

Metal Storm Limited

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4 August 2010

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Dear Shareholder

New Metal Storm Limited Offer to raise up to A\$3.1 million

You would recently have received a letter from Metal Storm regarding a proposed 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 (**First Offer**).

Metal Storm has now withdrawn the First Offer and proposes to make an improved non-renounceable pro rata rights issue to eligible shareholders to raise up to approximately A\$3.1 million (**New Offer**). The New Offer will not be underwritten.

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

Details of the New Offer	The New 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 three new options (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 11 August 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 New 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 3 August 2010 that they are required to exercise their options by the Record Date in order to be eligible to participate in the New Offer.
How many securities will be issued?	Metal Storm may allot up to approximately 305,311,549 New Shares and 915,934,647 New Options under the New 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 New 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 New 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.
Is the New Offer subject to a minimum amount of funds being raised?	No, the New Offer is not subject to a minimum amount of funds being raised. So long as the New 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 New 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 New Offer.
Is there a broker to the New 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 New Offer will be used by Metal Storm to provide working capital to: <ul style="list-style-type: none"> continue the development of its current products; develop systems under recent US Military 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 New Offer provides an equitable way for Metal Storm to raise funds from existing shareholders.

Full details of the New Offer are set out in a prospectus which was lodged with ASIC and released to ASX on or about 3 August 2010 and is expected to be despatched to Eligible Shareholders on or about 17 August 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).

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The important dates for the New Offer are:

Ex date – Shares trade without an entitlement to participate in the New Offer	5 August 2010
Record Date to determine entitlements (7.00 pm AEST)	11 August 2010
Anticipated date for despatch of the Prospectus and Entitlement and Acceptance Forms to Eligible Shareholders	17 August 2010
New Offer opens	17 August 2010
New Offer closes (5.00 pm AEST) – last date for lodgement of Entitlement and Acceptance Forms and payment in full	31 August 2010
New Shares quoted on a deferred settlement basis	1 September 2010
New Shares and New Options allotted	8 September 2010
Normal trading of New Shares commences on ASX	9 September 2010

Eligible Shareholders who wish to participate in the New 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 New Offer.

Important notice to Ineligible Shareholders

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

Metal Storm has determined that it is unreasonable to extend the New 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

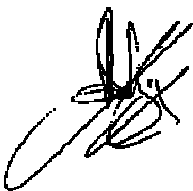
the number and value of New Shares and New Options which could be offered to Ineligible Shareholders.

The securities to be issued under the New 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 New 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 New 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