

**CROSS-BORDER INSOLVENCY PROTOCOL**  
**FOR PIONEER COMPANIES INC. AND ITS AFFILIATES**

This cross-border insolvency protocol (the "Protocol") shall govern the conduct of all parties in interest in the Insolvency Proceedings (as such term is defined below):

**A. Background**

1. Pioneer Companies, Inc., a United States corporation ("PCI") the ultimate parent company of a multinational enterprise that operates, through its various subsidiaries and affiliates, in the United States and Canada.
2. PCI and certain of its direct and indirect subsidiaries and affiliates (collectively, the "U.S. Debtors") have commenced reorganization cases (collectively, the "U.S. Cases" under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the "U.S. Court"). The U.S. Debtors are continuing in possession of their respective properties and are operating and managing their businesses, as debtors in possession, pursuant to sections 1107 and 1108 of the Bankruptcy Code. In the coming weeks it is anticipated that the office of the United States trustee (the "U.S. Trustee") will appoint an official unsecured creditors' committee in the U.S. Cases (the "Committee").
3. PCI Chemicals Canada Inc., a Debtor in the U.S. cases (but referred to herein as the "Canadian Debtor") has also commenced insolvency proceedings (the "Canadian Case") by filing an application under the Canadian *Companies'*

*Creditors Arrangement Act* (the "CCAA") with the Quebec Superior Court in Montreal, Quebec (the "Canadian Court") and an Order (the "CCAA Order") has been made under which, among other things: (i) the Canadian Debtor has been determined to be entity to which the CCAA applies; and (ii) a claims process has been established in respect of the filing of claims against the Canadian Debtor in the Canadian Case.

4. For convenience, (a) the U.S. Debtors and the Canadian Debtor shall be referred to herein collectively as the "Debtors," (b) the U.S. Cases and the Canadian Case shall be referred to herein collectively as the "Insolvency Proceedings"; (c) the U.S. Court and the Canadian Court shall be referred to herein collectively as the "Courts"; and (d) the business carried on by the Debtors (wherever such business may be carried on) shall be referred to as the "PCI Business".

**B. Purpose and Goals**

5. While proceedings are pending in the United States and Canada, the implementation of basic administrative procedures is necessary to coordinate certain activities in the Insolvency Proceedings, protect the rights of parties thereto and ensure the maintenance of the Courts' independent jurisdiction and to give due effect to the doctrine of comity and collateral estoppel, while at the same time recognizing that the PCI Business is carried on in an integrated manner on a transnational basis and further that it is in the interest of the Debtors and their stakeholders for the U.S. Court to take charge of the principal administration of the reorganization of the PCI Business. Accordingly, this

Protocol has been developed to promote the following mutually desirable goals and objectives in both the U.S. Cases and the Canadian Case:

- harmonize, coordinate and minimize and avoid duplication of activities in the Insolvency Proceedings before the U.S. Court and the Canadian Court;
- promote the orderly and efficient administration of the Insolvency Proceedings to, among other things, maximize the efficiency of the Insolvency Proceedings, reduce the costs associated therewith and avoid duplication of effort;
- set forth general principles for the manner in which claims made against the Debtors in the Insolvency Proceedings are to be adjudicated;
- honor the independence and integrity of the Courts and other courts and tribunals of the United States and Canada;
- promote international cooperation and respect for comity among the Courts, the Debtors, the Committee and other creditors and interested parties in the Insolvency Proceedings;
- facilitate the fair, open and efficient administration of the Insolvency Proceedings for the benefit of all of the Debtors' creditors and other interested parties, wherever located; and

- implement a framework of general principles to address basic administrative issues arising out of the cross-border nature of the Insolvency Proceedings all in order to allow the PCI Business to be reorganized on a coordinated basis.

**A. Comity and Independence of the Courts**

6. The approval and implementation of this Protocol shall not divest or diminish the U.S. Court's and the Canadian Court's independent jurisdiction over the subject matter of the U.S. Cases and the Canadian Case, respectively. By approving and implementing this Protocol, neither the U.S. Court, the Canadian Court, the Debtors nor any creditors or interested parties shall be deemed to have approved or engaged in any infringement on the sovereignty of the United States or Canada.
7. The U.S. Court shall have sole and exclusive jurisdiction and power over the conduct of the U.S. Cases and the hearing and determination of matters arising in the U.S. Cases. The Canadian Court shall have sole and exclusive jurisdiction and power over the conduct of the Canadian Case and the hearing and determination of matters arising in the Canadian Case.
8. In accordance with the principles of comity and independence established in paragraphs 6 and 7 above, nothing contained herein shall be construed to:
  - increase, decrease or otherwise modify the independence, sovereignty or jurisdiction of the U.S. Court, the Canadian Court or any other court or

tribunal in the United States or Canada, including the ability of any such court or tribunal to provide appropriate relief under applicable law on an *ex parte* or "limited notice" basis;

- require the Debtors or the Committee to take any action or refrain from taking any action that would result in a breach of any duty imposed on them by any applicable law; or
- authorize any action that requires the specific approval of one or both of the Courts under the Bankruptcy Code or the CCAA after appropriate notice and a hearing (except to the extent that such action is specifically described in this Protocol).

9. The Debtors, the Committee and their respective employees, members, agents and professionals shall respect and comply with the independent, nondelegable duties imposed upon them by the Bankruptcy Code, the CCAA Order and other applicable laws, regulation or orders of tribunals of competent jurisdiction.

**A. Matters relating to the Proving of Claims against the Debtors**

10. In order to co-ordinate the restructuring of the PCI Business and avoid any unnecessary duplication of effort and expense or inconsistent rulings by the Courts, the following principles are applicable in connection with establishing the validity, amount and treatment of any claims against the Debtors:

- (a) any claims against any of the Debtors arising under or in connection with:

- (i) the 9 1/4% notes in the original principal amount of US \$175,000,000 issued by the Canadian Debtor pursuant to an indenture dated as of October 30, 1997 among the Canadian Debtor (as issuer), the United States Trust Company of New York (as Trustee and Collateral Agent) and others (the "Canadian Indenture");
- (ii) the guarantee of the U.S. Debtors of the obligations of the Canadian Debtor under the Canadian Indenture;
- (iii) the Term Loan Agreement dated as of October 30, 1997 in the original principal amount of US \$83,000,000 among Pioneer Americas, Inc, DLJ Capital Funding Inc, (as syndication agent), Bank of America National Trust and Savings Association (as administrative agent), and others (the "Canadian TLA");
- (iv) the guarantee of the Canadian Debtor dated as of October 30, 1997 of the obligations of the U.S. Debtors under the Canadian TLA;
- (v) the 9 1/4% notes in the original principal amount of US \$00,000,000 issued by the Pioneer Corporation of America pursuant to an indenture dated as of June 17, 1997 among Pioneer Corporation of America (as issuer), the Subsidiary Guarantors (as defined therein) and the United States Trust Company of New York (as Trustee and Collateral Agent) (the "US Indenture");

- (vi) the guarantee of the Canadian Debtor dated October 31, 1997 of the obligations of the U.S. Debtors under the U.S. Indenture;
- (vii) the Term Loan Agreement dated as of June 17, 1997 in the original principal amount of US \$100,000,000 among Pioneer Americas, Inc, DLJ Capital Funding Inc. (as syndication agent), Bank of America National Trust and Savings Association (as administrative agent), and others (the "U.S. TLA"); and
- (viii) the guarantee of the Canadian Debtor dated October 30, 1997 of the obligations of the U.S. Debtors under the U.S. TLA,

shall be determined by the U.S. Court in the U.S. Cases;

- (b) all claims against any of the U.S. Debtors (other than the Canadian Debtor) shall be determined by the U.S. Court in the U.S. Cases;
- (c) all claims against the Canadian Debtor (with the exception of the claims described in paragraph 10(a) hereof shall be determined in accordance with the following principles:
  - (i) any person filing a proof of claim against the Canadian Debtor in the U.S. Cases shall be deemed to have elected to have the validity, amount and treatment of such claim determined by the U.S. Court;

- (ii) any person filing a proof of claim against the Canadian Debtor in the Canadian Case shall be deemed to have elected to have the validity, amount and treatment of such claim determined by the Canadian Court; and
- (iii) any person filing a proof of claim against the Canadian Debtor in both the U.S. Cases and the Canadian Case shall be deemed to have elected to have the validity, amount and treatment of such claim determined by the U.S. Court.

**A. Cooperation**

- 11. To assist in the efficient administration of the Insolvency Proceedings, the Debtors and the Committee shall (a) cooperate with each other in connection with actions taken in both the U.S. Court and the Canadian Court and (b) take any other appropriate steps to coordinate the administration of the U.S. Cases and the Canadian Case for the benefit of the Debtors' respective estates and stakeholders.
- 12. To harmonize and coordinate the administration of the Insolvency Proceedings, the U.S. Court and the Canadian Court each shall use its best efforts to coordinate activities with and defer to the judgment of the other Court, where appropriate and feasible.
  - (a) The Courts shall use their best efforts to coordinate activities in the Insolvency Proceedings so that the subject matter of any particular action,



suit, request, application, contested matter or other proceeding may be determined in one Court only.

(b) The U.S. Court and the Canadian Court may communicate with one another with respect to any matter relating to the Insolvency Proceedings.

(c) The U.S. Court and the Canadian Court may conduct joint hearings with respect to any matter relating to the conduct, administration, determination or disposition of any aspect of the U.S. Cases or the Canadian Case if both Courts determine and agree that such joint hearings are necessary or advisable to facilitate the proper and efficient conduct of the Insolvency Proceedings. With respect to any such joint hearings, unless otherwise ordered by both Courts, the following procedures shall be followed:

- A telephone or video link shall be established so that both the U.S. Court and the Canadian Court shall be able to simultaneously hear the proceedings in the other Court.
- Submissions or applications by any party that are or become the subject of a joint hearing of the Courts (collectively, "Pleadings" shall be made or filed initially only with the Court in which such party is appearing and seeking relief. Promptly after the scheduling of any joint hearing, the party submitting such pleadings to one Court shall file courtesy copies with the other Court. In any event,

Pleadings seeking relief from both Courts must be filed with both Courts.

- Any party intending to rely on written evidentiary materials in support of a submission to the U.S. Court or the Canadian Court in connection with any joint hearing (collectively, "Evidentiary Materials") shall file such Evidentiary Materials in advance of the joint hearing. To the fullest extent possible, the Evidentiary Materials filed in each Court shall be substantially identical and shall be consistent with the procedural and evidentiary rules and requirements of each Court.
- If a party has not previously appeared in or otherwise attorned to the jurisdiction of a Court, it shall be entitled to file Pleadings or Evidentiary Materials in connection with the joint hearing without being deemed to have attorned to the jurisdiction of the Court by virtue of filing such Pleadings or Evidentiary Materials, provided that the party does not request any affirmative relief from such Court.
- The Judge of the U.S. Court and the Justice of the Canadian Court shall be entitled to communicate with each other in advance of any joint hearing, with or without counsel being present, to (i) establish guidelines for the orderly submission of pleadings, Evidentiary Materials and other papers and the rendering of decisions by the

U.S. Court and the Canadian Court and (ii) address any related procedural or administrative matters.

- The Judge of the U.S. Court and the Justice of the Canadian Court shall be entitled to communicate with each other after any joint hearing, without counsel present, for the purposes of (i) determining whether consistent rulings can be made by both Courts, (ii) coordinating the terms of the Courts' respective rulings and (iii) addressing any other procedural or administrative matter.

13. Notwithstanding the terms of paragraph 12 above, the Protocol recognizes that the U.S. Court and the Canadian Court are independent courts. Accordingly, although the Courts will seek to cooperate and coordinate with each other in good faith, each of the Courts shall be entitled at all times to exercise its independent jurisdiction and authority with respect to (a) matters presented to such Court and (b) the conduct of the parties appearing in such matters.

**A. Retention and Compensation of Professionals**

14. Any professionals retained by the Canadian Debtor or the Committee for activities performed in Canada or in connection with the Canadian Case (collectively, the "Canadian Professionals") shall be subject to the sole and exclusive jurisdiction of the Canadian Court. Accordingly, the Canadian Professionals (a) shall be subject to the procedures and standards for retention and compensation applicable in the Canadian Court under the CCAA, the CCAA Order and any other applicable Canadian law or orders of the

Canadian Court and (b) shall not be required to seek approval of their retention or compensation in the U.S. Court.

15. Any professionals retained by the U.S. Debtors or the Committee for activities performed in the United States or in connection with the U.S. Cases (collectively, the "U.S. Professionals") shall be subject to the sole and exclusive jurisdiction of the U.S. Court. Accordingly, the U.S. Professionals (a) shall be subject to the procedures and standards for retention and compensation applicable in the U.S. Court under the Bankruptcy Code and any other applicable laws of the United States or orders of the U.S. Court and (b) shall not be required to seek approval of their retention or compensation in the Canadian Court.

**B. Rights to Appear and Be Heard**

16. The Debtors, their creditors and other interested parties in the insolvency Proceedings, including the Committee, and the U.S. Trustee, shall have the right and standing to: (a) appear and be heard in either the U.S. Court or the Canadian Court in the Insolvency Proceedings to the same extent as creditors and other interested parties domiciled in the forum country, subject to any local rules or regulations generally applicable to all parties appearing in the forum; and (b) file notices of appearance or other papers with the Clerk of the U.S. Court or the Canadian Court in the Insolvency Proceedings; provided, however, that any appearance or filing may subject a creditor or interested party to the jurisdiction of the Court in which the appearance or filing occurs, except that any

appearance by the Committee in the Canadian Case shall not form a basis for personal jurisdiction in Canada over the individual members of the Committee. Notwithstanding the foregoing the Canadian Court shall have jurisdiction over the U.S. Trustee solely with respect to the particular matters as to which the U.S. Trustee appears before the Canadian Court.

**C. Notice**

17. Notice of any motion, application or other pleading or paper filed in one or both of the Insolvency Proceedings and notice of any related hearings or other proceedings mandated by applicable law in connection with the insolvency Proceedings or the Protocol shall be given by appropriate means (including, where circumstances warrant, by courier, telecopier or other electronic forms of communication) to the following: (a) all creditors and other interested parties in accordance with the practice of the jurisdiction where the papers are filed or the proceedings are to occur; and (b) to the extent such entities are not otherwise entitled to receive notice under subpart (a) of this sentence, counsel to the Committee, the U.S. Trustee and such other parties as may be designated by either of the Courts from time to time. Notice in accordance with this paragraph shall be given by the party otherwise responsible for effecting notice in the jurisdiction where the underlying papers are filed or the proceedings are to occur. In addition to the foregoing, upon request, the Debtors shall provide the U.S. Court or the Canadian Court, as the case may be, with copies of all orders, decision, opinions or similar papers issued by the other Court in the Insolvency Proceedings.

**D. Recognition of Stays of Proceedings**

18. The Canadian Court hereby recognizes the validity of the stay of proceedings and actions against the U.S. Debtors and their assets under section 362 of the Bankruptcy Code (the "U.S. Stay"). In recognition of the importance of the U.S. Stay to the successful completion of the Insolvency Proceedings for the benefit of the Debtors and their respective estates and stakeholders, the Canadian Court shall extend and enforce the U.S. Stay in Canada (to the same extent that such stay of proceedings and actions is applicable in the United States) to prevent adverse actions against the assets, rights and holdings of the U.S. Debtors in Canada. In implementing the terms of this paragraph, the Canadian Court may consult with the U.S. Court regarding (a) the interpretation and application of the U.S. Stay and any orders of the U.S. Court modifying or granting relief from the U.S. Stay and (b) the enforcement of the U.S. Stay in Canada.
  
19. The U.S. Court hereby recognizes the validity of the stay of proceedings and actions against the Canadian Debtor, and its assets under the CCAA. Order (the "Canadian Stay". In recognition of the importance of the Canadian Stay to the successful completion of the Insolvency Proceedings for the benefit of the Debtors and their respective estates and stakeholders, the U.S. Court shall extend and enforce the Canadian Stay in the United States (to the same extent that such stay of proceedings and actions is applicable in Canada) to prevent adverse actions against the assets, rights and holdings of the Canadian Debtor in the United States. In implementing the terms of this paragraph, the U.S. Court

may consult with the Canadian Court regarding (a) the interpretation and application of the Canadian Stay and any orders of the Canadian Court modifying or granting relief from the Canadian Stay and (b) the enforcement of the Canadian Stay in the United States.

20. Nothing contained herein shall affect or limit the Debtors' or other parties' rights to assert the applicability or non-applicability of the U.S. Stay or the Canadian Stay to any particular proceeding, property, asset, activity or other matter, wherever pending or located.

**E. Effectiveness; Modification**

21. This Protocol shall become effective only upon its approval by both the U.S. Court and the Canadian Court.
22. This Protocol may not be supplemented, modified, terminated or replaced in any manner except upon the approval of both the U.S. Court and the Canadian Court. Notice of any legal proceeding to supplement, modify, terminate or replace this Protocol shall be given in accordance with paragraph 17 above.

**F. Procedure for Resolving Disputes Under the Protocol**

23. Disputes relating to the terms, intent or application of this Protocol may be addressed by interested parties to either the U.S. Court, the Canadian Court or both Courts upon notice in accordance with paragraph 17 above. In rendering a determination in any such dispute, the Court to which the issue is addressed: (a) shall consult with the other Court; and (b) may, in its sole and exclusive

discretion, either (i) render a binding decision after such consultation, (ii) defer to the determination of the other Court by transferring the matter, in whole or in part, to the other Court or (iii) seek a joint hearing of both Courts in accordance with paragraph 12(c) above. Notwithstanding the foregoing, in making a determination under this paragraph, each Court shall give due consideration to the independence, comity and inherent jurisdiction of the other Court established under existing law.

24. In implementing the terms of paragraphs 12, 18, 19 and 23 above and the other provisions of the Protocol, the U.S. Court and the Canadian Court may, in their sole discretion, provide advice or guidance to each other with respect to substantive legal issues in accordance with the following procedures:

- The U.S. Court or the Canadian Court, as applicable, shall provide any such advice or guidance to the other Court in writing.
- Copies of such written advice or guidance shall be served by the applicable Court in accordance with paragraph 16 hereof.
- The Debtors, the Committee, the U.S. Trustee and any other affected or interested party shall be entitled to make submissions to the appropriate Court in response to or in connection with any written advice or guidance received from the other Court.



**A. Preservation of Rights**

25. Neither the terms of this Protocol nor any actions taken under the terms of this Protocol shall prejudice or affect the powers, rights, claims and defenses of the Debtors and their estates, the Committee, the U.S. Trustee or any of the Debtors' creditors under applicable law, including the Bankruptcy Code and the CCA.A.