

BAYTEX ENERGY LTD.
RISK MANAGEMENT POLICY
Derivative and Contractual Commitments

1. Corporate Risk Philosophy

Baytex has a variety of risk exposures arising directly or indirectly in the conduct of its business. This policy is directed toward the management of risks related to fluctuations in interest rates, foreign exchange rates and commodity prices.

This policy sets forth the Company's philosophy and objectives with respect to managing these exposures including the use of Derivative Instruments and the requisite approvals required for their implementation.

- The Company recognizes certain risks incidental to normal business.
- The general philosophy of the Company is to avoid unnecessary risk and limit it where possible.
- Risk unrelated to the Company's normal business is deemed unacceptable.

2. Definitions

Business Risk

- Quantifiable or identifiable risk relating to normal business operations and activities that are a by-product of the normal business activities of the Company that relate to development and sales of products of the Company.
- Includes forecasted transactions that expose the Company to market risk and are probable of occurring.

Contractual Commitments

- The right/obligation to receive/provide cash or a "physical" commodity, product, etc. – frequently referred to as "physicals".

Derivative

- Contracts with net settlement in cash with reference to a change in an underlying index, reference price, market value, etc.

Forward

- A contract obligating one party to buy and another party to sell a financial instrument, commodity or currency at a specific future date.

Futures

- A standardized, transferable, exchange-traded contract that requires delivery of a commodity, currency, or bond, at a specific price, on a specified future date.

Hedging

- The use of a combination of Derivative and Contractual Commitments to manage business risks (interest rates, foreign exchange, commodity prices, etc.).
- To qualify for hedge accounting, accounting guidelines have a number of requirements, which include documentation, and an expectation of a highly effective hedging relationship. See Finance Group for further details on specific requirements.

Option

- The right, but not the obligation, to buy (for a call option) or sell (for a put option) a specific amount of a given commodity, currency, index or debt, at a specified price (the strike price) during a specified period of time.

Risk Management

- Limiting and reducing risk that a business is exposed to during the course of normal operations that could result in economic loss.
- Includes activities that identify, measure, assess, limit and reduce risk.

Swap

- An exchange of streams of payments over time according to specified terms.

3. Expectation of Management

- Baytex Management should manage business risks to acceptable levels.
- Baytex Management is expected to understand fully how their decisions and actions impact the Company's exposure to risk.

4. Objectives

Derivatives and Contractual Commitments shall be used as follows:

- (a) To manage the Company's exposure to fluctuations from budgeted levels in commodity prices, foreign exchange and interest rates.
- (b) To enhance the ability to meet performance expectations by managing the economic variables.

5. Limits and Horizon

Transactions entered into shall be based on actual operating levels of the Company, or budgeted levels which are approved by the Board of Directors. For clarification purposes, contracts on commodity prices shall be based on production levels, contracts on interest rates shall be based on debt levels, and contracts on foreign exchange shall be based on revenue levels or other monetary items which are related to the subject currency. Where transactions are entering into governing a period that is not yet contemplated by an approved budget, the budget relating to the most recently approved period shall be considered.

Management of the Company is authorized to enter into transactions covering, in aggregate, up to 50% of the Company's exposure to the product or risk being managed. Transactions in excess of this level have to be pre-authorized by the Board of Directors.

Management of the Company is authorized to enter into transactions covering a forward twenty-four (24) month period from the transaction date. Transactions having a duration in excess of this have to be pre-authorized by the Board of Directors.

All transactions must be conducted within any other restrictions imposed by the Company's banking facilities and other debt instruments.

6. Instruments

Management of the Company is authorized to utilize the following Derivative instruments for risk management purposes only:

- (a) Commodity – physical delivery contracts, futures, forwards, swaps and options;
- (b) Interest rate – Forward Rate Agreements (FRA's), swaps and futures; and
- (c) Foreign Exchange – forwards, futures and swaps.

Instruments not included herein have to be pre-authorized by the Board of Directors.

7. Authorization

- (a) All transactions based upon this policy have to be authorized by the Chief Executive Officer of the Company and one of the Chief Financial Officer and the Vice President of Marketing.
- (b) All transactions based upon this policy can only be negotiated or entered into by the Chief Executive Officer, Chief Financial Officer or any Vice-President of the Company with approval as per Section 7(a).
- (c) All related documentations have to be reviewed, accepted and signed on behalf of the Company by the Chief Executive Officer along with one of the Chief Financial Officer or the Vice-President who negotiated the transaction.

8. Management of Instruments

Notwithstanding Section 7(a), the modification or unwinding of existing transactions based upon this policy must be authorized by the Executive Chairman and the Chief Executive Officer of the Company.

9. Credit Requirement

The counterparty to any Derivative or Contractual Commitment entered into by the Company shall have a credit rating of BBB- (triple B minus) or higher assigned by a recognized rating agency. It is recommended that the agreement include provisions allowing contract termination or security requirements if the counterparty's credit rating is downgraded below BBB - .

A counterparty will be exempt from the BBB- credit rating requirement where any one of the following conditions are present:

- A) The counterparty provides a letter of credit payable to Baytex in the event of default.

- B) The counterparty provides a guarantee of performance by a party related to the counterparty which does meet the credit rating requirements.
- C) The transaction exposes Baytex to a maximum of \$1 million of monthly transactions with the counterparty, and Baytex has a past positive credit history with the counterparty (defined as 1 year of transaction history with no credit collection difficulties).
- D) The Chief Executive Officer and the Chief Financial Officer approve an exception to the credit requirement based on a financial review performed on the counterparty. Any such waivers will be reported to the Audit Committee on a quarterly basis.

The aggregate amount of Derivative or Contractual Commitments conducted with any one counterparty shall not be greater than 50% of the maximum limits as per this policy. As an exception to this limitation, any counterparties who are members of our banking syndicate are not so restricted. Transactions in excess of this level have to be pre-authorized by the Audit Committee.

The Company's mark-to-market position, together with debt outstanding at the end of each reporting period, shall be in compliance with the financial covenants imposed by the Company's banking facility and other debt instruments.

10. Approved Brokers

All counterparties must meet the above credit requirements outlined in Section 9 and be approved by the Finance Department. An ISDA Master Trading Agreement shall be in place with the counterparty prior to commencement of trading.

11. Documentation Requirement

Documentations entered into by the Company shall be based on standard industry documents. Otherwise, the subject documents shall be reviewed by Company counsel and approved by the Board of Directors.

12. Reporting

- A copy of all agreements entered into by the company that are subject to this agreement are to be forwarded to the Finance Group for internal and external reporting assessment and compliance.
- External reporting shall be in compliance with Generally Accepted Accounting Principles in Canada and, if applicable, the United States.
- Management will report on its activities under this policy to the Audit Committee on a quarterly basis, with such report to include:
 - A summary of any Derivatives and Contractual Commitments entered into during the reporting period.
 - A summary of all outstanding Derivatives and Contractual Commitments, including the identity of the counterparties.
 - Realized gain/loss incurred on Derivative contracts for the reporting period and year-to-date.
 - The Company's unrealized mark-to-market position based on outstanding Derivative agreements.
 - Reporting of any approved exceptions to credit requirements.
 - Reporting of compliance with this policy.

- A discussion of: (a) the risk mitigation purposes of transactions entered into over the period; (b) risk management strategies for the upcoming period; and (c) on-going risk management practice and positions.

Approved by the Board of Directors on February 17, 2009