

Metal Storm Limited

ABN 99 064 270 006

PO Box 3221

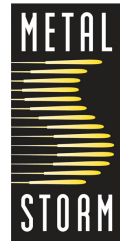
Darra Qld 4076

Tel: +61 (0) 7 3123 4700

Fax: +61 (0) 7 3217 0811

Web Site: www.metalstorm.com

Email Address: msau@metalstorm.com



17 August 2010

[Insert name of Ineligible Shareholder]

[Insert address of Ineligible Shareholder]

Dear Shareholder

Metal Storm Limited Offer – notice to Ineligible Shareholders

Metal Storm Limited (**Metal Storm**) is in the process of conducting a pro rata non-renounceable rights issue to raise up to A\$3.1 million (**Offer**). Metal Storm announced the Offer to ASX and lodged the prospectus for the Offer (**Prospectus**) with ASIC on 3 August 2010. The Offer is not underwritten.

Under the Offer, new ordinary Metal Storm shares (**New Shares**) are being offered at an issue price of A\$0.01 per New Share. Eligible Shareholders that participate in the Offer will be issued three new options for every New Share allotted for no additional consideration (**New Options**).

The purpose of this letter is to advise you that, as you do not satisfy the eligibility criteria for participating in the Offer, you will not be sent a copy of the Prospectus and Metal Storm will not be extending the Offer to you.

Details about the eligibility criteria for the Offer are set out below:

Who will be eligible to participate in the Offer?	Shareholders who are eligible to participate in the Offer (Eligible Shareholders) are shareholders who: were registered as a Metal Storm Limited shareholder as at 7.00 pm (AEST) on 11 August 2010 (Record Date); have a registered address in Australia, New Zealand or Singapore; and are not in the United States and are not “US persons” (as defined under Regulation S under the <i>United States Securities Act of 1933</i> , as amended) (US Persons) and are not acting for the account or benefit of US Persons; and are eligible under all applicable securities laws to receive an offer under the Offer.
--	---

U.S. Office

4350 N Fairfax Drive, Suite 810, Arlington VA 22203 Tel: 703 248 8218 Fax: 703 248 8262

Metal Storm Limited

Why are there restrictions on eligibility?	<p>There are restrictions on eligibility because of:</p> <ul style="list-style-type: none">the legal limitations in some countries;the relatively small number of shareholders in some countries;the small number of shares those shareholders hold; andthe potential cost of complying with regulatory requirements in those countries. <p>Metal Storm has determined in accordance with ASX Listing Rule 7.7.1(a) that it would be unreasonable to make offers to shareholders in all countries in connection with the Offer.</p>
Do you need to do anything?	<p>You are not required to do anything in response to this letter.</p> <p>This letter is to inform you about the Offer, the details of which are provided below. It is not an offer to issue securities to you, nor an invitation for you to apply for securities under the Offer.</p>
Questions	<p>If you have any questions in relation to the Offer and this letter, please seek professional advice or contact the Metal Storm Offer Information Line on 1300 552 270 (from within Australia) or +61 3 9415 4000 (from outside Australia).</p>

Offer details

The Offer is being made by Metal Storm in accordance with section 713 of the *Corporations Act 2001* (Cth).

The Offer is being made to Eligible Shareholders, as outlined above, on the basis of one New Share at an issue price of A\$0.01 per New Share, together with three New Options, for every four shares held at 7.00 pm (AEST) on the Record Date.

Eligible Shareholders will also be able to apply for New Shares in excess of their entitlement at the same issue price of A\$0.01 per New Share (**Additional New Shares**). 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 three New Options for every Additional New Share allotted for no additional consideration.

Yours faithfully



Peter R. Wetzig

Company Secretary