TRCC Canada

Leading World Technologies Through Innovation

Monthly Bulletin– September 2013

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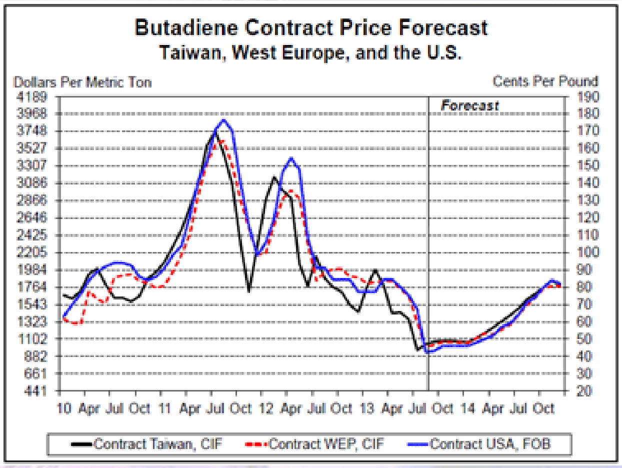
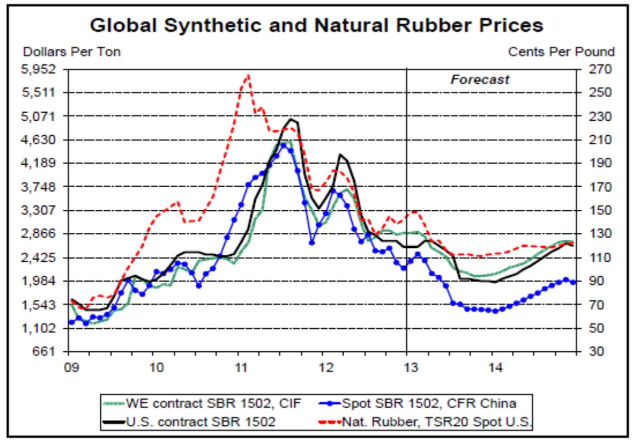
Executive Summary

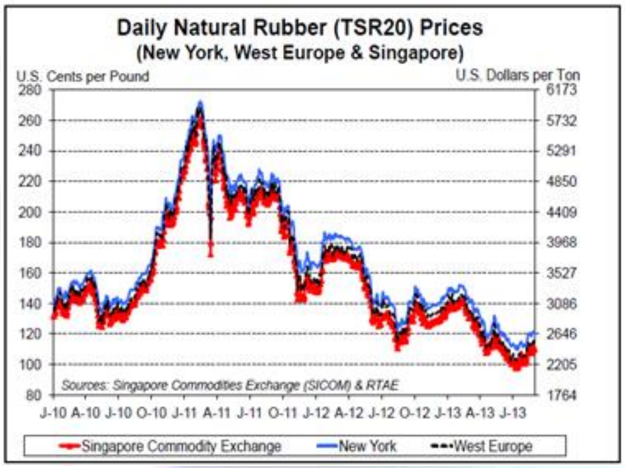
Butadiene: Once again, very little has changed on the butadiene supply side this month. IHS does not expect significant price movement in either November or December, but it will be interesting to see what happens in October. It is likely that U.S. producers will try to get at least some of the increases that their colleagues in Asia and Europe have been able to achieve.





Synthetic Rubber: IHS continues to see no evidence that the lower prices will result in increased demand down the chain or even increased inventory levels. So, at least for the time being, IHS expects demand to be stable at low levels. This stable market condition is likely to be the case through the end of the year and into Q1 2014.

Natural Rubber: Prices increased steadily through the first half of the month and then stabilized through the end of the month. The upward trend in prices seen this month was most likely due to a spike in crude oil prices amid unrest in the Middle East.



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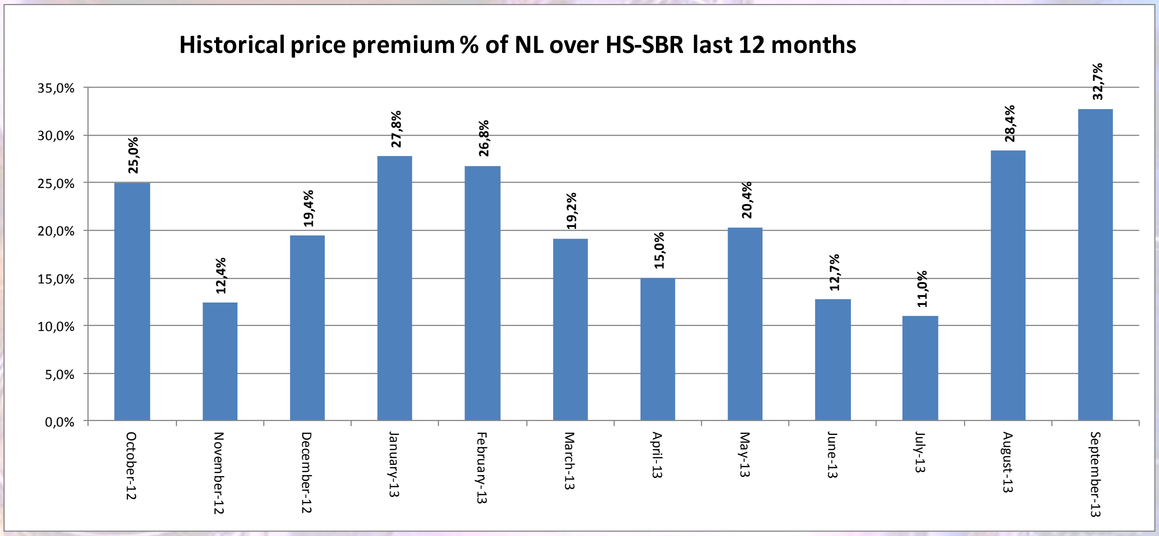
Executive Summary (Cont.)

Natural vs. Synthetic Rubber: The gap between the price of natural and synthetic latex has been increasing by 4.3% over last month due to an more pronounced increase in the price of Natural Rubber Latex relative to the increase in price of Synthetic Latex (High Solid SBR or cold latex). Expectations are such that the price of NL should increase moderately over the months to come whereas that of SL should stay relatively stable. The gap reported below is expected to remain increase slightly as we move toward the end of the year.



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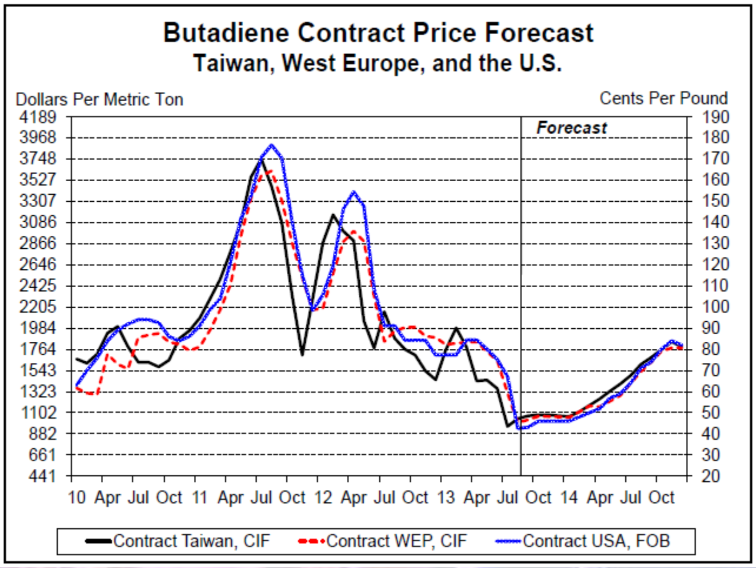
Butadiene (building block of HS-SBR and XSBR)

Market update



IHS Chemical's marker for the September U.S. butadiene contract price increased 0.5 cents per pound to 43.1 cents per pound ($950 per ton). This reflects a split settlement with final nominations ranging from 40 to 47 cents per pound. However, the settlement is again notable for more than just the final result. The market is also split three ways this month for the second month in a row. Clearly, the producers view the market differently again this month. This is not a big surprise since with prices this close to crude C4 alternate values, the different capabilities of the various butadiene producers to dispose of surplus crude C4 result in different alternate values. Ultimately, the floor price a butadiene producer is willing to charge is a function of their options for the crude C4. So this month, IHS has a small increase in their calculated marker, because two of the producers have adjusted their nominations relative to last month, while the end points of the range remain constant. It is important to remember that the actual delivered price for butadiene purchased on a contract basis in the U.S. is significantly different from the posted marker. In addition to delivery costs, a number of producers have instituted premiums and fees that are added to the marker price. These fees and premiums are significant and vary in magnitude and methodology by producer and customer.

Once again, very little has changed on the domestic butadiene supply side this month. The market is soft enough that the minor unplanned outage of the ExxonMobil Baton Rouge butadiene unit was easily absorbed. The objectives of the large price decrease in August appear to have been met. They were: preventing continued imports of butadiene from outside the region and keeping domestic rubber producers competitive

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with imports. Currently, the U.S. contract marker is the lowest butadiene price in the world. Of course, the net price is a bit higher as a result of the after marker premiums, so the actual butadiene prices paid by consumers are pretty close together. This makes international trade of the commodity synthetic rubbers economically challenging. The lower butadiene price also makes it difficult to ship material here from Europe or Asia at a netback above cracking value. Given the settlement results this month, it is clear that some of the U.S. butadiene producers think the market overshot on the downside last month. ***IHS does not expect significant price movement in either November or December, but it will be interesting to see what happens in October. It is likely that U.S. producers will try to get at least some of the increases that their colleagues in Asia and Europe have been able to achieve.***

There has been no sign of improvement on the butadiene demand side. As long as consumers are convinced that fundamental demand will not improve and their feedstock costs have not reached bottom, there is no reason for a significant change in buying patterns. IHS has seen no support for the position that fundamental demand has changed. However, it does appear that there is a small upward bias for near term prices. So, the consumers are at something of a decision point. The advantage of building some low cost inventory has to be weighed against the cost of carrying that inventory into next year. It is unlikely that in the short time between now and the end of the year, significant value could be gained by raising inventory and then liquidating it ahead of year-end. The current domestic spot market remains opaque. However, IHS understands that domestic spot material is available at prices above the contract marker. IHS notional view of late August U.S. spot butadiene prices is around 46 cents per pound. This is above the marker, but probably not above the net contract price including premiums, etc. IHS understands that even at that level, buying interest is quite limited.

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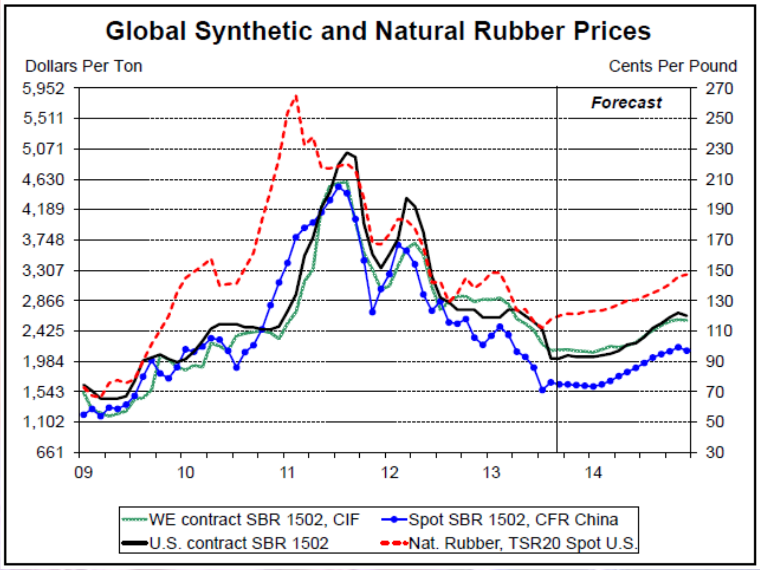
Synthetic Rubber

Market update



In the U.S., synthetic rubber market conditions remain extremely challenging on both sides of the negotiating table. Supply is readily available, partially because producers could increase rates easily at any time, should demand justify the additional production. However, the result of the large butadiene price decrease in August was to effectively close, or at the very least make it much more difficult, the door to imports.

As IHS noted last month, the decrease in raw material costs does not appear to be stimulating demand, just preventing further destruction. ***IHS continues to see no evidence that the lower prices will result in increased demand down the chain or even increased inventory levels. So, at least for the time being, IHS expects demand to be stable at low levels.*** This outlook is supported by several trends in the global butadiene markets, including the fact that crude C4 prices are essentially at alternate values, so prices have hit a floor and there is evidence of some strength in the market in Asia**. *This stable market condition is likely to be the case through the end of the year and into Q1 2014.***

IHS Chemical's posting for the July medium buyer negotiated SBR 1502 price decreased to the 90 to 94 cents per pound range. The IHS Chemical posting for SBR 1712 continues to reflect a large differential. The price also decreased to the 71.5 to 75.5 cents per pound range. The IHS Chemical PBR price decreased with feedstock prices to the 99 to 103 cents per pound range.

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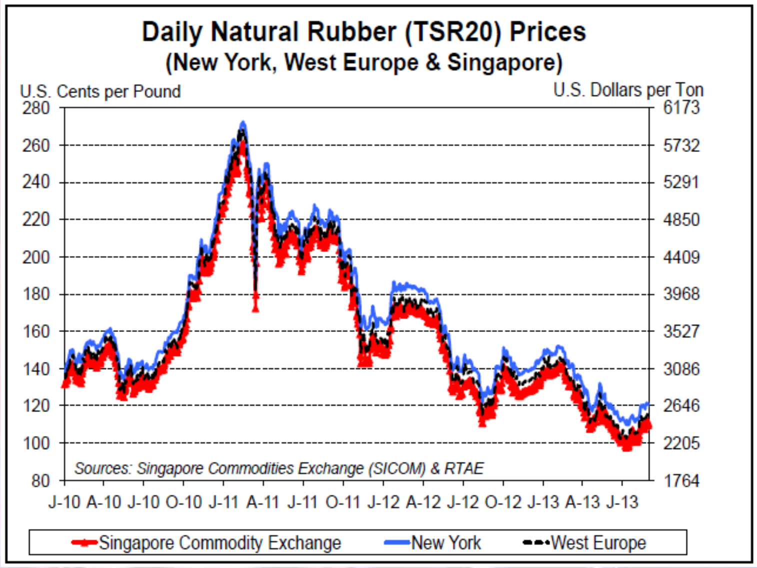
Natural Rubber

Market update



Natural rubber prices increased in August with the average price on the SICOM rising by roughly 5.5 cents per pound from July. Prices on the SICOM averaged $1.07 per pound ($2,367 per ton) for the month. Daily futures on the SICOM traded above $1.00 per pound for the entire month, after reaching the lowest price levels since September 2009 last month. Current price levels are around 10 cents per pound lower than during the same month last year. ***Prices increased steadily through the first half of the month and then stabilized through the end of the month***. Natural rubber prices have been affected by slower growth in the major economies and generally lower commodity pricing, with a key ingredient being the slowdown of growth in the Chinese economy relative to previous years. ***The upward trend in prices seen this month was most likely due to a spike in crude oil prices amid unrest in the Middle East***. Thailand, the world's largest producer of natural rubber, together with Malaysia and Indonesia, agreed last year to cut exports by 300,000 tons during the first half of 2013 in an effort to boost prices. The export restrictions have now ended but there was no real impact on prices as they continued to trend lower over that timeframe. ***High inventories have also played a role in low rubber prices over the past several months***. As shown in the graph on the previous page, Daily Natural Rubber (TSR20) Prices, prices have decreased since the beginning of 2012, sitting over $1.50 per pound lower than the record highs seen in early 2011. Prices in New York and West Europe increased this month, averaging $1.18 and $1.11 per pound, respectively.

TOCOM natural rubber futures increased in August, ending the month $135 per ton higher than the July closing price. The August RSS3 contract closed at $2,673 per ton.

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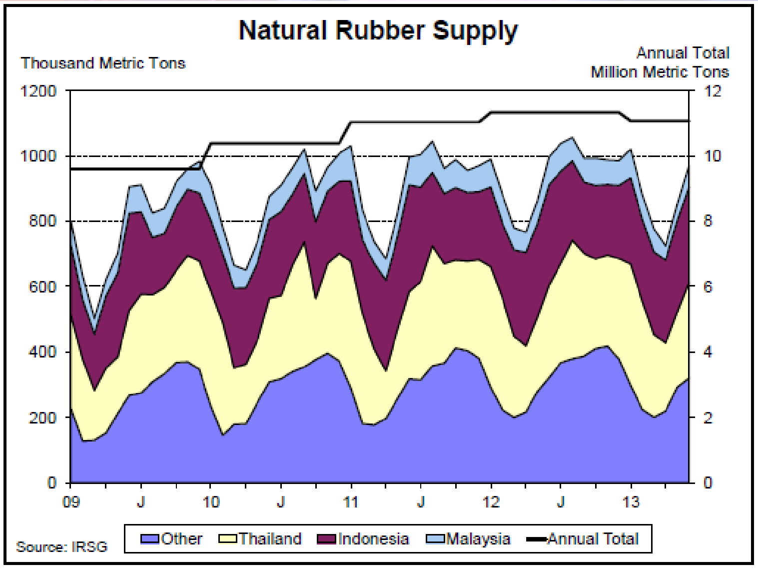
Monthly prices on the TOCOM through December 2013 also ***increased from last month***, ranging from $2,607 to $2,697 per ton. TSR20 futures on the SICOM closed at $2,367 per ton for August, an increase of $143 per ton from the July contract price. ***SICOM TSR20 futures prices through December 2013*** also ***increased***, ranging from $2,400 to $2,439 per ton, around $200 per ton higher than the futures strip at the end of July. TSR20 prices in New York were five cents higher than July, averaging $1.17 per pound. ***IHS Chemical forecasts that U.S. TSR20 prices will continue to move slightly higher, averaging just above $1.20 per pound for the rest of the year***.

Market Analysis - Trade



Global natural rubber production for Q2 2013 totaled 2.55 million tons, a decrease of 130,000 tons from Q1 2013, but roughly 80,000 tons lower than Q2 2013. ***Fullyear global production for 2013 is projected at 11.07 million tons, down 250,000 tons from the 2012 total***. Thailand, the world's largest producer of natural rubber, produced 730,000 tons in Q2 2013, roughly 225,000 tons less than the country produced in Q1 2013. This drop in production is due to the wintering season in Southeast Asia, which typically runs from February to May. The world's second largest producer of natural rubber on an annual basis, Indonesia, saw an increase in production during Q2 relative to Q1, producing roughly 70,000 tons more natural rubber than Q1. This is typical for this time of year as Indonesia is not as affected by the wintering season as Thailand. The graph Natural Rubber Supply helps to illustrate the seasonality seen in natural rubber production. Production in Q3 is expected to increase from Q2 as is typically the case for this time of year as the wintering season in Southeast Asia is complete and Thailand's production levels return to normal.

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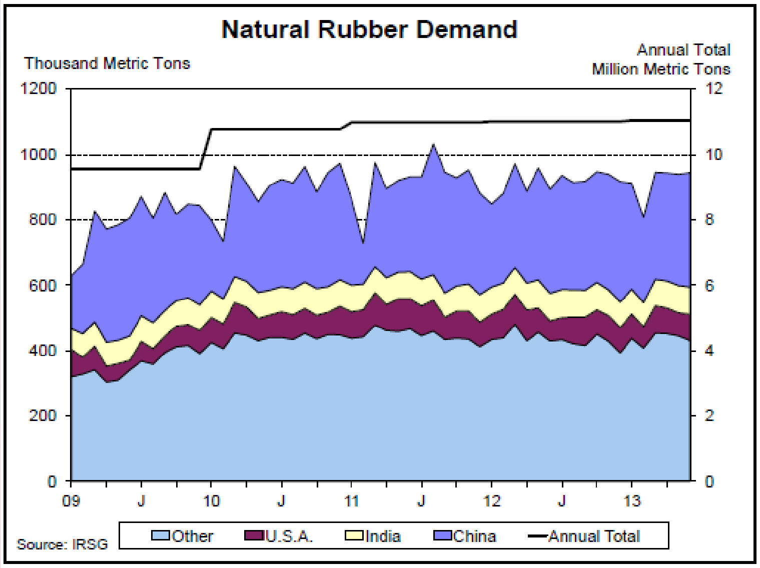
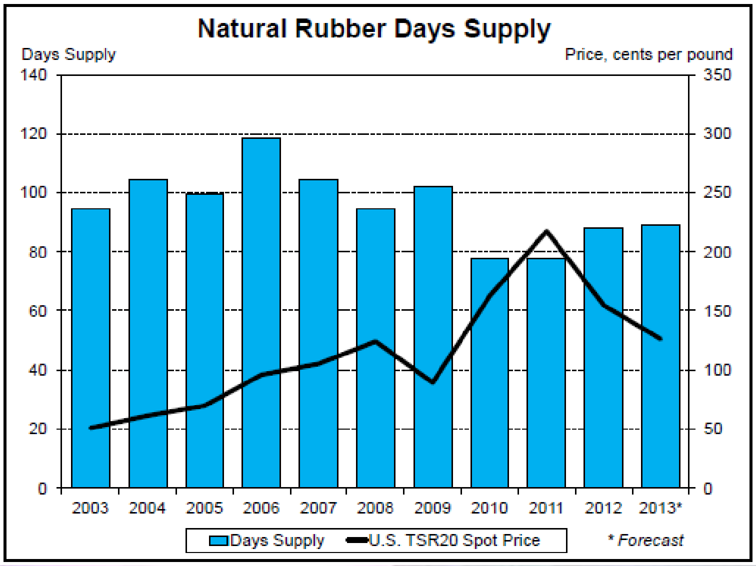


Natural rubber demand increased in Q2, with global consumption rising roughly 160,000 tons from Q1 2013 to 2.83 million tons. China, the world's largest consumer of natural rubber, consumed 1.02 million tons of natural rubber in Q2, up from 911,000 in Q1. Last year, the Chinese government made efforts to improve falling demand by pledging to increase spending and introduce new projects within the country. ***India remains the second largest consumer of natural rubber ahead of the U.S.***, though the advantage is typically less than 20,000 tons per quarter. ***Demand in India has generally increased throughout the past two years while demand in the U.S. has fallen during that period***, falling from 1.03 million tons in 2011 to 950,000 tons in 2012. For comparison, combining the consumption of India and the U.S. equals around one half of the amount of natural rubber that China consumes.



As shown in the graph Natural Rubber Days Supply, ***natural rubber inventories improved in 2012 and are forecast to increase further in 2013***. ***Natural rubber prices declined in 2012 as inventories increased with improved global production combined with lower global demand***. The graph shows as bars the number of days inventory

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globally compared to the U.S. spot price. The number of days inventory is calculated as the annual supply minus annual demand divided by the estimated demand per day.

Looking ahead, it is expected that global natural rubber demand will remain mostly flat for the balance of 2013. Production levels are expected to dip slightly on an annual basis but remain strong overall, which will help to improve global natural rubber supply and keep prices at a relatively low level around $1.20-$1.30 per pound in the short term.