

Escalating U.S. – China Trade War Leads to Speculation on new Chinese Rare Earth Export Restrictions

On May 10, 2019, the U.S. Trump administration raised tariffs on \$200 billion worth of Chinese exports from 10% to 25%, but the U.S. did not include rare earth elements (REE) in these new tariffs. The U.S. relies on China, the dominant global supplier, for about 80% of its rare earths imports, leading to speculation that China would restrict rare earths exports to the U.S. as the trade war escalates.

On May 20, 2019 Chinese President Xi Jinping visited JL MAG Rare-Earth Co Ltd., a rare earth producer in Jiangxi province, China. Xi was accompanied on the trip by Liu He, the vice premier who has led the Chinese side in the trade negotiations. The visit “sends a warning signal to the U.S. that China may use rare earths as a retaliation measure as the trade war heats up,” said Pacific Securities analyst Yang Kunhe, “that could include curbs on rare earth exports to the U.S.” This could also result in increasing prices for rare earth products outside China (as it did in 2010 when China restricted rare earth exports to Japan) and renewed interest in establishing new rare earth supply chains outside China.

Roskill notes the looming supply shortage comes at a time of increasing global demand for REE. Demand for rare earth permanent magnets vital to electric vehicle technology is forecast to show strong growth through 2028, which will particularly impact pricing and availability of neodymium, praseodymium (Nd-Pr) and dysprosium – the key “magnet rare earths.”

Creating further rare earth supply chain risk was the recent announcement from the Malaysian government that it had informed Lynas Corporation, the largest producer of refined rare earths outside China, that it will not renew its production license if it does not remove all the radioactive waste left from processing the ore it imports into the country by September 2019. This could further impact rare earth supplies outside China, if Lynas is unable to comply with this directive.

The U.S., Japan, Korea and the European Union will need new sources of rare earths in order to meet the needs of manufacturers that rely on them for applications in electronics, aerospace, medicine, medical equipment, automobiles and clean technology such as solar panels and wind turbines. The U.S. is reviving the American Mineral Security Act and Canada could play a key role in creating new supply chains of several critical materials named in the Act, including rare earths.

As disclosed in Avalon's news release dated April 2, 2019, Avalon has partnered with a private Australian firm, Cheetah Resources, to advance the Nechalacho Rare Earth Elements Project and is now well positioned to bring a new supply of Nd-Pr concentrates to the market in the near term.

About Avalon Advanced Materials Inc.

Avalon Advanced Materials Inc. is a Canadian mineral development company specializing in niche market metals and minerals with growing demand in new technology. The Company has three advanced stage projects, all 100%-owned, providing investors with exposure to lithium, tin and indium, as well as rare earth elements, tantalum, niobium, and zirconium. Avalon is currently focusing on developing its Separation Rapids Lithium Project, Kenora, ON and its East Kemptville Tin-Indium Project, Yarmouth, NS to production, while continuing to advance its Nechalacho Rare Earth Elements asset. Social

responsibility and environmental stewardship are corporate cornerstones.