

BAYTEX ENERGY CORP.
Form F-10
February 06, 2014

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As filed with the Securities and Exchange Commission on February 6, 2014

Registration No. 333-

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

FORM F-10
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

BAYTEX ENERGY CORP.

(Exact name of registrant as specified in its charter)

Alberta, Canada

(Province or other jurisdiction of incorporation or organization)

1381

(Primary Standard Industrial Classification Code Number, if applicable)

Not applicable

(I.R.S. Employer Identification No., if applicable)

**2800, 520 3rd Avenue S.W.
Calgary, Alberta, Canada, T2P 0R3
Tel: 587-952-3000**

(Address and telephone number of Registrant's principal executive offices)

**Baytex Energy USA Ltd.
600 17th St., Suite 1600 S.
Denver, CO 80202
Tel: 303-825-2777**

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

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

Province of Alberta, Canada

(Principal jurisdiction regulating this offering)

It is proposed that this filing shall become effective (check appropriate box below):

- A. upon filing with the Commission pursuant to Rule 467(a) (if in connection with an offering being made contemporaneously in the United States and Canada).
- B. at some future date (check the appropriate box below):
 - 1. pursuant to Rule 467(b) on () at () (designate a time not sooner than 7 calendar days after filing).
 - 2. pursuant to Rule 467(b) on () at () (designate a time 7 calendar days or sooner after filing) because the securities regulatory authority in the review jurisdiction has issued a receipt or notification of clearance on ().
 - 3. pursuant to Rule 467(b) as soon as practicable after notification of the Commission by the Registrant or the Canadian securities regulatory authority of the review jurisdiction that a receipt or notification of clearance has been issued with respect hereto.
 - 4. after the filing of the next amendment to this Form (if preliminary material is being filed).

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to the home jurisdiction's shelf prospectus offering procedures, check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Subscription Receipt	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Subscription Receipts			U.S.\$1,351,200,000	U.S.\$174,034.56

(1) Calculated pursuant to Rule 457(o) under the Securities Act of 1933, as amended. U.S. dollar amounts are calculated based on the Bank of Canada noon rate of US\$0.9008=Cdn\$1.00 on February 5, 2014.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registration statement shall become effective as provided in Rule 467 under the Securities Act of 1933 or on such date as the Commission, acting pursuant to Section 8(a) of the Act, may determine.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This short form prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State of the United States of America in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Information has been incorporated by reference into this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Baytex Energy Corp. at Suite 2800, Centennial Place, East Tower, 520 - 3rd Avenue S.W., Calgary, Alberta, Canada, T2P 0R3, Telephone (587) 952-3000 and are also available electronically at www.sedar.com.

PRELIMINARY SHORT FORM PROSPECTUS SUBJECT TO COMPLETION, DATED FEBRUARY 6, 2014

New Issue

February 6, 2014

\$
**Subscription Receipts each
representing the right to receive one Common Share**

\$ per Subscription Receipt

We are hereby qualifying for distribution subscription receipts (the "**Subscription Receipts**") at a price of \$ per Subscription Receipt (the "**Offering**"). Each Subscription Receipt will entitle the holder thereof to receive, without payment of additional consideration or further action on the part of such holder, one common share ("**Common Share**") in our capital (an "**Underlying Common Share**") upon closing of the Acquisition (as defined herein).

The terms of the Offering, including the offering price for the Subscription Receipts, were determined by negotiation between us and Scotia Capital Inc. ("**Scotia**") and RBC Dominion Securities Inc. (collectively, the "**Underwriters**"). See "*Plan of Distribution*".

The gross proceeds from the sale of the Subscription Receipts (the "**Escrowed Funds**") will be held by Valiant Trust Company, as escrow agent (the "**Escrow Agent**"), and invested in short-term obligations of, or guaranteed by, the Government of Canada (or other approved investments). Upon satisfaction of the Escrow Condition (as defined herein) on or before 5:00 p.m. (Calgary time) on June 30, 2014, the Escrowed Funds and the interest earned thereon (less any amounts required to pay the Dividend Equivalent Amount (as defined herein) upon the issuance of the Underlying Common Shares, if applicable) will be released to us to enable us to convert these funds to Australian dollars and complete the Acquisition. On the closing of the Acquisition, each holder of Subscription Receipts will receive one Underlying Common Share for each Subscription Receipt held, without payment of additional consideration or further action on the part of such holder, and such holder will also be entitled to receive the Dividend Equivalent Amount, being an amount per Subscription Receipt equal to the amount per Common Share of any cash dividends for which record date(s) have occurred during the period commencing on the closing of the Offering through the date immediately preceding the date the Underlying Common Shares are issued pursuant to the Subscription Receipts. See "*Details of the Offering*".

On February 6, 2014, we entered into an agreement to acquire, through a scheme of arrangement under Australian law, all of the fully diluted shares of Aurora Oil & Gas Limited (TSX: AEF, ASX: AUT) ("Aurora") for total consideration of approximately \$1.8 billion, plus assumed

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debt of approximately \$744 million, for a total transaction value of approximately \$2.6 billion (the "**Acquisition**"), as described in more detail under "*Recent Developments*" *The Acquisition*" and "*About Aurora*".

We will utilize the Escrowed Funds to pay a portion of the purchase price for the Acquisition. If: (i) the Acquisition is not completed by June 30, 2014; (ii) the Implementation Agreement (as defined herein) is terminated in accordance with its terms at any earlier time; or (iii) we have advised the Underwriters or announced to the public that we do not intend to proceed with the Acquisition (the time of occurrence of any such event being the "**Termination Time**"), holders of Subscription Receipts shall receive an amount equal to the full subscription price attributable to the Subscription Receipts and their *pro rata* entitlement to interest accrued on such amount up to and including the Termination Time. See "*Details of the Offering*".

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Further particulars concerning the attributes of the Subscription Receipts are set out under "*Details of the Offering*" and further particulars concerning the attributes of the Common Shares are set out under "*Description of Common Shares*".

	Price to the Public ⁽¹⁾	Underwriters' Fee ⁽²⁾	Net Proceeds to the Corporation ⁽³⁾
Per Subscription Receipt	\$	\$	\$
Total ⁽⁴⁾	\$	\$	\$

Notes:

- (1) All dollar amounts in this short form prospectus are expressed in Canadian dollars, except where otherwise indicated.
- (2) The fee payable to the Underwriters is 4.0% of the gross proceeds of the Offering (the "**Underwriters' Fee**"). The Underwriters' Fee in respect of the Subscription Receipts is payable as to 50% upon the closing of the Offering and 50% upon the closing of the Acquisition. If closing of the Acquisition has not occurred by June 30, 2014, the Underwriters' Fee will be reduced to the amount payable upon closing of the Offering. See "*Details of the Offering*" and "*Plan of Distribution*".
- (3) Excluding interest accrued, if any, on the Escrowed Funds, and before deducting expenses of the Offering, estimated to be \$3 million (exclusive of GST), which will be deducted from our general funds.
- (4) We have granted to the Underwriters an option (the "**Over-allotment Option**") to purchase up to an additional _____ Subscription Receipts at a price of \$ _____ per Subscription Receipt on the same terms and conditions as the Offering, exercisable from time to time, in whole or in part, for a period commencing at closing of the Offering and ending on the earlier of: (i) 30 days following closing of the Offering; and (ii) the Termination Time, to cover over-allotments, if any, and for market stabilization purposes. A purchaser who acquires Subscription Receipts forming part of the Underwriters' over-allocation position acquires those Subscription Receipts under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-allotment Option or secondary market purchases. If the Over-allotment Option is exercised in full, the total gross proceeds of the Offering, the Underwriters' Fee and the net proceeds to us (before deducting expenses of the Offering) will be \$ _____, \$ _____ and \$ _____, respectively. This short form prospectus also qualifies the distribution of the Subscription Receipts issuable upon exercise of the Over-allotment Option. See "*Plan of Distribution*" and the table below.

The following table sets forth the number of Subscription Receipts that may be offered by us pursuant to the Over-allotment Option.

Underwriters' Position	Maximum size or number of securities held	Exercise period	Exercise price
Over-allotment Option	Subscription Receipts	Commencing at closing of the Offering and ending on the earlier of: (i) 30 days following closing of the Offering; and (ii) the Termination Time	\$ _____ per Subscription Receipt

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SUBSCRIPTION RECEIPTS NOR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS SHORT FORM PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

Your ability to enforce civil liabilities under United States federal securities laws may be affected adversely by the fact that we are formed under the laws of the Province of Alberta, that some of our officers and directors are residents of Canada or otherwise reside outside of the United States, that some or all of the Underwriters and experts named in this short form prospectus may be residents of Canada or otherwise reside outside of the United States, and that a substantial portion of our assets and the assets of said persons may be located outside the United States.

Mary Ellen Peters, one of our directors, resides outside of Canada. Ms. Peters has appointed Burnet, Duckworth & Palmer LLP, Suite 2400, 525 - 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1G1, as her agent for service of process. In addition, all or some of the designated professionals of BDO Audit (WA) Pty Ltd., Aurora's external auditor and Ryder Scott Company, L.P., Aurora's independent qualified reserves evaluator are incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or reside outside of Canada. BDO Audit (WA) Pty Ltd. has appointed BDO Canada LLP, Suite 600, 36 Toronto Street, Toronto, Ontario M5C 2C5 as its agent for service of process. Ryder Scott Company, L.P. has appointed Ryder Scott Canada at Suite 600, 1015 4th St. S.W., Calgary, Alberta, Canada T2R 1J4 as its agent for service of process. It may not be possible for you to enforce judgments obtained in Canada against a person that resides outside of Canada, even if the party has appointed an agent for service of process. See "*Enforcement of Judgments Against Foreign Persons or Companies*".

We are permitted, under the multi-jurisdictional disclosure system adopted by the United States and Canada, to prepare this short form prospectus in accordance with the disclosure requirements of Canada. Prospective investors should be aware that such requirements are different from those of the United States. Our financial statements included or incorporated by reference in this short form prospectus have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") (which, since January 1, 2011, have been consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board) and are subject to Canadian auditing and auditor independence standards. Aurora's historical financial statements contained in this short form prospectus have been prepared in accordance with Australian Accounting

Standards ("AAS"), which include Australian equivalents to IFRS. Compliance with AAS ensures compliance with IFRS as issued by the International Accounting Standards Board. Canadian GAAP and AAS differs from generally accepted accounting principles in the United States ("U.S. GAAP"). Thus, these financial statements may not be comparable to financial statements of United States companies.

Data on oil and gas reserves contained in or incorporated by reference into this short form prospectus has been prepared in accordance with Canadian disclosure standards, which are not comparable in all respects to United States disclosure standards. See "*Presentation of Financial and Oil and Gas Information*".

Prospective investors should be aware that the acquisition of the Subscription Receipts described herein may have tax consequences both in the United States and Canada. Such consequences may not be fully described herein. See "*Certain Canadian Federal Income Tax Considerations*" and "*Certain United States Federal Income Tax Considerations*".

Our outstanding Common Shares are listed and posted for trading on the Toronto Stock Exchange (the "TSX") and the New York Stock Exchange ("NYSE") under the trading symbol "BTE". On February 5, 2014, the last trading day prior to the public announcement of the Offering, the closing price of the Common Shares on the TSX was \$41.16 per Common Share and the closing price of the Common Shares on the NYSE was U.S.\$37.16 per Common Share.

The Underwriters, as principals, conditionally offer the Subscription Receipts, subject to prior sale, if, as and when issued by us and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement (as defined herein). The Offering is subject to the approval of certain legal matters relating to Canadian law on our behalf by Burnet, Duckworth & Palmer LLP, Calgary, Alberta and on behalf of the Underwriters by McCarthy Tétrault LLP, Calgary, Alberta and to the approval of certain legal matters relating to United States law on our behalf by Paul, Weiss, Rifkind, Wharton & Garrison LLP, New York, New York and on behalf of the Underwriters by Vinson & Elkins LLP, Houston, Texas.

Subscriptions for Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The closing of the Offering is anticipated to occur on or about February 24, 2014 or such other date as may be agreed upon by us and the Underwriters (the "**Closing Date**"), but in any event not later than March 28, 2014. Except in certain limited circumstances: (i) Subscription Receipts and Underlying Common Shares will be registered and represented electronically through the non-certificated inventory of CDS Clearing and Depository Services Inc. ("**CDS**"); (ii) no certificates evidencing the Subscription Receipts and Underlying Common Shares will be issued; and (iii) purchasers of Subscription Receipts will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Subscription Receipts is purchased. See "*Plan of Distribution*".

Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those that might otherwise prevail on the open market in accordance with applicable market stabilization rules. Such transactions, if commenced, may be discontinued at any time. **The Underwriters propose to offer the Subscription Receipts initially at the offering price specified above. After a reasonable effort has been made to sell all the Subscription Receipts at the price specified, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Subscription Receipts remaining unsold. Any such reduction will not affect the proceeds received by us.** See "*Plan of Distribution*".

Scotia is a wholly-owned subsidiary of a Canadian chartered bank which has agreed to fully underwrite and commit to provide us with new senior secured credit facilities which will replace the Credit Facilities (as defined under the heading "*Consolidated Capitalization*") in connection with the Acquisition. Each of Scotia and RBC Dominion Securities Inc. are wholly-owned subsidiaries of Canadian chartered banks, which are lenders to our subsidiary, Baytex Energy Ltd. ("**Baytex Energy**") pursuant to the Credit Facilities. Scotia has also provided financial advice to us in connection with the Acquisition. Consequently, we may be considered to be a connected issuer to each of these Underwriters for the purposes of securities regulations in certain provinces. See "*Relationship between Us and the Underwriters*" and "*Use of Proceeds*".

There is currently no market through which the Subscription Receipts may be sold and there is no guarantee that an active trading market will develop. Accordingly, purchasers may not be able to resell the Subscription Receipts distributed under this short form prospectus. This may affect the pricing of the Subscription Receipts in the secondary market, the transparency and the availability of trading prices and the liquidity of the Subscription Receipts. See "*Risk Factors*".

An investment in the securities offered hereunder is speculative and involves a high degree of risk. The risk factors identified under the headings "*Risk Factors*" and "*Forward-Looking Statements*" in this short form prospectus, the Annual Information Form (as defined herein) and the Annual MD&A (as defined herein) should be carefully reviewed and evaluated by prospective subscribers before purchasing the securities being offered hereunder.

Our head office is located at Suite 2800, Centennial Place, East Tower, 520 - 3rd Avenue S.W., Calgary, Alberta, Canada, T2P 0R3 and our registered office is located at Suite 2400, 525 - 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1G1.

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IMPORTANT NOTICE ABOUT INFORMATION IN THIS SHORT FORM PROSPECTUS

You should rely only on the information contained or incorporated by reference in this short form prospectus, and, if you reside in the United States, on the other information included in the registration statement of which this short form prospectus forms a part. We have not, and the Underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that only the information appearing in this short form prospectus, as well as information we previously filed with the securities regulatory authority in each of the provinces of Canada and with the SEC that is incorporated by reference into this short form prospectus, is accurate as of the respective dates of the applicable documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

We are not, and the Underwriters are not, making an offer to sell these Subscription Receipts in any jurisdiction where the offer or sale is not permitted.

PRESENTATION OF FINANCIAL AND OIL AND GAS INFORMATION

Unless indicated otherwise, our financial information in this short form prospectus, including the documents incorporated by reference herein, has been prepared in accordance with Canadian GAAP (which, since January 1, 2011, have been consistent with IFRS as issued by the International Accounting Standards Board). Aurora's historical financial statements contained in this short form prospectus have been prepared in accordance with AAS, which include Australian equivalents to the IFRS. Compliance with AAS ensures compliance with IFRS as issued by the International Accounting Standards Board. Canadian GAAP and AAS differ from U.S. GAAP and thus these financial statements may not be comparable to the financial statements of U.S. companies.

The securities regulatory authorities in Canada have adopted NI 51-101 (as defined below), which imposes oil and gas disclosure standards for Canadian public issuers engaged in oil and gas activities. The recovery and resource estimates provided in this short form prospectus and in the documents incorporated by reference herein are estimates only. Actual reserves and contingent resources (and any volumes that may be reclassified as reserves) and future production from such reserves or contingent resources may be greater than or less than the estimates provided herein.

The determination of oil and gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved and probable reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery. The estimation and classification of reserves requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions.

All estimates of future revenue in this prospectus and in the documents incorporated herein by reference are, unless otherwise noted, after the deduction of royalties, development costs, production costs and well abandonment costs but before deduction of future income tax expenses and before consideration of indirect costs such as administrative, overhead and other miscellaneous expenses. The estimated future net revenues contained in this prospectus and in the documents incorporated herein by reference do not represent the fair market value of the applicable reserves.

There is no assurance that the forecast price and cost assumptions estimated will be attained and variances could be material. The recovery and reserves estimates described herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater or less than the estimates provided herein and in the documents incorporated herein by reference. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

Unless otherwise stated, all of the reserves information contained herein and in the documents incorporated herein by reference, have been calculated and reported using assumptions and methodology guidelines outlined in accordance with the standards contained in the COGE Handbook, NI 51-101 and the

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reserve definitions contained in the Canadian Securities Administrators Staff Notice 51-324. Numbers in the reserves tables and other oil and gas information contained in this prospectus may not add due to rounding.

NI 51-101 permits oil and gas issuers, in their filings with Canadian securities regulatory authorities, to disclose not only proved, probable and possible reserves but also resources, and to disclose reserves and production on a gross basis before deducting royalties. Probable reserves, possible reserves and resources are of a higher risk and are less likely to be accurately estimated or recovered than proved reserves. We are permitted to disclose reserves in accordance with Canadian securities law requirements and the disclosure herein and in the documents incorporated by reference herein may include reserves designated as probable reserves, possible reserves and resources, as defined under Canadian standards.

The SEC does not permit the inclusion of estimates of resources in reports filed with it by companies domiciled in the United States.

The SEC definitions of proved, probable and possible reserves are different than NI 51-101; therefore, proved, probable and possible reserves disclosed herein and in the documents incorporated by reference into this short form prospectus may not be comparable to United States standards. The SEC currently requires United States oil and gas companies, in their filings with the SEC, to disclose only proved reserves after the deduction of royalties and interests of others but permits the optional disclosure of probable and possible reserves, as defined under SEC rules. The SEC does not allow proved and probable reserves to be aggregated except in the case of reserves determined using probabilistic methods, whereas NI 51-101 requires issuers to disclose aggregate proved and probable reserves.

Moreover, as permitted by NI 51-101, we have determined and disclosed herein, and in the documents incorporated by reference, the net present value of future net revenue from our reserves and the reserves associated with the Aurora Assets (as defined herein) using only forecast prices and costs. The SEC requires that reserves and related future net revenue be estimated based on historical 12-month average prices, but permits the optional disclosure of revenue estimates based on different price and cost criteria, including standardized future prices or management's own forecasts.

Additional information prepared in accordance with Accounting Standards Codification 932 "Extractive Activities - Oil & Gas" issued by the United States Financial Accounting Standards Board ("**ASC 932**") relating to our petroleum and natural gas reserves is set forth in the Supplemental Oil and Gas Disclosures (as defined herein), which is incorporated herein by reference.

ASC 932 disclosure relating to Aurora's petroleum and natural gas reserves is not, and is not required to be, included in this short form prospectus.

Certain documents incorporated by reference into this short form prospectus contain estimates of "contingent resources". The SEC would prohibit a United States oil and gas company from including an estimate of "contingent resources" in its filings with the SEC. "Contingent resources" are not, and should not be confused with, petroleum and natural gas reserves. "Contingent resources" are defined in the COGE Handbook (as defined herein) 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."

The outstanding contingencies applicable to our disclosed contingent resources do not include economic contingencies. Economic contingent resources are those resources that are currently economically recoverable based on specific forecasts of commodity prices and costs.

A range of contingent resources estimates (low, best and high) were prepared by the independent qualified reserves evaluators. A low estimate (C1) is considered to be a conservative estimate of the quantity of the resource that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. Those resources in the low estimate have the highest degree of certainty (a 90% confidence level) that the actual quantities recovered will equal or exceed the estimate. A best estimate (C2) is considered to be

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the best estimate of the quantity of the resource 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 in the best estimate have a 50% confidence level that the actual quantities recovered will equal or exceed the estimate. A high estimate (C3) is considered to be an optimistic estimate of the quantity of the resource that will actually be recovered. It is unlikely that the actual remaining quantities of resource recovered will equal or exceed the high estimate. Those resources in the high estimate have a lower degree of certainty (a 10% confidence level) that the actual quantities recovered will equal or exceed the estimate.

The primary contingencies which currently prevent the classification of our contingent resources as reserves consist of: preparation of firm development plans, including determination of the specific scope and timing of the project; project sanction; access to capital markets; stakeholder and regulatory approvals; access to required services and field development infrastructure; oil prices and price differentials between light, medium and heavy gravity crude oils; future drilling program and testing results; further reservoir delineation and studies; facility design work; limitations to development based on adverse topography or other surface restrictions; and the uncertainty regarding marketing and transportation of petroleum from development areas.

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 estimates of contingent resources involve implied assessment, based on certain estimates and assumptions, that the resource described exists in the quantities predicted or estimated and that the resource can be profitably produced in the future.

Other principal differences between SEC oil and gas disclosure requirements and NI 51-101 include the following, some of which may be material:

the SEC mandates disclosure of reserves by geographic area only, whereas NI 51-101 requires disclosure of more reserve categories and product types;

the SEC's rules in estimating reserves differ from NI 51-101 in areas such as the use of reliable technology, aerial extent around a drilled location, quantities below the lowest known oil and quantities across an undrilled fault block; and

U.S. rules limit reserve bookings on undrilled acreage to "those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances," whereas under NI 51-101, reserves may be recognized on undrilled properties beyond directly offsetting spacing units if there is "compelling evidence of reservoir continuity".

The NGLs referred to in this prospectus are reported on a combined basis with any condensate as required under NI 51-101.

SELECTED DEFINITIONS

Unless the context otherwise requires, all references in this short form prospectus to "**Baytex**", the "**Corporation**", "**we**", "**us**" or "**our**" means Baytex Energy Corp. and its consolidated subsidiaries, any partnership of which Baytex Energy Corp. and its subsidiaries are the partners and our significant equity investments and joint ventures.

In this short form prospectus, the following terms shall have the following meanings:

"**2013 Acquired Assets**" means the 100% operated WI in approximately 2,700 net acres in the Heard Ranch and Axle Tree blocks in South Texas, together with interests in 11 net producing wells as well as associated interests in field infrastructure and related assets, acquired by Aurora on March 29, 2013 with an effective date of March 1, 2013.

"**2017 Aurora Notes**" means the U.S.\$365 million aggregate principal amount of 9.875% senior unsecured notes issued by a subsidiary of Aurora which are due February 15, 2017 and will be assumed by us in connection with the Acquisition.

"**2020 Aurora Notes**" means the U.S.\$300 million aggregate principal amount of 7.50% senior unsecured notes issued by a subsidiary of Aurora which are due April 1, 2020 and will be assumed by us in connection with the Acquisition.

"**2021 Debentures**" means our U.S.\$150 million 6.75% series B senior unsecured debentures due February 17, 2021 and issued pursuant to the Canadian Indenture.

"**2022 Debentures**" means our \$300 million 6.625% series C senior unsecured debentures due July 19, 2022 and issued pursuant to the Canadian Indenture.

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

"**Acquisition**" means the proposed acquisition by us of all of the issued and outstanding Aurora Shares pursuant to the Implementation Agreement.

"**AMI**" means area of mutual interest, a contractually defined area in which oil and gas companies hold oil and gas rights.

"**Annual Information Form**" has the meaning ascribed thereto under "*Documents Incorporated by Reference*".

"**Annual Financial Statements**" has the meaning ascribed thereto under "*Documents Incorporated by Reference*".

"**Annual MD&A**" has the meaning ascribed thereto under "*Documents Incorporated by Reference*".

"**ASIC**" means the Australian Securities and Investments Commission.

"**ASX**" means ASX Limited (ABN 98 008 624 691) and, where the context permits, the Australian Securities Exchange operated by ASX Limited.

"**Aurora**" means Aurora Oil & Gas Limited, a publicly traded corporation organized under the Corporations Act.

"**Aurora 2012 Reserves Report**" means the independent engineering evaluation of Aurora's oil and natural gas reserves dated January 30, 2013 prepared by Ryder Scott effective December 31, 2012, which is entitled "*Aurora Oil & Gas Limited Estimated Future Reserves and Income Attributable to Certain Leasehold Interests*".

"**Aurora 2013 Reserves Report**" means the independent engineering evaluation of Aurora's oil and natural gas reserves dated January 31, 2014 prepared by Ryder Scott effective December 31, 2013, which is entitled "*Aurora Oil & Gas Limited Estimated Future Reserves and Income Attributable to Certain Leasehold Interests*".

"**Aurora Assets**" means those oil, petroleum and natural gas properties and related assets of Aurora described in more detail under "*Recent Developments The Acquisition*" and "*About Aurora*".

"**Aurora Board**" means the board of directors of Aurora.

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"**Aurora Notes**" means collectively, the 2017 Aurora Notes and the 2020 Aurora Notes.

"**Aurora Options**" has the meaning ascribed thereto under "*Recent Developments The Acquisition*".

"**Aurora Performance Rights**" has the meaning ascribed thereto under "*Recent Developments The Acquisition*".

"**Aurora Reserves Reports**" means the Aurora 2012 Reserves Report and the Aurora 2013 Reserves Report.

"**Aurora Shareholders**" means the holders of all of the issued and outstanding Aurora Shares.

"**Aurora Shares**" means the ordinary shares in the capital of Aurora, as presently constituted.

"**Australian Court**" means the Federal Court of Australia (Western Australian Registry) or any other court of competent jurisdiction under the Corporations Act (as agreed by the parties to the Implementation Agreement in writing).

"**Baytex Energy**" means Baytex Energy Ltd., a corporation amalgamated under the ABCA and our wholly-owned subsidiary.

"**Board of Directors**" means our board of directors.

"**Canadian Indenture**" means the amended and restated trust indenture which provides for the issuance of Debt Securities in Canada among us, as issuer, Baytex Energy and certain of our other subsidiaries, as guarantors, and Valiant Trust Company, as trustee, dated January 1, 2011, as supplemented by a supplemental trust indentures dated February 17, 2011, February 18, 2011, July 19, 2012 and December 19, 2012. The 2021 Debentures and the 2022 Debentures were issued under the Canadian Indenture.

"**CDS**" means CDS Clearing and Depository Services Inc.

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook.

"**Common Shares**" means the common shares in our capital.

"**Common Share Rights Incentive Plan**" means our Common Share Rights Incentive Plan, as described in the Information Circular under "*Executive Compensation Common Share Rights Incentive Plan*".

"**Corporations Act**" means the Australian Corporations Act 2001 (Cth).

"**Credit Facilities**" has the meaning ascribed thereto under "*Consolidated Capitalization*".

"**Debentures**" means, collectively, the 2021 Debentures and the 2022 Debentures.

"**Debt Securities**" means our senior or subordinated debt securities.

"**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.

"**Developed Producing Reserves**" are those reserves that are expected to be recovered from completion in 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.

"**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.

"**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

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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.

"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.

"Dividend Equivalent Amount" means an amount per Subscription Receipt equal to the amount per Common Share of any cash dividends for which record date(s) have occurred during the period beginning on the closing date of the Offering to the date immediately preceding the date the Underlying Common Shares are issued pursuant to the Subscription Receipts.

"Eagle Ford" means the Eagle Ford shale trend in South Texas, which produces oil, natural gas, natural gas liquids and condensate.

"Elixir" means Elixir Petroleum Limited.

"EDGAR" means the Electronic Data Gathering, Analysis and Retrieval System established by the SEC.

"Effective Date" in relation to the Acquisition means the date on which the Acquisition becomes effective.

"Escrow Agent" means Valiant Trust Company, which is deemed an "Acceptable Institution" under the guidelines of the Investment Industry Regulatory Organization of Canada and the Canadian Investor Protection Fund, in its capacity as escrow agent pursuant to the Subscription Receipt Agreement.

"Escrow Condition" has the meaning ascribed thereto under "*Details of the Offering*".

"Escrowed Funds" means the gross proceeds from the sale of the Subscription Receipts.

"Exchange Act" means the *United States Securities Exchange Act of 1934*, as amended.

"Existing Target Facility" means the existing U.S.\$300 million senior secured credit facility established under the credit agreement dated as of November 7, 2011 among Aurora USA Oil & Gas, Inc., Aurora, UBS AG, Stamford Branch, as administrative agent and the financial institutions party thereto, as amended and supplemented.

"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.

"exploratory well" means a well that is not a development well, a service well or a stratigraphic test well.

"Final Order" means the order issued by the Australian Court pursuant to section 411(4)(b) of the Corporations Act approving the Acquisition.

"forecast prices and costs" means in relation to an issuer, 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 an issuer 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).

"Flour Bluff Field" means the Flour Bluff Gas Field located near Corpus Christi, Texas.

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"**gross**" means: (a) in relation to an issuer's interest in production or reserves, its "company gross reserves", which are its working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the issuer; (b) in relation to wells, the total number of wells in which an issuer has an interest; and (c) in relation to properties, the total area of properties in which an issuer has an interest.

"**Implementation Agreement**" means the Implementation Agreement between us and Aurora dated effective February 6, 2014 pursuant to which we have agreed to acquire all of the issued and outstanding Aurora Shares, as more particularly described under "*Recent Developments - The Acquisition*".

"**HSR Act**" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

"**Incentive Plan**" means our Common Share Rights Incentive Plan, as described in the Information Circular under "*Executive Compensation - Common Share Rights Incentive Plan*".

"**Information Circular**" has the meaning ascribed thereto under "*Documents Incorporated by Reference*".

"**Interim Financial Statements**" has the meaning ascribed thereto under "*Documents Incorporated by Reference*".

"**Interim MD&A**" has the meaning ascribed thereto under "*Documents Incorporated by Reference*".

"**Ipanema**" means the Ipanema AMI in the Sugarkane Field.

"**Longhorn**" means the Longhorn AMI in the Sugarkane Field.

"**JOA**" means joint operating agreement among co-owners of WIs in a designated field, AMI, unit or lease.

"**Marathon**" means Marathon Oil EF LLC, a wholly-owned subsidiary of Marathon Oil Corporation.

"**net**" means: (a) in relation to an issuer's interest in production or reserves its working interest (operating or non-operating) share after deduction of royalty obligations, plus its royalty interests in production or reserves; (b) in relation to an issuer's interest in wells, the number of wells obtained by aggregating the issuer's working interest in each of its gross wells; and (c) in relation to an issuer's interest in a property, the total area in which the issuer has an interest multiplied by the working interest owned by the issuer.

"**New Credit Facilities**" has the meaning ascribed thereto under See "*Recent Developments - New Credit Facilities*".

"**NI 51-101**" means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*.

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

"**NYSE**" means the New York Stock Exchange.

"**Operating Entities**" means our direct and indirect wholly-owned 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 Energy Partnership and Baytex Energy USA Ltd., and "**Operating Entity**" means any one of them, as applicable.

"**Participant**" means a participant in the depository service of CDS.

"**Possible Reserves**" are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

"**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.

"**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.

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"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, which are generally accepted as being reasonable and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates.

"Ryder Scott" means Ryder Scott Company, L.P, independent petroleum consultants of Houston, Texas.

"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.

"Scotia" means Scotia Capital Inc.

"SEC" means the U.S. Securities and Exchange Commission.

"SEDAR" means the System for Electronic Document Analysis and Retrieval established by the provincial securities regulatory authorities in Canada.

"Share Award Incentive Plan" means our Share Award Incentive Plan, as described in the Information Circular under *"Executive Compensation - Share Award Incentive Plan"*.

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

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

"Sproule Report" means the independent evaluation of our oil and natural gas reserves prepared by Sproule dated March 11, 2013 and effective December 31, 2012 entitled *"Evaluation of the P&NG Reserves of Baytex Energy Corp. (As of December 31, 2012)"*.

"Subscription Receipt Agreement" means the agreement to be dated the date of closing of the Offering among us, Scotia and the Escrow Agent governing the terms of the Subscription Receipts.

"Subscription Receipt Beneficial Owner" means a purchaser acquiring a beneficial interest in the Subscription Receipts.

"Subscription Receipt Certificates" means the certificates representing the Subscription Receipts.

"Subscription Receipts" means the subscription receipts offered hereby.

"subsidiary" has the meaning ascribed thereto in the ABCA and, for greater certainty, includes all corporations, partnerships and trusts owned, controlled or directed, directly or indirectly, by us.

"Sugarkane Field" means the Sugarkane natural gas and condensate field within the Eagle Ford and includes the two contiguous fields designated by the Railroad Commission of Texas as the Sugarkane and Eagleville Fields.

"Supplemental Oil and Gas Disclosures" has the meaning ascribed thereto under *"Documents Incorporated by Reference"*.

"Tax Act" means the *Income Tax Act* (Canada), as amended, including the regulations promulgated thereunder.

"Termination Time" has the meaning ascribed thereto under *"Details of the Offering"*.

"TSX" means the Toronto Stock Exchange.

"Underlying Common Shares" means the Common Shares issuable pursuant to the terms of the Subscription Receipts.

"Underwriters" means, collectively, Scotia and RBC Dominion Securities Inc.

"Underwriting Agreement" means the agreement to be entered into among us and the Underwriters in respect of the Offering.

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"**Undeveloped Reserves**" are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., 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, possible) to which they are assigned. In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to sub-divide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

"**United States**" or "**U.S.**" means the United States, as defined in Rule 902(l) under Regulation S under the United States Securities Act of 1933, as amended.

"**U.S. GAAP**" means United States generally accepted accounting principles.

"**WI**" means working interest, an interest in an oil and gas lease that gives the owner the right to drill and produce oil and gas on the leased acreage.

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

CONVERSIONS

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

To Convert From	To	Multiply By
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
Bbls	cubic metres	0.159
cubic metres	Bbls	6.289
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	0.950
MMbtu	gigajoules	1.0526

ABBREVIATIONS**Oil and Natural Gas Liquids**

Bbl	barrel
Bbls	barrels
Bbls/d	barrels per day
Mbbls	thousand barrels
MMbbls	million barrels
Mstb	thousand stock tank barrels of oil
NGLs	natural gas liquids

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
MMbtu	million British Thermal Units
GJ	Gigajoule

Other

AECO	the natural gas storage facility located at Suffield, Alberta, connected to TransCanada's Alberta System
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale
BOE or Boe	barrel or barrels of oil equivalent, using the conversion factor of six Mcf of natural gas being equivalent to one barrel of oil
Boe/d	barrels of oil equivalent per day
m ³	cubic metres
MBoe	thousand barrels of oil equivalent
Mcf	thousand cubic feet of gas equivalent, using the conversion factor of 1 barrel of oil being equivalent to 6 Mcf of natural gas
MMMBoe	million barrels of oil equivalent
RLI	reserve life index
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for the crude oil standard grade
WCS	Western Canadian Select heavy oil reference price
\$000s	thousands of dollars
\$MM	millions of dollars

CONVENTIONS

Certain terms used herein are defined in the "*Selected Definitions*". Certain other terms used herein but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101. All financial information herein has been presented in Canadian dollars in accordance with GAAP, except where otherwise indicated. References to "\$" or "CDN\$" are to Canadian dollars, references to "U.S.\$" are to United States dollars and references to "A\$" are to Australian dollars.

OIL AND GAS EQUIVALENCY

The term "Boe" means a barrel of oil equivalent on the basis of 6 Mcf of natural gas to 1 Bbl of oil. The term "Mcf" means a thousand cubic feet of gas equivalent on the basis of 1 Bbl of oil to 6 Mcf of natural gas. Boes and Mcfs may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 Mcf: 1 Bbl or an Mcf conversion ratio of 1 Bbl: 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf: 1Bbl, utilizing a conversion ratio at 6 Mcf: 1 Bbl may be misleading as an indication of value.

NON-GAAP FINANCIAL MEASURES

In this short form prospectus and the documents incorporated by reference herein, we refer to certain financial measures (such as funds from operations, payout ratio, total monetary debt, net debt and operating netback) which do not have any standardized meaning prescribed by Canadian GAAP and are considered non-GAAP measures. While funds from operations, payout ratio and operating netback are commonly used in the oil and gas industry, our determination of these measures may not be comparable with calculations of similar measures for other issuers.

Funds from Operations

We define funds from operations as cash flow from operating activities adjusted for financing costs, changes in non-cash operating working capital and other operating items. We believe that this measure assists in providing a more complete understanding of certain aspects of our results of operations and financial performance, including our ability to generate the cash flow necessary to fund future dividends to shareholders and capital investments.

Funds from operations as used herein, as it relates to Aurora, means funds provided by operating activities before changes in non-cash working capital. We consider it a key measure as it demonstrates the ability of the business to generate the cash flow necessary to fund future growth through capital investment.

However, funds from operations should not be construed as an alternative to traditional performance measures determined in accordance with Canadian GAAP or U.S. GAAP, such as cash flow from operating activities and net income. Please refer to our most recent management's discussion and analysis of financial condition and results of operations, which is incorporated by reference herein, for a reconciliation of funds from operations to cash flow from operating activities.

Payout Ratio

We define payout ratio as cash dividends (net of participation in our dividend reinvestment plan) divided by funds from operations. We believe that this measure assists in providing a more complete understanding of certain aspects of our results of operations and financial performance, including our ability to generate the cash flow necessary to fund future dividends to shareholders and capital investments.

Total Monetary Debt and Net Debt

We define total monetary debt as the sum of monetary working capital, being current assets less current liabilities (excluding non-cash items such as unrealized gains or losses on financial derivatives), the principal amount of long-term debt and long-term bank loan. We believe that this measure assists in providing a more complete understanding of our cash liabilities.

Operating Netback

We define operating netback as product revenue less royalties, production and operating expenses and transportation expenses divided by barrels of oil equivalent sales volume for the applicable period. We believe that this measure assists in characterizing our ability to generate cash margin on a unit of production basis. Aurora defines operating netback as revenue from production less royalties, production taxes, gathering and transportation costs, facility maintenance and operated costs calculated on a Boe basis.

ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS OR COMPANIES

Mary Ellen Peters, one of our directors, resides outside of Canada. Ms. Peters has appointed Burnet, Duckworth & Palmer LLP, Suite 2400, 525 - 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1G1, as her agent for service of process. In addition, all or some of the designated professionals of BDO Audit (WA) Pty Ltd., Aurora's external auditor and Ryder Scott Company, L.P., Aurora's independent qualified reserves evaluator are incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or reside outside of Canada. BDO Audit (WA) Pty Ltd. has appointed BDO Canada LLP, Suite 600, 36 Toronto Street, Toronto, Ontario M5C 2C5 as its agent for service of process. Ryder Scott Company, L.P. has appointed Ryder Scott Canada at Suite 600, 1015 4th St. S.W., Calgary, Alberta, Canada T2R 1J4 as its agent for service of process. It may not be possible for you to enforce judgments obtained in Canada against a person that resides outside of Canada, even if the party has appointed an agent for service of process.

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against a person that resides outside of Canada, even if the party has appointed an agent for service of process.

We are a corporation formed under, and governed by, the laws of the Province of Alberta, Canada and our principal place of business is in Canada. Substantially all of our directors and officers and the experts named in this short form prospectus are residents of Canada or otherwise reside outside of the United States, and all or a substantial portion of their assets and our assets 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 those directors, officers and experts who are not residents of the United States or to enforce against them judgments of 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.

We have been advised by our Canadian counsel, Burnet, Duckworth & Palmer LLP, that there is substantial doubt whether an action could be brought in Canada in the first instance on the basis of liability predicated solely upon United States federal securities laws. We have appointed Baytex Energy USA Ltd., 600 - 17th Street, Suite 1600 S, Denver, CO 80202, as our agent in the United States upon which service of process against us may be made in any action based on this short form prospectus.

We filed with the SEC, concurrently with our registration statement on Form F-10 of which this short form prospectus forms a part, an appointment of agent for service of process on Form F-X. Under the Form F-X, we appointed Baytex Energy USA Ltd. as our agent for service of process in the United States in connection with any investigation or administrative proceeding conducted by the SEC, and any civil suit or action brought against or involving us in a United States court arising out of or related to or concerning the offering of debt securities under this short form prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated, or deemed to be incorporated by reference, into this short form prospectus from documents filed with securities commissions or similar authorities in Canada and with the SEC in the United States. Copies of the documents incorporated herein by reference may be obtained on request without charge from our Corporate Secretary at Suite 2800, Centennial Place, East Tower, 520 - 3rd Avenue S.W., Calgary, Alberta, Canada, T2P 0R3, Telephone: (587) 952-3000. In addition, copies of the documents incorporated herein by reference may be obtained from the securities commissions or similar authorities in Canada through the SEDAR website at www.sedar.com and in the United States through EDGAR at the SEC's website at www.sec.gov.

Under applicable securities laws in Canada and the United States, the Canadian securities commissions and the SEC allow us to incorporate by reference certain information that we file with them, which means that we can disclose important information to you by referring you to those documents. Information that is incorporated by reference is an important part of this short form prospectus. The following documents filed with securities commissions or similar authorities in each of the provinces of Canada and with the SEC in the United States are incorporated by reference into this short form prospectus:

- (a) our annual information form for the year ended December 31, 2012 dated March 25, 2013 (the "**Annual Information Form**");
- (b) our audited consolidated financial statements as at December 31, 2012 and 2011 and for the years then ended, together with the notes thereto and the auditor's report thereon (the "**Annual Financial Statements**");
- (c) our management's discussion and analysis of operating and financial results for the year ended December 31, 2012 (the "**Annual MD&A**");
- (d) the supplemental disclosure of our oil and gas producing activities prepared in accordance with Accounting Standards Codification 932 "Extractive Activities - Oil & Gas" issued by the United States Financial Accounting Standards Board, which was filed on SEDAR under the category "Other" on March 26, 2013 (the "**Supplemental Oil and Gas Disclosures**");
- (e) our Information Circular - Proxy Statement dated April 1, 2013 relating to the annual and special meeting of Shareholders held on May 14, 2013 (the "**Information Circular**");
- (f) our condensed interim unaudited consolidated financial statements as at September 30, 2013 and 2012 and for the nine month periods ended September 30, 2013 and 2012, together with the notes thereto (the "**Interim Financial Statements**");
- (g) our management's discussion and analysis of operating and financial results for the nine month period ended September 30, 2013 (the "**Interim MD&A**");
- (h) the "template version" (as such term is defined in National Instrument 41-101 *General Prospectus Requirements*) of the term sheet for the Offering dated and filed February 6, 2014; and
- (i) our investor presentation for the Offering dated and filed February 6, 2014.

Any documents of the type described in Section 11.1 of Form 44-101F1 *Short Form Prospectus* promulgated under National Instrument 44-101 *Short Form Prospectus Distributions* (including, without limitation, any annual information form, audited consolidated financial statements, together with the auditor's report thereon, and related management's discussion and analysis, information circular, material change reports, marketing materials, business acquisition reports and condensed interim unaudited consolidated financial statements and related management's discussion and analysis) subsequently filed by us with the securities commissions or similar regulatory authorities in the relevant provinces of Canada after the date of this short form prospectus and prior to the termination of the Offering shall be deemed to be incorporated by reference herein in this short form prospectus. In addition, any similar documents filed by us with the SEC in our periodic reports on Form 6-K or annual reports on Form 40-F and any other documents filed with or furnished to the SEC pursuant to Section 13(a), 13(c) or 15(d) of the Exchange Act, in each case after the date of this short form prospectus and prior to the termination of the Offering, shall be deemed to be

incorporated by reference into

this short form prospectus and the registration statement of which this short form prospectus forms a part. To the extent that any document or information incorporated by reference into this short form prospectus is included in a report that is filed with or furnished to the SEC on Form 40-F, 20-F, 10-K, 10-Q, 8-K or 6-K (or any respective successor form), such document or information shall also be deemed to be incorporated by reference as an exhibit to the registration statement of which this short form prospectus forms a part.

Any statement contained in this short form prospectus or in a document (or part of a document) incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded to the extent that a statement contained in this short form prospectus or in a document (or part of a document) incorporated or deemed to be incorporated by reference herein (or in any other subsequently filed document which also is or is deemed to be incorporated by reference) modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement is not to be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to be incorporated by reference into or to constitute a part of this short form prospectus.

MARKETING MATERIALS

Any "template version" of any "marketing materials" (as such terms are defined under applicable Canadian securities laws) that are utilized by the Underwriters in connection with the Offering are not part of this short form prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this short form prospectus. Any template version of any marketing material that has been, or will be, filed on SEDAR before the termination of the distribution under the Offering (including any amendments to, or an amended version of, any template version of any marketing materials) is deemed to be incorporated into this short form prospectus.

FORWARD-LOOKING STATEMENTS

In the interest of providing shareholders and potential investors with information regarding Baytex and Aurora, including management's assessment of future plans and operations, certain statements made in this short form prospectus and the documents incorporated by reference are "forward-looking statements" within the meaning of Section 27A of the *United States Securities Act of 1933*, as amended, Section 2 of the *Exchange Act* 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 short form prospectus speak only as of the date thereof and are expressly qualified by this cautionary statement.

Specifically, this short form prospectus contains forward-looking statements relating to, but not limited to: our plans to increase our dividend upon completion of the Acquisition; the anticipated benefits from the Acquisition, including our belief that the Acquisition will be an excellent fit with our business model and will provide shareholders with exposure to a low-risk, repeatable, high-return asset with leading capital efficiencies; our beliefs that the assets acquired as part of the Acquisition will provide material production, long-term growth and high quality reserves with upside potential; our expectations and anticipated timing of receipt of positive cash flow from the acquired assets; our expectations regarding the effect of well downspacing, improving completion techniques and new development targets on the reserves potential of the acquired assets; forecasted production and production mix following completion of the Acquisition; anticipated effect of the Acquisition on us, including in respect of reserves, production and funds from operations; Aurora's forecasted production and production growth for 2014; pro forma production, reserves, funds from operations, operating netbacks, liquidity, bank debt, working capital and debt to funds from our operation following completion of the Acquisition; average estimated reserves per well from Aurora's wells on the acquired assets; accretive, operating

and financial metrics and the strategic rationale for the Acquisition; drilling plans, including number of wells planned for 2014 on the acquired assets; expectations regarding the Acquisition and the Offering, including anticipated timing of mailing of the scheme booklet to Aurora shareholders, timing of completion of the Acquisition and the Offering, and approvals required for the Acquisition; and the terms of the Subscription Receipts. In addition, information and statements relating to resources and reserves are deemed to be forward-looking statements, as they involve implied assessment, based on certain estimates and assumptions, that the resources or reserves, as applicable, described exist in quantities predicted or estimated, and that the reserves can be profitably produced in the future. Cash dividends on our Common Shares are paid at the discretion of our Board of Directors and can fluctuate. In establishing the level of cash dividends, our Board of Directors considers all factors that it deems relevant, including, without limitation, the outlook for commodity prices, our operational execution, the amount of funds from operations and capital expenditures and our prevailing financial circumstances at the time. Although we believe that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because we can give no assurance that they will prove to be correct. See "*Special Notes to Reader - Forward-Looking Statements*" in the Annual Information Form, which is incorporated by reference into this short form prospectus and which is available on the SEDAR website at www.sedar.com and through EDGAR at the SEC's website at www.sec.gov for further information with respect to forward-looking statements.

The forward-looking statements contained in this short form prospectus are based on certain key assumptions regarding, among other things: the receipt of regulatory, shareholder and other approvals for the Acquisition; our ability to execute and realize on the anticipated benefits of the Acquisition; timing of closing and regulatory approvals for the Offering; petroleum and natural gas prices and pricing differentials between light, medium and heavy gravity crude oil; 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; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; our ability to develop our crude oil and natural gas properties and the acquired assets in the manner currently contemplated; current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated; and the estimates of our production and reserves volumes and Aurora's production and reserve volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects. You are cautioned that such assumptions, although considered reasonable by us at the time of preparation, may prove to be incorrect.

Actual results achieved during the forecast period will vary from the information provided in this short form prospectus and in the documents incorporated by reference herein, respectively, as a result of numerous known and unknown risks and uncertainties and other factors which are discussed in this short form prospectus and in the documents incorporated herein by reference. Such factors include, but are not limited to: the Acquisition may not be completed on the terms contemplated or at all; failure to realize the anticipated benefits of the Acquisition; closing of the Offering and/or the Acquisition could be delayed or not completed if we are not able to obtain the necessary stock exchange, shareholder and regulatory approvals or any other approvals required for completion or, unless waived, some other condition to closing is not satisfied; declines in oil and natural gas prices; variations in interest rates and foreign exchange rates; uncertainties in the credit markets; 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; closing of the Offering and/or the Acquisition could be delayed or not completed if we are not able to obtain the necessary stock exchange approvals or any other approvals required for completion or, unless waived, some other condition to the closing is not satisfied; and other factors, many of which are beyond our control. Statements relating to "reserves" and "contingent resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and contingent resources described exist in the quantities predicted or estimated, and can be profitably produced in the future.

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. Further information regarding these factors may be found under the heading "*Risk Factors*" in this short form prospectus and under the heading "*Risk Factors*" in the Annual Information Form.

We do 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 short form prospectus and in certain documents incorporated by reference into this short form prospectus are expressly qualified by this cautionary statement. Information on, or connected to our website, even if referred to in a document incorporated by reference, does not constitute part of this short form prospectus.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form F-10 relating to the Subscription Receipts, of which this short form prospectus forms a part. This short form prospectus does not contain all of the information contained in the registration statement, certain items of which are contained in the exhibits to the registration statement as permitted by the rules and regulations of the SEC. For further information about us and the Subscription Receipts, please refer to the registration statement.

We are subject to the information requirements of the Exchange Act and applicable Canadian securities legislation, and in accordance with those requirements, we file and furnish reports and other information with the SEC and with the securities regulatory authorities of the provinces of Canada. Under the multi-jurisdictional disclosure system adopted by the United States and Canada, we generally may prepare these reports and other information in accordance with the disclosure requirements of Canada. These requirements are different from those of the United States. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers and directors and our Shareholders holding 10% or more of our Common Shares are exempt from the beneficial ownership reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

The reports and other information filed and furnished by us with the SEC may be read and copied at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Copies of the same documents can also be obtained from the public reference room of the SEC in Washington by paying a fee. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a website at www.sec.gov that makes available reports and other information that we file electronically with it, including the registration statement that we have filed with respect to this Offering.

Copies of reports, statements and other information that we file with the Canadian provincial securities regulatory authorities are electronically available through the SEDAR website at www.sedar.com.

EXCHANGE RATES

The financial statements incorporated by reference herein are in Canadian dollars, unless otherwise indicated. The following tables set forth: (i) the rates of exchange for Canadian dollars, expressed in United States dollars in effect at the end of each of the periods indicated; and (ii) the average of exchange rates in effect on the last day of each month during such period, in each case based on the noon buying rate in the City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York for United States Dollars.

United States Dollars

	Nine Months Ended		Year Ended December 31,		
	September 30,		2013	2012	2011
Average for the Period ⁽¹⁾	\$	0.9769	\$ 0.9708	\$ 1.0008	\$ 1.0151
End of Period	\$	0.9723	\$ 0.9402	\$ 1.0051	\$ 0.9833

Note:

(1)

Determined by averaging the rates on the last business day of each month during the respective period.

On February 5, 2014, the rate of exchange for the Canadian dollar, expressed in United States dollars, based on the Bank of Canada noon rate for United States dollars, was CDN.\$1.00=U.S.\$0.9008.

RISK FACTORS

An investment in the Subscription Receipts, including the Underlying Common Shares, is subject to a number of risks. In addition to the risk factors set forth below, additional risk factors relating to our business are discussed in our Annual Information Form, our Annual MD&A and certain other documents incorporated by reference or deemed to be incorporated by reference herein, which risk factors are incorporated herein by reference. Prospective purchasers of the Subscription Receipts should consider carefully the risk factors set forth below, as well as the other information contained in and incorporated by reference in this short form prospectus before purchasing the Subscription Receipts. If any event arising from these risks occurs, our business, prospects, financial condition, results of operations or cash flows, or your investment in the Subscription Receipts could be materially adversely affected.

Forward Looking Statements May Prove Inaccurate

Purchasers are cautioned not to place undue reliance on forward looking statements. By their nature, forward looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Risks Relating to the Offering

There is currently no public market for the Subscription Receipts and there can be no assurance that an active trading market will develop.

There is currently no market through which the Subscription Receipts may be sold and there is no guarantee that an active trading market will develop. Accordingly, purchasers may not be able to resell the Subscription Receipts distributed under this short form prospectus. This may affect the pricing of the Subscription Receipts in the secondary market, the transparency and the availability of trading prices and the liquidity of the securities. There can be no assurance that an active trading market will develop for the Subscription Receipts after the Offering, or if developed, that such a market will be sustained at the price level of the Offering.

If the Escrow Condition is not satisfied on or prior to the Termination Time, the Subscription Receipts will not be exchanged into Common Shares.

The Subscription Receipts will be exchanged for Common Shares upon the satisfaction of the Escrow Condition. We may, in our sole discretion, waive certain closing conditions in our favor in the Implementation Agreement or agree with Aurora to amend the Implementation Agreement and consummate the Acquisition on terms that may be substantially different from those contemplated in this short form prospectus. Other events, many of which are beyond our control including the acceptance of a superior proposal by Aurora, could result in termination of the Implementation Agreement prior to the Termination Time. If the Acquisition is not completed by the Termination Time, or if we advise the Underwriters or announce to the public that we do not intend to proceed with the Acquisition, or if the Implementation Agreement has been terminated in accordance with its terms, holders of Subscription Receipts shall receive an amount equal to the full subscription price attributable to the Subscription Receipts and their *pro rata* entitlement to interest accrued on such amount. As a result, the expected benefits of the Acquisition may not be fully realized. See "*Recent Developments – The Acquisition*" and "*About Aurora*". There can be no assurance that the Escrow Condition will be satisfied on or prior to the Termination Time. Until the Escrow Condition is satisfied and the Common Shares are delivered pursuant to the Subscription Receipt Agreement, holders of Subscription Receipts have the rights described under "*Details of the Offering*".

There can be no assurance that the Acquisition will close after the conditions for the release of the Escrowed Funds have been satisfied.

The Escrowed Funds will be held by the Escrow Agent, and invested in short-term obligations of, or guaranteed by, the Government of Canada (or other approved investments) pending delivery by us to the

Underwriters of a certificate on the third Business Day prior to the anticipated Effective Date to the effect that the Escrow Condition has been satisfied. Upon satisfaction of the Escrow Condition prior to the Termination Time, the Escrowed Funds will be released to us to enable us to convert these funds to Australian dollars and complete the Acquisition. Although we have been advised by our Australian counsel that the Acquisition is unconditional once the Final Order has been filed with the ASIC, there is a possibility that the Acquisition is not completed by the Termination Time. As a result, the expected benefits of the Acquisition may not be fully realized. See "*Recent Developments - The Acquisition*" and "*About Aurora*".

Risks Relating to the Acquisition

We may not complete the Acquisition on the terms negotiated or at all.

The Acquisition is subject to satisfaction of the conditions described herein and normal commercial risk that the Acquisition may not be completed on the terms negotiated or at all. This could result from events which are beyond our control, including the acceptance of a superior proposal by Aurora. If closing of the Acquisition does not take place by the Termination Time, we will repay to holders of Subscription Receipts, commencing on or before the second Business Day following the Termination Time, an amount equal to the issue price of the Subscription Receipts plus a *pro rata* share of the interest earned on the Escrowed Funds. In that case, the total return that a purchaser of Subscription Receipts would be entitled to receive would be limited to the purchaser's *pro rata* share of interest earned on the subscription price for such purchaser's Subscription Receipts. The purchaser would not be entitled to participate in any growth in the trading price of our Common Shares. Further, the purchaser would be restricted from using the funds devoted to the acquisition of the Subscription Receipts for any other investment opportunities until the Escrowed Funds are returned to the purchaser. See "*Recent Developments - The Acquisition*", "*About Aurora*" and "*Risk Factors - Use of Proceeds*".

It is possible that we will fail to realize the anticipated benefits of the Acquisition.

We are proposing to complete the Acquisition to strengthen our position in the oil and natural gas industry and to create the opportunity to realize certain benefits. Achieving the benefits of the Acquisition depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as our ability to realize the anticipated growth opportunities and synergies from integrating the Aurora Assets into our existing portfolio of properties. The integration of the Aurora Assets requires the dedication of substantial management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect our ability to achieve the anticipated benefits of the Acquisition.

There may be potential undisclosed liabilities associated with the Acquisition.

In connection with the Acquisition, there may be liabilities that we failed to discover or were unable to quantify in our due diligence (which we conducted prior to the execution of the Implementation Agreement). The representations, warranties and indemnities contained in the Implementation Agreement are limited and our ability to seek remedies for breach of such provisions following completion of the Acquisition will be limited.

Acquisitions require engineering, title, environmental and economic assessments that may be materially incorrect.

Acquisitions of oil and gas properties or companies are based in large part on engineering, environmental and economic assessments made by the acquiror, independent engineers and consultants. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and 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, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated or unanticipated difficulty in obtaining required permits.

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Aurora typically has not incurred the expense of a title examination prior to ordinary course acquisitions by its operator of oil and natural gas leases or undivided interests in oil and natural gas leases or other developed rights. In addition, its practice has been to not to incur the expense of retaining lawyers to examine the title to the mineral interest to be acquired. Instead, it has relied upon the judgment of oil and natural gas lease brokers or landmen to perform the fieldwork in examining records in the appropriate governmental or county clerk's office before attempting to acquire a lease or other developed rights in a specific mineral interest.

Prior to drilling an oil or natural gas well, however, it is the normal practice in the oil and natural gas industry for the person or company acting as the operator of the well to obtain a preliminary title review of the spacing unit within which the proposed oil or natural gas well is to be drilled to ensure there are no obvious deficiencies in title to the well. Frequently, as a result of such examinations, certain curative work must be done to correct deficiencies in the marketability of the title, such as obtaining affidavits of heirship or causing an estate to be administered. Such curative work entails expense, and the operator may elect to proceed with a well despite defects to the title identified in the preliminary title opinion.

Aurora's failure to obtain perfect title to its leaseholds may adversely affect the production and reserves associated with the Aurora Assets and our ability in the future to increase production and reserves. Although select title and environmental reviews were conducted by us in connection with the Acquisition, this review cannot guarantee that any unforeseen defects in the chain of title will not arise to defeat our title to certain assets or that environmental defects, liabilities or deficiencies do not exist or are greater than anticipated.

We will not be the operator of a substantial majority of the drilling locations in Aurora's acreage following completion of the Acquisition, and, therefore, we will not be able to control the timing of development, associated costs, or the rate of production on that non-operated acreage.

All of Aurora's current AMIs in the Sugarkane Field are operated by Marathon and we will be reliant upon Marathon to successfully operate the Sugarkane Field AMIs. Marathon will make decisions based on its own best interests and the collective best interests of all of the owners of WIs in the Sugarkane Field in connection with their operation (subject to its contractual and legal obligations to other owners of WIs), which may not be in our best interests. If we are not willing or are unable to fund our capital expenditure requirements relating to our drilling locations when required by our single operator, our interests in our drilling locations may be diluted or forfeited.

As a substantial majority of Aurora's acreage is operated by Marathon, we expect that we will not be the operator of the identified gross and net drilling locations in the Aurora Reserves Reports. As we carry out our exploration and development programs with respect to the Aurora Assets, we may enter into additional arrangements with respect to existing or future drilling locations that result in additional locations being operated by others. As a result, we may have virtually no ability to exercise influence over the operational decisions of the operator, including the setting of capital expenditure budgets and drilling locations and schedules. Dependence on the operator could prevent us from realizing our target returns of those locations. The success and timing of development activities operated by our partners will depend on a number of factors that will largely be outside of our control, including:

the timing and amount of capital expenditures;

the operator's expertise and financial resources;

approval of other participants in drilling wells;

selection of technology; and

the rate of production of reserves, if any.

Following completion of the Acquisition, we could experience periods of higher capital and operating costs as activity in the Eagle Ford accelerates or if commodity prices rise. These increases could reduce our profitability, cash flow and ability to complete development activities as scheduled and on budget.

Industry activity in the Eagle Ford has accelerated since late 2008 when only a few rigs were operating. As activity in the Eagle Ford region increases, competition for equipment, labour and supplies is also expected to

increase. In addition, capital and operating costs in the oil and gas industry have generally risen during periods of increasing commodity prices as producers seek to ramp-up production in order to capitalize on higher commodity prices. In situations where cost inflation exceeds price inflation, our profitability, cash flow and ability to complete development activities as scheduled and on budget may be negatively impacted.

In addition to rising costs, increasing activity in the Eagle Ford and the oil and gas industry in general may impact the availability of necessary equipment, including drilling equipment. As activity increases, so does demand for equipment, which may lengthen the lead time for obtaining the equipment or, in the most extreme cases, make obtaining the equipment unavailable at a cost we are able or willing to pay.

Availability of adequate transportation arrangements with third parties may increase operating costs.

For the transportation and relocation of Aurora's hydraulic fracturing equipment, sand and chemicals, it currently relies predominantly on truck transportation services operated by third parties. Truck carriers are subject to regulation as motor carriers by the U.S. Department of Transportation ("DOT") and by various state agencies, whose regulations include certain permit requirements of state highway and safety authorities. Increased costs of trucking services for the transport of hydraulic fracturing equipment, sand and chemicals would result in increased transportation expenses, which would negatively affect our results of operations.

A large proportion of the total estimated proved and probable reserves attributable to the Aurora Assets at December 31, 2013 were undeveloped. These reserves may not ultimately be developed.

At December 31, 2013, approximately 79% of the total estimated proved reserves, and substantially all of the probable reserves, attributable to the Aurora Assets as set forth in the Aurora 2013 Reserves Report, were undeveloped. Recovery of undeveloped reserves requires successful drilling and incurrence of significant capital expenditures. The Aurora Reserve Reports assume that these expenditures can and will be made and that these operations will be conducted successfully. These assumptions, however, may not prove correct. If we choose not to spend the capital to develop these reserves, or if we are not otherwise able to successfully develop these reserves, we will be required to write them off. Any such write-offs of these reserves could reduce our ability to borrow and adversely affect our liquidity. In addition, to the extent we do not operate these undeveloped properties, we will be subject to operational decisions of the operator that we may have a limited ability to influence in respect of the development of these reserves on any particular schedule, or at all.

Expiration of licenses and leases will have a negative effect on our business operations.

The properties comprising the Aurora Assets are held in the form of licenses and leases and WIs 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 to bring the acreage into production or otherwise, 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 such licenses or leases or the WIs relating to a license or lease may have a material adverse effect on our business, financial condition, results of operations and prospects.

A change in the jurisdictional characterization of some of the Aurora Assets by federal, state or local regulatory agencies or a change in policy by those agencies may result in increased regulation of the Aurora Assets, which may cause our revenues to decline and operating expenses to increase.

Section 1(b) of the *Natural Gas Act of 1938* (the "**Natural Gas Act**") exempts natural gas gathering facilities from regulation by the Federal Energy Regulatory Commission ("**FERC**") under that statute. Aurora believes that the gathering systems it operates meet the traditional tests FERC has used to establish a pipeline's status as a gathering. However, the distinction between FERC-regulated transmission pipelines and unregulated gathering services is the subject of ongoing litigation and may be determined by FERC on a case-by-case basis. Consequently, the classification and regulation of Aurora's gathering facilities are subject to change based on future determinations by FERC, the courts or the U.S. Congress ("**Congress**").

While Aurora's natural gas gathering pipelines are currently exempt from FERC regulation under the Natural Gas Act, we may be subject to certain FERC reporting requirements. Other FERC regulations may indirectly affect our businesses and the markets for products derived from these businesses, including, for

example, FERC's requirements as to access transportation, natural gas quality, ratemaking, capacity release and market center promotion. A change in these requirements may affect our financial condition and results of operations.

Regulation of sales and transportation may impact the marketing of production from the Aurora Assets.

The sales prices of oil, natural gas liquids, and natural gas are presently not regulated, but rather are set by the market. We cannot predict, however, whether new legislation to regulate the price of energy commodities might be proposed, what proposals, if any, might actually be enacted by the U.S. Congress or the various state legislatures and what effect, if any, such proposals might have on the operations of the underlying properties.

The FERC regulates rates and service conditions for the transportation of natural gas in interstate commerce, which affects the marketing of natural gas we produce, as well as the revenues we receive for sales of such production. The FERC exercises its ratemaking authority by applying cost-of-service principles, allowing for the negotiation of rates where there is a cost-based alternative rate or granting market-based rates in certain circumstances, typically with respect to storage services. The FERC has also undertaken various initiatives to increase competition in the natural gas industry, which may indirectly affect our businesses and the markets for products derived from these businesses. These policies include regulations on open access transportation, natural gas quality, capacity release and market center promotion. We may be also indirectly subject to certain reporting requirements of the FERC based on the sale of gas from producing properties in which we have interest.

The prices and terms of access to intrastate pipeline transportation are subject to state regulation. The FERC and, to a lesser extent, the Railroad Commission of Texas have proposed and implemented new rules and regulations affecting gas transportation in recent years. We do not believe that we will be affected by any such rules or changes to existing rules in a manner materially different than any other similarly situated natural gas producer.

Rates and service conditions for the interstate transportation of oil and natural gas liquids are regulated by the FERC. In general, these rates must be cost-based or based on rates in effect in 1992, although the FERC has established an indexing system for such transportation rates that allows pipelines to take an annual inflation-based rate increase. Shippers may, however, contest rates that do not reflect costs of service. The FERC has also established market-based rates and settlement rates as alternative forms of ratemaking in certain circumstances. We cannot predict with any certainty what effect, if any, these regulations will have, but other factors being equal, the regulations may, over time tend to increase transportation costs which may have the effect of reducing net prices for oil and natural gas liquids.

Sales of oil and natural gas, and any hedging activities related to such energy commodities, expose us to potential regulatory risks.

The FERC, the Federal Trade Commission ("FTC") and the Commodity Futures Trading Commission ("CFTC") hold statutory authority to monitor certain segments of the physical and future energy commodities and derivatives markets relevant to the Aurora Assets. These agencies have issued broad regulations prohibiting fraud and manipulation in such markets. With regard to physical sales of oil and natural gas, any hedging activities related to these energy commodities and certain other activities, we will be required to observe the market-related regulations issued by these agencies, which hold substantial enforcement authority. Failure to comply with such regulations, as interpreted and enforced, could expose us to enforcement actions and penalties and thus materially and adversely affect our financial condition and results of operations.

Under the Natural Gas Act, as amended by the Domenici-Barton Energy Policy Act of 2005, the FERC is authorized to impose civil penalties of up to U.S.\$1 million per day for each violation of the Natural Gas Act and the FERC's regulations thereunder, including market-related regulations. The FERC may also order disgorgement of profits associated with any violation. The FTC is authorized to seek the judicial imposition of penalties of up to U.S.\$1 million per day for each violation of such law and its implementing regulations. The CFTC also has statutory authority to assess fines of up to U.S.\$1 million for violations of the Commodity Exchange Act and its anti-market manipulation regulations.

We may be subject to new pipeline safety laws and regulations.

The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2012, which President Obama signed into law on January 3, 2012, increases penalties for safety violations, establishes additional safety requirements for newly constructed pipelines, and requires studies of certain safety issues, such as the exemption of gathering systems from integrity management programs. These studies could result in the adoption of new regulatory requirements for existing pipelines, including gathering systems. DOT, through the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration ("**PHMSA**") has also published an advanced notice of proposed rulemaking to solicit comments on the need for changes to its safety regulations, including whether to revise the integrity management requirements and add new regulations governing the safety of gathering lines. We cannot predict the effect of new regulatory initiatives on us or the Aurora Assets. Penalties for safety violations and potential regulatory changes could have a material effect on our operations, operating expenses, and revenues.

Certain federal income tax deductions currently available with respect to oil and natural gas development and exploration may be eliminated as a result of future legislation.

President Obama's budget proposal for the fiscal year 2014 recommended the elimination of certain key U.S. federal income tax preferences currently available to oil and natural gas exploration and production companies. These changes include, but are not limited to: (i) the repeal of the percentage depletion allowance for oil and natural gas properties; (ii) the elimination of current deductions for intangible drilling and development costs; (iii) the elimination of the deduction for certain U.S. production activities for oil and gas production; and (iv) an extension of the amortization period for certain geological and geophysical expenditures.

It is unclear whether any such changes will actually be enacted or, if enacted, how soon any such changes could become effective. The passage of any legislation as a result of the budget proposal or any other similar change in U.S. federal income tax law could materially affect certain tax deductions that are currently available with respect to oil and natural gas exploration and production and materially affect the economic return from the development of reserves attributed to the Aurora Assets.

The recent adoption of derivatives legislation by Congress could have an adverse effect on our ability to use derivative instruments to reduce the effect of commodity price, interest rate and other risks associated with the Aurora Assets.

Congress recently adopted comprehensive financial reform legislation that establishes federal oversight and regulation of the over-the-counter derivatives market and entities that participate in that market. This legislation, known as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), was signed into law by President Obama on July 21, 2010 and requires the CFTC and the SEC to promulgate rules and regulations implementing the new legislation. In its rulemaking under the Dodd-Frank Act, the CFTC has proposed regulations to set position limits for certain futures and option contracts in the major energy markets and for swaps that are their economic equivalents. Certain bona fide hedging transactions or positions would be exempt from these position limits. It is not possible at this time to predict when the CFTC will finalize these regulations. The financial reform legislation may also require us to comply with margin requirements and with certain clearing and trade execution requirements in connection with any future derivative activities, although the application of those provisions to us is uncertain at this time. The financial reform legislation may also require certain of our counterparties to any future derivative instruments to spin off some of their derivatives activities to a separate entity, which may not be as creditworthy as the current counterparty. The new legislation and any new regulations could significantly increase the cost of derivative contracts (including through requirements to post collateral which could adversely affect our available liquidity) and trigger changes in the terms and availability of derivatives to protect against risks we may encounter. If we reduce our use of derivatives with respect to the Aurora Assets as a result of the legislation and regulations, our results of operations may become more volatile and our cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures on the Aurora Assets. Any of these consequences could have a material adverse effect on us, our financial condition and the results of our operations.

Federal and state legislation and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays.

Hydraulic fracturing is an important and common practice that is used to stimulate production of hydrocarbons from tight geological formations. We routinely utilize hydraulic fracturing techniques in many of our drilling and completion programs. At present, the hydraulic fracturing process in the United States is typically regulated by state oil and gas commissions. However, the EPA has asserted federal regulatory authority over certain hydraulic fracturing activities involving diesel fuel under the Safe Drinking Water Act's (the "SDWA") Underground Injection Control Program and, in May 2012, issued a draft permitting guidance document addressing the performance of hydraulic fracturing activities using diesel fuel. The EPA has commenced a study of the potential environmental effects of hydraulic fracturing activities and issued a progress report in December 2012, with a draft final report expected to be available this year for public comment and peer review. In October 2011, the EPA announced its intention to propose federal Clean Water Act regulations by 2014 governing wastewater discharges from hydraulic fracturing and certain other natural gas operations. In addition, in November 2011, the EPA announced that it would require record-keeping and reporting of the chemicals used by oil and natural gas exploration and production companies in hydraulic fracturing, which is intended to provide transparency with regard to the use of chemicals in hydraulic fracturing. Moreover, in May 2013, the Bureau of Land Management issued a proposed rule that would require public disclosure of chemicals used in hydraulic fracturing operations, and impose other operational requirements for all hydraulic fracturing operations on federal lands, including Native American trust lands.

Also, the White House Council on Environmental Quality is coordinating an administration-wide review of hydraulic fracturing practices and a committee of the U.S. House of Representatives has conducted an investigation of hydraulic fracturing practices. Public interest in hydraulic fracturing and initiatives by environmental groups may also increase regulatory scrutiny and regulation. The results of government studies or heightened public interest could spur additional initiatives to regulate hydraulic fracturing under the SDWA or otherwise.

Congress has from time to time considered legislation to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the fracturing process. In addition, some states in the U.S. have adopted, and other states are considering adopting, regulations that could impose more stringent permitting, disclosure and well construction, completion and operating requirements on hydraulic fracturing operations, including the states in which Aurora operates the Aurora Assets. For example, Texas requires the disclosure of information regarding the substances used in the hydraulic fracturing process to the Railroad Commission of Texas (the entity that regulates oil and natural gas production in Texas) and to the public. In addition, some local governments, including some found in Texas, have adopted ordinances within their jurisdictions regulating the time, place and manner of drilling activities in ground or hydraulic fracturing activities in general. The disclosure of information regarding the constituents of hydraulic fracturing fluids could make it easier for third parties opposing the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect the environment, including groundwater, soil or surface water. In addition, disclosure of our proprietary chemical formulas or disclosure of any chemicals used in such formulas to the public could diminish the value of those formulas to us and result in fewer innovations or reduced access to new technology. If new laws, regulations or ordinances that significantly restrict hydraulic fracturing are adopted, such laws could make it more difficult or costly for us to perform fracturing to stimulate production from tight formations on the Aurora Assets. In addition, if hydraulic fracturing becomes regulated at the federal level as a result of new federal legislation or regulatory initiatives by the EPA, our fracturing activities on the Aurora Assets could become subject to additional permitting requirements, and also to attendant permitting delays and cost increases. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that we are ultimately able to produce from reserves attributed to the Aurora Assets and have an adverse effect on our business, financial condition and results of operations.

Recently issued rules regulating air emissions from oil and natural gas operations could cause us to incur increased capital expenditures and operating costs.

In August 2012, the EPA published final rules that subject oil and natural gas production and natural gas processing operations to regulation under the New Source Performance Standards and National Emission Standards for Hazardous Air Pollutants programs. With regards to production activities, the final rules require, among other things, the reduction of volatile organic compound emission from three subcategories of fractured and re-fractured gas wells for which well completion operations are conducted: wildcat (exploratory) and delineation gas wells; low reservoir pressure non-wildcat and non-delineation gas wells; and all "other" fractured and re-fractured gas wells. All three subcategories of wells must route flow back emissions to a gathering line or be captured and combusted using a combustion device such as a flare. However, the "other" wells used must reduced emission completions, also known as "green completions," with or without combustion devices, after January 1, 2015. These regulations also establish specific new requirements regarding emissions from production-related wet seal and reciprocating compressors, pneumatic controllers, and storage vessels. Compliance with these requirements could increase our costs of development and production and our capital expenditures, which costs and expenditures could be significant and adversely impact our business.

Following the Acquisition, we will have a substantial amount of indebtedness, which may adversely affect our cash flows and ability to operate our business, remain in compliance with the agreements governing our indebtedness and service our debt obligations as they become due.

Our high level of indebtedness following the Acquisition could have important consequences to investors, including the following:

it may make it difficult for us to satisfy our obligations under our indebtedness and contractual and commercial commitments;

it may increase our vulnerability to adverse economic and industry conditions;

it may require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

it may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

it may restrict us from making strategic acquisitions or exploiting business opportunities;

it may place us at a competitive disadvantage compared to our competitors that have less debt;

it may limit our ability to borrow additional funds; and

it may decrease our ability to compete effectively or operate successfully under adverse economic and industry conditions.

Subject to the restrictions in the agreements governing our indebtedness, we may incur substantial additional indebtedness (including secured indebtedness) in the future, which may exacerbate the risks described above. In addition, financial covenants in the Aurora Notes may restrict us from freely distributing cash to us from Aurora's operating subsidiaries.

Many of the operational, environmental and reserves risks set forth in the "Risk Factors" section of the Annual Information Form apply to the Aurora Assets.

In addition to the risk factors set forth above, many of the risk factors set forth in the Annual Information Form and in this short form prospectus relating to the oil and natural gas business, environmental and our operations and reserves apply in respect of the Aurora Assets that we are acquiring pursuant to the Acquisition.

SUMMARY DESCRIPTION OF OUR BUSINESS

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 short form prospectus, 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, interest and principal repayments on the Notes and intercompany loans.

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, the New Credit Facilities and the Debenture Indenture, our ability to pay dividends to Shareholders may be restricted. See "*Description of Common Shares Dividend Policy*".

For a description of us and the general development of our business over the last three completed financial years, see "*Baytex Energy Corp.*", "*General Development of Our Business*" and "*Description of Our Business and Operations*" in the Annual Information Form, which is incorporated by reference herein.

RECENT DEVELOPMENTS

Operational Update

During the fourth quarter of 2013, our transportation operations were hampered by severe winter weather which impacted our ability to deliver crude oil from the field to sales delivery points. As inventory levels reached capacity, production was curtailed by up to 5,000 Bbls/d during the month of December. Based on field estimates, our average production during the fourth quarter of 2013 is estimated at 58,000 Boe/d, which brings full-year 2013 production to approximately 57,100 Boe/d. We drilled 24 gross (23.7 net) operated oil wells in the fourth quarter of 2013, including 11 cold multi-lateral wells at Peace River, the remaining five wells of our 15-well cyclic steam stimulation module at Cliffdale and seven horizontal wells at Lloydminster.

The Acquisition

The Acquisition Agreement

On February 6, 2014 we entered into the Implementation Agreement with Aurora, whereby it is proposed that we, or a wholly-owned subsidiary of us, will acquire all of the issued and outstanding Aurora Shares for A\$4.10 per share for total consideration of approximately CDN\$1.8 billion plus assumed debt of approximately CDN\$744 million for a total transaction value of approximately CDN\$2.6 billion.

With the Acquisition, we will obtain a significant position in the core of the liquids-rich Eagle Ford resource play. The Aurora Assets will provide material production, long-term growth and high quality reserves with upside potential and will provide us with a platform for further potential growth opportunities.

The Acquisition is to be carried out by way of a scheme of arrangement (the "**Scheme of Arrangement**") under Part 5.1 of the Corporations Act, subject to receipt of certain approvals. The Scheme of Arrangement shall be substantially in the form attached to the Implementation Agreement as Annexure 2, subject to any alterations or conditions required by the Australian Court or agreed between us and Aurora. Subject to approval of the Australian Court, the Acquisition must be approved by the Aurora Shareholders at a special meeting of Aurora Shareholders expected to be held in late April/early May 2014. The Acquisition must be approved by (i) at least 75% of the votes cast and (ii) by a majority in number of the Aurora Shareholders who casts votes.

The Aurora Board has unanimously approved the Acquisition and recommended that Aurora Shareholders vote in favour of the Scheme of Arrangement. All of the directors of Aurora controlling approximately 5.5% of the issued and outstanding Aurora Shares have agreed to vote their Aurora Shares in favour of the Acquisition. The Aurora Board's recommendation and stated voting intention are given in the absence of a Superior Proposal (as described below) and subject to an independent expert concluding that the Acquisition is in the best interests of Aurora Shareholders.

Acquisition Consideration

Pursuant to the Scheme of Arrangement, each Aurora Shareholder will receive, for each Aurora Share held, A\$4.10 cash.

Pursuant to the Acquisition Agreement, the parties have agreed to use reasonable endeavours (acting co-operatively and in good faith) to procure that, as soon as practicable, each holder of Aurora Options or Aurora Performance Rights (the "**Unlisted Securities**") enters into an agreement with us and Aurora, in a form acceptable to both us and Aurora (each acting reasonably), under which each holder agrees to the cancellation of all of their Unlisted Securities in exchange for an amount per Unlisted Security equal to: (i) for the Aurora Options, the amount equal to the assessed value of each Aurora Option using a standard methodology, and (ii) for the Aurora Performance Rights \$4.10 cash, with such transfer or cancellation to be subject to the Acquisition becoming effective and to take effect on the Implementation Date.

The Acquisition will constitute a "change of control" pursuant to the trust indenture dated February 8, 2012 governing the 2017 Aurora Notes between Aurora USA Oil & Gas, Inc., each of the guarantors party thereto and U.S. Bank National Association and the trust indenture dated March 31, 2013 governing the 2020 Aurora Notes between Aurora, each of the guarantors party thereto and U.S. Bank National Association (collectively, the "**Aurora Note Indentures**"). Pursuant to the Aurora Note Indentures, upon completion of the Acquisition,

each holder of Aurora Notes will have the right to require us to repurchase all or any part of that holder's Aurora Notes pursuant to an offer ("**Change of Control Offer**") on the terms set forth in the Aurora Note Indentures. Within 30 days following completion of the Acquisition, we will be required to mail a notice to each holder of Aurora Notes describing the Acquisition and offering to repurchase Aurora Notes properly tendered prior to the expiration date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Aurora Note Indentures and described in such notice. In the Change of Control Offer, we will offer a payment ("**Change of Control Payment**") in cash equal to 101% of the aggregate principal amount of Aurora Notes repurchased, plus accrued and unpaid interest, if any, on Aurora Notes repurchased to the date of purchase (the "**Change of Control Purchase Date**"), subject to the rights of holders of Aurora Notes on the relevant record date to receive interest due on the relevant interest payment date. Promptly following the expiration of the Change of Control Offer, we will, to the extent lawful, accept for payment all Aurora Notes or portions of Aurora Notes properly tendered pursuant to the Change of Control Offer.

In the event that holders of not less than 90% in aggregate principal amount of either series of the outstanding Aurora Notes accept a Change of Control Offer and we purchase all of such series of Aurora Notes held by such holders, we will have the right, upon not less than 30 nor more than 60 days prior notice, given not more than 30 days following the purchase pursuant to the Change of Control Offer described above, to redeem all of such series of the Aurora Notes that remain outstanding following such purchase at a redemption price equal to the Change of Control Payment plus, to the extent not included in the Change of Control Payment, accrued and unpaid interest, if any, on such series of the Aurora Notes that remain outstanding, to the date of redemption (subject to the right of holders of record on the relevant record date to receive interest due on an interest payment date that is on or prior to the redemption date).

We have agreed to retain a Canadian chartered bank (or one or more of its affiliates as may be appropriate in the circumstances), of which Scotia is a wholly-owned subsidiary, to act as manager in connection with the Change of Control Offers required to be made by us to the holders of the Aurora Notes following completion of the Acquisition at prevailing market rates for a person acting in such a role. See "*Relationship between Us and Certain Underwriters*".

Aurora Non-Solicitation; Termination Fee

The Implementation Agreement provides, among other things, for a non-completion fee of A\$18.8 million in the event the Acquisition is not completed in certain circumstances, including circumstances where Aurora may receive and accept a Superior Proposal. The Implementation Agreement also contains certain non-solicitation covenants of Aurora and a right to counter in favour of us. Aurora's non-solicitation covenants are subject to exceptions where the directors of Aurora determine such covenants may involve a breach of their fiduciary or statutory duties.

Covenants, Representations and Warranties

Aurora has agreed that prior to the Implementation Date (as defined in the Implementation Agreement), it shall, and shall cause each of its subsidiaries and affiliates to, conduct its business in the ordinary course and in substantially the same manner as previously conducted (subject to ongoing capital requirements being satisfied), and not to undertake certain types of restricted activities unless we otherwise agree or unless otherwise expressly contemplated or permitted by the Implementation Agreement.

We and Aurora have made certain representations and warranties relating to, among other things, corporate existence, corporate authorization, capitalization, no conflicts, shareholder and governmental approvals and absence of certain changes. Like many public company acquisition agreements, the representations, warranties and indemnities contained in the Implementation Agreement are limited and, other than in exceptional circumstances, we will not be able to seek remedies for breach of such provisions following completion of the Acquisition.

Conditions to Closing

The Acquisition is subject to a number of customary closing conditions, including the receipt of required regulatory approvals and court approvals, as well as the approval of Aurora Shareholders as described above. Regulatory approvals include approval of the Australian Foreign Investment Review Board and the applicable approvals required under the HSR Act.

The disclosure booklet that will be prepared in connection with the meeting of Aurora Shareholders to be called to consider and approve the Acquisition is expected to be mailed to Aurora Shareholders in April, 2014. The Acquisition is expected to close in late April/early May, 2014 or such other date as we and Aurora may agree but in any event, not later than June 30, 2014.

Strategic Benefits of the Acquisition

The Acquisition enhances our growth-and-income business model, delivers production and reserves per share growth and provides attractive capital efficiencies for future investment. The Acquisition is accretive to us on all metrics while maintaining a strong balance sheet.

The following are the key benefits of the Acquisition:

Exposure to a World-Class Oil Resource Play: the Acquisition will diversify our asset base into the core of the liquids-rich Eagle Ford, one of the premier oil resource plays in the United States. Following completion of the Acquisition, our three key oil resource plays – the Peace River oil sands, Lloydminster heavy oil and the Eagle Ford – will represent three of the highest rate of return projects in North America.

Attractive Acquisition Metrics:⁽¹⁾⁽²⁾

CDN\$24.15 per Boe of proved reserves and CDN\$15.46 per Boe of proved plus probable reserves

CDN\$84,500 per Boe/d of estimated 2014 production

Accretive to Reserves and Production:⁽¹⁾⁽²⁾

37% accretive to proved reserves per share

23% accretive to proved plus probable reserves per share

18% accretive to production per share

Notes:

(1) Reserves and reserve accretion based on our reserves as at December 31, 2012 prepared by Sproule and our internal estimate of Aurora's reserves as at December 31, 2013, prepared by a non-independent qualified reserves evaluator in accordance with NI 51-101 and the COGE Handbook. Based on gross reserves.

(2) Production per share accretion (Boe/d) is based on: (i) Aurora's 2014 estimated gross production of 30,500 Boe/d; (ii) our 2014 estimated gross production of 61,000 Boe/d; (iii) our weighted average outstanding Common Shares for 2014 of approximately 127 million Common Shares (before giving effect to the Offering); and (iv) 162 million Common Shares

outstanding after giving effect to the Offering (and prior to giving effect to the exercise of the Over-Allotment Option).

Increases Scale and Diversity of Production: our total gross production upon closing of the Acquisition is forecast to be approximately 85,000 Boe/d, with a production weighting of 53% heavy oil, 34% light oil and liquids and 13% natural gas (previously 75% heavy oil, 14% light oil and liquids and 11% natural gas).

Material Current Production with Long-Term Growth Potential: Aurora's fourth quarter 2013 gross production averaged 24,678 Boe/d (82% liquids) and it has estimated 2014 average gross production of 29,000 to 32,000 Boe/d which at the mid-point of the forecast equates to a 43% production increase over 2013. Aurora also has a substantial inventory of potential well locations to support future production growth.

High Quality Reserve Base with Potential Upside: the Acquisition will add proved reserves of 106.7 MMboe and proved plus probable reserves of 166.6 MMboe (based on our internal estimate of Aurora's reserves

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as at December 31, 2013, and prepared by a non-independent qualified reserves evaluator in accordance with NI 51-101 and the COGE Handbook). We believe that attractive reserves upside is available by exploiting additional horizons in the Austin Chalk and Upper Eagle Ford formations, downspacing and through improving completion techniques.

Attractive Individual Well Economics: Aurora's historical internal rates of return (before tax) per well in the Sugarkane Field are in excess of 100% with an undiscounted payout of 1 to 2 years and capital efficiencies (based on 30-day initial production rates) of under \$10,000 per daily Boe (based on an oil price of U.S.\$90/Bbl, a natural gas price of U.S.\$4.00/Mcf and a natural gas liquids price of U.S.\$27/Bbl).

Premier and Committed Eagle Ford Partner: Marathon is the operator of a majority of Aurora's Eagle Ford acreage position. Marathon has a strong track record of driving leading well performance, reducing costs and growing its resource base. In addition to the strong improvement in estimated ultimate reserves and drilling performance over time, Aurora's production has grown significantly from 4,257 Boe/d in the fourth quarter of 2011 to 24,678 Boe/d in the fourth quarter of 2013.

Increasing Development Performance and Recovery: Continuous improvements in drilling completion design have increased 30-day initial production rates by approximately 45% since the first quarter of 2011 with 180-day cumulative recoveries increasing approximately 34% over the same time period. Drilling times have decreased by approximately 50% since the first quarter of 2011 resulting in reduced completed well costs.

Established Infrastructure and Acreage Held by Production: Extensive infrastructure is in place across the acreage position, including centralized processing facilities, disposal wells and infield gathering systems. Approximately 97% of the acreage position is held by production.

Attractive Operating Costs and Premium Pricing: Operating cost per barrel averaged U.S.\$5.68 per Boe in the third quarter of 2013. Given the proximity of the Eagle Ford to the Henry Hub and Gulf Coast crude oil markets, established transportation systems for both crude oil and natural gas result in strong realized pricing. In addition, a portion of the produced crude oil benefits from premium Louisiana Light Sweet based pricing.

Pro Forma the Acquisition and the Offering

Selected Pro Forma Financial Information

The following tables set out certain pro forma financial information for: (i) us and Aurora as at December 31, 2012 before giving effect to the Acquisition; (ii) us as at and for the year ended December 31, 2012 after giving effect to the Acquisition; (iii) us and Aurora as at September 30, 2013 before giving effect to the Acquisition; and (iv) us as at and for the nine month period ended September 30, 2013 after giving effect to the Acquisition.

	As at and for the Year Ended December 31, 2012			As at and for the Nine Months Ended September 30, 2013		
	Baytex before giving effect to the Acquisition	Aurora before giving effect to the Acquisition	Baytex after giving effect to the Acquisition ⁽¹⁾	Baytex before giving effect to the Acquisition	Aurora before giving effect to the Acquisition	Baytex after giving effect to the Acquisition ⁽¹⁾
<i>(expressed in \$000s, except per share amounts)</i>						
Petroleum and natural gas sales, net of royalties	1,024,949	207,548	1,232,497	846,063	289,983	
General and administrative expenses	44,646	15,148	59,794	33,060	17,337	
Operating and transportation expenses	439,615	24,530	464,145	327,534	30,022	
Net income	258,631	58,899	254,273	133,672	81,867	
Per share (basic)	2.16	13.60	1.65	1.08	18.27	
Per share (diluted)	2.12	13.35	1.63	1.07	17.95	

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Total assets	2,741,169	1,561,721
Total liabilities	1,445,104	1,013,230
Shareholders' equity	1,296,065	548,491

Note:

(1)

For pro forma adjustments, see Schedule "B" to this short form prospectus.

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For additional pro forma financial information in respect of us, including our outstanding share capital, after giving effect to the Acquisition, see Schedule "B" "Pro Forma Consolidated Financial Statements of Baytex". Reference should also be made to the Annual Financial Statements, the Annual MD&A, the Interim Financial Statements and the Interim MD&A, which are incorporated by reference herein, and the audited financial statements of Aurora for the years ended December 31, 2012 and 2011, together with the notes thereto and the report of the auditors thereon, and the unaudited interim consolidated financial statements of Aurora as at September 30, 2013 and 2012 and for the three and nine month periods ended September 30, 2013 and 2012, together with the notes thereto, which are attached hereto as Schedule "A".

The Acquisition is a significant acquisition for us for the purposes of Part 8 of National Instrument 51-102 Continuous Disclosure Obligations.

Selected Combined Operational Information

The following table sets out certain combined operational information for the oil and natural gas assets which will be owned, directly or indirectly, on a consolidated basis by us following completion of the Acquisition, for the periods indicated. Important information concerning the oil and natural gas properties and operations of each of us and Aurora is contained elsewhere in, or incorporated by reference in, this prospectus. Readers are encouraged to carefully review such information and those documents as the information set forth in the table below is a summary only and is qualified in its entirety by such detailed information.

Pro Forma Production

	Twelve months ended December 31, 2012			Nine months ended September 30, 2013		
	Baytex before giving effect to the Acquisition	Aurora before giving effect to the Acquisition	Baytex after giving effect to the Acquisition ⁽¹⁾	Baytex before giving effect to the Acquisition	Aurora before giving effect to the Acquisition	Baytex after giving effect to the Acquisition ⁽¹⁾
Daily Natural Gas Production (Mcf/d)	43,100	11,548	54,648	41,979	24,176	66,155
Crude Oil and NGLs (Bbls/d)	46,807	8,754	55,561	49,827	16,139	65,966
Total (Boe/d)	53,986	10,678	64,664	56,823	20,167	76,990
Operating Netback (\$/Boe) ⁽²⁾	31.10	46.76	33.69	33.41	47.21	37.02

Pro Forma Reserves

Category of Reserves (Mboe)	Baytex as at December 31, 2012 before giving effect to the Acquisition		Aurora as at December 31, 2013 (Baytex Internal Estimate)		Pro Forma Baytex after giving effect to the Acquisition ⁽¹⁾	
	Gross	Net	Gross	Net	Gross	Net
Total Proved	143,444	118,814	106,694	78,954	250,138	197,768
Total Probable	148,152	118,379	59,876	44,308	208,028	162,687
Total Proved plus Probable plus Possible	291,596	237,193	166,570	123,262	458,166	360,455

Notes:

- (1) Reserves information provided herein is from the Sproule Report as at December 31, 2012 and our internal estimate of Aurora's reserves as at as at December 31, 2013, prepared by a non-independent qualified reserves evaluator in accordance with NI 51-101 and the COGE Handbook.
- (2) Operating netback does not have a standardized meaning under Canadian GAAP. See "Non-GAAP Financial Measures".

The pro forma reserve information in the foregoing table is derived (i) in respect of our reserves as at December 31, 2012, from the Sproule Report and (ii) in respect of Aurora's reserves as at December 31, 2013, from estimates of our internal non-independent qualified reserves evaluator as at December 31, 2013 made in connection with our evaluation of the Acquisition. Our internal estimates of Aurora's reserves as at December 31, 2013 differ from the estimates contained in the Aurora 2013 Reserves Report. They were prepared for use by our management in the evaluation of the Acquisition. Since the estimates of our reserves

and our internal estimate of the reserves of Aurora reflected in the above table were estimated as at different dates, they have been generated based on different assumptions in respect of commodity pricing, development costs, development timing and the timing and amount of capital expenditures, among other metrics. In addition, our reserves as at December 31, 2012 have not been adjusted to account for exploration or development results, production, revisions, acquisitions, dispositions, pricing or any other changes after December 31, 2012. As a result, the above table and the disclosure elsewhere in this short form prospectus describing our reserves on a consolidated pro forma basis for the Acquisition is presented for hypothetical purposes, does not reflect the actual combined estimated of our reserves and those of Aurora at December 31, 2013 and should not necessarily be viewed as predictive of our reserves and future production once the Acquisition is completed.

For pro forma financial information in respect of us, including our outstanding share capital, after giving effect to the Acquisition, see Schedule "B" "Pro Forma Consolidated Financial Statements of Baytex".

New Credit Facilities

In connection with the Acquisition, we have entered into an agreement with a Canadian chartered bank (the "**Bank**") pursuant to which the Bank has agreed to fully underwrite and commit to provide us with new senior secured credit facilities in the aggregate principal amount of \$2.5 billion (the "**New Credit Facilities**") which will replace our Credit Facilities. The New Credit Facilities are comprised of revolving facilities consisting of a \$50 million revolving operating loan facility and a \$950 million extendible syndicated loan facility with a syndicate of chartered banks (collectively the "**Revolving Facilities**") and non-revolving facilities consisting of a \$200 million non-revolving syndicated term facility (the "**Term Loan A Facility**") and a \$1.3 billion non-revolving syndicated equity bridge (the "**Equity Bridge**") (collectively, the "**Non-Revolving Facilities**"). The Revolving Facilities will be for a four year term extendible annually for a one, two, three or four year period (subject to a maximum four-year term at any time) and will contain standard commercial covenants for facilities of this nature. The Revolving Facilities will not require any mandatory principal payments during the four-year term. Advances (including letters of credit in connection with the Revolving Facilities only) under the New Credit Facilities can be drawn in either Canadian or U.S. funds and bear interest at the agent bank's prime lending rate, bankers' acceptance discount rates or London Interbank Offered Rates, plus applicable margins. The New Credit Facilities will be secured by a floating charge over all of our assets, excluding the Aurora Assets, and will be guaranteed by certain material restricted subsidiaries other than Aurora and its subsidiaries. The Revolving Facilities will not include a term-out feature or a borrowing base restriction but will restrict our ability to borrow through the use of customary financial covenants. The Revolving Facilities and the Term Loan A Facility will contain restrictions on our and our subsidiaries' ability to make distributions when (i) a default or event of default under the Revolving Facilities has occurred and is continuing, or (ii) distributions would be reasonably expected to have a material adverse effect on or impair our ability to fulfill our financial obligations under the Credit Facilities.

Each of the Term Loan A Facility and the Equity Bridge non-revolving facilities are single drawdown facilities and will be available solely to finance (directly or indirectly) the Acquisition together with reasonable transaction costs and expenses related thereto. The Term Loan A Facility will have a two year term and the Equity Bridge will have a one year term. Each of the Term Loan A Facility and the Equity Bridge provide for mandatory reductions and repayments for specified equity and debt issuances and dispositions. In addition, with respect to any proceeds arising in connection with the issuance of the Subscription Receipts, the Equity Bridge will be reduced by an amount equal to the gross proceeds received by us in connection with the Offering, once such proceeds are placed into escrow with the Escrow Agent. The Equity Bridge will prohibit us and our subsidiaries from making distributions, other than inter-company distributions or acquisitions and will impose additional financial covenant restrictions under the New Credit Facilities if and for long as there is any outstanding indebtedness under the Equity Bridge.

In connection with the Acquisition, we also expect to establish replacement credit facilities through Aurora's subsidiary, Aurora USA Oil & Gas, Inc, with the Bank for the Existing Target Facility of up to U.S.\$300 million.

Dividend Increase

We are committed to a growth-and-income model and its three fundamental principles: delivering organic production growth, paying a meaningful dividend and maintaining capital discipline. Through the combination of an expanded inventory of high capital efficiency projects and an improved outlook for heavy oil differentials, we remain confident in our business plan going forward. Consequently, we intend increase the monthly dividend on our Common Shares by 9% to \$0.24 from \$0.22 per Common Share, subject to the completion of the Acquisition.

ABOUT AURORA

Except as otherwise indicated all information regarding Aurora and the Aurora Assets contained in this short form prospectus, including all reserves and related information, financial information and all pro forma financial information reflecting the pro forma effects of the Acquisition, has been derived in part from information provided by Aurora and other third parties. The Aurora Reserves Reports were prepared by Aurora. We were not given the opportunity to participate in the preparation of the Aurora Reserves Reports or to review the reserves data with management of Aurora or Ryder Scott in conjunction with the preparation of the Aurora Reserves Reports. As a result, we are unable to assess Aurora's procedures for providing information to Ryder Scott or for assembling and reporting other information to Ryder Scott associated with Aurora's oil and gas activities. See "*Risk Factors*" in this short form prospectus.

General

Aurora is an ASX and TSX listed oil and natural gas company active exclusively in the United States. Its primary asset is 22,200 net (80,200 gross) acres in the prolific Sugarkane Field located in South Texas in the core of the liquids-rich Eagle Ford. Aurora's 2013 fourth quarter gross production was 24,678 Boe/d (82% liquids) of predominantly light, high-quality crude oil. The Sugarkane Field has been largely delineated with infrastructure in place which will facilitate low-risk future annual production growth. In addition, these assets have significant future reserves upside potential from well downspacing, improving completion techniques and new development targets in additional zones. In addition, Aurora holds approximately 14,000 net acres in the Eaglebine play regionally on trend with the Eagle Ford.

Aurora is an Australian corporation with its head and registered office located at Level 1, 338 Barker Road, Subiaco, WA 6008, Australia. Aurora also has an operational office located in Houston, Texas at 1200 Smith Street, Suite 2300, Houston, TX 77002 USA. It has appointed Davies Ward Phillips & Vineberg LLP at 155 Wellington Street West, Toronto, Ontario M5Y 3J7, as its agent for service of process in Canada.

The following chart summarizes the material subsidiaries of Aurora.

Aurora's current principal focus of operation is on the development of its Sugarkane Field interests currently operated by Marathon. The Sugarkane Field covers an identified area exceeding 200,000 acres and is a reservoir that lies approximately 20 kilometers south of the main Texas Austin Chalk formation, located within South Texas.

Unconventional shale production is typically characterized by high initial production rates, followed by steep decline rates and prolonged "tail" production profiles. The majority of Aurora's acreage is located in the

central portion of the Eagle Ford trend, primarily within the condensate-rich window, extending into the volatile oil window to the northwest. The Sugarkane Field is over-pressured (generally having a pressure gradient of approximately 0.8 psi per foot), enhancing both the initial production rates and estimated ultimate recovery per well. The combination of high liquids content and high production rate results in attractive economics for development wells.

We believe that this is one of the fastest developing unconventional shale developments in North America. There is limited and predictable variation in geological and reservoir properties across the region, with respect to thickness, depth and hydrocarbon composition of shale intersected. Unlike conventional oil and natural gas traps where the target reservoir may fail to contain hydrocarbons, all of the wells drilled on Aurora's properties are expected to intersect the Eagle Ford formation. Furthermore, a high proportion of the hydrocarbons produced by Aurora from the Eagle Ford are condensate or light/medium oil, which have historically resulted in a higher price realization per unit than dry natural gas.

The diagram below is an indicative pictorial representation of Aurora's Sugarkane Field AMIs. It is not intended to be schematically definitive, to scale or reference ownership of mineral rights.

Aurora's Recent Developments**2013 Operational and Financial Update**

Aurora's principal assets and the approximate associated gross and net land positions as of December 31, 2013, are shown in the table below:

	AVERAGE WORKING INTEREST	GROSS ACREAGE	NET ACREAGE
Sugarloaf AMI	28.1%	24,000	6,750
Longhorn AMI	31.9%	28,500	9,100
Ipanema AMI	36.4%	4,800	1,750
Excelsior AMI	9.1%	20,100	1,800
Operated Sugarkane Acreage (2013 Acquired Assets)	100.0%	2,800	2,800
Total Sugarkane Field		80,200	22,200
Eaglebine Operated	91.1%	15,000	14,000
Total		95,200	36,200

Based on realized commodity pricing achieved by Aurora for the year ended December 31, 2013, approximately 94% of Aurora's production revenue related to oil, condensate and NGL sales, with the balance being natural gas production revenue.

During the last three years, substantial drilling activity was undertaken across Aurora's Sugarkane Field AMIs. As of December 31, 2013, the total number of gross producing wells in which Aurora has an interest was 387, as compared to 216 gross wells as of December 31, 2012 and 71 gross wells as of December 31, 2011.

The following table summarizes the status of wells in which Aurora has a WI, categorized by Sugarkane Field AMI, as of December 31, 2013.

	SUGARLOAF	LONGHORN	PANEMA	EXCELSIOR	AXLE TREE	HEARD RANCH	TOTAL
Producing	97	178	7	86	11	8	387
Workover							
Fracture Stimulation						2	2
Completions	3	13		10		1	27
Drilling	2	4		2		1	9
Total	102	195	7	98	11	12	425

2013 Reserves Update

On February 3, 2014, Aurora publicly announced that Ryder Scott had provided the Aurora 2013 Reserves Report to Aurora. Set out below is a summary of reserves estimates and the value of future net revenue of Aurora associated with such reserves with an effective date as of December 31, 2013 based on the Aurora 2013 Reserves Report.

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The following tables provides a summary of the reserve estimates as at December 31, 2013 evaluated by Ryder Scott using forecast prices and costs contained in the Aurora 2013 Reserves Report.

**SUMMARY OF OIL AND NATURAL GAS RESERVES
AS OF DECEMBER 31, 2013
FORECAST PRICES AND COSTS**

RESERVES CATEGORY	RESERVES							
	LIGHT AND MEDIUM OIL		NATURAL GAS LIQUIDS		NATURAL GAS		BOE	
	Gross (MMbbls)	Net (MMbbls)	Gross (MMbbls)	Net (MMbbls)	Gross (Bcf)	Net (Bcf)	Gross (MMBoe)	Net (MMBoe)
PROVED:								
Developed Producing	14.1	10.4	13.1	9.7	42.9	31.7	34.4	25.4
Developed Non-Producing	0.6	0.5			0.2	0.2	0.7	0.5
Undeveloped	34.4	25.3	64.6	47.6	184.8	136.3	129.8	95.6
TOTAL PROVED	49.1	36.2	77.8	57.4	227.9	168.1	164.9	121.5
PROBABLE	11.6	8.6	31.0	23.0	98.3	73.0	58.9	43.8
TOTAL PROVED PLUS PROBABLE	60.7	44.8	108.8	80.3	326.2	241.0	223.8	165.3
POSSIBLE	1.4	1.0	32.3	23.8	87.8	64.4	48.4	35.5
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE⁽¹⁾	62.1	45.8	141.1	104.1	414.0	305.4	272.2	200.8