



17 January 2012

Company Announcements Office
Australian Stock Exchange
Exchange Centre
Level 6, 20 Bridge Street
SYDNEY NSW 2000

Progress Update – 2nd Qtr FY12

Gage Roads Brewing Co Ltd (ASX: GRB) is pleased to report to the market on the ongoing progress of the Company during the quarter ended December 2011 and the signing of a letter of intent to purchase a new 100hL CombiCube brew house from Krones, Germany.

Sales

Sales for the second quarter have rebounded dramatically and the Company is pleased to announce a 100% increase in sales volume in comparison to the 1st quarter FY 2012. The half year concluded on a positive note for all the Gage Roads team as a number of production records were achieved during December. These included the highest daily production volume record of 13,520 cases of high quality production within a 24 hour shift, the highest number of truck movements through the logistics facility within a 24 hour period and the highest sales achieved in a calendar month of just over 170,000 cartons sold in December.

This quarter's sales growth was predominantly driven by Gage Road's ongoing commitment to support Woolworths' private label strategy and the increase in demand for brands such as Dry Dock, Clipper Light, Bolt (low carb), Castaway Apple Cider and Castaway Pear Cider. A 25% increase in production volumes for other contract customers (in comparison to the half year ended December 2010) also contributed to this quarter's positive result.

The Company also saw a pleasing 97% growth (in comparison to the half year ended December 2010) in the sales volumes of our propriety brands, including Gage Roads Premium Lager, Wahoo Premium Ale, Sleeping Giant IPA, Atomic Pale Ale and Pils Premium Mid Strength.

The second quarter sales result has contributed towards reversing the seasonally lower than average sales experienced during the first quarter (please refer to announcement dated 31 October 2011). The company will release the total half year results in late February 2012.

New Products

During the quarter the Company's sales growth was also supported by the extension of its product range. New products Sail & Anchor Draught (4.6% Australian lager) and Ol' Bluey Ginger Beer (4.0% alcoholic ginger beer) were successfully launched for Woolworths in time for the Christmas sales period.

The upcoming half year will see the Company launch approximately 6 new products for our customers on target with the Board's plan to grow production capacity to 3 million cartons by FY15.

Capital Expansion Program

December's production and sales records were made possible by the successful completion of the bottling line speed upgrade and the tank expansion project in time for the seasonal increase in demand.

The bottling line speed upgrade included the successful installation of a new second labeller, a new case erector and a new palletiser in addition to the full rebuilding of the filler, 6-pack erector and the line control system for the conveyors. This project has achieved the expected target of 300 bottles per minute (a 76% increase from 170 bottles per minute) and improved efficiency, resulting in a lower labour cost per carton.

The tank expansion project included the external installation of 2 x 1000hL fermentation vessels and 3 x 1000hL bright beer tanks providing the fermentation and beer storage volume required to support the increased brewing volumes for the period.

An ammonia refrigeration plant and new boiler will be commissioned during the coming quarter. Both are expected to significantly lower variable operating costs through more efficient utilisation of electricity and gas.

The Company is also pleased to announce the signing of a letter of intent with Krones of Germany, to purchase a complete 100hL CombiCube brew house and ancillary equipment to the value of \$3.3 million AUD. Krones has an excellent reputation worldwide as a brewery manufacturer and has recently successfully commissioned similar sized breweries in Australia. Krones' engineers were on site in early January to assist in value-engineering the remaining components of the project. Manufacturing and installation will take around 8 months and the first commercial brew is expected to be in late September 2012 in time for the busy summer period. This new brew house is a significant contributor towards the Company's goal to reduce operating costs by 50% by FY15.

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