

Defense Metals Corp.

Condensed Interim Financial Statements

For the Six Months Ended September 30, 2021

(unaudited)

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by, and are the responsibility of, the Company's management. The Company's independent auditor has not performed a review of these financial statements.

DEFENSE METALS CORP.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars
(Unaudited)

	Note	As at September 30, 2021	As at March 31, 2021
ASSETS		\$	\$
Current assets			
Cash		2,888,253	849,466
Sales tax receivable		80,293	22,677
Mining tax credit receivable	5	279,132	279,132
Prepaid expenses		88,270	31,600
		3,335,948	1,182,875
Non-current assets			
Exploration and evaluation assets	5	3,670,466	2,879,561
Prepaid exploration expenses		80,000	80,000
TOTAL ASSETS		7,086,414	4,142,436
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	4, 7	196,811	99,470
Flow-through obligation	8	228,400	228,400
		425,211	327,870
SHAREHOLDERS' EQUITY			
Share capital	6	12,534,978	8,508,317
Reserves	6	1,884,582	1,452,453
Accumulated deficit		(7,758,357)	(6,146,204)
		6,661,203	3,814,566
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,086,414	4,142,436

The accompanying notes are integral to these condensed interim financial statements.

Approved on Behalf of the Board of Directors:

/s/ Max Sali

Director

/s/ Craig Taylor

Director

DEFENSE METALS CORP.

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Expressed in Canadian Dollars

(Unaudited)

	Share Capital				
	Number of	Amount	Reserves	Accumulated	Total
	Shares			Deficit	
		\$	\$	\$	\$
Balance, March 31, 2020	39,708,133	4,720,614	618,726	(3,502,911)	1,836,429
Private placements	10,975,000	1,712,800	-	-	1,712,800
Finder's fees – cash	-	(62,510)	-	-	(62,510)
Finder's fees - warrants	-	(36,900)	36,900	-	-
Other share issuance costs	-	(39,379)	-	-	(39,379)
Flow through share premium	-	(179,400)	-	-	(179,400)
Stock-based compensation	-	-	204,622	-	204,622
Comprehensive loss for the period	-	-	-	(563,454)	(563,454)
Balance, September 30, 2020	50,683,133	6,115,225	860,248	(4,066,365)	2,909,108
Balance, March 31, 2021	64,647,939	8,508,317	1,452,453	(6,146,204)	3,814,566
Private placements	15,625,000	5,000,000	-	-	5,000,000
Finder's fees – cash	-	(400,000)	-	-	(400,000)
Finder's fees - warrants	-	(258,000)	258,000	-	-
Other share issuance costs	-	(325,839)	-	-	(325,839)
Warrant exercises	70,000	10,500	-	-	10,500
Stock-based compensation	-	-	174,129	-	174,129
Net and comprehensive loss for the year	-	-	-	(1,612,153)	(1,612,153)
Balance, September 30, 2021	80,342,939	12,534,978	1,884,582	(7,758,357)	6,661,203

The accompanying notes are integral to these condensed interim financial statements.

DEFENSE METALS CORP.
STATEMENTS OF COMPREHENSIVE LOSS

Expressed in Canadian Dollars
(Unaudited)

	Note	For the three months ended September 30, 2021	For the three months ended September 30, 2020	For the six months ended September 30, 2021	For the six months ended September 30, 2020
		\$	\$	\$	\$
EXPENSES					
Consulting	7	75,813	33,311	384,052	75,653
Communications, marketing, and investor relations		459,066	184,125	707,169	307,208
Office and administrative	7	39,943	17,865	71,412	42,477
Professional	7	59,992	36,026	196,252	71,346
Regulatory and filing		2,248	8,049	79,139	41,549
Stock-based compensation	6,7	165,161	93,683	174,129	204,622
Loss before other items		(802,223)	(373,057)	(1,612,153)	(742,855)
Other items:					
Flow-through share premium		-	6,400	-	179,400
Net and comprehensive loss for the period		(802,223)	(366,659)	(1,612,153)	(563,455)
Basic and Diluted Loss Per Share		(0.01)	(0.01)	(0.02)	(0.01)
Weighted Average Number of Shares Outstanding		80,432,939	50,653,785	77,691,108	47,769,936

The accompanying notes are integral to these condensed interim financial statements.

DEFENSE METALS CORP.
CONDENSED INTERIM STATEMENTS OF CASH FLOW
Expressed in Canadian Dollars
(Unaudited)

	For the six months ended September 30, 2021	For the six months ended September 30, 2020
	\$	\$
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	(1,612,153)	(563,455)
Non-cash items:		
Stock-based compensation	174,129	204,622
Flow-through share premium	-	(179,400)
Changes in non-cash working capital items:		
Sales tax receivable	(57,616)	(318,824)
Prepaid expenses	(56,670)	29,267
Accounts payable and accrued liabilities	2,134	(161,657)
	<u>(1,550,176)</u>	<u>(989,447)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Exploration and evaluation assets	(695,698)	(401,109)
	<u>(695,698)</u>	<u>(401,109)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placement proceeds	5,000,000	1,712,800
Finder fees - cash	(400,000)	(62,510)
Share issuance costs	(325,839)	(39,379)
Warrant exercises	10,500	-
	<u>4,284,661</u>	<u>1,610,911</u>
Net change in cash	2,038,787	220,355
Cash, beginning of the period	849,466	166,184
Cash, end of the period	<u>2,888,253</u>	<u>386,539</u>

The accompanying notes are integral to these condensed interim financial statements.

DEFENSE METALS CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2021 AND 2020

Expressed in Canadian Dollars
(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Defense Metals Corp. (the "Company") is a British Columbia company listed on the TSX Venture Exchange ("TSX-V") trading under the symbol DEFN. The Company is engaged primarily in mineral exploration and development activity in Canada with a focus on the Wicheeda Project.

The head office and the principal address of the Company are located at 605 – 815 Hornby Street, Vancouver, BC V6Z 2E6, Canada.

These financial statements have been prepared on the assumption that the Company 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. Different basis of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at September 30, 2021, the Company had a working capital balance of \$2,910,737 (2021 - \$855,005) and had not advanced its mineral properties to commercial production and is not able to finance day to day activities through operations. For the period ended September 30, 2021, the Company reported a comprehensive loss of \$1,612,153 (2020 - \$196,796 loss) and as of that date, has accumulated deficit of \$7,758,357 (2021 - \$6,146,204).

The Company's continuation as a going concern is dependent upon the successful exercise of its mineral property option agreements, results from its mineral property exploration activities and its ability to attain profitable operations and generate funds from and/or raise equity capital or borrowings sufficient to meet current and future obligations and ongoing operating losses. These uncertainties may cast a 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 loans from directors and companies controlled by directors, private placement of common shares and/or the sale of mineral property interests. These financial statements do not include any adjustments that might result from this uncertainty. Such adjustments could be material.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition, future financings, and exploration activities of the Company in future periods. The Company's current focus is on its project located in British Columbia, Canada and as a result, access to the property is not prohibited at the current time.

2. BASIS OF PRESENTATION

Statement of compliance with International Financial Reporting Standards

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB. The policies applied in these unaudited condensed interim financial statements are based on IFRSs issued and outstanding as of November 26, 2021, the date the Board of Directors approved the statements.

DEFENSE METALS CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2021 AND 2020

Expressed in Canadian Dollars
(Unaudited)

2. BASIS OF PRESENTATION (continued)

The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended March 31, 2021 except as noted below. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending March 31, 2022 could result in the restatement of these condensed interim financial statements.

Basis of preparation

The financial statements of the Company 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. The financial statements are presented in Canadian dollars unless otherwise noted. The Company's functional currency is Canadian dollars.

Use of estimates and judgements

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 the financial statements and the reported expenses during the year. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Critical accounting estimates

Shares issued for non-cash consideration

The Company has applied estimates with respect to the valuation of shares issued for non-cash consideration, specifically relating to shares issued for services and for exploration and evaluation properties. Shares are valued at the fair value of the goods and services received and if that is not readily available, the shares fair valued at the date the Company receives the good or service. When no market price is available, a valuation technique is used to determine what price the equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. In the case of the Company, the fair value of the shares issued was estimated with reference to private placements with arm's length parties.

Valuation of Share-based Payments

The Company uses the Black-Scholes option pricing model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

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 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.

DEFENSE METALS CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2021 AND 2020

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(Unaudited)

2. BASIS OF PRESENTATION (continued)

Deferred tax assets & liabilities

The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

Impairment of exploration and evaluation assets

Assets or cash-generating units ("CGUs") are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's exploration and evaluation assets. Management has determined that exploratory drilling, evaluation, development and related costs incurred, which have been capitalized, continue to be appropriately recorded on the statements of financial position at its carrying value as management has determined there are no indicators of impairment for its exploration and evaluation assets as at September 30, 2021.

Mining tax credits

The Company is eligible for refundable tax credits on qualified resource expenditures incurred in the province of British Columbia (the "Province"). Uncertainties exist with respect to the interpretation of tax regulations which could be disallowed by the Province in the calculation of credits. The calculation of the Company's refundable tax credits involves significant estimates and judgment on items whose tax treatment cannot be verified until a notice of assessment and subsequent payments have been received from the Province. Differences between management's estimates and the final assessment could result in adjustments to the mining exploration tax credit and the future income tax expense.

Flow-through shares

The Company is also required to spend proceeds received from the issuance of flow-through shares on qualifying resources expenditures. Differences in judgment between management and regulatory authorities with respect to qualified expenditures may result in disallowed expenditures by the tax authorities. Any amount disallowed may result in the Company's required expenditures not being fulfilled

3. SIGNIFICANT ACCOUNTING POLICIES

Exploration and evaluations assets and equipment

The Company 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.

DEFENSE METALS CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2021 AND 2020

Expressed in Canadian Dollars
(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The carrying values of exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The carrying value of equipment is reviewed for indications of impairment at each reporting date. When impairment indicators exist, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less costs to sell and value in use. If it is determined that the estimated recoverable amount is less than the carrying value of an asset, then a write-down is made with a charge to operations.

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.

Income taxes

Current income tax:

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

DEFENSE METALS CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2021 AND 2020

Expressed in Canadian Dollars
(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The Company currently has no measurable obligations for restoration and environmental costs.

Share-based payments

The Company grants stock options to buy common shares of the Company through its 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 Pricing Model was based on the historical stock price of the Company. 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.

The Company grants 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.

Financial instruments

Financial assets

- (a) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

DEFENSE METALS CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2021 AND 2020

Expressed in Canadian Dollars
(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Classification of financial assets

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”).

(i) Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company’s business model for such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

(ii) Financial assets measured at FVTPL

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company’s cash is measured at fair value are FVTPL financial instruments.

(iii) Financial assets measured at FVTOCI

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as “financial asset at fair value through other comprehensive income” in other comprehensive income.

(c) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the statement of comprehensive loss.

However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

DEFENSE METALS CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2021 AND 2020

Expressed in Canadian Dollars
(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

(a) Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

(b) Classification of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

(i) Financial liabilities measured at amortized cost

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 accounts payable and accrued liabilities are classified as financial liabilities measured at amortized cost.

(ii) Financial liabilities measured at fair value through profit or loss

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company does not have any liabilities classified as financial liabilities measured at fair value through profit or loss.

(c) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statement of comprehensive loss.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position only when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company shall recognize in the statement of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

DEFENSE METALS CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2021 AND 2020

Expressed in Canadian Dollars
(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Company will 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) warrant reserve – based on the valuation derived using the Black-Scholes option pricing model or value attributed to warrants issued in non-flow-through unit offering on the same date with similar terms; and (iii) flow-through premium – any excess, recorded as a liability.

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.

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.V on the date of the agreement to issue shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued using the residual method.

DEFENSE METALS CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
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(Unaudited)

4. FINANCIAL AND CAPITAL RISK MANAGEMENT

	Level	September 30, 2021	March 31, 2021
		\$	\$
Cash	1	2,888,253	849,466
Accounts payable and accrued liabilities	1	196,811	99,470

The fair values of the Company's financial instruments approximate their carrying values due to the short-term nature of the financial instruments.

Management of Industry and Financial Risk

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations.

The Company's financial instruments are exposed to certain financial risks, which include the following:

Credit risk

Credit risk is the risk of loss due to the counterparty's inability to meet its obligations. The Company's exposure to credit risk is on its cash. Risk associated with cash is managed through the use of major 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 obligations when they become due. The Company ensures that there is sufficient capital in order 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 September 30, 2021, the Company has cash balance of \$2,888,253 (2021 - \$849,466) to fulfill accounts payable and accrued liabilities obligations of \$196,811 (2021 - \$99,470). Liquidity risk has been assessed as low. The financial liabilities as at September 30, 2021 are due within 90 days.

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 and interest rates. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

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4. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

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. The Company is not exposed to significant interest rate risk.

Price Risk

The Company is exposed to price risk with respect to equity prices. 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. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

Capital management

The Company's policy is 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 period ended September 30, 2021. The Company is not subject to any externally imposed capital requirements.

5. EXPLORATION AND EVALUATION ASSETS

	Wicheeda Option
	\$
Balance at March 31, 2020	1,834,842
Acquisition costs	100,000
Environmental	164,994
Field and camp costs	13,661
Geological	174,601
Geochemical (Note 7)	689,542
Management and administration	157,868
Survey	23,185
BC Mining Tax Credit Recovery	(279,132)
Balance at March 31, 2021	2,879,561
Drilling	297,717
Environmental	27,840
Field and camp costs	43,156
Geological	188,830
Geochemical	60,799
Management and administration	80,000
Preliminary economic assessment	92,563
Balance at September 30, 2021	3,670,466

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5. EXPLORATION AND EVALUATION ASSETS (continued)

Wicheeda Option

On November 22, 2018, the Company entered into an option agreement to acquire all the issued and outstanding shares of Spectrum Mining Corporation (“Spectrum”) which is the beneficial and registered holder of 100% interest in six mining claims located in the Cariboo Mining Division of British Columbia, Canada known as the Wicheeda Rare Earth Element Project. In order to exercise the option, the Company must meet the following requirements:

- a) incur expenditures in respect of the Property totaling \$1,930,000 as follows:
 - i. \$680,000 within 12 months of the date of TSXV approval (“Effective Date”) (fully incurred)
 - ii. an additional \$625,000 within 24 months of the Effective Date (fully incurred); and
 - iii. an additional \$625,000 within 36 months of the Effective Date (fully incurred).

- (b) pay to Spectrum an aggregate of \$370,000 as follows:
 - i. \$25,000 in cash (paid)
 - ii. \$95,000 in cash within five (5) business days of the Effective Date (paid)
 - iii. \$50,000 in cash on or before the first anniversary of the Effective Date (paid)
 - iv. \$100,000 in cash on or before the second anniversary of the Effective Date (paid)
 - v. \$100,000 in cash on or before the third anniversary of the Effective Date

- (c) issue to Spectrum:
 - i. 200,000 common shares of the Company on the Effective Date (issued)
 - ii. 400,000 in common shares of the Company on or before the first anniversary of the Effective Date (issued)

Once all of the requirements have been met, the Company may exercise its option through the following:

- (d) Issue common shares to the shareholders of Spectrum equal to 49% of the issued and outstanding shares of the Company at the time of the issuance; and
- (e) Pay \$100,000 in cash.

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6. EQUITY

Share Capital

Authorized share capital of the Company consists of an unlimited number of fully paid 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 period ended September 30, 2021

On May 18, 2021, the Company closed a \$5,000,000 private placement with institutional investors by issuing 15,625,000 units at a price of \$0.32 per unit. Each unit comprises of one common share and one share purchase warrant exercisable at \$0.425 per share for three years from the date of issuance. The agent was paid a cash finder's fee of \$400,000 and issued 1,250,000 compensation warrant exercisable for \$0.32 per share for three years from the date of issuance.

For the year ended March 31, 2021

On April 29, 2020, the Company closed a non-brokered private placement of 5,980,000 units for gross proceeds of \$598,000. Each unit was priced at \$0.10 and is comprised of one common share and one transferable common share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at a price of \$0.15 per share for a period of 24 months from the date of closing the private placement. No value was allocated to warrants. The Company paid aggregate cash finder's fees of \$16,310 and issued 163,100 non-transferable finder warrants with a fair value of \$21,500 to certain brokers on a portion of the private placement. The finder warrants otherwise have the same terms as the warrants.

On May 27, 2020, the Company closed a non-brokered private placement of 680,000 units for gross proceeds of \$74,800. Each unit was priced at \$0.11 and is comprised of one common share and one transferable common share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at a price of \$0.15 per share for a period of 24 months from the date of closing the private placement. No value was allocated to the warrants.

On June 15, 2020, the Company closed the first tranche of a non-brokered private placement comprising 3,460,000 flow-through units ("FT Unit") at a price of \$0.25 per FT Unit for gross proceeds of \$865,000. Each FT Unit is comprised of one flow-through share and one common share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at a price of \$0.35 per share for a period of twenty-four (24) months from the date of closing. On issuance, the Company bifurcated the flow-through units into i) share capital of \$622,800; ii) warrants of \$69,200, and; iii) a flow-through share premium of \$173,000 that investors pay for the flow-through feature, which is recognized as a liability.

In addition, the Company also closed the first tranche of a non-brokered private placement comprising 675,000 units at a price of \$0.20 per unit for gross proceeds of \$135,000. Each unit comprises of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at a price of \$0.30 per share for a period of twenty-four (24) months from the date of closing the private placement. Of the total proceeds \$13,500 was allocated to warrants. The Company paid aggregate cash finder's fees of \$46,200 and issued 190,050 non-transferable finder warrants with a fair value of \$15,400 to certain brokers. The finder warrants otherwise have the same terms as the warrants except that the exercise price is \$0.30.

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6. EQUITY (continued)

On July 15, 2020, the Company closed the second and final tranche of a non-brokered private placement comprising 80,000 flow-through units ("FT Unit") at a price of \$0.25 per FT Unit for gross proceeds of \$20,000. Each FT Unit is comprised of one flow-through share and one common share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at a price of \$0.35 per share for a period of twenty-four (24) months from the date of closing. On issuance, the Company bifurcated the flow-through units into i) share capital of \$12,400; ii) warrants of \$3,600, and; iii) a flow-through share premium of \$4,000 that investors pay for the flow-through feature, which is recognized as a liability. In addition, the Company also closed the second and final tranche of a non-brokered private placement comprising 100,000 units at a price of \$0.20 per unit for gross proceeds of \$20,000. Each unit comprises of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at a price of \$0.30 per share for a period of twenty-four (24) months from the date of closing the private placement. Of the total proceeds \$4,500 was allocated to warrants.

On October 30, 2020, the Company completed a non-brokered private placement of 2,525,000 units at a price of \$0.20 per unit for gross proceeds of \$505,000. Each unit comprised of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at a price of \$0.25 per share for a period of 12 months from the date of closing of the private placement. Of the total proceeds \$50,500 was allocated to warrants. In addition, the Company closed a non-brokered private placement of 405,000 flow-through common shares at a price of \$0.25 per share for gross proceeds of \$101,250. On issuance, the Company bifurcated the flow-through units into i) share capital of \$72,900; ii) warrants of \$nil, and; iii) a flow-through share premium of \$28,350 that investors pay for the flow-through feature, which is recognized as a liability. The Company paid cash finder's fees of \$1,837 and issued 28,350 non-transferable finder warrants with a fair value of \$1,400 to certain brokers on a portion of the private placements. The finder warrants otherwise have the same terms as the warrants issued with the private placement.

On November 20, 2020, the Company closed a non-brokered private placement of 800,000 flow-through common shares at a price of \$0.25 per share for gross proceeds of \$200,000, of which \$36,000 was allocated to flow-through premium as a liability.

On January 8, 2021, the Company closed a private placement of 1,000,000 units for gross proceeds of \$200,000. Each unit comprised of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at a price of \$0.30 per share for a period of 12 months from the date of closing of the private placement. No value is allocated to warrants.

The Company incurred other share issuance cost of \$129,740 in addition to the cash finder's fees discussed above.

During the year ended March 31, 2021, 9,234,806 share purchase warrants and options were exercised for \$0.16 to \$0.35 per share for gross proceeds of \$1,690,141.

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6. EQUITY (continued)

Escrow shares

As of March 31, 2021, Nil shares were held in escrow (2020 – 1,350,000), with 4,500,000 shares initially deposited in escrow. 10% of escrowed securities were released from escrow on the Company's listing date. An additional 15% were released every six month interval thereafter over a period of 36 months.

Options

For the period ended September 30, 2021

On July 16, 2021, the Company granted 950,000 options to officers and consultants of the Company. 900,000 options vest at the date of grant and are exercisable at \$0.25 per share for a period of three years. These options had a fair value of \$148,525 using the Black Scholes model with the following inputs: i) exercise price: \$0.25; ii) share price: \$0.23; iii) term: 3 years; iv) volatility: 111%; v) discount rate: 0.41%. 50,000 options granted to a third party investor relations consultant will vest in stages over a period of twelve months in equal portions every three months starting on the date of grant.

On August 9, 2021, the Company granted 100,000 options to consultants of the Company which are exercisable at \$0.24 per share for a period of two years. These options had a fair value of \$14,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.24; ii) share price: \$0.24; iii) term: 2 years; iv) volatility: 118%; v) discount rate: 0.41%.

For the year ended March 31, 2021

On April 7, 2020, the Company granted 325,000 options to consultants of the Company. These options had a fair value of \$39,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.15; ii) share price: \$0.12; iii) term: 5 years; iv) volatility: 119%; v) discount rate: 0.68%.

On April 29, 2020, the Company granted 550,000 options to officers and consultants of the Company. Of these options granted, 75,000 were granted to a third-party investor relations company and vest over a period of twelve months in equal portions every three months starting on the date of grant. These options had a fair value of \$71,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.17; ii) share price: \$0.16; iii) term: 2 years; iv) volatility: 118%; v) discount rate: 0.41%.

On July 21, 2020, the Company granted 400,000 options to consultants of the Company which vest over a period of twelve months in equal portions every three months starting on the date of grant. These options had a fair value of \$39,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.20; ii) share price: \$0.175; iii) term: 2 years; iv) volatility: 114%; v) discount rate: 0.25%.

On September 29, 2020, the Company granted 550,000 options to directors, officers and consultants of the Company. These options had a fair value of \$68,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.20; ii) share price: \$0.16; iii) term: 5 years; iv) volatility: 113%; v) discount rate: 0.25%.

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6. EQUITY (continued)

On November 26, 2020, the Company granted 495,000 options to directors, officers and consultants of the Company. Of these options granted, 25,000 were granted to a third-party investor relations company and vest over a period of twelve months in equal portions every three months starting on the date of grant. These options had a fair value of \$65,500 using the Black Scholes model with the following inputs: i) exercise price: \$0.20; ii) share price: \$0.20; iii) term: 3 years; iv) volatility: 110%; v) discount rate: 0.25%.

On February 6, 2021, the Company granted 200,000 stock options to officers, directors, and consultants to purchase common shares in the Company at a price of \$0.40 per common share. These options had a fair value of \$55,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.40; ii) share price: \$0.40; iii) term: 3 years; iv) volatility: 116%; v) discount rate: 0.41%.

On February 22, 2021, the Company granted 525,000 stock options to officers, directors, and consultants to purchase common shares in the Company at a price of \$0.65 per common share. 50,000 of these options vest in stages over a period of 12 months, every three months, commencing on grant date. These options had a fair value of \$226,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.65; ii) share price: \$0.63; iii) term: 3 years; iv) volatility: 116%; v) discount rate: 0.41%.

On March 11, 2021, the Company granted 300,000 stock options to officers, directors, and consultants to purchase common shares in the Company at a price of \$0.46 per common share. These options had a fair value of \$95,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.46; ii) share price: \$0.46; iii) term: 3 years; iv) volatility: 116%; v) discount rate: 0.41%.

On December 24, 2019, 1,250,000 stock options were granted to officers, directors and consultants. The options have a term of five years and are exercisable at a price of \$0.16 per share. These options had a fair value of \$133,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.16; ii) share price: \$0.155; iii) term: 5 years; iv) volatility:

88.56%; v) discount rate: 1.56%. \$125,353 stock option expense has been recognized for the period ended December 31, 2019 with the remainder to be recognized based on a twelve month vesting schedule.

On May 29, 2019, 400,000 stock options were granted to officers, directors and consultants. The options have a term of five years and are exercisable at a price of \$0.20 per share. These options had a fair value of \$68,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.20; ii) share price: \$0.22; iii) term: 5 years; iv) volatility: 102%; v) discount rate: 2.04%.

In estimating the fair value of options issued using the Black-Scholes option pricing model, the Company is required to make assumptions. The expected volatility assumption is based on the historical volatility of similar companies operating in the same industry as the Company. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life. The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has historically not paid dividends on its common stock.

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6. EQUITY (continued)

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, 2020	3,221,333	0.18	4.40
Granted	3,345,000	0.30	3.24
Exercised	(750,000)	0.17	-
Balance, March 31, 2021	5,816,333	0.25	3.00
Granted	1,050,000	0.30	3.24
Balance, September 30, 2021	6,866,333	0.25	2.66

The following stock options were outstanding and exercisable at September 30, 2021:

Number of Options Outstanding	Number of Options Vested and Exercisable	Exercise Price	Expiry Date
500,000	500,000	\$0.20	September 28, 2023
371,333	371,333	\$0.25	January 24, 2024
400,000	400,000	\$0.20	May 29, 2024
850,000	850,000	\$0.16	December 24, 2024
600,000	600,000	\$0.18	February 13, 2025
325,000	243,750	\$0.15	April 7, 2025
400,000	381,250	\$0.17	April 29, 2022
400,000	300,000	\$0.20	July 21, 2022
450,000	450,000	\$0.20	September 21, 2025
495,000	476,250	\$0.20	November 26, 2023
200,000	200,000	\$0.40	February 6, 2023
525,000	475,000	\$0.65	February 22, 2024
300,000	300,000	\$0.46	March 11, 2024
950,000	912,500	\$0.25	July 16, 2024
100,000	100,000	\$0.24	August 9, 2023
6,866,333	6,560,083		

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6. EQUITY (continued)

Warrants

The Company issued the following warrants:

	Number of Warrants	Weight Average Exercise Price	Weighted Average Life (years)
Balance, March 31, 2020	14,602,108	0.25	0.53
Exercised	(8,484,806)	0.18	n/a
Expired	(10,923,852)	0.27	n/a
Issued	14,881,500	0.23	2.00
Balance, March 31, 2021	10,074,950	0.26	0.99
Exercised	(70,000)	0.15	n/a
Issued	16,875,000	0.41	2.87
Balance, September 30, 2021	26,879,950	0.26	1.83

On May 17, 2021, the Company granted 1,250,00 broker warrants. The broker warrants have a term of three years and are exercisable at \$0.32 per share. These warrants had an aggregate fair value of \$258,000 calculated using the Black Scholes model with the following inputs: i) exercise price: \$0.32 per share; ii) share price: \$0.30; iii) term: 3 years; iv) volatility: 122%; v) discount rate: 0.56%.

During the year ended March 31, 2021, the Company granted in aggregate, 381,500 broker warrants related to various private placement closings. The broker warrants have a term of one to two years and are exercisable at \$0.15, \$0.25 and \$0.30 per share. These warrants had an aggregate fair value of \$38,300 calculated using the Black Scholes model with the following inputs: i) exercise price: \$0.15, \$0.25 and \$0.30 per share; ii) share price: \$0.155, \$0.18 and \$0.17; iii) term: 1 and 2 years; iv) volatility: 111.94% to 119.13%; v) discount rate: 0.25% to 0.68%.

During the year ended March 31, 2020, the Company granted 400,442 broker warrants related to various private placement closings. The broker warrants have a term of one year and are exercisable at \$0.20 and \$0.30 per share. These options had a fair value of \$23,300 using the Black Scholes model with the following inputs: i) exercise price: \$0.20 and \$0.30 per share; ii) share price: \$0.155 to \$0.19; iii) term: 1 year; iv) volatility: 88.56%; v) discount rate: 1.56%.

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6. EQUITY (continued)

The following warrants were outstanding and exercisable at September 30, 2021:

Number	Exercise Price	Expiry Date
2,327,000	\$0.15	April 29, 2022
124,600	\$0.15	April 29, 2022
200,000	\$0.15	May 27, 2022
3,200,000	\$0.35	June 12, 2022
668,000	\$0.30	June 12, 2022
7,000	\$0.30	June 12, 2022
80,000	\$0.35	July 15, 2022
100,000	\$0.30	July 15, 2022
2,270,000	\$0.25	October 30, 2021
28,350	\$0.25	October 30, 2021
1,000,000	\$0.30	January 8, 2022
15,625,000	\$0.43	May 17, 2024
1,250,000	\$0.32	May 17, 2024
26,879,950		

7. 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 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 and corporate officers and companies controlled by them. The table below summarizes key management compensation for various services received by the Company:

	September 30, 2021	September 30, 2020
	\$	\$
Exploration and evaluation	238,380	115,246
Share issuance cost	120,000	-
Office and administrative	6,300	6,000
Consulting	60,000	40,000
Professional fees	37,000	30,000
Stock-based compensation	-	87,409

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7. RELATED PARTY TRANSACTIONS (continued)

As at September 30, 2021, \$2,693 (2021 -\$3,088) was owing to a private company owned by the Chief Financial Officer for expenses paid on behalf of the Company (repaid subsequent to September 30, 2021); \$19,750 (2021 - \$19,750) was owing to a director; \$89,957 (2021 - \$7,512) was owing to a company of which a director was a principle of, for geological services; \$10,150 owing to the Chief Executive Officer for expenses incurred on behalf of the Company which are all included within accounts payable and accrued liabilities. Amounts owing to related parties are unsecured, non-interest bearing, and carry no fixed terms of repayment.

8. COMMITMENTS

As of September 30, 2021, the Company has a flow-through obligation of \$228,400 (2020 - \$22,687) relating to unspent exploration commitments. The Company must incur the eligible expenditures within 24 months from issuing the flow-through shares. The expenditures must be incurred by November 20, 2022.

9. SEGMENTED INFORMATION

The Company operates in one business segment: The exploration, development and evaluation of mineral assets are located in B.C., Canada.

10. SUBSEQUENT EVENTS

Subsequent to September 30, 2021, 961,000 share purchase warrants were exercised for \$0.25 per share.

On November 24, 2021, the Company released the results of the Preliminary Economic Assessment for the Wicheeda project.