



Defense Metals Corp.

Financial Statements

For the Years Ended March 31, 2025 and 2024

(Expressed in Canadian Dollars)

Table of Contents

Independent Auditor's Report	1 – 3
Statements of Financial Position	4
Statements of Changes in Shareholders' Equity	5
Statements of Comprehensive Loss	6
Statements of Cash Flows	7
Notes to the Financial Statements	8-27

Independent Auditor's Report

To the Shareholders of Defense Metals Corp.

Opinion

We have audited the financial statements of Defense Metals Corp. (the "Company"), which comprise the statements of financial position as at March 31, 2025 and March 31, 2024 and the statements of changes in shareholders' equity, comprehensive loss and cash flows for the years then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2025 and March 31, 2024, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Other than the matter described in the Material Uncertainty Related to Going Concern section, we have determined there are no key audit matters to be communicated in our report.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kevin Kwan.

A handwritten signature in cursive script that reads "Crowe Mackay LLP".

**Chartered Professional Accountants
Vancouver, Canada
July 28, 2025**

DEFENSE METALS CORP.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Note	As at March 31, 2025	As at March 31, 2024
ASSETS		\$	\$
Current assets			
Cash		695,260	916,066
Sales tax receivable		131,735	125,697
Prepaid expenses and deposit		54,831	129,978
		881,826	1,171,741
Non-current assets			
Exploration and evaluation assets	5,9	44,663,846	40,808,160
Right-of-use asset	6	65,074	-
Prepaid exploration and evaluation expenses		72,450	666,369
TOTAL ASSETS		45,683,196	42,646,270
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9	2,974,645	808,911
Convertible debt	8	3,448,413	-
Interest payable on convertible debt	8	98,630	-
Derivative liability	8	1,794,768	-
Lease liability - current	6	64,453	-
		8,380,909	808,911
Lease liability – long term	6	5,909	-
		8,386,818	808,911
SHAREHOLDERS' EQUITY			
Share capital	7	51,899,367	51,634,600
Reserves	7	6,561,470	5,601,494
Accumulated deficit		(21,164,459)	(15,398,735)
		37,296,378	41,837,359
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		45,683,196	42,646,270

The accompanying notes are integral to these financial statements.

Going concern (Note 1)

Approved on Behalf of the Board of Directors:

/s/ Guy de Selliers
Executive Chairman

/s/ Dale Wallster
Director

DEFENSE METALS CORP.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian Dollars)

	Share Capital				
	Number of Shares	Amount	Reserves	Accumulated Deficit	Total
		\$	\$	\$	\$
Balance, March 31, 2023	207,702,648	39,956,784	4,767,862	(12,637,578)	32,087,068
Private placements	50,918,601	13,238,836	-	-	13,238,836
Finder’s fees – cash	-	(211,026)	-	-	(211,026)
Finder’s fees - warrants	-	(202,000)	202,000	-	-
Share issuance costs	-	(1,147,994)	-	-	(1,147,994)
Stock-based compensation	-	-	631,632	-	631,632
Net and comprehensive loss for the year	-	-	-	(2,761,157)	(2,761,157)
Balance, March 31, 2024	258,621,249	51,634,600	5,601,494	(15,398,735)	41,837,359
Convertible debt interest payment	491,807	88,767	-	-	88,767
Shares issued to former CEO for consulting fees	1,600,000	176,000	-	-	176,000
Stock-based compensation	-	-	959,976	-	959,976
Net and comprehensive loss for the year	-	-	-	(5,765,724)	(5,765,724)
Balance, March 31, 2025	260,713,056	51,899,367	6,561,470	(21,164,459)	37,296,378

The accompanying notes are integral to these financial statements.

DEFENSE METALS CORP.
STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

		For the year ended March 31, 2025	For the year ended March 31, 2024
	Note	\$	\$
EXPENSES			
Consulting	9	1,869,764	805,064
Communications, marketing, investor, and public relations		210,184	1,055,726
Depreciation	6	55,062	-
Office and administrative	9	289,069	303,324
Professional	9	541,314	326,737
Regulatory and filing		112,076	129,141
Stock-based compensation	7,9	959,976	631,632
Salary and wages	9	132,850	-
Loss before other items		(4,170,295)	(3,251,624)
Other items:			
Accretion and interest – convertible debt	8	(588,825)	-
Accretion and interest – lease liability	6	(16,200)	-
Flow-through share premium	10,12	-	373,823
Convertible debt issuance expense	8	(34,902)	-
Loss on revaluation of derivative liability	8	(956,637)	-
Interest income		1,135	116,644
Net and comprehensive loss for the year		(5,765,724)	(2,761,157)
Basic and Diluted Loss Per Share		(0.02)	(0.01)
Weighted Average Number of Shares Outstanding		259,618,582	249,129,444

The accompanying notes are integral to these financial statements.

DEFENSE METALS CORP.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	For the year ended March 31, 2025	For the year ended March 31, 2024
	\$	\$
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the year	(5,765,724)	(2,761,157)
Non-cash items:		
Accretion and interest – convertible debt	588,825	-
Accretion and interest – lease liability	16,200	-
Depreciation	55,062	-
Consulting fees paid by shares	176,000	-
Stock-based compensation	959,976	631,632
Flow-through share premium	-	(373,823)
Loss on revaluation of derivative liability	956,637	-
Changes in non-cash working capital items:		
Sales tax receivable	(6,038)	64,119
Prepaid expenses and deposit	75,147	(35,800)
Accounts payable and accrued liabilities	419,873	(129,855)
	(2,524,042)	(2,604,884)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Exploration and evaluation assets	(1,515,906)	(9,872,683)
Prepaid exploration and evaluation expenses	-	(248,739)
	(1,515,906)	(10,121,422)
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placement proceeds	-	13,238,836
Finder's fees and share issuance costs	-	(1,359,020)
Proceeds from convertible debt	4,000,000	-
Finder's fees for convertible debt	(114,884)	-
Repayment of lease liability	(65,974)	-
	3,819,142	11,879,816
Net change in cash	(220,806)	(846,490)
Cash, beginning of the year	916,066	1,762,556
Cash, end of the year	695,260	916,066
Supplemental Information:		
Broker warrants issued in private placement	-	202,000
Convertible debt interest payment in shares	88,767	-
Right-of-use asset acquired by lease liability	120,136	-
Exploration costs in accounts payable	2,401,929	656,068

The accompanying notes are integral to these financial statements.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Defense Metals Corp. (“Defense Metals” or the “Company”) is a British Columbia incorporated company, which is focused on the development of the Wicheeda Rare Earth Element (“REE”) mineral deposit located in British Columbia, Canada.

The head office and the principal address of Defense Metals is Suite 1020 - 800 West Pender Street, Vancouver, BC V6C 2V6, Canada. Defense Metals is traded publicly and listed in Canada on the TSX Venture Exchange (“TSX-V”), trading symbol DEFN; in the United States on the OTCQB, trading symbol DFMTF; and on the Frankfurt Exchange, trading symbol 35D.

Previous to March 31, 2023, the Company had a controlled entity, Spectrum Mining Corporation (“Spectrum”). Control occurs when the Company is exposed to, or has the right to, variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. The Company acquired Spectrum on January 14, 2022 and on April 1, 2023, the Company and Spectrum were legally amalgamated with the continuing entity being Defense Metals (Note 5). The Company no longer reports consolidated financial statements.

The Company does not have revenues and historically has operating losses. Long-term continuance of the Company’s operations is dependent upon achieving profitable operations and obtaining additional equity or debt financing. These condensed interim financial statements have been prepared on the assumption that Defense Metals will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. A different basis of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at March 31, 2025, the Company had a working capital deficiency balance of \$7,499,083 (2024 - positive working capital of \$362,830) and had not advanced its mineral properties to commercial production and, as such, is not able to finance day-to-day activities through operations. For the year ended March 31, 2025, the Company reported a comprehensive loss of \$5,765,724 (2024 - \$2,761,157) and as of that date, had an accumulated deficit of \$21,164,459 (2024 - \$15,398,375).

The Company’s continuation as a going concern is dependent upon the results from its mineral property exploration and development activities and its ability to attain profitable operations and generate funds and/or raise equity capital or borrowings sufficient to meet current and future obligations and ongoing operating losses. These uncertainties may cast significant doubt on the ability of the Company to continue operations as a going concern. Management intends to finance operating costs over the next twelve months with private placements of common shares, government grants, or other forms of financing. These financial statements do not include any adjustments that might result from this uncertainty. Such adjustments could be material.

2. BASIS OF PRESENTATION

Statement of compliance with IFRS Accounting Standards

These financial statements have been prepared in accordance with IFRS Accounting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements were prepared by management, reviewed by Defense Metals’ Audit Committee and approved and authorized for issuance by the Board of Directors on July 28, 2025.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

Basis of preparation

These financial statements have been prepared on an accrual basis except for cash flow information and are based on historical costs except for certain financial instruments at fair value and are presented in Canadian dollars, which is the functional currency of the Company, unless otherwise noted.

Use of estimates and judgments

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of these financial statements and the reported expenses during the year. Actual results could differ from these estimates.

There were significant accounting estimates required by management in preparation of these financial statements:

- The bifurcation and valuation of the derivative liability required management to exercise judgment and apply estimation techniques, including assumptions regarding volatility, interest rates, and the likelihood of conversion.
- The determination of the lease liability required management to estimate the incremental borrowing rate, which involves judgment based on the Company's estimated credit profile and market conditions at the commencement of each lease.

Critical judgments

Going Concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenses, meet its liabilities for the ensuing year, and to fund planned and contractual exploration and development programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

3. MATERIAL ACCOUNTING POLICIES

Exploration and evaluation assets

Defense Metals may hold interests in mineral property interests in various forms, including prospecting licenses, exploration and exploitation concessions, mineral leases and surface rights, and property options. The Company capitalizes payments made in the process of acquiring legal title to these properties. Given the uncertainties surrounding the fair value of the Company's mineral properties, share-based acquisition payments were valued at the fair value of the instruments issued. Mineral property interest acquisition costs are recorded at historical cost. Exploration and evaluation expenditures incurred on properties prior to obtaining legal rights to explore the specific area are charged to operations as incurred.

Exploration and evaluation assets are assessed for impairment if:

- (i) sufficient data exists to determine technical feasibility and commercial viability, and
- (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Facts and circumstances as defined in *IFRS 6, Exploration for and Evaluation of Mineral Resources*, are as follows:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICIES (continued)

Exploration and evaluation assets (continued)

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. Each of the Company's exploration and evaluation assets is considered to be a cash-generating unit.

An impairment loss is reversed if there is indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

Government assistance

The Company is eligible for refundable tax credits on qualified resource expenditures incurred in the province of British Columbia, other than flow-through shares financings. This credit is recorded as a government grant against exploration and evaluation assets when there is reasonable assurance that the amounts claimed qualify and the amounts will be received. The Company records the credit when the amounts are received due to the uncertainty of receiving the credit.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. At this stage, the Company's potential obligations for restoration and environmental costs are determined to be immaterial.

Share-based payments

Defense Metals may grant stock options to buy common shares of the Company through a stock option plan. The Company accounts for share-based payments using the fair value method. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using the Black-Scholes option pricing model which incorporates all market vesting conditions. Expected volatility in the Black-Scholes option pricing model was based on the historical stock price of the Company.

The Company may grant stock options that are subject to various vesting terms. Under IFRS, the fair value of each instalment of the award is considered a separate grant based on the vesting period with the fair value of each instalment determined separately and recognized as compensation expense over the term of its respective vesting period. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICIES (continued)

Share-based payments (continued)

All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserve is credited to share capital along with any consideration paid. Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense. On expiration of options, the previously recognized amount is left in the reserves.

Financial instruments

The Company recognizes a financial asset or liability when it becomes a party to the contractual provisions of the financial instrument. The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income ("FVTOCI") or measured at fair value through profit or loss ("FVTPL"). A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method. The Company's cash and derivative liability are measured at FVTPL and accounts payable and accrued liabilities, convertible debt and interest payable on convertible debt are classified as financial liabilities measured at amortized cost.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. The diluted earnings per share are calculated based on the weighted average number of common shares outstanding during the period, plus the effects of the dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the period (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period.

Flow-through shares and units

Defense Metals may from time-to-time issue flow-through common shares and units to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. At the time of closing a financing involving flow-through shares, the Company allocates proceeds received first to common shares based on the market trading price of the common shares at the time the flow-through shares are issued, and any excess is allocated to flow-through premium liability.

At the time of closing a financing involving flow-through units consisting of common shares and warrants, the Company allocates proceeds received as follows: (i) share capital – the market trading price of the common share; (ii) flow-through share premium – equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability; and (iii) warrant reserve – any excess.

Upon expenses being incurred, the Company derecognizes the liability and credits other income when the entity renounces the tax benefits to the shareholders. Costs incurred in connection with the issuance of flow-through shares reduce the flow-through liability on a pro-rata basis.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICIES (continued)

Flow-through shares and units (continued)

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as flow-through expenditure commitments. The Company is also subject to a Part XII.6 tax on unspent flow-through proceeds, renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

Share capital

Agent's warrants issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as consideration for exploration and evaluation assets is based on the trading price of those shares on the TSX Venture Exchange on the date of issuance of shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued using the residual method whereby proceeds are allocated first to common shares based on the market value of the common shares at the time the units are issued, and any excess is allocated to warrants.

Convertible debt

The Company accounts for convertible debt instruments in accordance with IFRS 9 – Financial Instruments and IAS 32 – Financial Instruments: Presentation, when such instruments contain components that meet the definition of both a financial liability and an embedded derivative. Where the conversion feature of a convertible debt instrument provides a variable conversion price or a discount to a future equity raise, and such feature is not considered closely related to the host debt, the instrument is bifurcated into:

- host liability component
- embedded derivative liability component.

At initial recognition, the host debt liability is measured at fair value, determined as the residual amount after deducting the fair value of the derivative component from the gross proceeds received. The host liability is subsequently measured at amortized cost using the effective interest method, with interest expense recognized in profit or loss. Interest settled in shares are measured at fair value and recognized as an expense when accrued.

The embedded derivative is measured at FVTPL at initial recognition and at each subsequent reporting date. Any changes in the fair value of the derivative are recognized in profit or loss. Transaction costs directly attributable to the issuance of the convertible debt are allocated proportionately to the host liability and the derivative liability based on their relative fair values at inception. Costs allocated to the host liability are included in the initial measurement and amortized over the instrument's term. Costs allocated to the derivative are expensed immediately through profit or loss. Upon conversion, both the host liability and derivative liability are derecognized, and equity is recorded at the value of shares issued. The carrying amount of the host liability (at amortized cost, updated to the date of conversion) together with the carrying amount of the derivative liability, which is remeasured to fair value immediately before conversion, is transferred to equity such that no gain or loss is recognized on settlement.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICIES (continued)

Leases

Defense Metals accounts for its office lease in accordance with IFRS 16 – Leases. At the commencement date of the lease, the Company recognizes a right-of-use (ROU) asset and a corresponding lease liability on the statement of financial position.

The lease liability is initially measured at the present value of future lease payments over the lease term, discounted using the lease's implicit interest rate, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Both the ROU asset and lease liability are measured using the discounted cash flow method.

The lease liability is subsequently reduced by lease payments made and increased by the accretion of interest expense using the effective interest method. The interest expense is recognized in the statement of comprehensive income. The ROU asset is subsequently depreciated on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. The depreciation expense is recognized in the statement of comprehensive income. The Company reassesses the lease liability and adjusts the ROU asset if there is a lease modification, a change in lease term, or a change in lease payments due to a change in an index or rate used to determine those payments.

New standards issued but not yet effective

IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 18 introduces three sets of new requirements to give investors more transparent and comparable information about companies' financial performance for better investment decisions.

- Three defined categories for income and expenses - operating, investing and financing - to improve the structure of the income statement, and require all companies to provide new defined subtotals, including operating profit.
- Requirement for companies to disclose explanations of management-defined performance measures (MPMs) that are related to the income statement.
- Enhanced guidance on how to organize information and whether to provide it in the primary financial statements or in the notes.

This new standard is effective for reporting periods beginning on or after January 1, 2027. The Company will be evaluating the impact of this standard on its financial statements.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

4. FINANCIAL AND CAPITAL RISK MANAGEMENT

IFRS 13 establishes a fair value hierarchy that prioritizes the valuation techniques for each financial instrument measured at fair value. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgement.

The methods and assumptions used to develop fair value measurements are: Level 1 - includes quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 - includes inputs, other than quoted prices included in Level 1, that are observable for an asset or liability, either directly (i.e. as process) or indirectly (i.e. derived from process); and, Level 3 - includes inputs that are not based on observable data.

	Level	March 31, 2025	March 31, 2024
		\$	\$
Cash	1	695,260	916,066
Derivative liability	2	1,794,768	-

The fair values of the Company's accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of the financial instruments. The fair value of the convertible debt is measured using inputs based on observable data other than quoted prices.

Management of Financial Risk

Defense Metals' financial instruments are exposed to certain financial risks, which include the following:

Credit risk

Credit risk is the risk of loss due to a counterparty's inability to meet its payment obligations. Defense Metals' exposure to credit risk is primarily attributable to its cash. Management believes that the credit risk associated with its cash is mitigated through the use of major Canadian banks which are high-credit, quality financial institutions as determined by rating agencies.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting liabilities when they become due. The Company, to the best of its abilities, ensures that there is sufficient capital to meet short-term operating requirements, after taking into account the Company's holdings of cash and the Company's liabilities. The Company's cash is held in corporate bank accounts available on demand. As at March 31, 2025, Defense Metals had a cash balance of \$695,260 (2024 - \$916,066) to fulfill accounts payable and accrued liabilities obligations of \$2,974,645 (2024 - \$808,911). The financial liabilities as at March 31, 2025 are due within one year. The Company manages liquidity risk through the management of its share capital structure. The Company has no income from operations or a regular source of cash flow and relies on equity funding to support its exploration and corporate activities. Should the need for equity funding arise, there is a risk that the Company may not be successful in selling new common shares at acceptable prices.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

4. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

Capital finance risk

The Company will require additional financing and investment to advance beyond the completion of the pre-feasibility study for its wholly owned Wicheeda Project to undertake a bankable feasibility study and ultimately toward achieving commercial production. Additional funds may not be available when the Company needs them, on terms that are acceptable, or at all. If adequate funds are not available to the Company on a timely basis, it may be unable to proceed with future development of the Wicheeda Project or with other exploration, development or acquisition of property interests to carry out its business plan, if desired, which could materially affect the Company's business, results of operations, financial condition and prospects.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

Currency risk

The Company is subject to normal market risks including fluctuations in foreign exchange rates. While the Company manages its operations to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure. There is low foreign exchange risk to the Company as it primarily operates within Canada.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at March 31, 2025 the Company is not exposed to significant interest rate risk.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk as it relates to the Company is defined as the potential adverse impact on the Company's ability to raise financing due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company monitors commodity prices and individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

Capital management

The Company attempts to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of components of shareholders' equity. There were no changes in the Company's approach to capital management during the year ended March 31, 2025. The Company is not subject to any externally imposed capital requirements.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS

	Wicheeda Project
	\$
Balance at March 31, 2023	30,279,409
Drilling	775,815
Environmental	346,127
Field and camp costs	691,074
Geological (Note 9)	1,727,897
Helicopter and survey	726,169
Geochemical	490,232
Management and administration (Note 9)	252,170
Mapping	27,185
Permitting related	1,398,704
Pilot plant metallurgical testing	1,896,202
Prefeasibility study	2,631,597
Recovery	(434,421)
Balance at March 31, 2024	40,808,160
Drilling	15,700
Environmental	602,531
Field and camp costs	13,627
Geological	624,403
Geochemical	325,671
Helicopter and survey	8,988
Management and administration (Note 9)	168,330
Permitting related	139,181
Pilot plant metallurgical testing	108,898
Prefeasibility study	2,778,187
Recovery	(929,830)
Balance at March 31, 2025	44,663,846

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Acquisition of Spectrum Mining Corporation and the Wicheeda Rare Earth Element Mineral Deposit

On November 22, 2018, Defense Metals entered into an option agreement (the “Option Agreement”) to acquire all the issued and outstanding shares of Spectrum, which at the time was the beneficial and registered holder of 100% interest in the original six mineral claims that covered the Wicheeda Rare Earth Element (REE) mineral deposit. To exercise the option, Defense Metals was required to incur exploration expenditures, issue shares to Spectrum shareholders, and make cash payments to Spectrum.

On January 14, 2022, Defense Metals fully exercised its option and acquired 100% of the Wicheeda REE mineral deposit, by way of acquiring all of the share capital of Spectrum, through the issuance of 78,115,549 Defense Metals common shares at a deemed price of \$0.225 per share pro-rata to Spectrum shareholders, and the payment of \$100,000 cash to Spectrum, for final payment consideration of \$17,675,999. At that time, the Company issued 1,171,733 common shares to Mulgravian Ventures Corporation (a company owned by a Director of the Company) pursuant to a finder’s fee agreement entered into in connection with the Option Agreement.

The Wicheeda Property is subject to a 2.0% net smelter returns royalty (“NSR Royalty”) payable upon the commencement of any commercial production. The Company shall have the irrevocable right to purchase one-half (1/2) of the NSR Royalty from the Vendors, on a basis pro rata to their prior shareholdings in Spectrum (being 1.0% of Net Smelter Returns) for \$1,000,000, leaving the Vendors with an aggregate 1.0% NSR Royalty.

On April 1, 2023, the Company amalgamated with Spectrum, all the issued shares of which were held by the Company, under section 273 of the *Business Corporations Act* (British Columbia) (the “Amalgamation”), with the continuing entity being Defense Metals. Accordingly, the shares of Spectrum were cancelled pursuant to the Amalgamation. The Company no longer reports consolidated financial statements.

The Wicheeda REE mineral deposit is now 100% owned by Defense Metals and the Wicheeda Project is now comprised of the 6 mineral claims acquired through the acquisition of Spectrum, and an additional 12 claims staked by Defense Metals between the dates of November 5, 2021 and October 23, 2024, for a total of 18 claims.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

6. RIGHT-OF-USE ASSET AND LEASE LIABILITY

Commencing May 1, 2024, the Company entered into an office lease for a term of two years for \$5,998 per month.

(a) Right-of-Use Asset

As at March 31, 2025, \$65,074 of right-of-use assets are recorded as follows:

	\$
Balance, beginning	-
Addition	120,136
Depreciation	(55,062)
As at March 31, 2025	65,074

(b) Lease Liability

Minimum lease payments in respect of lease liabilities and the effect of discounting are as follows:

	As at March 31, 2025
Undiscounted minimum lease payments:	
Less than one year	\$ 71,972
Two to three years	5,998
	<u>77,970</u>
Effect of discounting	(7,608)
Present value of minimum lease payments	70,362
Less current portion	(64,453)
Long-term portion	<u>\$ 5,909</u>

(c) Lease Liability Continuity

The lease liability continuity is as follows:

	\$
Balance, beginning	-
Addition	120,136
Monthly payments	(65,974)
Accretion and interest	16,200
As at March 31, 2025	70,362

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

7. EQUITY

Share Capital

Authorized share capital of the Company consists of an unlimited number of fully paid Class A common shares without par value and an unlimited number of Class B preferred shares without par value of which none are issued and outstanding.

For the year ended March 31, 2025

On October 11, 2024, Defense Metals closed a non-brokered private placement of secured convertible notes (“Notes”) for gross proceeds of up to \$4,000,000. The Notes bear interest from the date of issuance at the rate of ten percent (10%) per annum, payable quarterly in common shares of the Company at a price per share equal to the applicable 20-day volume weighted average price of the Common Shares on the TSX-V, or such other price determined in accordance with the policies of the TSX-V. The Notes will mature on the date that is 12 months after the date of issuance. At any time up to seven days prior to a Mandatory Conversion Event (as defined below), investors may elect to convert the principal amount of the Notes into Common Shares at a deemed price per share of \$0.125 (the “Conversion Price”).

The Notes will automatically convert into Common Shares upon the occurrence of certain events (each, a “Mandatory Conversion Event”), including the completion by the Company of a new issuance of equity as part of a minimum \$4,000,000 financing from third party sources (excluding conversion of the Notes), completion of a sale of all or substantially all of the Common Shares or assets of the Company, or completion of a merger or other corporate transaction coincident with a minimum \$4,000,000 fundraise from third party capital (excluding conversion of the Notes). Upon the occurrence of a Mandatory Conversion Event, the principal amount of the Notes will automatically convert into Common Shares at a fifteen percent (15%) discount to the applicable price of the offering implied by the Mandatory Conversion Event, provided that if such conversion price would be less than the Conversion Price (\$0.125), there will be no mandatory conversion.

On September 6, 2024, the Company issued 1,600,000 common shares of the Company at a price of \$0.11 per share to the former CEO as settlement of consulting fees.

On January 20, 2025, the Company issued 491,807 common shares of the Company to certain holders of its Notes in full satisfaction of the interest payable thereunder as of December 31, 2024. On April 17, 2025, the Company issued 640,097 common shares to certain holders of its Notes in full satisfaction of the interest payable thereunder as at March 31, 2025. On May 28, 2025, the Company issued 277,963 common shares to certain holders of its Notes to satisfy the accrued interest to the date the loan was settled in full by way of 32,000,000 common shares of the Company issued on May 21, 2025.

Subsequent to March 31, 2025, on May 21, 2025, the Company completed: 1) a brokered offering for gross proceeds of \$5,060,595, issuing 25,138,703 units of the Company (each a “Unit”) at a price of \$0.15 per Unit and 7,587,000 flow-through units of the Company (“FT Unit”) at a price of \$0.17 per FT Unit. 2) a non-brokered offering, for gross proceeds of \$378,900 through the issuance of 2,228,824 FT Units. Each Unit and FT Unit comprise one common share and one-half share purchase warrant exercisable for \$0.20 per share to May 21, 2028. As part of the financing, the Company paid cash finder’s fees totalling \$55,750, issued 2,183,723 compensation warrants exercisable for \$0.15 per common share to May 21, 2027, and 1,886,541 Units comprising one common share and one half share purchase warrant exercisable for \$0.20 per share until May 21, 2028.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

7. EQUITY (continued)

Share Capital (continued)

For the year ended March 31, 2024

On May 25, 2023, Defense Metals closed a non-brokered private placement financing for gross proceeds of \$12,500,000 comprising: 22,367,977 common shares at a price of \$0.26 per share ("LIFE Offering"), and 25,708,946 common shares at a price \$0.26 per share ("Concurrent Offering"). In connection with the LIFE Offering and the Concurrent Offering, the Company paid aggregate cash finder's fees of \$211,026 and issued 2,311,753 non-transferable common share purchase warrants. The warrants are exercisable at \$0.32 per common share for a period of two years from issuance. Subject to compliance with applicable regulatory requirements and in accordance with National Instrument 45-106 – *Prospectus Exemptions* ("NI 45-106"), the common shares issued pursuant to the LIFE Offering were offered for sale to purchasers resident in Canada, except Quebec, and/or other qualifying jurisdictions pursuant to the 'listed issuer financing exemption' under Part 5A of NI 45-106.

On January 31, 2024, the Company closed a non-brokered private placement of 2,841,678 common shares at a price of \$0.26 per share for gross proceeds of \$738,836.

Options

The Company follows the policies of the TSX-V under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the then issued and outstanding common stock of the Company. The Company's current omnibus plan was approved by shareholders and TSX-V at the Annual General and Special meeting dated December 18, 2024. Pursuant to TSX-V policies, the exercise price of each shall not be less than the closing price of the Company's common shares on the day preceding the day on which the directors grant such options, less any discount permitted by the TSX-V. The options can be granted for a maximum term of ten years.

For the year ended March 31, 2025

On April 3, 2024, the Company granted 800,000 stock options to certain directors and a consultant of the Company pursuant to the terms of the Company's stock option plan. The stock options are exercisable to acquire common shares at an exercise price of \$0.24 per common share for a period of three years, vesting immediately. These options had a grant date fair value of \$98,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: \$0.24; ii) share price: \$0.24; iii) term: 3 years; iv) volatility: 75%; v) risk-free interest rate: 3.76%.

On December 19, 2024, the Company granted 8,850,000 stock options exercisable at \$0.125 per share, 400,000 stock options exercisable at \$0.205 per share and 700,000 stock options exercisable at \$0.26 per share to certain directors and a consultant of the Company pursuant to the terms of the Company's stock option plan. The stock options are exercisable to acquire common shares for a period of five years, vesting immediately. These options had a grant date fair value of \$861,976 calculated using the Black-Scholes model with the following inputs: i) share price: \$0.125; ii) term: 5 years; iii) volatility: 89%; iv) risk-free interest rate: 3.11%.

For the year ended March 31, 2024

On December 15, 2023, the Company granted 5,700,000 options to directors, officers and consultants of the Company. Of these options granted, 200,000 were granted to a third-party investor relations company and vest over a period of twelve months in equal portions every three months starting three months from the date of grant. These options had a grant date

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

7. EQUITY (continued)

Options (continued)

fair value of \$549,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: \$0.16; ii) share price: \$0.16; iii) term: 3 years; iv) volatility: 93%; v) risk-free interest rate: 3.44%.

On December 16, 2023, the Company granted 200,000 options to a consultant of the Company. These options had a grant date fair value of \$20,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: \$0.18; ii) share price: \$0.17; iii) term: 3 years; iv) volatility: 93%; v) risk-free interest rate: 3.43%.

On January 26, 2024, the Company granted 400,000 options to a consultant of the Company. These options had a grant date fair value of \$59,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: \$0.24; ii) share price: \$0.24; iii) term: 3 years; iv) volatility: 95%; v) risk-free interest rate: 3.67%.

The Company granted the following incentive stock options to officers, directors, and consultants:

	Number of Options	Weight Average Exercise Price	Weighted Average Life (years)
Balance, March 31, 2023	20,306,333	\$0.25	1.93
Granted	6,300,000	\$0.17	2.72
Expired	(2,081,333)	\$0.35	-
Balance, March 31, 2024	24,525,000	\$0.22	1.49
Granted	10,750,000	\$0.15	4.92
Cancelled	(7,325,000)	\$0.20	-
Expired	(11,500,000)	\$0.25	-
Balance, March 31, 2025	16,450,000	\$0.16	3.35

The following stock options were outstanding and exercisable at March 31, 2025:

Number of Options Outstanding	Number of Options Vested and Exercisable	Exercise Price	Expiry Date
250,000	250,000	\$0.15	April 7, 2025*
50,000	50,000	\$0.20	September 21, 2025
2,600,000	2,600,000	\$0.22	December 8, 2025
3,200,000	3,200,000	\$0.16	December 15, 2026
400,000	400,000	\$0.24	April 3, 2027
8,850,000	8,850,000	\$0.125	December 19, 2029
400,000	400,000	\$0.205	December 19, 2029
700,000	700,000	\$0.26	December 19, 2029
16,450,000	16,450,000		

*Expired unexercised after end of reporting period.

Subsequent to March 31, 2025, 2,320,000 options held by the former CFO, were extended for 12 months until April 3, 2026 comprising 100,000 options with an exercise price of \$0.16, and 2,220,000 options with an exercise price of \$0.125.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

7. EQUITY (continued)

Warrants

Defense Metals issued the following warrants:

	Number of Warrants	Weight Average Exercise Price	Weighted Average Life (years)
Balance, March 31, 2023	33,662,265	\$0.39	1.22
Granted	2,311,753	\$0.32	1.15
Balance, March 31, 2024	35,974,018	\$0.38	0.17
Expired	(33,662,265)	\$0.39	-
Balance, March 31, 2025	2,311,753	\$0.32	0.15

For the year ended March 31, 2024

On May 25, 2023, the Company granted 811,753 broker warrants. The broker warrants have a term of two years and are exercisable at \$0.32 per share. These warrants had an aggregate fair value of \$71,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: \$0.32 per share; ii) share price: \$0.245; iii) term: 2 years; iv) volatility: 76.63%; v) risk-free interest rate: 3.973%.

On May 25, 2023, the Company granted 1,500,000 advisor warrants related to the closing of the private placement on the same day. The advisor warrants have a term of two years and are exercisable at \$0.32 per share. These warrants had an aggregate fair value of \$131,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: \$0.32 per share; ii) share price: \$0.245; iii) term: 2 years; iv) volatility: 76.63%; v) risk-free interest rate: 3.973%.

The following warrants were outstanding and exercisable at March 31, 2025:

Number	Exercise Price	Expiry Date
811,753	\$0.32	May 25, 2025*
1,500,000	\$0.32	May 25, 2025*
2,311,753		

*Expired unexercised after end of reporting period.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

8. CONVERTIBLE DEBT

On October 11, 2024, the Company closed a non-brokered bridge financing of secured convertible notes (the "Notes") for gross proceeds of \$4,000,000.

The Notes bear interest from the date of issuance at the rate of ten percent (10%) per annum, payable quarterly in common shares of the Company at a price per share equal to the applicable 20-day volume weighted average price of the common shares on the TSXV-V or such other price determined in accordance with the policies of the TSXV-V. The Notes will mature on the date that is 12 months after the date of issuance. At any time up to seven days prior to a Mandatory Conversion Event (as defined below), investors may elect to convert the principal amount of the Notes into common shares at a deemed price per share of \$0.125 (the "Conversion Price").

The Notes will automatically convert into common shares upon the occurrence of certain events (each, a "Mandatory Conversion Event"), including the completion by the Company of a new issuance of equity as part of a minimum \$4,000,000 financing from third party sources (excluding conversion of the Notes), completion of a sale of all or substantially all of the common shares or assets of the Company, or completion of a merger or other corporate transaction coincident with a minimum \$4,000,000 fund raise from third party capital (excluding conversion of the Notes). Upon the occurrence of a Mandatory Conversion Event, the principal amount of the Notes will automatically convert into common shares at a fifteen percent (15%) discount to the applicable price of the offering implied by the Mandatory Conversion Event, provided that if such conversion price would be less than the Conversion Price (\$0.125), there will be no mandatory conversion. Guy de Selliers, Executive Chairman of the Company, subscribed for Notes in the principal amount of \$1,768,000.

The Notes are secured against all personal property of the Company and a first ranking security interest against the Company's mining claims in respect of the Wicheeda REE Project. All note holders will rank pari passu among themselves.

The Notes was bifurcated into an embedded derivative representing the conversion option and a host liability. The derivative liability of the Notes was valued at \$838,131, determined using the Black-Scholes Option Pricing Model assuming an expected life of 1 year, expected dividend yield of 0%, a risk-free interest rate of 3.34% and an expected volatility of 83.58%. The residual amount of \$3,161,869, subtracting the issuance transaction costs of \$114,884 allocated by proration, resulted in \$3,046,985 recognized as host liability of the Notes, and will be amortized using the effective annual interest rate of 38.81%. The issuance transaction costs of \$34,902 related to the derivative liability by proration was expensed. As at March 31, 2025, the Company incurred \$588,825 in accretion expense in connection with the amortization of the host liability of the Notes.

On March 31, 2025, the derivative liability of the Notes was revalued at \$1,794,768, determined using the Black-Scholes Option Pricing Model assuming an expected life of 0.53 years, expected dividend yield of 0%, a risk-free interest rate of 2.50% and an expected volatility of 107.16%, resulting in a loss on revaluation of derivative liability of \$956,637.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

8. CONVERTIBLE DEBT (continued)

The following table summarizes the accounting for the convertible debt during the year ended March 31, 2025:

	Liability Component	Derivative Component
	\$	\$
Balance, beginning	-	-
Initial recognition	3,161,869	838,131
Transaction costs	(114,884)	-
Accretion	588,825	-
Interest	(187,397)	-
Loss on revaluation of derivative liability	-	956,637
Balance – March 31, 2025	3,448,413	1,794,768

The Company owed \$98,630 in convertible debt interest as at March 31, 2025.

Subsequent to March 31, 2025, the Company completed a private placement and the note holders elected to receive 32,000,000 common shares to satisfy the Notes (Note 7).

9. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Key management personnel include those persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors (including former Directors) and corporate officers and companies controlled by them. The table below summarizes key management compensation for various services received by the Company:

	For the year ended March 31, 2025	For the year ended March 31, 2024
	\$	\$
Exploration and evaluation	72,500	1,474,954
Office and administrative	4,200	12,600
Consulting	773,156⁽¹⁾	228,000
Professional fees	160,000	120,000
Stock-based compensation	757,883	346,737
Salary and wages	125,000	-

⁽¹⁾ Inclusive of director fees.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS (continued)

As at March 31, 2025, \$109,353 (2024 - \$14,998) was owing to the former President of the Company for geological services, consulting services, and reimbursable expenses. As at March 31, 2025, \$137,603 (2024 - \$Nil) was owing to the former interim Chief Financial Officer for consulting services and reimbursable expenses. As at March 31, 2025, the Company owed to three independent directors \$105,750 (2024 - \$Nil) in director fees and owed to a former independent director \$14,796 (2024 - \$Nil) in consulting fees. As at March 31, 2025, the Company owed the Executive Chairman, \$176,250 (2024 - \$Nil) in director fees and reimbursable expenses. As at March 31, 2025, the Company owed \$3,150 (2024 - \$Nil) to a company owned by a former independent director.

During the year ended March 31, 2025, the Company engaged HCF International Advisers Ltd. ("HCF") for advisory services. Guy de Selliers, the Executive Chairman of Defense Metals, is a related party to HCF as he is the majority owner. Fees incurred with HCF during this period totaled \$158,910, and these services were conducted on terms based on the exchange amount agreed to between the parties. As of October 31, 2024, the HCF advisory services were placed on indefinite hold. As at March 31, 2025, the Company owed \$158,910 to HCF.

All amounts owing to related parties are included in accounts payable and accrued liabilities, unsecured, non-interest bearing, and carry no fixed terms of repayment.

10. COMMITMENTS

During the year ended March 31, 2023, the Company entered into flow-through share subscription agreements whereby it was obligated to incur a total of \$7,180,988 on flow-through eligible exploration expenditures. As of March 31, 2023, \$5,408,120 had been incurred and the Company had a flow-through obligation of \$1,772,858 relating to unspent exploration commitments. During the year ended March 31, 2024, the Company spent the remainder obligation.

The flow-through shares were issued at a premium in recognition of the tax benefits accruing to subscribers. The flow-through share premium was calculated to be \$1,698,819 and as at March 31, 2023, \$1,324,996 was recognized as a settlement of the flow-through premium leaving \$373,823 as a flow-through obligation in the statement of financial position. During the year ended March 31, 2024, the Company incurred additional flow-through eligible exploration expenditures and recognized the remainder of the \$373,823 as a settlement of the flow-through share premium.

11. SEGMENTED INFORMATION

Defense Metals operates in one business segment, being the exploration, development and evaluation of the Wicheeda Project in British Columbia, Canada.

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

12. DEFERRED INCOME TAX

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	March 31, 2025	March 31, 2024
	\$	\$
Net loss for the year	(5,765,724)	(2,761,157)
Statutory tax rate	27%	27%
Expected income taxes (recovery) at the statutory tax rate	(1,557,000)	(746,000)
Non-deductible permanent differences	266,000	70,000
Derivative liability	226,000	-
Flow-through share premium	-	(373,823)
Renunciation of flow-through expenditures	-	479,000
Change in unrecognized tax benefits and other	1,065,000	197,000
Deferred income tax recovery	-	(373,823)

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	March 31, 2025	March 31, 2024
Deductible temporary differences		
Loss carry-forwards	\$ 23,238,000	\$ 19,423,000
Excessive interest and financing expense limitation	216,000	-
Share issuance costs	1,427,000	2,136,000
	\$ 24,881,000	\$ 21,559,000

The Company has non-capital losses of approximately \$23,238,000 (2024 - \$19,423,000) available to offset future income for income tax purposes which commence expiring in 2037. Due to the uncertainty of realization of these loss carry-forwards, the unbenefited losses carried forward is not reflected in the financial statements.

Years	\$
2037	35,000
2038	186,000
2039	652,000
2040	984,000
2041	2,261,000
2042	3,114,000
2043	3,772,000
2044	8,419,000
2045	3,815,000
Total	23,238,000

DEFENSE METALS CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2025 AND 2024
(Expressed in Canadian Dollars)

13. SUBSEQUENT EVENTS

On July 28, 2025, the Company announced it had signed a shares-for-debt settlement agreement with Hatch Ltd. in relation to the outstanding debt of \$846,547 for engineering services previously provided to the Company. The Company will issue 5,290,920 common shares at \$0.16 per share and 2,645,460 common share purchase warrants with an exercise price of \$0.21 for a period of 36 months. The shares and warrants are subject to a six month hold period.

See Note 7 and Note 8 for other subsequent events.