NOTICE OF ARBITRATION
UNDER THE ARBITRATION RULES
OF THE
UNITED NATIONS COMMISSION ON INTERNATIONAL TRADE LAW
AND
THE NORTH AMERICAN FREE TRADE AGREEMENT

BETWEEN:

KENEX LTD.

Claimant / Investor

- AND -

GOVERNMENT OF THE UNITED STATES OF AMERICA

Respondent / Party

Pursuant to Article 3 of the United Nations Commission on International Trade Law ("UNCITRAL") and Articles 1116 and 1120 of the North American Free Trade Agreement ("NAFTA"), the Claimant initiates recourse to arbitration under the UNCITRAL Rules of Arbitration (Resolution 31/98 Adopted by the General Assembly on December 15, 1976).

A. DEMAND THAT THE DISPUTE BE REFERRED TO ARBITRATION

Pursuant to Article 1120(1)(c) of the NAFTA, the Claimant hereby demands that the dispute between it and the Respondent be referred to arbitration under the UNCITRAL Rules of Arbitration.

B. NAMES AND ADDRESSES OF THE PARTIES

Claimant/ Investor	**Kenex Ltd.** 24907 Winter Line Road RR #8, Chatham Chatham, Ontario N7M 5J8
Respondent/ Party	**Government of the of the United States of America** Executive Director Office of the Legal Advisor United States Department of State Room 5519 2201 C. Street NW. Washington, D.C. 20520

C. REFERENCE TO THE ARBITRATION CLAUSE OR THE SEPARATE ARBITRATION AGREEMENT THAT IS INVOKED

The Claimant invokes Section B of Chapter 11 of the NAFTA, and specifically Articles 1116, 1120 and 1122 of the NAFTA, as authority for the arbitration. Section B of Chapter 11 of the NAFTA sets out the provisions agreed concerning the settlement of disputes between a Party and an investor of another Party.

D. REFERENCE TO THE CONTRACT OUT OF OR IN RELATION TO WHICH THE DISPUTE ARISES

The dispute is in relation to the treatment received by the Investor and its investment in the United States, and the damages that have arisen out of the breaches by the Government of the United States of America ("USA") of its obligations under Section A of Chapter 11 of the NAFTA.

E. THE GENERAL NATURE OF THE CLAIM AND AN INDICATION OF THE AMOUNT INVOLVED

1. The Investor is a company incorporated under the laws of Ontario, Canada. The Investor manufactures, markets and distributes non-psychoactive and completely lawful industrial hemp products, including whole hemp grain (i.e. seed), hemp grain derivatives (such as refined hemp oil, hemp nut and hemp meal), hemp fiber and certified hemp seed, throughout North America.

2. The hemp food and oil products marketed and sold by the Investor and the Investment throughout North American contain non-psychoactive trace amounts of naturally occurring tetracannabinol ("THC") which is the drug compound in marijuana. Canadian hemp regulations permit hemp food and oil products containing miniscule trace amounts of naturally occurring THC of less than 10 parts per million (PPM).

3. The Investment, Kenex USA Ltd., is a company incorporated under the laws of Delaware, USA. The Investment is owned and controlled by the Investor. Through the Investment, and acting on its own behalf, the Investor operates its business in the United States, and was seeking to increase the breadth and depth of its investments and continue to build the US market for its products, until the actions of the USA, as described below, were imposed and deleteriously impacted upon its existing business and customer base.

4. The USA has caused considerable injury to the business of the Investor and the Investment in the United States by secretly establishing a "Zero THC Policy" and then instituting a policy of arbitrary and unreasonable seizures of products imported by the Investor and Investment into the United States. These actions commenced on August 9, 1999, and were followed by a calculated and deliberate agenda of harassment and interference with the Investor's completely lawful conduct, management and operation of its investments, including the arbitrary promulgation of rules designed to frustrate the business of industry members such as the Investor and the Investment. This Zero THC Policy agenda ultimately resulted in the issuance of rules by the USA Drug Enforcement Administration ("DEA") in October of 2001 which purported to immediately ban any commerce in hemp foods and oil products in the US,.

5. The ultimate impact of these measures may well be nothing short of an absolute ban on trade in the hemp food and oil products manufactured, marketed and distributed by the Investor and its Investment in the United States. These measures accordingly breach the NAFTA in the following ways:

    i. The Investor and the Investment have been and will be accorded less favorable treatment than that which is accorded to their competitors from the United States or other countries operating in like circumstances with the Investor and the Investment. These competitors make and market products, such as those based on poppy seeds or flax seeds, and have benefited from less restrictive regulatory standards than the hemp

products of the Investor and the Investment. For example, the USA has arbitrarily chosen not to impose an absolute ban on poppy seed products, even though they contain trace amounts of opiates that would also constitute statutorily prohibited narcotics if produced with significantly higher concentrations. There is no legitimate reason why the USA would ban products containing harmless trace amounts of THC but exempt poppy seed products from similar treatment. Such arbitrary conduct is contrary to NAFTA Articles 1102, 1103 & 1104;

ii. The USA has also attempted to promulgate this ban with full knowledge that to do so would have the effect of providing better treatment to competitors involved in the importation of industrial hemp food and oil products from countries other than Canada, based upon differentiation in labeling practices. Such conduct is contrary to Article 1103 of the NAFTA and the principle of good faith expressed in Article 1105;

iii. The USA has also violated the international law principles of transparency, good faith and proportionality through the DEA's implementation of the its unofficial Zero THC Policy, . Such conduct constitutes an unreasonable, unjustified and arbitrary interference with the Investor's ability to establish, expand, manage, conduct or operate its investments, which the United States has agreed to provide foreign investors - in addition to whatever treatment is required under international law - under NAFTA Article 1105 as well as under other investment treaties ratified after the NAFTA came into force, which must be accorded to NAFTA investments in application of NAFTA Article 1103;

iv. The USA has treated the Investment of the Investor in an arbitrary and capricious manner, without sufficient notice or consultation, and in a manner that is substantively unfair and inequitable. Such treatment is contrary to the "fair and equitable" standard of treatment that the USA has agreed to provide to foreign investments and which is required under customary international law. Such treatment is required to be provided to the Investment under NAFTA Articles 1105 and 1103;

v. The USA has agreed to be bound by international treaty obligations that reflect the international law principle of proportionality, such as the World Trade Organization Agreement on Sanitary and Phyto-sanitary Measures. These international law obligations require the USA to base its proposed measures on sound science, and to ensure that they are no more trade-restrictive than necessary to achieve a legitimate regulatory goal. When a NAFTA Party fails to honor its international law obligations in a manner that breaches a standard of "fair and equitable treatment", and such failure has a direct impact upon a NAFTA investment in its territory, that Party breaches the NAFTA Article 1105 obligation to treat NAFTA investments in accordance with international law. Such treatment is required to be provided to the Investment under NAFTA Articles 1105.

6. Implementation of these measures has and will continue to result in considerable losses and harm to the Investor and the Investment, including – but not limited to – the following:

   i. loss to Investor and its Investment of a substantially all of its customers, existing and potential, as well as its goodwill and the US market for the hemp products;

   ii. loss of revenues from the sale of birdseed, hemp food and hempseed oil products;

   iii. loss of potential investment capital;

   iv. loss of returns on capital investments made by the Investor and the Investment in developing and serving the industrial hemp market; and

   v. loss of out of pocket expenses, legal fees and other expenses relating to keeping products in retail and wholesale distribution and fighting the USA's attempted promulgation of its hemp food and oil product ban.

F. RELIEF OR REMEDY SOUGHT

7. The Investor claims damages for the following:

   i. Damages of not less than US$20,000,000.00 as compensation for the damages caused by, or arising out of, the USA's actions that are inconsistent with its obligations contained within Part A of NAFTA Chapter 11;

8. Costs associated with these proceedings, including all professional fees and disbursements;

   ii. Costs associated with these proceedings, including all professional fees and disbursements;

   iii. Fees and expenses incurred to oppose the infringing measures;

   iv. Pre-award and post-award interest at a rate to be fixed by the Tribunal;

   v. Payment of a sum of compensation equal to any tax consequences of the award, in order to maintain the award's integrity; and

   vi. Such further relief as counsel may advise and that this Tribunal may deem appropriate.

G. APPOINTMENT OF ARBITRATORS

9. Pursuant to Article 1123 of the NAFTA, the Investor and the Party have agreed on the number of arbitrators, which shall be three, and on the procedure for appointment. One

arbitrator is to be appointed by each of the disputing parties and the third, which is the presiding arbitrator, is appointed by agreement of the disputing parties.

Date of Issue: August 2, 2002

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