

Metal Storm Limited

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Notice of Meeting of Shareholders and Explanatory Statement

Meeting to be held at Brisbane Polo Club, Naldham House,
1 Eagle Street, Brisbane, 4000
on Monday, 16 July 2012
commencing at 10am Brisbane time

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Chairman's Letter

Dear Shareholders,

The Company continues its efforts to obtain financial stability. This Notice of Meeting provides important information on restructuring transactions for which we are seeking Shareholder approval. If we obtain your approval, the transactions will enable us to eliminate the majority of our Secured Note debt and provide us with an injection of working capital essential to move forward with our commercialisation program.

In summary, the Company announced recently that it had signed agreements with Luxinvest for the subscription of \$4.65 million of new equity which will be used to fund a reduction of the Company's Secured Note debt and to provide a substantial injection of essential working capital to further the MAUL, FireStorm and Managed Lethality Grenade Launcher non-lethal weapon programs.

Under one of the agreements, ASOF, the holder of the majority of the Company's Secured Notes, has agreed to:

- redeem \$9.0 million of Secured Notes for \$1.7 million cash;
- convert \$1.4 million of Secured Notes into shares; and
- forgive a further \$1.5 million of Secured Notes under an existing debt forgiveness deed.

The redemption, conversion and forgiveness of \$11.9 million of Secured Notes debt will materially improve the Company's balance sheet and reduce the potential for further dilution, as these Secured Notes can no longer be converted into Shares.

The deal also increases working capital by \$2.95 million, after the redemption of Secured Notes, enabling the Company to focus on its product delivery program.

The Company has been striving to raise capital in a difficult global financial environment while carrying a very high level of secured debt on its balance sheet. Through the transactions, the Company is able to eliminate the majority of the Secured Note debt at a much lower dilution than if it had been converted into Shares. The Board considers that with the lower debt burden, the fundamental value of the Company's equity is improved and Company should be more attractive to Shareholders and other investors. The Company notes that it has received an increased interest from new potential investors since the restructuring was announced.

Although the Company has needed to make refinancing its fundamental priority, the Company has continued to develop and prepare its product for market and market interest in the non-lethal applications of the Company's technology has not diminished. Provided the Company can obtain \$10 million – \$12 million of net additional capital (i.e excluding any financing or transaction costs), the Company



expects that it should be able to advance the pre-production phase of its non-lethal weapon programs and take orders in the near term.

The Board recommends that Shareholders vote in favour of the Resolution to approve the transactions.

Please read the Notice of Meeting and accompanying Explanatory Statement, together with the attached Independent Expert's Report, carefully before to deciding how to vote.

A handwritten signature in black ink, appearing to read "Terry O'Dwyer".

Terry O'Dwyer
Chairman

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Notice of Meeting of Shareholders

Notice is hereby given that a meeting of Shareholders of Metal Storm Limited ACN 064 270 006 will be held at Brisbane Polo Club, Naldham House, 1 Eagle Street, Brisbane, 4000, on Monday, 16 July 2012 commencing at 10am Brisbane time.

Business

To consider and, if thought fit, pass the following as an ordinary resolution:

“That, subject to and conditional on Note Holder approval of the Note Holder Resolution, the following be authorised and approved:

- (a) for the purposes of Listing Rule 7.1 of the Listing Rules of ASX Limited and all other purposes:
 - (i) the modification of the Note Terms, by amending the Note Terms in the manner generally described in the Explanatory Statement and as detailed in the Amendment Deed produced at the meeting;*
 - (ii) the issue of 1,555,555,500 Shares to ASOF upon the conversion of the Conversion Notes as described in the Explanatory Statement; and*
 - (iii) the issue of the Luxinvest Converting Security as described in the Explanatory Statement; and**
- (b) for the purposes of Section 611 Item 7 of the Corporations Act and for all other purposes:
 - (i) the issue of 4,875,000,000 Shares (being the Luxinvest Tranche 2 Shares) pursuant to the Luxinvest Agreement to Luxinvest Capital Advisors S.A at a price of \$0.0008 per Share as described in the Explanatory Statement;*
 - (ii) the issue of 125,000,000 Shares (being the Subscription Shares) pursuant to the Umbrella Deed to Luxinvest Capital Advisors S.A. at a price of \$0.0008 per Share as described in the Explanatory Statement;*
 - (iii) the issue of 250,000,000 Shares (being the Fee Shares) pursuant to the Umbrella Deed to Luxinvest Capital Advisors S.A. at a price of \$0.0008 per Share as described in the Explanatory Statement; and*
 - (iv) the issue of up to 375,000,000 Shares (being the Luxinvest Conversion Shares) to Luxinvest Capital Advisors S.A. upon the conversion of the Luxinvest Converting Security as described in the Explanatory Statement.”**

Explanatory Statement

The accompanying Explanatory Statement forms part of this Notice of Meeting and should be read in conjunction with it. The Glossary in Part C of the Explanatory Statement contains definitions of capitalised terms used in this Notice of Meeting and the Explanatory Statement.

Independent Expert's Report

In addition to the accompanying Explanatory Statement, the Independent Expert's Report is attached to this Notice of Meeting and should be read in conjunction with it.



Voting Entitlements

In accordance with Regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the Directors have determined that a person's entitlement to vote at the meeting will be the entitlement of that person set out in the register of Shareholders as at 10am (Brisbane time) on 14 July 2012. Accordingly, transactions registered after that time will be disregarded in determining a Shareholder's entitlement to attend and vote at the meeting.

Voting Exclusion Statement

The Company will disregard any votes cast on the Resolution by ASOF, Luxinvest and any person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed, and any of their associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Proxies

Please note that:

- a) a Shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy;
- b) a proxy need not be a Shareholder of the Company;
- c) a Shareholder may appoint a body corporate or an individual as its proxy;
- d) a body corporate appointed as a Shareholder's proxy may appoint an individual as its representative to exercise any of the powers that the body may exercise as the Shareholder's proxy; and
- e) Shareholders entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms. If a Shareholder appoints a body corporate as its proxy and the body corporate wishes to appoint an individual as its representative, a form or letter of appointment of corporate representative should be completed and lodged in the manner specified below.

Corporate Representative

Any corporate Shareholder who has appointed a person to act as its corporate representative at the meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising them to act as that company's representative. The authority may be sent to the Company or its share registry in advance of the meeting or handed in at the meeting when registering as a corporate representative. An Appointment of Corporate Representative form is available from the Company's share registry if required.



By Order of the Board of Directors

A handwritten signature in black ink that reads "Brett Farmer".

Brett Farmer
Company Secretary
Metal Storm Limited
15 June 2012

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Explanatory Statement

The Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the meeting of Shareholders on 16 July 2012.

The Explanatory Statement should be read in conjunction with the Notice of Meeting. An Independent Expert's Report has been prepared by the Independent Expert in relation to the transactions the subject of the Resolution and is attached to the Explanatory Statement.

Capitalised terms used in the Explanatory Statement are defined in the Glossary.

Part A: Background

1 Transaction

On 18 April 2012, the Company announced that it had entered into the Luxinvest Agreement and the Umbrella Deed pursuant to which, amongst other things, the Company would issue new Shares to Luxinvest and ASOF and reduce the number of outstanding Secured Notes on issue. The terms of the Luxinvest Agreement and the Umbrella Deed and their effect on the share and debt structuring of the Company are described in sections 2, 3 and 4 below.

Over the past two years the Company's difficulty in finding suitable capital investors has been well documented. The Board consider the transactions contemplated by the Luxinvest Agreement and the Umbrella Deed to be beneficial to Shareholders and other investors in the Company by providing a capital injection of \$4.65 million, \$1.7 million of which will be used to facilitate the redemption of Secured Notes. This redemption, together with the conversion into Shares of further Secured Notes, will eliminate Secured Notes with an aggregate Face Value of approximately \$11.9 million.

The subscriptions for Shares and a converting security by Luxinvest provides the Company with a substantial injection of funding needed in order to progress the MAUL, FireStorm and Managed Lethality Grenade Launcher non-lethal weapon programs towards limited production. Further, the Company considers that the deleveraging of the Company through the elimination, redemption and conversion of convertible securities held by ASOF increases the fundamental equity value of the Company and should make the Company more attractive to Shareholders and other potential investors.

The Directors are mindful the transactions the subject of the Luxinvest Agreement and the Umbrella Deed will dilute Shareholders as a result of the issue of up to 7,618,055,500 Shares. However, the Directors note that this dilution is offset by the redemption or forgiveness of 77,742,023 Secured Notes which could have resulted in the issue of up to 11,661,303,450 Shares. In the Independent Expert's Report, the Independent Expert has stated that in its opinion the transactions are not fair but reasonable to Shareholders.

The transactions do not solve the Company's funding challenges and the Group still requires a major capital raising in order to enable the Group to get one or more of its products to a production-ready stage and commence the marketing process. For the Company to get to that stage, it is expected to need \$10 million – \$12 million of net additional capital (i.e excluding any financing or transaction costs). The actual amount of funding required is difficult to forecast due to the nature of the Company's research and development activities.

A pro-forma balance sheet has been prepared by the Company based on the audited statement of financial position of the Group as at 31 December 2011. The pro-forma balance sheet, which has not



been audited or reviewed, shows the effect on the statement of financial position of the Group of the transactions contemplated by the Luxinvest Agreement and the Umbrella Deed, the amendments to the Note Terms approved by Shareholders and Note Holders on 12 January 2012 and other transactions set out in the notes to the pro-forma balance sheet as if they had occurred on 31 December 2011. The pro-forma balance sheet is set out in Part E of the Explanatory Statement and must be read in conjunction with the notes to such pro-forma balance sheet and the Explanatory Statement.

2 Luxinvest Agreement

2.1 Luxinvest Capital Advisors S.A.

Luxinvest Capital Advisors S.A is a boutique corporate advisory firm based in Luxembourg. It is wholly owned by its principal, Mr Alain Mestat, a former Senior Vice President and Director at Banque Privée Edmond de Rothschild Europe.

Luxinvest specialises in providing advisory services for investments and acquisitions in small to mid cap private and public entities, particularly in the clean energy, environmental and high tech space. Its clients are mainly wealthy private individuals and family offices. Examples of these investments include Electro Engine, VaxCure and H2WIN.

More recently Luxinvest has branched out into direct private equity investment in these same industries. It invests funds acquired from its principal and a range of other investors groups. It focuses on investments where the target company has substantial intellectual property, and seeks to assist the company to take advantage of Luxembourg's legal regime and structures to maximise value and return. Luxinvest also offers access to its extensive contacts across the Middle East and India to support business development for the companies in which it invests.

Luxinvest's only associate is its owner, Alain Mestat.

The Company notes that it announced on 2 April 2012 that it had entered into a subscription agreement with Luxinvest pursuant to which Luxinvest agreed to subscribe for 4,375,000,000 Shares at an issue price of \$0.0008 per Share (the **Initial Luxinvest Subscription Agreement**). Those Shares were issued to four individuals (being Andrew Doyle, Dirk Vermeersche, Eduoard de Burlet and Anup Jain in differing proportions and on various dates) pursuant to Luxinvest's right under the Initial Luxinvest Subscription Agreement to nominate subscribers for those Shares in place of Luxinvest. Luxinvest has informed the Company that none of those subscribers are associates of Luxinvest and the Company has no reason to believe such subscribers are associates of Luxinvest or any other Shareholder.

2.2 Principal terms

Pursuant to the Luxinvest Agreement, Luxinvest has agreed to subscribe for new Shares in two tranches as set out in the table below.

Tranche	Number of Shares	Issue Price per Share	Subscription Amount
Luxinvest Tranche 1 Shares	437,500,000	\$0.0008	\$350,000
Luxinvest Tranche 2 Shares	4,875,000,000	\$0.0008	\$3,900,000
Total	5,312,500,000		\$4,250,000



The obligations of the parties in relation to the Luxinvest Tranche 1 Shares were conditional upon the Company obtaining Shareholder approval for the issue under Listing Rule 7.1. The Company received such approval at the Annual General Meeting on 31 May 2012.

As at 8 June 2012 (being the last practicable date prior to the date of this Notice of Meeting), Luxinvest has no voting power in the Company. As a result of the issue of the Luxinvest Tranche 2 Shares (whether or not the Luxinvest Tranche 1 Shares are issued to Luxinvest), Luxinvest's voting power in the Company will exceed 20% (see section 4 of this Part A of the Explanatory Statement for further details on Luxinvest's possible voting power). Therefore, the obligations of the parties in relation to the Luxinvest Tranche 2 Shares are conditional upon the Company obtaining Shareholder approval under the takeovers provisions (item 7 of section 611) of the Corporations Act for the issue of those Shares to Luxinvest. The Umbrella Deed provides that the issue of the Luxinvest Tranche 2 Shares is also conditional on completion under the Umbrella Deed. The obligation of Luxinvest to subscribe for the Luxinvest Tranche 2 Shares terminates if Shareholder approval for that tranche has not been satisfied or waived by 3 September 2012.

3 Umbrella Deed

3.1 Principal terms

Pursuant to the Umbrella Deed with ASOF and Luxinvest:

- the Company will redeem 66,414,640 Secured Notes (having an aggregate face value of approximately \$9.0 million) (**Redemption Notes**) from ASOF for \$1.7 million cash;
- ASOF will convert 10,370,370 Secured Notes (with an aggregate face value of approximately \$1.4 million) (**Conversion Notes**) into 1,555,555,500 Shares at an issue price of \$0.0009;
- ASOF will forgive 11,327,383 Secured Notes (with an aggregate face value of approximately \$1.5 million) (**Forgiveness Notes**) under an existing deed of debt forgiveness;
- Luxinvest has provided a deposit of \$400,000 (**Deposit**) to an escrow agent. On Completion, Luxinvest is entitled to repayment of the Deposit and has irrevocably directed the escrow agent to pay it to the Company as the subscription price for the Luxinvest Converting Security and 125,000,000 Shares (**Subscription Shares**); and
- the Company will issue 250,000,000 Shares (at a nominal issue price of \$0.0008) (**Fee Shares**) to Luxinvest as a fee for providing the Deposit.

The redemption of the Redemption Notes and the conversion of the Conversion Notes on the terms of the Umbrella Deed require an amendment to the Note Terms.

ASOF has agreed not to transfer the Redemption Notes, the Conversion Notes and the Forgiveness Notes prior to Completion.

3.2 Conditions

Completion under the Umbrella Deed is conditional on:

- Shareholder approval for the issue of the Luxinvest Tranche 2 Shares, the Subscription Shares, the Fee Shares and the Luxinvest Converting Security to Luxinvest in accordance with the Luxinvest Agreement and the Umbrella Deed for the purposes of Listing Rule 7.1 and the takeovers provisions (item 7 of section 611) of the Corporations Act;
- Shareholder approval for the issue of Shares to ASOF in accordance with the Umbrella Deed for the purposes of Listing Rule 7.1;
- Shareholder and Note Hold approval for the amendment to the Note Terms; and



- completion under the Luxinvest Agreement.

The conditions requiring Shareholder approval will be satisfied if the Resolution is approved. The conditions must be satisfied by 17 July 2012. Unless the parties agree otherwise, Completion will take place on the fourth business day after all of the conditions have been satisfied or waived.

Further, if an insolvency event (as defined in the Umbrella Deed) occurs in relation to the Company prior to Completion, ASOF will not be under an obligation to complete the Umbrella Deed.

3.3 Transfer restriction on Shares issued pursuant to the Conversion Notes

If Completion occurs, ASOF will be issued with 1,555,555,500 Shares on conversion of the Conversion Notes, representing a voting power of approximately 12.6% in the Company on Completion (assuming no Shares other than those referred to in the Explanatory Statement are issued by the Company after 8 June 2012 (being the last practicable date prior to the date of the Notice of Meeting)).

ASOF has agreed not to sell, transfer or encumber the Shares issued to it on conversion of the Conversion Notes until 18 October 2012 or, if the Company has raised \$5 million in additional funding by that date, 18 April 2013.

3.4 Director Nominee

Under the Umbrella Deed, ASOF has the right but not the obligation to appoint a person who is acceptable to the Board as a Director. If that Director is not re-elected at the next general meeting of the Company after his or her appointment, provided ASOF retains Shares in the Company, ASOF has the right but not the obligation to nominate a replacement Director. This right expires 12 months after Completion.

ASOF has not informed the Company of an intention to appoint a person as a Director pursuant to this right.

3.5 Pre-emptive right on further capital raising

The Company has agreed that it shall not, until the date which is 12 months after Completion:

- (a) enter into a transaction pursuant to which the Company issues or sells any debt, equity or equity-linked securities (including options) that are convertible into, exchangeable or exercisable for, or include the right to receive Shares:
 - at a conversion, exercise or exchange rate or other price that is based on, and/or varies with, the trading prices of, or quotations for, the Shares;
 - at a conversion, exercise or exchange rate or other price that is subject to being reset at some future date after the initial issuance of such debt, equity or equity-linked security or upon the occurrence of specified or contingent events; or
 - at a fixed issue price, conversion, exercise or exchange rate; or
- (b) issue any securities in a capital or debt raising transaction or series of related transactions which grant an investor the right to receive additional securities based upon a future transaction of the Company on terms more favourable than those granted to such investor in such first transaction or series of related transactions.

The prohibition applies to transactions generally referred to as equity lines of credit and stand-by equity distributions, and convertible securities and loans having a similar effect but does not prohibit rights issues or issues under a share purchase plan.

If the Company wishes to undertake a transaction with a third party that would be prohibited, it must offer ASOF the first right to enter into the transaction on the same terms as those proposed to the third

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party. ASOF may accept the offer for some or all of the total amount to be raised under the proposed transaction. If ASOF accepts for part only of the transaction, the Company may enter into the balance with a third party or parties. If ASOF declines to enter into the transaction at all or does not respond within 5 business days of the offer, the Company may enter into the transaction with the proposed third party or parties.

In addition, the Company has agreed that until the date which is 12 months after Completion it shall not, without the prior written consent of ASOF, undertake a transaction with a third party or parties in which the Company issues or sells any debt, equity or equity-linked securities (including options) that are convertible into, exchangeable or exercisable for, or include the right to receive Shares at an issue price, conversion, exercise or exchange rate or other price of less than \$0.0008 per Share and where the amount raised by, or the consideration paid to, the Company is more than \$2 million.

3.6 Terms of the Luxinvest Converting Security

The Luxinvest Converting Security will have a face value of \$300,000 and a maturity date of 36 months after the date of issue. The Luxinvest Converting Security does not bear interest and, once converted into Shares, those Shares will rank equally with all other Shares in all respects. The Luxinvest Converting Security must be converted by Luxinvest into Shares at any time after the date of issue provided that it is fully converted on or before the maturity date. The price at which the Luxinvest Converting Security may be converted into Shares is the lower of:

- \$0.0008; or
- the VWAP of Shares in the 5 business days immediately prior to the date a conversion notice is given, multiplied by 90% and rounded down to four decimal places.

The Luxinvest Converting Security is transferable and does not grant its holder the right to: (a) any dividends declared by the Company; (b) vote at general meetings of the Company; or (c) participate in any equity or other capital raising of the Company.

In the event of a reorganisation of the capital of the Company, the rights of the holder of the Luxinvest Converting Security will be changed (as appropriate) in accordance with the ASX Listing Rules applying to a reorganisation of capital and convertible securities at the time of the reorganisation. Any change to the rights of the holder of the Luxinvest Converting Security must:

- have the effect that such security holder does not receive a benefit that Shareholders do not receive, except as permitted by the ASX Listing Rules; and
- not have an effect which is prejudicial to the interests of such security holder.

Other than as described above, the terms of the Luxinvest Converting Note may only be amended by the Company and the securityholder, subject to Shareholder approval if required by the ASX Listing Rules.

In no circumstances will the Company repay or redeem, or can it be required by the security holder to repay or redeem, any amount of the face value of the Luxinvest Converting Security.

3.7 Termination of the Umbrella Deed

Either ASOF or the Company may terminate the Umbrella Deed prior to Completion if any condition has become incapable of satisfaction and that condition has not been waived or if any condition is not satisfied or waived by 17 July 2012 (or such other date as the Company and ASOF may agree in writing).

Either ASOF or the Company may also terminate the Umbrella Deed at any time if:

- (a) the Company has suffered an insolvency event (as defined in the Umbrella Deed); or



(b) in the event of an unremedied breach by the other party.

4 Luxinvest's voting power

4.1 Maximum voting power

As at 8 June 2012 (being the last practicable date prior to the date of this Notice of Meeting), Luxinvest and its associates do not hold any Shares in the Company.

If Completion occurs, and assuming the Luxinvest Tranche 1 Shares are issued to Luxinvest prior to Completion, Luxinvest will hold 5,687,500,000 Shares immediately following the issue of the Shares to be issued to Luxinvest and ASOF on Completion. This represents a voting power of approximately 45.9% in the Company.

Pursuant to the Luxinvest Converting Security, Luxinvest could convert such security into a maximum of 375,000,000 Shares. If Completion occurs, Luxinvest has acquired the Luxinvest Tranche 1 Shares and the Luxinvest Converting Security converts into the maximum number of Shares, Luxinvest will hold 6,062,500,000 Shares, which would represent a voting power of approximately 47.5%.

The table below summaries these figures.

Luxinvest Share holdings and voting power			
Event	As at 8 June 2012 (being the last practicable date prior to the date of the Notice of Meeting)	On Completion (assuming Luxinvest is issued the Luxinvest Tranche 1 Shares)	On conversion of the Luxinvest Converting Security (assuming Completion occurs and Luxinvest is issued the Luxinvest Tranche 1 Shares)
Voting power	0%	45.9%	47.5%
Shares held by Luxinvest	0	5,687,500,000	6,062,500,000

The voting power percentages above assume that no Shares (whether on the conversion of Notes or otherwise) other than those referred to in the Explanatory Statement are issued by the Company and Luxinvest does not acquire or sell any Shares from or to a third party after 8 June 2012 (being the last practicable date prior to the date of the Notice of Meeting).

In accordance with the Corporations Act, a Shareholder with a voting power of in excess of 20% and less than 90% may acquire an additional 3% voting power every 6 months without Shareholder approval and without being required to make a takeover bid. While the maximum voting power Luxinvest may obtain as a result of the transactions referred to in this Explanatory Statement is less than 50%, it could acquire Shares giving it an additional 3% voting power 6 months after Completion which could result in its voting power increasing above 50% (see section 4.2 below).

The Company notes that Luxinvest has no right under the Luxinvest Agreement or the Umbrella Deed to nominate subscribers to subscribe (in place of Luxinvest) for the Shares to be issued to Luxinvest under those documents. However, the Company understands that it is likely that Luxinvest will seek permission to so nominate third parties to subscribe for some or all of such Shares in its place and the Company notes that it is likely to treat any such request favourably. Notwithstanding this potential eventuality, this Notice of Meeting seeks approval for Luxinvest to acquire the all of those Shares.

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4.2 Effect of control

Luxinvest's maximum voting power is close to 50%. If Luxinvest's voting power exceeds 50%, Luxinvest will have the power to pass an ordinary resolution at a general meeting of the Company, including resolutions to appoint or remove any or all Directors of the Company. Further, while Luxinvest's voting power exceeds 25%, it will have the ability to block a special resolution of the Shareholders (which requires 75% approval). Luxinvest may, in practice, have these powers even with a voting power of less than 50% or 25% (as applicable) depending on the number of Shares which are voted on any particular resolution. Accordingly, Luxinvest will have significant influence on the Company.

Luxinvest's current intentions with regard to the Company are set out in section 4.3 below. However, those intentions may change and Luxinvest could use its voting power to pursue intentions which differ from those set out below.

4.3 Luxinvest's intentions

The Company has been advised by Luxinvest that it currently:

- (a) has no intention to change the business of the Company;
- (b) has no intention to provide further equity or debt financing to the Company outside of the transactions contemplated by the Luxinvest Agreement and the Umbrella Deed but may participate in capital raisings in the future on a case by case basis subject to appropriate approval by Shareholders if necessary;
- (c) intends to retain the present employees of the Company;
- (d) has no intention to transfer any Company property between the Company and Luxinvest or any of its associates;
- (e) has no intention to redeploy the fixed assets of the Company;
- (f) has no intention to significantly change the financial or dividend distribution policies of the Company; and
- (g) has no intention to appoint or remove one or more persons as Directors of the Company.

5 Consequences of Completion not occurring

5.1 Completion

Completion of the Umbrella Deed is conditional on Shareholder approval being received on the terms of the Resolution prior to 17 July 2012. Under the terms of the Umbrella Deed, completion of the subscription for the Luxinvest Tranche 2 Shares under the Luxinvest Agreement is also conditional on completion occurring under the Umbrella Deed. If the Resolution is not approved at the meeting, the Company will not be able to satisfy the conditions under the Umbrella Deed and it is likely that the Umbrella Deed will be terminated.

If the Umbrella Deed is terminated, the Company will need to find alternative funding.

If the Company does not have reasonable grounds to believe that it will be successful in its efforts to obtain an additional source of funding, the Directors may be required to appoint an administrator. See section 5.2 below for further information.

5.2 Consequences of appointing an administrator

If the Directors are required to appoint an administrator it will mean that:

- the Company will be controlled by the administrator and creditors (which will include Note Holders). The creditors will be given the opportunity to elect a committee to consult with the



administrator about the administration of the Company. The administration process may ultimately result in creditors approving the winding up of the Company which would involve the sale of all of its assets;

- a default event will occur under the Charge and the Charge will automatically become a fixed charge over the whole of the Company's assets (including its intellectual property). This will enable the Trustee to take control of, and sell, the Company's assets in order to repay some or all of the Face Value of the Secured Notes to Secured Note Holders (subject to the rights of certain unsecured creditors preferred by law to be paid in priority to the Secured Note Holders); and
- a default event will occur under the Trust Deed which will entitle the Trustee to institute proceedings against the Company to recover any moneys owing to both Secured Note Holders and Interest Bearing Note Holders. As the Secured Notes rank in priority to the Interest Bearing Notes and have their Face Value secured by the Charge, Secured Note Holders will need to be paid the full Face Value of their Secured Notes from the net proceeds of the sale of the Company's assets before any payment can be made to repay the Face Value of (and any outstanding interest owing on) the Interest Bearing Notes or to other creditors.

The Company does not own any significant assets which are readily convertible to cash. The Company's main asset is its intellectual property, which is inherently difficult to value. The Directors believe that the total value of the Company's assets is largely dependent on the price that can be obtained for the sale of the Company's intellectual property, which is uncertain. Until any such sale is completed it is not possible to forecast whether there will be funds available to distribute to Shareholders in a winding up after all creditors (including Secured Note Holders and Interest Bearing Note Holders) have been paid in full.

Part B: Resolution

1 Resolution – paragraphs (a)(i) to (a)(ii)

1.1 Approval of amendments to the Note Terms

Paragraphs (a)(i) to (a)(ii) of the Resolution seeks approval to amend the Note Terms, to issue Shares to ASOF pursuant to the amended Note Terms.

1.2 Amendment of Notes Terms

(a) Issue of Original Notes and subsequent changes to the Notes

The Company and the Trustee entered into the Trust Deed under which a total of 203,703,704 Original Notes were issued in accordance with a pro rata renounceable rights issue offer on 1 September 2006 to Shareholders and Harmony Investment Fund Limited as a sub-underwriter of the issue.

The Original Notes were issued to fund the advancement of the Group's commercialisation strategy and to finance specific product development programs. Following the approval of the holders of Original Notes and Shareholders, the Original Notes became Interest Bearing Notes on 31 July 2009 and had their maturity date extended to 1 September 2011. Under an election booklet and prospectus dated 12 August 2009, holders of Interest Bearing Notes were offered the opportunity to elect to hold their Notes as Secured Notes which were also due to mature on 1 September 2011. Approximately 77% of Note Holders elected to hold Secured Notes.



On 29 August 2011, Note Holders approved a six month extension to the maturity date of the Notes to 1 March 2012. On 12 January 2012, Note Holders and Shareholders approved a further extension to the maturity date of the Notes to 1 March 2015 and other amendments including amendments to the conversion price formula and to permit the Debt Forgiveness.

(b) Notes Terms

Each Note:

- has a face value of \$0.135;
- is transferable;
- does not grant its holder the right to:
 - any dividends declared by the Company;
 - vote at general meetings of the Company; or
 - participate in any equity or other capital raising of the Company; and
- can be converted into Shares at the lesser of \$0.0105 per Share or 90% of the average of the five lowest daily VWAPs of Shares during the 20 business days preceding conversion (rounded down to four decimal places).

The Interest Bearing Notes are an unsecured debt obligation of the Company and bear interest at a rate of 10% per annum, with interest payable at the end of each Quarter.

The Secured Notes are secured by a fixed and floating charge over the assets of the Company. They do not bear interest.

In the event of a reorganisation of the capital of the Company, the rights of Note Holders will be changed (as appropriate) in accordance with the ASX Listing Rules applying to a reorganisation of capital and convertible securities at the time of the reorganisation. Any change to the rights of Note Holder must:

- have the effect that Note Holders do not receive a benefit that Shareholders do not receive, except as permitted by the ASX Listing Rules; and
- not have an effect which is prejudicial to the interests of Note Holders.

Other than as noted above and any changes required by law, the Notes Terms may generally only be amended by the Company and the Trustee with the approval of 75% of Note Holders present and entitled to vote on the amendment. Shareholder approval, as described in section 1.3 below, may also be required in relation to an amendment to the Note Terms.

The current Note Terms were released by the Company to ASX on 10 February 2012.

As at 8 June 2012 (being the last practicable date prior to the date of this Notice of Meeting), there were 32,267,794 Interest Bearing Notes and 103,168,880 Secured Notes on issue (including 88,112,393 Secured Notes held by ASOF and subject to the conversion, redemption and debt forgiveness obligations set out in the Umbrella Deed).

(c) Details of the proposed amendments to the Notes Terms

Shareholders are being asked to consider and approve the amendments to the Note Terms so that:

- the Company can redeem the Redemption Notes from ASOF for \$1.7 million cash; and
- ASOF can convert the Conversion Notes into 1,555,555,500 Shares at an issue price of \$0.0009.



All of the proposed amendments to the Note Terms are summarised in Part D of the Explanatory Statement. The amendments will take effect on and simultaneously with Completion.

The amendments to the Note Terms are relevant for the conversion and redemption of Secured Notes held by ASOF only and will not apply to any other Notes held by any other Note Holder.

Following conversion, redemption and forgiveness of Secured Notes on Completion in accordance with the Umbrella Deed and the Debt Forgiveness, ASOF will not hold any Notes.

(d) Approval of Note Holders

A Note Holder meeting will be held at 11am (Brisbane time) at Brisbane Polo Club, Naldham House, 1 Eagle Street, Brisbane, 4000 on 16 July 2012 for Note Holders to consider and, if thought fit, approve a resolution to amend the Note Terms in the manner described in paragraph (c) above (**Note Holder Resolution**). The Company does not intend to put the Resolution to Shareholders if the Note Holder Resolution is not passed by Note Holders.

The Note Holder Resolution must be determined by a poll as an extraordinary resolution. An extraordinary resolution must be approved at a meeting of Note Holders entitled to cast not less than 75% of the votes of all Note Holders present or represented and voting at the meeting.

A copy of the notice of meeting of Note Holders and the Note Terms with the proposed amendments marked up are available for inspection during business hours prior to the meeting at the registered office of the Company at 29 Sudbury Street, Darra, Queensland 4076. Alternatively, copies are available on the Company's website (www.metalstorm.com).

1.3 Shareholder approval under ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that without Shareholder approval, the Company must not issue or agree to issue equity securities comprising more than 15% of the Company's issued ordinary share capital as at 12 months before the date of issue of the relevant securities, subject to certain additions and subtractions.

ASX considers that the proposed amendments to the Note Terms are akin to a new issue of Notes and has advised the Company that Shareholder approval is required under ASX Listing Rule 7.1 for the proposed amendments to the Note Terms. This approval is sought in paragraph (a)(i) of the Resolution.

ASX Listing Rule 7.2 exception 4 provides that if the Company complies with the ASX Listing Rules when issuing convertible securities, the subsequent conversion of those convertible securities into Shares will not be counted in the Company's 15% limit under ASX Listing Rule 7.1. This means that if Shareholder approval for the Resolution is obtained, all of the Shares that are subsequently issued upon the conversion of the Notes will not need to be counted in the Company's 15% limit under ASX Listing Rule 7.1. For completeness, paragraph (a)(ii) of the Resolution specifically approves the issue of the Shares to be issued to ASOF on conversion of the Conversion Notes.

1.4 Information required by ASX Listing Rule 7.3

If the Resolution is passed, paragraph (a)(i) will not result in the issue of any additional Notes. There will be no new allottees and no funds will be raised by the proposed amendments to the Note Terms or the conversion of the Conversion Notes on Completion.

All of the proposed amendments to the Note Terms are summarised in Part D of the Explanatory Statement. Paragraph 1.2(d) provides details about how to obtain a copy of the Note Terms showing the proposed amendments.



2 Resolution – paragraph (a)(iii)

2.1 Issue of the Luxinvest Converting Security

As described in section 3 of Part A of the Explanatory Statement, pursuant to the terms of the Umbrella Deed, Luxinvest has agreed to subscribe for the Luxinvest Converting Security.

2.2 Shareholder approval under Listing Rule 7.1

ASX Listing Rule 7.1 provides that without Shareholder approval, the Company must not issue or agree to issue equity securities comprising more than 15% of the Company's issued ordinary share capital as at 12 months before the date of issue of the relevant securities, subject to certain additions and subtractions.

The Luxinvest Converting Security is an equity security. For the purpose of ASX Listing Rule 7.1, it is treated as being equivalent to the number of Shares it could convert into as at the date it is issued, being 375,000,000.

Shareholder approval is being sought for the purposes of ASX Listing Rule 7.1 to ensure that it has the maximum flexibility to take advantage of any funding opportunities that may arise without further reference to Shareholders.

2.3 Information required by the ASX Listing Rules

For approvals under ASX Listing Rule 7.1, ASX Listing Rule 7.3 requires the Company to disclose certain information to Shareholders.

Number of Luxinvest Converting Securities	1
Face value of Luxinvest Converting Security	\$300,000
Maximum number of Shares that may be issued on conversion	Up to 375,000,000 Shares
Issue price	\$0.0008 or higher pursuant to the formula set out in section 3.6 of Part A of the Explanatory Statement
Terms of the securities	The terms of the Luxinvest Converting Security are set out in section 3.6 of Part A of the Explanatory Statement
Name of the allottees	Luxinvest
Date of issue	Expected four business days after the Resolution is approved, and in any event no later than three months after the date of approval
Intended use of funds raised	Working capital and redemption of the Redemption Notes

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3 Resolution – paragraph (b)

3.1 Issue of the Luxinvest Tranche 2 Shares, the Subscription Shares, the Fee Shares and the Luxinvest Conversion Shares

As described in sections 2 and 3 of Part A of the Explanatory Statement, pursuant to the terms of the Luxinvest Agreement and the Umbrella Deed, Luxinvest has agreed to subscribe for:

- (a) a total of 5,250,000,000 Shares on Completion, being:
- the Tranche 2 Shares;
 - the Subscription Shares; and
 - the Fee Shares; and
- (b) the Luxinvest Converting Security which could result in the issue of up to 375,000,000 Shares.

3.2 Shareholder approval under item 7 of section 611 of the Corporations Act

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% to below 90%.

The calculation of a person's voting power in a company involves determining the voting shares in the Company in which the person and the person's associates have a relevant interest.

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition under section 606 of the Corporations Act. This exception provides that a person may acquire a relevant interest in a company's voting shares if shareholders of the company approve the acquisition.

On Completion, Luxinvest will be issued with 5,250,000,000 Shares. On that basis and assuming the Luxinvest Tranche 1 Shares are issued to Luxinvest and the only other Shares that are issued on Completion are those issued to ASOF on conversion of the Conversion Notes, Luxinvest's voting power will increase to 45.9%. If the maximum number of Shares that may be issued pursuant to the Luxinvest Converting Security are also issued (being 375,000,000 Shares), Luxinvest's maximum voting power would be 47.5%. Accordingly, Shareholder approval is being sought for the purposes of item 7 of section 611 of the Corporations Act for the issue of up to 5,625,000,000 Shares to Luxinvest (in addition to the Luxinvest Tranche 1 Shares) which would give Luxinvest a voting power of up to 47.5%. The voting power of Luxinvest at various stages in the transactions the subject of the Explanatory Statement is set out in the table in section 4.1 of Part A of the Explanatory Statement.

ASX Listing Rule 7.2 exception 16 provides that if the issue of Shares has been approved for the purposes of item 7 of section 611 of the Corporations Act, the issue of those Shares will not be counted in the Company's 15% limit under ASX Listing Rule 7.1.

3.3 Information required by the Corporations Act

For the exception in item 7 of Section 611 of the Corporations Act to apply, Shareholders must be given all information known to Luxinvest or their associates, or known to the Company, that is material to the decision on how to vote on the Resolution.



Number of Shares to be issued	Luxinvest Tranche 2 Shares: 4,875,000,000 Subscription Shares: 125,000,000 Fee Shares: 250,000,000 Luxinvest Conversion Shares: up to 375,000,000 Total: up to 5,625,000,000 Shares
Issue price	<i>Luxinvest Tranche 2 Shares, the Subscription Shares and Fee Shares:</i> \$0.0008 <i>Luxinvest Conversion Shares:</i> \$0.0008 or higher pursuant to the formula set out in section 3.6 of Part A of the Explanatory Statement
Terms of the securities	Fully paid ordinary shares
Name of the allottees	Luxinvest
Maximum voting power of Luxinvest and its associates as a result of the issue	47.5%
Maximum increase in the voting power of Luxinvest and its associates as a result of the issue	47.5%
Date of issue	<i>Luxinvest Tranche 2 Shares and the Subscription Shares and Fee Shares:</i> Expected four business days after the Resolution is approved, and in any event no later than three months after the date of approval <i>Luxinvest Conversion Shares:</i> Within 36 months of the date of issue of the Luxinvest Converting Security
Intended use of funds raised	<i>Luxinvest Tranche 2 Shares and the Subscription Shares:</i> working capital and redemption of the Redemption Notes <i>Fee Shares and Luxinvest Conversion Shares:</i> no funds will be raised on the issue of such Shares

The voting power percentages above assume that no Shares (whether on the conversion of Notes or otherwise) other than those referred to in the Explanatory Statement are issued by the Company and Luxinvest does not acquire or sell any Shares from or to a third party after 8 June 2012 (being the last practicable date prior to the date of the Notice of Meeting).

There are no agreements (other than the Luxinvest Agreement and the Umbrella Deed) between the Company and Luxinvest or any of its associates that are conditional on Shareholders passing the Resolution.

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The voting power of Luxinvest at various stages in the transactions the subject of the Explanatory Statement is set out in the table in section 4.1 of Part A of the Explanatory Statement.

3.4 Luxinvest's intentions

Luxinvest's intentions with regard to the Company are set out in section 4.3 of Part A of the Explanatory Statement.

4 Consequences if the Resolution is not approved

If the Resolution is not approved, Completion will not occur. See section 5 of Part A of the Explanatory Statement for further information on the consequences of Completion not occurring.

5 Director's recommendations

The Directors unanimously recommend that Shareholders vote in favour of the Resolution.

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Part C: Glossary

In the Explanatory Statement, the following terms have the following meaning unless the context otherwise requires:

Amendment Deed	the deed between the Company and the Trustee that will be tabled at the meeting and will, if the Resolution and the Note Holder Resolution are approved, effect the proposed amendments to the Note Terms
ASOF	the Australian Special Opportunity Fund LP, an investment company managed by the New York-based investment fund manager, The Lind Partners, LLC
ASOF Convertible Security	the unquoted unsecured convertible security issued to ASOF on 28 December 2011 which was approved by Shareholders on 8 December 2011
ASX	ASX Limited ACN 008 624 691 or where the context requires, the securities exchange it operates
Charge	the fixed and floating charge over the assets of the Company in favour of the Trustee for the benefit of the Secured Note Holders, securing the obligations of the Company to repay the Face Value of the Secured Notes, dated 31 July 2009
Company	Metal Storm Limited ABN 99 064 270 006
Completion	completion of the Share issues and Secured Note conversions and redemptions and other obligations under the Umbrella Deed and, unless the context otherwise provides, the Luxinvest Agreement
Conversion Notes	has the meaning given to that term in section 3.1 of Part A of the Explanatory Statement
Corporations Act	Corporations Act 2001 (Cth)
Debt Forgiveness	the proposed forgiveness by ASOF of approximately \$1.5 million of Face Value of the Secured Notes it has purchased from Harmony Investment Fund Limited, as described in section 3.1 of Part A of the Explanatory Statement
Deposit	has the meaning given to that term in section 3.1 of Part A of the Explanatory Statement
Director	a director of the Company
Explanatory Statement	the explanatory statement containing this glossary which is attached to the Notice of Meeting
Face Value	\$0.135 per Note
Fee Shares	has the meaning given to that term in section 3.1 of Part A of the Explanatory Statement
Forgiveness Notes	has the meaning given to that term in section 3.1 of Part A of the Explanatory Statement
Group	the Company, its wholly-owned subsidiaries and Metal Storm Inc. (a US company owned 49% by the Company)
Independent	Vincents Corporate Advisory Pty Ltd



Expert	
Independent Expert's Report	the independent expert's report from the Independent Expert on the transactions the subject of the Resolution
Interest Bearing Note Holders	persons who are recorded in the register of Interest Bearing Notes maintained by or on behalf of the Company as the holders of Interest Bearing Notes
Interest Bearing Notes	the Company's existing convertible notes which bear interest, are convertible into Shares, have the rights set out in the Note Terms and can be traded on ASX under the ticker code MSTG
Initial Luxinvest Subscription Agreement	the single converting security issued to Luxinvest under the Umbrella Deed on the terms described in section 2.1 of Part A of the Explanatory Statement
Luxinvest	Luxinvest Capital Advisors S.A
Luxinvest Agreement	the subscription agreement between the Company and Luxinvest dated 18 April 2012, as amended by the Umbrella Deed
Luxinvest Converting Security	the single converting security to be issued to Luxinvest under the Umbrella Deed on the terms described in section 3.6 of Part A of the Explanatory Statement
Luxinvest Conversion Shares	the Shares to be issued on conversion of the Luxinvest Converting Security
Luxinvest Tranche 1 Shares	has the meaning given in line one of the table in section of 2.2 of Part A of the Explanatory Statement
Luxinvest Tranche 2 Shares	has the meaning given in line two of the table in section of 2.2 of Part A of the Explanatory Statement
Note Holder Resolution	the resolution of Note Holders required to effect the amendments to the Note Terms, as described in section 1.2(d) of Part B and Part D of the Explanatory Statement
Note Holders	persons whose names are entered in the register of Secured Notes or Interest Bearing Notes (as the context requires), maintained by or on behalf of the Company
Note Terms	terms which govern the Notes as amended from time to time
Notes	the Interest Bearing Notes and the Secured Notes
Notice of Meeting	the notice of meeting dated 15 June 2012
Original Notes	the convertible notes issued under the Trust Deed on or about 1 September 2006 which became Interest Bearing Notes on 31 July 2009
Quarter	each period of three months ending on 31 March, 30 June, 30 September and 31 December in each year
Redemption Notes	has the meaning given to that term in section 3.1 of Part A of the Explanatory Statement
Resolution	the resolution contained in the Notice of Meeting
Secured Notes	the Company's existing convertible notes which are secured by the Charge, do not bear interest, are convertible into Shares, have the rights set out in the Note Terms and can be traded on ASX under the



	ticker code MSTGA
Secured Note Holders	persons who are recorded in the register of Secured Notes maintained by or on behalf of the Company as the holders of Secured Notes
Shareholders	persons whose names are entered in the register of holders of Shares, maintained by or on behalf of the Company
Shares	fully paid ordinary shares in the capital of the Company
Subscription Shares	has the meaning given to that term in section 3.1 of Part A of the Explanatory Statement
Trust Deed	Metal Storm Convertible Notes Trust Deed dated 11 July 2006 between the Company and the Trustee as amended from time to time
Trustee	ANZ Trustees Limited ABN 33 006 132 332
Umbrella Deed	the Umbrella Deed – Secured Notes and Convertible Security Agreement between the Company, Luxinvest, ASOF and Hopgood Ganim dated on 18 April 2012
voting power	has the meaning given to that term in the Corporations Act
VWAP	volume weighted average price

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Part D: Summary of proposed amendments to the Note Terms

The Note Terms are proposed to be amended so that

- the Company can redeem the Redemption Notes from ASOF for \$1.7 million cash; and
- ASOF can convert the Conversion Notes into 1,555,555,500 Shares at an issue price of \$0.0009.

The table describes the changes to be made to the provisions of the Trust Deed. Unless otherwise defined in the Explanatory Statement, capitalised terms in the following table have the meaning given to them in the Note Terms.

Clause reference	Summary of amendment
1.1. Definition of Conversion Notes	This is a definition of the Notes which ASOF has agreed to convert on Completion. It is referred to in the amended clause 7.
1.1. Definition of Redemption Amount	This is a definition of the amount for which ASOF has agreed the Redemption Notes will be redeemed on Completion. It is referred to in the amended clause 6.
1.1. Definition of Redemption Notes	This is a definition of the Notes which ASOF has agreed will be redeemed on Completion. It is referred to in the amended clause 6.
1.1. Definition of Umbrella Deed	This is a definition of the deed under which ASOF has agreed to the redemption of the Redemption Notes and conversion of the Conversion Notes. It is referred to in the amended clause 6.1.
2(f) Background	This new clause has been inserted to refer to the approval of Note Holders to amend the Note Terms to permit the redemption of the Redemption Notes and conversion of the Conversion Notes in accordance with the Umbrella Deed.
6.3 Redemption on Maturity Date	This clause has been inserted to grant the Company the power to redeem the Redemption Notes for \$1.7 million on Completion in accordance with the terms of the Umbrella Deed.
7 Conversion	This clause has been amended to facilitate the conversion of the Conversion Notes. The amendments will allow the Conversion Notes to be converted into Shares on Completion for \$0.0009 per Share in accordance with the terms of the Umbrella Deed.

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Part E: Pro-forma Balance Sheet

The pro-forma balance sheet presented below is based on the audited statement of financial position of the Group as at 31 December 2011. The columns entitled Other Transactions and Contemplated Transaction have not been audited or reviewed.

Metal Storm Limited Pro-Forma Balance Sheet				
	31 December 2011	Other Transactions	Contemplated Transaction	After
	\$	\$	\$	\$
Assets				
Current assets				
Cash and cash equivalents	480,672	700,000 ⁴	2,600,000 ⁵	3,780,672
Trade and other receivables	236,998			236,998
Total current assets	717,670			4,017,670
Non-current assets				
Trade and other receivables	78,452			78,452
Property, plant and equipment	284,295			284,295
Total non-current assets	362,747			362,747
Total assets	1,080,417			4,380,417
Liabilities				
Current liabilities				
Trade and other payables	1,072,109			1,072,109
Conversion derivative	18,867	4,089,924 ¹	(2,590,504) ⁶	1,518,287
Non-interest bearing loans and borrowings	14,701,159	(9,064,501) ¹	(4,771,769) ⁶	864,889
Interest-bearing loans and borrowings	4,364,860	(2,730,804) ¹		1,634,056
Total current liabilities	20,156,995			5,089,341
Non-current liabilities				
Convertible Securities	900,000	(900,000) ²		-
Other	15,109			15,109
Total non-current liabilities	915,109			15,109
Total liabilities	21,072,104			5,104,450
Net assets	(19,991,687)			(724,033)

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**Equity**

Contributed equity	81,926,463	1,600,000	³	5,166,501	⁷	88,692,964
Reserves	12,799,382					12,799,382
Accumulated losses	(114,717,532)	7,705,381	¹	4,795,772	⁸	(102,216,379)
Total equity	(19,991,687)					(724,033)

Notes

Capitalised terms in these Notes have the meaning given to them in the Explanatory Statement.

- The Notes are initially recognized at fair value and carried at amortised cost. Due to amendments to the Note Terms approved by Note Holders and Shareholders of the Company on 12 January 2012, the accounting standards require the Notes to be treated as if the debt was extinguished and re-issued. This means marking the Notes to their fair value and recognizing the difference as a gain or loss in the income statement. The Notes in this pro-forma have been marked to their fair value as at 12 January 2012.
- This entry represents the conversion of the entire face value of the ASOF Convertible Security and a convertible security held by Andrew Doyle (which has occurred since 31 December 2011).
- This entry represents the issue of the Luxinvest Tranche 1 Shares (437,500,000) and Shares under the Initial Luxinvest Subscription Agreement (437,500,000).
- This entry represents the net increase in cash and cash equivalents that have and will result from the issue of the Luxinvest Tranche 1 Shares and Shares under the Initial Luxinvest Subscription Agreement:

Initial Luxinvest Subscription Agreement	350,000
Luxinvest Tranche 1 Shares	350,000
TOTAL	700,000

- This entry represents the net increase in cash and cash equivalents that will result from the following transactions the subject of the Luxinvest Agreement and the Umbrella Deed:

Luxinvest Tranche 2 Shares	3,900,000
Subscription Shares	100,000
Luxinvest Converting Security	300,000
Consideration for debt forgiveness notes	(1,700,000)
TOTAL	2,600,000

- These entries represent the redemption of the Redemption Notes, the conversion of the Conversion Notes and the forgiveness of the Forgiveness Notes on Completion of the Umbrella Deed. The redemption of the Redemption Notes (\$5,549,307) and the forgiveness of the Forgiveness Notes (\$946,465) will be reflected in the income statement while the conversion of the Conversion Notes (\$866,501) will be shown in equity (see notes 7 and 8).
- This entry represents the new Shares issued as a result of the issue of the Luxinvest Tranche 2 Shares, the Fee Shares, the Subscription Shares and the Luxinvest Conversion Shares to Luxinvest (up to 5,625,000,000 Shares) and the conversion of the Conversion Notes by ASOF (1,555,555,500 Shares).

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8. This entry represents the net gain achieved as a result of the redemption of the Redemption Notes (\$5,549,307) and the forgiveness of the Forgiveness Notes (\$946,465), as offset by the consideration paid for the Redemption Notes (\$1,700,000).
9. Other than in relation to Shares to be issued and Notes to be converted, redeemed and forgiven in accordance with the Umbrella Deed and the Luxinvest Agreement, this pro-forma balance sheet does not take into account any Shares issued by the Company (whether on the conversion of Notes or otherwise) or Notes converted by Note Holders after 8 June 2012 (being the last practicable date prior to the date of the Notice of Meeting).
10. This pro-forma balance sheet does not contain any adjustment or amendment or otherwise updates in any way the statement of financial position of the Group as at 31 December 2011 except to the extent set out in these notes as a result of the issue of Shares and the conversion, redemption and forgiveness (as applicable) of Notes and other convertible and converting securities.

29 May 2012

The Directors
Metal Storm Limited
PO Box 128
RICHLANDS QLD 4077

Dear Sirs,

INDEPENDENT EXPERT'S REPORT – METAL STORM LIMITED

1.0 INTRODUCTION

1.1 Vincents Corporate Advisory Pty Ltd (“Vincents”) has been engaged to prepare an independent expert’s report (“our Report”) to express an opinion as to whether or not the proposed issue of shares to Luxinvest Capital Advisors S.A. (“Luxinvest”) that will take Luxinvest’s interest in Metal Storm Ltd (“Metal Storm” or “the Company”) above 20% (“the Subscription Agreement”), is fair and reasonable to the non-associated shareholders of Metal Storm.

1.2 The completion of the Subscription Agreement is conditional on an ‘Umbrella Deed’ completing. Metal Storm has entered into the Umbrella Deed with its major note holder, Australian Special Opportunity Fund, L.P. (“ASOF”) whereby:

- (i) Metal Storm will redeem Secured Notes with a face value of \$9 million in exchange for \$1.7 million cash (“Redemption Notes”); and
- (ii) ASOF will convert Secured Notes with a face value of \$1.4 million into ordinary shares at \$0.0009 per share (“Conversion Notes”). After this conversion ASOF will hold approximately 13% of the issued shares; and
- (iii) In accordance with a previously signed Debt Forgiveness Deed, ASOF will forgive Secured Notes with a face value of \$1.5 million.

Combined the Umbrella Deed has the effect of removing \$11.9 million in secured debt. The Umbrella Deed is also conditional upon the Subscription Agreement completing.

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1.3 As the Subscription Agreement and Umbrella Deed are inter-dependent, we have considered the effect of both in reaching our conclusion and have referred to them together as “the Proposal”.

1.4 We understand that our Report will be included with the Notice of General Meeting and Explanatory Statement to be sent to all shareholders of the Company to assist them in voting on the resolutions and in deciding whether to accept or reject the Proposal.

2.0 SUMMARY AND OPINION

2.1 Opinion

2.1.1 We have considered the terms of the Subscription Agreement and Umbrella Deed as outlined in both the Explanatory Statement and Section 3 of our Report, and have concluded that the Proposal is not fair but is reasonable to the non-associated shareholders of Metal Storm.

2.2 Fairness

2.2.1 In Section 9 of our Report, we determined that the Proposal is not fair to non-associated shareholders of Metal Storm, as the value of the shares being issued under the terms the Proposal is less than the current market price.

2.3 Reasonableness

2.3.1 We have considered the matters outlined in Section 11.1 of our Report in terms of both:

- the advantages and disadvantages of the Proposal, and
- alternatives available to the non-associated shareholders of Metal Storm, including the position of those shareholders should the Proposal not be accepted.



2.3.2 In our opinion, if the Proposal proceeds, the position of non-associated shareholders of Metal Storm is more advantageous than the position if the Proposal does not proceed. Therefore we consider that the Proposal is reasonable for the non-associated shareholders. The advantages and disadvantages identified by us are outlined in Section 9.2 of our report and are summarised as:

Advantages: The Company will be in a position to keep trading
The Company will receive a significant cash injection
The Company will eliminate substantial debt
There will be no requirement to source alternative funding in the short term

Disadvantages: The current Shareholders' interest will be diluted
Following implementation of the Proposal Luxinvest will have the ability to block any special resolutions and will be able to further increase its holdings, without the approval of other Shareholders, to a level whereby it can block and pass general resolutions

3.0 OUTLINE OF THE PROPOSAL

Background to the Proposal

3.1 Metal Storm is a defence technology company currently developing electronically initiated ballistics systems for both lethal and non-lethal applications.

3.2 Metal Storm has signed a 'Subscription Agreement' and related 'Umbrella Deed'. Each are conditional upon the other being completed. Together we have referred to them as "the Proposal".



Subscription Agreement

- 3.3 Metal Storm has signed a Subscription Agreement with Luxinvest under which Luxinvest will subscribe for a total of 5,312,500,000 shares for a total amount of \$4,250,000. Therefore the issue price is \$0.0008 per share. The subscription is to be under two tranches as follows:

Tranche 1	437,500,000 shares = \$ 350,000 subscription amount
Tranche 2	4,875,000,000 shares = \$3,900,000 subscription amount

- 3.4 Both tranches are subject to shareholder approval. Luxinvest is also a party to the Umbrella Deed and under that is to provide a deposit of \$400,000. If the Umbrella Deed completes this deposit will be used by Luxinvest to subscribe for an unsecured convertible note with a face value of \$300,000 and \$100,000 of shares at an issue price of \$0.0008 per share. Metal Storm has also agreed to issue Luxinvest \$200,000 of shares at a nominal issue price of \$0.0008 per share as Luxinvest's fee for payment of the deposit under the Umbrella Deed. The deposit is not refundable if the Umbrella Deed is not completed.

Umbrella Deed

- 3.6 The completion of the Subscription Agreement is conditional on an 'Umbrella Deed' completing. Metal Storm has entered into the Umbrella Deed with its major note holder, Australian Special Opportunity Fund, L.P. ("ASOF") whereby:

- (iv) Metal Storm will redeem Secured Notes with a face value of \$9 million in exchange for \$1.7 million cash ("Redemption Notes"); and
- (v) ASOF will convert Secured Notes with a face value of \$1.4 million into ordinary shares at \$0.0009 per share ("Conversion Notes"). After this conversion ASOF will hold approximately 13% of the issued shares; and
- (vi) In accordance with a previously signed Debt Forgiveness Deed, ASOF will forgive Secured Notes with a face value of \$1.5 million.

- 3.7 The combination of the above transactions will remove \$11.9 million of Secured Note debt.

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Intended Use of Funds / Result of Proposal

- 3.8 The Proposal results in the elimination of \$11.9 million in secured debt and reduces the potential for further dilution as that debt will no longer be able to be converted to shares.
- 3.9 The Proposal also increases working capital by \$2.95 million, after the secured note redemption, to further develop the non-lethal weapon program.

Capital Structure

- 3.10 The table below shows the Company's capital structure immediately prior to the Proposal and the position if all of the elements of the Proposal are effected. The table below does not include the potential further shares being issued as a result of the conversion of any convertible securities or exercising of any options currently issued. As at 30 April 2012 the top 20 shareholders held 1,231,090,072 shares, i.e. 29.43% of the total issued capital.

<u>Shareholders</u>	<u>Pre-Proposal</u>		<u>Post-Proposal</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
Non- associated Shareholders	4,233,252,117	100%	6,420,752,061	51.4%
Luxinvest	0	0%	6,062,500,000	48.6%

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Historical Balance Sheets

Consolidated Statement of Financial Position	As at 31 December	
	2011	2010
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	480,672	1,166,661
Trade and other receivables	236,998	555,866
Total current assets	717,670	1,722,527
Non-current assets		
Other assets	78,452	78,210
Property, plant and equipment	284,295	346,219
Intangible assets and goodwill	-	-
Total non-current assets	362,747	424,429
Total assets	1,080,417	2,146,956
Liabilities		
Current liabilities		
Trade and other payables	1,072,109	1,187,070
Conversion derivative	18,867	1,888,067
Non-interest bearing loans and borrowings	14,701,159	13,339,952
Interest bearing loans and borrowings	4,364,860	4,198,777
Provisions	-	22,475
Total current liabilities	20,156,995	20,636,341
Non-current liabilities		
Convertible securities	900,000	-
Other	15,109	-
Total non-current liabilities	915,109	-
Total liabilities	21,072,104	20,636,341
Net assets / (liabilities)	(19,991,687)	(18,489,385)
Equity		
Contributed equity	81,926,463	77,683,753
Reserves	12,799,382	12,511,176
Accumulated losses	(114,717,532)	(108,684,314)
Total equity / (deficiency)	(19,991,687)	(18,489,385)

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Historical Income Statements

Consolidated Statement of Comprehensive Income	For the year ended 31 December	
	2011	2010
	\$	\$
Revenue	1,318,082	3,345,016
Fair value movement in conversion derivative	1,867,873	407,041
Consumables used	(33,212)	(736,144)
Employee expenses	(3,450,533)	(4,237,269)
Finance costs	(2,761,748)	(4,304,903)
Professional fees	(874,922)	(991,581)
Facilities and equipment	(614,833)	(465,073)
Research and development	(476,014)	(603,413)
Public relations and compliance	(472,074)	(563,762)
Administrative expenditure	(302,581)	(480,752)
Communication and technology	(106,674)	(159,139)
Travel expenses	(82,630)	(127,602)
Net foreign exchange differences	(43,952)	(20,672)
Loss before income tax	(6,033,218)	(8,938,253)
Income Tax	-	-
Loss for the year	(6,033,218)	(8,938,253)
Other comprehensive income		
Currency translation difference	-	17,149
Other comprehensive income for the year	-	17,149
Total comprehensive income for the year	(6,033,218)	(8,921,104)

4.0 PURPOSE OF REPORT

4.1 The Explanatory Statement accompanying the Notice of General Meeting sets out the regulatory requirements in relation to each of the resolutions to be put to the general meeting. In summary, the regulatory requirements that affect the preparation of our Report are as follows:

4.2 Section 606 of the Corporations Act ("the Act") expressly the acquisition of shares by a person that will result in that person's voting power in a company to increase from 20% or below to more than 20%. As set out in Section 3 of our Report, following the approval of the Proposal, Luxinvest will hold 49.6% of the issued capital of the Company. Luxinvest currently holds none of the issued capital of the Company.



4.3 Section 611 of the Act permits the acquisition of shares in excess of 20% of the issued shares of an entity if the shareholders of that entity have agreed to the issue of those shares. This agreement must be passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that the shareholders of the company must be given all information that is material to the decision on how to vote on the resolution.

4.4 Regulatory Guide 74 issued by the Australian Securities and Investments Commission (“ASIC”) deals with “Acquisitions Agreed to by Shareholders”. It states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Metal Storm by either:

- undertaking a detailed examination of the Placement themselves, if they consider that they have sufficient expertise; or
- by commissioning an Independent Expert’s Report.

The directors of Metal Storm have commissioned our Report to satisfy this obligation.

5.0 BASIS OF EVALUATION

Regulatory Guidelines

5.1 In determining whether the Proposal is fair and reasonable, we have referred to Regulatory Guides 111 (Content of Expert Reports) and 112 (Independence of Experts) issued by ASIC. Regulatory Guide 111 requires that we should identify the advantages and disadvantages of the proposal to security holders not associated with the transaction, as well as providing an opinion on whether the advantages of the proposal outweigh the disadvantages. Regulatory Guide 111 suggests that “An expert should focus on the purpose and outcome, that is, the substance of the transaction, rather than the legal mechanism used to effect the transaction.”

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Adopted Basis of Evaluation

5.2 We have satisfied the requirements of Regulatory Guide 111 by completing the following:

- A comparison of the value of Metal Storm shares issued to Luxinvest and the value of the consideration (the fairness test – see Section 7 of our Report – Is the Proposal Fair?); and
- An enquiry into whether there are sufficient reasons for the non-associated shareholders to accept the offer in the absence of any higher bid before the close of the offer (the reasonableness test - see Section 9 of our Report, “Is the Proposal Reasonable?”).

6.0 VALUATION OF METAL STORM

Valuation summary

6.1 Vincents has estimated the fair market value of a Metal Storm share prior to the Proposal to be \$0.001.

6.2 For the purpose of our opinion, fair market value is defined as the amount at which the shares being the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length. .

6.3 In determining this amount, we estimated the fair market value of Metal Storm shares after considering the various methods, which are discussed in further detail below.

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Valuation methodology

- 6.4 Methodologies commonly used for valuing shares are as follows:

Capitalisation of Future Maintainable Earnings Method (“FME”)

- 6.5 This method capitalises the estimated future maintainable earnings of a business by an adequate investment rate based on fair market expectations after giving consideration to all conditions relevant at the time, to the economy in general and in particular, to the business being valued.
- 6.6 If forecast future trading results are not available, the future maintainable earnings of a business are usually determined by making appropriate adjustments to the business’ immediate past earnings as a proxy for the future earnings.
- 6.7 The FME approach is applicable to profitable businesses with relatively steady growth history and forecasts, regular capital expenditure requirements and an infinite life.

Discounted Cash Flow Method (“DCF”)

- 6.8 This method calculates the net present value of a stream of future cash flows by applying an appropriate discount rate to a cash stream that a business is expected to generate in each future year of operations. The discount rate represents the total expected rate of return (stated as a percentage) that a buyer would demand on the purchase price of an ownership interest in an asset given the level of risk inherent in that ownership interest.
- 6.9 The DCF methodology is particularly applicable to businesses in start up phase, experiencing substantial growth, with limited life or which experience irregular cash flows.
- 6.10 If the use of an earnings based method (either the FME or DCF method) is appropriate, the result represents a value of the entire business operations, including all underlying business assets, both tangible and intangible.



Net tangible asset value (“NTA”)

- 6.11 In using the NTA methodology the business’ tangible assets and liabilities are adjusted to their appraised realisable values, and the net result is an indication of the total value of the business. Methods under which the values of the assets and liabilities can be appraised include:
- Orderly realisation
 - Liquidation basis
 - On a going concern
- 6.12 The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to equity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.
- 6.13 The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.
- 6.14 The net assets on a going concern basis is usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity’s valuation.
- 6.15 Often the FME and DCF methodologies are used in valuing assets forming part of the overall net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.



- 6.16 These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when entities are not profitable, a significant proportion of the entity's assets are liquid or for asset holding companies.

Quoted market price basis

- 6.17 Another alternative valuation approach that can be used in conjunction with (or as a replacement for) any of the above methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a "deep" market in that security.
- 6.18 The quoted market price reflects a minority interest in Metal Storm. A minority interest is an interest that is not significant enough for the holder to individually have an influence in the operations and value of the company. RG 111.11 states that the expert should consider a premium for control when considering the value of a company's shares for the purposes of approval under item 7 of s611. An acquirer may pay a premium due to advantages as a result of owning 100% of a company. Whilst Luxinvest will not be obtaining 100% of Metal Storm RG 111 states that the expert should calculate the value of a target's shares assuming 100% ownership of the target. RG 111.13 states that the expert can consider the practical level of in considering reasonableness.



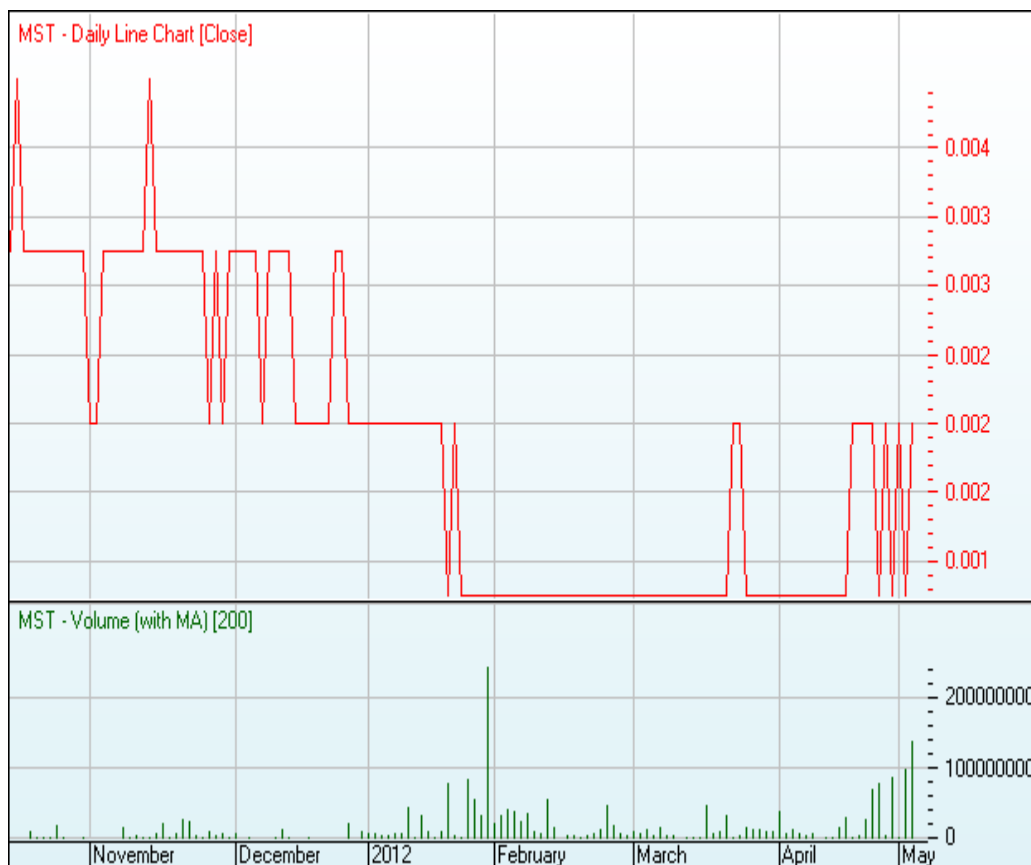
Methodology adopted

- 6.19 A history of positive earnings, on which future earnings is based, is required for the FME methodology to be used in the valuation of a company. Metal Storm does not have any history of positive earnings and the outlook for the Company in its current circumstances is not sufficiently positive to justify a valuation based on positive earnings in the future. Therefore, we do not believe that the FME methodology is appropriate in the valuation of Metal Storm.
- 6.20 DCF valuations require reliable forecast cash flows to be prepared, generally for five or more years. We have not been provided with financial projections or forecasts for the Company. In the absence of such information, we are unable to use the DCF methodology in the valuation of Metal Storm.
- 6.21 The balance sheet of Metal Storm shows a deficiency of net assets, i.e. liabilities exceed assets . Therefore we consider that it is not appropriate to use the Net Tangible Asset value methodology.
- 6.22 As Metal Storm is an ASX listed company, and given our opinion of the unsuitability of the other valuation methodologies, we have adopted the Quoted Market Price Basis.

Valuation of Metal Storm

- 6.23 The following chart provides a summary of the share price movement over the past six months.

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- 6.24 We note that the Company announced the Proposal on 18 April 2012. In the six months prior to that announcement date the daily price of Metal Storm shares ranged from a low of less than \$0.001 to a high of \$0.005.

- 6.25 To consider further analysis of the Metal Storm share price we have also considered the volume weighted average market price (VWAP) for 30, 60 and 90 day periods prior to the announcement of the Proposal. The VWAP during those periods has been \$0.001005, \$0.001003 and \$0.001021 respectively, i.e. marginally above the minimal permissible trading price of \$0.001.

- 6.26 The above weighted average prices are prior to the date of the announcement. The table above illustrates that since the date of the announcement there has been some trading at \$0.002 and at higher volumes.

- 6.27 During the 3 month period prior to the announcement of the Proposal Metal Storm shares were trading predominantly at a value of \$0.001. We consider that this represents the value of Metal Storm shares.



6.28 We note that the above valuation is based on Metal Storm continuing as a going concern.

7.0 IS THE PROPOSAL FAIR?

7.1 The following table summarises our assessment of the value of a Metal Storm share prior to the Proposal and the value of the Metal Storm shares being issued to Luxinvest under the terms of the Proposal:

	<u>Section Ref.</u>	
Value of a Metal Storm share pre-Proposal	6.27	\$0.001
Value of a Metal Storm share Issued to Luxinvest	3.3	\$0.0008

7.2 The above shows that the value of a Metal Storm share prior to the Proposal is greater than the value of the shares being issued to Luxinvest. This indicates that the Proposal is not fair. It is important to note that our valuation of Metal Storm has been based on the Company continuing as a going concern.

8.0 OTHER CONSIDERATIONS

Alternative Proposal

8.1 We are unaware of any alternative proposal that the Company has received that might result in the value of shares held by non-associated shareholders of Metal Storm being higher than that ascribed by us above.

Implications of the Proposal not being approved

8.2 If the Proposal is not approved, it is possible that an Administrator will be appointed as the Company will have insufficient cash flow to continue trading.

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In this case it is not possible to determine any return that shareholders would receive due to the inability to determine the value that the Administrator may achieve for the sale of the business and / or the technology developed by the Company. If the Proposal is not accepted shareholder value would be at significant risk.

Premium for Control

8.3 A premium for control is normally paid where a party obtains a controlling interest in a company. The issue of the proposed shares to Luxinvest will result in them obtaining an initial 49.6% interest in Metal Storm (subject to all elements of the Proposal being effected and no additional convertible securities being converted or options being exercised). While this exceeds the 20% measure of control defined by the Act, it will not provide Luxinvest with a majority shareholding; however it will allow Luxinvest to exert significant influence over Metal Storm.

8.4 ASIC Regulatory Guide 111 requires that the expert give an opinion as to whether the proposed issue of ordinary shares (i.e. the issue of shares to Luxinvest) will result in Luxinvest receiving a premium for control. We have estimated the current value of a Metal Storm share to be \$0.001. On this basis, we conclude that Luxinvest will not be paying a premium for control.

9.0 IS THE PROPOSAL REASONABLE?

9.1 We have considered the effect on shareholders if the Proposal is accepted and have accordingly taken into account the following advantages and disadvantages. We have concluded that in all cases, the advantages and disadvantages of rejecting the Proposal are the inverse of accepting the Proposal. We have therefore only set out below the significant factors in the context of accepting the Proposal.

9.2 We have investigated other significant factors which Metal Storm shareholders might give consideration prior to approving the Proposal. The matters we have considered are set out below.



Advantages of accepting the Proposal

- i. The Company will be in a position to continue trading
If the Proposal is not accepted it is possible Metal Storm will be placed into Administration.
- ii. The Company will receive a significant cash injection
If the Proposal is effected, Metal Storm will increase working capital by \$2.95 million.
- iii. The Company will eliminate substantial debt
If the Proposal is effected Metal Storm will eliminate \$11.9 million of secured debt.
- iv. No requirement to source alternative funding in the short term
The Directors have indicated that the funds raised will be used primarily to move towards production of the non-lethal weapons products.

Disadvantages of accepting the Recapitalisation Proposal

- i. Dilution of Shareholders' interest
As a result of the Proposal, the current Shareholders of Metal Storm will have their interest in the shares of the Company diluted from 100% to 50.6.
- ii. Blocking Power
When shareholders are required to approve an issue that relates to a company there are two types of levels of approval – general resolutions (requiring 50% of shares to be voted in favour to pass the resolution) and special resolutions (requiring 75% of shares to be voted in favour to pass the resolution).
The Proposal will result in Luxinvest holding an interest of 49.6%. This does not mean Luxinvest will have control of Metal Storm. However Luxinvest will be able to block special resolutions.
We also note that under Item 9 of Section 611 of the Act Luxinvest would be able to obtain a further 3% of the issued capital every six months without the need to obtain approval of the other shareholders (the 3%



“creep” exemption), Therefore it is possible for Luxinvest to take their holding to greater than 50% without obtaining further approval of the other shareholders.

10.0 CONCLUSION

- 10.1 After considering the terms of the Proposal and assessing its advantages and disadvantages, we have concluded that the Proposal is not fair but reasonable to the non-associated Shareholders of Metal Storm.
- 10.2 We have relied upon the share price of Metal Storm prior to the announcement of the Proposal in concluding on the fairness of the Proposal.
- 10.3 When considering reasonableness we have placed importance on the need for Metal Storm to obtain an injection of cash and retirement of debt to continue operations.

11.0 SOURCES OF INFORMATION

- 11.1 In preparing our Report we have had access to the following principal sources of information:
- Draft Notice of General Meeting and Explanatory Statement that our Report will accompany.
 - Audited financial statements of Metal Storm for the year ended 31 December 2011.
 - Metal Storm trading history per www.asx.com.au
 - VWAP data provided by Metal Storm
 - Movement in share capital data provided by Metal Storm
 - Market announcements made by Metal Storm



12.0 QUALIFICATIONS, DECLARATIONS AND CONSENTS

- 12.1 Vincents Corporate Advisory Pty Ltd which is a wholly owned entity of Vincents Chartered Accountants, is a Licensed Investment Adviser and holder of an Australian Financial Services Licence under the Act and its authorised representatives are qualified to provide our Report.
- 12.2 Prior to accepting this engagement, Vincents Corporate Advisory Pty Ltd considered its independence with respect to Metal Storm with reference to ASIC Regulatory Guide 112. In Vincents Corporate Advisory Pty Ltd's opinion, it is independent of Metal Storm.
- 12.3 Our Report has been prepared specifically for the shareholders and note holders of Metal Storm. It is not intended that our Report be used for any other purpose other than to accompany the Notice of General Meeting and Explanatory Statement to be sent to the Metal Storm shareholders. In particular, it is not intended that our Report should be used for any purpose other than as an expression of the opinion as to whether or not the Proposal is fair and reasonable to the non-associated shareholders and note holders of Metal Storm. Vincents Corporate Advisory Pty Ltd disclaims any assumption of responsibility for any reliance on our Report to any person other than those for whom it was intended, or for any purpose other than that for which it was prepared. Vincents Corporate Advisory Pty Ltd takes no responsibility for the contents of the Explanatory Statement other than this report.
- 12.4 The statements and opinions given in the Report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of our Report, Vincents Corporate Advisory Pty Ltd has relied on and considered information believed, after due inquiry, to be reliable and accurate. Vincents Corporate Advisory Pty Ltd has no reason to believe that any information supplied to it was false or that any material information has been withheld.

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- 12.5 Vincents Corporate Advisory Pty Ltd has evaluated the information provided to it by Metal Storm and other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially misstated or would not provide a reasonable basis for our Report. Vincents Corporate Advisory Pty Ltd has not, nor does it imply that it has, audited or in any way verified any of the information provided to it.
- 12.6 Vincents Corporate Advisory Pty Ltd has been indemnified by Metal Storm in respect of any claim arising from Vincents Corporate Advisory Pty Ltd's reliance on information provided by Metal Storm or any of its representatives which is false, misleading or incomplete.
- 12.7 A draft of this report was provided to Metal Storm and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.
- 12.8 In accordance with the Act, Vincents Corporate Advisory Pty Ltd provides the following information and disclosures:
- Vincents Corporate Advisory Pty Ltd will be paid its usual professional fees (estimated not to exceed \$15,000 plus GST) based on time involvement at normal professional rates, for the preparation of our Report.
 - Apart from the aforementioned fee, neither Vincents Corporate Advisory Pty Ltd, nor any of its associates will receive any other benefits, either directly or indirectly, for or in connection with the preparation of our Report.
 - Vincents Corporate Advisory Pty Ltd, nor any of its directors or associates, have any interest in Metal Storm.
 - Neither Vincents Corporate Advisory Pty Ltd nor Vincents Chartered Accountants has had any relationship with Metal Storm or any associate of Metal Storm in the last two years, other than in connection with the preparation of this report.



Yours faithfully

Vincents Corporate Advisory Pty Ltd

Licensed Investment Advisor (AFS Licence number 320 580)

Paul Green
Authorised Representative


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Metal Storm Limited
ABN 99 064 270 006



Lodge your vote:

 **Online:**
www.investorvote.com.au

 **By Mail:**
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

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123 SAMPLE STREET
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SAMPLEVILLE VIC 3030

Shareholder Proxy Form



Vote online 24 hours a day, 7 days a week:

www.investorvote.com.au

- Cast your proxy vote**
- Review and update your securityholding**

Your secure access information is:

Control Number: 999999

SRN/HIN: 1999999999

PIN: 99999



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

 **For your vote to be effective it must be received by 10:00am (Brisbane time) Saturday 14 July 2012**

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite the Resolution. If you do not mark a box your proxy may vote as they choose. If you mark more than one box your vote will be invalid.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form** ➔

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MR SAM SAMPLE
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THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

STEP 1

Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Metal Storm Limited hereby appoint

the Chairman of the Meeting OR



PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Metal Storm Limited to be held in The Brisbane Polo Club, Naldham House, 1 Eagle Street, Brisbane, QLD 4000 on Monday, 16 July 2012 at 10:00am (Brisbane time) and at any adjournment or postponement of that meeting. The Chairman of the Meeting intends to vote undirected proxies in favour of the Resolution.

STEP 2

Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS

Resolution: Approval of amendments to the Note Terms, the issue of Shares to ASOF and the issue of the Luxinvest Converting Security, the Luxinvest Tranche 2 Shares, the Subscription Shares, the Fee Shares and the Luxinvest Conversion Shares

For

Against

Abstain

SIGN

Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date / /

MST

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