



**EMPIRE**  
MINING CORPORATION

Suite 910 – 475 Howe Street  
Vancouver, B.C.  
V6C 2B3

**FINANCIAL STATEMENTS**

**MAY 31, 2006 and 2005**

## AUDITORS' REPORT

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### To the Shareholders of Empire Mining Corporation:

We have audited the balance sheet of Empire Mining Corporation (the "Company") (A Capital Pool Company) as at May 31, 2006 and the statement of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at May 31, 2005 and for the period then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated June 10, 2005, except as to note 6 which is as of June 17, 2005.

*"Staley, Okada & Partners"*

Vancouver, BC  
September 5, 2006

STALEY, OKADA & PARTNERS  
CHARTERED ACCOUNTANTS

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# Empire Mining Corporation

(A Capital Pool Company)

Balance Sheets

As at

(Canadian Funds)

	May 31, 2006	May 31, 2005
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 50,399	\$ 189,280
Term deposit (note 6)	200,000	-
Prepays (note 8)	9,419	-
Receivables	2,582	10,910
Deferred costs	-	10,000
	\$ 262,400	\$ 210,190
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 26,983	\$ 6,396
Due to related parties	-	3,210
	26,983	9,606
<b>Shareholders' equity</b>		
Share capital (note 3)	400,546	210,000
Contributed surplus (note 3)	47,260	-
Deficit	(212,389)	(9,416)
	235,417	200,584
	\$ 262,400	\$ 210,190

Nature and continuance of operations (note 1)

Commitments (note 8)

**On behalf of the Board:**

*/s/ Ken Judge*

Ken Judge - Director

*/s/ Robert Giustra*

Robert Giustra - Director

The accompanying notes are an integral part of these financial statements

# Empire Mining Corporation

(A Capital Pool Company)

Statements of Operations and Deficit

(Canadian Funds)

		For the Year Ended May 31, 2006	Period from January 4, 2005 (Incorporation Date) to May 31, 2005
<b>Expenses</b>			
Consulting fees	\$	16,838	\$ -
Corporate administration fees		40,396	2,500
Office and general		18,652	520
Professional fees		35,047	6,396
Shareholder relations		14,515	-
Stock-based compensation (note 3d)		41,929	-
Telecommunications		1,547	-
Transfer agent and filing fees		32,052	-
Travel		4,763	-
<b>Loss before the following</b>		(205,739)	(9,416)
Interest income		3,088	-
Foreign exchange loss		(322)	-
Net loss for the year		(202,973)	(9,416)
Deficit, beginning of year		(9,416)	-
<b>Deficit, end of year</b>	\$	(212,389)	\$ (9,416)
<b>Basic and diluted loss per common share</b>	\$	(0.03)	\$ (0.01)
<b>Weighted average number of common shares outstanding (Basic and Diluted)</b>		5,889,727	1,560,812

The accompanying notes are an integral part of these financial statements

# Empire Mining Corporation

(A Capital Pool Company)

Statements of Cash Flows

(Canadian Funds)

	Year Ended May 31, 2006	Period from January 4, 2005 (Incorporation Date) to May 31, 2005
<b>Cash Flows Used in Operating Activities</b>		
Loss for the year	\$ (202,973)	\$ (9,416)
Item not affecting cash:		
Stock-based compensation	41,929	-
Changes in non-cash working capital items:		
Increase in prepaids	(9,419)	-
Decrease (increase) in receivables	8,328	(10,910)
Increase in accounts payable	8,520	6,396
Increase (decrease) in due to related parties	(3,210)	3,210
<b>Net cash used in operating activities</b>	<b>(156,825)</b>	<b>(10,720)</b>
<b>Cash Flows used in Investing Activities</b>		
Purchase of term deposit	(200,000)	-
<b>Net cash used in investing activities</b>	<b>(200,000)</b>	<b>-</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from the issuance of share capital	250,000	210,000
Exercise of agent's options	12,500	-
Increase in deferred costs	-	(10,000)
Share issuance costs incurred	(44,556)	-
<b>Net cash provided by financing activities</b>	<b>217,944</b>	<b>200,000</b>
<b>Change in cash during the year</b>	<b>(138,881)</b>	<b>189,280</b>
<b>Cash, beginning of year</b>	<b>189,280</b>	<b>-</b>
<b>Cash, end of year</b>	<b>\$ 50,399</b>	<b>\$ 189,280</b>
<b>Cash paid during the year for interest</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid during the year for taxes</b>	<b>\$ -</b>	<b>\$ -</b>

The significant non-cash transactions during the year were the Company incurring \$12,067 (2005 - \$nil) and \$10,663 (2005 - \$nil) in share issuance costs through accounts payable and the issuance of agent's options, respectively. Further, the Company transferred \$10,000 (2005 - \$nil) of deferred financing costs to share issuance costs.

The accompanying notes are an integral part of these financial statements

# Empire Mining Corporation

(A Capital Pool Company)

Notes to the Financial Statements

May 31, 2006 and 2005

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## 1. NATURE AND CONTINUANCE OF OPERATIONS

Empire Mining Corporation (the "Company" or "Empire") was incorporated under the Business Corporations Act (B.C.) on January 4, 2005. The Company is classified as a Capital Pool Company ("CPC") as defined in the TSX Venture Exchange (the "TSX-V" or "Exchange") Listings Policy 2.4. The Company completed an initial public offering and commenced trading on the TSX-V on October 31, 2005.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

The Company's continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an investment in properties, assets or businesses (a "Qualifying Transaction"). The Company has not yet completed its Qualifying Transaction.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

### Income Taxes

Income taxes are accounted for using the asset and liability method. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

### Deferred Financing Costs

Costs directly identifiable with the raising of capital are charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs are deferred until the issuance of the shares to which the costs relate, at which time the costs are charged against the related capital stock or charged to operations if the shares are not issued. Deferred financing costs consist primarily of corporate finance fees, legal fees and sponsorship fees.

# Empire Mining Corporation

(A Capital Pool Company)

Notes to the Financial Statements

May 31, 2006 and 2005

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Stock-Based Compensation

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For employees and non-employees, the fair value of the options is accrued and charged to operations, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

### Loss Per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

### Share Capital

- i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company.
- ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

## 3. SHARE CAPITAL

- a) **Authorized** – Unlimited number of common shares without par value.

# Empire Mining Corporation

(A Capital Pool Company)

Notes to the Financial Statements

May 31, 2006 and 2005

## 3. SHARE CAPITAL (continued)

### b) Issued and Outstanding

	Number of shares	Amount	Contributed Surplus
As at January 4, 2005	-	\$ -	\$ -
Initial share	1	-	-
Private placement <sup>(1)</sup>	4,200,000	210,000	-
As at May 31, 2005	4,200,001	210,000	-
Initial public offering <sup>(2)</sup>	2,500,000	250,000	-
Stock options issued	-	-	41,929
Agent's options exercised	125,000	12,500	-
Fair value of agent's option exercised	-	5,332	(5,332)
Less: Share issuance costs	-	(77,286)	10,663
As at May 31, 2006	6,825,001	\$ 400,546	\$ 47,260

<sup>(1)</sup> In April and May 2005, the Company completed a non-brokered private placement of 4,200,000 common shares at \$0.05 per share for gross proceeds of \$210,000.

<sup>(2)</sup> On October 31, 2005, the Company completed its initial public offering of 2,500,000 common shares for gross proceeds \$250,000. A total of 250,000 agent's options were issued in connection with the offering.

### c) Escrowed Shares

There are 4,200,001 common shares that are subject to an escrow agreement and will be released from escrow 10% upon completion of the Company's Qualifying Transaction and an additional 15% every six months thereafter.

### d) Share Purchase Options

On October 31, 2005, the Company granted incentive options to purchase up to 660,000 common shares of the Company's stock to employees and non-employees of the Company at an exercise price of \$0.10 and a term of 5 years. A fair value of \$41,929 (2005 - \$nil) was determined on the grant date and has been recorded in the Company's loss from operations for the year.

# Empire Mining Corporation

(A Capital Pool Company)

Notes to the Financial Statements

May 31, 2006 and 2005

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## 3. SHARE CAPITAL (continued)

### d) Share Purchase Options (continued)

On October 31, 2005, the Company granted agent options to purchase up to 250,000 common shares of the Company's stock to Graydon Elliott at an exercise price of \$0.10 and a term of 2 years. A fair value of \$10,663 (2005 - \$nil) was determined on the grant date and has been recorded as share issuance costs in the Company's accounts. On January 18, 2006, 125,000 of these options were exercised at \$0.10 for total cash proceeds of \$12,500.

As at May 31, 2006, the following share purchase options were outstanding:

	<b>Number of Options</b>	<b>Exercise Price</b>	<b>Weighted -Average Exercise Price</b>	<b>Expiry Date</b>
Outstanding at May 31, 2005	-	-	-	-
Options Issued <sup>1</sup>	660,000	\$0.10	\$0.10	October 31, 2010
Options issued <sup>2</sup>	250,000	\$0.10	\$0.10	October 31, 2007
Options exercised	(125,000)	\$0.10	\$0.10	October 31, 2007
Outstanding at May 31, 2006	785,000	\$0.10	\$0.10	

Subsequent to the end of the year, 50,000 options of a former officer were cancelled and an additional 60,000 options were granted to current officers of the Company. All options, including those issued subsequent to year end, vest immediately in accordance with the Company's stock option plan.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

<b>Assumption</b>	<b>Value</b>
Expected dividend yield <sup>1</sup>	0.00%
Expected stock price volatility <sup>1</sup>	75%
Risk-free interest rate <sup>1</sup>	3.75%
Expected life of options <sup>1</sup>	5 years
Expected dividend yield <sup>2</sup>	0.00%
Expected stock price volatility <sup>2</sup>	75%
Risk-free interest rate <sup>2</sup>	3.75%
Expected life of options <sup>2</sup>	2 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

# Empire Mining Corporation

(A Capital Pool Company)

Notes to the Financial Statements

May 31, 2006 and 2005

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## 3. SHARE CAPITAL (continued)

### e) Share Purchase Warrants

The Company did not issue any share purchase warrants during the year.

## 4. RELATED PARTY TRANSACTIONS

During the years ended May 31, 2006 and 2005:

- a) The Company incurred \$27,000 (2005 - \$nil) in corporate administration fees, accounting fees and office rent to a company controlled by a former officer.
- b) The Company incurred \$37,676 (2005 - \$nil) in fees which include office rent, corporate administration, accounting, corporate secretarial, chief financial officer and other related services, to HRG Management Ltd. ("HRG"). HRG is a captive management company jointly owned by the Company and certain other companies that share the Vancouver office. HRG shares two common directors with the Company.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 5. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, term deposits, and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

## 6. TERM DEPOSIT

Details are as follows:

	<u>2006</u>
Guaranteed Investment Certificate	\$ 200,000
Maturity date	May 24, 2007
Interest rate per annum	<u>3.80%</u>

The guaranteed investment certificate is redeemable at any time but within the first 30 days it is non-interest bearing.

# Empire Mining Corporation

(A Capital Pool Company)

Notes to the Financial Statements

May 31, 2006 and 2005

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## 7. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	<b>2006</b>	<b>2005</b>
Loss for the period	\$ (202,973)	\$ (9,416)
Tax rate	34.12%	34.80%
Expected income tax recovery	\$ (69,254)	\$ (3,277)
Non-taxable items	14,306	-
Deductible taxable items	(4,546)	-
Unrecognized benefit of non-capital loss	59,494	3,277
Total income tax recovery	\$ -	\$ -

Details of the Company's future income tax assets are as follows:

	<b>2006</b>	<b>2005</b>
Non-capital loss carryforwards	\$ 62,707	\$ 3,277
Share issuance costs	18,185	-
Valuation allowance	(80,892)	(3,277)
Net future income tax assets	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses of \$183,785. These losses, if not utilized, will expire beginning in 2015.

Future tax benefits which may arise as a result of these non-capital losses have not been recognized in these financial statements and have been offset by a valuation allowance.

## 8. COMMITMENTS

Effective February 1, 2006, the Company entered into a services agreement with HRG in which the Company will pay a monthly fee of \$9,419 that includes office rent, corporate administration, accounting, corporate secretarial, chief financial officer and other related services. The agreement will expire December 31, 2008 and requires 180 days notice prior to termination by either party.

HRG is a captive management company jointly owned by the Company and certain other public companies, all of which share office space. The Company shares two common directors with HRG.



**EMPIRE**  
MINING CORPORATION

Suite 910 – 475 Howe Street  
Vancouver, B.C.  
V6C 2B3

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED  
MAY 31, 2006**

# **EMPIRE MINING CORPORATION**

Management's Discussion and Analysis

For the Year Ended May 31, 2006

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## **Introduction**

The following discussion of performance and financial condition should be read in conjunction with the audited financial statements of the Company for the year ended May 31, 2006. The Company's financial statements are prepared in accordance with Canadian GAAP. The Company's reporting currency is Canadian dollars unless otherwise stated. The date of this Management's Discussion and Analysis is September 11, 2006.

## **Description of Business**

Empire Mining Corporation (the "Company") was incorporated under the Business Corporations Act (British Columbia) on January 4, 2005. The Company is listed on the TSX Venture Exchange (the "TSX-V" or "Exchange") as a capital pool company ("CPC") under the trading symbol – EPC.P.

The Company was incorporated with the purpose of identifying and evaluating businesses and assets with a view to completing a qualifying transaction (the "Qualifying Transaction"). Any proposed Qualifying Transaction must be accepted by the Exchange, and in the case of a Non Arm's Length Qualifying Transaction it is also subject to shareholder approval in accordance with CPC Policy. The Company has not conducted any commercial operations other than to enter into discussions for the purpose of identifying potential asset acquisitions or interests.

As a result of the extremely favorable commodities markets and the inherent strengths of the management team, the Company's intention is to acquire an advanced stage mineral exploration project that will significantly enhance shareholder value.

## **Results of Operations – Current Period**

The Company incurred a \$65,102 loss during the current quarter versus a \$9,416 loss during the same period in the prior year. This amounts to a \$55,686 (591%) increase which can be primarily attributed to the fact that the Company had only recently been formed in 2005 and thus had incurred very few costs at that time. Currently, however, the Company is publicly listed on the TSX-V and is actively searching for potential Qualifying Transactions.

# EMPIRE MINING CORPORATION

Management's Discussion and Analysis

For the Year Ended May 31, 2006

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## Results of Operations – Year

The Company incurred a \$202,973 loss during the year versus \$9,416 during the period ended May 31, 2005. This amounts to a \$193,557 (2,056%) increase over the prior period, but these figures are not reasonably comparable due to the shortened 5 month period in which the Company was newly formed and had incurred very limited operational costs. The current year costs are composed mainly of corporate administration fees incurred in managing corporate affairs, regulatory fees associated with the Company's listing on the Exchange and professional and consulting fees incurred in the identification and evaluation of potential Qualifying Transactions.

## Selected Quarterly Financial Data (\$)

<b>Financial results:</b>	May 31 2006	Feb. 28 2006	Nov. 30 2005	Aug. 31 2005	May 31 2005	Feb. 28 2005	Nov. 30 2004	Aug. 31 2004
Net loss for the period	65,102	68,217	53,437	16,217	9,416	-	-	-
Basic/Diluted loss per share	0.01	0.01	0.01	-	-	-	-	-
Resource expenditures	-	-	-	-	-	-	-	-

<b>Balance sheet data:</b>	May 31 2006	Feb. 28 2006	Nov. 30 2005	Aug. 31 2005	May 31 2005	Feb. 28 2005	Nov. 30 2004	Aug. 31 2004
Cash and GIC	250,399	310,128	342,978	159,750	189,280	-	-	-
Resource properties	-	-	-	-	-	-	-	-
Total assets	262,400	318,075	357,638	207,411	210,190	-	-	-
Shareholders' equity	235,417	290,213	335,930	184,367	200,584	-	-	-

## Liquidity

The Company does not currently own or have an interest in any producing mineral properties and does not derive any revenues from operations. The Company's activities have been funded through equity financing and the Company expects that it will continue to be able to utilize this source of financing until it identifies a Qualifying Transaction and ultimately develops cash flow from operations. There can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of finance cannot be obtained, then the Company will be forced to curtail its activities to a level for which funding is available and can be obtained.

# EMPIRE MINING CORPORATION

Management's Discussion and Analysis

For the Year Ended May 31, 2006

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As at May 31, 2006, the Company had working capital of \$235,417 which included a cash balance of \$50,399 and a liquid GIC of \$200,000. Management believes the Company currently has sufficient capital with which to locate a suitable Qualifying Transaction and provide for general working capital requirements for the next 12 months.

## Capital Resources

On January 18, 2006, the Company received \$12,500 from the exercise of 125,000 agent's options.

On October 31, 2005, the Company completed its initial public offering for gross proceeds of \$250,000 and listed its common shares on the TSX Venture Exchange.

During April 2005, the Company raised \$210,000 in seed capital through a private placement.

## Outstanding Share Data

a) **Authorized Share capital:** Unlimited common shares without par value

b) **Issued and Outstanding:**

	Number of Common Shares	Amount
Balance at January 4, 2005	1	\$ -
Private Placement	4,200,000	210,000
Balance May 31, 2005	4,200,001	210,000
Initial Public Offering <sup>(1)</sup>	2,500,000	250,000
Exercise of agent's options	125,000	12,500
Fair value of agent's options exercised	-	5,532
Less: Share issue costs	-	(77,286)
Balance at September 11, 2006 and May 31, 2006	6,825,001	400,546

1) The Company issued 2,500,000 common shares by way of its initial public offering at \$0.10 per share for gross proceeds of \$250,000. A total of 250,000 agent's options were issued as part of the compensation for the financing.

## EMPIRE MINING CORPORATION

Management's Discussion and Analysis

For the Year Ended May 31, 2006

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- c) **Escrowed Shares:** There are 4,200,001 common shares that are subject to a standard 3 year release schedule which allows 10% to be released upon exchange acceptance of the Qualifying Transaction and 15% every 6 months thereafter.

### Options

A summary of stock options outstanding at May 31, 2006 is as follows:

Expiry Date	Number of Shares	Weighted Average Exercise Price
October 31, 2010	660,000	\$0.10

### Agent's Options

A summary of agent's options outstanding at May 31, 2006 is as follows:

Expiry Date	Number of Shares	Weighted Average Exercise Price
October 31, 2007	125,000	\$0.10

### Commitments

Effective February 1, 2006, the Company entered into a services agreement with HRG Management Ltd. ("HRG") in which the Company will pay a monthly fee of \$9,419 that includes office rent and administration, accounting, corporate secretarial, chief financial officer, investor relations and other related services. HRG is a captive management company jointly owned by the Company and certain other public companies, all of which share the Vancouver office. The Company shares two common directors with HRG.

# **EMPIRE MINING CORPORATION**

Management's Discussion and Analysis

For the Year Ended May 31, 2006

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## **Related Party Transactions**

During the year ended May 31, 2006:

- a) The Company incurred \$27,000 (2005 - \$nil) in corporate administration fees, accounting fees and office rent to a company controlled by a former officer.
- b) The Company incurred \$37,676 (2005 - \$nil) in fees to HRG that included office rent, corporate administration, accounting, chief financial officer, corporate secretarial and other related services. HRG is a captive management company jointly owned by the Company and certain other public companies, all of which share the Vancouver office. The Company shares two common directors with HRG.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## **Subsequent Events**

Subsequent to the end of the year, the Company granted 60,000 incentive stock options to two of its officers and 50,000 stock options issued to a former officer expired.

## **Financial and Other Instruments**

The Company's financial assets and liabilities consist of cash and cash equivalents, receivables and accounts payables. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these instruments approximates their carrying value due to the short term nature of their maturity.

## **Critical Accounting Estimates**

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the Financial Statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

# **EMPIRE MINING CORPORATION**

Management's Discussion and Analysis

For the Year Ended May 31, 2006

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## **Changes in Accounting Policies**

The Company did not implement any accounting policy changes during the year.

## **Off-Balance Sheet Arrangements**

The Company did not enter into any off-balance sheet arrangements during the year.

## **Risks and Uncertainties**

The Company is entering the mineral exploration and development business and as such is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. Some of the possible risks include the following:

- a) The industry is capital intensive and subject to fluctuations in commodity prices, market sentiment, foreign exchange and interest rates.
- b) The only source of future funds for further exploration programs, or if such exploration programs are successful for the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another party carrying out further exploration or development. Management was successful in accessing the equity markets during the current period, but there is no assurance that such sources will be available on acceptable terms in the future.
- c) Any future equity financings by the Company for the purpose of raising additional capital may result in substantial dilution to the holdings of existing shareholders.
- d) The Company must comply with environmental regulations governing air and water quality and land disturbance and provide for mine reclamation and closure costs.
- e) The operations of the Company will require various licenses and permits from various governmental authorities. There is no assurance that the Company will be successful in obtaining the necessary licenses and permits to undertake its exploration and development activities in the future.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described on forward-looking statements.

# **EMPIRE MINING CORPORATION**

Management's Discussion and Analysis

For the Year Ended May 31, 2006

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## **Management's Responsibility for Financial Statements**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

## **Other Information**

Effective February 10, 2006, Robert Giustra resigned his positions as President, CEO and CFO, however he remains with the Company as a Director. Ken Judge accepted the positions of CEO and President while Sean McGrath accepted the position of CFO. Furthermore, Robert Anderson stepped down as a member of the Board of Directors.

Additional information about the Company is available on the Company's website at [www.empireminingcorp.com](http://www.empireminingcorp.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

## **Caution Regarding Forward Looking Statements**

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Investors are cautioned against attributing undue certainty to forward-looking statements.

# **EMPIRE MINING CORPORATION**

Management's Discussion and Analysis

For the Year Ended May 31, 2006

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## **Corporate Information**

Head Office: Suite 910 – 475 Howe Street  
Vancouver, BC V6C 2B3

Directors: Robert Giustra  
Kenneth Judge  
John Prochnau

Officers: Ken Judge, President and CEO  
Sean McGrath, CFO

Auditor: PricewaterhouseCoopers  
PricewaterhouseCoopers Place  
7<sup>th</sup> Floor, 250 Howe Street  
Vancouver, BC V6C 3S7

Legal Counsel: Cawkell Brodie Glaister LLP  
1260 – 1188 West Georgia St.  
Vancouver, BC V6E 4A2

Transfer Agent: Computershare Investor Services  
2<sup>nd</sup> Floor – 510 Burrard Street  
Vancouver, BC V6C 3B9