

# Gammon Gold Inc.

TSX: GAM / AMEX: GRS / BSX: GL7  
(PO Box 2067)

1601 Lower Water Street  
Suite 402, Summit Place

Halifax, Nova Scotia  
B3J 2Z1, CANADA  
Tel: +1 (902) 468-0614  
Fax: +1 (902) 468-0631  
www.gammongold.com

## PRESS RELEASE

Halifax, May 7, 2008

### **Gammon Gold Announces First Quarter Financial Results and Net Earnings of \$0.07 per Share – A Record Setting Quarter and a 137% Improvement over Q4 2007**

**Gammon Gold Inc. (“Gammon Gold”) (TSX:GAM and AMEX:GRS)** announces the first quarter unaudited financial results for the three months ended March 31, 2008. All figures reported are in U.S. dollars unless otherwise indicated.

#### **Q1 2008 Highlights**

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- Total production of 33,099 gold ounces and 1,310,971 silver ounces, or 57,946 gold equivalent ounces, at a quarterly cash cost per ounce of \$491 per gold equivalent ounce, representing a 20% improvement in gold equivalent production and a 27% reduction in total cash costs over Q4 2007.
- Revenue from mining operations of \$51.4 million compared to \$43.5 million in Q1 2007 and \$39.7 million in Q4 2007, reflecting an average quarterly gold selling price of \$928 per ounce and silver selling price of \$17.69 per ounce.
- Net earnings per share of \$0.07 compared to net loss per share of \$(0.10) in Q1 2007 and a net loss per share of \$(0.19) in Q4 2007, representing a 137% improvement over Q4 2007.
- Cash flow from operations was a positive \$14.6 million, as compared to negative cash flow from operations of \$9.3 million Q1 2007 and positive cash flow from operations of \$2.7 million in Q4 2007, representing a 440% improvement over Q4 2007.
- Positive net free cash flow of \$1.6 million as compared to negative net free cash flow of \$20.4 million in Q1 2007 and negative net free cash flow of \$10.8 million in Q4 2007, representing a 108% improvement over Q4 2007.
- Improved cash flow performance enabled the Company to make \$2.1 million in principal debt repayments during the quarter, a \$1.5 million repayment during the first week of April 2008, and a further \$1.5 million repayment in early May 2008.
- In March 2008, the Company announced encouraging drilling results at its Guadalupe y Calvo exploration project. Exploration diamond drilling recommenced on this project during Q4 2007 as part of a 15-hole (2,400 metre) exploration drilling program.
- Given the positive production and financial results achieved in Q1 combined with the Company’s significantly improved cash flow profile, the Company remains confident that it will be able to fully fund its 2008 business plan and meet the 2008 full year production and cash cost per ounce guidance issued by the Company on March 31, 2008.

As provided above, the positive financial results reported for the first quarter represents the best quarterly financial performance of the Company in its history.

### Summarized Financial and Operating Results

(in thousands, except ounces, per share amounts, average realized prices and total cash costs)

	Three months ended March 31, 2008	Three months ended Dec. 31, 2007	Three months ended March 31, 2007
Gold ounces sold	31,455	28,665	36,322
Silver ounces sold	1,248,594	1,183,729	1,469,178
Gold equivalent ounces sold <sup>(1)</sup>	55,099	49,969	66,305
Gold ounces produced	33,099	27,571	35,126
Silver ounces produced	1,310,971	1,140,797	1,421,966
Gold equivalent ounces produced <sup>(1)</sup>	57,946	48,124	64,146
Revenue from mining operations	\$51,368	\$39,700	\$43,500
Net earnings / (loss)	\$8,489	(\$20,729)	(\$10,262)
Net earnings / (loss) per share	\$0.07	(\$0.19)	(\$0.10)
Net earnings / (loss) per share, diluted <sup>(2)</sup>	\$0.07	(\$0.19)	(\$0.10)
Cash flows from / (used in) operations	\$14,553	\$2,704	(\$9,260)
Net free cash flow <sup>(3)</sup>	\$1,592	(\$10,766)	(\$20,425)
Total cash costs per gold equivalent ounce <sup>(3)</sup>	\$491	\$676	\$575

(1) Gold equivalent ounces are calculated based on actual sales.

(2) Net loss per share on a diluted basis is the same as net loss per share on an undiluted basis in Q4 2007 and Q1 2007, as all factors were anti-dilutive.

(3) See the Non-GAAP Measures section of the Q1 2008 Management's Discussion and Analysis.

In the first quarter 2008, the Company produced 33,099 gold ounces and 1,310,971 silver ounces or 57,946 gold equivalent ounces, representing a 20% increase over Q4 2007 at a cash cost of \$491 per gold equivalent ounce, representing a 27% decrease over Q4 2007.

In the first quarter of 2008, the Company sold 31,455 ounces of gold and 1,248,594 ounces of silver or 55,099 gold equivalent ounces, representing a 10% increase over Q4 2007. Total revenues increased by \$11.7 million to \$51.4 million from \$39.7 million in Q4 2007, representing a 29% increase in sales that reflects increased sales of gold and silver ounces and stronger metal prices.

Consolidated net earnings were \$8.5 million in Q1 2008, representing an increase of \$29.2 million over Q4 2007. These improvements were primarily due to higher production, higher metal prices and lower costs of production as evidenced by the reduction in total cash costs per gold equivalent ounce to \$491 in Q1 2008, representing a decrease of 27% over Q4 2007.

Q1 2008 performance reflected improved performance at Ocampo as a result of improved mine productivity and underground dilution levels. Key operational indicators such as daily mill tonnage, heap leach, mining equipment availability, and open pit production, all improved in Q1 2008. This trend is anticipated to continue in future quarters as productivity initiatives continue to gain traction.

Rene Marion, Chief Executive Officer said: "Since launching our targeted turnaround strategy in December we have continually achieved historic performance milestones." Mr. Marion continued, "I am particularly pleased at how quickly we have gained positive traction as our progress exceeds our internal targets for this period. For example, at Ocampo, the mill averaged over 1,700 tonnes per day, the open pit averaged 83,000 tonnes per day and the heap leach averaged 8,700 tonnes per day in March. These are improvements of 33%, 36% and 42% respectively since December when we launched the turnaround initiatives. During this period, we have also seen Ocampo's gold equivalent production

improve by 33% with a corresponding decrease of 44% in total cash costs per gold equivalent ounce and at El Cubo, a 42% improvement in gold equivalent production with a corresponding decrease of 31% in total cash costs per gold equivalent ounce.”

Commenting on the Company’s performance Scott Perry, Chief Financial Officer said: “The Company has been able to achieve significant improvement in its Q1 financial performance where for the first time in the Company’s operational history we are reporting positive net income of \$8.5 million and positive net free cash flow of \$1.6 million. The positive cash flow generation has allowed us to not only fund our operations internally, but to also make Q1 aggregate debt repayments of \$2.1 million on our revolving line of credit facility. In April and early May we were able to make additional aggregate debt repayments of \$3.0 million on this facility. To date, we have made a total of \$5.1 million in debt reduction payments signifying the strong turnaround in cash flow performance and our improved financial foundation.” Mr. Perry continued: “The operational success we have achieved to date provides us with a strong level of confidence that we will be able to fully fund our 2008 business plan and comfortably achieve our 2008 production and cash cost per ounce targets.”

### **Three Year Operational Outlook**

<b>Gammon Gold</b>			
<b>Production</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Gold Ounces	139-155k oz	168-184k oz	197-213k oz
Silver Ounces	5,848-6,621k oz	7,283-8,055k oz	8,717-9,490k oz
Gold Equivalent <sup>(1)</sup>	245-275k oz	300-330k oz	355-385k oz
<b>Cash Cost per Ounce<sup>(2)</sup></b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Gold Equivalent <sup>(1)</sup>	\$480-515/oz	\$435-\$470/oz	\$395-\$430/oz
Gold (Silver byproduct credit) <sup>(2)</sup>	\$230-300/oz	\$145-\$210/oz	\$70-\$135/oz

1. Assumes a 55.17 silver to gold ratio

2. Assumes metal price of US\$800/oz for gold and US\$14.50/oz for silver

Mr. Marion continued, “We will continue to drive forward with our turnaround strategy and expansionary capital plans for both Ocampo and El Cubo in 2008 that will allow us to build on the positive advancements we have already achieved. Additionally, our cash flow has improved to a level such that we are able to internally fund an increase in our budgeted exploration programs in the latter half of 2008 that will allow us to accelerate our drilling program at our advanced exploration property, Guadalupe y Calvo, to target the completion of a scoping study by mid-2009, as well as at Ocampo and El Cubo to potentially increase the Reserve & Resource base and production profiles at both mines.”

Unaudited Financial Statements for the three-months ended March 31, 2008 are attached to this release and are posted on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.gammongold.com](http://www.gammongold.com). The Management’s Discussion and Analysis for the three-months ended March 31, 2008 is posted on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.gammongold.com](http://www.gammongold.com).

A webcast and conference call will be held on Wednesday, May 7, 2008 starting at **10:00 am Eastern Time** (11:00 am Atlantic Time). Senior management will be on hand to discuss the results.

#### **Conference Call Access:**

- Local Toronto Participants: 1-416-646-3097
- North America Toll Free: 1-800-814-3911
- Outside North America: 1-416-646-3097

When the Operator answers please ask to be placed into the Gammon Gold First Quarter Results Conference Call.

#### **Live Webcast:**

The event will be broadcast live on the internet via webcast. To access the webcast please follow the link provided below:

<http://w.on24.com/r.htm?e=109226&s=1&k=1E4948853CF2FAA082504FA5ADA02D1F>

**Archive Call Access:**

If you are unable to attend the conference call, a replay will be available until midnight, Wednesday, May 14, 2008 by dialing the appropriate number below:

- Local Toronto Participants: 1-416-640-1917                      Passcode: 21271078#
- North America Toll Free: 1-877-289-8525                      Passcode: 21271078#
- Outside North America: 1-416-640-1917                      Passcode: 21271078#

**Archive Webcast:**

The webcast will be archived for 365-days by following the link provided below:

<http://w.on24.com/r.htm?e=109226&s=1&k=1E4948853CF2FAA082504FA5ADA02D1F>

or via the Company's website at [www.gammongold.com](http://www.gammongold.com).

***About Gammon Gold***

Gammon Gold Inc. is a Nova Scotia based mid tier gold and silver producer with properties in Mexico. The Company's flagship Ocampo Project in Chihuahua State achieved commercial production in January 2007. Gammon Gold also operates its El Cubo operation in Guanajuato State and has the promising development Guadalupe y Calvo property in Chihuahua State. The company remains 100% unhedged.

For further information please visit the Gammon Gold website at [www.gammongold.com](http://www.gammongold.com) or contact:

Scott Perry  
Chief Financial Officer  
**Gammon Gold Inc.**  
902-468-0614

Anne Day  
Director of Investor Relations  
**Gammon Gold Inc.**  
902-468-0614

**Cautionary Statement**

**Cautionary Note to US Investors – The United States Securities and Exchange Commission permits US mining companies, in their filings with the SEC, to disclose only those mineral deposits that a company can economically and legally extract or produce. This press release uses certain terms, such as "measured," "indicated," and "inferred" "resources," that the SEC guidelines strictly prohibit US registered companies from including in their filings with the SEC. US Investors are urged to consider closely the disclosure in Gammon Gold's Annual Report on Form 40-F (File No. 001-31739), which may be secured from Gammon Gold, or from the SEC's website at <http://www.sec.gov/edgar.shtml>.**

**No stock exchange, securities commission or other regulatory authority has approved or disapproved the information contained herein.**

**Certain information regarding the Company contained herein may constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward looking statements. Specific reference is made to "Risk Factors" in the Company's Annual**

Information Form and Form 40-F Report. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact including, without limitation, statements regarding potential mineralization and reserves, including without limitation, statements regarding future cash costs and production at El Cubo and Ocampo and the ability to continue to successfully implement the Company's turn-around strategy, statements regarding the resource growth potential of Guadalupe y Calvo, statements regarding the company's ability to continue its improved cash flow performance, the impact of any future exploration on reserve estimates; expectations regarding the timing and extent of production at the Ocampo project; the implications of the Mexican Single Rate Tax on future income tax payments; estimates regarding the future costs related to exploration at Ocampo; the nature and availability of additional funding sources; and future plans and objectives of Gammon. In some cases, you can identify forward-looking statements by the use of words such as may, will, should, could, expect, plan, intend, anticipate, believe, estimate, predict, potential or continue or the negative or other variations of these words, or other comparable words or phrases. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations include, among others, risks related to international operations, including political turmoil and limited local infrastructure to support large scale mining operations; the actual results of current exploration activities; conclusions of economic evaluations and changes in project parameters as plans continue to be refined; and fluctuations in future prices of gold and silver. These factors are set out in the Company's Annual Information Form. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

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# Gammon Gold Inc.

## Consolidated Balance Sheets

(Unaudited, in thousands of United States dollars)	March 31 2008	December 31 2007
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 7,373	\$ 3,601
Restricted cash	-	108
Receivables		
Commodity taxes	11,739	10,240
Trade / other	3,540	1,740
Inventories (Note 5)	57,041	51,586
Prepays and deposits	<u>1,979</u>	<u>2,250</u>
	81,672	69,525
Deposits on property, plant and equipment	5,897	5,395
Deferred compensation	86	192
Mining interests and property, plant and equipment	574,745	572,041
Goodwill	<u>106,799</u>	<u>106,799</u>
	<u>\$ 769,199</u>	<u>\$ 753,952</u>
<b>LIABILITIES</b>		
Current		
Payables and accruals	\$ 20,674	\$ 17,279
Current portion of long-term debt and capital leases	<u>34,641</u>	<u>33,073</u>
	55,315	50,352
Long-term debt and capital leases	1,340	1,334
Asset retirement obligations	3,060	2,991
Employee future benefits	4,083	3,746
Future income taxes	<u>108,999</u>	<u>108,879</u>
	<u>172,797</u>	<u>167,302</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	710,874	699,512
Contributed surplus	32,274	42,373
Deficit	(153,180)	(161,669)
Accumulated other comprehensive income	<u>6,434</u>	<u>6,434</u>
	<u>596,402</u>	<u>586,650</u>
	<u>\$ 769,199</u>	<u>\$ 753,952</u>

# Gammon Gold Inc.

## Consolidated Statements of Operations and Comprehensive Income / (Loss)

(Unaudited, in thousands of United States dollars except per share data)	Three months ended March 31, 2008	Three months ended March 31, 2007
Revenue from mining operations	\$ 51,368	\$ 43,500
Expenses		
Production costs, excluding amortization & depletion	26,697	37,440
Refining costs	374	475
General and administrative	5,014	3,664
Amortization and depletion	9,926	12,606
	<u>42,011</u>	<u>54,185</u>
Earnings / (loss) before other items	<u>9,357</u>	<u>(10,685)</u>
Interest on long-term debt	(570)	(2,486)
Foreign exchange gain / (loss)	3,352	(1,632)
Interest and other income	74	53
	<u>2,856</u>	<u>(4,065)</u>
Earnings / (loss) before income taxes	12,213	(14,750)
Future income tax expense / (recovery)	1,927	(4,488)
Current tax expense	1,797	-
	<u>3,724</u>	<u>(4,488)</u>
Net earnings / (loss) and comprehensive income / (loss)	<u>\$ 8,489</u>	<u>\$ (10,262)</u>
Earnings / (loss) per share (Note 6)		
Basic	\$ 0.07	\$ (0.10)
Diluted	\$ 0.07	\$ (0.10)
Weighted average shares outstanding (Note 6)		
Basic	118,227,858	104,754,700
Diluted	120,826,919	104,754,700

# Gammon Gold Inc.

## Consolidated Statements of Cash Flows

(Unaudited, in thousands of United States dollars)	Three months ended March 31, 2008	Three months ended March 31, 2007
<b>OPERATING ACTIVITIES</b>		
Net earnings / (loss)	\$ 8,489	\$ (10,262)
Amortization and depletion	9,926	12,606
Unrealized foreign exchange (gain) / loss	(1,854)	3,155
Stock option expense, net of forfeitures	430	304
Employee future benefits	337	185
Future income tax expense / (recovery)	1,927	(4,488)
Change in non-cash operating working capital (Note 7)	<u>(4,702)</u>	<u>(10,760)</u>
	<u>14,553</u>	<u>(9,260)</u>
<b>INVESTING ACTIVITIES</b>		
Increase in deposits on property, plant and equipment	(502)	-
Expenditures on mining interests and property, plant and equipment	<u>(12,961)</u>	<u>(11,165)</u>
	<u>(13,463)</u>	<u>(11,165)</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of capital lease obligation	(608)	(688)
Proceeds from long-term debt	4,380	2,198
Repayment of long-term debt	(2,135)	-
Proceeds from exercise of options	<u>937</u>	<u>17,412</u>
	<u>2,574</u>	<u>18,922</u>
Net increase / (decrease) in cash and cash equivalents	3,664	(1,503)
Cash and cash equivalents, beginning of period	<u>3,709</u>	<u>4,074</u>
Cash and cash equivalents, end of period	<u>\$ 7,373</u>	<u>\$ 2,571</u>
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Cash and cash equivalents is comprised of the following:		
Cash	\$ 5,473	\$ 2,571
Temporary investments	<u>1,900</u>	<u>-</u>
	<u>\$ 7,373</u>	<u>\$ 2,571</u>