

Metal Storm Limited

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16 July 2010

[shareholder]

[address]

Dear Shareholder

Metal Storm Limited Offer to raise up to A\$3.0 million

This letter is to notify you that on or about 15 July 2010, Metal Storm Limited (**Metal Storm**) announced a non-renounceable pro rata rights issue of ordinary shares and options in Metal Storm to eligible shareholders in Australia, New Zealand and Singapore to raise up to approximately A\$3.0 million (**Offer**). The Offer is not underwritten and shareholder approval is not required for the Offer.

The key information in connection with the Offer and important dates are set out below for your reference:

Details of the Offer	The Offer is non-renounceable and is being undertaken on the basis of one new fully paid ordinary share (New Share) at an issue price of A\$0.01 per share, together with one new option (New Option), for every four shares held.
Who will be eligible to participate?	The record date for determining shareholder entitlements is 7.00 pm (AEST) on 23 July 2010 (Record Date). Only shareholders with a registered address in Australia, New Zealand or Singapore at that time will be eligible to participate in the Offer (Eligible Shareholders).
How will fractional entitlements be calculated?	Fractional entitlements to New Shares and New Options will be rounded up to the nearest whole number.
Will optionholders be eligible to participate?	Optionholders were notified on or about 15 July 2010 that they are required to exercise their options by the Record Date in order to be eligible to participate in the Offer.
How many shares will be issued?	Metal Storm may allot up to approximately 299,663,096 New Shares and 299,663,096 New Options under the Offer.
How will the New Shares be treated?	The New Shares issued will rank equally with existing shares in Metal Storm. Metal Storm has applied for quotation of all of the New Shares on ASX.
What are the terms of the New Options?	Each New Option will be exercisable for \$0.015 within three years from the date of issue. Shares issued upon the exercise of New Options will rank equally with existing shares in Metal Storm. The New Options will not be quoted on ASX.

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Can I apply for more than my entitlement?	Eligible Shareholders will be entitled to apply for New Shares in excess of their entitlement (Additional New Shares) at the same issue price of \$0.01. If the Offer is oversubscribed, applications for Additional New Shares may be scaled back in whole or part. Like the issue of New Options to Eligible Shareholders that subscribe for New Shares under the Offer, Eligible Shareholders that apply for Additional New Shares will be issued one New Option for every Additional New Share allotted for no additional consideration.
Is the Offer subject to a minimum amount of funds being raised?	No, the Offer is not subject to a minimum amount of funds being raised. So long as the Offer is not oversubscribed, the Company will accept all valid applications for New Shares and Additional New Shares in full.
What happens if there is a shortfall in subscriptions?	To the extent that there is a shortfall in subscriptions under the Offer, the Directors reserve the right to allocate top up shares and options or place any shortfall at their discretion within three months of the closing date of the Offer.
Is there a broker to the Offer?	No.
Will brokers who lodge acceptances receive a handling fee?	There will be no handling fee payable to brokers for acceptances lodged by them on behalf of Eligible Shareholders.
What will the funds raised be used for?	The funds raised from the Offer will be used by Metal Storm to provide working capital to: <ul style="list-style-type: none"> continue the development of its current projects; develop systems under recent contract awards; and reduce its reliance on Metal Storm's new equity line of credit with Dutchess Opportunity Fund II LP announced on 22 June 2010. Further details will be provided in the prospectus to be sent to Eligible Shareholders.

The Offer provides an equitable way for Metal Storm to raise funds from existing shareholders.

Full details of the Offer are set out in a prospectus which was lodged with ASIC and released to ASX on or about 15 July 2010 and is expected to be despatched to Eligible Shareholders on or about 29 July 2010 (**Prospectus**).

The Prospectus is available on Metal Storm's website (www.metalstorm.com) and on ASX's company announcements platform (accessible at asx.com.au).

The important dates for the Offer are:

Ex date – Shares trade without an entitlement to participate in the Offer	19 July 2010
Record Date to determine entitlements (7.00 pm AEST)	23 July 2010
Anticipated date for despatch of the Prospectus and Entitlement and Acceptance Forms to Eligible Shareholders	29 July 2010
Offer opens	29 July 2010
Offer closes (5.00 pm AEST) – last date for lodgement of Entitlement and Acceptance Forms and payment in full	17 August 2010
New Shares quoted on a deferred settlement basis	18 August 2010

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New Shares and New Options allotted	25 August 2010
Normal trading of New Shares commences on ASX	26 August 2010

Eligible Shareholders who wish to participate in the Offer will need to use the Entitlement and Acceptance Form that accompanies the Prospectus in accordance with the instructions printed on that form. Eligible Shareholders should read the Prospectus carefully before deciding whether to participate in the Offer.

Important notice to Ineligible Shareholders

Shareholders that are not Eligible Shareholders (**Ineligible Shareholders**) are not eligible to participate in the Offer.

Metal Storm has determined that it is unreasonable to extend the Offer to Ineligible Shareholders. Metal Storm made this decision after considering:

the cost of complying with legal and regulatory requirements outside Australia, New Zealand and Singapore;

the number of Ineligible Shareholders; and

the number and value of New Shares and New Options which could be offered to Ineligible Shareholders.

The securities to be issued under the Offer have not and will not be registered under the *United States Securities Act of 1933*, as amended (**US Securities Act**), or the securities laws of any state or other jurisdiction of the United States and, in connection with the Offer, may not be offered or sold in the United States or to, or for the account or benefit of, US persons (as defined in Rule 902(k) under Regulation S of the US Securities Act).

Further information

For further information on the Offer you should contact the Offer information line on 1300 552 270 (within Australia) or +61 3 9415 4000 (outside Australia).

Yours faithfully



Mr P R Wetzig

Company Secretary