



Defense Metals Corp.

Mar 16, 2022

Preparing to Take A Leading Role in the North American and Global REE Supply Chain

Nat Resources

DFMTF

Other OTC

Rating

Outperform

Initiation

Current Price

\$0.25

Target Price

\$0.70

Market Capitalization

40.63M

Shares Outstanding

160.59M

Float

160.59M

Institutional Holdings

1.2%

12-Month Low/High

\$0.16/\$0.44

Average 90-Day Volume

112391

Fiscal Year End

03/31/2021

Initiating coverage with an Outperform rating. We are initiating coverage of Defense Metals Corp. with an Outperform rating and a price target of US\$0.70 or C\$0.90 per share. The company is advancing its 100%-owned Wicheeda rare-earth project located near Prince George, British Columbia. The project has several competitive advantages, including a mining friendly location, well-developed infrastructure, and a strong technical team.

Well positioned to meet growing demand for REEs. In January 2022, Defense Metals released a preliminary economic assessment NI 43-101 technical report which highlighted 5.0 million tonnes of indicated resources averaging 2.95% total rare earth oxides (TREO) and 29.5 million tonnes of inferred resources averaging 1.83% TREO within a conceptual pit shell. The study affirmed the economic value of advancing the project based on significant resource potential, favorable metallurgical recoveries, and attractive return potential.

Exploration supports resource growth potential. Current resources are based on approximately 4,000 meters of drilling and do not include results from Defense Metals' 2021 drilling program that entailed 5,349 meters of drilling in 29 holes. The 2021 drilling program accomplished the company's goal of identifying the expansion of the REE mineralized zone to the north, along with further delineating existing resource mineralization zones within the central and northwestern areas of the deposit. Defense Metals expects to conduct an infill drilling program in May and June 2022 to expand and upgrade resources which will be incorporated, along with 2021 drill results, into a preliminary feasibility study to be released during the first half of 2023.

Well-qualified management and technical team. Mr. Craig Taylor, chief executive officer and director, has extensive experience as a director or officer of mineral exploration and development companies. Ms. Luisa Moreno, PhD, a well-regarded expert in rare earths, serves as President and a director. The company's seven-member board is comprised of accomplished individuals with a broad range of industry, capital markets, financial, and geo-technical experience.

Revenues (\$ MIL)

Period	2021A	2022E	2023E
Q1	\$0.0A	\$0.0A	\$0.0E
Q2	\$0.0A	\$0.0A	\$0.0E
Q3	\$0.0A	\$0.0A	\$0.0E
Q4	\$0.0A	\$0.0E	\$0.0E
	\$0.0A	\$0.0E	\$0.0E

EPS (\$)

Period	2021A	2022E	2023E
Q1	\$(0.00)A	\$(0.01)A	\$(0.00)E
Q2	\$(0.01)A	\$(0.01)A	\$(0.00)E
Q3	\$(0.01)A	\$(0.00)A	\$(0.00)E
Q4	\$(0.02)A	\$(0.00)E	\$(0.00)E
	\$(0.05)A	\$(0.02)E	\$(0.01)E

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Analyst Certification & Disclosures**

Investment Appraisal

We are initiating coverage of Defense Metals Corp. with an Outperform rating and a price target of US\$0.70 or C\$0.90 per share. The company is advancing its 100%-owned Wicheeda rare-earth project located near Prince George, British Columbia that has the potential to be a globally significant producer. The project has several competitive advantages, including a mining friendly location, well-developed infrastructure, and a strong technical team. While China remains the largest global supplier of rare earths, Wicheeda is well positioned to take a leading role in the North American and Global REE supply chain. Once the Wicheeda REE project commences commercial production, it is expected to produce ~25,400 tonnes of rare earth oxide annually, or roughly 10% to 15% of current global supply. It all begins with developing a world-class deposit that contains high quality ore. Rare earth ores generally contain less than 10 percent rare earth oxide (REO) and must be upgraded to be further processed. The average grade of the ore at Wicheeda is 2.33% total rare earth oxide (TREO) which the company may upgrade to 40% to 50% TREO through direct flotation. We think Defense Metals is well positioned to benefit from growing demand for rare earths for use in electric vehicle batteries, metal alloys, and advanced technology applications. We anticipate more activity in the rare earths and critical minerals space as capital flows to attractive opportunities, including growing demand for rare earth and critical minerals, limited supply sources, and increasingly supportive government policies.

While larger players such as MP Materials Corp. (NYSE: MP) and Lynas Rare Earths Limited (ASX: LYC) have captured investors' attention in the rare earths space, we think it is only a matter of time before Defense Metals plays catch up. While Defense Metals is preparing to be able to advance the project into production, we think the company may be a promising candidate for acquisition by a larger REE producer interested in building scale and exposure to North American markets.

Investment Risks

Investment risks include but are not limited to: 1) Defense Metals' failure to identify economic mineral resources, 2) uncertainties associated with the availability and costs of future financing, 3) changes in capital market and macroeconomic environments, 4) fluctuations in exchange rates, 5) changes in supply and demand fundamentals for rare earth elements, 6) delays in project development, and 7) the potential for operating and financing costs to vary from management expectations

Catalysts:

Near-term catalysts include the release of drilling results from the company's most recent drilling program which ended in November 2021. Additionally, the company will commence a 5,300-meter infill drilling program in May to expand and upgrade resources from the inferred category.

Figure 1: Wicheeda Project Milestones and Catalysts

First Half of 2022	Second Half of 2022	First Half of 2023	Second Half of 2023	2024	2025
Flotation and hydro-metallurgy optimization Infill drilling to upgrade resources Start hydrometallurgical pilot plant Environmental studies	Finalize flowsheet Start preliminary feasibility study Engage potential product purchasers	Complete preliminary feasibility study Infill drilling to prove reserves	Plant engineering demonstration	Start feasibility study Construct and run commercial demonstration plant	Complete feasibility study Project financing

Source: Defense Metals Corp. and Noble Capital Markets Inc.

Using the results from the 2021 and planned 2022 drilling programs, the company intends to complete a preliminary feasibility study in the first half of 2023. We think the plan provides a visible path of the project's evolution through project financing. While timing is subject to change, investors may track the company's progress. With each successive milestone achieved, the project's feasibility will be enhanced as may value for shareholders.

Corporate Overview and History

Defense Metals is an exploration and development stage company engaged in the acquisition and exploration of mineral properties whose flagship project is the Wicheeda rare earth elements deposit located near Prince George, British Columbia, Canada. The company's shares trade on the TSX Venture Exchange in Canada under the symbol "DEFN," on the OTCQB in the United States under the symbol "DFMTF," and on the Frankfurt Exchange in Germany under the symbol "35D".

Figure 2: Location of the Wicheeda REE Project



Source: Defense Metals Corp.

Following the acquisition of Spectrum Mining Corporation in January 2022, Defense Metals owns a 100% interest in the 2,008-hectare Wicheeda REE property. Defense Metals fulfilled all required cash payments, share issuances and exploratory expenditure requirements necessary to exercise the option to acquire all issued and outstanding common shares of Spectrum from whom the property was optioned. Wicheeda is subject to a 2.0% net smelter returns (NSR) royalty payable when commercial production begins. Defense Metals maintains the right to purchase one-half of the NSR royalty for C\$1 million. The Wicheeda project has indicated mineral resources of 5,031,000 tonnes averaging 2.95% total rare earth oxide (TREO) and

29,467,000 tonnes of inferred resources averaging 1.83% TREO.

As a point of reference, rare earth oxides (REO) are oxides of rare earth elements. Grades of rare earth oxides are generally measured as parts per million (ppm) or as a percent (%) of total rare earth oxides (TREO) which is the sum of the oxides of heavy rare earths elements (HREO) and light rare earth elements (LREO). HREO is the sum of the oxides of the heavy rare earth elements which include: 1) terbium (Tb), 2) dysprosium (Dy), 3) holmium (Ho), 4) erbium (Er), 5) thulium (Tm), 6) ytterbium (Yb), 7) lutetium (Lu), and 8) yttrium (Y). LREO is the sum of the oxides of the light rare earths elements which include: 1) lanthanum (La), 2) cerium (Ce), 3) praseodymium (Pr), 4) neodymium (Nd), 5) promethium (Pm), 6) samarium (Sm), 7) europium (Eu), and 8) gadolinium (Gd). Figure 3 is a summary of the company's most recent mineral resource estimate.

Figure 3: Wicheeda Mineral Resource Estimate - November 7, 2021

Preliminary Economic Assessment - Effective Date - November 7, 2021

Chemical Symbol														
Cutoff (TREO %)	Category	Tonnes > Cutoff (millions)	TREO (%)	TREO (kt)	CeO ₂ Cerium Oxide (%)	La ₂ O ₃ Lanthanum Oxide (%)	Pr ₆ O ₁₁ Praseodymium Oxide (%)	Nd ₂ O ₃ Neodymium Oxide (%)	Sm ₂ O ₃ Samarium Oxide (ppm)	Gd ₂ O ₃ Gadolinium Oxide (ppm)	Eu ₂ O ₃ Europium Oxide (ppm)	Dy ₂ O ₃ Dysprosium Oxide (ppm)	Tb ₄ O ₇ Terbium Oxide (ppm)	Ho ₂ O ₂ Holmium Oxide (ppm)
0.5	Indicated	5.0	2.95	148	1.44	1.04	0.11	0.30	296	126	80	33	11	3
0.5	Inferred	29.5	1.83	539	0.89	0.61	0.08	0.21	240	112	50	32	10	4

Notes: Independent Preliminary Economic Assessment for the Wicheeda Rare Earth Element Project prepared by SRK Consulting (Canada) Inc. with an effective date of November 7, 2021
Total Rare Earth Oxides (TREO) is the sum of the 10 oxides in the table

Source: Defense Metals Corp. and Noble Capital Markets Inc.

Defense Metals' 2019 drilling campaign resulted in a significant increase in tonnage and resource grade. Figure 4 summarizes the previous mineral resource estimate which was based on 14 drill holes conducted in 2008 and 2009.

Figure 4: Wicheeda Mineral Resource Estimate - June 27, 2020

NI 43-101 Technical Report - Effective Date - June 27, 2020

Chemical Symbol										
Cutoff (Total Metal %)	Category	Tonnes > Cutoff (millions)	LREE (%)	LREO (%)	Ce (%)	La (%)	Nd (%)	Pr (%)	Sm (%)	Nb (%)
1.5	Indicated	4.9	2.58	3.02	1.26	0.94	0.26	0.11	0.02	0.02
1.5	Inferred	12.1	2.48	2.90	1.20	0.89	0.27	0.10	0.02	0.04

Notes: NI 43-101 Technical Report for the Wicheeda Rare Earth Element Project prepared by APEX Geoscience Ltd. with an effective date of June 27, 2020
Light rare earth elements (LREE) % sum of light rare earth element Ce+La+Nd+Pr+Sm+Nb percentages
Light rare earth oxides (LREO) % sum of light rare earth elements expressed as oxides Ce₂O₃+La₂O₃+Nd₂O₃+Pr₂O₃+Sm₂O₃

Source: Defense Metals Corp. and Noble Capital Markets Inc.

The earlier resource estimate was completed by Apex Geoscience Ltd. with an effective date of June 2020. APEX considered five light rare earth elements (LREE) which differs from the 2021 mineral resource estimate, which considers 10 rare earth oxides (REOs), including heavy REOs. Some REOs are quoted in parts per million (ppm) which can be converted to a percentage basis by dividing by 10,000. As a percentage, heavy REOs represent a very small portion of total rare earth elements (TREO). The 2020 Wicheeda mineral resource estimate comprised an indicated mineral resource of 4,890,000 tonnes averaging 3.02% light rare earth element oxides, in addition to an inferred mineral resource of 12,100,000 tonnes averaging 2.90% LREO at a cut-off grade of 1.5% light rare earth elements. The 2021 mineral resource estimate used a lower cut-off grade of 0.5 based on total rare earth elements (TREE) rather than a light rare earth element (LREE) metal cut-off grade.

We think the goal of the company's exploration program is to culminate in a measured and indicated resource of 30 million tonnes and an inferred resource in the 10 million to 20 million tonne range, along with total rare earths oxides (TREO) representing at least 2.5% of the tonnage.

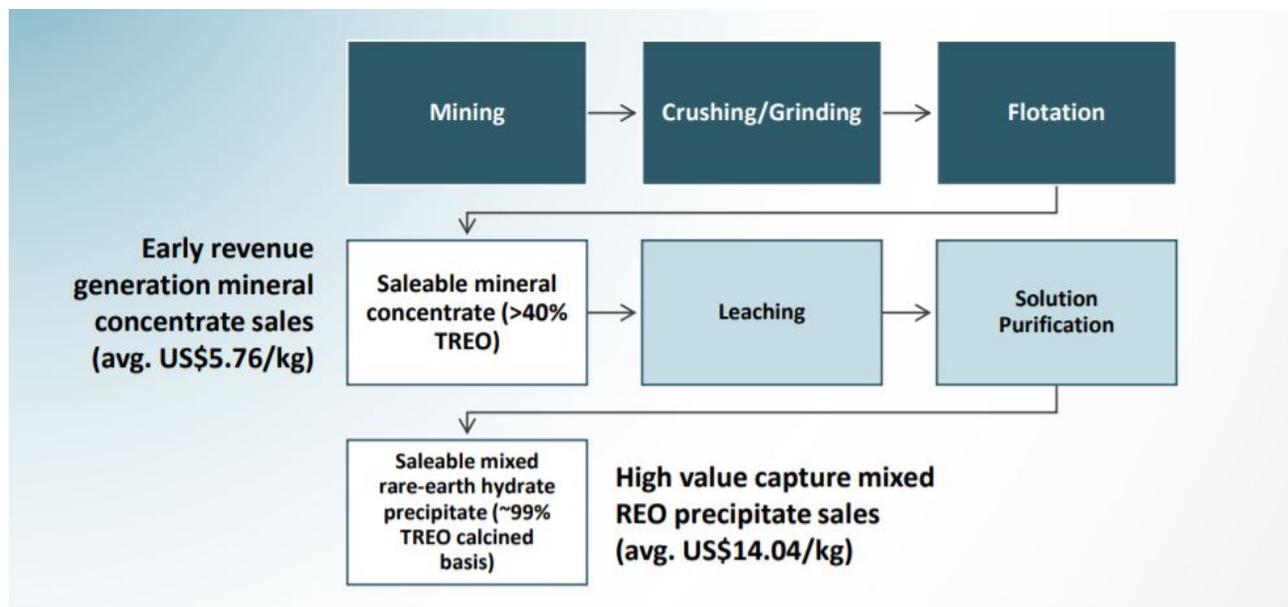
Wicheeda Rare Earth Element Project

The Wicheeda property is comprised of seven contiguous mineral claims and is accessible by road and benefits from well-

developed infrastructure. The property is located about fifty kilometers east of a major paved highway, the CN rail main line, a natural gas pipeline, and a power transmission line. Power is expected to be supplied by a new high-voltage line connecting to a 138-kilovolt line running to the west of the project to the project site. The principal area of interest is the Wicheeda Carbonatite Deposit, a formation with dimensions of four hundred meters north-south by 100 to 250 meters east-west. Since entering the option to acquire the project in late 2018, Defense Metals has advanced the project through metallurgical flowsheet development, initial and updated mineral resource estimates, and a preliminary economic assessment.

The Wicheeda deposit is to be developed as an open pit mining operation. Once mined, rare earth oxides (REO) will be milled and processed in a flotation plant to produce a REO concentrate, which is estimated to be 40% to 50% total rare earth oxide. The flotation concentrate would then be sold into the market during the first four years of operation and, beginning in year 5, be processed in a hydrometallurgical plant to produce a high-grade (70% to 80% TREO) mixed REE precipitate product. The high-grade precipitate would be sold and processed in a separation plant to produce high-grade individual REE products up to 99.9% purity.

Figure 5: Wicheeda Flowsheet



Source: Defense Metals Corp.

Metallurgical programs have been conducted on test samples from the Wicheeda deposit and have included initial exploratory test work to develop a flotation process for recovering contained rare earth minerals into a flotation concentrate. This work was followed by flotation optimization test work conducted in 2019 and flotation pilot testing in 2020. Hydrometallurgical test work was conducted on bulk flotation concentrates to demonstrate process requirements to produce a mixed REE precipitate. In January 2019, the company collected a 30-tonne surface bulk sample from the Wicheeda deposit to provide REE mineralized feed material for a multi-phase program of bench-scale metallurgical test work prior to commissioning larger scale flotation pilot plant testing. Subsequent composite head assay results announced in March 2019 for the bulk sample yielded 1.77% lanthanum-oxide, 2.34% cerium-oxide, 0.52% neodymium-oxide, and 0.18% praseodymium-oxide, for a total of 4.81% light rare-earth oxide (LREO).

Tests conducted during late 2021 yielded improved metallurgical extraction and impurity removal performance compared to the PEA base case flowsheet and management has identified opportunities to reduce circuit complexity. Circuit optimization will continue during 2022.

Licensing, Permitting, and Community Engagement

Permits, licenses, and authorizations are required from both the federal and provincial regulators to advance the project to operation. The Wicheeda project has a multi-year permit for mineral exploration on the property, including camp building, fuel storage, and diamond drilling. The permit is valid until February 25, 2024. For the construction and operation of a mine on the property, Defense Metals will be required to obtain surface rights by applying for mining leases. Importantly, the company has initiated early engagement with the First Nations and other stakeholders impacted by the project. The company plans to implement an environmental, social, and governance strategy to follow high environmental standards, to foster stronger collaboration between the company and the local and First Nations communities, and further augment the company's corporate governance.

The Wicheeda project will require an environmental assessment prior to receiving approval to advance to the licensing and permitting phase of the regulatory process. Although the licensing and permitting phases can start prior to the completion of an environmental assessment, the process is expected to take one to two years following the completion of the assessment prior to advancing to full construction and operations.

Exploration and Drilling Programs

In 2008, Spectrum Mining Corporation, the previous owner of the Wicheeda project conducted a diamond drilling program that entailed four diamond drill holes (WI08-01 to WI08-04), representing 866 meters of drilling. In 2009, Spectrum's drilling program entailed 5 diamond drill holes (WI09-05 to WI09-20), representing 1,824 meters of drilling.

During 2019, Defense Metals conducted a diamond drilling exploration program consisting of thirteen diamond drill holes totaling 2,007.5 meters. Drilling tested the southern, central, and northern zones of the mineralized carbonatite. All drill holes intersected variable lengths of significant REE mineralization. The 2019 diamond drilling program was successful in expanding the REE mineralized footprint of the Wicheeda deposit to the south and north, respectively.

Figure 6: 2019 Drill Program Results

Chemical Symbol				CeO ₂	La ₂ O ₃	Nd ₂ O ₃	Pr ₆ O ₁₁	Sm ₂ O ₃	
				Cerium	Lanthanum	Neodymium	Praseodymium	Samarium	LREO
Drill Hole	From (m)	To (m)	Interval (m)	Oxide (%)	Oxide (%)	Oxide (%)	Oxide (%)	Oxide (%)	(%)
WI19-20	4.6	68.8	64.2	2.20	1.54	0.46	0.19	0.04	4.43
WI19-21	3.9	114.0	110.1	1.65	1.16	0.36	0.14	0.04	3.35
WI19-22	7.0	113.0	106.0	1.37	0.98	0.28	0.11	0.03	2.78
WI19-23	4.0	109.0	105.0	1.56	1.14	0.34	0.13	0.03	3.21
WI19-24	2.9	83.0	80.1	1.24	0.83	0.29	0.10	0.03	2.49
WI19-25	1.1	143.4	142.3	1.13	0.78	0.24	0.09	0.03	2.28
including	1.1	25.0	23.9	1.98	1.42	0.39	0.14	0.04	3.98
including	60.0	83.0	23.0	1.99	1.42	0.43	0.15	0.04	4.04
WI19-26	1.8	128.0	126.2	1.41	1.07	0.29	0.10	0.03	2.90
including	32.0	80.0	48.0	2.09	1.61	0.42	0.15	0.04	4.31
WI19-27	2.0	120.3	118.3	1.28	0.92	0.27	0.10	0.03	2.60
WI19-28	3.2	72.6	69.5	1.23	0.90	0.27	0.10	0.03	2.53
WI19-29	73.0	162.0	89.0	1.51	1.07	0.35	0.12	0.04	3.09
WI19-30	47.0	177.8	130.8	1.30	0.91	0.31	0.11	0.03	2.66
including	47.0	74.0	27.0	2.21	1.59	0.50	0.19	0.05	4.54
WI19-31	55.7	138.5	82.9	2.18	1.60	0.51	0.20	0.05	4.54
including	64.0	97.0	33.0	2.71	1.96	0.64	0.24	0.06	5.60
WI19-32	86.0	114.0	28.0	1.31	1.01	0.30	0.11	0.03	2.76
and	142.0	217.0	75.0	1.82	1.33	0.37	0.14	0.04	3.71
including	151.0	209.0	58.0	2.01	1.49	0.40	0.17	0.04	4.11

Source: Defense Metals Corp. and Noble Capital Markets Inc.

In 2020, Defense Metals completed a Light Detection and Ranging (LiDAR) survey of the project area. In early 2021, the company received final property-wide high-resolution survey results which provided an enhanced terrain model.

During 2021, Defense Metals completed a 29-diamond drill hole program comprising 5,349 meters of drilling primarily for resource expansion. The drilling results will support an updated geological model for the Wicheeda REE deposit to inform continued 2022 infill drilling to improve the confidence of the mineral resources to higher categories (i.e., measured and indicated), in addition to pit geotechnical, and hydrogeological drilling and testing.

Figure 7: 2021 Drill Program Results

Chemical Symbol				Ce ₂ O ₃	La ₂ O ₃	Nd ₂ O ₃	Pr ₂ O ₃	Sm ₂ O ₃	Gd ₂ O ₃	Eu ₂ O ₃	Dy ₂ O ₃	Tb ₂ O ₇	Ho ₂ O ₃	TREO (%)
Drill Hole	To (m)	From (m)	Interval (m)	Cerium Oxide (%)	Lanthanum Oxide (%)	Neodymium Oxide (%)	Praseodymium Oxide (%)	Samarium Oxide (ppm)	Gadolinium Oxide (ppm)	Europtium Oxide (ppm)	Dysprosium Oxide (ppm)	Terbium Oxide (ppm)	Holmium Oxide (ppm)	
WI21-33	5.00	201.00	196.00	1.52	1.07	0.37	0.13	382.00	181.00	81.00	42.00	14.00	4.00	3.17
including	5.00	55.25	50.25	1.74	1.26	0.41	0.14	396.00	181.00	84.00	52.00	16.00	6.00	3.63
including	146.00	201.00	55.00	2.07	1.48	0.47	0.17	489.00	232.00	112.00	52.00	18.00	5.00	4.29
WI21-34	3.00	117.00	114.00	1.46	1.02	0.33	0.11	323.00	134.00	58.00	23.00	9.00	2.00	2.97
including	3.00	70.00	67.00	1.89	1.34	0.41	0.15	379.00	160.00	69.00	29.00	11.00	3.00	3.84
WI21-35	1.20	121.00	119.80	1.87	1.34	0.43	0.15	434.00	200.00	88.00	52.00	17.00	6.00	3.87
WI21-36	1.10	174.00	172.90	1.14	0.78	0.27	0.09	293.00	134.00	59.00	35.00	11.00	4.00	2.34
including	1.10	35.65	34.55	1.66	1.21	0.38	0.13	374.00	170.00	72.00	37.00	13.00	4.00	3.45
including	136.00	174.00	38.00	1.46	1.05	0.33	0.12	337.00	157.00	68.00	40.00	13.00	4.00	3.02
WI21-37	2.00	139.85	137.85	1.56	1.10	0.35	0.12	351.00	144.00	66.00	30.00	11.00	3.00	3.19
including	2.00	57.00	55.00	1.96	1.38	0.42	0.15	427.00	164.00	76.00	35.00	12.00	3.00	4.00
WI21-38	1.35	82.00	80.65	1.50	1.07	0.33	0.12	346.00	154.00	70.00	40.00	13.00	4.00	3.08
including	1.35	24.75	23.40	2.91	2.14	0.62	0.23	607.00	246.00	114.00	60.00	20.00	6.00	6.01
WI21-39	4.00	114.00	110.00	1.28	0.87	0.30	0.10	320.00	158.00	73.00	42.00	13.00	5.00	2.62
and	114.00	224.80	110.80	0.35	0.21	0.10	0.03	129.00	75.00	31.00	30.00	8.00	4.00	0.72
WI21-40	2.75	165.00	162.25	1.57	1.11	0.36	0.13	370.00	158.00	70.00	39.00	13.00	4.00	3.23
including	2.75	47.50	44.75	2.05	1.46	0.46	0.16	452.00	197.00	92.00	61.00	18.00	7.00	4.21
including	96.00	167.00	71.00	1.79	1.26	0.41	0.14	411.00	173.00	75.00	35.00	13.00	3.00	3.67
WI21-43	10.75	124.10	113.35	0.26	0.17	0.07	0.02	121.00	84.00	33.00	35.00	9.00	5.00	0.55
WI21-44	17.50	125.60	108.10	0.83	0.57	0.20	0.07	266.00	141.00	69.00	47.00	14.00	6.00	1.72
including	35.00	89.00	54.00	1.24	0.87	0.29	0.10	384.00	205.00	102.00	70.00	20.00	9.00	2.59
WI21-45	47.80	106.90	59.10	0.67	0.51	0.17	0.06	230.00	134.00	83.00	43.00	13.00	6.00	1.46
including	47.80	74.00	26.20	1.13	0.88	0.29	0.10	384.00	225.00	151.00	67.00	21.00	8.00	2.48
WI21-46	18.90	135.30	116.40	0.80	0.56	0.20	0.06	229.00	108.00	47.00	28.00	9.00	3.00	1.66
including	48.00	90.00	42.00	1.09	0.79	0.25	0.09	271.00	112.00	48.00	22.00	8.00	2.00	2.27
including	117.55	135.30	17.75	1.12	0.74	0.30	0.09	350.00	170.00	75.00	42.00	14.00	5.00	2.32
WI21-47	17.00	98.36	81.36	0.28	0.18	0.08	0.02	108.00	67.00	30.00	29.00	7.00	4.00	0.58
WI21-48	12.00	188.00	176.00	1.22	0.84	0.29	0.10	306.00	130.00	57.00	27.00	10.00	3.00	2.50
including	12.00	32.00	20.00	2.98	2.11	0.69	0.24	669.00	311.00	142.00	80.00	25.00	9.00	6.15
WI21-49	33.00	183.00	150.00	1.80	1.36	0.41	0.14	430.00	197.00	86.00	45.00	16.00	5.00	3.79
including	82.00	142.00	60.00	2.28	1.71	0.51	0.18	520.00	228.00	103.00	54.00	18.00	5.00	4.77
WI21-50	23.00	149.70	126.70	0.76	0.55	0.18	0.06	205.00	110.00	47.00	34.00	10.00	4.00	1.60
including	50.35	85.65	35.30	1.59	1.23	0.33	0.12	341.00	166.00	72.00	40.00	13.00	4.00	3.34

Source: Defense Metals Corp. and Noble Capital Markets Inc.

Defense Metals has released results from 18 drill holes, representing 2,768 meters of drilling. Drilling has returned exceptionally high-grade intervals, including near surface, and expanded mineralization beyond the mineral resource pit shell. In addition to significant composite mineralized widths, drilling has affirmed the presence of higher-grade zones of carbonatite at surface and at depth extending below the current resource pit shell. Drilling within the north central area of the Wicheeda Deposit has returned some of the most significant intercepts of REE mineralization while also yielding some of the highest grade REE mineralization to date near surface. Drilling at depth within the northern Wicheeda deposit has intersected new zones of high-grade REE mineralization with the potential to expand the mineral resource and contribute to higher average grades.

Defense Metals expects to publish a preliminary feasibility study during the first half of calendar year 2023 which would coincide through the first quarter of fiscal year 2024. During the first nine months of fiscal year 2022, or through December 31, 2021, exploration and evaluation expenditures amounted to C\$2.8 million, most of which was spent on drilling programs during the December quarter. We estimate roughly C\$16.3 million to be spent through the first quarter of fiscal year 2024.

Preliminary Economic Assessment

Defense Metals completed a preliminary economic assessment (PEA) and updated mineral resource estimate with an effective date of November 21, 2021. Under a base case scenario, the project has a pre-tax net present value (NPV) of C\$765 million, and after-tax NPV of C\$512 million using an 8% discount rate. The capital pay-back period is 5 years from start of production

and assumes the sale of concentrate will partially self-fund the construction of a hydrometallurgical plant. Revenue is expected to average C\$397 million per year from the sale of REE mineral concentrate during years 2 through 4 and mixed REE hydrometallurgical precipitate in years 5 through 16 with an average operating margin of 65.2%.

A unique advantage of the Wicheeda REE Project is the production of a saleable high-grade flotation-concentrate. The PEA models the production of a mineral concentrate with average 43% total rare earth oxide (TREO). It will be sold to market directly during years 1 through 4 and will feed a project hydrometallurgical plant beginning in year 5.

The study contemplates a 1.8 million tonne per year mill open pit mining operation with a 1.75x strip ratio over a 16-year mine life. Construction is expected to take three years. Annual rare earth oxide (REO) production is expected to average 25,423 tonnes. Operating costs are expected to average C\$137 million per year over a mine life of 16 years.

Initial capital expenditures are expected to be C\$440.1 million. Sustaining capital expenditures for the life of the project is \$408.6 million. A scenario that uses concentrate sales to partially self-fund the construction of a hydrometallurgical plant reduces overall project cash requirements compared to constructing the hydrometallurgical plant as part of Phase 1. This development scenario provides significant optionality to accelerate or defer the investment in the hydrometallurgical plant depending on market conditions.

Figure 8: Wicheeda Capital Expenditures

(C\$ in 000s)					
Category	Initial	Expansion	Sustaining Capital	Closure	Total
Open pit capital expenditures	34,399		25,418		59,817
Flotation concentrator	102,551				102,551
Hydrometallurgical plant		390,286			390,286
General onsite infrastructure	32,500				32,500
Water management	60,060				60,060
Offsite infrastructure	158,106				158,106
Tailings management facility	52,452		222,258		274,710
Sustaining capital expenditures			160,878		160,878
Closure costs				122,186	122,186
Total Capital Expenditures	440,068	390,286	408,554	122,186	1,361,094

Source: Defense Metals Corporation and Noble Capital Markets Inc.

Base case economics were calculated using rare earth oxide prices of US\$5.76/kg TREO in flotation concentrate and US\$14.04/kg TREO in mixed REE carbonate precipitates, using an average long-term neodymium/praseodymium (NdPr) price.

Growing Interest in Off-take Agreements and Strategic Partnerships

Through April 2021, Defense Metals received four requests for evaluation samples of the company's high-grade Wicheeda REE mineral concentrate from Asian-based REE refiners, underscoring growing international market demand for readily accessible, high-quality, North American REE products. Discussions with potential offtake partners have the potential to yield benefits through opportunities for direct project funding, technical services agreements, and access to the full downstream rare earths value chain.

In August 2021, Defense Metals signed a non-binding Memorandum of Understanding with Sinosteel Equipment & Engineering Co., Ltd., a subsidiary of Sinosteel Corporation, consisting of information sharing, beneficiation test work and potential concentrator design research, financing, and an investigation into the establishment of an on-site large-scale pilot plant at the Wicheeda REE property to assess the economic and technical feasibility of full-scale mine development. It also engaged Welsbach Holdings Pte Ltd. to assist in building awareness for the Wicheeda REE project, product market research, introductions to supply chain partners, and assistance in commercial negotiations. The company has also engaged with end-users in Europe and Asia.

Exploration and Evaluation Expenditures

Through fiscal year 2021, cumulative exploration and evaluation expenditures amounted to C\$2.9 million. During the first nine months of fiscal year 2022, exploration and evaluation expenditures C\$2.8 million, largely attributed to the company's drilling program during the quarter ended December 2021.

Figure 9: Exploration and Evaluation Expenditures

Balance at March 31, 2021 (C\$)	2,879,561
Acquisition costs	100,000
Drilling	1,161,094
Environmental	52,078
Field and camp costs	76,515
Geological	519,044
Helicopter survey	425,915
Geochemical	86,820
Management and administration	136,157
Mapping and reports	2,500
Preliminary economic assessment	236,615
Balance at December 31, 2021 (C\$)	5,676,299

Source: Defense Metals Corp. and Noble Capital Markets Inc.

During fiscal years 2022 and 2023, we forecast exploration and evaluation expenditures of C\$3.2 million and C\$8.2 million, respectively.

REE Industry

Rare earth elements (REEs) are comprised of 15 elements in the lanthanum series, along with scandium and yttrium. While the actual elements may not be rare, it is often difficult to find them in sufficient concentrations for economic extraction and they require extensive processing. REEs are used in a variety of clean energy and advanced technology applications.

Figure 10: Rare Earths Applications

Rare Earth – Key Applications



Source: DEMETER

According to BP's Statistical Review of World Energy 2021, China accounted for 52.3% of rare earth mineral production in 2020 and 35.4% of rare earth mineral reserves. Conversely, the United States accounted for 14.2% of rare earth mineral production in 2020 and 1.2% of rare earth mineral reserves.

Figure 11: Rare Earth Metals Production and Reserves

Thousand tonnes ¹	Mine Production				Reserves	
	2018	2019	2020	Share	YE 2020	Share
Australia	18.6	17.6	41.4	15.5%	4,100.0	3.3%
Brazil	1.1	0.7	1.0	0.4%	21,000.0	16.9%
China	120.0	132.0	140.0	52.3%	44,000.0	35.4%
India	2.9	3.0	3.0	1.1%	6,900.0	5.6%
Madagascar	2.0	4.0	8.0	3.0%	NA	NA
Russian Federation	2.6	2.6	2.6	1.0%	20,602.0	16.6%
Thailand	1.0	1.9	2.0	0.7%	NA	NA
United States	18.0	28.0	38.0	14.2%	1,500.0	1.2%
Rest of the World	21.0	26.6	31.6	11.8%	26,040.0	21.0%
Total World	187.2	216.4	267.7	100.0%	124,142.0	100.0%

Notes: ¹Thousand tonnes of rare earth oxide equivalent

²NA - Not Applicable

Source: Statistical Review of World Energy 2021, 70th Edition, BP, 2021

China dominates the production of many critical minerals, including rare earth elements. There appears to be an awakening among U.S. policymakers of the dangers of dependence on foreign sources for critical minerals, especially those that are adversarial to the United States. We believe a shift is underway to source REEs from countries that are friendly to the United States, including Canada. As part of its strategy to ensure secure and reliable supplies of critical minerals, the U.S. Department of the Interior identified 35 critical minerals, including the rare earth elements group. The U.S. Government is planning to fund rare earths projects to reduce reliance on China. In January 2022, bipartisan legislation was introduced, the Restoring Essential Energy and Security Holdings Onshore for Rare Earths Act, to protect the U.S. from the threat of rare-earth element supply disruptions, encourage domestic production, and reduce reliance on China. REEs are found in mineral deposits such as bastnaesite and monazite, the two largest sources of REEs. Bastnaesite, a carbonate-fluoride mineral, typically contains cerium, lanthanum, neodymium, and praseodymium. Monazite, a phosphate mineral, typically contains cerium, lanthanum, neodymium, and samarium. Rare earths are mined domestically in the United States. Bastnaesite is extracted at a mine in Mountain Pass, California.

MP Materials, the most significant rare earth materials producer in the United States, completed a business combination with Fortress Value Acquisition Corp., a special purpose acquisition company and began trading on the New York Stock Exchange on November 18, 2020. MP Materials owns and operates the Mountain Pass rare earth mine and processing facility in California which opened in 1952 as a uranium producer, pivoted to become one of the largest suppliers of rare earth minerals, but closed in 2002 as environmental restrictions and foreign imports made it difficult to compete. The facility underwent various ownership changes and reopened in 2017 under MP Materials' ownership. It is North America's only active and scaled rare earth production site and now has a market capitalization of ~\$8.0 billion as of March 15, 2022. The company was recently awarded a \$35 million contract by the U.S. Department of Defense to support construction of a commercial scale processing facility for heavy rare earth elements at Mountain Pass.

According to the U.S. Department of the Interior, the estimated value of rare-earth compounds and metals imported by the United States in 2021 was \$160 million, a significant increase from \$109 million in 2020. The estimated end-use distribution of rare earths was as follows: 1) auto catalysts 74%, 2) ceramics and glass – 10%, 3) metallurgical applications and alloys -6%, 4) polishing – 4%, and 5) other – 6%. While we expect the recovery of rare earths from recycled material to grow, limited quantities of rare earths are currently recovered from batteries, permanent magnets, and other sources of recycled material. The table below provides some statistics associated with the rare earths market in the United States.

Figure 12: United States REE Market Statistics

Statistics - United States ¹	2017	2018	2019	2020	2021
Production:					
Mineral concentrates	0	14,000	28,000	39,000	43,000
Compounds and metals	0	0	0	0	230
Imports:					
Compounds	11,000	10,800	12,200	6,510	7,700
Metals:					
Ferrocerium, alloys	309	298	330	274	320
Rare-earth metals, scandium, and yttrium	524	526	627	362	540
Exports:					
Ores and compounds	1,740	17,900	28,300	40,000	45,000
Metals:					
Ferrocerium, alloys	982	1,250	1,290	625	740
Rare-earth metals, scandium, and yttrium	55	28	83	25	29
Consumption, apparent, compounds and metals	9,300	9,600	11,200	5,400	6,100
Price, average, dollars per kilogram:					
Cerium oxide, 99.5% minimum	2	2	2	2	2
Dysprosium oxide, 99.5% minimum	187	179	239	261	400
Europium oxide, 99.99% minimum	77	53	35	31	31
Lanthanum oxide, 99.5% minimum	2	2	2	2	2
Mischmetal, 65% cerium, 35% lanthanum	6	6	6	5	6
Neodymium oxide, 99.5% minimum	50	50	45	49	49
Terbium oxide, 99.99% minimum	501	455	507	670	1,300
Employment, mine and mill, annual average, number	24	190	202	185	290
Net import reliance as a percentage of apparent consumption					
Compounds and metals	100	100	100	100	>90
Mineral concentrates ²	XX	E	E	E	E

Notes: ¹Metric tons of rare-earth oxide (REO) equivalent, unless otherwise stated

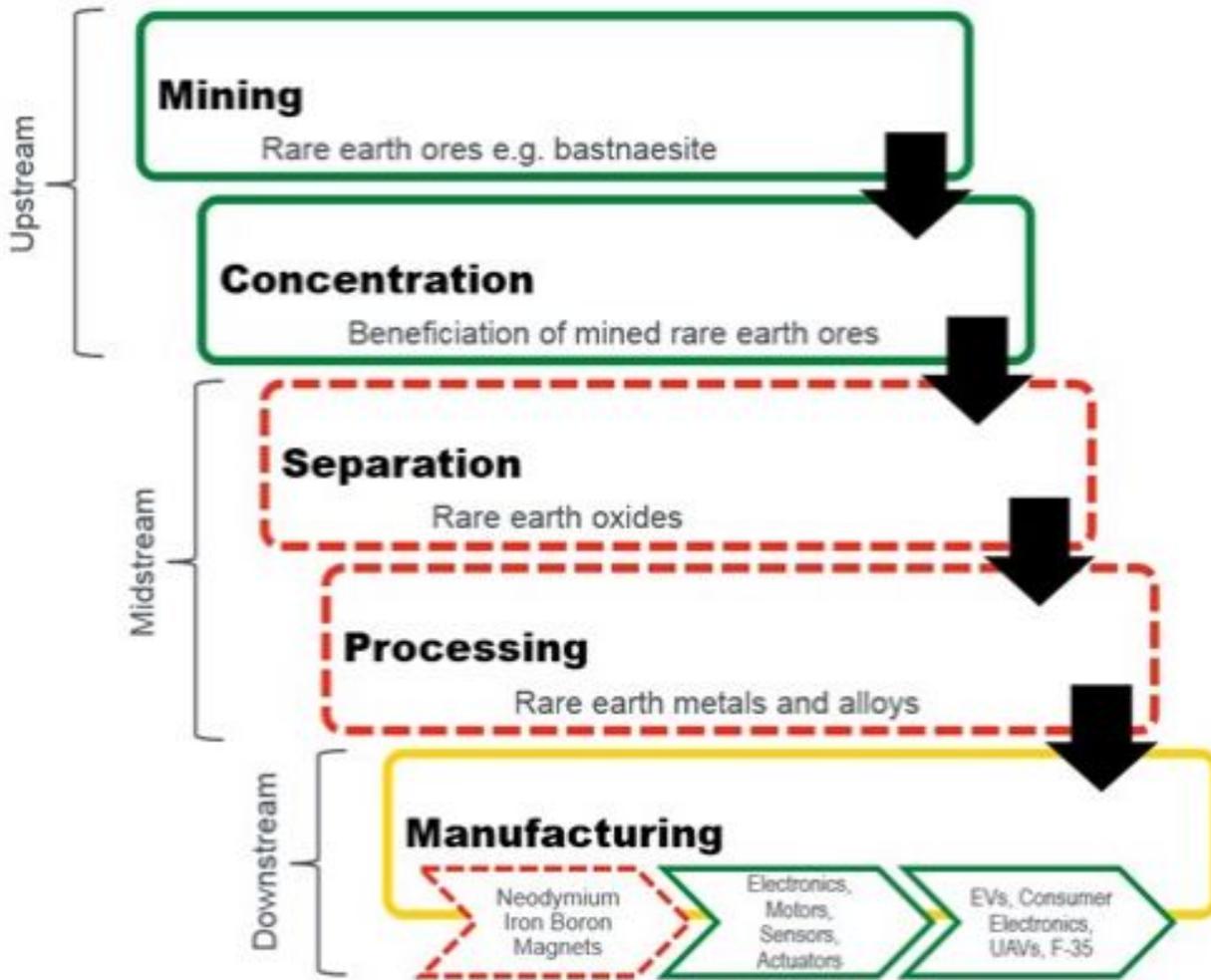
²XX - Not applicable - zero, E - Net exporter

Source: Mineral Commodity Summaries 2022, U.S. Department of the Interior, U.S. Geological Survey, January 31, 2022

Given the United States' reliance on imports, we think Canadian producers stand to benefit from a shift away from sources in China. As processing capabilities are developed, the U.S. could be an important destination for Canada sourced materials.

The supply chain for rare earths include upstream, midstream, and downstream components. Defense Metals participates in the upstream segment that includes mining and concentration.

Figure 13: Rare Earth Element Supply Chain



Source: Critical Materials Rare Earths Supply Chain: A Situational White Paper, U.S. Department of Energy, Office of Energy Efficiency & Renewable Energy, April 2020

Concentration or beneficiation is an extractive metallurgy process that upgrades the value of mineral ores that contain raw REEs by removing low value minerals and resulting in a higher-grade product such as rare-earth concentrate.

Separation is the process of separating individual REEs from one another in the rare earth oxide concentrates. Separation of REEs is chemically intensive because the REEs are chemically similar to one another. Processing refers to the conversion of REOs to rare earth metals, such as neodymium metal which can then be used to form alloys. China controls most of the midstream separating and processing capacity.

There is no single price for REEs collectively, but numerous prices for REE oxides and compounds individually. Pricing information for rare earths is opaque and generally available by paid subscription. Publicly available information is generally not comprehensive and generally does not provide detailed information as to quality and origin which makes comparisons difficult.

Figure 12 summarizes recent prices for various rare earth oxides. We have converted pricing from Euros to Canadian dollars using an exchange rate of 1.39 Canadian dollars per Euro.

Figure 14: REE Prices

Element	Chemical Symbol	Quality and Origin	Unit of Measure	Currency	Pricing		Six-Month Average	Date of Last Update
					Minimum	Maximum		
Cerium Oxide	CeO ₂	99%min FOB China	metric tonne	C\$	1,803.98	1,866.62	1,800.73	10-Mar-22
Lanthanum Oxide	La ₂ O ₃	99.9%min FOB China	metric tonne	C\$	1,753.87	1,816.51	1,751.57	10-Mar-22
Praseodymium Oxide	Pr ₆ O ₁₁	99.5%min FOB China	metric tonne	C\$	215,475.52	217,981.05	193,856.09	10-Mar-22
Neodymium Oxide	Nd ₂ O ₃	99.5%min FOB China	metric tonne	C\$	233,014.22	234,266.99	218,190.51	10-Mar-22
PrNd Oxide	PrNd	Pr6011 25%, Nd203 75% EXW Chin	metric tonne	C\$	211,610.15	213,587.54	197,694.88	10-Mar-22
Samarium Oxide	Sm ₂ O ₃	99.9%min FOB China	metric tonne	C\$	5,900.52	5,963.16	5,663.39	10-Mar-22
Gadolinium Oxide	Gd ₂ O ₃	99.5%min EXW China	metric tonne	C\$	131,514.54	132,107.85	114,098.25	10-Mar-22
Europium Oxide	Eu ₂ O ₃	99.999%min FOB China	kilogram	C\$	39.84	41.09	39.70	10-Mar-22
Dysprosium Oxide	Dy ₂ O ₃	99.5%min FOB China	kilogram	C\$	610.72	616.99	591.07	10-Mar-22
Terbium Oxide	Tb ₄ O ₇	99.99%min FOB China	kilogram	C\$	2,950.26	2,987.85	2,761.28	10-Mar-22
Holmium Oxide	Ho ₂ O ₃	99.5% EXW China	kilogram	C\$	379.71	380.69	342.79	10-Mar-22

Source: Institute of Rare Earths and Metals AG and Noble Capital Markets Inc.

Permanent magnets made of rare earth materials are critical components of electric vehicles and wind turbines, along with other communication and defense technologies. Neodymium and praseodymium (LREEs) are critical materials in the manufacturing of neodymium-iron-boron (NdFeB) magnets which have among the highest magnetic strength among commercially available magnets and promote high energy density and efficiency in energy technologies. They are often referred to as NdPr magnets because they generally contain about one-third neodymium of which some of that can be replaced by praseodymium. Electric vehicles use up to 3 kilograms of NdFeB magnets in their motors and, according to Defense Metals' corporate presentation, every 10 million new electric vehicles require ~10,000 tonnes of additional neodymium or 20% of the current annual global supply. Demand for REEs is expected to benefit from continued deployment and adoption of wind turbines and electric vehicles and could lead to supply and demand imbalances. While REEs are used for a variety of applications, the highest value REEs are neodymium and praseodymium which currently drive the value of mixed rare earth concentrates and precipitates.

Valuation

We have initiated coverage of Defense Metals Corporation with an Outperform rating and a price target of US\$0.70 or C\$0.90 per share. Our price target assumes a 24-month time horizon and our valuation is based on a discounted cash flow methodology. We have based our model on base case assumptions in the company's preliminary economic assessment with a few key differences. First, we have assumed equity issuance during the period leading up to the feasibility study to fund exploration and evaluation expenditures and ongoing expenses. Second, we have assumed REE prices that are 20% higher than the base case due to our favorable outlook for demand and pricing. Currently, neodymium and praseodymium prices are roughly 50% higher than prices used in the PEA. Third, we have employed a 15% discount rate instead of the 8% base case rate due to the relatively early stage of the Wicheeda project and uncertainties related to advancing the project to production. Rather than adjusting our price target to reflect a multiple of net asset value, we have risk-adjusted our price target with our discount rate.

Some of the key assumptions that we have incorporated into our mining model include: 1) average life of mine rare earth oxide (REO) prices of C\$8.78 or US\$6.91/kg TREO in flotation concentrate and C\$21.40 or US\$16.85/kg TREO in mixed REE carbonate precipitates, 2) an average recovery rate of 43%, 3) average annual rare earth oxide (REO) production of 25,423 tonnes, 4) net smelter returns royalty of 2.0% on Wicheeda life of mine production, 5) life of mine sustaining capital expenditures of C\$408.6 million per year, and 5) reclamation costs of C\$122.2 million.

We have assumed the mine begins commercial operations in 2029. For open pit operations, we have assumed a strip ratio of 1.75x. We have assumed an initial capital cost of C\$440.1 and C\$390.3 million for the hydrometallurgical plant. Our mining model is for the periods 2026 through 2045. Free cash flows (operating cash flow minus capital expenditures) for fiscal years 2023 through 2045 were discounted using a 15% discount rate. We projected negative free cash flow for years 2023 through 2030.

We assumed the company would finance the initial capital expenditures using a 60% debt and 40% equity mix of financing and that the company is able to fund 75% of the cost of the hydrometallurgical plant from cash flow generated from the sale of concentrate. Our valuation reflects fully diluted shares outstanding, including shares issued to finance construction of the mine. We do not include the debt in our valuation given that we assume it gets paid off in five years beginning in 2029 following commencement of commercial operations and thus reduced the present value of the cash flows. We have made many assumptions which will likely be subject to change over time as information is updated.

Our price target of US\$0.70 or C\$0.90 per share is based on a present value of cash flows amounting to C\$349.7 million, cash of C\$2.6 million, no debt, and fully diluted shares outstanding of 400.8 million.

Summary of Financial Performance

For the three and nine months ended December 31, 2021, the company generated net losses of C\$251,726, or C\$(0.00) per share and C\$1,863,880, or C\$(0.02) per share, respectively. From a cash flow perspective, net change in cash for the nine months ended December 31, 2021, increased C\$81,681. Cash flows used in operating activities amounted to C\$1,591,667, while cash flows used in investing activities were C\$2,851,563. Cash flows from financing activities amounted to C\$4,524,911.

Capital Structure and Liquidity

As of December 31, 2021, Defense Metals reported working capital of C\$953,774, including cash of C\$931,147 and no debt. Shares outstanding were 81,303,939.

As of February 3, 2022, there were 160,591,221 common shares issued and outstanding. On a fully diluted basis, the company had 199,639,154 shares outstanding, including 15,466,333 incentive stock options and 23,581,600 share purchase warrants. The increase in common shares issued and outstanding compared to the quarter ended December 31, 2021 is attributed to shares issued associated with the acquisition of Spectrum Mining Corporation, which was announced on January 14, 2022 and resulted in Defense Metals owning 100% of the Wicheeda REE project. Management and insiders own approximately 5% of the company's outstanding shares.

Corporate Governance

Defense Metals has assembled an all-star team to advance its Wicheeda REE project. In addition to a management team that brings significant industry and governance experience, the company benefits from an accomplished board of directors that offer a broad array of experiences that are directly relevant to advancing Wicheeda through to production. Management also benefits from an impressive roster of strategic advisors that are available to provide advice and counsel on a range of matters.

Mr. Craig Taylor, CEO and Director, has been instrumental in building out the company and advancing the Wicheeda project from the exploration phase to the recently completed preliminary economic assessment in a short time frame. From 2006 until 2016, Mr. Taylor was a director of Advantage Lithium Corp., a publicly traded exploration company. During his career, Mr. Taylor has served as a director and officer of several other public companies engaged in mineral exploration and development.

Dr. Luisa Moreno, President and Director, is a leading expert on rare earths and has co-authored a book on mineral processing and project financing and authored several advanced industry and technical reports. She currently serves as Chief Executive Officer of Graphano Energy Ltd. and Managing Director of Tahuti Global Inc., a company she founded. Dr. Moreno has held positions as a senior analyst at Toronto-based investment banks and as an investment research analyst at a global investment research firm. Dr. Moreno earned a PhD in Materials Science and Mechanics from Imperial College in London.

Mr. Ryan Cheung, Chief Financial Officer and Director is a Chartered Professional Accountant (CPA) and Chartered Accountant (CA) and provides accounting, management, securities regulatory compliance services to private and publicly listed companies. Mr. Cheung earned a Bachelor of Commerce degree from the University of Victoria and is a member of the Chartered Professional Accountants of British Columbia.

Mr. Kristopher Raffle, Professional Geologist and Director, serves as the Qualified Person for the company. Mr. Raffle also serves as a board director of New Placer Dome Gold Corp. He is a Partner and Principal Geologist with APEX Geoscience Ltd., a geologic consulting firm. Mr. Raffle has over 20 years of experience conducting property evaluation, exploration data analysis, exploration program design, and geological modeling.

Company Profile Defense Metals is an exploration and development stage company engaged in the acquisition and exploration of mineral properties whose flagship project is the 100%-owned Wicheeda rare earth elements deposit located near Prince George, British Columbia, Canada. Rare earth elements are used in the electric power market, defense industry, national security sector, and in the production of green energy technologies. Rare earth elements are used in magnets in wind turbines and in permanent magnet motors for electric vehicles. The company's shares trade on the TSX Venture Exchange in Canada under the symbol "DEFN," on the OTCQB in the United States under the symbol "DFMTF," and on the Frankfurt Exchange in Germany under the symbol "35D".

Fundamental Analysis - 3.0/5.0 Checks

Our fundamental assessment rating, separate from our investment rating and valuation, is based on five attributes. Our fundamental rating is 3.0 checks out of 5.0 checks which falls within our "Average" rating. Defense Metals' seven-member board of directors is comprised of three independent directors and four from management. Our rating reflects the fact that the company is not generating revenues or operating cash flow. The company has published a NI 43-101 Preliminary Economic Assessment of its Wicheeda REE project that is in a favorable mining jurisdiction and benefits from well-developed infrastructure. While Defense Metals has no debt, it will need to secure funding to advance development of the Wicheeda REE project. For further explanation of our fundamental analysis, refer to the disclosures at the end of this report.

Valuation Summary

We rate the shares of Defense Metals as Outperform with our price target of US\$0.70 or C\$0.90 per share. Our valuation is based on a discounted cash flow analysis. We have used a discount rate of 15% to reflect the need for a higher risk premium based on the company's small size, lack of revenue or operating income, and need for funding to advance its growth initiatives. Rather than adjusting our price target to reflect a multiple of net asset value, we have risk-adjusted our price target with our discount rate.

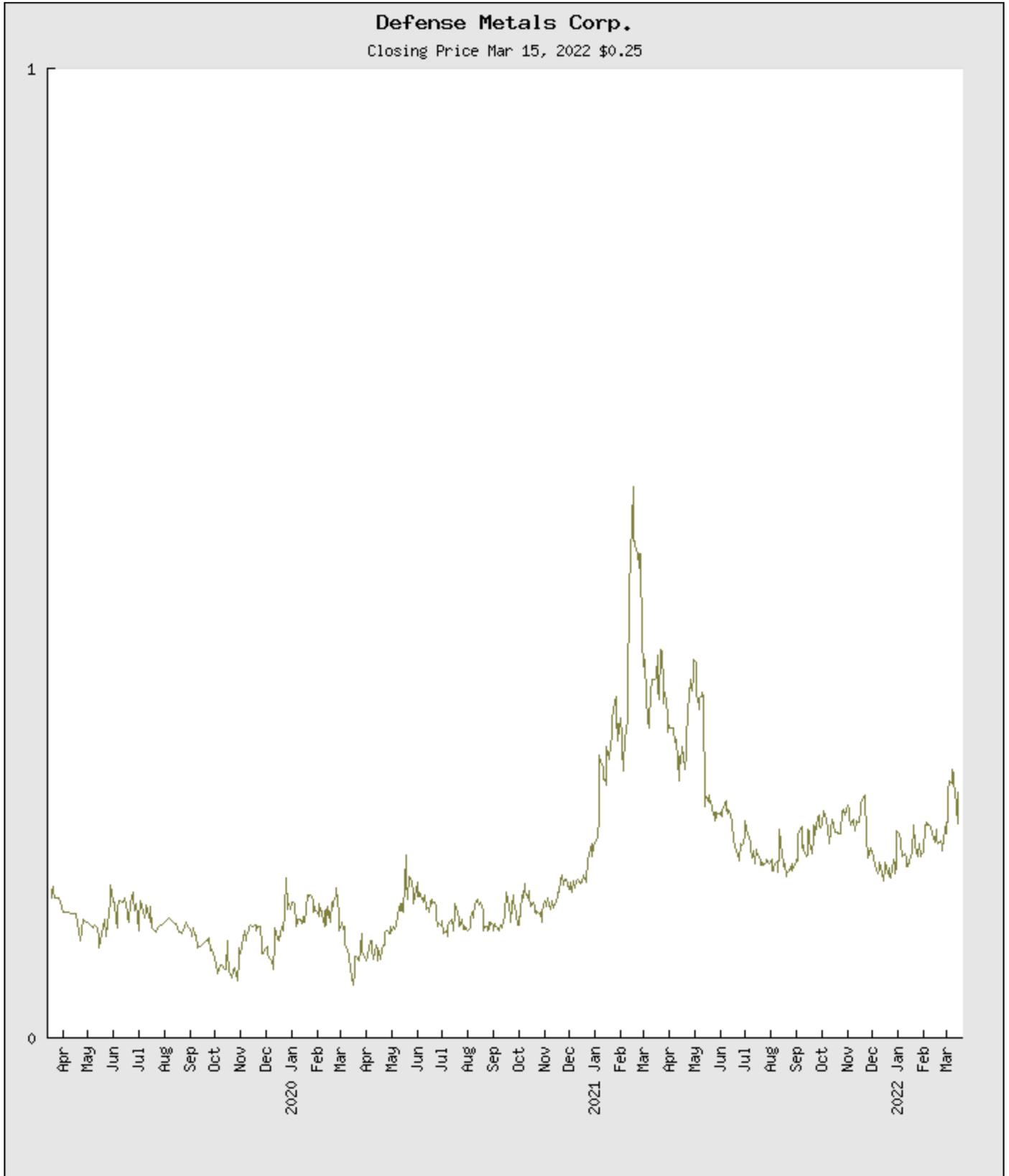
Investment Risks

Investment risks include but are not limited to: 1) Defense Metals' failure to identify economic mineral resources, 2) uncertainties associated with the availability and costs of future financing, 3) changes in capital market and macroeconomic environments, 4) fluctuations in exchange rates, 5) changes in supply and demand fundamentals for rare earth elements, 6) delays in the development of projects, and 7) the potential for operating and financing costs to vary from management expectations.

Defense Metals Corp. Fiscal Year-End - Mar (\$ mil)	2019A	2020A	20-Jun-20	20-Sep-20	20-Dec-20	21-Mar-20	2021A	1Q-2022A	2Q-2022A	3Q-2022A	4Q-2022E	2022E	Jan-22	Feb-22	Mar-22	2023E	2024E	2025E	-3	-2	-1	1	2	
Income Statement																								
Total revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25,987,248	245,534,688
Operating Costs and Expense:																								
Cost of sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(20,447,000)	(80,342,000)
Depreciation and amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(17,400,000)	(17,588,000)
Consulting	(260,669)	(302,281)	(42,342)	(33,311)	(71,195)	(130,007)	(262,825)	(263,236)	(75,813)	(157,814)	(159,362)	(656,258)	(180,989)	(162,566)	(184,222)	(165,854)	(653,688)	(555,918)	(472,275)	(401,434)	(341,219)	(250,036)	(248,531)	(209,551)
Communications, marketing, and investor relations	(150,815)	(122,432)	(123,663)	(184,125)	(291,721)	(760,923)	(1,389,861)	(230,103)	(449,068)	(180,211)	(157,042)	(1,084,423)	(188,712)	(170,400)	(172,104)	(173,825)	(660,340)	(712,442)	(740,940)	(770,375)	(861,406)	(833,466)	(886,785)	(901,480)
Office and administrative	(88,171)	(72,865)	(24,612)	(17,865)	(22,686)	(33,866)	(64,165)	(30,943)	(21,213)	(34,326)	(126,651)	(34,869)	(35,016)	(35,368)	(35,720)	(140,771)	(146,401)	(152,257)	(158,348)	(164,682)	(171,269)	(178,120)	(185,244)	(192,444)
Professional	(60,786)	(110,914)	(35,320)	(36,026)	(24,177)	(76,984)	(172,507)	(136,260)	(64,262)	(84,905)	(326,459)	(65,574)	(66,230)	(66,882)	(67,561)	(266,257)	(276,907)	(287,564)	(298,221)	(308,878)	(319,535)	(330,192)	(340,849)	(351,506)
Regulatory and filing	(61,447)	(46,366)	(33,300)	(8,348)	(12,152)	(32,240)	(66,901)	(70,801)	(2,246)	(10,268)	(16,362)	(69,765)	(62,465)	(10,376)	(10,376)	(12,762)	(42,403)	(44,193)	(46,960)	(49,726)	(52,492)	(55,258)	(58,024)	(60,790)
Stock-based compensation	(272,500)	(287,926)	(110,939)	(93,883)	(76,640)	(372,805)	(654,127)	(8,968)	(165,161)	(60,347)	(60,549)	(295,125)	(81,255)	(81,868)	(82,480)	(63,111)	(248,721)	(258,070)	(268,016)	(277,777)	(288,068)	(298,767)	(309,511)	(314,882)
Operating expense	(604,438)	(1,246,931)	(369,796)	(373,659)	(498,511)	(1,444,014)	(2,685,360)	(809,930)	(802,223)	(480,126)	(496,665)	(2,588,974)	(501,662)	(306,679)	(511,746)	(516,803)	(2,036,950)	(1,994,231)	(1,968,432)	(1,942,637)	(1,916,863)	(1,891,160)	(1,865,455)	(1,839,750)
Operating income (loss)	(604,438)	(1,246,931)	(369,796)	(373,659)	(498,511)	(1,444,014)	(2,685,360)	(809,930)	(802,223)	(480,126)	(496,665)	(2,588,974)	(501,662)	(306,679)	(511,746)	(516,803)	(2,036,950)	(1,994,231)	(1,968,432)	(1,942,637)	(1,916,863)	(1,891,160)	(1,865,455)	(1,839,750)
Other income, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest expense, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain through share premium	(38,400)	(15,342)	173,000	6,400	0	(221,807)	(42,067)	0	0	238,400	229,542	457,842	200,118	230,864	231,958	231,848	822,759	827,373	832,009	836,679	841,323	846,969	852,769	858,544
Loss in impairment of exploration and evaluation assets	(981,430)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income (loss) before income taxes	(1,624,268)	(1,282,273)	(196,796)	(366,659)	(498,511)	(1,665,501)	(2,727,467)	(809,930)	(802,223)	(251,726)	(267,163)	(2,131,052)	(271,540)	(275,568)	(280,478)	(285,017)	(1,114,191)	(1,096,856)	(1,078,429)	(1,060,260)	(1,042,090)	(1,023,929)	(1,005,769)	(987,205)
Income tax expense (benefit)	-0.25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,447,705	9,048,845
Net loss	(1,624,268)	(1,282,273)	(196,796)	(366,659)	(498,511)	(1,665,501)	(2,727,467)	(809,930)	(802,223)	(251,726)	(267,163)	(2,131,052)	(271,540)	(275,568)	(280,478)	(285,017)	(1,114,191)	(1,096,856)	(1,078,429)	(1,060,260)	(1,042,090)	(1,023,929)	(1,005,769)	(987,205)
Earnings (Loss) per share	(0.11)	(0.04)	(0.00)	(0.01)	(0.01)	(0.02)	(0.05)	(0.01)	(0.01)	(0.00)	(0.00)	(0.02)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Weighted average shares outstanding	18,075,018	31,527,868	44,824,728	50,653,785	48,744,533	67,700,458	52,860,875	75,013,137	80,432,639	81,084,882	100,561,221	99,279,717	100,820,777	102,304,881	103,216,405	104,127,929	105,039,453	105,950,977	106,862,501	107,774,025	108,685,549	109,597,073	110,508,597	111,420,121

Defense Metals Corp. (DFMTF) | Current Price: \$0.25 | Outperform | Mar 16, 2022

Defense Metals Corp. Fiscal Year-End - Mar (Cdn\$)	2019A	2020A	20-Jun 1Q-2021A	20-Sep 2Q-2021A	20-Dec 3Q-2021A	21-Mar 4Q-2021A	2021A	21-Jun 1Q-2022A	21-Sep 2Q-2022A	21-Dec 3Q-2022A	22-Mar 4Q-2022E	2022E	Jun-22 1Q-2023E	Sep-22 2Q-2023E	Dec-22 3Q-2023E	Mar-23 4Q-2023E	2023E	2024E	2025E	-3 2026E	-2 2027E	-1 2028E
Statement of Cash Flow																						
Cash Flows From Operating Activities	(1,847,438)	(1,231,586)	(196,796)	(308,659)	(856,224)	(1,424,814)	(2,543,253)	(809,930)	(802,223)	(251,727)	(267,153)	(2,131,033)	(271,540)	(275,988)	(280,478)	(285,917)	(1,114,191)	(1,088,858)	(1,038,423)	(7,270,768)	(10,393,110)	(19,771,130)
Net income (loss) for the period	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-cash items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation and amortization	272,500	287,926	110,939	93,683	79,840	372,865	654,127	8,968	165,161	80,347	167,042	401,518	198,712	170,400	172,194	173,825	885,040	712,442	740,940	770,577	801,400	833,456
Stock-based compensation	(38,400)	(15,342)	(173,000)	(6,400)	(19,400)	(19,400)	(42,087)	0	0	(228,400)	(229,542)	(457,942)	(230,116)	(230,891)	(231,268)	(231,846)	(822,759)	(927,379)	(932,009)	(938,670)	(941,353)	(946,060)
Exploration and evaluation asset impairment	861,430	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Changes in non-cash working capital items	(28,947)	18,477	(3,208)	(315,818)	259,699	48,016	(13,109)	(29,472)	(28,144)	(83,898)	0	(141,312)	0	0	0	0	0	0	0	0	0	0
Sales tax receivable	(64,133)	30,993	27,330	1,507	(43,306)	19,071	1,542	(326)	(56,344)	48,802	0	(8,000)	0	0	0	0	0	0	0	0	0	0
Prepaid expenses	0	0	0	0	(279,132)	279,132	0	0	218,843	0	218,843	0	218,843	0	0	0	0	0	0	0	0	0
Mining tax credit receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accounts payable and accrued liabilities	20,810	(14,600)	(150,513)	(11,144)	65,279	139,914	43,538	26,116	(23,982)	194,480	0	196,614	0	0	0	0	0	0	0	0	0	0
Cash Flow From Operating Activities	(703,278)	(924,135)	(385,246)	(604,201)	(416,421)	(590,416)	(1,999,284)	(804,644)	(745,532)	(41,491)	(329,653)	(1,921,320)	(332,950)	(336,279)	(336,642)	(343,038)	(1,351,909)	(1,281,789)	(1,227,493)	(7,436,860)	(10,533,062)	(19,883,734)
Cash Flow from Investing Activities	127	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(115,062,000)	(126,746,000)	(188,087,000)
Capital expenditures	(384,888)	(50,000)	0	0	(100,000)	0	(100,000)	0	0	(100,000)	0	(100,000)	0	0	0	0	0	0	0	0	0	0
Acquisition of mineral properties	(138,344)	(1,130,959)	(79,250)	(321,858)	(421,886)	(529,539)	(1,352,537)	(120,447)	(575,251)	(2,055,865)	(450,000)	(3,201,563)	(2,040,431)	(2,040,431)	(2,040,431)	(2,040,431)	(8,161,725)	(8,200,000)	(5,500,000)	(1,500,000)	(1,500,000)	(1,500,000)
Exploration and evaluation assets	0	0	0	0	0	(80,000)	(80,000)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Prepaid exploration expenses	(503,310)	(1,180,959)	(79,250)	(321,858)	(521,886)	(609,539)	(1,332,537)	(120,447)	(575,251)	(2,155,865)	(450,000)	(3,301,563)	(2,040,431)	(2,040,431)	(2,040,431)	(2,040,431)	(8,161,725)	(8,200,000)	(5,500,000)	(1,500,000)	(1,500,000)	(1,500,000)
Cash Flow From Investing Activities	127	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(115,062,000)	(126,746,000)	(188,087,000)
Cash Flow from Financing Activities	803,500	2,135,596	1,672,800	40,000	746,250	290,000	2,719,050	5,000,000	0	0	0	5,000,000	5,000,000	0	5,000,000	0	10,000,000	5,000,000	0	30,000,000	80,000,000	155,000,000
Proceeds from placement proceeds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	100,000,000	50,000,000	50,000,000
Debt financing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Finder fees - cash	(14,386)	(56,767)	(21,589)	(49,900)	(11,838)	84,348	0	(400,000)	0	0	0	(400,000)	0	0	0	0	0	0	0	0	0	0
Share issuance costs	0	0	(29,379)	0	(33,977)	(130,832)	(194,088)	(205,936)	0	0	0	(205,936)	0	0	0	0	0	0	0	0	0	0
Option and warrant exercises	0	0	0	0	843,278	846,865	1,690,141	10,500	0	240,250	0	250,750	1,788,240	138,000	0	80,000	2,006,240	795,083	9,829,125	138,750	0	0
Cash Flow From Financing Activities	879,114	2,078,829	1,611,861	(950)	1,553,811	1,050,381	4,215,103	4,284,061	0	240,250	0	4,524,911	6,788,240	138,000	5,000,000	80,000	12,006,240	5,795,083	9,829,125	130,138,750	140,000,000	205,000,000
Net Increase (Decrease) in Cash	(327,374)	(26,265)	1,147,365	(627,010)	612,501	(149,574)	683,282	3,359,570	(1,320,783)	(1,857,108)	(779,653)	(697,972)	4,414,859	(2,238,710)	2,619,927	(2,303,470)	2,462,808	(3,686,795)	3,101,632	6,139,890	1,220,538	(4,470,734)
Opening Cash Balance	510,623	192,449	165,194	1,313,549	386,539	999,040	165,184	849,466	4,209,036	2,888,253	931,147	849,466	151,404	4,566,353	2,327,643	4,947,569	151,404	4,566,353	2,327,643	2,844,100	8,763,989	10,004,927
Closing Cash Balance	183,249	166,184	1,313,549	386,539	999,040	849,466	849,466	4,209,036	2,888,253	931,147	151,404	151,404	4,566,353	2,327,643	4,947,569	2,844,100	2,844,100	879,648	5,429,275	8,763,989	10,004,927	5,534,193



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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or underserved needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclical, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

ANALYST CREDENTIALS, PROFESSIONAL DESIGNATIONS, AND EXPERIENCE

Senior Equity Analyst focusing on Basic Materials & Mining. 20 years of experience in equity research. BA in Business Administration from Westminster College. MBA with a Finance concentration from the University of Missouri. MA in International Affairs from Washington University in St. Louis.

Named WSJ 'Best on the Street' Analyst and Forbes/StarMine's "Best Brokerage Analyst."

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Outperform: potential return is >15% above the current price	96%	30%
Market Perform: potential return is -15% to 15% of the current price	7%	3%
Underperform: potential return is >15% below the current price	1%	0%

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