

# METAL STORM LIMITED

ACN 064 270 006

ASX: MST  
OTC: MTSXY

## CEO BULLETIN

**Brisbane, Australia – 17 June 2011: Metal Storm Limited.**

Dear Shareholders,

There have recently been a number of exciting individual announcements by Metal Storm. In this CEO Bulletin I want to draw these individual announcements together and to illustrate how they fit into our overall product strategy.

As a part of this I also I will explain the way the company's core commercial strategy is designed to deliver financial results as quickly as possible. An important part of the strategy is available because Metal Storm is not a conventional weapons company.

### The Metal Storm Commercial Model

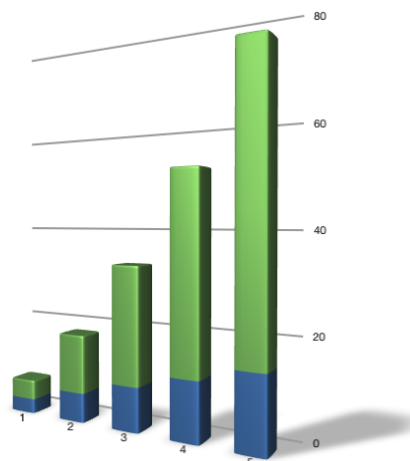
I have provided the analogy of the "razor – razor blade model" to the company's opportunity before. It's the metaphor I have used to describe how Metal Storm will make a profit not only from weapon sales, but from the ammunition every time a weapon is fired.

Gillette has built a business empire on this approach. Computer printer manufacturers and a variety of other product companies benefit from the users' ongoing need to purchase consumables, building the predictability of recurring revenues into their businesses.

For Metal Storm this business model is particularly relevant to our individual combat weapons such as MAUL™ and 3GL, where the market is large and the revenue from ammunition over the life of the weapon will be much greater than the cost of the weapon itself.

For MAUL™, our 12-gauge under-barrel launcher, the market is particularly large. In April, 2009 Remington celebrated the production of its **10,000,000<sup>th</sup>** Model 870 12 gauge shotgun. This took just under 50 years, so this one model alone sold on average **200,000 weapons per year**. This is in a market with hundreds of manufacturers and thousands of models competing worldwide. Without doubt the 12-gauge market is huge.

In the context of such a large market, a future with over 10,000 MAUL™ weapons in circulation is not unforeseeable. Built mainly for specialised non-lethal, door breaching, mini-grenade and electronic payloads, MAUL™ ammunition costs can vary widely depending on the payload. Specialised 12-gauge payloads are typically far more expensive than standard buckshot, irrespective of what weapon they are fired from. Ammunition usage rates can also vary widely depending on particular customer's training and operational regimes, from just a few rounds to over 1000 rounds per year. As an illustration only, for 10,000 weapons, if the average usage rate was 100 rounds per year, at a average of \$30 per round, then the recurring ammunition revenue for MAUL™ alone would be \$30M per year. This does not take into account any ongoing weapon sales, training, maintenance and spares provision, or any other Metal Storm potential revenue streams.



For Metal Storm, the IP in the weapon and the ammunition make the “razor – razor blade” commercial model possible. As a result, compared with conventional weapons companies, Metal Storm has a potential for greater ongoing returns from its products.

## Our Product Strategy

Our current product portfolio consists of:

- MAUL™
- FireStorm™
- 3GL
- Ammunition

Of these, MAUL™ is the most simple to manufacture and appeals to the broadest of the military, law enforcement and security markets. It is the natural choice as our first product to market.

### MAUL™

To get MAUL™ successfully to market requires:

- High quality manufacture
- Effective, experienced distributors
- Initial contracts for product in volume

*High Quality Manufacture* - On 30<sup>th</sup> May we announced that Metal Storm had entered discussions with Colt Defense LLC for the manufacture of MAUL™.

As the supplier of the US Army M16 and M4 assault rifles, and with customers in more than 160 countries, Colt's pedigree is legendary. Its new manufacturing facilities in Hartford, Connecticut are well suited to producing MAUL™.

Colt is reviewing the production engineering and tooling requirements to manufacture the MAUL™ weapon, and to assess any cost engineering that needs to be completed. Both companies are working towards a positive outcome.

The quality that Colt brings to all of its products would ensure that a customer could buy the MAUL™ product confident it will deliver what it promises.

*Effective, experienced distributors* - On 4<sup>th</sup> May we announced that Metal Storm had appointed Breon Defence Systems as our exclusive distributor to law enforcement in Australia and New Zealand. Breon is the exclusive distributor in Asia Pacific for Taser electro-muscular impact non-lethal weapons.

Breon brings a wealth of law enforcement sales experience to the team, together with a record of success, with Taser non-lethal weapons being adopted in most Australian and New Zealand police forces. Other Metal Storm distribution agreements include the Joint Collaboration Agreement with Singapore Technologies Kinetics (STK).



Metal Storm gets many requests from international companies seeking to distribute our products in different jurisdictions. To date we have chosen not to enter into these agreements unless there were other strategic imperatives, as we want to time our market entry to suit weapon availability for demonstration and sale. In the second half of 2011 we intend to increase the number of distributors in our network to expand our reach into the international military and law enforcement markets.

*Initial contracts for volume product* – On 3<sup>rd</sup> August 2010 we announced that the Department of Correctional Services for Papua New Guinea had signed a US\$3.36million contract for 500 MAUL™ weapons and 50,000 rounds of ammunition. On 9<sup>th</sup> June 2011 we advised that government ratification had taken an important step forward with the PNG National Security Advisory Council approving the destruction of all obsolete weaponry held by the Department, paving the way to their rapid replacement.

While we have had many requests for small numbers of MAUL™ weapons, a cornerstone larger order is important to give the impetus to volume production.

The next steps for MAUL™ are:

- Complete low rate initial production of a number of units using enhanced mechanical and FCU designs, to be provided to distributors for demonstrations, as well as for further environmental and related confirmatory testing
- Complete non-lethal and door breaching ammunition cost engineering and confirmatory testing
- Commence production with a manufacturing partner – initially to deliver the PNG Correctional Services Contract
- Undertake a substantial marketing and business development campaign to deliver weapons to early adopters in military and law enforcement.
- Sign up additional distributors to cover territories that are identified as having a high demand together with a culture requiring local first line service and support.

## FireStorm™



On 10<sup>th</sup> May we announced the completion of the US Marines Mission Payload Module Technology Development contract. During this contract we developed a new and much more powerful variant of our FireStorm™ weapon system. Rather than having 4 barrels, each pod the new system has 15. With up to 2 pods mounted on the US Marines Transparent Armour Gun Shield this gives a sustained fire capacity of ninety 40mm non-lethal grenades before reload.

Recognising the broad potential for these high, sustained firepower weapons supporting the primary weapon system, on 17<sup>th</sup> May we announced the product launch of FireStorm™ FURY.

FireStorm™ FURY is a configurable weapon system that can be tailored to particular user needs, including number of barrels, single or dual axis motorised mounts, and even 40mm or 12-gauge projectiles.

Importantly, FireStorm™ FURY will be capable of carrying both non-lethal and lethal ammunition in different barrels at the same time. This allows the operator to respond to a wide variety of threats,

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escalating force from non-lethal to lethal if the tactical situation requires it, without having to change ammunition or use a different weapon.

Our sales strategy is that, along with MAUL™, FireStorm™ FURY will be at the core of our international product marketing. Its application for crowd control, convoy and base protection, checkpoints and offensive urban fire support operations make it a desirable system for many governments handling civil unrest or wishing to improve border protection or military capability.

Initial requests for information and pricing are already being received. We intend to further demonstrate FireStorm™ to potential customers in the second half of 2011.

As you can see, while there have been a number of different announcements, they each form a specific component in our strategy to commercialise Metal Storm weapon systems, with the objective of delivering on the clear potential of the “Razor – Razor Blade” model for building sustainable, recurring revenue streams for the company and its shareholders.

## 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.