



# METAL STORM LIMITED

ACN 064 270 006

## CEO Bulletin – February 2010

**Brisbane, Australia** – 16 February, 2010: Metal Storm Limited (ASX trading code: MST, OTC Symbol: MTSXY).

Dear Shareholders,

Although capital funding has been a necessary focus for Metal Storm over the last 10 months, I am pleased to say that we have continued to move forward with our weapons and ammunition commercialisation programme. In the following update I will cover:

- Financing
- Weapons Development
- Contracts
- Sales & Marketing progress & opportunities

Firstly, however, I would like to thank you, our shareholders and note holders, for your support and loyalty as we endeavoured to ensure that your Company lived to fulfil its purpose. It has been an extraordinarily challenging period, but one that has shown the true support the Company has from its shareholder base.

### **Financing**

The Global Financial Crisis (GFC) has challenged most businesses across the globe. We have not been an exception. We were ramping up our search for additional finance when the GFC suddenly hit home in late 2008. Throughout 2009 the Board and executive team worked tirelessly, meeting potential strategic and financial investor groups in the US, Europe, Asia and in Australia with the aim of acquiring finance to complete our weapons commercialisation. While there was often promising dialogue, for the most part however, the GFC meant that investors were consolidating and avoiding further investment risk.

The agreement signed in October with Assure Fast Holdings Limited and that investor's failure to deliver the first tranche has already been well documented by the Company and the Press, so I will not waste more on it here. Suffice to say that the Board was most disappointed at the outcome, and the Company has reserved all of its rights in relation to the breach of contract.

In December we considered three equity line of credit (ELOC) options to provide immediate funding for the Company. After considerable negotiation, we chose the Global Equity Markets Ltd (GEM) ELOC as it provided the largest cash investment potential, the least dilutive share price calculations, and the opportunity for the Company to reduce or eliminate its reliance on the ELOC funding over time at our option and without penalty.

In addition we secured a number of small private equity placements at crucial points for the Company to remain solvent and continue as a going concern. We are grateful to those new investors who provided instant funds when the Company was under great financial stress.

On 4<sup>th</sup> March the Company is holding a Shareholder Meeting to approve the GEM Agreement and the recent private placements. I look forward to seeing you there if you are able to attend.

The Company has recently been advised by Mike O'Dwyer, the inventor of the technology and who previously was CEO and a director that he intends to sell down his equity until his holding is under 5%, for family reasons. He presently holds approximate 9.82% of Metal Storm ordinary shares.

Looking forward, the Company continues to seek additional investment on favourable terms in order to accelerate its development and commercialisation work. The potential of Metal Storm's technology and weapon systems has grown during this difficult period and we believe its future remains compelling.

### **Weapons & Munitions Development**

Over the last 9 months the Company has had to significantly reduce its overall expenditure, and this has had, among other things, an impact on the resources available to the Engineering teams in Australia and the at Metal Storm Inc. (MSI) in the USA. Development during this period continued but more slowly than the Company would have achieved with funding.

MSI has cut more than 10% in operating expenses while still maintaining its core staff and the ability to fully execute its contractual obligations. We have been careful to only eliminate costs that will not degrade the ability to continue advancing the MAUL™ and FireStorm™ product lines.

Over the past two quarters, the FireStorm™ remotely operated weapons station design has undergone a number of enhancements to improve the volume of fire. A 36 shot 12 barrel weapons pod has been developed as a drop in replacement for the current four barrel design for those customers that are either looking for an overwhelming and instantaneous volley of fire or would like to extend the number of engagements before reloading. 45, 48 and 60 shot designs are in the works as well, giving FireStorm™ a sustained fire capability before reload that is equivalent to or even greater than the belt-fed MK-19 Grenade Machine Gun.

MSI has also been working on a number of munition designs for the MAUL™ and FireStorm™, including several types of door breaching rounds for MAUL™ and additional less-lethal rounds for FireStorm™.

3GL development continued with further design advances in the "Bullpup" version, as well as improvements to the fire control package to cater for a broader range of weapons with up to 6 shots per barrel. In particular an endurance firing was completed with over 200 rounds fired without cleaning the weapon, without degradation in performance. The lead 3GL has now fired in excess of 300 rounds and continues to demonstrate good reliability and accuracy.

The STORM40 40mm ammunition has been continuing towards formal certification. In late October STK completed all testing on the HEDP munition to enable it to progress to its Critical Design Review, which precedes formal qualification. During this testing in Singapore, sample batches of rounds were fired after being subjected to a series of rigorous environmental conditions, including heating and cooling at temperatures from -54°C up to 71°C, and water immersion to 1 metre prior to use. The successful result validates all the testing carried out in Australia using the non-explosive TP rounds and gives the Company and its prospective customers greater confidence that the ammunition design will meet the required military standards.

During 2009 the Company fired approximately 1300 rounds of STORM40 ammunition with an overall reliability of over 98%. This is an outstanding result, particularly given the wide range of extreme test conditions under which the munitions were fired.

### **Contracts**

MSI continues to win and successfully execute US Military contracts. The contract with the National Small Arms Center is progressing on schedule and within the initial allocated budget. The contract is expected to finish in May 2010, with a product demonstration of an Optically Fused Air-Burst High Explosive projectile. Work is also progressing well on a subcontract for munitions for Physical Optics Corporation.

MSI has also completed the manufacturing and testing of the MAUL™ weapons for Defence Research Canada and is awaiting export approval to complete the transaction. Follow on opportunities exist for this project and may be realised yet this year.

## **Sales & Marketing**

Significant progress has been made over the past 6 months in expanding Metal Storm's International market presence.

The 3rd into 4th quarter timeframe was extremely busy with three trade shows occurring over just two weeks. Metal Storm displayed its products at the Association of the United States Army show, the Modern Day Marine Expo and the International Association of Chiefs of Police show (IACP). We also attended the Shooting, Hunting, Outdoor Trade (SHOT) Show and Conference in January. These conferences are an excellent venue for increasing Metal Storm brand awareness, exposing our most recent product offerings, meeting with current and potential industry partners, obtaining sales leads and gathering valuable customer feedback.

Metal Storm participated in the US DOD 2009 Empire Challenge with iRobot at the China Lake test facility. During the Challenge, FireStorm™ was put through its paces integrated to the next generation iRobot Warrior UGV, providing a compelling demonstration of manoeuvrability and firepower to a wide audience of US and International military personnel.



We are seeing the direct result of the U.S. marketing efforts with increased inquiries from military customers and a steep rise in interest from the law enforcement community as a result of the IACP show. To capitalize on this interest, MSI will be focusing a portion of its development funding on MAUL™ safety certification.

In early February Metal Storm exhibited at the Singapore Air Show at the invitation of Singapore Technologies Kinetics. MAUL™ and 3GL were exhibited directly at the main entrance to the exhibition, so all who entered the show were exposed immediately to Metal Storm weapon systems. This positioning again demonstrated the level of commitment and support we are receiving from the STK relationship.

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Despite limitations in funding, the Company has continued to advance Metal Storm's technology, heighten market awareness and move closer to product sales, while at the same time minimising the cost of operations.

The outlook is promising with a decision by the United States Marine Corps for the Mission Payload Module program tender expected in Q2, the prospect of an expansion of the relationship with Defence Research Canada, and the potential for a delivery of the first MAUL™ weapons for use by peacekeeping forces in theatre.

Lee J Finniear  
CEO  
Metal Storm Limited

## Notes:

Metal Storm's Australian Stock Exchange trading code: MST  
Metal Storm's OTC Symbol: MTSXY

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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 utilises 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.