



## CANADIAN UNITHOLDERS

**The information contained herein is intended to provide general guidance to assist in income tax reporting for distributions declared to Canadian unitholders of the Trust in 2010. The summary is of a general nature only and is not intended to constitute legal or tax advice to any unitholder of the Trust or potential shareholder of Baytex. Investors should consult their own tax advisors as to their particular tax consequences.**

For purposes of the Income Tax Act (Canada), the Trust was a mutual fund trust in 2010. Each year, an income tax return is filed by the Trust with the taxable income allocated to, and taxable in the hands of, its unitholders. Distributions paid by the Trust can be both a return on capital (i.e., income) and a return of capital (i.e., tax deferred). The allocation between these two streams is dependent upon the tax deductions that the Trust is entitled to claim against royalty and interest income received and any income the Trust earned directly. The level of these tax deductions is primarily driven by the Trust's resource property deductions.

The distributions declared to Canadian unitholders in 2010 were 100% return on capital (taxable income), with 0% being a return of capital (tax deferred).

### Trust units held within a deferred plan

Canadian unitholders who held their trust units in a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan, registered education savings plan, registered disability savings plan or tax free savings account, or any other such registered plans (collectively referred to as "deferred plans"), are not required to report any income related to distributions received on their 2010 income tax return.

### Trust units held outside of a deferred plan

Canadian unitholders who held their trust units outside such deferred plans will receive a T3 supplementary slip on or before March 31, 2011. Canadian unitholders that were registered unitholders, who received cash distributions during the period from the transfer agent, Valiant Trust Company, will receive a T3 supplementary slip directly from Valiant Trust Company. Canadian unitholders who held their trust units outside of a deferred plan, through a broker or other intermediary, should receive a T3 supplementary slip directly from their broker or other intermediary and not from the transfer agent or the Trust.

The T3 Supplementary slip will report only the taxable income component of the distributions. This income is taxed in the same manner as interest income.

The tax deferred, or return of capital, portion impacts the unitholder's original adjusted cost base of their trust units ("ACB"). The ACB is used in calculating capital gains or losses on the disposition of trust units. The ACB of each trust unit is reduced by the return of capital portion of distributions received. When a unitholder's ACB drops below zero during a taxation year, the negative amount is considered by the Canada Revenue Agency to be a capital gain and the ACB is re-set to zero by paying income tax on the capital gain resulting from the negative ACB.

The following table sets out the tax treatment of the 2010 monthly distributions for Canadian income tax purposes (Canadian dollars per unit):

Record Date	Payment Date	Taxable Amount (Box 26 Other Income)	Tax Deferred Amount (Box 42 Return of Capital)	Total Distributions
29-Jan-2010	16-Feb-2010	0.18	0.00	0.18
26-Feb-2010	15-Mar-2010	0.18	0.00	0.18
31-Mar-2010	15-Apr-2010	0.18	0.00	0.18
30-Apr-2010	17-May-2010	0.18	0.00	0.18
31-May-2010	15-Jun-2010	0.18	0.00	0.18
30-Jun-2010	15-Jul-2010	0.18	0.00	0.18
30-Jul-2010	16-Aug-2010	0.18	0.00	0.18
31-Aug-2010	15-Sep-2010	0.18	0.00	0.18
30-Sep-2010	14-Oct-2010	0.18	0.00	0.18
29-Oct-2010	15-Nov-2010	0.18	0.00	0.18
30-Nov-2010	15-Dec-2010	0.18	0.00	0.18
31-Dec-2010	17-Jan-2011	0.20	0.00	0.20
Total		2.18	0.00	2.18