



METAL STORM LIMITED

ACN 064 270 006

CEO BULLETIN

Brisbane, AUSTRALIA – 31 August 2007: Metal Storm Limited (ASX trading code: MST and NASDAQ ticker symbol: MTSX).

All,

In this CEO Bulletin I would like to concentrate on our work in the USA. Before I do, however, a brief note on marketing and operations

The majority of our marketing effort is still focused on the US Market. However, we are also targeting opportunities in Asia and the Middle East, and keeping a watchful eye on Europe. For example, the industry will see us in force at the Singapore Air Show in February, prominently displaying our 40mm product family with our strategic partners.

Operationally the company continues to perform well in terms of meeting its engineering goals, whilst we closely monitor cash burn to ensure that our investor's funds are carefully used in advancing the products to commercialization. There have been no material changes to personnel or organizational structure since I provided an update at the AGM. The AGM presentation is available on the Metal Storm website.

Please also look out for the first of the Metal Storm videos from the Singapore firings. The 3GL video will be released by September 8th, with further videos to follow shortly thereafter.

Now, back to the focus of this Bulletin - the US market. The Metal Storm Inc. team has been making solid progress on a range of existing contracts as well as pushing forward with our NEXT strategy to exploit our existing market presence in the US Military and Law Enforcement space. The following text provides an update on our existing contracts, and also illustrates how we are continuing to market and sell Metal Storm technology in this arena.

Metal Storm Inc. Contracts and Opportunities

I am pleased to report that the current contract work in the U.S. is tracking well with the timelines and demonstration dates established by the individual contracts. While achievement of contract deliverables within budget and on time is a key measure of success, performance is also measured by customer satisfaction reports and follow-on business. Overall customer satisfaction as reported by the U.S. Government customers is steadily improving, and MSI is consistently receiving GOOD to EXCELLENT marks.

MSI has been working with the **U.S. Navy** technical and contracting organizations and U.S. Government auditing agencies for some time now in an effort to secure follow-on work for the **Active Protection System**. We have found that the Government procurement process can be a difficult road to navigate, however we are fortunate that MSI has the processes, procedures and patience to respond to the legislative and financial requirements necessary to do business in the U.S. MSI is reporting that they now expect to be awarded a contract by the end of the U.S. Government fiscal year (30/9/2007).

An important demonstration is planned for the fourth quarter of this year on the **U.S. Army Crowd Control contract** where Metal Storm's stacked round technology is combined with less-lethal munitions in a total system solution consisting of a vehicle, robotic mount and a Metal Storm weapons pod. The less-lethal work in the U.S. aligns with our recent success in Singapore by rounding out our munitions compliment. Our customers are telling us that they want a less-lethal capability only if it can be backed by a lethal response or in other words, "scalable effects". Metal Storm fits this role perfectly when our multi-barreled system is configured with a variety of munition types simultaneously.

Metal Storm Inc has completed the **Explosive Ordnance Disposal (EOD) contract** with the Army and has presented them with a proposal for a follow-on effort. MSI is working closely with several EOD robotic platform manufacturers to extend the capabilities of EOD robotics to include a multi-shot EOD disrupter. Metal Storm technology enables a longer mission before recall of the robot, thereby increasing the safety of the robot and EOD personnel.

The development of **MultiShot Underbarrel Accessory Launcher (MAUL)** with an 18MM door breaching round for the **United States Marine Corps** has reached an important milestone now that Metal Storm engineers are performing live fire tests of a bench gun on an open range. I believe the MAUL concept is particularly exciting as it would give warfighters and law enforcement personnel access to a very small lightweight 12 gauge underslung additional weapon which can fire 4 explosive grenades, or potentially other lethal or less-than-lethal projectiles.



Ballistics data is being collected for the MAUL bench gun during recent test firings in the U.S.

The recent award from the **Naval Surface Warfare Center** is an important one as it will be the first delivery of a limited production Metal Storm weapon. I am excited about this opportunity because it *will pave the road to introduction of Metal Storm products in-theater* while furthering the certification of Metal Storm weapons by a Government certifying body. NSWCDD is involved with projects such as Sheriff and Wolfpack that address urgent warfighter needs for integrated sensors, lethal and less-lethal weapons and force protection and I believe our technology plays well into that concept.

The **commercial work in the law enforcement market** continues to progress and while we are currently limited in what we are able to report, I will keep you updated once field tests have been completed. The work on this project has demonstrated the U.S. organization's ability to develop a product from concept phase, through design, development and testing, and manufacture in limited quantities. We have known these capabilities would be necessary as we transition Metal Storm from research to product development and I am pleased to report that we can now consider them as core competencies.

Opportunities & Marketing

Metal Storm Inc. is carrying the initiatives of my NEXT Strategic Plan into the U.S. defence and Homeland Security marketplace by increasing the scale of U.S. Government contract business. The effects of these initiatives are beginning to be realized as we see a sharp increase in interest from the military services (Army, Navy, Marines) and a number of Government agencies. I believe this to be a direct result of several factors which I will discuss below:

1.) We have increased public awareness through television media. The response to the Discovery Channel episode, Future Weapons has been overwhelming and has led to some important contacts within the U.S. Military. Metal Storm brand awareness has increased dramatically and we hope to continue this trend with another Discovery Channel program "Weapons Master" to be aired later this year. I have also learned we were approached by a Hollywood production company wanting to include our technology in an upcoming large budget feature film.

2.) Funding levels for Less Lethal Technologies have been increasing. – Military organizations with less-lethal charters have been enjoying increasing budgets. In my opinion, this is a direct reflection of the battlefield situation in Iraq. Close-in urban environments often call for a scalable response that will separate or disperse crowds but may ultimately require an overwhelming response to protect coalition forces. Metal Storm is responding to several Government inquiries into how our technology can assist in this area. I believe less lethal technologies fit well within the Metal Storm concept and we will continue to pursue this market aggressively.

3.) MSI has expanded its sales and Marketing organization.

MSI has engaged recently retired Marine Corps Colonel Ed Hackett, former Chief, Strategic Plans Branch, Joint Staff, Pentagon. In this role he was the senior military planner for the Joint Staff, responsible to the Chairman, Joint Chiefs of Staff, for the development and implementation of global military strategic planning initiatives. His major focus areas included: the Department of Defense Contingency Planning Guidance, The Joint Strategic Capabilities Plan, Department of Defense Security Cooperation Guidance and the Global Force Management Plan. We are very fortunate that Ed has agreed to join the U.S. Business Development team.

MSI has also brought on John Northrop and Bill Huff to assist us in proposal development. John and Bill have been working with MSI over the past year to develop Concepts of Operations (CONOPS) for Metal Storm launchers mounted on unmanned ground and air robotic platforms, manned ground vehicles. They have a combined experience of 56 years in the U.S. Army and have been very helpful in bridging the gap between Metal Storm engineering and customer requirements.

4.) We are increasing our presence at industry conferences and trade shows.

Industry conferences have generated many leads and in fact, it was the UAV Conference in Washington that led to the recent Dahlgren award. Our participation has varied from attendee to presenter to exhibitor depending on the scale of the conference. I have listed some of the recent conferences we have attended as well as upcoming conferences.

- Metal Storm presented a paper to the 6th Annual Conference on Armed UAVs, needs, opportunities and challenges. The Conference, jointly sponsored by the National Military Intelligence Association, the American Institute of Engineers and the Naval Aviation Foundation was held in Washington, November 13-14, 2006.
- Metal Storm was asked to present again at the West Coast venue of the conference held in Las Vegas on April 26th, 2007. Metal Storm's presentation centered on the capability of the Metal Storm stacked 40mm weapon system to be employed on smaller UAV's with weight limitations that would not allow them to carry standard weapons or missiles. The remote firing capability, recoil mitigation and small profile were of interest to numerous UAV manufacturers as well as DOD personnel.
- Metal Storm attended the ARDEC SBIR Day conference on June 21, 2007 at Picatinny Arsenal, NJ. The conference showcased existing SBIR programs sponsored by ARDEC. We exhibited the Metal Storm Crowd Control system currently in development.

- Metal Storm was represented at the Association for Unmanned Vehicle Systems International conference by engineering representatives from the Australian and U.S. organizations as well as senior leadership and business development personnel. The conference was held August 10-13, 2007 in Washington, DC.
- The annual Association of the U.S. Army (AUSA) conference will be held October 8-10 in Washington, DC. We plan to exhibit the Metal Storm 3GL with Vision Technologies and, in partnership with Northrop Grumman, we will be exhibiting the Networked Remotely Operated Weapon System (NROWS) developed for SPAWAR which features a four barrel weapons pod capable of firing both lethal and less-lethal munitions. This conference is an excellent forum to showcase Metal Storm technology and I plan to be there personally. Feel free to stop by and say hello!

The U.S. market represents a significant part of our projected revenues and we will continue to work closely through Metal Storm Inc. in the U.S. to exploit that market. It is clear that the U.S. military and homeland security organizations are recognizing the value of our technology and we are excited about the opportunities that will be coming from them in the near future. Our contracting organization is well established, our technology is nearing maturation, our engineering team has demonstrated the ability to deliver products to customers and we have expanded our sales organization to find best-fit opportunities that play to our strengths.

In all, it's an exciting time for Metal Storm as we gear up our sales and marketing activity to align the sales cycle with the finalization of our technology commercialization. I look forward to providing you with further updates in the near future.

Lee Finniear
CEO
Metal Storm.

Notes:

Metal Storm's Australian Stock Exchange trading code: MST
Metal Storm's NASDAQ Small Cap ticker symbol: MTSX

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About Metal Storm

Metal Storm Limited is a multi-national defence technology company engaged in the development of electronically initiated ballistics systems using its unique "stacked projectile" technology. The company is headquartered in Brisbane, Australia and incorporated in Australia. Metal Storm Limited technology and products are represented in the USA by Metal Storm Inc., which has offices in Arlington Virginia.

Metal Storm is working with government agencies and departments, as well as industry, to develop a variety of systems utilising the Metal Storm non-mechanical, electronically fired stacked ammunition system.

Metal Storm's weapon technology uses computer-controlled electronic ignition and a system of stacked projectiles, to achieve a completely non-mechanical gun that is very lightweight and compact, providing a very high firepower to weight ratio. The Metal Storm weapons system utilizes multiple barrels mounted together on one platform which allows varying munitions types to be deployed in a single, low cost, lightweight weapon system. Firing the weapons by electronic ignition requires no moving parts, allowing reliable long term unattended weapon operation.

Safe Harbour

Certain statements made herein that use the words "estimate", "project", "intend", "expect", "believe" and similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks and uncertainties which could cause the actual results, performance or achievements of the company to be materially different from those which may be expressed or implied by such statements, including, among others, risks or uncertainties associated with the development of the company's technology, the ability of the company to meet its financial requirements, the ability of the company to protect its proprietary technology, potential limitations on the company's technology, the market for the company's products, government regulation in Australia and the US, changes in tax and other laws, changes in competition and the loss of key personnel. For additional information regarding these and other risks and

uncertainties associated with the company's business, reference is made to the company's reports filed from time to time with the Securities and Exchange Commission, including the company's Form 20-F.