



# **METAL STORM LIMITED**

**A.C.N. 064 270 006**

## **CHAIRMAN'S ADDRESS ANNUAL GENERAL MEETING**

**25 MAY 2007**

Ladies & Gentlemen

First and foremost today, you will note in comparison to past AGMs our accommodation is basic. That is completely in keeping with the company's attitude as we press hard to maximise our resources to get demanded product to market.

That is our focus; this is all we are doing.

We are resolute we must proceed in this way if our current phase of work is to be as beneficial as we expect. We are on a path which I believe is sure and straight. I would like to explain more about that today, after I deal with one important item.

Upfront, and therefore slightly away from the AGM tradition, I want to thank our staff and particularly our engineering staff for their contribution in the past 12 months. In the Chairman's space, within the annual financial report, I have been extensive and expansive in my thanks to staff. I do that again now, but briefly, because the demands on the staff for rapid realignment have been extremely exhausting. All staff have refocused on outcomes for our 3GL and Redback products, putting aside other important, but un-fundable, projects, and accepting personal imposts which confirm their goodwill towards the company. I can only say well done, but square your shoulders, there is much more yet to be achieved. I know we can count on your generous and continued commitment.

This year 3 of our board resigned. Each of those directors served with dedication and to the Company's benefit. My thanks to General Wayne Downing, Dan Aslpach and Bruce McComish.

I have had the Chairman's responsibility in one form or another for more than 2 years. When I began in the role I set myself two goals:

1. To better understand the defence industry's attitude to Metal Storm's technology to map out a sure and more certain path to sales of Metal Storm products ie to increase the probability of success; and
2. To have the market understand that the real value of the Company is greater than its then, or for that matter now, assessment ie to have the share price move closer to a net present value in line with the probability of success.

Without the first, the second would always be jeopardised. Without the first, it would also always be dangerous for directors and executives to point to possible outcomes for the company unless they were heavily qualified by the issue of uncertainty, making meaningless the predicted outcome at best or charges of over-claiming where time and the ungovernable actions of others and of the Company itself could not be adequately factored into the communication. To give credence to our strategy we needed to have a greater degree of certainty about the outcome that our chosen path could deliver.

For clarification, there was, in fact, nothing wrong with the plan which the Company was using to increase its value. The strategy was well intellectualised with a sound basis. Except it wasn't working.

There are no apologies necessary around that. This technology is unique; its locus of Australia gives it no advantages in a US centric world defence industry. It had very limited funding and so it sought to extract its real value by developing only what it must do to demonstrate its capacity. Through that demonstration it was expected that others would then see good reason to acquire Metal Storm's capacity, at a fair price. The piece which wasn't working was the "at a fair price".

What we now know is this:

- 1) While this technology is exciting to the defence industry in the US (that has been demonstrated by the Company's increase in R&D contract funding flow) and elsewhere, product purchase orders were unlikely to be finalised until the buyer saw the product work, held it, fired it over and over and just generally got acquainted with its workings.

This test was much more rigorously sought for Metal Storm than

of last generation suppliers of product with less capacity, simply because Metal Storm was new, untried and under demonstrated in an immediate use sense. In short, buyers wanted more than the capacity, they wanted to see the real thing. We came to know this because they were clear with us that the capacity and capability were highly attractive to them but they could not take their interaction further until we were able to show them the real thing.

- 2) It is unlikely that a major defence company will buy the capacity until Metal Storm has a fat contract. Whatever form that might take. Major defence companies like to buy when the risk is covered by cash flow.

So our path now is about all speed to real demonstration capability at our own cost.

By the way, there has been value delivery to Metal Storm out of this learning beyond the learning itself. The US office now self funds most months with R&D contract work and we could grow this further if we had capital available outside the 3GL and Redback priorities. Just now, however, we are keeping it tight.

So for me my two goals, more certainty about what we must do and thus better value in the shares, at first sight looked straight forward but the huge complexity of delivery on the strategy is not yet concluded.

Primary amongst all the complexities that delivery entailed, we had to get adequate funding. We finalised that last year with most of the funds coming from Harmony Capital, and some from our shareholders. Our thanks to those shareholders who further invested at that time.

The capital was critical for the Company's survival. Without the funds the selected products which will give the Company genuine success, 3GL and Redback, but 3GL particularly, could not be built. In fact, without Harmony's support, Metal Storm would have joined those companies which despite their great promise have gone to the wall.

Harmony set its capital commitment amongst other things, around our commitment to deliver. I have seen the arrangement commented upon negatively. Those who commented in that manner did not understand the full circumstances of the Company at the time but more particularly, it did not allow for the careful construction of the

funding arrangements. I believe the agreement and the conditions surrounding the notes are fair and balanced for both parties. I also have the benefit of working with Harmony and, bluntly, the best outcome for Harmony and the other noteholders is the best outcome for all shareholders. The relationship is properly contractual but it is symbiotic. What is good to Metal Storm is good for all shareholders and noteholders.

The Company for the past twelve months has been building the 3GL system, developing ammunition, slimming it down, designing in compatibility with everything with which it will need to interface. What we are working on has significant potential orders of itself but it also will open the pathway to the development and sale of many more applications.

There will be technical hurdles as there has been in the past but we know our engineering capacity is at an all time high. Our executive has strong capacity to solve problems and deliver. Soon a potential customer will be able to fire a 3GL system consistently and accurately and in a simulated operating environment. Dr Lee Finniear will talk more on the timing of that in just a moment.

We are currently putting considerable energy into obtaining orders for the 3GL without a demonstration model. That is a very difficult task but it is properly justified by this: we are establishing a base of potential purchasers who will buy if we can meet their criteria. The only one of those criteria we know we cannot meet is time. Everyone wants it now.

So here is my summary of where we are today:

1. With a high degree of certainty Metal Storm expects to obtain orders for its 3GL system once we can demonstrate a near to commercial weapon. We expect to be able to demonstrate the prototype by the end of June and consequently expect to begin delivering 3GL systems in the last quarter of 2009.
2. Redback and related products will ready for military field trials by the end of 2007.
3. The Company is currently undervalued in my view based on the steady steps it is making towards the first of its many weapons applications.

4. Contract work in the US will continue to provide ongoing opportunities and of course, steady income.

And now to things more mundane, but still important: my thanks to my colleagues on the Board. Demands on them are constant and under rewarded. But the constant, steady steps to build the future keeps them coming back.

Amongst many good things which occurred in the last six months but as a highlight item, was the Company's appointment of Dr Lee Finniear to the CEO's role. I know that Lee was delighted by the quality of our people and what they were achieving but shocked at what I left him to do as I rushed from the executive chairman's role. Lee's background is engineering, his skill set is right for this task. His discipline and attention to detail has already increased productivity, altered perspective and made a direct contribution to performance and, more importantly perhaps, enhanced our understanding of what alternatives are available to us as we stay determinedly on target.

My thanks to you, the shareholders, who support the Company by your presence today and through your continued interest. I now invite Dr Lee Finniear to deliver his CEO's report.