

SOURCE: Metal Storm Limited



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Metal Storm Signs A\$20.2M Finance Deal With Institutional Investor

BRISBANE, AUSTRALIA--(Marketwire - January 4, 2010) - Metal Storm Limited (ASX: MST) (PINKSHEETS: MTSXY).

Metal Storm Limited is pleased to announce that it has entered into an agreement in relation to an A\$20.2 million equity line of credit (LOC) facility from UK-based investment fund Global Emerging Markets (GEM) Global Yield Fund to provide funds for the commercialisation of Metal Storm's core defence technology products.

Global Emerging Markets Limited (www.gemny.com) was founded in 1991. GEM is a \$3.4b investment group having completed 275 transactions in 55 countries. The firm is an alternative investment group that manages a diverse set of investment vehicles across the world. GEM's funds include: CITIC/GEM Fund; VC Bank/GEM Mena Fund; Kinderhook; GEM India and Banco Pine/GEM Funds.

UK-based Empire Equity Ltd (EEQ) acted as the Company's corporate advisors in connection with the transaction.

GEM's LOC is an equity-based funding agreement between GEM and Metal Storm that allows the Company to draw down up to a pre-specified amount and repay the draw-down in tradeable stock.

The facility amount of up to A\$20.2M is being made available to the Company. Initially, up to \$800,000 (Tranche One) will be advanced to the Company 10 business days after Metal Storm issues the first Draw Down Notice, which it intends to issue today.

Subsequently the Company can choose to initiate draw downs at a frequency of up to one draw down per 15 trading days. The Company can also choose, at its sole discretion, between the following two draw down types to suit its capital needs and market conditions at the time:

- A cash advance equivalent to between 350% and 1,400% of the 15-day average trading volume (the size of advance between these bounds being determined by GEM),
- A cash advance of up to \$400,000 (which can be increased to a maximum of \$800,000 at the discretion of GEM).

Shares will be issued at 90% of the 15 day volume weighted average price of the Company's shares (VWAP) for the 15 days immediately following the date the Company issues a draw down notice (except Tranche One which is a 10 day VWAP).

In addition the Company will issue GEM one option for every five shares issued. Options will have a three-year term and an exercise price of \$0.035. GEM's funding will be supported by stock lending arrangements in the Company's shares, which will be used by GEM to assist in funding the advances.

The Tranche One shares will be issued to EEQ on execution of the definitive agreements. EEQ has agreed to transfer the shares to GEM. The Tranche One options will be issued directly to GEM. Tranche One will proceed without shareholder approval because it is not required under Listing Rule 7.1 limit. However shareholder approval will be sought for the remainder of the facility and associated share and option based fees.

The issue of securities more than 3 months after shareholder approval will require a waiver to listing rule 7.3, which the Company will be applying for but cannot guarantee it will obtain. If the waiver is not granted, the Company will be required to hold further shareholder meetings to gain further approvals from time to time.

The Company will pay GEM a fee of 1.5% of the facility value in shares upon shareholder approval, or a \$200,000 break fee if shareholders do not approve the transaction at the first meeting. In addition the Company will pay a fee to Empire Equity Ltd of 5% of the facility value in shares upon shareholder approval, or a \$200,000 break fee if shareholders do not approve the transaction at the first meeting. EEQ has also been offered the opportunity to appoint a person to the Metal Storm Board.

The GEM LOC provides Metal Storm with funding for approximately 24 to 36 months, depending on the size of each draw down. The split between compliance, administrative and product development/marketing ("commercialisation") costs will also vary based on the size of each draw down. However, if the facility performs as expected, the Company anticipates that approximately 60% of the drawn down funds will be channelled into commercialisation.

As the level of commercialisation activity provided for by the GEM LOC is likely to be lower in cash terms than in previous years, the Company does intend to seek additional investment to increase the scale and speed of its commercialisation activity.

Metal Storm Chairman, Mr Terry O'Dwyer, said that the Company's financial position was now more stable with the GEM facility in place.

"The Company can now re-focus its efforts on development and commercialisation," he said.

Metal Storm CEO, Dr Lee Finniear, said that the Company has gone through a very difficult financial period but despite this the engineering development has continued to make progress.

"The commitment to the future success of the Company by staff and the executive remains strong, and despite the uncertainty with funding the team has maintained high morale and determination," he said.

In 2010 we intend to continue to apply the focus and discipline that has been necessary during the last year," he added.

As announced on 16 December 2009, the Company does not intend to pursue the Assure Fast Holdings Limited BVI funding proposal.

About Metal Storm

Metal Storm Limited is a multi-national defence technology company engaged in the development of electronically initiated ballistics systems using its

unique "stacked projectile" technology. The company is headquartered in Brisbane, Australia and incorporated in Australia. Metal Storm Limited technology and products are represented in the USA by Metal Storm Inc., which has offices in Arlington Virginia.

Metal Storm is working with government agencies and departments, as well as industry, to develop a variety of systems utilising the Metal Storm non-mechanical, electronically fired stacked ammunition system.

Metal Storm's weapon technology uses computer-controlled electronic ignition and a system of stacked projectiles, to achieve a completely non-mechanical gun that is very lightweight and compact, providing a very high firepower to weight ratio. The Metal Storm weapons system utilizes multiple barrels mounted together on one platform which allows varying munitions types to be deployed in a single, low cost, lightweight weapon system. Firing the weapons by electronic ignition requires no moving parts, allowing reliable long term unattended weapon operation.

About GEM Group

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