DEFENCE DEMAND REWRITES THE FINANCING PLAYBOOK FOR CRITICAL MINERALS

The global race to secure critical minerals has entered a new phase – one increasingly defined not by electric vehicles or the energy transition, but by defence demand and geopolitical urgency.

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Across North America and allied economies, this shift is reshaping how banks, investors, and policymakers evaluate mining and processing projects, and beginning to alter the financial architecture that underpins the sector.

Defence demand is now emerging as a central driver of bankability, risk assessment, and capital allocation for critical mineral projects. In many cases, it is doing what years of energy transition narratives could not – unlocking financing for projects long considered too risky or uncertain.

At the core of this transformation is a simple but powerful dynamic: defence-linked demand offers government-backed predictability. And in project finance, predictability is everything.

FROM COMMODITY EXPOSURE TO STRATEGIC INFRASTRUCTURE

For decades, critical minerals projects were evaluated primarily through the lens of commodity markets – subject to volatile price cycles, uncertain demand forecasts, and long development timelines. That paradigm is now shifting.

"Defence demand is changing how banks and investors evaluate critical minerals projects by shifting the focus from commodity exposure to strategic supply chain resilience," says Adam Johnson, CEO of Principal Mineral.

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Rather than asking whether a project will benefit from rising EV adoption or renewable energy growth, investors are increasingly asking a different set of questions: Who controls the supply? Is it geopolitically secure? Can it operate independently of adversarial influence?

This reframing has profound implications. Projects that once looked like speculative bets on future commodity prices are now being reclassified as strategic assets – integral to national security and industrial policy.

Bill Hawkins, Head of Trade & Investment at Sussex Strategy Group, describes the shift in stark terms: "Defence demand significantly improves bankability for Canadian critical minerals projects by reducing demand uncertainty and geopolitical risk."

According to him, the combination of long-term procurement pipelines, allied coordination, and government-backed signals is creating "the revenue visibility and de-risking that lenders and institutional investors require."

In effect, certain projects are beginning to resemble infrastructure investments rather than traditional mining ventures. As Hawkins notes: "Projects aligned with the Defence Industrial Strategy are increasingly treated as quasi-sovereign strategic infrastructure, attracting financing terms and institutional interest once reserved for lower-risk sectors."

LOWER RISK, CHEAPER CAPITAL

One of the most immediate impacts of defence demand is on the cost of capital. By reducing uncertainty, defence-linked mechanisms are enabling lenders to assign lower risk premiums – and in turn, making projects more financially viable.

Drew Horn, CEO of Greenmet, is unequivocal: defence demand is "supercharging and de-risking private financing across the board". He points to government financing, offtake agreements, and co-investment as key drivers that are "improving the return and economic models for the private capital markets". Asked whether lenders are likely to assign lower risk premiums to defence-aligned projects, his answer is direct: "Yes, absolutely."

This view is echoed across the sector. Hawkins highlights how defence-related demand signals – combined with tools like the Defence Production Act and NATO stockpiling initiatives – are "lowering risk premiums, enabling earlier final investment decisions, and unlocking blended capital".

At a structural level, the key factor is visibility. As Johnson explains, "the biggest driver of lower cost of capital is predictability." When investors can rely on stable demand from defence procurement and aligned industrial strategies, projects begin to look far less risky.

This predictability is not just about demand volumes; it extends to policy continuity, permitting timelines, and long-term strategic alignment. Together, these elements create a financing environment in which capital can flow more freely.

SECURITY OF SUPPLY AS A FINANCIAL METRIC

Perhaps the most striking development is the emergence of security of supply as a core financial variable. "It's one of the key considerations now in deal viability," says Horn.

This marks a significant departure from traditional project finance models, where supply chain considerations were often secondary to cost and output. Today, the ability to provide secure, traceable, and geopolitically aligned supply is becoming a prerequisite for investment.

Johnson elaborates on this shift, noting that investors are increasingly focused on "who controls production, where it is located, and whether it can operate independently of geopolitical pressure".

In practical terms, this means that projects located in allied jurisdictions, or those capable of supplying defence-critical materials without reliance on adversarial countries, are receiving preferential treatment from capital providers and buyers.

The implication is clear: financial markets are internalizing geopolitical risk in a way they never have before.

WHAT ACTUALLY DE-RISKS A PROJECT?

While defence demand provides a broad tailwind, specific mechanisms are doing the heavy lifting in terms of de-risking projects.

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Several tools have emerged as particularly impactful, from long-term offtake agreements and direct government investment to loan guarantees and credit enhancements, price support mechanisms (including price floors), and strategic stockpiling.

For Johnson, long-term offtake agreements stand out as the most critical. "They give lenders confidence in predictable cash flows," he explains. When tied to defence or allied demand, these agreements can "anchor the entire financing structure."

Horn, meanwhile, emphasizes a combination of tools. "Direct investment, increased defence/government offtake, and price controls/floors will have the greatest impact on increasing and de-risking project finance," he says. One example of this combination is the US Department of War's (formerly Department of Defence) 10-year offtake agreement with MP Materials last June, which came with a price floor of US$110 per kilogram of product.

Hawkins adds that these mechanisms are most powerful when combined. Long-term procurement pipelines, stockpiling initiatives, and government-backed commitments collectively create a framework that reduces both market and geopolitical risk. In essence, de-risking is no longer about a single instrument – it is about an ecosystem of policy and financial tools working in tandem.

THE RISE OF BLENDED FINANCE

As defence demand reshapes the sector, it is also accelerating the adoption of blended finance models – where public and private capital share risk and returns. After all, governments are doing more than just de-risking critical minerals projects: the United States has invested US$439 million in long-term rare earth and magnet metal capacity since 2020, the EU's European Defence Industry Programme (EDIP) includes a €1.5 billion package, and Canada's Industrial Defence Strategy is part of a C$82 billion defence investment.

"There is a gradual shift toward blended finance in defence critical minerals," says Johnson, noting that governments are increasingly focused on "creating the conditions that allow large-scale private capital to participate with confidence".

Horn goes further, describing a more decisive shift: "The US government/Trump administration prioritization of government incentives has brought the private capital markets fully into commitment on this sector as a new top priority (along with AI and AI infrastructure). Public-private partnerships are the method of sharing risk, as well as diversified offtakes that include both government and private commercial customers."

In this model, governments play a catalytic role – providing initial funding, guarantees, or demand signals that crowd in private investment. Institutions such as development banks, export credit agencies, and sovereign funds are also becoming more active participants.

For Horn, these institutions are engaging "by directing partnering with US government financing agencies and institutions," including a range of federal bodies. For private investors, the involvement of public institutions serves as a powerful signal. It indicates long-term policy alignment, reduces perceived risk, and helps standardize financing structures.

According to Bloomberg, venture capitalists invested more than US$628 million in US rare earth startups in 2025 – 90% of all funding globally – after the Trump administration vowed to guarantee minimum prices for producers.

However, the transition is not without friction. Horn acknowledges that "it's still new and private capital is looking for a longer establishment of this trend to further commit to".

At Principal Mineral, Johnson echoes this caution, noting that private capital remains hesitant where uncertainty persists around "policy continuity, market transparency, and long-term demand signals".

TURNING STRATEGIC INTEREST INTO BANKABLE DEALS

Despite the growing momentum, translating defence interest into actual financing remains a complex process.

"Turning defence interest into bankable financing requires more than strategic relevance," Johnson says. Projects must meet the same rigorous standards as any large industrial investment, including strong governance, credible cost structures, and experienced management teams.

In addition, projects must meet stringent traceability and security requirements. "Full traceability of any critical defence materials to ensure no linkage to US adversaries" is critical, Horn notes. "Mining companies need to pass a full CFIUS [Committee on Foreign Investment in the United States] and traditional due diligence process successfully."

Developers who fail to understand these requirements risk falling short. Johnson warns that some developers assume that strategic importance will automatically unlock funding. In reality, "banks and credit committees still focus on execution risk, governance, and whether the project can remain economically viable beyond a single policy cycle".

The projects that succeed are those that combine strategic alignment with commercial robustness – demonstrating that they can operate as "durable industrial businesses with or without temporary incentives."

THE QUESTION OF DURABILITY

A key question for investors is whether defence-linked demand is more durable than other sources of demand, such as the energy transition.

Horn offers a nuanced view: "Neither is more durable: the key is sovereign and defence combined demand." This suggests that the most attractive projects are those that can serve multiple markets – leveraging defence demand for stability while also benefiting from broader industrial and commercial applications, such as the energy transition.

Johnson reinforces this point, arguing that the most resilient projects are those that support "both defence needs and broader industrial demand," allowing them to remain viable even as policy priorities evolve.

This diversification is critical in mitigating one of the main risks associated with defence-driven finance: dependence on government policy and political cycles.

NAVIGATING POLITICAL RISK

The increasing role of government in critical minerals finance inevitably raises questions about political risk. What happens if priorities shift? What if procurement pipelines change?

Horn acknowledges the risk that defence-driven finance becomes too dependent on government guarantees or political cycles: "Of course, but that risk is mitigated as long as the government [is] using objective screening and gating evaluation of projects to ensure they are viable after initial catalytic subsidies are removed".

In other words, the goal is to use government support as a catalyst – not a permanent crutch.

Johnson takes a similar view, emphasizing that projects must be able to stand on their own merits. Those that rely too heavily on specific policies or guarantees may struggle if conditions change.

At the same time, there is a recognition that private markets and government priorities are increasingly intertwined. This alignment suggests that, while risks remain, they are not necessarily destabilizing – provided projects are structured with flexibility and resilience in mind.

A STRUCTURAL SHIFT IN CAPITAL ALLOCATION

Taken together, these dynamics point to a broader structural shift in how capital is allocated to the critical minerals sector.

Defence is not simply adding another layer of demand – it is redefining the criteria by which projects are evaluated, financed, and developed. By reducing uncertainty, enhancing revenue visibility, and aligning projects with national security priorities, it is unlocking new pools of capital and accelerating investment decisions.

The result is a transformation in how projects are perceived: from high-risk commodity ventures to strategic infrastructure assets.

This shift is still unfolding, and challenges remain – particularly around policy clarity, market transparency, and the maturation of blended finance models.
But one thing is clear: in the competition for critical minerals, defence demand is proving to be a powerful financial catalyst.