



ASX RELEASE - 27 DECEMBER 2012

COMPANY UPDATE

On 26 July 2012, Metal Storm Limited (ASX trading code: MST) ("Metal Storm" or "the Company") appointed a Voluntary Administrator as the Company was unable to secure the necessary funds to continue as a going concern. At that time, the Company had total debt of approximately \$20 million and its operations were significantly cash flow negative.

Through the administration process, New York-based institutional investor, The Lind Partners, LLC, manager of the Australian Special Opportunity Fund, LP (together, "Lind"), who is the senior secured lender to the Company, worked with the Administrator to restructure the Company. The focus of the restructure was to address the core deficiencies of the underlying Metal Storm businesses, which included continued operating losses and an unsustainable debt burden.

On 1 November 2012, a meeting was convened for the Company's creditors to approve a Deed of Company Arrangement ("DOCA"). The purpose of the DOCA was to present a plan to the Company's creditors to seek approval to eliminate the Company's debt. The DOCA was subsequently approved by creditors' voting at that meeting with the core approvals being:

- the elimination of the Company's unsecured creditors through the establishment of a creditors' trust funded by Lind; and
- the elimination of the Company's secured creditors by the conversion, subject to shareholder approval, into ordinary shares in the Company.

On 22 November 2012, the DOCA was executed by Lind and the Administrator handed control of the Company back to its' board of directors. The board of directors was substantially restructured via the retirement of all previous directors and the appointment of four new directors as follows:

Dean Gallegos	Non-Executive Chairman
Peter Faulkner	Managing Director
Jeff Easton	Non-Executive Director
Bruce Burrell	Non-Executive Director

All of the directors, including the Chairman, are currently accruing all fees and will continue to do so until the Company can be recapitalized.

Business Focus and Restructuring

Historically Metal Storm's focus has been on research and development of its core technology which is the rapid weapon firing systems and the Company has an extensive global patent portfolio that secures the rights to this technology. The conversion of that underlying technology into deliverable product lines to civilian enforcement agencies and military users has to a large degree been a secondary consideration.

The Company's core focus is the delivery of non-lethal commercial weapons products 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. To achieve this, it intends to bid on contracts that are put out to tender by various military and civilian enforcement agencies in its own right and in technology partnerships with established weapon system providers.

Developing the Maul™ for commercialization will be a top priority of Metal Storm.



The MAUL™ is a lightweight, modular, 12 gauge, five shot, semi-automatic shotgun designed for both military and law enforcement users. At only 1.8 lbs, it is one of the lightest semi-automatic, 12 gauge weapons ever developed for its purpose.

To facilitate this core goal and reduce its operating losses, Australian operations have been significantly downsized and the Company will retain only one full-time Australian staff member to manage its global patent and copyright portfolio. In early 2013, the Company's head office will be relocated to a single corporate office in Sydney. The Board believes that this, combined with the elimination of interest payments, has resulted in more than \$4 million of annual savings without impacting upon the Company's ability to service existing contracts and bid on new tenders.

All key Arlington, Virginia-based employees of Metal Storm, Inc, have been retained. Metal Storm, Inc derives its income from revenue produced by its professional services contracting operations and expects to be cash neutral through calendar year 2013. This will allow any new funds deployed into that business to be allocated to achieve market penetration for the Company's MAUL™ product line.

Additionally, a proposal submitted by Metal Storm Inc. for the Mission Payload Module (MPM) contract is under evaluation by the US Marine Corps which is expected to announce a decision in the second quarter of 2013.

Shareholders Meeting

The Company is in the process of seeking various waivers from ASIC and ASX in order to lodge a Notice of Meeting and Explanatory Memorandum for a shareholders meeting that is anticipated to be held in March / April 2013.

At this meeting, shareholders will be asked to vote on a series of resolutions that include resolutions to give effect to the DOCA, including the issuance of shares to the secured creditors to eliminate the Company's debt. Amongst other reasons, the conversion of all the Company's secured debt, which will eliminate all the Company's debt, will allow the Company to raise equity funds from existing shareholders and new investors.

If those resolutions that give effect to the DOCA are not passed by the Company's existing shareholders then the Company may once again be placed into administration. In this event, it would be likely that the Company will be placed into liquidation.

Capital Raising

At the shareholders meeting detailed above, the Company will seek approval to issue new shares to raise equity funds. The directors are aware that the Company has a number of loyal and long-term shareholders who have had a belief in the Company's underlying technology and vision and will seek to include existing shareholders to the largest extent possible, as long as it can be a practical and cost effective process.

OTC ADR Listing

The Company's ADR's are currently suspended from trading on the OTC market in the US. It is the current intention of the Company to seek a delisting from that market so as to reduce compliance costs to the Company.



Strategic Partnerships

The Board has been approached by several parties in regards to forming Strategic Partnerships and is considering options in this regard on a case by case basis.

New Board

The Company has installed a new management team consisting of four directors:

- Dean Gallegos, who has been appointed Chairman, has over 17 years of experience in the Australian and international capital marketplace with extensive experience in raising debt and equity. He has direct experience in managing ASX-listed companies and in the planning, financing and supervision of budgets. Mr. Gallegos is currently the Finance Director of Buccaneer Energy Limited.
- Peter D. Faulkner, who will take on the role of Chief Executive Officer and Managing Director, has 31 years of experience in the Defence Industry and has been with the Company's U.S. Operations since 2005. He was the principal architect of the Company's Non-Lethal market strategy as well as the MAUL and FireStorm product lines and has been responsible for the generation of majority of Metal Storm total revenues over the past seven years.
- Jeffrey Easton, founder of The Lind Partners, LLC, a New York-based alternative asset management firm, has taken a Non-Executive Director role, as well. Mr. Easton has over 15 years of investing and funds management experience. He has been the subject of a cover story in the Wall Street Journal and is also an active angel investor in several successful ventures including Axioma, inc. and Kickstarter.
- Bruce Burrell has over 30 years experience as a director and company secretary of listed public companies, including administration, financial control and governance responsibilities. He is currently a non-executive director of ASX-listed companies Chapmans Limited, Longreach Oil Limited and Sunvest Corporation Limited. Bruce holds a Master of Business Administration degree and is a Fellow of CPA Australia.

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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.