following:

- (a) the credit agreement (and amendments thereto) in respect of the Credit Facilities (filed on SEDAR on March 28, 2008, September 15, 2008, July 9, 2009, August 14, 2009, October 5, 2009, July 15, 2010, August 31, 2010, January 10, 2011 and February 24, 2011);
- (b) the Debenture Indenture (filed on SEDAR on September 3, 2009 and February 22, 2011);
- (c) our share award incentive plan (filed on SEDAR on January 10, 2011); and
- (d) our common share rights incentive plan (filed on SEDAR on January 10, 2011).

Copies of each of these contracts are accessible on the SEDAR website at www.sedar.com.

INDUSTRY CONDITIONS

Companies operating in the oil and natural gas industry are subject to extensive regulation and control of operations (including land tenure, exploration, development, production, refining, transportation, and marketing) as a result of legislation enacted by various levels of government and with respect to the pricing and taxation of oil and natural gas through agreements among the governments of Canada, Alberta, British Columbia, Saskatchewan, the United States, North Dakota and Wyoming all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these regulations or controls will affect our operations in a manner materially different than how they will affect other oil and natural gas companies of similar size. All current legislation is a matter of public record and we are unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the Canadian oil and gas industry.

Pricing and Marketing

Oil

The producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Oil prices are primarily based on worldwide supply and demand. The specific price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products, the supply/demand balance, and contractual terms of sale. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issuance of such a licence requires a public hearing and the approval of the Governor in Council.

Natural Gas

The price of the vast majority of natural gas produced in western Canada is now determined through highly liquid market hubs such as the Alberta "NIT" (Nova Inventory Transfer) hub rather than through direct negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas (other than propane, butane and ethane) exports for a period not exceeding two years or for a period exceeding two years but not exceeding 20 years in quantities of not more than 30,000 m³/day must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or for a larger quantity requires an exporter to obtain an export licence from the NEB and the issuance of such a licence requires a public hearing and the approval of the Governor in Council.

The governments of Alberta, British Columbia and Saskatchewan also regulate the volume of natural gas that may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements, and market considerations.

Pipeline Capacity

As a result of pipeline expansions over the past several years, there is ample pipeline capacity to accommodate current production levels of oil and natural gas in western Canada and pipeline capacity does not generally limit the ability to produce and market such production.

The North American Free Trade Agreement

The North American Free Trade Agreement ("NAFTA") among the governments of Canada, the United States and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada United States Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of goods of the party maintaining the restriction as compared to the proportion prevailing in the most recent 36 month period; (ii) impose an export price higher than the domestic price (subject to an exception with respect to certain measures which only restrict the volume of exports); and (iii) disrupt normal channels of supply. All three signatory countries are prohibited from imposing a minimum or maximum export price requirement in any circumstance where any other form of quantitative restriction is prohibited. The signatory countries are also prohibited from imposing a minimum or maximum import price requirement except as permitted in enforcement of countervailing and anti-dumping orders and undertakings.

NAFTA prohibits discriminatory border restrictions and export taxes. NAFTA also requires energy regulators to ensure the orderly and equitable implementation of any regulatory changes and to ensure that the application of those changes will cause minimal disruption to contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, all of which are important for Canadian oil and natural gas exports.

Royalties and Incentives

General

In addition to federal regulation, each province has legislation and regulations which govern royalties, production rates and other matters. The royalty regime in a given province is a significant factor in the profitability of crude oil, natural gas liquids, sulphur and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiation between the mineral freehold owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Royalties from production on Crown lands are determined by governmental regulation and are generally calculated as a percentage of the value of gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

Occasionally the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays or royalty tax credits and are generally introduced when commodity prices are low to encourage exploration and development activity by improving earnings and cash flow within the industry.

Alberta

Producers of oil and natural gas from Crown lands in Alberta are required to pay annual rental payments, currently at a rate of \$3.50 per hectare, and make monthly royalty payments in respect of oil and natural gas produced.

On October 25, 2007, the Government of Alberta released a report entitled "The New Royalty Framework" ("**NRF**") containing the Government's proposals for Alberta's new royalty regime which were subsequently implemented by the *Mines and Minerals (New Royalty Framework) Amendment Act, 2008*. The NRF took effect on January 1, 2009. On March 11, 2010, the Government of Alberta announced changes to Alberta's royalty system intended to increase Alberta's competitiveness in the upstream oil and natural gas sectors, which changes included a decrease in the maximum royalty rates for conventional oil and natural gas production effective for the January 2011 production month. Royalty curves incorporating the changes announced on March 11, 2010 were released on May 27, 2010. Alberta Royalties in effect after December 31, 2010 are known as the Alberta Royalty Framework ("**ARF**").

With respect to conventional oil, the NRF eliminated the classification system used by the previous royalty structure which classified oil based on the date of discovery of the pool. Under the NRF, royalty rates for conventional oil are set by a single sliding rate formula which is applied monthly and incorporates separate variables to account for production rates and market prices. Royalty rates for conventional oil under the NRF ranged from 0-50%, an increase from the previous maximum rates of 30-35% depending on the vintage of the oil, and rate caps were set at \$120 per barrel. Effective January 1, 2011, the maximum royalty payable under the ARF was reduced to 40%. The royalty curve for conventional oil announced on May 27, 2010 amends the price component of the conventional oil royalty formula to moderate the increase in the royalty rate at prices higher than \$535/m³ compared to the previous royalty curve.

Royalty rates for natural gas under the NRF are similarly determined using a single sliding rate formula incorporating separate variables to account for production rates and market prices. Royalty rates for natural gas under the NRF ranged from 5-50%, an increase from the previous maximum rates of 5-35%, and rate caps were set at \$16.59/GJ. Effective January 1, 2011, the maximum royalty payable under the ARF was reduced to 36%. The royalty curve for natural gas announced on May 27, 2010 amends the price component of the natural gas royalty formula to moderate the increase in the royalty rate at prices higher than \$5.25/GJ compared to the previous royalty curve.

Oil sands projects are also subject to the ARF. Prior to payout, the royalty is payable on gross revenues of an oil sands project. Gross revenue royalty rates range between 1-9% depending on the market price of oil: rates are 1% when the average monthly price, expressed in Canadian dollars, for WTI crude oil at Cushing, Oklahoma, is less than or equal to \$55 per barrel and increase for every dollar of market price of oil increase to a maximum of 9% when WTI crude oil is priced at \$120 or higher. After payout, the royalty payable is the greater of the gross revenue royalty based on the gross revenue royalty rate of 1-9% and the net revenue royalty based on the net revenue royalty rate. Net revenue royalty rates start at 25% and increase for every dollar of market price of WTI crude oil increase above \$55 up to 40% when WTI crude oil is priced at \$120 or higher. An oil sands project reaches payout when its cumulative revenue exceeds its cumulative costs. Costs include specified allowed capital and operating costs related to the project plus a specified return allowance. As part of the implementation of the NRF, the Government of Alberta renegotiated existing contracts with certain oil sands producers that were not compatible with the NRF or the ARF.

Producers of oil and natural gas from freehold lands in Alberta are required to pay annual freehold production taxes. The level of the freehold production tax is based on the volume of monthly production and a specified rate of tax for both oil and gas.

In April 2005, the Government of Alberta implemented the Innovative Energy Technologies Program (the "IETP"), which has the stated objectives of increasing recovery from oil and gas deposits, finding technical solutions to the gas over bitumen issue, improving the recovery of bitumen by in-situ and mining techniques and improving the recovery of natural gas from coal seams. The IETP is backed by a \$200 million funding commitment over a five-year period beginning April 1, 2005 and provides royalty adjustments to specific pilot and demonstration projects that utilize new or innovative technologies to increase recovery from existing reserves. This program continues under the ARF.

On April 10, 2008, the Government of Alberta introduced two new royalty programs to be implemented along with the NRF and intended to encourage the development of deeper, higher cost oil and gas reserves. A five-year program for conventional oil exploration wells over 2,000 metres provides qualifying wells with up to a \$1 million or 12 months of royalty relief, whichever comes first, and a five-year program for natural gas wells deeper than 2,500 metres provides a sliding scale royalty credit based on depth of up to \$3,750 per metre. On May 27, 2010, the natural gas deep drilling program was amended, retroactive to May 1, 2010, by reducing the minimum qualifying depth to 2,000 metres, removing a supplemental benefit of \$875,000 for wells exceeding 4,000 metres that are spudded subsequent to that date, and including wells drilled into pools drilled prior to 1985, among other changes. This program continues under the ARF.

On November 19, 2008, in response to the drop in commodity prices experienced during the second half of 2008, the Government of Alberta announced the introduction of a five-year program of transitional royalty rates with the intent of promoting new drilling. The 5-year transition option is designed to provide lower royalties at certain price levels in the initial years of a well's life when production rates are expected to be the highest. Under this new program, companies drilling new natural gas or conventional deep oil wells (between 1,000 and 3,500 m) are given a one-time option, on a well-by-well basis, to adopt either the new transitional royalty rates or those outlined in the NRF. Pursuant to the changes made to Alberta's royalty structure announced on March 11, 2010, producers were only able to elect to adopt the transitional royalty rates prior to January 1, 2011 and producers that had already elected to adopt such rates as of that date were permitted to switch to Alberta's conventional royalty structure up until February 15, 2011. On January 1, 2014, all producers operating under the transitional royalty rates will automatically become subject to the ARF. The revised royalty curves for conventional oil and natural gas will not be applied to production from wells operating under the transitional royalty rates.

On March 3, 2009, the Government of Alberta announced a three-point incentive program in order to stimulate new and continued economic activity in Alberta. The program introduced a drilling royalty credit for new conventional oil and natural gas wells and a new well royalty incentive program, both applying to conventional oil or natural gas wells drilled between April 1, 2009 and March 31, 2010. The drilling royalty credit provides up to a \$200 per metre royalty credit for new wells and is primarily expected to benefit smaller producers since the maximum credit available will be determined using the company's production level in 2008 and its drilling activity between April 1, 2009 and March 31, 2010, favouring smaller producers with lower activity levels. The new well incentive program initially applied to wells that began producing conventional oil or natural gas between April 1, 2009 and March 31, 2010 and provided for a maximum 5% royalty rate for the first 12 months of production on a maximum of 50,000 barrels of oil or 500 MMcf of natural gas. In June, 2009, the Government of Alberta announced the extension of these two incentive programs for one year to March 31, 2011. On March 11, 2010, the Government of Alberta announced that the incentive program rate of 5% for the first 12 months of production would be made permanent, with the same volume limitations. This program continues under the ARF.

In addition to the foregoing, on May 27, 2010, in conjunction with the release of the new royalty curves, the Government of Alberta announced a number of new initiatives intended to accelerate technological development and facilitate the development of unconventional resources (the "**Emerging Resource and Technologies Initiative**"). Specifically:

- Coalbed methane wells will receive a maximum royalty rate of 5% for 36 producing months on up to 750 MMcf of production, retroactive to wells that began producing on or after May 1, 2010;
- Shale gas wells will receive a maximum royalty rate of 5% for 36 producing months with no limitation on production volume, retroactive to wells that began producing on or after May 1, 2010;
- Horizontal gas wells will receive a maximum royalty rate of 5% for 18 producing months on up to 500 MMcf of production, retroactive to wells that commenced drilling on or after May 1, 2010;
- Horizontal oil wells and horizontal non-project oil sands wells will receive a maximum royalty rate of 5% with volume and production month limits set according to the depth of the well (including the horizontal distance), retroactive to wells that commenced drilling on or after May 1, 2010.

The Emerging Resource and Technologies Initiative will be reviewed in 2014, and the Government of Alberta has committed to providing industry with three years notice at that time if it decides to discontinue the program.

British Columbia

Producers of oil and natural gas from Crown lands in British Columbia are required to pay annual rental payments, currently at a rate of \$3.50 per hectare, and make monthly royalty payments in respect of oil and natural gas produced. The amount payable as a royalty in respect of oil depends on the type and vintage of the oil, the quantity of oil produced in a month and the value of that oil. Generally, oil is classified as either light or heavy and the vintage of oil is based on the determination of whether the oil is produced from a pool discovered before October 31, 1975 ("old oil"), between October 31, 1975 and June 1, 1998 ("new oil"), or after June 1, 1998 ("third-tier oil"). The royalty calculation takes into account the production of oil on a well-by-well basis, the specified royalty rate for a given vintage of oil, the average unit selling price of the oil and any applicable royalty exemptions. Royalty rates are reduced on low productivity wells, reflecting the higher unit costs of extraction, and are the lowest for third-tier oil, reflecting the higher unit costs of both exploration and extraction.

The royalty payable in respect of natural gas produced on Crown lands is determined by a sliding scale formula based on a reference price, which is the greater of the average net price obtained by the producer and a prescribed minimum price. For non-conservation gas (not produced in association with oil), the royalty rate depends on the date of acquisition of the oil and natural gas tenure rights and the spud date of the well and may also be impacted by the select price, a parameter used in the royalty rate formula to account for inflation. Royalty rates are fixed for certain classes of non-conservation gas when the reference price is below the select price. Conservation gas is subject to a lower royalty rate than non-conservation gas as an incentive for the production and marketing of natural gas which might otherwise have been flared.

Producers of oil and natural gas from freehold lands in British Columbia are required to pay monthly freehold production taxes. For oil, the level of the freehold production tax is based on the volume of monthly production. For natural gas, the freehold production tax is determined using a sliding scale formula based on the reference price similar to that applied to natural gas production on Crown land, and depends on whether the natural gas is conservation gas or non-conservation gas.

British Columbia maintains a number of targeted royalty programs for key resource areas intended to increase the competitiveness of British Columbia's low productivity wells. These include both royalty credit and royalty reduction programs, including the following:

- *Summer Royalty Credit Program* providing a royalty credit of 10% of drilling and completion costs up to \$100,000 for wells drilled between April 1 and November 30 of each year, intended to increase summer drilling activity, employment and business opportunities in northeastern British Columbia;
- *Deep Royalty Credit Program* providing a royalty credit equal to approximately 23% of drilling and completion costs for vertical wells with a true vertical depth greater than 2,500 metres and horizontal wells with a true vertical depth greater than 2,300 metres spudded between December 1, 2003 and September 1, 2009;
- *Deep Re-Entry Royalty Credit Program* providing royalty credits for deep re-entry wells with a true vertical depth greater than 2,300 metres and a re-entry date subsequent to December 1, 2003;
- *Deep Discovery Royalty Credit Program* providing the lesser of a 3-year royalty holiday or 283,000,000 m³ of royalty free gas for deep discovery wells with a true vertical depth greater than 4,000 metres whose surface locations are at least 20 kilometres away from the surface location of any well drilled into a recognized pool within the same formation with a spud date after November 30, 2003;
- *Coalbed Gas Royalty Reduction and Credit Program* providing a royalty reduction for coalbed gas wells with average daily production less than 17,000 m³ as well as a royalty credit for coalbed gas wells equal to \$50,000 for wells drilled on Crown land and a tax credit equal to \$30,000 for wells drilled on freehold land;
- *Marginal Royalty Reduction Program* providing royalty reductions for low productivity natural gas wells with average monthly production under 25,000 m³ during the first 12 production months and average daily production less than 23 m³ for every metre of marginal well depth;
- *Ultra-Marginal Royalty Reduction Program* providing royalty reductions for low productivity shallow natural gas wells with a true vertical depth of less than 2,300 metres, average monthly production under 60,000 m³ during the first 12 production months and average daily production less than 11.5 m³ (development wells) or 17 m³ (exploratory wildcat wells) for every 100 metres of marginal well depth;
- *Net Profit Royalty Reduction Program* providing reduced initial royalty rates to facilitate the development and commercialization of technically complex resources such as coalbed gas, tight gas, shale gas and enhanced-recovery projects, with higher royalty rates applied once capital costs have been recovered.

Oil produced from an oil well that is located on either Crown or freehold land and completed in a new pool discovered subsequent to June 30, 1974 may also be exempt from the payment of a royalty for the first 36 months of production or 11,450 m³ of production, whichever comes first.

The Government of British Columbia also maintains an Infrastructure Royalty Credit Program (the "**Infrastructure Royalty Credit Program**") which provides royalty credits for up to 50% of the cost of certain approved road construction or pipeline infrastructure projects intended to improve, or make possible, the access to new and underdeveloped oil and gas areas. In both 2009 and 2010, the Government of British Columbia allocated \$120 million in royalty credits for oil and gas companies under the Infrastructure Royalty Credit Program.

On August 6, 2009, the Government of British Columbia announced an oil and gas stimulus package designed to attract investment in and create economic benefits for British Columbia. The stimulus package includes four royalty initiatives related primarily to natural gas drilling and infrastructure development. Natural gas wells spudded within the 10-month period from September 1, 2009 to June 30, 2010 and brought on production by December 31, 2010 qualify for a 2% royalty rate for the first 12 months of production, beginning from the first month of production for the well (the "**Royalty Relief Program**"). British Columbia's existing Deep Royalty Credit Program was permanently amended for wells spudded after August 31, 2009 by increasing the royalty deduction on deep drilling for natural gas by 15% and extending the program to include horizontal wells drilled to depths of between 1,900 and 2,300 metres. Wells spudded between September 1, 2009 and June 30, 2010 may qualify for both the Royalty Relief Program and the Deep Royalty Credit Program but will only receive the benefits of one program at a time. An additional \$50 million was also allocated to be distributed through the Infrastructure Royalty Credit Program to stimulate investment in oilfield-related road and pipeline construction.

Saskatchewan

In Saskatchewan, the amount payable as Crown royalty or freehold production tax in respect of oil depends on the type and vintage of oil, the quantity of oil produced in a month, the value of the oil produced and specified adjustment factors determined monthly by the provincial government. For Crown royalty and freehold production tax purposes, conventional oil is classified as "heavy oil", "southwest designated oil" or "non-heavy oil other than southwest designated oil". The conventional royalty and production tax classifications ("fourth tier oil", "third tier oil", "new oil" and "old oil") depend on the finished drilling date of a well and are applied to each of the three crude oil types slightly differently. Heavy oil is classified as third tier oil (having a finished drilling date on or after January 1, 1994 and before October 1, 2004), fourth tier oil (having a finished drilling date on or after October 1, 2002) or new oil (not classified as either third tier oil or fourth tier oil). Southwest designated oil uses the same definitions of third and fourth tier oil but new oil is defined as conventional oil produced from a horizontal well having a finished drilling date on or after February 9, 1998 and before October 1, 2002. For non-heavy oil other than southwest designated oil, the same classification is used but new oil is defined as conventional oil produced from a vertical well completed after 1973 and having a finished drilling date prior to 1994, whereas old oil is defined as conventional oil not classified as third or fourth tier oil or new oil.

Base prices are used to establish lower limits in the price-sensitive royalty structure for conventional oil. Where average wellhead prices are below the established base prices of \$100 per m³ for third and fourth tier oil and \$50 per m³ for new oil and old oil, base royalty rates are applied. Base royalty rates are 5% for all fourth tier oil, 10% for heavy oil that is third tier oil or new oil, 12.5% for southwest designated oil that is third tier oil or new oil, 15% for non-heavy oil other than southwest designated oil that is third tier or new oil, and 20% for old oil. Where average wellhead prices are above base prices, marginal royalty rates are applied to the proportion of production that is above the base oil price. Marginal royalty rates are 30% for all fourth tier oil, 25% for heavy oil that is third tier oil or new oil, 35% for southwest designated oil that is third tier oil or new oil, 35% for non-heavy oil other than southwest designated oil that is third tier or new oil, and 45% for old oil.

The amount payable as Crown royalty or freehold production tax in respect of natural gas production is determined by a sliding scale based on the actual price received, the quantity produced in a given month, the type of natural gas, and the vintage of the natural gas. Natural gas may be classified as "non-associated gas" or "associated gas" and royalty rates are determined according to the finished drilling date of the respective well. As an incentive for the production and marketing of natural gas which may have been flared, the royalty rate on natural gas produced in association with oil is less than on non-associated natural gas. Non-associated gas is classified as new gas (having a finished drilling date before February 9, 1998 with a first production date on or after October 1, 1976), third tier gas (having a finished drilling date on or after February 9, 1998 and before October 1, 2002), fourth tier gas (having a finished drilling date on or after October 1, 2002) and old gas (not classified as either third tier, fourth tier or new gas). A similar classification is used for associated gas except that the classification of old gas is not used, the definition of fourth tier gas also includes production from oil wells with a finished drilling date prior to October 1, 2002, where the individual oil well has a gas-oil production ratio in any month of more than 3,500 m³ of gas for every m³ of oil, and new gas is defined as oil produced from a well with a finished drilling date before February 9, 1998 that received special approval, prior to October 1, 2002, to produce oil and gas concurrently without gas-oil ratio penalties.

On December 9, 2010, the Government of Saskatchewan enacted the *Freehold Oil and Gas Production Tax Act, 2010* which replaces the existing *Freehold Oil and Gas Production Tax Act* and is intended to facilitate more efficient payment of freehold production taxes by industry. No regulations have been passed with respect to the calculation of freehold production taxes under the new Act.

As with conventional oil production, base prices are used to establish lower limits in the price-sensitive royalty structure for natural gas. Where average field-gate prices are below the established base prices of \$50 per thousand m³ for third and fourth tier gas and \$35 per thousand m³ for new gas and old gas, base royalty rates are applied. Base royalty rates are 5% for all fourth tier gas, 15% for third tier or new gas, and 20% for old gas. Where average well-head prices are above base prices, marginal royalty rates are applied to the proportion of production that is above the base gas price. Marginal royalty rates are 30% for all fourth tier gas, 35% for third tier and new gas, and 45% for old gas.

The Government of Saskatchewan currently provides a number of targeted incentive programs. These include both royalty reduction and incentive volume programs, including the following:

- *Royalty/Tax Incentive Volumes for Vertical Oil Wells Drilled on or after October 1, 2002* providing reduced Crown royalty and freehold tax rates on incentive volumes of 8,000 m³ for deep development vertical oil wells, 4,000 m³ for non-deep exploratory vertical oil wells and 16,000 m³ for deep exploratory vertical oil wells (more than 1,700 metres or within certain formations);
- *Royalty/Tax Incentive Volumes for Exploratory Gas Wells Drilled on or after October 1, 2002* providing reduced Crown royalty and freehold tax rates on incentive volumes of 25,000,000 m³ for qualifying exploratory gas wells;
- *Royalty/Tax Incentive Volumes for Horizontal Oil Wells Drilled on or after October 1, 2002* providing reduced Crown royalty and freehold tax rates on incentive volumes of 6,000 m³ for non-deep horizontal oil wells and 16,000 m³ for deep horizontal oil wells (more than 1,700 metres or within certain formations);
- *Royalty/Tax Regime for Incremental Oil Produced from New or Expanded Waterflood Projects Implemented on or after October 1, 2002* treating incremental production from waterflood projects as fourth tier oil for the purposes of royalty calculation;
- *Royalty/Tax Regime for Enhanced Oil Recovery Projects (Excluding Waterflood Projects) Commencing prior to April 1, 2005* providing Crown royalty and freehold tax determinations based in part on the profitability of enhanced recovery projects pre- and post-payout;
- *Royalty/Tax Regime for Enhanced Oil Recovery Projects (Excluding Waterflood Projects) Commencing on or after April 1, 2005* providing a Crown royalty of 1% of gross revenues on enhanced oil recovery projects pre-payout and 20% post-payout and a freehold production tax of 0% on operating income from enhanced oil recovery projects pre-payout and 8% post-payout;
- *Royalty/Tax Program for High Water-Cut Oil Wells* treating incremental oil resulting from qualified investments on eligible high water-cut oil wells as third tier oil for the purposes of royalty calculation; and
- *Royalty/Tax Incentive Volumes for Horizontal Gas Wells Drilled on or after June 1, 2010 and before April 1, 2013* providing reduced Crown royalty and freehold tax rates on incentive volumes of 25,000,000 m³, by classifying horizontal gas wells as exploratory gas wells for the purposes of royalty calculation.

In 1975, the Government of Saskatchewan introduced a Royalty Tax Rebate ("RTR") as a response to the Government of Canada disallowing crown royalties and similar taxes as a deductible business expense for income tax purposes. As of January 1, 2007, the remaining balance of any unused RTR will be limited in its carry forward to seven years since the Government of Canada's initiative to reintroduce the full deduction of provincial resource royalties from federal and provincial taxable income. Saskatchewan's RTR will be wound down as a result of the Government of Canada's plan to reintroduce full deductibility of provincial resource royalties for corporate income tax purposes.

Land Tenure

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce crude oil and natural gas pursuant to leases, licences, and permits for varying terms, and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. There are also areas in such provinces where crude oil and natural gas are privately owned with the rights to explore for and produce such crude oil and natural gas granted by lease on such terms and conditions as may be negotiated.

Each of the provinces of Alberta, British Columbia and Saskatchewan has implemented legislation providing for the reversion to the Crown of mineral rights to deep, non-productive geological formations at the conclusion of the primary term of a lease or license. On March 29, 2007, British Columbia's policy of deep rights reversion was expanded for new leases to provide for the reversion of both shallow and deep formations that cannot be shown to be capable of production at the end of their primary term.

In Alberta, the NRF includes a policy of "shallow rights reversion" which provides for the reversion to the Crown of mineral rights to shallow, non-productive geological formations for all leases and licenses. For leases and licenses issued subsequent to January 1, 2009, shallow rights reversion will be applied at the conclusion of the primary term of the lease or license. Holders of leases or licences that have been continued indefinitely prior to January 1, 2009 will receive a notice regarding the reversion of the shallow rights, which will be implemented three years from the date of the notice. The order in which these agreements will receive the reversion notice will depend on their vintage and location, with the older leases and licenses receiving reversion notices first beginning in January 2011. Leases and licences that were granted prior to January 1, 2009 but continued after that date will not be subject to shallow rights reversion until they reach the end of their primary term and are continued (at which time deep rights reversion will be applied); thereafter, the holders of such agreements will be served with shallow rights reversion notices based on vintage and location similar to leases and licences that were already continued as of January 1, 2009.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

In December, 2008, the Government of Alberta released a new land use policy for surface land in Alberta, the Alberta Land Use Framework (the "ALUF"). The ALUF sets out an approach to manage public and private land use and natural resource development in a manner that is consistent with the long-term economic, environmental and social goals of the province. It calls for the development of region-specific land use plans in order to manage the combined impacts of existing and future land use within a specific region and the incorporation of a cumulative effects management approach into such plans. The *Alberta Land Stewardship Act* (the "ALSA") was proclaimed in force in Alberta on October 1, 2009, providing the legislative authority for the Government of Alberta to implement the policies contained in the ALUF. Regional plans established pursuant to the ALSA are deemed to be legislative instruments equivalent to regulations and are binding on the Government of Alberta and provincial regulators, including those governing the oil and gas industry. In the event of a conflict or inconsistency between a regional plan and another regulation, regulatory instrument or statutory consent, the regional plan will prevail. Further, the ALSA requires local governments, provincial departments, agencies and administrative bodies or tribunals to review their regulatory instruments and make any appropriate changes to ensure that they comply with an adopted regional plan. The ALSA also contemplates the amendment or extinguishment of previously issued statutory consents such as regulatory permits, licenses, approvals and authorizations for the purpose of achieving or maintaining an objective or policy resulting from the implementation of a regional plan. Among the measures to support the goals of the regional plans contained in the ALSA are conservation easements, which can be granted for the protection, conservation and enhancement of land; and conservation directives, which are explicit declarations contained in a regional plan to set aside specified lands in order to protect, conserve, manage and enhance the environment. Although no regional plans have been established under the ALSA, the planning process is underway for the Lower Athabasca Region (which contains the majority of oil sands development) and the South Saskatchewan Region. While the potential impact of the regional plans established under the ALSA cannot yet be determined, it is clear that such regional plans may have a significant impact on land use in Alberta and may affect the oil and gas industry.

Climate Change Regulation

Federal

In December 2002, the Government of Canada ratified the Kyoto Protocol ("**Kyoto Protocol**"), which requires a reduction in greenhouse gas ("**GHG**") emissions by signatory countries between 2008 and 2012. The Kyoto Protocol officially came into force on February 16, 2005 and commits Canada to reduce its GHG emissions levels to 6% below 1990 "business-as-usual" levels by 2012.

On February 14, 2007, the House of Commons passed Bill C-288, *An Act to ensure Canada meets its global climate change obligations under the Kyoto Protocol*. The resulting *Kyoto Protocol Implementation Act* came into force on June 22, 2007. Its stated purpose is to "ensure that Canada takes effective and timely action to meet its obligations under the Kyoto Protocol and help address the problem of global climate change." It requires the federal Minister of the Environment to, among other things, produce an annual climate change plan detailing the measures to be taken to ensure Canada meets its obligations under the Kyoto Protocol. It also authorizes the establishment of regulations respecting matters such as emissions limits, monitoring, trading and enforcement.

On April 26, 2007, the Government of Canada released "Turning the Corner: An Action Plan to Reduce Greenhouse Gases and Air Pollution" (the "**Action Plan**") which set forth a plan for regulations to address both GHGs and air pollution. An update to the Action Plan, "Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions" was released on March 10, 2008 (the "**Updated Action Plan**"). The Updated Action Plan outlines emissions intensity-based targets which will be applied to regulated sectors on either a facility-specific, sector-wide or company-by-company basis. Facility-specific targets apply to the upstream oil and gas, oil sands, petroleum refining and natural gas pipelines sectors. Unless a minimum regulatory threshold applies, all facilities within a regulated sector will be subject to the emissions intensity targets.

The Updated Action Plan makes a distinction between "Existing Facilities" and "New Facilities". For Existing Facilities, the Updated Action Plan requires an emissions intensity reduction of 18% below 2006 levels by 2010 followed by a continuous annual emissions intensity improvement of 2%. "New Facilities" are defined as facilities beginning operations in 2004 and include both greenfield facilities and major facility expansions that (i) result in a 25% or greater increase in a facility's physical capacity, or (ii) involve significant changes to the processes of the facility. New Facilities will be given a 3-year grace period during which no emissions intensity reductions will be required. Targets requiring an annual 2% emissions intensity reduction will begin to apply in the fourth year of commercial operation of a New Facility. Further, emissions intensity targets for New Facilities will be based on a cleaner fuel standard to encourage continuous emissions intensity reductions over time. The method of applying this cleaner fuel standard has not yet been determined. In addition, the Updated Action Plan indicates that targets for the adoption of carbon capture and storage ("**CCS**") technologies will be developed for oil sands in-situ facilities, upgraders and coal-fired power generators that begin operations in 2012 or later. These targets will become operational in 2018, although the exact nature of the targets has not yet been determined.

Given the large number of small facilities within the upstream oil and gas and natural gas pipeline sectors, facilities within these sectors will only be subject to emissions intensity targets if they meet certain minimum emissions thresholds. That threshold will be (i) 50,000 tonnes of CO₂ equivalents per facility per year for natural gas pipelines; (ii) 3,000 tonnes of CO₂ equivalents per facility per year for the upstream oil and gas facility; and (iii) 10,000 boe/d/company. These regulatory thresholds are significantly lower than the regulatory threshold in force in Alberta, discussed below. In all other sectors governed by the Updated Action Plan, all facilities will be subject to regulation.

Four separate compliance mechanisms are provided for in the Updated Action Plan in respect of the above targets: Regulated entities will be able to use Technology Fund contributions to meet their emissions intensity targets. The contribution rate for Technology Fund contributions will increase over time, beginning at \$15 per tonne of CO₂ equivalent for the 2010 to 2012 period, rising to \$20 in 2013, and thereafter increasing at the nominal rate of GDP growth. Maximum contribution limits will also decline from 70% in 2010 to 0% in 2018. Monies raised through contributions to the Technology Fund will be used to invest in technology to reduce GHG emissions. Alternatively, regulated entities may be able to receive credits for investing in large-scale and transformative projects at the same contribution rate and under similar requirements as described above.

The offset system is intended to encourage emissions reductions from activities outside of the regulated sphere, allowing non-regulated entities to participate in and benefit from emissions reduction activities. In order to generate offset credits, project proponents must propose and receive approval for emissions reduction activities that will be verified before offset credits will be issued to the project proponent. Those credits can then be sold to regulated entities for use in compliance or non-regulated purchasers that wish to either purchase the offset credits for cancellation or banking for future use or sale.

Under the Updated Action Plan, regulated entities will also be able to purchase credits created through the Clean Development Mechanism of the Kyoto Protocol which facilitates investment by developed nations in emissions-reduction projects in developing countries. The purchase of such Emissions Reduction Credits will be restricted to 10% of each firm's regulatory obligation, with the added restriction that credits generated through forest sink projects will not be available for use in complying with the Canadian regulations.

Finally, a one-time credit of up to 15 million tonnes worth of emissions credits will be awarded to regulated entities for emissions reduction activities undertaken between 1992 and 2006. These credits will be both tradable and bankable.

The United Nations Framework Convention on Climate Change is working towards establishing a successor to the Kyoto Protocol. From December 7 to 18, 2009, a meeting between government leaders and representatives from approximately 170 countries in Copenhagen, Denmark (the "**Copenhagen Conference**") resulted in the Copenhagen Accord, which reinforces the commitment to reducing GHG emissions contained in the Kyoto Protocol and promises funding to help developing countries mitigate and adapt to climate change. From November 29 to December 10, 2010, a meeting between representatives from approximately 190 countries in Cancun, Mexico resulted in the Cancun Agreements, in which developed countries committed to additional measures to help developing countries deal with climate change. Unlike the Kyoto Protocol, however, neither the Copenhagen Accord nor the Cancun Agreements establish binding GHG emissions reduction targets.

In response to the Copenhagen Accord, the Government of Canada indicated on January 29, 2010 that it will seek to achieve a 17% reduction in GHG emissions from 2005 levels by 2020. This goal is similar to the goal expressed in previous policy documents which were discussed above.

Although draft regulations for the implementation of the Updated Action Plan were intended to be published in the fall of 2008 and become binding on January 1, 2010, no such regulations have been proposed to date. Further, representatives of the Government of Canada have indicated that the proposals contained in the Updated Action Plan will be modified to ensure consistency with the direction ultimately taken by the United States with respect to GHG emissions regulation. As a result, it is unclear to what extent, if any, the proposals contained in the Updated Action Plan will be implemented.

On December 23, 2010, the United States Environmental Protection Agency indicated its intention to impose GHG emissions standards for fossil fuel-fired power plants by July, 2011 and for refineries by December, 2011.

Alberta

Alberta enacted the *Climate Change and Emissions Management Act* (the "**CCEMA**") on December 4, 2003, amending it through the *Climate Change and Emissions Management Amendment Act* which received royal assent on November 4, 2008. The CCEMA is based on an emissions intensity approach similar to the Updated Action Plan and aims for a 50% reduction from 1990 emissions relative to GDP by 2020.

Alberta facilities emitting more than 100,000 tonnes of GHGs a year are subject to compliance with the CCEMA. Similar to the Updated Action Plan, the CCEMA and the associated *Specified Gas Emitters Regulation* make a distinction between "Established Facilities" and "New Facilities". Established Facilities are defined as facilities that completed their first year of commercial operation prior to January 1, 2000 or that have completed eight or more years of commercial operation. Established Facilities are required to reduce their emissions intensity to 88% of their baseline for 2008 and subsequent years, with their baseline being established by the average of the ratio of the total annual emissions to production for the years 2003 to 2005. New Facilities are defined as facilities that completed their first year of commercial operation on December 31, 2000, or a subsequent year, and have completed less than eight years of commercial operation, or are designated as New Facilities in accordance with the *Specified Gas Emitters Regulation*. New Facilities are required to reduce their emissions intensity by 2% from baseline in the fourth year of commercial operation, 4% of baseline in the fifth year, 6% of baseline in the sixth year, 8% of baseline in the seventh year, and 10% of baseline in the eighth year. Unlike the Updated Action Plan, the CCEMA does not contain any provision for continuous annual improvements in emissions intensity reductions beyond those stated above.

The CCEMA contains compliance mechanisms that are similar to the Updated Action Plan. Regulated emitters can meet their emissions intensity targets by contributing to the Climate Change and Emissions Management Fund (the "**Fund**") at a rate of \$15 per tonne of CO₂ equivalent. Unlike the Updated Action Plan, CCEMA contains no provisions for an increase to this contribution rate. Emissions credits can be purchased from regulated emitters that have reduced their emissions below the 100,000 tonne threshold or non-regulated emitters that have generated emissions offsets through activities that result in emissions reductions in accordance with established protocols published by the Government of Alberta. Unlike the Updated Action Plan, the CCEMA does not contemplate a linkage to external compliance mechanisms such as the Kyoto Protocol's Clean Development Mechanism.

On December 2, 2010, the Government of Alberta passed the *Carbon Capture and Storage Statutes Amendment Act, 2010*, which deemed the pore space underlying all land in Alberta to be, and to have always been, the property of the Crown and provided for the assumption of long-term liability for carbon sequestration projects by the Crown, subject to the satisfaction of certain conditions.

As at year-end 2010, Baytex did not have an interest in any facilities in Alberta that emit more than 100,000 tonnes of CO₂ equivalents per year.

British Columbia

In February, 2008, British Columbia announced a revenue-neutral carbon tax that took effect July 1, 2008. The tax is consumption-based and applied at the time of retail sale or consumption of virtually all fossil fuels purchased or used in British Columbia. The initial level of the tax was set at \$10 per tonne of CO₂ equivalent and rose to \$15 per tonne of CO₂ equivalent on July 1, 2009 and \$20 per tonne of CO₂ equivalent on July 1, 2010. It is scheduled to further increase at a rate of \$5 per tonne of CO₂ equivalent on July 1 of every year until it reaches \$30 per tonne of CO₂ equivalent on July 31, 2012. In order to make the tax revenue-neutral, British Columbia has implemented tax credits and reductions in order to offset the tax revenues that the Government of British Columbia would otherwise receive from the tax.

On April 3, 2008, British Columbia introduced the *Greenhouse Gas Reduction (Cap and Trade) Act* (the "**Cap and Trade Act**") which received royal assent on May 29, 2008 and will come into force by regulation of the Lieutenant Governor in Council. Unlike the emissions intensity approach taken by the federal government and the Government of Alberta, the Cap and Trade Act establishes an absolute cap on GHG emissions. It is expected that GHG emissions restrictions will be applied to facilities emitting more than 25,000 tonnes of CO₂ equivalents per year, which will be required to meet established targets through a combination of emissions allowances issued by the Government of British Columbia and the purchase of emissions offsets generated through activities that result in a reduction in GHG emissions. Although more specific details of British Columbia's cap and trade plan have not yet been finalized, on January 1, 2010, new reporting regulations came into force requiring all British Columbia facilities emitting over 10,000 tonnes of CO₂ equivalents per year to begin reporting their emissions. Facilities reporting emissions greater than 25,000 tonnes of CO₂ equivalents per year are required to have their emissions reports verified by a third party.

As at year-end 2010, Baytex's Cache Creek facility emitted more than 10,000 tonnes of CO₂ equivalents per year and, therefore, will be subject to reporting requirements under the Cap and Trade Act. As at year-end 2010, Baytex did not have an interest in any facilities in British Columbia that emit more than 25,000 tonnes of CO₂ equivalents per year.

Saskatchewan

On May 11, 2009, the Government of Saskatchewan announced *The Management and Reduction of Greenhouse Gases Act* (the "MRGGA") to regulate GHG emissions in the province. The MRGGA received Royal Assent on May 20, 2010 and will come into force on proclamation. Regulations under the MRGGA have also yet to be proclaimed, but draft versions indicate that Saskatchewan will adopt the goal of a 20% reduction in GHG emissions from 2006 levels by 2020 and permit the use of pre-certified investment credits, early action credits and emissions offsets in compliance, similar to both the federal and Alberta climate change initiatives. It remains unclear whether the scheme implemented by the MRGGA will be based on emissions intensity or an absolute cap on emissions.

United States

Our wholly-owned subsidiary, Baytex USA, owns oil and natural gas properties and related assets in North Dakota and Wyoming in the United States. Baytex USA's oil and natural gas operations in the United States are regulated by administrative agencies under statutory provisions of the states where such operations are conducted and by certain agencies of the federal government for operations on federal leases. These statutory provisions regulate matters such as the exploration for and production of crude oil and natural gas, including provisions related to permits for the drilling of wells, bonding requirements in order to drill or operate wells, the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, and the abandonment of wells. Baytex USA's operations in the United States are also subject to various conservation laws and regulations which regulate matters such as the size of drilling and spacing units or proration units, the number of wells which may be drilled in an area, and the unitization or pooling of crude oil and natural gas properties. In addition, state conservation laws sometimes establish maximum rates of production from crude oil and natural gas wells, generally prohibit the venting or flaring of natural gas, and impose certain requirements regarding the rateability or fair apportionment of production from fields and individual wells.

ADDITIONAL INFORMATION

Additional information relating to us can be found on the SEDAR website at www.sedar.com and on our website at www.baytex.ab.ca. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities issued and authorized for issuance under our equity compensation plans will be contained in our Information Circular - Proxy Statement for the annual meeting of Shareholders to be held on May 17, 2011. Additional financial information is contained in our consolidated financial statements for the year ended December 31, 2010 and the related management's discussion and analysis which are accessible on the SEDAR website at www.sedar.com. For additional copies of this Annual Information Form and the materials listed in the preceding paragraphs, please contact:

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Website: www.baytex.ab.ca

APPENDIX A

REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE
Form 51-101F3

Management of Baytex Energy Corp. ("**Baytex**") is responsible for the preparation and disclosure of information with respect to Baytex's oil and natural gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated Baytex's reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Committee of the Board of Directors of Baytex (the "**Reserves Committee**") has:

- (a) reviewed Baytex's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee has reviewed Baytex's procedures for assembling and reporting other information associated with oil and natural gas activities and has reviewed that information with management. The Board of Directors of Baytex has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

(signed) "Anthony W. Marino"
Anthony W. Marino
President and Chief Executive Officer

(signed) "W. Derek Aylesworth"
W. Derek Aylesworth
Chief Financial Officer

(signed) "Dale O. Shwed"
Dale O. Shwed
Director and Chairman of the Reserves Committee

(signed) "John A. Brussa"
John A. Brussa
Director and Member of the Reserves Committee

March 28, 2011

APPENDIX B

**REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR
Form 51-101F2**

To the Board of Directors of Baytex Energy Corp. ("**Baytex**"):

1. We have evaluated Baytex's reserves data as at December 31, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.
2. The reserves data are the responsibility of Baytex's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of Baytex evaluated by us for the year ended December 31, 2010, and identifies the respective portions thereof that we have evaluated and reported on to the management and Board of Directors of Baytex:

| Independent Qualified Reserves Evaluator or Auditor | Description and Preparation Date of Evaluation Report | Location of Reserves | Net Present Value of Future Net Revenue Before income taxes (10% discount rate – \$ millions) | | | |
|---|--|----------------------|---|-----------|----------|-----------|
| | | | Audited | Evaluated | Reviewed | Total |
| Sproule Associates Limited | Evaluation of the P&NG Reserves of Baytex Energy Corp. (As of December 31, 2010). Preparation Date: March 14, 2011 | Canada | Nil | \$3,877.0 | Nil | \$3,877.0 |
| | | United States | Nil | 297.9 | Nil | 297.9 |
| | | Total | Nil | \$4,174.9 | Nil | \$4,174.9 |

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied.
6. We have no responsibility to update the report referred to in paragraph 4 for events and circumstances occurring after its preparation date.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above on March 28, 2011.

Sproule Associates Limited

(signed) "R. Keith MacLeod"
R. Keith MacLeod, P.Eng.
President

(signed) "Alec Kovaltchouk"
Alec Kovaltchouk, P.Geol
Manager, Geoscience

(signed) "Robert N. Johnson"
Robert N. Johnson, P.Eng.
Vice-President, Engineering

(signed) "Peter C. Sidey"
Peter C. Sidey, P.Eng.
Associate

(signed) "Donald W. Woods"
Donald W. Woods, P.Eng.
Manager, Engineering

APPENDIX C

BAYTEX ENERGY LTD.

AUDIT COMMITTEE

MANDATE AND TERMS OF REFERENCE

ROLE AND OBJECTIVE

The Audit Committee (the "Committee") is a committee of the board of directors (the "Board") of Baytex Energy Corp. (the "Corporation") to which the Board has delegated certain of its responsibilities. The primary responsibility of the Committee is to review the interim and annual financial statements of the Corporation and to recommend their approval or otherwise to the Board. The Committee is also responsible for reviewing and recommending to the Board the appointment and compensation of the external auditors of the Corporation, overseeing the work of the external auditors, including the nature and scope of the audit of the annual financial statements of the Corporation, pre-approving services to be provided by the external auditors and reviewing the assessments prepared by management and the external auditors on the effectiveness of the Corporation's internal controls over financial reporting.

The objectives of the Committee are to:

1. assist directors in meeting their responsibilities in respect of the preparation and disclosure of the financial statements of the Corporation and related matters;
2. facilitate communication between directors and the external auditors;
3. enhance the external auditors' independence;
4. increase the credibility and objectivity of financial reports; and
5. strengthen the role of the independent directors by facilitating in depth discussions between the Committee, management and the external auditors.

MEMBERSHIP OF THE COMMITTEE

1. The Committee shall be comprised of not less than three members all of whom are "independent" directors and "financially literate" (within the meaning of National Instrument 52-110 "Audit Committees"). The members of the Committee shall be appointed by the Board from time to time.
2. The Board shall appoint a Chair of the Committee, who shall be an independent director.
3. Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director. The Board may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, each member of the Committee shall hold such office until the close of the next annual meeting of shareholders of the Corporation following appointment as a member of the Committee.

MANDATE AND RESPONSIBILITIES OF THE COMMITTEE

1. It is the responsibility of the Committee to oversee the work of the external auditors, including resolution of disagreements between management and the external auditors regarding financial reporting. The external auditors shall report directly to the Committee.

2. It is the responsibility of the Committee to satisfy itself on behalf of the Board with respect to the Corporation's internal control systems by:
 - identifying, monitoring and mitigating business risks; and
 - ensuring compliance with legal, ethical and regulatory requirements.
 3. It is a primary responsibility of the Committee to review the interim and annual financial statements of the Corporation prior to their submission to the Board for approval. The review process should include, without limitation:
 - reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial statements;
 - reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
 - reviewing accounting treatment of unusual or non-recurring transactions;
 - ascertaining compliance with covenants under loan agreements;
 - reviewing disclosure requirements for commitments and contingencies;
 - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
 - reviewing unresolved differences between management and the external auditors;
 - obtaining explanations of significant variances with comparative reporting periods; and
 - determining through inquiry if there are any related party transactions and ensuring that the nature and extent of such transactions are properly disclosed.
 4. The Committee is to review all public disclosure of audited or unaudited financial information by the Corporation before its release (and, if applicable, prior to its submission to the Board for approval), including the interim and annual financial statements of the Corporation, management's discussion and analysis of results of operations and financial condition, press releases and the annual information form. The Committee must be satisfied that adequate procedures are in place for the review of the Corporation's disclosure of financial information and shall periodically assess the accuracy of those procedures.
 5. With respect to the external auditors of the Corporation, the Committee shall:
 - recommend to the Board the appointment of the external auditors, including the terms of their engagement for the integrated audit;
 - review and approve any other services to be provided by the external auditors (including the fee for such services); and
 - when there is to be a change in the external auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change.
 6. Review with the external auditors (and the internal auditor if one is appointed by the Corporation) their assessment of the internal controls of the Corporation, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses. The Committee shall also review annually with the external auditors their plan for the audit and, upon completion of the audit, their reports upon the financial statements of the Corporation and its subsidiaries.
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7. The Committee must pre-approve all services to be provided to the Corporation or its subsidiaries by the external auditors. In pre-approving any service, the Committee shall consider the impact that the provision of such service may have on the external auditors' independence. The Committee may delegate to one or more of its members the authority to pre-approve services, provided that the member report to the Committee at the next scheduled meeting such pre-approval and the member comply with such other procedures as may be established by the Committee from time to time.
8. The Committee shall review the risk management policies and procedures of the Corporation (i.e., hedging, litigation and insurance).
9. The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Corporation and its subsidiary entities of concerns regarding questionable accounting or auditing matters.
10. The Committee shall review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors of the Corporation.
11. The Committee shall have the authority to investigate any financial activity of the Corporation. All employees of the Corporation and its subsidiary entities are to cooperate as requested by the Committee.
12. The Committee shall forthwith report the results of meetings and reviews undertaken and any associated recommendations to the Board.
13. The Committee shall meet with the external auditors at least four times per year (in connection with their review of the interim and annual financial statements) and at such other times as the external auditors and the Committee consider appropriate.

MEETINGS AND ADMINISTRATIVE MATTERS

1. At all meetings of the Committee 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 Chair shall preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee present shall designate from among the members present a chairman for purposes of the meeting.
3. A quorum for meetings of the Committee shall be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing the Board unless otherwise determined by the Committee or the Board.
4. Meetings of the Committee should be scheduled to take place at least four times per year and at such other times as the Chair may determine.
5. Agendas, approved by the Chair, shall be circulated to Committee members along with background information on a timely basis prior to the Committee meetings.
6. The Committee 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 Committee and assist therein in the discussion and consideration of the matters being considered by the Committee, provided that the Chief Financial Officer of the Corporation shall attend all meetings of the Committee, unless otherwise excused from all or part of any such meeting by the chairman of the meeting.

7. Minutes of the Committee's meetings will be recorded and maintained and made available to any director who is not a member of the Committee upon request.
8. The Committee may retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Corporation.
9. Any issues arising from the Committee's meetings that bear on the relationship between the Board and management should be communicated to the Executive Chairman or the Lead Independent Director, as applicable, by the Committee Chair.

Approved by the Board of Directors on February 28, 2011

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Baytex Energy Corp. is responsible for establishing and maintaining adequate internal control over financial reporting over the Company. Under the supervision of our Chief Executive Officer and our Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, we have concluded that as of December 31, 2010, our internal control over financial reporting was effective.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2010 has been audited by Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants, who also audited the Company's Consolidated Financial Statements for the year ended December 31, 2010.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying consolidated financial statements of Baytex Energy Corp. Financial and operating information presented throughout this Annual Report is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

Deloitte & Touche LLP were appointed by the Company's shareholders to express an audit opinion on the consolidated financial statements. Their examination included such tests and procedures, as they considered necessary, to provide a reasonable assurance that the consolidated financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, with assistance from the Reserves Committee regarding the annual review of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the Independent Registered Chartered Accountants to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of Deloitte & Touche LLP and reviews their fees. The Independent Registered Chartered Accountants have access to the Audit Committee without the presence of management.

(signed) "Anthony Marino"
Anthony W. Marino
President and Chief Executive Officer
Baytex Energy Corp.

(signed) "W. Derek Aylesworth"
W. Derek Aylesworth, CA
Chief Financial Officer
Baytex Energy Corp.

March 15, 2011

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of Baytex Energy Corp.:

We have audited the accompanying consolidated financial statements of Baytex Energy Corp. (formerly Baytex Energy Trust) and subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income and comprehensive income, deficit, and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Baytex Energy Corp. and subsidiaries as at December 31, 2010 and 2009 and the results of their operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

(signed) "Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Calgary, Canada
March 15, 2011

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of Baytex Energy Corp.

We have audited the internal control over financial reporting of Baytex Energy Corp. (formerly Baytex Energy Trust) and subsidiaries (the "Company") as of December 31, 2010, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended December 31, 2010 of the Company and our report dated March 15, 2011 expressed an unqualified opinion on those financial statements.

(signed) "Deloitte & Touche LLP"
Independent Registered Chartered Accountants
Calgary, Canada
March 15, 2011

CONSOLIDATED BALANCE SHEETS

| As at (thousands of Canadian dollars) | December 31, 2010 | December 31, 2009 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ – | \$ 10,177 |
| Accounts receivable | 151,792 | 137,154 |
| Crude oil inventory | 1,802 | 1,384 |
| Future income tax asset (note 14) | 5,480 | 1,371 |
| Financial derivative contracts (note 17) | 13,921 | 29,453 |
| | 172,995 | 179,539 |
| Future income tax asset (note 14) | 150,190 | 418 |
| Financial derivative contracts (note 17) | 2,622 | 2,541 |
| Petroleum and natural gas properties (note 5) | 1,683,650 | 1,663,752 |
| Goodwill | 37,755 | 37,755 |
| | \$ 2,047,212 | \$ 1,884,005 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 179,269 | \$ 180,493 |
| Distributions payable to unitholders | 22,742 | 19,674 |
| Bank loan (note 6) | – | 265,088 |
| Convertible debentures (note 8) | – | 7,736 |
| Future income tax liability (note 14) | 3,756 | 8,683 |
| Financial derivative contracts (note 17) | 20,312 | 4,650 |
| | 226,079 | 486,324 |
| Bank loan (note 6) | 303,773 | – |
| Long-term debt (note 7) | 150,000 | 150,000 |
| Deferred credit (note 14) | 109,800 | – |
| Asset retirement obligations (note 9) | 52,373 | 54,593 |
| Future income tax liability (note 14) | 167,302 | 179,673 |
| Financial derivative contracts (note 17) | 8,859 | 1,418 |
| | 1,018,186 | 872,008 |
| SHAREHOLDERS'/UNITHOLDERS' EQUITY | | |
| Shareholders' capital (note 10) | 1,390,034 | – |
| Unitholders' capital (note 10) | – | 1,295,931 |
| Conversion feature of convertible debentures (note 8) | – | 374 |
| Contributed surplus (note 11) | 20,131 | 20,371 |
| Accumulated other comprehensive loss (note 12) | (14,607) | (3,899) |
| Deficit | (366,532) | (300,780) |
| | 1,029,026 | 1,011,997 |
| | \$ 2,047,212 | \$ 1,884,005 |

Commitments and contingencies (note 18)

Subsequent events (note 20)

See accompanying notes to the consolidated financial statements.

On behalf of the Board

(signed) "Naveen Dargan"

Naveen Dargan

Director, Baytex Energy Corp.

(signed) "Gregory K. Melchin"

Gregory K. Melchin

Director, Baytex Energy Corp.

**CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME**

| Years Ended December 31 | 2010 | 2009 |
|---|-------------------|------------------|
| (thousands of Canadian dollars, except per common share and per trust unit amounts) | | |
| Revenue | | |
| Petroleum and natural gas | \$ 1,005,136 | \$ 789,743 |
| Royalties | (162,332) | (130,705) |
| Gain on financial derivative contracts (note 17) | 9,935 | 26,008 |
| | 852,739 | 685,046 |
| Expenses | | |
| Operating | 171,740 | 163,183 |
| Transportation and blending | 188,591 | 159,354 |
| General and administrative | 39,774 | 35,006 |
| Unit-based compensation (note 11) | 8,344 | 6,443 |
| Interest (note 15) | 26,670 | 32,685 |
| Financing charges | 1,643 | 5,496 |
| Foreign exchange gain (note 16) | (9,148) | (22,824) |
| Depletion, depreciation and accretion | 271,042 | 237,216 |
| | 698,656 | 616,559 |
| Income before income taxes | 154,083 | 68,487 |
| Income tax (recovery) expense (note 14) | | |
| Current | 8,512 | 11,370 |
| Future | (32,060) | (30,457) |
| | (23,548) | (19,087) |
| Net income | \$ 177,631 | \$ 87,574 |
| Other comprehensive loss | | |
| Foreign currency translation adjustment (note 12) | (10,708) | (3,899) |
| Comprehensive income | \$ 166,923 | \$ 83,675 |
| Net income per common share or trust unit (note 13) | | |
| Basic | \$ 1.59 | \$ 0.83 |
| Diluted | \$ 1.54 | \$ 0.82 |
| Weighted average common shares or trust units (note 13) | | |
| Basic | 111,450 | 104,894 |
| Diluted | 115,520 | 107,246 |

CONSOLIDATED STATEMENTS OF DEFICIT

| Years Ended December 31 | 2010 | 2009 |
|-----------------------------------|---------------------|---------------------|
| (thousands of Canadian dollars) | | |
| Deficit, beginning of year | \$ (300,780) | \$ (224,314) |
| Net income | 177,631 | 87,574 |
| Distributions to unitholders | (243,383) | (164,040) |
| Deficit, end of year | \$ (366,532) | \$ (300,780) |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years Ended December 31 (thousands of Canadian dollars) | 2010 | 2009 |
|---|-------------|------------------|
| CASH PROVIDED BY (USED IN): | | |
| Operating activities | | |
| Net income | \$ 177,631 | \$ 87,574 |
| Items not affecting cash: | | |
| Unit-based compensation (note 11) | 8,344 | 6,443 |
| Unrealized foreign exchange gain (note 16) | (8,999) | (2,623) |
| Depletion, depreciation and accretion | 271,042 | 237,216 |
| Accretion on debentures and notes (notes 7 and 8) | 31 | 2,908 |
| Unrealized loss on financial derivative contracts (note 17) | 38,194 | 54,810 |
| Future income tax recovery | (32,060) | (30,457) |
| Realized foreign exchange gain on redemption of long-term debt (notes 7 and 16) | - | (23,685) |
| | 454,183 | 332,186 |
| Change in non-cash working capital (note 16) | (9,967) | (27,878) |
| Asset retirement expenditures (note 9) | (2,778) | (1,146) |
| | 441,438 | 303,162 |
| Financing activities | | |
| Payments of distributions | (188,615) | (136,409) |
| Increase in bank loan | 48,045 | 64,181 |
| Repayment of convertible debentures (note 8) | (341) | - |
| Redemption of long-term debt (note 7) | - | (196,411) |
| Proceeds from issuance of long-term debt (note 7) | - | 150,000 |
| Issuance of trust units (note 10) | 26,021 | 135,581 |
| Issuance costs (note 10) | - | (6,101) |
| | (114,890) | 10,841 |
| Investing activities | | |
| Petroleum and natural gas property expenditures | (236,979) | (157,044) |
| Acquisition of petroleum and natural gas properties | (24,763) | (133,155) |
| Corporate acquisition (note 4) | (40,914) | - |
| Disposition of petroleum and natural gas properties | 19,033 | 78 |
| Acquisition of financing entities (note 14) | (38,000) | - |
| Additions of corporate assets | (8,457) | (7,050) |
| Change in non-cash working capital (note 16) | (5,956) | (6,587) |
| | (336,036) | (303,758) |
| Impact of foreign exchange on cash balances | (689) | (68) |
| Change in cash | (10,177) | 10,177 |
| Cash, beginning of year | 10,177 | - |
| Cash, end of year | \$ - | \$ 10,177 |

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(all tabular amounts in thousands of Canadian dollars, except per common share and per trust unit amounts)

1. BASIS OF PRESENTATION AND CORPORATE CONVERSION

Baytex Energy Corp. (the "Company" or "Baytex") is a Calgary, Alberta based conventional oil and gas corporation engaged in the acquisition, development and production of oil and natural gas in the Western Canadian Sedimentary Basin and the United States of America.

At year-end 2010, Baytex Energy Trust (the "Trust") completed a plan of arrangement under the Business Corporations Act (Alberta) pursuant to which it converted its legal structure from an income trust to a corporation (the "Arrangement"). Pursuant to the Arrangement: (i) on December 31, 2010, holders of trust units of the Trust exchanged their trust units for common shares of the Company on a one-for-one basis; and (ii) on January 1, 2011, the Trust was dissolved and terminated, with the result that the Company became the successor to the Trust. The reorganization into a corporation has been accounted for on a continuity of interest basis, and accordingly, the consolidated financial statements reflect the financial position, results of operations, and cash flows as if the Company had always carried on the business formerly carried on by the Trust.

The consolidated financial statements include the accounts of Baytex and subsidiaries and have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

The significant differences between Canadian and United States GAAP ("U.S. GAAP"), as applicable to these consolidated financial statements and notes, are described in note 21.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Baytex and its wholly owned subsidiaries from the respective dates of acquisition of the subsidiary companies. Inter-company transactions and balances are eliminated upon consolidation. Investments in unincorporated joint ventures are accounted for using the proportionate consolidation method as described under the "Joint Interests" heading.

Measurement Uncertainty

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses during the reporting period. Actual results can differ from those estimates.

In particular, amounts recorded for depreciation and depletion and amounts used for ceiling test calculations are based on estimates of petroleum and natural gas reserves and future costs required to develop those reserves. The Company's reserves estimates are evaluated annually by an independent engineering firm. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the consolidated financial statements of future periods could be material.

Goodwill impairment tests involve estimates of Baytex's fair value of the net identifiable assets and liabilities annually. If the fair value is less than the book value, an impairment would be recorded. Fair value of the Company's net identifiable assets and liabilities are based on external market value and reserve estimates and the related future cash flows which are subject to measurement uncertainty.

The amounts recorded for asset retirement obligations were estimated based on Baytex's net ownership interest in all wells and facilities, estimated costs to abandon and reclaim the wells and the facilities and the estimated time period during which these costs will be incurred in the future. Any changes to these estimates could change the amount recorded for asset retirement obligations and may materially impact the consolidated financial statements of future periods.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty.

Cash

Cash includes monies on deposit and short-term investments which have an initial maturity date at acquisition of not more than 90 days.

Crude Oil Inventory

Crude oil inventory, consisting of production in transit in pipelines at the balance sheet date, is valued at the lower of cost, using the weighted average cost method, or net realizable value. Costs include direct and indirect expenditures incurred in bringing the crude oil to its existing condition and location.

Petroleum and Natural Gas Operations

Baytex follows the full cost method of accounting for its petroleum and natural gas operations whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis and charged against income, as set out below. Such costs include land acquisition, drilling of productive and non-productive wells, geological and geophysical, production facilities, carrying costs directly related to unproved properties and corporate expenses directly related to acquisition, exploration and development activities and do not include any costs related to production or general overhead expenses. These costs along with estimated future capital costs that are based on current costs and that are incurred in developing proved reserves are depleted and depreciated on a unit of production basis using estimated proved petroleum and natural gas reserves, with both production and reserves stated before royalties. For purposes of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of natural gas equates to one barrel of oil. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs. Unproved properties are evaluated for impairment on an annual basis.

Gains or losses on the disposition of petroleum and natural gas properties are recognized only when crediting the proceeds to costs would result in a change of 20 percent or more in the depletion rate.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test ("ceiling test"). The ceiling test is a two-stage process which is performed at least annually. The first stage of the test is a recovery test which compares the estimated undiscounted future cash flow from proved reserves at forecast prices plus the cost less impairment of unproved properties to the net book value of the petroleum and natural gas assets to determine if the assets are impaired. An impairment loss exists when the net book value of the petroleum and natural gas assets exceeds such estimated undiscounted cash flow. The second stage determines the amount of the impairment loss to be recorded. The impairment is measured as the amount by which the net book value of the petroleum and natural gas assets exceeds the estimated future discounted cash flow from proved plus probable reserves at forecast prices. Any impairment is recorded as additional depletion and depreciation.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is stated at cost less impairment and is not amortized. The goodwill balance is assessed for impairment annually at year-end or more frequently if events or changes in circumstances indicate that the asset may be impaired. The test for impairment is conducted by the comparison of the net book value to the fair value of Baytex. If the fair value of the Company is less than the net book value, impairment is deemed to have occurred. The extent of the impairment is measured by allocating the fair value of the Company to the identifiable assets and liabilities at their fair values. Any remainder of this allocation is the implied fair value of goodwill. Any excess of the net book value of goodwill over this implied value is the impairment amount. Impairment is charged to income in the period in which it occurs.

Asset Retirement Obligations

The Company recognizes a liability at the discounted value of the future abandonment and reclamation costs associated with the petroleum and natural gas properties. The present value of the liability is capitalized as part of the cost of the related asset and amortized to expense over its useful life. The liability accretes until the date of expected settlement of the retirement obligations. The related accretion expense is recognized in the statement of income and comprehensive income. The provision will be revised for the effect of any changes to timing related to cash flow or undiscounted abandonment costs. Actual expenditures incurred for the purpose of site reclamation are charged to the asset retirement obligations to the extent that the liability exists on the balance sheet.

Joint Interests

A portion of Baytex's exploration, development and production activities is conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

Foreign Currency Translation

Transactions completed in foreign currencies are reflected in Canadian dollars at the foreign currency exchange rates prevailing at the time of the transactions. Current assets and liabilities denominated in foreign currencies are reflected in the financial statements at the Canadian dollar equivalent at the rate of exchange prevailing at the balance sheet date. Gains and losses are included in earnings.

The foreign operations are considered to be "self-sustaining operations". As a result, the revenues and expenses are translated to Canadian dollars using average exchange rates for the period. Assets and liabilities are translated at the period-end exchange rate. Gains or losses resulting from the translation are included in accumulated other comprehensive income (loss) in shareholders' or unitholders' equity.

Revenue Recognition

Revenue associated with sales of crude oil, natural gas and natural gas liquids is recognized when title passes to the purchaser at the pipeline delivery point.

Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

All risk management contracts are recorded in the balance sheet at fair value unless they qualify for the normal sale and normal purchase exemption. All changes in their fair value are recorded in net income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income until the underlying hedged transaction is recognized in net income. Baytex has elected not to use cash flow hedge accounting on its risk management contracts with financial counterparties resulting in all changes in fair value being recorded in net income.

Cash is classified as held-for-trading and is measured at fair value which equals the carrying value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, distributions payable to unitholders, bank debt and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

The convertible debentures were classified as other financial liabilities. Upon issuance, the convertible debentures were classified into equity and financial liability components on the balance sheet at their fair value. The financial liability, net of issuance costs, was accreted, which is included within interest expense over the maturity of the debentures using the effective interest rate method.

The transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are expensed immediately.

Financial Derivative Contracts

Baytex formally documents its risk management objectives and strategies to manage exposures to fluctuations in commodity prices, interest rates and foreign currency exchange rates. The risk management policy permits the use of certain derivative financial instruments, including swaps and collars, to manage these fluctuations. All transactions of this nature entered into by the Company are related to underlying financial instruments or future petroleum and natural gas production. Baytex does not use financial derivatives for trading or speculative purposes. These instruments are classified as "held-for-trading" unless designated for hedge accounting. The Company has not designated any of its risk management contracts as accounting hedges. For derivative instruments that do not qualify as hedges or are not designated as hedges, the Company applies the fair value method of accounting by recording an asset or liability on the consolidated balance sheet and recognizes changes in the fair value of the instrument in the statement of Income and comprehensive income for the current period. The fair values of these instruments are based on quoted market prices or, in their absence, third-party market indications and forecasts.

Baytex has in place policies and procedures with respect to the required documentation and approvals for the use of derivative financial instruments. This documentation specifically ties the derivative instruments to their use and in the case of commodities, to the mitigation of market price risk associated with cash flows expected to be generated. When applicable, the Company identifies relationships between financial instruments and anticipated transactions, as well as its risk management objective and the strategy for undertaking the economic hedge transaction. When specific financial instruments are executed, Baytex assesses, both at the time of purchase and on an ongoing basis, whether the financial instrument used in a particular transaction is effective in offsetting changes in fair values or cash flows of the transaction.

Future Income Taxes

Baytex follows the liability method of accounting for taxes. Under this method, future income taxes are recorded for the effect of any difference between the accounting and tax bases of an asset or liability, using substantively enacted tax rates. Future income tax balances are adjusted for any changes in the tax rate and the adjustment is recognized in income in the period that the rate change occurs.

Unit-based Compensation

Baytex's Trust Unit Rights Incentive Plan (the "Unit Rights Plan"), which was superseded by the Company's Common Share Rights Incentive Plan (the "Share Rights Plan") is described in note 11. The exercise price of the rights granted under the Unit Rights Plan may be reduced in future periods in accordance with the terms of the Unit Rights Plan. The Company uses the binomial-lattice model to calculate the estimated fair value of the outstanding share rights or unit rights.

Compensation expense associated with rights granted under the Unit Rights Plan is recognized in income over the vesting period of the Unit Rights Plan with a corresponding increase in contributed surplus. The exercise of unit rights is recorded as an increase in common shares or trust units with a corresponding reduction in contributed surplus.

Per Common Share and Trust Unit Amounts

Basic net income per common share or trust unit is computed by dividing net income by the weighted average number of share rights or trust units outstanding during the year. Diluted per common share or trust unit amounts reflect the potential dilution that could occur if share rights or unit rights were exercised and convertible debentures were converted. The treasury stock method is used to determine the dilutive effect of share rights or unit rights, whereby any proceeds from the exercise of share rights or unit rights or other dilutive instruments and the amount of compensation expense, if any, attributed to future services and not yet recognized are assumed to be used to purchase common shares or trust units at the average market price during the year.

3. CHANGES IN ACCOUNTING POLICIES

Future Accounting Changes

Convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS")

In 2006, Canada's Accounting Standards Board (the "AcSB") ratified a strategic plan to converge Canadian GAAP with IFRS by 2011 for publicly accountable entities. On February 13, 2008, the AcSB confirmed that IFRS would replace Canadian GAAP for public companies beginning January 1, 2011. As a result, Baytex will issue financial statements under IFRS in 2011.

4. CORPORATE ACQUISITION

On May 26, 2010, Baytex Energy Ltd. ("Baytex Energy"), a wholly-owned subsidiary of Baytex, acquired all the issued and outstanding shares of a private company, a junior heavy oil producer with operational focus in east central Alberta through to west central Saskatchewan, for total consideration of \$40.9 million (net of cash acquired). The acquisition has been accounted for as a business combination using the purchase method of accounting. The fair value of the assets acquired and liabilities assumed at the date of acquisition is summarized below:

| | |
|------------------------------------|------------------|
| Consideration for the acquisition: | |
| Cash paid (net of cash acquired) | \$ 40,314 |
| Costs associated with acquisition | 600 |
| Total purchase price | \$ 40,914 |
| Allocation of purchase price: | |
| Working capital | \$ 286 |
| Property, plant and equipment | 50,540 |
| Asset retirement obligations | (1,371) |
| Future income tax liability | (8,541) |
| Total net assets acquired | \$ 40,914 |

5. PETROLEUM AND NATURAL GAS PROPERTIES

| | As at December 31 | |
|--|---------------------|---------------------|
| | 2010 | 2009 |
| Petroleum and natural gas properties | \$ 4,229,713 | \$ 3,943,850 |
| Accumulated depletion and depreciation | (2,546,063) | (2,280,098) |
| | \$ 1,683,650 | \$ 1,663,752 |

In calculating the Canadian cost centre depletion and depreciation provision for 2010, \$49.6 million (year ended December 31, 2009 – \$47.7 million) of costs relating to undeveloped properties were excluded, while \$643.1 million (year ended December 31, 2009 – \$538.3 million) of future development costs were included in the calculation. In calculating the U.S. cost centre depletion and depreciation provision for 2010, \$50.8 million (year ended December 31, 2009 – \$77.0 million) of costs relating to undeveloped properties were excluded, while \$136.8 million (year ended December 31, 2009 – \$77.3 million) of future development costs were included for the calculation. No general and administrative expenses are capitalized.

Depletion and depreciation expense related to the Canadian and U.S. cost centres in 2010 were \$258.2 million and \$8.3 million respectively (year ended December 31, 2009 – \$228.8 million and \$4.2 million).

The net book value of petroleum and natural gas properties are subject to a ceiling test, which was calculated at December 31, 2010 using the following benchmark reference prices for the years 2011 to 2015 adjusted for commodity differentials specific to the Company:

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------------|-------|-------|-------|-------|-------|
| WTI crude oil (US\$/bbl) | 88.40 | 89.14 | 88.77 | 88.88 | 90.22 |
| AECO natural gas (\$/mmBtu) | 4.04 | 4.66 | 4.99 | 6.58 | 6.69 |
| Exchange rate (USD/CAD) | 0.932 | 0.932 | 0.932 | 0.932 | 0.932 |

The prices and costs subsequent to 2015 have been adjusted for estimated inflation at an estimated annual rate of 1.5 percent. Based on the ceiling test calculations, the Company's estimated undiscounted future net cash flows associated with proved reserves plus the cost less impairment of unproved properties exceeded the net book value of the petroleum and natural gas properties.

6. BANK LOAN

| | As at December 31 | |
|-----------|-------------------|------------|
| | 2010 | 2009 |
| Bank loan | \$ 303,773 | \$ 265,088 |

Baytex Energy has established credit facilities with a syndicate of chartered banks. The credit facilities consist of an operating loan and a 364-day revolving loan. In June 2010, Baytex Energy reached agreement with its lending syndicate to amend the revolving credit facilities to increase the amount of the facilities to \$550 million (from \$515 million), extend the revolving period to June 2011 and add a one-year term-out following the revolving period. In the event that the revolving period is not extended by June 2011, all amounts then outstanding under the credit facilities will be payable in June 2012. Advances under the credit facilities or letters of credit can be drawn in either Canadian or U.S. funds and bear interest at the agent bank's prime lending rate, bankers' acceptance rates or LIBOR rates, plus applicable margins. The credit facilities are subject to semi-annual review and are secured by a floating charge over all of Baytex Energy's assets. The weighted average interest rate on the bank loan for the year ended December 31, 2010 was 4.60% (December 31, 2009 – 4.42%).

7. LONG-TERM DEBT

| | As at December 31 | |
|--|-------------------|------------|
| | 2010 | 2009 |
| 9.15% Series A senior unsecured debentures | \$ 150,000 | \$ 150,000 |

On August 26, 2009, Baytex issued \$150.0 million principal amount of Series A senior unsecured debentures bearing interest at 9.15% payable semi-annually with principal repayable on August 26, 2016. These debentures are subordinate to Baytex Energy's bank credit facilities. After August 26 of each of the following years, these debentures are redeemable at the Company's option, in whole or in part, with not less than 30 nor more than 60 days' notice at the following redemption prices (expressed as a percentage of the principal amount of the debentures): 2012 at 104.575%, 2013 at 103.05%, 2014 at 101.525%, and 2015 at 100%.

On September 25, 2009, Baytex Energy redeemed all of the 9.625% senior subordinated notes due July 15, 2010 (principal amount US\$179.7 million) and 10.5% senior subordinated notes due February 15, 2011 (principal amount US\$0.2 million) for an aggregate redemption price of \$196.4 million. These notes were unsecured and were subordinate to Baytex Energy's bank credit facilities. These notes were carried at amortized cost, net of a discontinued fair value hedge. The notes accreted up to the principal balance at maturity using the effective interest method. Baytex Energy recorded accretion expense of \$2.8 million for the year ended December 31, 2009. The effective interest rate applied was 10.6%. The discontinued fair value hedge was recognized in interest expense upon redemption of the senior subordinated notes.

8. CONVERTIBLE DEBENTURES

| | Number of Convertible Debentures | Convertible Debentures | Conversion Feature of Debentures |
|-----------------------------------|--|---------------------------|--|
| Balance, December 31, 2008 | 10,398 | \$ 10,195 | \$ 498 |
| Conversion | (2,583) | (2,544) | (124) |
| Accretion | — | 85 | — |
| Balance, December 31, 2009 | 7,815 | \$ 7,736 | \$ 374 |
| Conversion | (7,474) | (7,426) | (358) |
| Accretion | — | 31 | — |
| Repayment on maturity | (341) | (341) | (16) |
| Balance, December 31, 2010 | — | \$ — | \$ — |

In June 2005, Baytex issued \$100.0 million principal amount of 6.5% convertible unsecured subordinated debentures for net proceeds of \$95.8 million. The debentures paid interest semi-annually and were convertible at the option of the holder at any time into fully-paid trust units at a conversion price of \$14.75 per trust unit. On the December 31, 2010 maturity date, the outstanding \$0.3 million principal amount was repaid at par value.

The debentures were classified as debt net of the fair value of the conversion feature which was classified as unitholders' equity. This resulted in \$95.2 million being classified as debt and \$4.8 million being classified as equity. The debt portion accreted up to the principal balance at maturity, using the effective interest rate of 7.6%. The accretion and the interest paid were expensed as interest expense in the consolidated statements of income and comprehensive income. If the debentures were converted to trust units, a portion of the value of the conversion feature under unitholders' equity was reclassified to unitholders' capital along with the principal amount converted.

9. ASSET RETIREMENT OBLIGATIONS

| | As at December 31 | |
|-----------------------------------|-------------------|------------------|
| | 2010 | 2009 |
| Balance, beginning of year | \$ 54,593 | \$ 49,351 |
| Liabilities incurred | 769 | 1,320 |
| Liabilities settled | (2,778) | (1,146) |
| Acquisition of liabilities | 1,371 | 3,268 |
| Disposition of liabilities | (840) | (146) |
| Accretion | 4,515 | 4,184 |
| Change in estimate ⁽¹⁾ | (5,249) | (2,212) |
| Foreign exchange | (8) | (26) |
| Balance, end of year | \$ 52,373 | \$ 54,593 |

(1) Changes in the status of wells and changes in the estimated costs of abandonment and reclamation are factors resulting in a change in estimate.

The Company's asset retirement obligations are based on its net ownership in wells and facilities. Management estimates the costs to abandon and reclaim the wells and facilities and the estimated time period during which these costs will be incurred in the future. These costs are expected to be incurred over the next 52 years. The future amount of estimated cash flow required to settle the retirement obligations at an estimated annual inflation rate of 2.0% is \$288.8 million. The amount of estimated cash flow required to settle the retirement obligations at December 31, 2010, discounted at a credit-adjusted risk free rate of 8.0% is \$52.4 million.

10. SHAREHOLDERS'/UNITHOLDERS' CAPITAL

Unitholders' Capital

| | Number of Units | Amount |
|--|-----------------|--------------|
| Balance, December 31, 2008 | 97,685 | \$ 1,129,909 |
| Issued for cash | 7,935 | 115,058 |
| Issuance costs, net of income tax | - | (5,072) |
| Issued on conversion of debentures | 175 | 2,667 |
| Issued on exercise of unit rights | 2,059 | 20,523 |
| Transfer from contributed surplus on exercise of unit rights | - | 7,306 |
| Issued pursuant to distribution reinvestment plan | 1,445 | 25,540 |
| Balance, December 31, 2009 | 109,299 | \$ 1,295,931 |
| Issued on conversion of debentures | 507 | 7,784 |
| Issued on exercise of unit rights | 2,337 | 26,021 |
| Transfer from contributed surplus on exercise of unit rights | - | 8,600 |
| Issued pursuant to distribution reinvestment plan | 1,569 | 51,698 |
| Exchanged for common shares, pursuant to the Arrangement | (113,712) | (1,390,034) |
| Balance, December 31, 2010 | - | \$ - |

Baytex is authorized to issue an unlimited number of common shares and 10,000,000 preferred shares. Baytex establishes the rights and terms of preferred shares upon issuance. As at December 31, 2010, no preferred shares have been issued by the Company.

Shareholders' Capital

| | Number of Common Shares | Amount |
|------------------------------------|----------------------------|---------------------|
| Balance, December 31, 2009 | – | \$ – |
| Issued pursuant to the Arrangement | 113,712 | 1,390,034 |
| Balance, December 31, 2010 | 113,712 | \$ 1,390,034 |

11. EQUITY BASED INCENTIVE PLANS

Long Term Incentive Plan

The Trust had a Trust Unit Rights Incentive Plan (the "Unit Rights Plan") pursuant to which rights to acquire trust units ("unit rights") were granted to eligible directors, officers, employees and other service providers of the Trust and its subsidiaries. The maximum number of trust units issuable pursuant to the Unit Rights Plan was a "rolling" maximum equal to 10.0% of the outstanding trust units plus the number of trust units which were issued on the exchange of outstanding exchangeable shares. Any increase in the issued and outstanding trust units resulted in an increase in the number of trust units available for issuance under the Unit Rights Plan, and any exercises of unit rights made new grants available under the Unit Rights Plan, effectively resulting in a re-loading of the number of unit rights available to grant under the Unit Rights Plan. Under the Unit Rights Plan, unit rights have a maximum term of five years and vest and become exercisable as to one-third on each of the first, second and third anniversaries of the grant date.

The Unit Rights Plan provided that the exercise price of the unit rights may be reduced to account for future distributions, subject to certain performance criteria. Effective November 16, 2009, the Unit Rights Plan was amended to (i) base the exercise price of unit rights on the closing price of the trust units on the trading day prior to the date of grant (previously based on a five-day volume weighted average trading price) and (ii) permit the granting of unit rights with a fixed exercise price. Effective October 25, 2010, the Unit Rights Plan was amended to provide holders of unit rights who are not subject to taxation in the United States with the ability to elect at the time of exercise to pay an exercise price per unit right equal to (i) the original exercise price reduced for distributions and dividends paid subsequent to grant date or (ii) the original exercise price.

Baytex recorded compensation expense of \$8.3 million for the year ended December 31, 2010 (year ended December 31, 2009 – \$6.4 million) related to the unit rights granted under the Unit Rights Plan.

Pursuant to the terms of the Unit Rights Plan, the Arrangement (as described in note 1) constituted a capital reorganization which resulted in each holder of unit rights exchanging such rights for equivalent rights to acquire common shares of Baytex ("share rights") on a one-for-one basis on December 31, 2010. The share rights are subject to the terms of the Common Share Rights Incentive Plan of Baytex (the "Share Rights Plan"). The Share Rights Plan is substantially similar to the Unit Rights Plan other than amendments necessary to reflect:

- (a) the entitlement of holders to receive common shares instead of trust units;
- (b) the exercise price, as calculated for unit rights outstanding at the effective time of the Arrangement, will be carried forward under the Share Rights Plan and, if applicable, future adjustments to the exercise price after the completion of the Arrangement will be based on dividends paid on the common shares of Baytex rather than distributions paid on the trust units of the Trust; and
- (c) the administration of the Share Rights Plan will be carried out by Baytex as opposed to Baytex Energy.

As a result of the adoption of the Share Award Incentive Plan (as described below), no further grants will be made under the Share Rights Plan.

Baytex uses the binomial-lattice model to calculate the estimated weighted average fair value of \$9.00 per unit right for unit rights issued during the year ended December 31, 2010 (year ended December 31, 2009 – \$6.38 per unit right). The following assumptions were used to arrive at the estimate of fair values:

| | Years Ended December 31 | |
|---|-------------------------|------------------|
| | 2010 | 2009 |
| Expected annual exercise price reduction (on unit rights with a declining exercise price) | \$ 2.16 - \$2.40 | \$ 1.44 - \$2.16 |
| Expected volatility | 43% - 44% | 39% - 43% |
| Risk-free interest rate | 1.99% - 3.02% | 1.78% - 2.72% |
| Expected life of unit rights (years) ⁽¹⁾ | Various | Various |

(1) The binomial-lattice model calculates the fair values based on an optimal strategy, resulting in various expected lives of share rights or unit rights. The maximum term is limited to five years by the Share Rights Plan.

The number of unit rights outstanding and exercise prices are detailed below:

| | Number of unit rights | Weighted average exercise price ⁽¹⁾ |
|--|-----------------------|--|
| Balance, December 31, 2008 | 8,449 | \$ 14.58 |
| Granted ⁽²⁾ | 1,844 | 24.87 |
| Exercised | (2,059) | 9.97 |
| Forfeited | (114) | 16.43 |
| Balance, December 31, 2009 | 8,120 | \$ 16.68 |
| Granted ⁽²⁾ | 190 | 32.71 |
| Exercised | (2,337) | 11.13 |
| Forfeited | (212) | 20.35 |
| Exchanged for share rights pursuant to the Arrangement | (5,761) | 17.02 |
| Balance, December 31, 2010 | – | \$ – |

(1) Weighted average exercise price reflects the grant price less the reduction in exercise price.

(2) Weighted average exercise price of rights granted is based on the exercise price at the date of grant.

The number of share rights outstanding and exercise prices are detailed below:

| | Number of share rights | Weighted average exercise price ⁽¹⁾ |
|------------------------------------|---------------------------|---|
| Balance, December 31, 2009 | – | \$ – |
| Issued pursuant to the Arrangement | 5,761 | 17.02 |
| Balance, December 31, 2010 | 5,761 | \$ 17.02 |

(1) Weighted average exercise price reflects the exercise price at date of exchange.

The following table summarizes information about the share rights outstanding at December 31, 2010:

| Price Range | Exercise Prices Applying Original Grant Price | | | | | Exercise Prices Applying Original Grant Price Reduced for Distributions Subsequent to Grant Date | | | | |
|------------------------|--|---------------------------------------|---|--|--|---|--|---|--|--|
| | Number Outstanding at December 31, 2010 | Weighted Average Grant Price | Weighted Average Remaining Term (years) | Number Exercisable at December 31, 2010 | Weighted Average Exercise Price | Number Outstanding at December 31, 2010 | Weighted Average Exercise Price | Weighted Average Remaining Term (years) | Number Exercisable at December 31, 2010 | Weighted Average Exercise Price |
| \$ 6.88 to \$13.00 | 10 | \$ 12.46 | 3.2 | – | \$ – | 1,395 | \$ 12.60 | 1.9 | 1,228 | \$ 12.70 |
| \$ 13.01 to \$20.00 | 3,093 | 18.40 | 2.5 | 2,188 | 18.79 | 2,802 | 14.23 | 2.2 | 1,994 | 14.04 |
| \$ 20.01 to \$27.00 | 1,283 | 22.50 | 1.4 | 1,090 | 22.29 | 1,206 | 24.84 | 3.9 | 398 | 24.84 |
| \$ 27.01 to \$34.00 | 1,318 | 28.04 | 3.9 | 398 | 27.75 | 305 | 28.45 | 4.0 | 56 | 27.77 |
| \$ 34.01 to \$41.00 | 54 | 36.97 | 4.7 | – | – | 50 | 36.80 | 4.7 | – | – |
| \$ 41.01 to \$47.72 | 3 | 44.96 | 5.0 | – | – | 3 | 44.83 | 5.0 | – | – |
| \$ 6.88 to \$47.72 | 5,761 | \$ 21.69 | 2.6 | 3,676 | \$ 20.79 | 5,761 | \$ 17.02 | 2.6 | 3,676 | \$ 14.97 |

The following table summarizes the changes in contributed surplus:

| | | |
|---|-----------|---------------|
| Balance, December 31, 2008 | \$ | 21,234 |
| Compensation expense | | 6,443 |
| Transfer from contributed surplus on exercise of unit rights ⁽¹⁾ | | (7,306) |
| Balance, December 31, 2009 | \$ | 20,371 |
| Compensation expense | | 8,344 |
| Transfer from contributed surplus on exercise of unit rights ⁽¹⁾ | | (8,600) |
| Convertible debentures matured | | 16 |
| Balance, December 31, 2010 | \$ | 20,131 |

(1) Upon exercise of unit rights, contributed surplus is reduced with a corresponding increase in unitholders' capital.

Share Award Incentive Plan

In connection with the Arrangement, the unitholders of the Trust approved, at a special meeting held on December 9, 2010, the adoption by the Company effective January 1, 2011 of a full-value award plan (the "Share Award Incentive Plan") pursuant to which restricted awards and performance awards (collectively, "Share Awards") may be granted to the directors, officers, employees and other service providers of the Company and its subsidiaries. The maximum number of common shares issuable under the Share Award Incentive Plan (and any other long-term incentive plan of the Company, including the Share Rights Plan) shall not at any time exceed 10% of the then issued and outstanding common shares.

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 as to one-third on each of the first, second and third anniversary dates of the date of grant. Each performance award entitles the holder to be issued as to one-third on each of the first, second and third anniversary dates of the date of grant the number of common shares designated in the performance award (plus dividend equivalents as described below) multiplied by a payout multiplier. The payout multiplier is dependent on the performance of the Company 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). In the case of both restricted and performance awards, the number of common shares to be issued on the applicable issue date is adjusted to account for the payment of dividends from the grant date to the applicable issue date.

On January 11, 2011, the Compensation Committee of the Board of Directors approved the initial awards under the Share Award Incentive Plan. An aggregate of 228,853 performance awards and 360,847 restricted awards, with 50% to be granted effective January 18, 2011 and the remaining 50% to be granted in July 2011, were awarded to eligible directors, officers, employees and other service providers of the Company and its subsidiaries. The July 2011 grants are conditional on the grantee continuing to be a service provider to the Company or its subsidiaries.

The Company recorded no compensation expense for the year ended December 31, 2010 related to the Share Awards as none were granted during the year ended December 31, 2010.

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

| | As at December 31 | |
|---|--------------------|-------------------|
| | 2010 | 2009 |
| Balance, beginning of year | \$ (3,899) | \$ — |
| Foreign currency translation adjustment | (10,708) | (3,899) |
| Balance, end of year | \$ (14,607) | \$ (3,899) |

Accumulated other comprehensive loss is composed entirely of currency translation adjustments on the translation of self-sustaining foreign operations. The Company's foreign operations are considered to be "self-sustaining operations", as they are financially and operationally independent of the Canadian operations. As a result, the accounts of the self-sustaining foreign operations are translated using the current rate method whereby assets and liabilities are translated using the exchange rate in effect at the balance sheet date, while revenues and expenses are translated using the average exchange rate for the year ended December 31, 2010. Translation gains and losses are deferred and included in accumulated other comprehensive loss in shareholders' equity and are recognized in net income when there has been a reduction in the net investment.

13. NET INCOME PER COMMON SHARE AND PER TRUST UNIT

Baytex applies the treasury stock method to assess the dilutive effect of outstanding share rights or unit rights on net income per common share or trust unit. The trust units issuable on conversion of convertible debentures were included in the calculation of the diluted weighted average number of common shares or trust units outstanding:

| | Years Ended December 31 | | | | | |
|---|-------------------------|---------------|-----------------------------|------------|-------------|---------------------------|
| | 2010 | | | 2009 | | |
| | Net income | Common shares | Net income per common share | Net income | Trust units | Net income per trust unit |
| Net income per common share or trust unit – basic | \$ 177,631 | 111,450 | \$ 1.59 | \$ 87,574 | 104,894 | \$ 0.83 |
| Dilutive effect of share rights or unit rights | – | 3,673 | | – | 1,697 | |
| Conversion of convertible debentures | 297 | 397 | | 502 | 655 | |
| Net income per common share or trust unit – diluted | \$ 177,928 | 115,520 | \$ 1.54 | \$ 88,076 | 107,246 | \$ 0.82 |

For the year ended December 31, 2010, 0.1 million share rights (year ended December 31, 2009 – 1.6 million unit rights) were excluded in calculating the weighted average number of diluted common shares or trust units outstanding as they were anti-dilutive.

14. INCOME TAXES

The provision for (recovery of) income taxes has been computed as follows:

| | Years Ended December 31 | |
|---|-------------------------|-------------|
| | 2010 | 2009 |
| Income before income taxes | \$ 154,083 | \$ 68,487 |
| Expected income tax expense at the statutory rate of 28.49% (2009 – 29.48%) | 43,898 | 20,190 |
| Increase (decrease) in income taxes resulting from: | | |
| Net income of the Trust prior to the Arrangement | (69,342) | (50,474) |
| Non-taxable portion of foreign exchange gain | (1,333) | (2,994) |
| Effect of change in income tax rate | (1,285) | 601 |
| Effect of change in opening tax pool balances | (6,373) | 5,501 |
| Effect of change in valuation allowance | – | (5,374) |
| Unit-based compensation | 2,377 | 1,899 |
| Other | (2) | 194 |
| Future income tax recovery | (32,060) | (30,457) |
| Current income tax expense | 8,512 | 11,370 |
| Income tax recovery | \$ (23,548) | \$ (19,087) |

The components of the net future income tax liability are as follows:

| | As at December 31 | |
|---|-------------------|--------------|
| | 2010 | 2009 |
| Future income tax liabilities: | | |
| Petroleum and natural gas properties | \$ (205,104) | \$ (200,820) |
| Financial derivative contracts | (707) | (749) |
| Partnership deferral | (52,804) | – |
| Other | (2,920) | (5,438) |
| Future income tax assets: | | |
| Asset retirement obligations | 13,480 | 13,929 |
| Non-capital losses | 225,888 | 13,185 |
| Financial derivative contracts | 2,390 | 418 |
| Finance costs | 2,665 | 220 |
| Net future income tax liability-long-term ⁽¹⁾ | \$ (17,112) | \$ (179,255) |
| Current portion of future income tax liability ⁽²⁾ | (3,756) | (8,683) |
| Current portion of future income tax asset ⁽²⁾ | 5,480 | 1,371 |
| Net future income tax liability-current | \$ 1,724 | \$ (7,312) |
| Net future income tax liability-total | \$ (15,388) | \$ (186,567) |

(1) Non-capital loss carry-forwards totaled \$822.9 million (December 31, 2009 – \$48.4 million) and expire from 2014 to 2030.

(2) The current portion of future income tax asset and liability are derived from the current portion of financial derivative contracts.

In May 2010, Baytex acquired a number of private entities for use in its internal financing structure for approximately \$38.0 million. The transaction resulted in the recognition of a future income tax asset of approximately \$147.8 million with a corresponding deferred credit of \$109.8 million. This credit reflects the difference between the future tax asset recognized upon the completion of this transaction and the cash paid. This credit will be amortized on the same basis as the related future income tax asset.

15. INTEREST EXPENSE

Baytex incurred interest expense on its outstanding debts as follows:

| | Years Ended December 31 | |
|------------------------|-------------------------|-----------|
| | 2010 | 2009 |
| Bank loan and other | \$ 12,530 | \$ 9,394 |
| Long-term debt | 13,725 | 22,578 |
| Convertible debentures | 415 | 713 |
| Interest expense | \$ 26,670 | \$ 32,685 |

16. SUPPLEMENTAL INFORMATION

Change in Non-Cash Working Capital Items

| | Years Ended December 31 | |
|---|-------------------------|-------------|
| | 2010 | 2009 |
| Current assets | \$ (13,336) | \$ (50,655) |
| Current liabilities | (2,661) | 16,140 |
| Foreign exchange | 74 | 50 |
| | \$ (15,923) | \$ (34,465) |
| Changes in non-cash working capital related to: | | |
| Operating activities | \$ (9,967) | \$ (27,878) |
| Investing activities | (5,956) | (6,587) |
| | \$ (15,923) | \$ (34,465) |

Supplemental Cash Flow Information

Baytex made the following cash outlays in respect of interest, financing charges and current income taxes paid:

| | Years Ended December 31 | |
|---------------------------|-------------------------|-----------|
| | 2010 | 2009 |
| Interest paid | \$ 26,826 | \$ 33,002 |
| Financing charges paid | 1,674 | 5,278 |
| Current income taxes paid | 8,439 | 10,534 |

Foreign Exchange Gain

| | Years Ended December 31 | |
|---|-------------------------|-------------|
| | 2010 | 2009 |
| Unrealized foreign exchange gain | \$ (8,999) | \$ (2,623) |
| Realized foreign exchange gain ⁽¹⁾ | (149) | (20,201) |
| Foreign exchange gain | \$ (9,148) | \$ (22,824) |

(1) The retirement of the US\$ senior subordinated notes on September 25, 2009 resulted in a realized gain of \$51.0 million. Only \$23.7 million of this gain is recognized in the twelve months ended December 31, 2009 as \$27.3 million was reported in prior periods as an unrealized foreign exchange gain through the translation process at each period end.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial assets and liabilities are comprised of cash, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders, bank loan, convertible debentures, financial derivative contracts and long-term debt.

Classification of Financial Instruments

Under GAAP, financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale and other financial liabilities.

The estimated fair values of the financial instruments have been determined based on the Company's assessment of available market information. These estimates may not necessarily be indicative of the amounts that could be realized or settled in a market transaction. The fair values of financial instruments, other than bank loan, convertible debentures and long-term debt, are equal to their book amounts due to the short-term maturity of these instruments. The fair value of the convertible debentures has been calculated based on the lower of trading value and the present value of future cash flows plus the conversion option associated with the convertible debentures. The fair value of the long-term debt is based on the lower of trading value and the present value of future cash flows associated with the debentures. Baytex expenses all financial instrument transaction costs immediately.

Baytex classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The carrying value and fair value of the Company's financial instruments on the consolidated balance sheets are classified into the following categories:

| | December 31, 2010 | | December 31, 2009 | | Fair Value Measurement Hierarchy |
|--|---------------------|---------------------|---------------------|---------------------|----------------------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value | |
| Financial Assets | | | | | |
| <i>Held-for-trading</i> | | | | | |
| Cash | \$ – | \$ – | \$ 10,177 | \$ 10,177 | Level 1 |
| Derivatives designated as held-for-trading | 16,543 | 16,543 | 31,994 | 31,994 | Level 2 |
| Total held-for-trading | \$ 16,543 | \$ 16,543 | \$ 42,171 | \$ 42,171 | |
| <i>Loans and receivables</i> | | | | | |
| Accounts receivable | \$ 151,792 | \$ 151,792 | \$ 137,154 | \$ 137,154 | – |
| Total loans and receivables | \$ 151,792 | \$ 151,792 | \$ 137,154 | \$ 137,154 | |
| Financial Liabilities | | | | | |
| <i>Held-for-trading</i> | | | | | |
| Derivatives designated as held-for-trading | \$ (29,171) | \$ (29,171) | \$ (6,068) | \$ (6,068) | Level 2 |
| Total held-for-trading | \$ (29,171) | \$ (29,171) | \$ (6,068) | \$ (6,068) | |
| <i>Other financial liabilities</i> | | | | | |
| Accounts payable and accrued liabilities | \$ (179,269) | \$ (179,269) | \$ (180,493) | \$ (180,493) | – |
| Distributions payable to unitholders | (22,742) | (22,742) | (19,674) | (19,674) | – |
| Bank loan | (303,773) | (303,773) | (265,088) | (265,088) | – |
| Convertible debentures | – | – | (7,736) | (15,474) | Level 1 |
| Long-term debt | (150,000) | (163,875) | (150,000) | (162,750) | Level 1 |
| Total other financial liabilities | \$ (655,784) | \$ (669,659) | \$ (622,991) | \$ (643,479) | |

Financial Risk

Baytex is exposed to a variety of financial risks, including market risk, liquidity risk and credit risk. The Company monitors and, when appropriate, utilizes derivative contracts to manage its exposure to these risks. The Company does not enter into derivative contracts for speculative purposes.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices. Market risk is comprised of foreign currency risk, interest rate risk and commodity price risk.

Foreign currency risk

Baytex is exposed to fluctuations in foreign currency as a result of the U.S. dollar portion of its bank loan, crude oil sales based on U.S. dollar indices and commodity contracts that are settled in U.S. dollars. The Company's net income and cash flow will therefore be impacted by fluctuations in foreign exchange rates.

To manage the impact of currency exchange rate fluctuations, the Company may enter into agreements to fix the Canada – United States exchange rate.

At December 31, 2010, Baytex had in place the following currency derivative contracts:

| Type | Period | Amount per month | Sales Price ⁽¹⁾ |
|---------------|---------------------------------------|------------------|----------------------------|
| Forward sales | January 1, 2010 to March 31, 2011 | US\$5.0 million | 1.1500 |
| Forward sales | January 1, 2010 to December 31, 2011 | US\$5.0 million | 1.0711 |
| Forward sales | April 1, 2010 to March 31, 2011 | US\$1.0 million | 1.0185 |
| Forward sales | June 1, 2010 to June 30, 2012 | US\$1.0 million | 1.0250 |
| Forward sales | January 1, 2011 to December 31, 2011 | US\$3.0 million | 1.0677 |
| Forward sales | January 1, 2011 to June 30, 2012 | US\$3.0 million | 1.0622 |
| Forward sales | January 1, 2011 to August 31, 2012 | US\$1.0 million | 1.0565 |
| Forward sales | January 1, 2011 to September 30, 2012 | US\$1.5 million | 1.0553 |
| Forward sales | November 1, 2011 to October 31, 2013 | US\$1.0 million | 1.0433 |

(1) Based on the weighted average exchange rate (CAD/USD).

The following table demonstrates the effect of movements in the Canada – United States exchange rate on net income before income taxes due to changes in the fair value of the currency swaps, as well as gains and losses on the revaluation of U.S. dollar denominated monetary assets and liabilities at December 31, 2010.

| | \$0.01 Increase (Decrease) in CAD/USD Exchange Rate |
|---|--|
| Loss (gain) on currency forward sales agreements | \$ 2,469 |
| Loss (gain) on other monetary assets/liabilities | 1,741 |
| Impact on income before income taxes and comprehensive income | \$ 4,210 |

The carrying amounts of the Company's U.S. dollar denominated monetary assets and liabilities at the reporting date are as follows:

| | Assets | | Liabilities | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 31, 2010 | December 31, 2009 | December 31, 2010 | December 31, 2009 |
| U.S. dollar denominated | US\$ 72,663 | US\$ 67,389 | US\$ 230,723 | US\$ 198,690 |

Interest rate risk

The Company's interest rate risk arises from its floating rate bank credit facilities. As at December 31, 2010, \$303.8 million of the Company's total debt is subject to movements in floating interest rates. A change of 100 basis points in interest rates would impact net income before taxes for the year ended December 31, 2010 by approximately \$3.1 million. Baytex uses a combination of short-term and long-term debt to finance its operations. The bank loan is typically at floating rates of interest and long-term debt is typically at fixed rates of interest.

At December 31, 2010, Baytex had the following interest rate swap financial derivative contracts:

| Type | Period | Notional Principal Amount | Fixed interest rate | Floating rate index |
|------------------------------------|--|------------------------------|------------------------|------------------------|
| Swap – pay floating, receive fixed | September 23, 2009 to August 26, 2011 | Cdn\$150.0 million | 9.15% | 3-month BA plus 7.875% |
| Swap – pay fixed, receive floating | September 27, 2011 to September 27, 2014 | US\$90.0 million | 4.06% | 3-month LIBOR |
| Swap – pay fixed, receive floating | September 25, 2012 to September 25, 2014 | US\$90.0 million | 4.39% | 3-month LIBOR |

When assessing the potential impact of forward interest rate changes on financial derivative contracts outstanding as at December 31, 2010, an increase or decrease of 100 basis points would result in an increase or decrease, respectively, to the unrealized loss in year ended December 31, 2010 by approximately \$3.7 million.

Commodity Price Risk

Baytex monitors and, when appropriate, utilizes financial derivative contracts or physical delivery contracts to manage the risk associated with changes in commodity prices. The use of derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors of Baytex. Under the Company's risk management policy, financial derivatives are not to be used for speculative purposes.

When assessing the potential impact of oil price changes on the financial derivative contracts outstanding as at December 31, 2010, a 10% increase would increase the unrealized loss at December 31, 2010 by \$36.4 million, while a 10% decrease would decrease the unrealized loss at December 31, 2010 by \$35.9 million.

When assessing the potential impact of natural gas price changes on the financial derivative contracts outstanding as at December 31, 2010, a 10% increase would increase the unrealized loss at December 31, 2010 by \$1.9 million, while a 10% decrease would decrease the unrealized loss at December 31, 2010 by \$2.0 million.

Financial Derivative Contracts

At December 31, 2010, Baytex had the following financial derivative contracts:

| Oil | Period | Volume | Price/Unit | Index |
|--------------|-----------------------|-------------|------------------------|-------|
| Time spread | January 2011 | 2,000 bbl/d | Dec 2011 less US\$3.20 | WTI |
| Fixed – Sell | January to June 2011 | 500 bbl/d | US\$91.69 | WTI |
| Price collar | July to December 2011 | 500 bbl/d | US\$90.00 - 95.00 | WTI |
| Price collar | Calendar 2011 | 1,000 bbl/d | US\$90.00 - 98.00 | WTI |
| Fixed – Sell | Calendar 2011 | 1,500 bbl/d | US\$86.60 | WTI |
| Fixed – Sell | Calendar 2011 | 1,000 bbl/d | US\$85.79 | WTI |
| Fixed – Sell | Calendar 2011 | 1,000 bbl/d | US\$87.15 | WTI |
| Fixed – Sell | Calendar 2011 | 500 bbl/d | US\$86.60 | WTI |
| Fixed – Sell | Calendar 2011 | 500 bbl/d | US\$85.40 | WTI |
| Fixed – Sell | Calendar 2011 | 500 bbl/d | US\$85.40 | WTI |
| Fixed – Sell | Calendar 2011 | 500 bbl/d | US\$90.05 | WTI |
| Fixed – Sell | Calendar 2011 | 500 bbl/d | US\$90.75 | WTI |
| Price collar | Calendar 2011 | 500 bbl/d | US\$85.00 - 90.00 | WTI |
| Price collar | Calendar 2011 | 500 bbl/d | US\$85.00 - 92.50 | WTI |
| Price collar | Calendar 2011 | 500 bbl/d | US\$87.50 - 92.00 | WTI |
| Price collar | Calendar 2011 | 500 bbl/d | US\$89.00 - 92.20 | WTI |
| Price collar | Calendar 2011 | 500 bbl/d | US\$89.00 - 92.30 | WTI |
| Fixed – Sell | Calendar 2011 | 1,000 bbl/d | WTI × 82.00% | WCS |

| Natural Gas | Period | Volume | Price/Unit | Index |
|--------------|-----------------------|---------------|----------------------|-------|
| Sold call | March 2011 | 3,000 mmBtu/d | US\$6.25 | NYMEX |
| Sold call | July to December 2011 | 3,000 mmBtu/d | US\$6.25 | NYMEX |
| Sold call | July to December 2011 | 3,000 mmBtu/d | US\$5.00 | NYMEX |
| Fixed – Sell | July to December 2011 | 2,500 mmBtu/d | US\$4.50 | NYMEX |
| Fixed – Sell | July to December 2011 | 2,500 mmBtu/d | US\$4.62 | NYMEX |
| Basis swap | Calendar 2011 | 4,000 mmBtu/d | NYMEX less US\$0.615 | AECO |
| Basis swap | Calendar 2011 | 2,000 mmBtu/d | NYMEX less US\$0.490 | AECO |
| Sold call | Calendar 2012 | 6,000 mmBtu/d | US\$5.25 | NYMEX |

Financial derivative contracts are marked-to-market at the end of each reporting period, with the following reflected in the consolidated statements of income and comprehensive income:

| | Years Ended December 31 | |
|---|-------------------------|-----------|
| | 2010 | 2009 |
| Realized gain on financial derivative contracts | \$ 48,129 | \$ 80,818 |
| Unrealized loss on financial derivative contracts | (38,194) | (54,810) |
| Gain on financial derivative contracts | \$ 9,935 | \$ 26,008 |

Subsequent to December 31, 2010, Baytex added the following financial derivative contracts:

| Oil | Period | Volume | Price/Unit | Index |
|--------------|--------------------------------|-------------|------------------------|-------|
| Fixed – Sell | March to December 2011 | 500 bbl/d | US\$95.10 | WTI |
| Fixed – Sell | March to December 2011 | 500 bbl/d | US\$96.24 | WTI |
| Fixed – Sell | March to December 2011 | 500 bbl/d | US\$100.76 | WTI |
| Fixed – Sell | March to December 2011 | 250 bbl/d | US\$102.28 | WTI |
| Fixed – Sell | March to December 2011 | 250 bbl/d | US\$104.40 | WTI |
| Price collar | March to December 2011 | 250 bbl/d | US\$95.00 - 107.20 | WTI |
| Price collar | March to December 2011 | 200 bbl/d | US\$100.00 - 112.60 | WTI |
| Time spread | March to December 2011 | 500 bbl/d | Dec 2013 plus US\$1.40 | WTI |
| Time spread | July 2011 | 2,500 bbl/d | Dec 2013 less US\$2.75 | WTI |
| Time spread | August 2011 | 2,500 bbl/d | Dec 2013 less US\$2.31 | WTI |
| Price collar | Calendar 2011 | 200 bbl/d | US\$91.50 - 94.85 | WTI |
| Price collar | Calendar 2011 | 200 bbl/d | US\$92.50 - 96.65 | WTI |
| Price collar | Calendar 2011 | 300 bbl/d | US\$91.00 - 97.60 | WTI |
| Fixed – Sell | Calendar 2011 | 200 bbl/d | US\$93.20 | WTI |
| Fixed – Sell | Calendar 2011 | 200 bbl/d | US\$94.30 | WTI |
| Fixed – Sell | Calendar 2011 | 300 bbl/d | US\$94.45 | WTI |
| Fixed – Sell | February 2011 to December 2012 | 500 bbl/d | US\$98.33 | WTI |

| Natural Gas | Period | Volume | Price/Unit | Index |
|--------------|-----------------------|---------------|------------|-------|
| Fixed – Sell | March to June 2011 | 3,000 mmBtu/d | US\$4.71 | NYMEX |
| Fixed – Sell | July to December 2011 | 1,000 mmBtu/d | US\$4.90 | NYMEX |

Physical Delivery Contracts

At December 31, 2010, the following physical delivery contracts were entered into and continue to be held for the purpose of delivery of non-financial items in accordance with the Company's expected sale requirements. Physical delivery contracts do not meet the definition of a financial instrument; therefore, no asset or liability has been recognized in the financial statements.

| Heavy Oil | Period | Volume | Weighted Average Price/Unit |
|-----------|---------------------------|-------------|-----------------------------|
| LLK Blend | June to August 2011 | 2,000 bbl/d | WTI less US\$14.75 |
| WCS Blend | June to August 2011 | 500 bbl/d | WTI less US\$15.50 |
| WCS Blend | April to June 2011 | 2,000 bbl/d | WTI less US\$15.80 |
| WCS Blend | April to June 2011 | 1,000 bbl/d | WTI less US\$16.00 |
| WCS Blend | July to September 2011 | 2,000 bbl/d | WTI less US\$15.60 |
| WCS Blend | July to September 2011 | 1,000 bbl/d | WTI less US\$16.00 |
| LLB Blend | January to March 2011 | 2,000 bbl/d | WTI less US\$15.00 |
| LLB Blend | January to September 2011 | 1,000 bbl/d | WTI less US\$15.25 |
| WCS Blend | Calendar 2011 | 2,000 bbl/d | WTI less US\$15.38 |
| WCS Blend | Calendar 2011 | 1,000 bbl/d | WTI × 82.00% |
| WCS Blend | Calendar 2011 | 1,000 bbl/d | WTI × 82.90% |
| WCS Blend | Calendar 2011 | 1,000 bbl/d | WTI less US\$16.00 |
| WCS Blend | Calendar 2011 | 500 bbl/d | WTI less US\$15.00 |
| WCS Blend | Calendar 2012 | 2,000 bbl/d | WTI less US\$16.50 |
| WCS Blend | January to June 2013 | 3,000 bbl/d | WTI less US\$17.00 |

| Natural Gas | Period | Volume | Price/Unit |
|--------------|---------------------------|------------|-----------------------|
| Fixed – Sell | February to November 2011 | 2,500 GJ/d | AECO Cdn\$5.03 |
| Price collar | Calendar 2011 | 2,500 GJ/d | AECO Cdn\$5.50 - 7.10 |
| Fixed – Sell | Calendar 2011 | 1,000 GJ/d | AECO Cdn\$4.80 |
| Fixed – Sell | Calendar 2011 | 1,000 GJ/d | AECO Cdn\$4.71 |
| Fixed – Sell | Calendar 2011 | 1,000 GJ/d | AECO Cdn\$4.82 |
| Fixed – Sell | Calendar 2011 | 1,000 GJ/d | AECO Cdn\$4.88 |
| Fixed – Sell | Calendar 2011 | 1,000 GJ/d | AECO Cdn\$5.00 |

Subsequent to December 31, 2010, Baytex added the following physical delivery contracts:

| Heavy Oil | Period | Volume | Price/Unit |
|-----------|------------------------|-------------|--------------------|
| WCS Blend | April to December 2011 | 2,000 bbl/d | WTI × 80.25% |
| WCS Blend | June to August 2011 | 1,000 bbl/d | WTI less US\$17.00 |

Liquidity Risk

Liquidity risk is the risk that Baytex will encounter difficulty in meeting obligations associated with financial liabilities. Baytex manages its liquidity risk through cash and debt management. Such strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional common shares. As at December 31, 2010, Baytex had available unused bank credit facilities in the amount of \$246.2 million.

The timing of cash outflows (excluding interest) relating to financial liabilities is outlined in the table below:

| | Total | Less than 1 year | 1-2 years | 3-5 years | Beyond 5 years |
|--|------------|------------------|------------|-----------|----------------|
| Accounts payable and accrued liabilities | \$ 179,269 | \$ 179,269 | \$ - | \$ - | \$ - |
| Distributions payable to unitholders | 22,742 | 22,742 | - | - | - |
| Bank loan ⁽¹⁾ | 303,773 | - | 303,773 | - | - |
| Long-term debt ⁽²⁾ | 150,000 | - | - | - | 150,000 |
| | \$ 655,784 | \$ 202,011 | \$ 303,773 | \$ - | \$ 150,000 |

(1) The bank loan is a 364-day revolving loan with a one year term-out following the 364-day revolving period with the ability to extend the term. Unless extended, the revolving period will end on June 27, 2011 with all amounts to be re-paid by June 27, 2012.

(2) Principal amount of instrument.

Credit Risk

Credit risk is the risk that a counterparty to a financial asset will default resulting in Baytex incurring a loss. Most of the Company's accounts receivable relate to oil and natural gas sales and are exposed to typical industry credit risks. Baytex manages this credit risk by entering into sales contracts with only creditworthy entities and reviewing its exposure to individual entities on a regular basis. Credit risk may also arise from financial derivative contracts. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

Should Baytex determine that the ultimate collection of a receivable is in doubt based on the processes for managing credit risk, the carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in net income. If the Company subsequently determines that an account is uncollectible, the account is written-off with a corresponding change to allowance for doubtful accounts. For the year ended December 31, 2010, \$0.4 million was written-off in relation to balances already provided for in 2009 (year ended December 31, 2009 – \$0.1 million write-off). As at December 31, 2010, a balance of \$1.9 million (December 31, 2009 – \$2.3 million) has been set up as allowance for doubtful accounts.

As at December 31, 2010, accounts receivable included a \$4.8 million balance over 90 days (December 31, 2009 – \$8.5 million) and considered past due.

18. COMMITMENTS AND CONTINGENCIES

At December 31, 2010, Baytex had the following obligations under operating leases and processing and transportation agreements:

| | Total | Less than 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Beyond 5 years |
|--|-----------|------------------|-----------|-----------|-----------|-----------|----------------|
| Operating leases | \$ 55,645 | \$ 5,667 | \$ 5,687 | \$ 5,748 | \$ 6,066 | \$ 6,218 | \$ 26,259 |
| Processing and transportation agreements | 4,207 | 3,175 | 899 | 107 | 26 | - | - |
| Total | \$ 59,852 | \$ 8,842 | \$ 6,586 | \$ 5,855 | \$ 6,092 | \$ 6,218 | \$ 26,259 |

At December 31, 2010, the following physical power contracts were entered into and continue to be held for the purpose of delivery of non-financial items in accordance with the Company's expected usage requirements. Physical power contracts do not meet the definition of a financial instrument; therefore, no asset or liability has been recognized in the financial statements.

| Power | Period | Volume | Price/Unit |
|-------------|----------------------------|--------|----------------|
| Fixed – Buy | July 2010 to December 2011 | 0.2 MW | Cdn\$49.11/MWh |
| Fixed – Buy | January to December 2011 | 0.2 MW | Cdn\$47.71/MWh |
| Fixed – Buy | January to December 2011 | 0.2 MW | Cdn\$46.75/MWh |
| Fixed – Buy | January to December 2011 | 0.3 MW | Cdn\$45.46/MWh |

Other

During 2009, Baytex implemented an Income Tracking Unit Plan. Liabilities incurred under this plan are settled in cash on predetermined dates, contingent upon attainment of prescribed payment conditions, including the participant's service status with Baytex and the intrinsic value of reference share rights. Liabilities are recorded when the likelihood of the prescribed payment conditions being met can be reasonably estimated. At December 31, 2010, a liability of \$0.4 million has been accrued (December 31, 2009 – \$0.1 million).

At December 31, 2010 and December 31, 2009, there were no outstanding letters of credit.

In connection with a purchase of properties in 2005, Baytex Energy became liable for contingent consideration whereby an additional amount would be payable by Baytex Energy if the price for crude oil exceeds a base price in each of the succeeding six years. An amount payable was not reasonably determinable at the time of the purchase; therefore, such consideration is recognized only when the contingency is resolved. As at December 31, 2010, additional payments totaling \$9.6 million have been paid under the agreement and recorded as an adjustment to the original purchase price of the properties. It is currently not determinable, what amount, if any, of further payments will be required for the remaining year under this agreement; therefore, no accrual has been made.

Baytex is engaged in litigation and claims arising in the normal course of operations, none of which could reasonably be expected to materially affect the Company's financial position or reported results of operations.

19. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to: (i) maintain financial flexibility in its capital structure; (ii) optimize its cost of capital at an acceptable level of risk; and (iii) preserve its ability to access capital to sustain the future development of the business through maintenance of investor, creditor and market confidence.

Baytex considers its capital structure to include total monetary debt and shareholders' equity. Total monetary debt is a non-GAAP measure which is the sum of monetary working capital (being current assets less current liabilities (excluding non-cash items such as future income tax assets or liabilities and unrealized financial derivative contracts gains or losses)), and the principal amount of long-term debt and long-term bank loan. At December 31, 2010, total monetary debt was \$502.2 million.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives above and to respond to changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain the capital structure, Baytex may adjust the amount of its dividends, adjust its level of capital spending, issue new common shares or debt, or sell assets to reduce debt.

Baytex monitors capital based on the current and projected ratio of total monetary debt to funds from operations and the current and projected level of its undrawn bank credit facilities. Funds from operations is not a measurement based on GAAP in Canada, but is a financial term commonly used in the oil and gas industry. The Company's objectives are to maintain a total monetary debt to funds from operations ratio of less than two times and to have access to undrawn bank credit facilities of not less than \$100 million. The total monetary debt to funds from operations ratio may increase beyond two times, and the undrawn credit facilities may decrease to below \$100 million at certain times due to a number of factors, including acquisitions, changes to commodity prices and changes in the credit market. To facilitate management of the total monetary debt to funds from operations ratio and the level of undrawn bank credit facilities, Baytex continuously monitors its funds from operations and evaluates its dividend policy and capital spending plans.

Although Baytex has changed its legal form to a corporation, its financial objectives and strategy over the last two completed fiscal years as described above have remained substantially unchanged. These objectives and strategy are reviewed on an annual basis and Baytex believes its financial metrics are within acceptable limits pursuant to its capital management objectives.

Baytex is subject to financial covenants relating to its senior unsecured debentures and the credit facilities of Baytex Energy. Baytex is in compliance with all financial covenants.

20. SUBSEQUENT EVENTS

An agreement was reached on January 1, 2011 between Baytex Energy and its lending syndicate to increase the amount of the credit facilities to \$625 million (from \$550 million), to decrease its margins on advances based on the prime lending rate, bankers' acceptance rates or LIBOR rates and to decrease standby fees. The credit facilities were further increased to \$650 million (from \$625 million) effective February 17, 2011.

On February 3, 2011, Baytex Energy completed the acquisition of heavy oil assets located in the Seal area of northern Alberta and the Lloydminster area of western Saskatchewan. The assets were acquired through a combination of a corporate acquisition of a private company and an asset acquisition. The total consideration for the acquisitions of \$159.4 million (net of adjustments) was funded by drawing on Baytex Energy's revolving credit facilities.

On February 17, 2011, Baytex Energy issued US\$150 million in 10 year senior unsecured debentures at par bearing a coupon rate of 6.75%, and used the net proceeds from this issue to repay a portion of the amount drawn in Canadian currency on its credit facilities.

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

This information should be read in conjunction with the audited consolidated financial statements of Baytex Energy Corp. ("Baytex" or the "Company") as at and for the periods ended December 31, 2010 and 2009. The consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which in most respects, conform to accounting principles generally accepted in the United States ("U.S. GAAP"). The significant differences between Canadian GAAP and U.S. GAAP are as described below:

Reconciliation of Net Income under Canadian GAAP to U.S. GAAP

| | Note | Years ended December 31 | |
|---|------|-------------------------|-----------|
| | | 2010 | 2009 |
| Net income – Canadian GAAP | | \$ 177,631 | \$ 87,574 |
| Increase (decrease) under U.S. GAAP: | | | |
| Depletion, depreciation and accretion | A,B | 66,870 | 72,721 |
| Interest, net | C | 31 | 3,174 |
| Financing charges | | – | 3,631 |
| General and administrative | K | (600) | – |
| Unit-based compensation | G | (74,690) | (92,627) |
| Income tax expense | H | (24,488) | (34,541) |
| Net income – U.S. GAAP | | \$ 144,754 | \$ 39,932 |
| Net income per common share or trust unit | | | |
| Basic | | \$ 1.30 | \$ 0.38 |
| Diluted | | \$ 1.27 | \$ 0.38 |
| Weighted average common shares or trust units | | | |
| Basic | | 111,450 | 104,894 |
| Diluted | | 114,316 | 106,419 |

Condensed Consolidated Statements of Operations – U.S. GAAP

| | Note | Years ended December 31 | |
|---|------|-------------------------|------------------|
| | | 2010 | 2009 |
| Revenue | | | |
| Petroleum and natural gas sales, net of royalties | I | \$ 842,804 | \$ 659,105 |
| Gain on financial derivative contracts | | 9,935 | 26,008 |
| | | 852,739 | 685,113 |
| Expenses | | | |
| Operating | G | 180,439 | 176,706 |
| Transportation and blending | | 188,591 | 159,354 |
| General and administrative | G,K | 114,709 | 120,620 |
| Interest | J | 26,639 | 29,511 |
| Financing charges | | 1,643 | 1,865 |
| Foreign exchange gain | | (9,148) | (22,824) |
| Depletion, depreciation and accretion | A,B | 204,172 | 164,495 |
| | | 707,045 | 629,727 |
| Income before taxes | | 145,694 | 55,386 |
| Income tax expense (recovery) | | | |
| Current | | 8,512 | 11,370 |
| Deferred | H | (7,572) | 4,084 |
| | | 940 | 15,454 |
| Net income | | 144,754 | 39,932 |
| Other comprehensive loss | | | |
| Foreign currency translation adjustment | | (10,697) | (3,951) |
| Comprehensive income | | \$ 134,057 | \$ 35,981 |

Consolidated Statements of Accumulated Deficit

| | Note | Years ended December 31 | |
|--|------|-------------------------|----------------|
| | | 2010 | 2009 |
| Deficit, beginning of the year | | \$ (2,633,298) | \$ (1,206,793) |
| Net income | | 144,754 | 39,932 |
| Distributions to unitholders | F | (243,383) | (164,040) |
| Adjustment for fair value of temporary equity | E | (1,754,562) | (1,324,447) |
| Adjustment for fair value of unit rights exercised | G | 39,780 | 22,050 |
| Deficit, end of the year | | \$ (4,446,709) | \$ (2,633,298) |

Condensed Consolidated Balance Sheets – U.S. GAAP

| | Note | As at December 31 | | | |
|--|-------|-------------------|--------------|--------------|--------------|
| | | 2010 | | 2009 | |
| | | As Reported | U.S. GAAP | As Reported | U.S. GAAP |
| Assets | | | | | |
| Current assets | M | \$ 172,995 | \$ 172,995 | \$ 179,539 | \$ 179,539 |
| Financial derivative contracts | | 2,622 | 2,622 | 2,541 | 2,541 |
| Petroleum and natural gas properties | A,D,K | 4,229,713 | 4,128,907 | 3,943,850 | 3,843,644 |
| Accumulated depletion & depreciation | A | (2,546,063) | (3,201,382) | (2,280,098) | (3,002,832) |
| Petroleum and natural gas properties, net | | 1,683,650 | 927,525 | 1,663,752 | 840,812 |
| Deferred charges | B | – | 2,932 | – | 3,501 |
| Future income tax asset | H | 150,190 | 150,190 | 418 | 4,756 |
| Goodwill | | 37,755 | 37,755 | 37,755 | 37,755 |
| | | \$ 2,047,212 | \$ 1,294,019 | \$ 1,884,005 | \$ 1,068,904 |
| Liabilities and Unitholders' Equity | | | | | |
| Current liabilities | C,M | \$ 226,079 | \$ 226,079 | \$ 486,324 | \$ 486,403 |
| Bank loan | | 303,773 | 303,773 | – | – |
| Deferred credit | | 109,800 | 109,800 | – | – |
| Long-term debt | | 150,000 | 150,000 | 150,000 | 150,000 |
| Asset retirement obligations | | 52,373 | 52,373 | 54,593 | 54,593 |
| Share-based payment liability | G | – | – | – | 91,430 |
| Future income tax liability | A,D,H | 167,302 | 8,531 | 179,673 | 749 |
| Financial derivative contracts | | 8,859 | 8,859 | 1,418 | 1,418 |
| | | 1,018,186 | 859,415 | 872,008 | 784,593 |
| Temporary equity | E | – | – | – | 2,921,560 |
| Shareholders' capital | E,F | 1,390,034 | 4,770,225 | – | – |
| Unitholders' capital | E,F | – | – | 1,295,931 | – |
| Conversion feature of convertible debentures | C | – | – | 374 | – |
| Contributed surplus | E,G | 20,131 | 125,758 | 20,371 | – |
| Accumulated other comprehensive loss | | (14,607) | (14,670) | (3,899) | (3,951) |
| Deficit | | (366,532) | (4,446,709) | (300,780) | (2,633,298) |
| | | 1,029,026 | 434,604 | 1,011,997 | (2,637,249) |
| | | \$ 2,047,212 | \$ 1,294,019 | \$ 1,884,005 | \$ 1,068,904 |

Condensed Consolidated Statement of Cash Flows – U.S. GAAP

| | Years ended December 31 | |
|--|-------------------------|--------------|
| | 2010 | 2009 |
| Operating activities: | | |
| Net income | \$ 144,754 | \$ 39,932 |
| Unit-based compensation | 83,034 | 99,070 |
| Depletion, depreciation and accretion | 203,619 | 162,329 |
| Amortization of deferred charges | 553 | 2,166 |
| Unrealized foreign exchange gain | (8,999) | (2,889) |
| Unrealized loss on financial derivative contracts | 38,194 | 54,810 |
| Deferred income tax (recovery) expense | (7,572) | 4,084 |
| Realized foreign exchange gain on redemption of long-term debt | - | (23,685) |
| Change in non-cash working capital | (9,967) | (27,878) |
| Asset retirement expenditures | (2,778) | (1,146) |
| | \$ 440,838 | \$ 306,793 |
| Cash (used in) from financing activities | \$ (114,890) | \$ 7,210 |
| Cash (used in) investing activities | \$ (335,436) | \$ (303,758) |
| Impact of foreign exchange on cash balances | \$ (689) | \$ (68) |

(A) Full Cost Accounting

Under U.S. GAAP, for determining the limitation of capitalized costs, the carrying value of a cost centre's oil and gas properties cannot exceed the present value of after tax future net cash flows from proved reserves, discounted at 10%, using oil and gas prices based upon an average price in the prior 12-month period and unescalated costs, plus (i) the costs of properties that have been excluded from the depletion calculation and (ii) the lower of cost or estimated fair value of unproved properties included in the depletion calculation, less (iii) income tax effects related to differences between the book and tax basis of the properties. The amount of the impairment expense is recognized as a charge to the results of operations and a reduction in the net carrying amount of a cost centre's petroleum and natural gas properties.

For Canadian GAAP, the carrying value includes all capitalized costs for each cost centre, including costs associated with asset retirement net of estimated salvage values, unproved properties and major development projects, less accumulated depletion and ceiling test impairments. The U.S. GAAP definition under Regulation S-X is similar to Canadian GAAP, except that under U.S. GAAP the carrying value of assets should be net of deferred income taxes and costs of major development projects are to be considered separately for purposes of the ceiling test calculation.

Petroleum and natural gas properties under U.S. GAAP is summarized the following table:

| | As at December 31 | |
|----------------|-------------------|------------|
| | 2010 | 2009 |
| Net book value | | |
| Canada | \$ 791,541 | \$ 732,906 |
| USA | 135,984 | 107,906 |
| | \$ 927,525 | \$ 840,812 |

The costs of unproved properties included in the petroleum and natural gas properties on the balance sheet date December 31, 2010, which have been excluded from the depletion and ceiling test calculations, by year in which the costs were incurred are summarized in the following table:

| | Total | 2010 | 2009 | Prior to 2009 |
|-----------------------|------------|-----------|-----------|---------------|
| Property acquisitions | | | | |
| Canada | \$ 49,603 | \$ 17,340 | \$ 1,797 | \$ 30,466 |
| USA | 50,793 | 7,832 | 25,555 | 17,406 |
| | \$ 100,396 | \$ 25,172 | \$ 27,352 | \$ 47,872 |

The costs of unproved properties are amortized into the depletion base over five years for Canadian cost centre and three years for the U.S. cost centre. There were no major development projects that were excluded from the capitalized costs being amortized.

Under Canadian GAAP, depletion is calculated by reference to proved reserves estimated using forecast prices. Under U.S. GAAP, depletion is calculated by reference to proved reserves estimated using unescalated prices. The difference in proved reserves and the effect of prior years' write-downs under U.S. GAAP have resulted in \$86.7 million less depletion recorded under U.S. GAAP for the year ended December 31, 2010 (year ended December 31, 2009 – \$81.2 million less depletion).

At December 31, 2010, Baytex's capitalized costs of petroleum and natural gas properties in both the Canadian cost centre and U.S. cost centre did not exceed the full cost ceiling under U.S. GAAP. At June 30, 2010, the ceiling test in the U.S. cost centre resulted in a charge of \$19.3 million. As a result, the depletion base of unamortized capitalized costs is less for U.S. GAAP purposes. At December 31, 2009, Baytex's capitalized costs of petroleum and natural gas properties in the Canadian cost centre did not exceed the full cost ceiling under U.S. GAAP. The ceiling test in the U.S. cost centre resulted in a charge of \$6.3 million.

(B) Deferred Charges

Under Canadian GAAP, the Company elected to expense all financial instrument transaction costs immediately. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Under U.S. GAAP, transaction costs continue to be deferred and amortized over the expected term of the related financial asset or liability. Under U.S. GAAP, there is an asset of \$2.9 million on the balance sheet at December 31, 2010 (December 31, 2009 – \$3.5 million). For the year ended December 31, 2010 additional amortization expense of \$0.6 million has been recognized in net income under U.S. GAAP (year ended December 31, 2009 – \$2.2 million).

(C) Convertible Debentures

Under Canadian GAAP, the Company's convertible debentures were classified as debt with a portion, representing the value associated with the conversion feature, being allocated to equity. In addition, under Canadian GAAP a non-cash interest expense representing the effective yield of the debt component was recorded in the consolidated statements of income with a corresponding credit to the convertible debenture liability balance to accrete the balance to the principal due December 31, 2010, on maturity.

Under U.S. GAAP, the convertible debentures in their entirety were classified as debt. The non-cash interest expense recorded under Canadian GAAP would not be recorded under U.S. GAAP. As a result of the December 31, 2010 maturity, no equity was reclassified to liabilities as at December 31, 2010 (December 31, 2009 – \$0.4 million) and \$31 thousand of non-cash interest expense was reversed (December 31, 2009 – \$0.1 million).

(D) Step Acquisition on Exchange of Exchangeable Shares

Under Canadian GAAP, when the exchangeable shares are exchanged for common shares, the transaction is treated as a step acquisition whereby petroleum and natural gas properties are increased by the tax-effected difference between the fair value of the exchangeable shares and their carrying value. The offset is credited to future tax liability and common shares. Under U.S. GAAP the exchangeable shares are considered to be a component of temporary equity and therefore no business combination is considered to have occurred. The cumulative effect of the reversal of the step acquisition is a reduction in petroleum and natural gas properties of \$62.0 million (December 31, 2009 – \$70.4 million) and a decrease in future tax liability of \$17.7 million (December 31, 2009 – \$20.8 million).

(E) Temporary Equity

The trust units contained a redemption feature which was required for Baytex to retain its mutual fund trust status for Canadian income tax purposes. The redemption feature of the trust units entitled the holder to redeem the trust units. However, the restrictions on redemption were not substantive enough for the trust units to be accounted for as a component of permanent unitholders' equity under U.S. GAAP. In accordance with Accounting Standards Codification ("ASC") 480 "Distinguishing Liabilities from Equity" (formerly, Emerging Issues Task Force D-98 "Classification and Measurement of Redeemable Securities"), the trust units were presented as temporary equity and recorded on the consolidated balance sheet at their redemption value.

Under Canadian GAAP, all trust units are classified as permanent equity. Changes in redemption value are charged or credited to accumulated deficit. Immediately prior to the conversion from an income trust to a corporation at December 31, 2010, in accordance with U.S. GAAP, the trust had recorded temporary equity in the amount of \$4,770.2 million (December 31, 2009 – \$2,921.6 million), which represented the estimated redemption value of the trust units at the balance sheet date. Prior to the conversion from an income trust to a corporation, the difference between the Trust's temporary equity under U.S. GAAP and unitholders' capital under Canadian GAAP was applied to accumulated deficit. The adjustments to accumulated deficit was a debit of \$1,754.6 million (December 31, 2009 – debit of \$1,324.4 million).

On December 31, 2010 the Trust effectively completed its conversion from an income trust to a corporation. Pursuant to the Arrangement, all outstanding trust units were exchanged for common shares of the Company. Under both Canadian and U.S. GAAP, this exchange was recorded at carrying value of the trust units outstanding at December 31, 2010. Due to the classification of Baytex's trust units as temporary equity under U.S. GAAP, recorded at their redemption amount, the carrying value of shareholders' equity varied between U.S. and Canadian GAAP. Prior to the Trust's conversion to a corporation, Baytex had classified \$4,770.2 million as temporary equity, in accordance with U.S. GAAP (which was reclassified to shareholders' capital upon conversion).

(F) Shareholders'/Unitholders' Capital

Distributions declared for the year ended December 31, 2010 were \$2.18 per trust unit (year ended December 31, 2009 – \$1.56 per trust unit). The number of common shares outstanding as at December 31, 2010 was 113,712,158 (December 31, 2009 – 109,298,911 trust units). Under U.S. GAAP, the number of common shares issued and outstanding is required to be disclosed on the face of the balance sheet.

There were no costs relating to the issuance of common shares or trust units netted against shareholders' or unitholders' capital for the year ended December 31, 2010 (year ended December 31, 2009 – \$5.1 million).

(G) Unit-Based Compensation

Baytex had a Trust Units Rights Incentive Plan (the "Unit Rights Plan"), which was superseded by the Company's Common Share Rights Incentive Plan (the "Share Rights Plan") upon conversion from an income trust to a corporation as described in note 11. As the exercise price of the unit rights granted under the Unit Rights Plan were subject to downward revisions from time to time, the Unit Rights Plan was a variable compensation plan under U.S. GAAP. Under ASC 718 – "Compensation – Stock Compensation" (formerly, SFAS No. 123R "Share-Based Payments"), the Company must account for compensation expense based on the fair value at report date of unit rights granted under the Unit Rights Plan, and unlike Canadian GAAP, must allocate the compensation expense between grants issued to operations and general and administrative staff respectively. The fair value of the unit rights has been determined using a binomial-lattice model.

The modification of the awards plan from the Unit Rights Plan to the Share Rights Plan resulted in a change from liability awards to equity awards. The Share Rights Plan under ASC 718 would require reclassifying the fair value of share rights as at December 31, 2010 of \$125.8 million from share based liability to contributed surplus. No additional compensation expense was recorded for the year ended December 31, 2010 as a result of the modification. The expense recognized from the date of modification over the remainder of the vesting period is determined based on the fair value of the reclassified equity awards as at the date of modification.

Prior to the conversion to a corporation, the Unit Rights Plan was classified as a liability and the unit rights were fair valued at each reporting date. Compensation expense for the Unit Rights Plan was recognized in income until settlement date based on the reporting date fair value and the portion of the vesting period that has transpired. The accounting for compensation expense for the Unit Rights Plan results in a difference between Canadian and U.S. GAAP, as Baytex classifies the Unit Rights Plan as equity awards and uses the grant date fair value method to account for its unit compensation expense under Canadian GAAP. Under U.S. GAAP compensation expense increased by \$74.7 million for the year ended December 31, 2010 (December 31, 2009 – increased by \$92.6 million) resulting in an expense of \$83.0 million (December 31, 2009 – \$99.1 million). The allocation between operating and general and administrative expenses under U.S. GAAP for the year ended December 31, 2010 was \$8.7 million and \$74.3 million respectively (year ended December 31, 2009 – \$13.5 million and \$85.6 million). Difference in fair value of unit rights under U.S. GAAP resulted in an adjustment to accumulated deficit upon exercise of unit rights for the year ended December 31, 2010 for a credit of \$39.8 million (December 31, 2009 – credit of \$22.1 million).

The Company used the binomial-lattice model to calculate the estimated weighted average grant date fair value of \$9.00 per unit right for unit rights issued during the year ended December 31, 2010 (year ended December 31, 2009 – \$6.38 per unit right). The following assumptions were used to arrive at the estimate of fair values:

| | Years Ended December 31 | |
|---|-------------------------|------------------|
| | 2010 | 2009 |
| Expected annual exercise price reduction (on unit rights with declining exercise price) | \$ 2.16 - \$2.40 | \$ 1.44 - \$2.16 |
| Expected volatility | 43% - 44% | 39% - 43% |
| Risk-free interest rate | 1.99% - 3.02% | 1.78% - 2.72% |
| Forfeiture rate | 4.6% | 10.0% |
| Expected life of unit rights (years) ⁽¹⁾ | Various | Various |

(1) The binomial-lattice model calculates the fair values based on an optimal strategy, resulting in various expected lives of share rights or unit rights. The maximum term is limited to five years by the Share Rights Plan.

The following table is a summary of the status of the unvested share rights or unit rights as of December 31, 2010 and 2009 and changes during the years then ended:

| | Number of unvested share rights or unit rights | Weighted average grant date fair value |
|------------------------------------|--|--|
| Unvested, December 31, 2008 | 4,669 | \$ 3.03 |
| Granted | 1,844 | \$ 6.38 |
| Vested | (2,227) | \$ 3.38 |
| Forfeited | (114) | \$ 3.00 |
| Unvested, December 31, 2009 | 4,172 | \$ 4.32 |
| Granted | 190 | \$ 9.03 |
| Vested | (2,065) | \$ 3.67 |
| Forfeited | (212) | \$ 3.81 |
| Unvested, December 31, 2010 | 2,085 | \$ 4.49 |

As of December 31, 2010, there was \$22.7 million of total unrecognized compensation cost (December 31, 2009 – \$36.0 million) related to unvested share rights or unit rights; the cost is expected to be recognized over a weighted average period of 1.1 years. The total fair value of share rights or unit rights vested during the year ended December 31, 2010 was \$39.6 million (year ended December 31, 2009 – \$37.0 million).

The intrinsic value of a share right or unit right is the amount by which the current market value of the underlying common share or trust unit exceeds the exercise price of the share right or unit right.

The following tables summarize information related to share rights or unit rights activity during the years ended December 31, 2010 and 2009:

| | Number of share rights or unit rights | Weighted average exercise price ⁽¹⁾ | Weighted average remaining contract life (years) | Aggregate intrinsic value |
|---------------------------------------|---------------------------------------|--|--|---------------------------|
| Outstanding, December 31, 2009 | 8,120 | \$ 16.68 | 3.1 | \$ 105,720 |
| Granted | 190 | 32.71 | 4.3 | 36 |
| Exercised | (2,337) | 11.13 | 1.1 | 56,265 |
| Forfeited | (212) | 20.35 | 2.9 | 2,583 |
| Outstanding, December 31, 2010 | 5,761 | \$ 17.02 | 2.6 | \$ 170,483 |
| Exercisable, December 31, 2010 | 3,676 | \$ 14.97 | 2.1 | \$ 116,310 |
| Expected to vest | 1,989 | \$ 20.63 | 3.5 | \$ 51,681 |

| | Number of unit rights | Weighted average exercise price ⁽¹⁾ | Weighted average remaining contract life (years) | Aggregate intrinsic value |
|--------------------------------|-----------------------|--|--|---------------------------|
| Outstanding, December 31, 2008 | 8,449 | \$ 14.58 | 3.3 | \$ 16,277 |
| Granted | 1,844 | 24.87 | 4.7 | – |
| Exercised | (2,059) | 9.97 | 1.5 | 29,468 |
| Forfeited | (114) | 16.43 | 3.2 | 508 |
| Outstanding, December 31, 2009 | 8,120 | \$ 16.68 | 3.1 | \$ 105,720 |
| Exercisable, December 31, 2009 | 3,948 | \$ 13.22 | 2.1 | \$ 65,078 |
| Expected to vest | 3,755 | \$ 19.96 | 4.0 | \$ 36,578 |

(1) Exercise price reflects the grant price less the reduction in exercise price as discussed above. During 2009, Baytex modified the terms of certain share rights or unit rights to re-set the exercise price to the greater of the original grant price and the closing price of the share rights or unit rights on trading day prior to the date of grant. This modification resulted in an increase of the weighted average exercise price per share right or unit right from \$16.49 to \$16.68.

(H) Income Taxes

Under U.S. GAAP, enacted tax rates are used to calculate current and future taxes, whereas Canadian GAAP uses substantively enacted tax rates. The future income tax adjustments included in the Reconciliation of Net Income under Canadian GAAP to U.S. GAAP and the Condensed Consolidated Balance Sheets – U.S. GAAP include the effect of such rate differences, if any, as well as the tax effect of the other reconciling items noted.

The unrecognized tax benefits of the Company are disclosed below:

| | | |
|--|-----------|---------------|
| Unrecognized tax benefits, December 31, 2008 | \$ | 3,600 |
| Gross decrease for tax positions taken during a prior period | | 61 |
| Gross increase for tax positions taken during a prior period | | – |
| Gross decrease for tax positions taken during the current period | | – |
| Gross increase for tax positions taken during the current period | | (566) |
| Reductions due to lapse of applicable statute of limitations | | (175) |
| Unrecognized tax benefits, December 31, 2009 | \$ | 2,920 |
| Gross decrease for tax positions taken during a prior period | | – |
| Gross increase for tax positions taken during a prior period | | – |
| Gross decrease for tax positions taken during a current period | | (25) |
| Gross increase for tax positions taken during the current period | | 33,961 |
| Reductions due to lapse of applicable statute of limitations | | (904) |
| Unrecognized tax benefits, December 31, 2010 | \$ | 35,952 |

All of the Company's unrecognized tax benefits at December 31, 2010, if recognized, would affect Baytex's effective income tax rate. The Company does not anticipate further adjustments to the unrecognized tax benefits during the next twelve months that would have a material impact on its consolidated financial statements.

Baytex recognizes interest and penalties related to uncertain tax positions in a component of interest expense. Interest expense for the year ended December 31, 2010 did not include any interest and penalties related to taxation amounts (December 31, 2009 – \$0.3 million). There are no accruals of interest and penalties as at December 31, 2010 and 2009 on the balance sheet.

Baytex and its subsidiaries are subject to either Canadian federal and provincial income tax, U.S. federal, state and local income tax, or the relevant income tax in other international jurisdictions. Baytex may be subject to a reassessment of federal and provincial income taxes by Canadian tax authorities for a period of four years from the date of mailing of the original notice of assessment in respect of any particular taxation year. For the Canadian federal and provincial income tax matters, the open taxation years range from 2005 to 2010. The U.S. federal statute of limitations for assessment of income tax is generally closed for the taxation years through 2005. In certain circumstances, the U.S. federal statute of limitations can reach beyond the standard three year period. U.S. state statutes of limitations for income tax assessment vary from state to state. The federal tax authorities are currently auditing the income tax returns of two of Baytex's U.S. subsidiaries for the 2008 taxation year.

(I) Petroleum and Natural Gas Revenues

Under U.S. GAAP, petroleum and natural gas revenues are required to be presented net of royalties, excise and sales taxes to governments and other mineral interest owners.

(J) Interest

Under U.S. GAAP, interest income should be disclosed separately from interest expense on the face of the income statement. For the year ended December 31, 2010, interest income netted against the interest expense was \$8 thousand (year ended December 31, 2009 – \$0.1 million).

(K) Business Combinations

On May 26, 2010, Baytex completed an acquisition of a private company for a total consideration of \$40.9 million funded with debt. Under U.S. GAAP, the cost associated with the acquisition of \$0.6 million has been expensed as incurred.

(L) Consolidated Statement of Cash Flows

Under U.S. GAAP, separate subtotals within cash flow from operating activities are not presented.

(M) **Additional Disclosures**

1. The components of accounts receivable are as follows:

| | As at December 31 | |
|---|-------------------|------------|
| | 2010 | 2009 |
| Petroleum and natural gas sales and accrual | \$ 120,116 | \$ 107,657 |
| Joint venture | 30,536 | 28,581 |
| Prepaid, deposits and other | 2,993 | 3,252 |
| Less: allowance for doubtful accounts | (1,853) | (2,336) |
| | \$ 151,792 | \$ 137,154 |

2. The components of inventory are as follows:

| | As at December 31 | |
|---------------------------|-------------------|----------|
| | 2010 | 2009 |
| Petroleum and condensates | \$ 1,744 | \$ 1,217 |
| Other | 58 | 167 |
| | \$ 1,802 | \$ 1,384 |

3. The components of accounts payable and accrued liabilities are as follows:

| | As at December 31 | |
|---|-------------------|------------|
| | 2010 | 2009 |
| Trade payables | \$ 80,968 | \$ 81,387 |
| Joint venture | 12,284 | 23,564 |
| Petroleum and natural gas accrued liabilities | 71,502 | 63,500 |
| Other | 14,515 | 12,042 |
| | \$ 179,269 | \$ 180,493 |

(N) **Commitments and Contingencies**

For the year ended December 31, 2010, the Company recorded an expense for operating leases of \$4.9 million (year ended December 31, 2009 – \$2.9 million). The operating leases have expiration dates ranging from February 2011 to April 2020.

(O) **Supplemental Information**

Change in Non-Cash Working Capital Items

| | Years ended December 31 | |
|--|-------------------------|-------------|
| | 2010 | 2009 |
| Operating activities | | |
| Accounts receivable | \$ (8,079) | \$ (39,565) |
| Crude oil inventory | (418) | (1,052) |
| Accounts payable and accrued liabilities | (1,544) | 12,689 |
| Foreign exchange on working capital | 74 | 50 |
| | (9,967) | (27,878) |
| Investing activities | | |
| Accounts receivable | (4,839) | (10,038) |
| Accounts payable and accrued liabilities | (1,117) | 3,451 |
| | (5,956) | (6,587) |
| | \$ (15,923) | \$ (34,465) |

(P) **Recent Developments in U.S. Accounting**

The following accounting pronouncement was adopted during 2010:

Amendments to Consolidation of Variable Interest Entities – intended to address (1) the effects on certain consolidation provisions as a result of the elimination of the concept of qualifying special-entities and (2) constituent concerns about the application of certain consolidation provisions including those in which the accounting and disclosures do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. The adoption of the provisions on January 1, 2010 did not have any impact to the Company's consolidated results of operations, financial position or cash flows.

Future accounting pronouncements:

IFRS financial statements – the U.S. Securities and Exchange Commission has issued final rules to accept from foreign private issuers financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board without reconciliation to U.S. GAAP. Baytex, as a foreign private issuer, adopted IFRS on January 1, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Baytex Energy Corp. for the year ended December 31, 2010. This information is provided as of March 15, 2011. In this MD&A, references to "Baytex", the "Company", "we", "us" and "our" and similar terms refer to Baytex Energy Corp. and its subsidiaries on a consolidated basis, except where the context requires otherwise. This MD&A should be read in conjunction with the Company's audited consolidated comparative financial statements for the years ended December 31, 2010 and 2009, together with accompanying notes, and the Annual Information Form for the year ended December 31, 2010. The Company's Annual Information Form for the year ended December 31, 2010, will be filed in late March 2011. These documents and additional information about Baytex are available on SEDAR at www.sedar.com. All amounts are in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except for percentage and per common share or per trust unit amounts or as otherwise noted.

In this MD&A, barrel of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil, which represents an energy equivalency conversion method applicable at the burner tip and does not represent a value equivalency at the wellhead. While it is useful for comparative measures, it may not accurately reflect individual product values and may be misleading if used in isolation.

This MD&A contains forward-looking information and statements. We refer you to the end of the MD&A for our advisory on forward-looking information and statements.

CORPORATE CONVERSION

At year-end 2010, Baytex Energy Trust (the "Trust") completed a plan of arrangement under 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. The reorganization into a corporation has been accounted for on a continuity of interest basis and accordingly, the consolidated financial statements reflect the financial position, results of operations, and cash flows as if the Company had always carried on the business formerly carried on by the Trust.

Despite the change in legal structure from a trust to a dividend paying corporation, the Company's business objectives and strategies remain unchanged and all officers and directors remain the same. Baytex's business objectives are directed towards growing its production and asset base through internal property development and acquisitions with the objectives of providing monthly income to its Shareholders and creating long-term value for its Shareholders. This will be maintained by investing capital to enhance the value of Baytex's assets, operating Baytex's producing oil and gas properties in a low cost manner to maximize the recovery of reserves, and paying monthly dividends to Shareholders.

Baytex will continue to direct its efforts to increase the value of its assets through development drilling and associated development activities and enhanced oil recovery activities as well as by the periodic acquisition of undeveloped and producing oil and gas properties. Baytex will also seek to acquire oil and natural gas producing properties and primarily participate in development activities that are generally considered to be of a low risk nature in the oil and gas industry. Also, a minor percentage of each year's capital budget will be devoted to moderate risk development and lower risk exploration opportunities on its properties.

The Common Shares of Baytex trade on the Toronto Stock Exchange (the "TSX") and the New York Stock Exchange (the "NYSE") under the trading symbol BTE. Beginning with the January 31, 2011 record date, shareholders of Baytex will receive payments in the form of dividends. Prior to the Corporate Conversion on December 31, 2010, distributions were paid to unitholders.

NON-GAAP FINANCIAL MEASURES

Baytex evaluates performance based on net income and funds from operations. Funds from operations is not a measurement based on Generally Accepted Accounting Principles in Canada ("Canadian GAAP"), but is a financial term commonly used in the oil and gas industry. Funds from operations represents cash flow from operating activities before changes in non-cash working capital and other operating items. The Company's determination of funds from operations may not be comparable with the calculation of similar measures for other issuers. Baytex considers funds from operations a key measure of performance as it demonstrates its ability to generate the cash flow necessary to fund future dividends to shareholders and capital investments. The most directly comparable measures calculated in accordance with Canadian GAAP are cash flow from operating activities and net income. For a reconciliation of funds from operations to cash flow from operating activities, see "Funds from Operations, Payout Ratio and Distributions or Dividends".

Total monetary debt is a non-GAAP measure which we define to be the sum of monetary working capital (which is current assets less current liabilities (excluding non-cash items such as future income tax assets or liabilities and unrealized gains or losses on financial derivative contracts)), the principal amount of long-term debt and the balance sheet amount of the convertible debentures and long-term bank loan.

Operating netback is a non-GAAP measure commonly used in the oil and gas industry. This measurement helps management and investors to evaluate the specific operating performance by product. There is no standardized measure of operating netback and therefore operating netback as presented may not be comparable to similar measures presented by other issuers. Operating netback is equal to product revenue less royalties, operating expenses and transportation expenses divided by barrels of oil equivalent.

OUTLOOK – ECONOMIC ENVIRONMENT

In 2010, the energy and commodity markets continued to improve. The spot price for West Texas Intermediate (“WTI”) at December 31, 2010 was US\$91.38/bbl, up from US\$79.36/bbl at December 31, 2009 showing continued strength in crude oil prices in the commodity marketplace. Going forward, Baytex continues to be focused on the following objectives: preserving balance sheet strength and liquidity, maintaining and, where possible, profitably expanding its productive capacity and delivering a sustainable dividend to its shareholders.

2010 OVERVIEW

Baytex is a Calgary, Alberta based conventional oil and gas corporation engaged in the acquisition, development and production of petroleum and natural gas in the Western Canadian Sedimentary Basin and the United States.

Our business has been to increase production levels through investing approximately half of our internally generated funds from operations in Exploration and Development (“E&D”) activities while distributing most of the balance of our funds from operations to holders of our trust units. Over our life as a trust, we have grown our reserve base and added to production levels through E&D activities complimented by strategic acquisitions.

During 2010, Baytex executed a successful capital program, resulting in the replacement of 274% of production (on a proved plus probable basis) by reinvesting 52% of our internally generated funds from operations into E&D activities. When acquisitions are included, Baytex replaced 297% of production.

As at December 31, 2010, we had a reserve base of 229 million boe on a proved plus probable basis. During the year ended December 31, 2010, our production averaged 44,341 boe/d, primarily from Canada.

On May 26, 2010, we closed the acquisition of a private entity with heavy oil assets in the Lloydminster area of Saskatchewan for total net consideration of \$40.9 million, adding approximately 900 bbl/d of oil production at accretive metrics.

In the second quarter of 2010, Baytex expanded our Bakken/Three Forks position in the United States to approximately 124,000 net acres, including the addition of high working interest lands in Williams County, North Dakota.

In 2010, we conducted a number of successful thermal development projects employing technology to create greater production rates, increased recovery and stronger capital efficiencies.

RESULTS OF OPERATIONS

Production

| | Years Ended December 31 | | |
|----------------------------------|-------------------------|---------------|------------|
| | 2010 | 2009 | Change |
| Daily Production | | | |
| Light oil and NGL (bbl/d) | 6,539 | 6,937 | (6 %) |
| Heavy oil (bbl/d) ⁽¹⁾ | 28,585 | 24,678 | 16 % |
| Natural gas (mmcf/d) | 55.3 | 58.6 | (6 %) |
| Total production (boe/d) | 44,341 | 41,382 | 7 % |
| Production Mix | | | |
| Light oil and NGL | 15% | 17% | |
| Heavy oil | 64% | 60% | |
| Natural gas | 21% | 23% | |

(1) Heavy oil sales volumes may differ from reported production volumes due to changes to the Company's heavy oil inventory. For the year ended December 31, 2010, heavy oil sales volumes were 36 bbl/d lower than production volumes (year ended December 31, 2009 – 91 bbl/d lower).

Production for the year ended December 31, 2010 totaled 44,341 boe/d, as compared to 41,382 boe/d for the same period in 2009. Light oil and natural gas liquids ("NGL") production for the year ended December 31, 2010 decreased by 6% to 6,539 bbl/d from 6,937 bbl/d in the same period last year due to production declines in conventional fields in Alberta and British Columbia, partially offset by increasing production from light oil resource plays. Heavy oil production for the year ended December 31, 2010 increased by 16% to 28,585 bbl/d from 24,678 bbl/d in the same period last year primarily due to increased production from development programs and, to a lesser extent, the acquisition of producing assets. Natural gas production decreased by 6% to 55.3 mmcf/d for the year ended December 31, 2010, as compared to 58.6 mmcf/d for the same period last year primarily due to natural declines as we focused our drilling effort on our oil portfolio.

Commodity Prices

Crude Oil

For the year ended December 31, 2010, the price of WTI fluctuated between a low of US\$68.01/bbl and a high of US\$92.19/bbl, as global markets showed sustained signs of recovery from the largest economic downturn since the Great Depression of the 1930s. As concerns over a "double-dip" United States recession began to fade, aided by the United States Federal Reserve's announced second round of quantitative easing in November 2010, and the European Central Bank intervention in the emerging fiscal crises of some smaller members, markets refocused on the global recovery and renewed growth potential. Oil prices were buoyed by this improving economic climate and evidence of significant third and fourth quarter petroleum demand growth from China and other emerging economies. As a result, the average prompt WTI price in the year ended December 31, 2010 increased 29% to US\$79.53/bbl, from US\$61.80/bbl in year ended December 31, 2009.

The discount for Canadian heavy oil, as measured by the Western Canadian Select ("WCS") price differential to WTI, averaged 18% in the year ended December 31, 2010, compared to 16% in year ended December 31, 2009. This increased WCS discount was due, in large part, to transportation constraints resulting from service disruptions on key oil export pipelines, which temporarily curtailed oil shipments to United States mid-continent refineries and resulted in wider price differentials for all Canadian crude oil grades for September and October 2010 production. During the fourth quarter, these pipelines were repaired and deliveries resumed.

Natural Gas

For the year ended December 31, 2010, AECO natural gas prices averaged \$4.13/mcf, which was essentially unchanged from 2009 (\$4.14/mcf). This was due to continued United States natural gas production increases and high natural gas storage levels. Canadian natural gas prices were further hindered by the increasing value of the Canadian dollar in 2010 versus the U.S. dollar during the year.

| | Years Ended December 31 | | |
|--|-------------------------|----------|--------|
| | 2010 | 2009 | Change |
| Benchmark Averages | | | |
| WTI oil (US\$/bbl) ⁽¹⁾ | \$ 79.53 | \$ 61.80 | 29 % |
| WCS heavy oil (US\$/bbl) ⁽²⁾ | \$ 65.30 | \$ 52.14 | 25 % |
| Heavy oil differential ⁽³⁾ | (18%) | (16%) | |
| USD/CAD average exchange rate | 0.9708 | 0.8760 | 11 % |
| Edmonton par oil (\$/bbl) | \$ 77.81 | \$ 66.20 | 18 % |
| AECO natural gas price (\$/mcf) ⁽⁴⁾ | \$ 4.13 | \$ 4.14 | - % |
| Baytex Average Sales Prices⁽⁶⁾ | | | |
| Light oil and NGL (\$/bbl) | \$ 65.90 | \$ 54.25 | 21 % |
| Heavy oil (\$/bbl) ⁽⁵⁾ | \$ 60.08 | \$ 55.01 | 9 % |
| Physical forward sales contracts loss (\$/bbl) | (0.68) | (5.13) | |
| Heavy oil, net (\$/bbl) | \$ 59.40 | \$ 49.88 | 19 % |
| Total oil and NGL, net (\$/bbl) | \$ 60.61 | \$ 50.85 | 19 % |
| Natural gas (\$/mcf) ⁽⁶⁾ | \$ 4.22 | \$ 4.09 | 3 % |
| Physical forward sales contracts gain (\$/mcf) | 0.10 | 0.26 | |
| Natural gas, net (\$/mcf) | \$ 4.32 | \$ 4.35 | (1 %) |
| Summary | | | |
| Weighted average (\$/boe) ⁽⁶⁾ | \$ 53.75 | \$ 48.23 | 11 % |
| Physical forward sales contracts loss (\$/boe) | (0.36) | (3.23) | |
| Weighted average, net (\$/boe) | \$ 53.39 | \$ 45.00 | 19 % |

(1) WTI refers to the calendar monthly average based on NYMEX prompt month WTI.

(2) WCS refers to the average posting price for the benchmark WCS heavy oil.

(3) Heavy oil differential refers to the WCS discount to WTI.

(4) AECO refers to the AECO monthly index price published by the Canadian Gas Price Reporter.

(5) Baytex's realized heavy oil prices are calculated based on sales volumes, net of blending costs.

(6) Baytex's risk management strategy employs both oil and natural gas financial and physical forward contracts (fixed price forward sales and collars) and heavy oil differential physical delivery contracts (fixed price and percentage of WTI). The pricing information in the table excludes the impact of financial derivative contracts.

For the year ended December 31, 2010, Baytex's average sales price for light oil and NGL was \$65.90/bbl, up 21% from \$54.25/bbl in the year ended December 31, 2009. Baytex's realized heavy oil price during the year of 2010, prior to physical forward sales contracts, was \$60.08/bbl, or 89% of WCS. This compares to a realized heavy oil price in year ended December 31, 2009, prior to physical forward sales contracts, of \$55.01/bbl, or 92% of WCS. The differential to WCS largely reflects the cost of blending Baytex's heavy oil with diluent to meet pipeline specifications. Net of physical forward sales contracts, Baytex's realized heavy oil price during the year ended December 31, 2010, was \$59.40/bbl, up 19% from \$49.88/bbl in the year ended December 31, 2009. Baytex's realized natural gas price for the year ended December 31, 2010 was \$4.22/mcf, prior to physical forward sales contracts, and \$4.32/mcf inclusive of physical forward sales contracts (year ended December 31, 2009 - \$4.09/mcf prior to, and \$4.35/mcf inclusive of, physical forward sales contracts).

Revenue

| (\$ thousands except for %) | Years Ended December 31 | | |
|---------------------------------------|-------------------------|------------|--------|
| | 2010 | 2009 | Change |
| Oil revenue | | | |
| Light oil and NGL | \$ 157,603 | \$ 137,379 | 15 % |
| Heavy oil | 618,969 | 447,674 | 38 % |
| Total oil revenue | 776,572 | 585,053 | 33 % |
| Natural gas revenue | 87,116 | 93,918 | (7 %) |
| Total oil and gas revenue | 863,688 | 678,971 | 27 % |
| Sales of heavy oil blending diluent | 141,448 | 110,772 | 28 % |
| Total petroleum and natural gas sales | \$ 1,005,136 | \$ 789,743 | 27 % |

For the year ended December 31, 2010, petroleum and natural gas sales increased 27% to \$1,005.1 million from \$789.7 million for the same period in 2009. During this period, the change was driven by a 38% increase in heavy oil revenues, which was comprised of a 19% increase in realized price and a 16% increase in sales volume compared to the year ended December 31, 2009.

Royalties

| (\$ thousands except for % and per boe) | Years Ended December 31 | | |
|---|-------------------------|------------|--------|
| | 2010 | 2009 | Change |
| Royalties | \$ 162,332 | \$ 130,705 | 24 % |
| Royalty rates: | | | |
| Light oil, NGL and natural gas | 20.5% | 20.5% | |
| Heavy oil | 18.2% | 18.7% | |
| Average royalty rates ⁽¹⁾ | 18.8% | 19.3% | |
| Royalty expenses per boe | \$ 10.04 | \$ 8.67 | 16 % |

(1) Average royalty rate excludes sales of heavy oil blending diluents and the effects of financial derivative contracts.

Total royalties for the year ended December 31, 2010 increased 24% to \$162.3 million from \$130.7 million in the year ended December 31, 2009 as petroleum and natural gas sales increased 27%. Total royalties for the year ended December 31, 2010 averaged 18.8% of petroleum and natural gas revenue (excluding sales of heavy oil blending diluent), as compared to 19.3% for the same period in 2009.

Certain additional credits earned under the Alberta Royalty Drilling Credit program, which are based on drilling activity and drilling depths, are recorded as a reduction to capital expenditures, rather than as a reduction in royalties.

Financial Derivative Contracts

| (\$ thousands) | Years Ended December 31 | | |
|---|-------------------------|-------------|-------------|
| | 2010 | 2009 | Change |
| Realized gain on financial derivative contracts⁽¹⁾ | | | |
| Crude oil | \$ 7,609 | \$ 62,076 | \$ (54,467) |
| Natural gas | 11,322 | 3,565 | 7,757 |
| Foreign currency | 28,119 | 15,177 | 12,942 |
| Interest rate | 1,079 | – | 1,079 |
| Total | \$ 48,129 | \$ 80,818 | \$ (32,689) |
| Unrealized gain (loss) on financial derivative contracts⁽²⁾ | | | |
| Crude oil | \$ (17,546) | \$ (77,093) | \$ 59,547 |
| Natural gas | (641) | (1,142) | 501 |
| Foreign currency | (9,261) | 23,804 | (33,065) |
| Interest rate | (10,746) | (379) | (10,367) |
| Total | \$ (38,194) | \$ (54,810) | \$ 16,616 |
| Total gain (loss) on financial derivative contracts | | | |
| Crude oil | \$ (9,937) | \$ (15,017) | \$ 5,080 |
| Natural gas | 10,681 | 2,423 | 8,258 |
| Foreign currency | 18,858 | 38,981 | (20,123) |
| Interest rate | (9,667) | (379) | (9,288) |
| Total | \$ 9,935 | \$ 26,008 | \$ (16,073) |

(1) Realized gain on financial derivative contracts represents actual cash settlement or receipts under the financial derivative contracts.

(2) Unrealized gain (loss) on financial derivative contracts represents the change in fair value of the financial derivative contracts during the period.

The total gain on financial derivative contracts for the year ended December 31, 2010 was \$9.9 million, as compared to a gain of \$26.0 million in the year ended December 31, 2009. This includes realized gains of \$48.1 million and unrealized mark-to-market losses of \$38.2 million for the year ended December 31, 2010, as compared to \$80.8 million in realized gains and \$54.8 million in unrealized mark-to-market losses for the same period in 2009. The realized gain of \$48.1 million for the year ended December 31, 2010 is due to the settlement of gains on favorable foreign currency and commodity derivative contracts. The unrealized mark-to-market losses of \$38.2 million for the year ended December 31, 2010 is due to settlement of previously unrealized gains from foreign currency swaps and commodity derivatives and a decrease in floating interest rates in the year ended December 31, 2010 as compared to December 31, 2009.

Details of the risk management contracts in place as at December 31, 2010, and the accounting treatment of the Company's financial instruments are disclosed in note 17 to the consolidated financial statements as at and for the year ended December 31, 2010.

Operating Expenses

| (\$ thousands except for % and per boe) | Years Ended December 31 | | |
|---|-------------------------|------------|--------|
| | 2010 | 2009 | Change |
| Operating expenses | \$ 171,740 | \$ 163,183 | 5 % |
| Operating expenses per boe | \$ 10.62 | \$ 10.83 | (2 %) |

Operating expenses for the year ended December 31, 2010 increased to \$171.7 million from \$163.2 million for the same period of 2009 due to an increase in production volumes. Operating expenses were \$10.62 per boe for the year ended December 31, 2010, as compared to \$10.83 per boe for the same period in 2009. For the year ended December 31, 2010, operating expenses were \$10.66 per boe of light oil, NGL and natural gas and \$10.60 per barrel of heavy oil, as compared to \$11.70 and \$10.24, respectively, for the year ended December 31, 2009.

Transportation and Blending Expenses

| (\$ thousands except for % and per boe) | Years Ended December 31 | | |
|---|-------------------------|------------|--------|
| | 2010 | 2009 | Change |
| Blending expenses | \$ 141,448 | \$ 110,772 | 28 % |
| Transportation expenses ⁽¹⁾ | 47,143 | 48,582 | (3 %) |
| Total transportation and blending expenses | \$ 188,591 | \$ 159,354 | 18 % |
| Transportation expense per boe ⁽¹⁾ | \$ 2.92 | \$ 3.22 | (9 %) |

(1) Transportation expenses per boe are before the purchase of blending diluent.

Transportation and blending expenses for year ended December 31, 2010, were \$188.6 million, as compared to \$159.4 million for the year ended December 31, 2009.

The heavy oil produced by Baytex requires blending to reduce its viscosity in order to meet pipeline specifications. Baytex mainly purchases condensate from industry producers as the blending diluent to facilitate the marketing of its heavy oil. In the year ended December 31, 2010, the blending cost was \$141.4 million for the purchase of 4,557 bbl/d of condensate at \$85.05 per barrel, as compared to \$110.8 million for the purchase of 4,240 bbl/d at \$71.58 per barrel for the same period last year. The cost of blending diluent is effectively recovered in the sale price of a blended product.

Transportation expenses before blending costs were \$2.92 per boe for the year ended December 31, 2010, as compared to \$3.22 per boe for the same period of 2009. Transportation expenses were \$0.85 per boe of light oil, NGL and natural gas and \$4.05 per barrel of heavy oil in 2010, as compared to \$0.79 and \$4.88, respectively, for the same period in 2009. The decrease in transportation cost per barrel of heavy oil was primarily attributable to the reduced use of long-haul trucking at Seal.

Operating Netback

| (\$ per boe except for % and volume) | Years Ended December 31 | | |
|---|-------------------------|----------|--------|
| | 2010 | 2009 | Change |
| Sales volume (boe/d) | 44,305 | 41,291 | 7 % |
| Operating netback ⁽¹⁾ : | | | |
| Sales price ⁽²⁾ | \$ 53.39 | \$ 45.00 | 19 % |
| Less: | | | |
| Royalties | 10.04 | 8.67 | 16 % |
| Operating expenses | 10.62 | 10.83 | (2 %) |
| Transportation expenses | 2.92 | 3.22 | (9 %) |
| Operating netback before financial derivative contracts | \$ 29.81 | \$ 22.28 | 34 % |
| Financial derivative contract gains ⁽³⁾ | 2.98 | 5.36 | (44 %) |
| Operating netback after financial derivative contracts | \$ 32.79 | \$ 27.64 | 19 % |

(1) Operating netback table includes revenues and costs associated with sulphur production.

(2) Sales price is shown net of blending costs and gains (losses) on physical delivery contracts.

(3) Financial derivative contracts reflect realized financial derivative contract gains (losses) only.

General and Administrative Expenses

| (\$ thousands except for % and per boe) | Years Ended December 31 | | |
|---|-------------------------|-----------|--------|
| | 2010 | 2009 | Change |
| General and administrative expenses | \$ 39,774 | \$ 35,006 | 14 % |
| General and administrative expenses per boe | \$ 2.46 | \$ 2.32 | 6 % |

General and administrative expenses for the year ended December 31, 2010, increased to \$39.8 million from \$35.0 million for the same period in 2009. This increase consists of costs relating to our Income Tracking Unit Plan of \$1.9 million, \$1.2 million in tax indemnification payments relating to our Trust Unit Rights Incentive Plan (compared to \$3.4 million in the year ended December 31, 2009), higher operating overhead recoveries in the year ended 2009 due to retroactive recoveries, as well as increased rent related to head office relocation and costs related to the Corporate Conversion as compared to the year ended December 31, 2009. Excluding the tax indemnification payments identified above, general and administrative expenses for the year ended December 31, 2010, would have been \$2.39/boe (year ended December 31, 2009 – \$2.10/boe).

Unit-Based Compensation Expense

For the year ended December 31, 2010, compensation expense related to our Trust Unit Rights Incentive Plan was \$8.3 million, an increase of 30% compared to \$6.4 million for the same period in 2009. This increase is the result of higher average fair values assigned to new unit rights granted.

Compensation expense associated with our Trust Unit Rights Incentive Plan is recognized in income over the vesting period of the unit rights with a corresponding increase in contributed surplus. The exercise of unit rights was recorded as an increase in unitholders' capital with a corresponding reduction in contributed surplus.

Interest Expense

Interest expense for the year ended December 31, 2010 decreased to \$26.7 million, as compared to \$32.7 million in the same period in 2009. The decrease was attributable to a lower effective interest rate on long-term debt due to the issuance on August 26, 2009 of \$150 million of 9.15% Series A senior unsecured debentures and the retirement on September 25, 2009 of US\$179.7 million of 9.625% senior subordinated notes and US\$0.2 million of 10.5% senior subordinated notes, offset by a higher bank loan balance and prime lending rate in 2010 compared to 2009.

Financing Charges

Financing charges for the year ended December 31, 2010 were \$1.6 million, as compared to \$5.5 million for the year ended December 31, 2009. This decrease is due to lower fees associated with our revolving credit facilities and the issuance of \$150.0 million of 9.15% Series A senior unsecured debentures on August 26, 2009.

Foreign Exchange

| (\$ thousands) | Years Ended December 31 | | |
|----------------------------------|-------------------------|-------------|------------|
| | 2010 | 2009 | Change |
| Unrealized foreign exchange gain | \$ (8,999) | \$ (2,623) | \$ (6,376) |
| Realized foreign exchange gain | (149) | (20,201) | 20,052 |
| Total gain | \$ (9,148) | \$ (22,824) | \$ 13,676 |

Foreign exchange gain in the year ended December 31, 2010 was \$9.1 million, as compared to a gain of \$22.8 million in the year ended 2009. This gain was comprised of an unrealized foreign exchange gain of \$9.0 million and a realized foreign exchange gain of \$0.1 million. The unrealized gains of \$9.0 million in 2010 and \$2.6 million in 2009 were due to the translation of the US\$180 million portion of our bank loan as the CAD/USD foreign exchange rates strengthened at December 31, 2010 (as compared to December 31, 2009) and December 31, 2009 (as compared to December 31, 2008). The current year realized gain relates to US\$ denominated financial derivative contract gains and from day-to-day US\$ denominated transactions, as compared to the prior year gain of \$20.2 million which was mainly due to redemption of the US\$ senior subordinated notes in September 2009.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion for the year ended December 31, 2010 increased to \$271.0 million from \$237.2 million for the same period in 2009. On a sales-unit basis, the provision for the year ended December 31, 2010, was \$16.76 per boe, as compared to \$15.74 per boe for the same period in 2009.

Taxes

Current tax expense for the year ended December 31, 2010 was \$8.5 million, \$2.9 million lower than the year ended 2009. The lower current tax expense is due to an out of period adjustment of \$4.0 million related to Saskatchewan resource surcharge tax.

For the year ended December 31, 2010, future tax recovery totaled \$32.1 million, as compared to a future tax recovery \$30.5 million for the year ended 2009. The increase in future tax recovery is primarily due to higher distributed earnings in the current year, offset by higher operating income.

As at December 31, 2010, future income tax liability was \$15.4 million (December 31, 2009 – \$186.6 million). In May 2010, Baytex acquired a number of private entities for use in its internal financing structure for approximately \$38.0 million. The transaction resulted in the recognition of future income tax asset of \$147.8 million with a corresponding deferred credit of \$109.8 million. This credit reflects the difference between the future income tax asset recognized upon the completion of this transaction and the cash paid. This credit will be amortized on the same basis as the related future income tax asset.

Tax Pools

During 2010 and 2009, Baytex was organized as a Mutual Fund Trust for Canadian income tax purposes. Partially as a result of tax deductions taken for distributions paid to unitholders in 2010 and 2009, no material Canadian cash tax expense, other than the Saskatchewan resource surcharge, was payable by Baytex. Following the conversion from a trust structure to a corporate legal form on December 31, 2010, Baytex will not be entitled to a deduction from Canadian taxable income for its distributions, nor will a deduction be available for future dividends. As such it is likely that cash income tax expense attributable to our Canadian operations will be higher in future years than it was during the time we operated as a trust. Baytex has accumulated the Canadian and U.S. tax pools as noted in the table below which will be available to reduce future taxable income. Our cash income tax liability is dependant upon many factors, including the prices at which we sell our production, available income tax deductions, and the legislative environment in place during the taxation year. Based upon the current forward commodity price outlook and a projected production and cost levels, Baytex does not expect to become liable for Canadian income tax, other than the Saskatchewan resource surcharge, until 2012. The income tax pools detailed below are deductible at various rates as prescribed by law.

| (\$ thousands) | December 31, 2010 | December 31, 2009 |
|--|-------------------|-------------------|
| Canadian Tax Pools | | |
| Canadian oil and gas property expenditures | \$ 286,879 | \$ 299,220 |
| Canadian development expenditures | 234,836 | 189,791 |
| Canadian exploration expenditures | 9,716 | – |
| Undepreciated capital costs | 236,192 | 241,071 |
| Non-capital losses | 773,396 | 19,470 |
| Finance costs | 10,334 | 169 |
| Total Canadian tax pools | \$ 1,551,353 | \$ 749,721 |
| U.S. Tax Pools | | |
| Taxable depletion | \$ 117,765 | \$ 148,031 |
| Intangible drilling costs | 35,000 | 9,182 |
| Tangibles | 13,048 | 3,686 |
| Non-capital losses | 64,541 | 4,178 |
| Total U.S. tax pools | \$ 230,354 | \$ 165,077 |

Net Income

Net income for the year ended December 31, 2010, was \$177.6 million, as compared to net income of \$87.6 million for the year ended December 31, 2009. Revenues, net of royalties, increased \$183.8 million or 28% in the year ended December 31, 2010, as compared to the same period in 2009. In addition, lower interest expense and financing charges in 2010 also increased net income by \$6.0 million and \$3.9 million, respectively, in the year ended December 31, 2010, as compared to same period in 2009. These increases were partially offset by operating costs of \$8.6 million, foreign exchange of \$13.7 million and depletion and accretion of \$33.8 million for the year ended December 31, 2010, as compared to the same period in 2009.

Other Comprehensive Loss

The Company's foreign operations are considered to be "self-sustaining operations", financially and operationally independent. As a result, the accounts of the self-sustaining foreign operations are translated using the current rate method whereby assets and liabilities are translated using the exchange rate in effect at the balance sheet date, while revenues and expenses are translated using the average exchange rate for the year ended December 31, 2010. Translation gains and losses are deferred and included in other comprehensive income in shareholders' capital and are recognized in net income when there has been a reduction in the net investment.

This change was adopted prospectively on January 1, 2009 resulting in a currency translation adjustment of \$15.4 million upon adoption with a corresponding increase in petroleum and natural gas properties. The reduction of \$19.3 million for 2009 plus the reduction of \$10.7 million in the year ended December 31, 2010 resulted in a balance of \$14.6 million in accumulated other comprehensive loss at December 31, 2010.

FUNDS FROM OPERATIONS, PAYOUT RATIO AND DISTRIBUTIONS OR DIVIDENDS

Funds from operations and payout ratio are non-GAAP measures. Funds from operations represents cash flow from operating activities before changes in non-cash working capital and other operating items. Payout ratio is calculated as cash distributions (net of participation in the Distribution Reinvestment Plan ("DRIP")) divided by funds from operations. Baytex considers these to be key measures of performance as they demonstrate its ability to generate the cash flow necessary to fund dividends and capital investments.

The following table reconciles cash flow from operating activities (a Canadian GAAP measure) to funds from operations (a non-GAAP measure):

| (\$ thousands except for %) | Years Ended | |
|--|-------------------|-------------------|
| | December 31, 2010 | December 31, 2009 |
| Cash flow from operating activities | \$ 441,438 | \$ 303,162 |
| Change in non-cash working capital | 9,967 | 27,878 |
| Asset retirement expenditures | 2,778 | 1,146 |
| Funds from operations | \$ 454,183 | \$ 332,186 |
| Cash distributions declared, net of DRIP | \$ 189,824 | \$ 137,601 |
| Payout ratio | 42% | 41% |

Baytex does not deduct capital expenditures when calculating the payout ratio. Due to the depleting nature of petroleum and natural gas assets, certain levels of capital expenditures are required to minimize production declines. In the petroleum and natural gas industry, due to the nature of reserve reporting, natural production declines and the risks involved in capital investment, it is not possible to distinguish between capital spent on maintaining productive capacity and capital spent on growth opportunities. Should the costs to explore for, develop or acquire petroleum and natural gas assets increase significantly, it is possible that Baytex would be required to reduce or eliminate its dividends in order to fund capital expenditures. There can be no certainty that Baytex will be able to maintain current production levels in future periods.

Cash distributions declared, net of DRIP participation, of \$189.8 million for the year ended December 31, 2010 were funded through funds from operations of \$454.2 million. The following table compares cash distributions to cash flow from operating activities and net income:

| (\$ thousands except for %) | Years Ended | |
|---|-------------------|-------------------|
| | December 31, 2010 | December 31, 2009 |
| Cash flow from operating activities | \$ 441,438 | \$ 303,162 |
| Cash distributions declared, net of DRIP | 189,824 | 137,601 |
| Excess of cash flow from operating activities over cash distributions declared, net of DRIP | \$ 251,614 | \$ 165,561 |
| Net income | \$ 177,631 | \$ 87,574 |
| Cash distributions declared, net of DRIP | 189,824 | 137,601 |
| Shortfall of net income over cash distributions declared, net of DRIP | \$ (12,193) | \$ (50,027) |

It is Baytex's long-term operating objective to substantially fund cash dividends and capital expenditures for exploration and development activities through funds from operations. Future production levels are highly dependent upon our success in exploiting our asset base and acquiring additional assets. The success of these activities, along with commodity prices realized, are the main factors influencing the sustainability of our cash dividends. During periods of lower commodity prices or periods of higher capital spending, it is possible that funds from operations will not be sufficient to fund both cash dividends and capital spending. In these instances, the cash shortfall may be funded through a combination of equity and debt financing.

As at December 31, 2010, Baytex had approximately \$246.2 million in available undrawn credit facilities to fund any such shortfall. As a result of our semi-annual borrowing base review, and following the completion of an acquisition, subsequent agreements effective January 1, 2011 and February 17, 2011 provided an additional \$100.0 million in available credit facilities.

For the year ended December 31, 2010, the Company's net income was less than cash distributions declared (net of DRIP) by \$12.2 million, with net income reduced by \$263.8 million for non-cash items. Non-cash items such as depletion, depreciation and accretion may not be fair indicators for the cost of maintaining our productive capacity as they are based on historical costs of assets and not the fair value of replacing those assets under current market conditions.

LIQUIDITY AND CAPITAL RESOURCES

We regularly review our liquidity sources as well as our exposure to counterparties, and have concluded that our capital resources are sufficient to meet our on-going short, medium and long-term commitments. Specifically, we believe that our internally generated funds from operations, augmented by our hedging program and existing credit facilities, will provide sufficient liquidity to sustain our operations in the short, medium and long-term. Further, we believe that our counterparties currently have the financial capacities to honor outstanding obligations to us in the normal course of business. We periodically review the financial capacity of our counterparties and, in certain circumstances, we will seek enhanced credit protection from a counterparty.

| (\$ thousands) | December 31, 2010 | December 31, 2009 |
|----------------------------|-------------------|-------------------|
| Bank loan | \$ 303,773 | \$ 265,088 |
| Convertible debentures | – | 7,736 |
| Long-term notes | 150,000 | 150,000 |
| Working capital deficiency | 48,417 | 51,452 |
| Total monetary debt | \$ 502,190 | \$ 474,276 |

At December 31, 2010, total monetary debt was \$502.2 million, as compared to \$474.3 million at December 31, 2009. Bank borrowings at December 31, 2010 were \$303.8 million, as compared to total credit facilities of \$550.0 million.

Our wholly-owned subsidiary, Baytex Energy Ltd (“Baytex Energy”), has established credit facilities with a syndicate of financial institutions. The credit facilities consist of an operating loan and a 364-day revolving loan. In June 2010, Baytex Energy reached agreement with its lending syndicate to amend its revolving credit facilities to increase the amount of the facilities to \$550 million (from \$515 million), extend the revolving period to June 2011 and add a one-year term out following the revolving period. In the event that the revolving period is not extended by June 2011, all amounts then outstanding under the credit facilities will be payable in June 2012. Advances under the credit facilities or letters of credit can be drawn in either Canadian or U.S. funds and bear interest at the agent bank’s prime lending rate, bankers’ acceptance rates or LIBOR rates, plus applicable margins. The credit facilities are subject to semi-annual review and are secured by a floating charge over all of our assets. The weighted average interest rate on our bank loan for the year ended December 31, 2010 was 4.60% (December 31, 2009 – 4.42%).

A subsequent agreement effective January 1, 2011 was reached between Baytex Energy and its lending syndicate to increase the amount of the credit facilities to \$625 million (from \$550 million), to decrease its margins on advances based on the prime lending rate, bankers’ acceptance rates or LIBOR rates and to decrease standby fees. The credit facilities were further increased to \$650 million (from \$625 million) effective February 17, 2011.

The credit facilities were arranged pursuant to an agreement with a syndicate of financial institutions. A copy of the credit agreement and related amendments are accessible on the SEDAR website at www.sedar.com (filed on March 28, 2008, September 15, 2008, July 9, 2009, August 14, 2009, October 5, 2009, July 15, 2010, August 31, 2010, January 10, 2011 and February 24, 2011).

Subsequent to year-end, on February 17, 2011, Baytex issued US\$150.0 million principal amount of Series B senior unsecured debentures bearing interest at 6.75% payable semi-annually with principal repayable on February 17, 2021. Net proceeds of this issue were used to repay a portion of the amount drawn in Canadian currency on our credit facilities. These debentures are unsecured and are subordinate to Baytex Energy's credit facilities.

Pursuant to various agreements with our lenders, we are restricted from making dividends to shareholders where the dividend would or could have a material adverse effect on us or our subsidiaries' ability to fulfill our respective obligations under the Series A or Series B senior unsecured debentures and the credit facilities.

Baytex believes that funds from operations, together with the existing credit facilities, will be sufficient to finance current operations, dividends to the shareholders and planned capital expenditures for the ensuing year. The timing of most of the capital expenditures is discretionary and there are no material long-term capital expenditure commitments. The level of dividend is also discretionary, and the Company has the ability to modify dividend levels should funds from operations be negatively impacted by factors such as reductions in commodity prices or production volumes.

Capital Expenditures

Capital expenditures are summarized as follows:

| (\$ thousands) | Years Ended December 31 | |
|-----------------------------------|-------------------------|------------|
| | 2010 | 2009 |
| Land | \$ 17,908 | \$ 13,514 |
| Seismic | 569 | 2,222 |
| Drilling and completion | 157,464 | 113,959 |
| Equipment | 61,200 | 26,164 |
| Other | (162) | 1,185 |
| Total exploration and development | \$ 236,979 | \$ 157,044 |
| Corporate acquisition | 40,914 | - |
| Property acquisitions | 24,763 | 133,155 |
| Property dispositions | (19,033) | (78) |
| Total oil and gas expenditures | 283,623 | 290,121 |
| Corporate assets | 8,457 | 7,050 |
| Total capital expenditures | \$ 292,080 | \$ 297,171 |

Shareholders' Equity

On December 31, 2010, all of the outstanding trust units of the Trust were exchanged for common shares of Baytex on a one-for-one basis in connection with the Corporate Conversion.

Baytex is authorized to issue an unlimited number of common shares and 10,000,000 preferred shares. Baytex establishes the rights and terms of preferred shares upon issuance. As at March 1, 2011, the Company had 114,709,978 common shares and no preferred shares issued and outstanding.

Off Balance Sheet Arrangements

Baytex is not party to any contractual arrangement under which a non-consolidated entity may have any obligation under certain guarantee contracts, a retained or contingent interest in assets transferred to a non-consolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets. Baytex has no obligation under financial instruments or a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or engages in leasing, hedging or research and development services with the Company.

Contractual Obligations

Baytex has a number of financial obligations that are incurred in the ordinary course of business. These obligations are of a recurring nature and impact the Company's funds from operations in an ongoing manner. A significant portion of these obligations will be funded through funds from operations. These obligations as of December 31, 2010, and the expected timing of funding of these obligations, are noted in the table below.

| (\$ thousands) | Total | Less than 1 year | 1-2 years | 3-5 years | Beyond 5 years |
|--|-------------------|-------------------|-------------------|------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 179,269 | \$ 179,269 | \$ - | \$ - | \$ - |
| Distributions payable to unitholders | 22,742 | 22,742 | - | - | - |
| Bank loan ⁽¹⁾ | 303,773 | - | 303,773 | - | - |
| Long-term debt ⁽²⁾ | 150,000 | - | - | - | 150,000 |
| Operating leases | 55,645 | 5,667 | 11,435 | 12,284 | 26,259 |
| Processing and transportation agreements | 4,207 | 3,175 | 1,006 | 26 | - |
| Total | \$ 715,636 | \$ 210,853 | \$ 316,214 | \$ 12,310 | \$ 176,259 |

(1) The bank loan is a 364-day revolving loan with a one year term-out following the 364-day revolving period with the ability to extend the term. Unless extended, the revolving period will end on June 27, 2011 with all amounts to be re-paid by June 27, 2012.

(2) Principal amount of instruments.

Baytex also has on-going obligations related to the abandonment and reclamation of well sites and facilities which have reached the end of their economic lives. Programs to abandon and reclaim them are undertaken regularly in accordance with applicable legislative requirements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The exploration for and the development, production and marketing of petroleum and natural gas involves a wide range of business and financial risks, some of which are beyond the Company's control. Included in these risks are the uncertainty of finding new reserves, fluctuations in commodity prices, the volatile nature of interest and foreign exchange rates, and the possibility of changes to royalty, tax and environmental regulations. The petroleum industry is highly competitive and Baytex competes with a number of other entities, many of which have greater financial and operating resources.

The business risks facing Baytex are mitigated in a number of ways. Geological, geophysical, engineering, environmental and financial analyses are performed on new exploration prospects, development projects and potential acquisitions to ensure a balance between risk and reward. Baytex's ability to increase its production, revenues and funds from operations depends on its success in not only developing its existing properties but also in acquiring, exploring for and developing new reserves and production and managing those assets in an efficient manner.

Despite best practice analysis being conducted on all projects, there are numerous uncertainties inherent in estimating quantities of petroleum and natural gas reserves, including future petroleum and natural gas prices, engineering data, projected future rates of production and the timing of future expenditures. The process of estimating petroleum and natural gas reserves requires substantial judgment, resulting in imprecise determinations, particularly for new discoveries. An independent engineering firm evaluates the Company's properties annually to determine a fair estimate of reserves. The Reserves Committee, consisting of members of the Board of Directors of Baytex (the "Board"), assists the Board in their annual review of the reserve estimates.

The provision for depletion and depreciation in the financial statements and the ceiling test are based on proved reserves estimates. Any future significant revisions could result in a full cost accounting write-down or material changes to the annual rate of depletion and depreciation.

The financial risks that Baytex is exposed to as part of the normal course of its business are managed, in part, with various financial derivative instruments, in addition to physical delivery contracts. The use of derivative instruments is governed under formal internal policies and subject to limits established by the Board. Derivative instruments are not used for speculative or trading purposes.

The Company's financial results can be significantly affected by the prices received for petroleum and natural gas production as commodity prices fluctuate in response to changing market forces. This pricing volatility is expected to continue. As a result, Baytex has a risk management program that may be used to protect the prices of oil and natural gas on a portion of the total expected production. The objective of the risk management program is to decrease exposure to market volatility and ensure the Company's ability to finance its dividends and capital program.

Baytex's financial results are also impacted by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. Crude oil and, to a large extent, natural gas prices are based on reference prices denominated in U.S. dollars, while the majority of expenses are denominated in Canadian dollars. The exchange rate also impacts the valuation of the U.S. dollar borrowings. The related foreign exchange gains and losses are included in net income.

Baytex is exposed to changes in interest rates as the Company's credit facilities are based on the lenders' prime lending rate, bankers' acceptance rates or LIBOR rates.

Details of the risk management contracts in place as at December 31, 2010 and the accounting for the Company's financial instruments are disclosed in note 17 to the consolidated financial statements. A summary of certain risk factors relating to our business is included in our Annual Information Form for the year ended December 31, 2010 under the Risk Factors section.

CRITICAL ACCOUNTING ESTIMATES

A summary of Baytex's significant accounting policies can be found in notes 1 and 2 to the consolidated financial statements. The preparation of the consolidated financial statements in accordance with generally accepted accounting principles requires management to make judgments and estimates that affect the financial results of the Company. The financial and operating results of Baytex incorporate certain estimates including:

- estimated revenues, royalties and operating costs on production as at a specific reporting date but for which actual revenues and costs have not yet been received;
- estimated capital expenditures on projects that are in progress;
- estimated depletion, depreciation and accretion that are based on estimates of petroleum and natural gas reserves that Baytex expects to recover in the future;
- estimated fair values of derivative contracts that are subject to fluctuation depending upon the underlying commodity prices, interest rates and foreign exchange rates;
- estimated value of asset retirement obligations that are dependant upon estimates of future costs and timing of expenditures; and
- estimated future recoverable value of petroleum and natural gas properties and goodwill.

Baytex has hired individuals who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

CHANGES IN ACCOUNTING POLICIES

Future Accounting Changes

In 2006, Canada's Accounting Standards Board (the "AcSB") ratified a strategic plan to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") by 2011 for publicly accountable entities. On February 13, 2008 the AcSB confirmed that IFRS would replace Canadian GAAP for public companies beginning January 1, 2011. As a result, Baytex will issue financial statements under IFRS in 2011.

Convergence of Canadian GAAP with IFRS

IFRS replaces Canadian GAAP for financial periods beginning on January 1, 2011. At the transition date, publicly accountable enterprises are required to prepare financial statements in accordance with IFRS. The adoption date of January 1, 2011 requires the restatement, for comparative purposes, of 2010 amounts reported by Baytex, including the opening balance sheet as at January 1, 2010. Baytex expects that IFRS will not have a major impact on the Company's operations or strategic decisions.

Management continues to monitor new IFRS and amendments to existing IFRS that may impact the adoption of IFRS by Baytex in 2011. Our IFRS financial statements for the year ending December 31, 2011 must use the standards that are in effect on December 31, 2011, and therefore our IFRS accounting policies will only be finalized when our first annual IFRS financial statements are prepared for the year ending December 31, 2011.

Management has not yet finalized the quantification of the impact on Baytex's 2010 financial statements. Baytex continues to draft IFRS compliant financial statements and develop the corresponding accounting entries to comply with the proposed IFRS accounting policies. The various accounting policy choices and results remain subject to further review by management. The IFRS implementation will continue into 2011 and will conclude with the issuance of the first quarter financial statements of 2011. The Company's external auditors are expected to continue to review draft IFRS accounting policies and the IFRS 2010 comparative periods during the first few months of 2011.

Management expects to apply the following accounting policies under IFRS. The adjustments and resulting IFRS amounts are unaudited and subject to change.

First-Time Adoption of IFRS

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS. Baytex expects to apply the following exemptions:

Property, Plant and Equipment, ("PP&E") – IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development and production ("D&P") phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date.

Asset retirement obligations – Decommissioning provisions, included in the cost of PP&E, are measured as at January 1, 2010 in accordance with International Accounting Standards ("IAS") 37, "Provisions, Contingent Liabilities and Contingent Assets", and the difference between that amount and the carrying amount of those liabilities at January 1, 2010 determined under Canadian GAAP are recognized directly in deficit.

Business combinations – IFRS 1 permits the use of IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share-based payments – IFRS 1 provides an exemption on IFRS 2 ("Share-Based Payments") to liabilities arising from share-based payment transactions that were settled before the Company's transition date to IFRS.

Cumulative translation differences – An option is available to deem cumulative translation differences on all foreign operations as zero at the date of transition. Under Canadian GAAP, accumulated other comprehensive loss amounts are composed entirely of currency translation adjustments on self-sustaining foreign operations. Under IFRS, the Company has elected to deem cumulative translation differences as \$nil at January 1, 2010. At January 1, 2010, this has resulted in an increase in other comprehensive income and deficit of \$3.9 million.

Borrowing Costs – IFRS 1 allows application of the IAS 23 ("Borrowing Costs") to borrowing costs related to qualifying assets for which the commencement date for capitalization is on or after January 1, 2010.

Leases – International Financial Reporting Interpretations Committee 1, "Determining whether an Arrangement contains a Lease" transition rules allow determination of whether any existing arrangement at January 1, 2010 contains a lease on the basis of the facts and circumstances existing at that date.

Estimated Impact on Reported Financial Position

The following information summarizes the key transitional adjustments required for the January 1, 2010 opening balance sheet on adoption of IFRS. These amounts will be impacted by the deferred tax effect of the IFRS adjustments.

| (thousands of Canadian dollars) (unaudited) | Canadian GAAP | IFRS Adjustments | IFRS |
|---|---------------|------------------|-----------|
| Current assets | 179,539 | (1,371) | 178,168 |
| Non-current assets | 1,704,466 | 1,371 | 1,705,837 |
| | 1,884,005 | — | 1,884,005 |
| Current liabilities | 486,324 | (1,329) | 484,995 |
| Non-current liabilities | 385,684 | 161,834 | 547,518 |
| Unitholders' Equity | 1,011,997 | (160,505) | 851,492 |
| | 1,884,005 | — | 1,884,005 |

Exploration and Evaluation ("E&E") expenditures – On transition to IFRS, Baytex will re-classify all E&E expenditures that are currently included in the PP&E balance on the consolidated balance sheet. This will consist of the book value of undeveloped land that relates to exploration properties. Baytex will initially capitalize these costs as E&E assets on the balance sheet. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist.

Under the IFRS 1 election, Baytex has measured exploration and evaluation assets at the amount determined under the entity's previous GAAP resulting in \$124.6 million reclassified from oil and gas properties to exploration and evaluation assets.

Depletion expense – Under Canadian GAAP depletion was calculated on a unit of production basis using proved reserves at the country level. Under IFRS, costs will be depleted on a unit of production basis at a more granular level than the country level. Baytex will calculate the depletion calculation using proved plus probable reserves at an area level.

Derecognition of D&P assets – Under Canadian GAAP, full cost accounting gains and losses were not recognized upon disposition of oil and gas assets unless such a disposition would alter the rate of depletion by 20% or more. Under IFRS, gains and losses are recognized based on the difference between the net proceeds from the disposition and carrying value.

Impairment of PP&E assets – Under IFRS, impairment of PP&E must be calculated at a more granular level than what is currently required under Canadian GAAP. Impairment calculations will be performed at the cash generating unit ("CGU") level using fair values of the PP&E assets. Baytex anticipates using discounted proved plus probable reserve values for impairment tests of PP&E. Under Canadian GAAP, estimated future cash flows used to assess impairments are not discounted. As such, impairment losses may be recognized earlier under IFRS than under Canadian GAAP. Impairment losses are reversed under IFRS when there is an increase in the recoverable amount.

Baytex has allocated the property, plant and equipment amount recognized under Canadian GAAP as at January 1, 2010 to the assets at CGU level using reserve values calculated using the discounted net cash flows. There is no change in the overall net book value of our PP&E as no IFRS impairments are expected at January 1, 2010.

Decommissioning provisions – Under IFRS, Baytex will use a risk-free interest rate to discount the estimated fair value of its asset retirement obligations and the related PP&E. Under Canadian GAAP, the Company uses a credit-adjusted interest rate. A lower discount rate will increase the asset retirement obligation liability. In addition, under IFRS, asset retirement obligations are measured using the best estimate of the expenditure to be incurred and requires the use of current discount rates at each re-measurement date with the corresponding adjustment to the cost of the related PP&E. Existing liabilities under Canadian GAAP are not re-measured using current discount rates.

Under Canadian GAAP, the Company's decommissioning provision is recorded using the credit-adjusted risk free rate of 8.0%. Under IFRS, the Company's decommissioning provision is recorded using the risk-free rate of 4.0%. Under IFRS, an additional liability of \$87.3 million has been recognized with an offsetting charge to deficit at January 1, 2010.

Unit-based compensation – Under IFRS, prior to the conversion to a corporation, the obligation associated with the Trust Unit Rights Incentive Plan is considered a liability and the fair value of the liability is re-measured at each reporting date and at settlement date. Any changes in fair value are recognized in profit or loss for the period. Under Canadian GAAP, the obligation associated with the Trust Unit Rights Incentive Plan is considered to be equity-based and the related unit-based compensation is calculated using the binomial-lattice model to estimate the fair value of the outstanding rights at grant date. The exercise of unit rights is recorded as an increase in unitholders' capital with a corresponding reduction in contributed surplus. Re-measuring the fair value of the obligation each reporting period for periods prior to the conversion to a corporation will increase the unit-based payment liability, unitholders' capital and compensation expense recognized. The modification that converts the outstanding rights to acquire trust units to rights to acquire common shares in connection with the Corporate Conversion effectively changes the related classification to equity-settled. The expense recognized from the date of modification over the remainder of the vesting period is determined based on the fair value of the reclassified equity awards at the date of the modification.

At January 1, 2010 under IFRS, an additional unit-based payment liability of \$69.4 million and a decrease of \$20.4 million in contributed surplus is offset by a \$49.0 million charge to deficit.

Convertible debentures – Under IFRS, the conversion feature of the convertible debentures has been classified as a financial derivative liability. The financial derivative liability requires a fair value method of accounting and changes in the fair value of the instrument are recognized in the statement of comprehensive income. If the debentures are converted to trust units, the fair value of the conversion feature under financial derivative liability is reclassified to unitholders' or shareholders' capital along with the principal amounts converted. Under Canadian GAAP, the convertible debentures have been classified as debt net of the fair value of the conversion feature which has been classified as unitholders' or shareholders' equity. The debt portion accreted up to the principal balance at maturity. If the debentures were converted to trust units, a portion of the value of the conversion feature under unitholders' equity were reclassified to unitholders' capital along with principal amounts converted.

At January 1, 2010 under IFRS, an additional financial derivative liability of \$7.4 million, an increase of \$33.4 million in unitholders' equity, a decrease of \$0.4 million in conversion feature of convertible debentures has been recognized with the offsetting \$40.4 million increase in deficit.

Trust Units Classification – IFRS prescribes the principles for determining the classification of the financial instruments as debt or equity. Under Canadian GAAP Baytex's trust units were considered permanent equity and included within unitholders' capital. Under IFRS, the trust units are considered puttable financial instruments however a specific exemption for trust units specifies they are classified as permanent equity within unitholders' capital. Although Baytex converted to a corporation on December 31, 2010, Baytex was required to determine if it met the criteria for this exemption to conclude on the appropriate presentation for the pre-conversion period. Baytex has assessed that the application of IFRS principles and standards to Baytex's trust units results in their treatment as equity.

Income taxes – Under IFRS, future income taxes are required to be presented as non-current deferred tax assets and liabilities. In transitioning to IFRS, the Company's deferred tax liability will be impacted by the tax effects resulting from the IFRS adjustments.

Internal Controls Over Financial Reporting

Along with review of the accounting policy choices and analysis, assessments are also made to determine the changes required to internal controls over financial reporting. The internal controls documentation will continue to be updated to reflect changes in accounting polices and appropriate additional controls and procedures for reporting under IFRS.

Disclosure controls and procedures

Throughout the transition process, Baytex will be assessing stakeholders' information requirements to ensure that appropriate and timely information is provided once available. Management anticipates disclosure in investor presentations and in shareholder publications during 2011 to explain differences between the historical Canadian GAAP statements and the IFRS statements.

Information Technology Systems

The most significant information systems challenges for the IFRS conversion were ensuring the Company had the ability to track its IFRS adjustments in the year of transition and that new IFRS reports could be produced to facilitate the preparation of IFRS financial statements. The Company has successfully tested its ability to track IFRS adjustments for its 2010 comparative periods and has successfully implemented the modifications required to existing and new reports to facilitate the preparation of the increased note disclosure required under IFRS.

Baytex is unable to quantify the full impact on the financial statements of adopting IFRS; however the company has disclosed certain expectations above based on information known to date. Certain items may be subject to change based on facts and circumstances as they arise after the date of this MD&A.

SELECTED ANNUAL INFORMATION

| (\$ thousands, except per common share or trust unit amounts) | 2010 | 2009 | 2008 |
|---|--------------|--------------|--------------|
| Petroleum and natural gas sales | \$ 1,005,136 | \$ 789,743 | \$ 1,159,718 |
| Net income ⁽¹⁾ | \$ 177,631 | \$ 87,574 | \$ 259,894 |
| Per common share or trust unit – basic ⁽¹⁾ | \$ 1.59 | \$ 0.83 | \$ 2.83 |
| Per common share or trust unit – diluted ⁽¹⁾ | \$ 1.54 | \$ 0.82 | \$ 2.74 |
| Total assets | \$ 2,047,212 | \$ 1,884,005 | \$ 1,812,333 |
| Total other long-term financial liabilities | \$ 453,773 | \$ 150,000 | \$ 227,468 |
| Cash distributions declared per common share or trust unit | \$ 2.18 | \$ 1.56 | \$ 2.64 |

(1) Net income and net income per common share or trust unit is after non-controlling interest related to exchangeable shares.

Overall production for 2010 was 44,341 boe/d which represented a 7% increase from 41,382 boe/d in 2009 and a 10% increase from 40,239 boe/d in 2008. Average wellhead prices net of blending costs received were \$53.39 per boe during 2010, \$45.00 per boe during 2009 and \$65.66 per boe during 2008.

FOURTH QUARTER 2010

For a discussion and analysis of our operating and financial results for the three months ended December 31, 2010, please see our Management's Discussion and Analysis for the three months and year ended December 31, 2010 dated March 7, 2011, which is incorporated by reference into this MD&A and is accessible on SEDAR at www.sedar.com.

2011 GUIDANCE

Baytex has set a 2011 exploration and development capital budget of \$325 million designed to generate production levels at an average annual rate of 49,000 to 50,000 boe/d, including production from our heavy oil acquisition which closed on February 3, 2011. Approximately 60% of our 2011 capital program will be directed to our heavy oil operations, with the single largest project being horizontal-well cold development at Seal in the Peace River Oil Sands. We also plan to complete our first 10-well commercial thermal module at Seal, with start-up scheduled before the end of 2011.

During 2011, we plan increased development in our cold drilling program in the Lloydminster area where, for the first time, horizontal wells will constitute the majority of wells drilled. In addition, the 2011 heavy oil program provides for two new steam assisted gravity drainage well pairs at Kerrobert in Saskatchewan. The balance of our capital program will be directed primarily towards light oil development, with the two largest projects being the Bakken/Three Forks in North Dakota and the Viking in southeast Alberta. Other development projects include light oil development in the Viking in southwest Saskatchewan and the Cardium in central Alberta.

We viewed 2010 as the transition year for our shift from a predominantly income-focused model as a trust to a growth-and-income model in the new corporate era. Our 2011 capital program completes this transition to the growth-and-income model. Based on the high end of the production guidance ranges for 2011, the 2011 plan reflects an organic production growth rate of approximately 8%. Our 2011 production mix is forecast to be approximately 66% heavy oil, 17% light oil and natural gas liquids and 17% natural gas, based on a 6:1 gas-to-oil equivalency.

Environmental Regulation and Risk

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

Climate Change Regulation

The Government of Canada ratified the Kyoto Protocol in 2002, calling for Canada to reduce its greenhouse gas emissions to 6% below 1990 "business as usual" levels by 2012. In December 2009, representatives of approximately 170 countries meet in Copenhagen, Denmark to attempt to negotiate a successor to the Kyoto Protocol. The Copenhagen negotiations resulted in the Copenhagen Accord, a non-binding political accord which reinforced the Kyoto Protocol's commitment to reducing greenhouse gas emissions. In response to the Copenhagen Accord, the government of Canada revised its emissions reduction goals and now aims to achieve a 17% reduction in greenhouse gas emissions from 2005 levels by 2020. Despite the commitments made under the Kyoto Protocol and the Copenhagen Accord, no federal legislation has been implemented to regulate the emission of greenhouse gases and the Government of Canada has indicated that it will delay the implementation of climate change legislation and regulations in order to ensure consistency with the approach ultimately taken by the United States with respect to greenhouse gas emissions.

There has been much public debate with respect to Canada's ability to meet these targets and the Government of Canada's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. The implementation of strategies for reducing greenhouse gases, whether to meet the goals of the Kyoto Protocol, the Copenhagen Accord or otherwise, could have a material impact on the nature of oil and natural gas operations, including those of Baytex. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on Baytex and its operations and financial condition.

Further information regarding environmental and climate change regulation is contained in our Annual Information Form for the year ended December 31, 2010 under the Industry Conditions section.

Broad-based Federal Tax Reductions

On October 30, 2007, the Federal Government presented the fall economic statement that proposed significant reductions in corporate income tax rates from 22.1% to 15%. The reductions will be phased in between 2008 and 2012. In addition, the Federal Government announced that it plans to collaborate with the provinces and territories to reach a 25% combined federal-provincial-territorial statutory corporate income tax rate.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2010, an evaluation was conducted of the effectiveness of the Baytex's "disclosure controls and procedures" (as defined in the United States by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") and in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109")) by management, with the participation of the President and Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the Baytex's disclosure controls and procedures are effective to ensure that the information required to be disclosed in the reports that the Baytex files or submits under the Exchange Act or under Canadian securities legislation is (i) recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and (ii) accumulated and communicated to the Company's management, including the President and Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding the required disclosure.

It should be noted that while the President and Chief Executive Officer and the Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Baytex's disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Baytex. "Internal control over financial reporting" (as defined in the United States by Rules 13a-15(f) and 15d-15(f) under the Exchange Act and in Canada by NI 52-109) is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely financial information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. The assessment was based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2010. The effectiveness of the Baytex's internal control over financial reporting as of December 31, 2010 has been audited by Deloitte & Touche LLP, as reflected in their report for 2010.

No changes were made to our internal control over financial reporting during the year ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

In the interest of providing our shareholders and potential investors with information regarding Baytex, including management's assessment of The Company's future plans and operations, certain statements in this document are "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and "forward-looking information" within the meaning of applicable Canadian securities legislation (collectively, "forward-looking statements"). In some cases, forward-looking statements can be identified by terminology such as "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "intend", "may", "objective", "ongoing", "outlook", "potential", "project", "plan", "should", "target", "would", "will" or similar words suggesting future outcomes, events or performance. The forward-looking statements contained in this document speak only as of the date of this document and are expressly qualified by this cautionary statement.

Specifically, this document contains forward-looking statements relating to: crude oil and natural gas prices and the price differentials between light, medium and heavy oil prices; our business strategies, plans and objectives; our ability to utilize our tax pools to reduce or potentially eliminate our taxable income for the initial period post-conversion; our ability to fund our capital expenditures and dividends on our common shares from funds from operations; the sufficiency of our capital resources to meet our on-going short, medium and long-term commitments; the financial capacity of counterparties to honor outstanding obligations to us in the normal course of business; funding sources for our cash dividends and capital program; the timing of funding our financial obligations; the existence, operation, and strategy of our risk management program; the impact of the adoption of new accounting standards on our financial results; and the impact of the adoption of IFRS on our financial position and results of operations; our exploration and development capital expenditures for 2011 and the allocation thereof; our average production rate for 2011; development plans for our properties, including the number of wells to be drilled and the timing of completing a 10-well thermal module at our Seal heavy oil resource play; our organic production growth rate in 2011; and our 2011 production mix. In addition, information and statements relating to reserves are deemed to be forward-looking statements, as they involve implied assessment, based on certain estimates and assumptions, that the reserves described exist in quantities predicted or estimated, and that the reserves can be profitably produced in the future.

These forward-looking statements are based on certain key assumptions regarding, among other things: petroleum and natural gas prices and differentials between light, medium and heavy oil prices; well production rates and reserve volumes; our ability to add production and reserves through our exploration and development activities; capital expenditure levels; the availability and cost of labour and other industry services; the amount of future cash dividends that we intend to pay; interest and foreign exchange rates; and the continuance of existing and, in certain circumstances, proposed tax and royalty regimes. The reader is cautioned that such assumptions, although considered reasonable by Baytex at the time of preparation, may prove to be incorrect.

Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: fluctuations in market prices for petroleum and natural gas; fluctuations in foreign exchange or interest rates; general economic, market and business conditions; stock market volatility and market valuations; changes in income tax laws; industry capacity; geological, technical, drilling and processing problems and other difficulties in producing petroleum and natural gas reserves; uncertainties associated with estimating petroleum and natural gas reserves; liabilities inherent in oil and natural gas operations; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; risks associated with oil and gas operations; changes in royalty rates and incentive programs relating to the oil and gas industry; changes in environmental and other regulations; incorrect assessments of the value of acquisitions; and other factors, many of which are beyond the control of Baytex. These risk factors are discussed in our Annual Information Form, Annual Report on Form 40-F and Management's Discussion and Analysis for the year ended December 31, 2010, as filed with Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission.

There is no representation by Baytex that actual results achieved during the forecast period will be the same in whole or in part as those forecast and Baytex does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities law.

**CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Anthony W. Marino, certify that:

1. I have reviewed this annual report of Baytex Energy Corp. on Form 40-F;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the period presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: March 28, 2011

BAYTEX ENERGY CORP.

(signed) "Anthony W. Marino"
Name: Anthony W. Marino
Title: President and Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, W. Derek Aylesworth, certify that:

1. I have reviewed this annual report of Baytex Energy Corp. on Form 40-F;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the period presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: March 28, 2011

BAYTEX ENERGY CORP.

(signed) "W. Derek Aylesworth"

Name: W. Derek Aylesworth

Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Baytex Energy Corp. (the "Company") on Form 40-F for the fiscal year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony W. Marino, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 28, 2011

BAYTEX ENERGY CORP.

(signed) "Anthony W. Marino"

Name: Anthony W. Marino

Title: President and Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Baytex Energy Corp. (the "Company") on Form 40-F for the fiscal year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. Derek Aylesworth, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 28, 2011

BAYTEX ENERGY CORP.

(signed) "W. Derek Aylesworth"

Name: W. Derek Aylesworth

Title: Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the incorporation by reference in Registration Statements No(s). 333-163289 and 333-171568 on Form S-8; and No. 333-171866 on Form F-3; and to the use of our reports dated March 15, 2011 relating to the consolidated financial statements of Baytex Energy Corp. and subsidiaries ("Baytex") and the effectiveness of Baytex's internal control over financial reporting appearing in this Annual Report on Form 40-F of Baytex for the year ended December 31, 2010.

Calgary, Canada
March 28, 2011

(signed) "Deloitte & Touche LLP"
Independent Registered Chartered Accountants

CONSENT OF INDEPENDENT ENGINEERS

We refer to our report dated March 14, 2011 and effective December 31, 2010, evaluating the petroleum and natural gas reserves attributable to Baytex Energy Corp. and its affiliates, which is entitled "Evaluation of the P&NG Reserves of Baytex Energy Corp. (As of December 31, 2010)" (the "Report").

We hereby consent to the references to our name in the Company's Annual Report on Form 40-F to be filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

We also confirm that we have read the Company's Annual Information Form for the year ended December 31, 2010 dated March 28, 2011, and that we have no reason to believe that there are any misrepresentations in the information contained therein that was derived from the Report or that is within our knowledge as a result of the services we performed in connection with such Report.

SPROULE ASSOCIATES LIMITED

(signed) "Robert N. Johnson"

Robert N. Johnson, P. Eng.

Vice-President, Engineering and Director

Calgary, Alberta, Canada

March 28, 2011
