



EMPIRE
MINING CORPORATION

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

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE YEAR ENDED
MAY 31, 2008**

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

Introduction

The following discussion of performance and financial condition should be read in conjunction with the consolidated financial statements for the year ended May 31, 2008 and 2007. The Company's consolidated 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 August 6 2008.

Description of Business

Empire Mining Corporation (the "Company" or "Empire") was incorporated under the Business Corporations Act (B.C.) on January 4, 2005. The Company completed an initial public offering and commenced trading on the TSX Venture Exchange (the "TSX-V" or "Exchange") on October 31, 2005 and was classified as a Capital Pool Company ("CPC") as defined in the TSX-V Listings Policy 2.4. On November 12, 2007 the Company completed its qualifying transaction and became a tier 2 mining issuer.

Its principal business activity is the exploration and development of mineral properties. All of the Company's mineral properties are currently located in Eastern Europe. The Company is in the process of exploring and developing its newly acquired mineral properties.

The Company's consolidated financial statements include the accounts of Empire Mining Corporation and its wholly owned subsidiaries, Empire International Mining Corporation, a British Virgin Island ("BVI") company, Empire Mining (Albania) Corp, an Albanian company, and Empire Mining SR, a Serbian company.

Mineral Properties

On September 17, 2007, the Company entered into an option agreement (the "Agreement") with Anatolia Minerals Development Ltd. ("Anatolia"), wherein it can earn a 65% interest in the Bursa copper-molybdenum-gold porphyry property (the "Property") located in western Turkey.

Bursa Property

Pursuant to the terms of the Agreement Empire can earn a 65% interest in the Property by:

- i. Making cash payments to Anatolia totaling US\$520,000 over 5 years; (of which \$40,000 has been paid)
- ii. Making payments to Anatolia over 5 years of Empire common shares totaling 5% of Empire's fully diluted share capital as at the 5th anniversary of the Agreement; (200,000 shares issued)
- iii. Making expenditures on the Property totaling US\$7.5 million over 5 years, of which US\$500,000 is required to be spent in year 1 and US\$300,000 is mandatory; and
- iv. Completing a pre-feasibility report on the Property by the 6th anniversary of the Agreement.

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

Mineral Properties (continued)

Bursa Property (continued)

Upon earning a 65% interest in the Property, Empire and Anatolia will enter into a formal joint venture agreement establishing each party's ownership, rights and obligations in the joint development and operation of the Property.

The Bursa Property is situated over a belt of demonstrated copper ("Cu") and molybdenum ("Moly") porphyry systems in Bursa and Kutahya provinces, 120km south of Istanbul.

The most consistently mineralized porphyry system found on the Bursa Property to date is Karapinar where past drilling by RTZ intersected 0.35% Cu over approximately 350 meters. Assays consistently surpassed 0.01% Moly towards the bottom of these holes and occasionally exceeded 0.04% Moly and gold averaged 0.15g/t Au. A number of drill targets on the Property with potential for economically important porphyry and associated skarn systems remain untested.

A technical report with respect to the Property was prepared in accordance with the requirements of NI 43-101 and was filed on Sedar on October 31, 2007. With the exception of the technical report, Empire's Qualified Person is John F. Prochnau, P.Eng., a director of the Company.

Bulqiza Property

On May 15, 2008, the Company was granted a prospecting permit in the Republic of Albania. The permit allows the Company to explore the property for six months from the date of grant. The property covers an area of 134.25 square kilometres in the Bulqiza region of Eastern Albania.

A breakdown of the exploration expenditures by type incurred during the year is as follows:

| Mineral Properties | | | | |
|-------------------------------|-----------|----------------|-------------------|-------------------|
| Exploration Costs | | Bulqiza | Bursa | Total |
| Balance – May 31, 2007 | \$ | - | \$ | - |
| Acquisition | | - | 161,252 | 161,252 |
| Administrative costs | | - | 17,199 | 17,199 |
| Laboratory Analysis/Assays | | - | 37,809 | 37,809 |
| Drilling costs | | - | 734 | 734 |
| Maps and reports | | 315 | - | 315 |
| Geological services | | - | 52,569 | 52,569 |
| License/Permits/Renewals | | 940 | 2,239 | 3,179 |
| Travel | | - | 15,517 | 15,517 |
| Balance – May 31, 2008 | \$ | 1,255 | \$ 287,319 | \$ 288,574 |

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

Selected Annual Information

| | May 31, 2008 | May 31, 2007 | May 31, 2006 |
|-------------------------------------|--------------|--------------|--------------|
| Financial results | | | |
| Net loss for year | 1,069,717 | 215,573 | 202,973 |
| Basic and diluted loss per share | 0.09 | 0.03 | 0.03 |
| Expenditures on resource properties | 288,574 | - | - |
| Balance sheet data | | | |
| Cash and short term deposits | 1,161,501 | 69,104 | 250,399 |
| Resource properties | 288,574 | - | - |
| Total assets | 2,217,272 | 111,068 | 262,400 |
| Deficit | 1,497,679 | 427,962 | 212,389 |

Results of Operations – Current Period

The Company incurred a \$458,873 loss during the current quarter versus a \$94,168 loss during the same period in the prior year. This amounts to a \$364,705 (387%) increase which can be primarily attributed to an increase in regulatory, professional, consulting, directors' fees, management fees, stock-based compensation, travel, and property investigation expenses due to the Company's increased activity surrounding searching for and evaluation of new mineral property acquisitions and general increase in overall Company operations due to moving from a capital pool company listing to a full fledged tier 2 junior mining company.

Results of Operations – YTD

The Company incurred a \$1,069,717 loss during the year versus a \$215,573 loss during the same period in the prior year. This amounts to an \$854,144 (396%) increase which can be primarily attributed to increases in regulatory, professional fees, consulting fees, directors' fees, management fees, stock-based compensation, and property investigation expenses due to the Company's increased activity surrounding searching for and evaluation of new mineral property acquisitions and general increase in overall Company operations due to moving from a capital pool company listing to a full fledged tier 2 junior mining company.

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

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 feasible resource 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.

As at May 31, 2008, the Company had a working capital balance of \$1,849,585 which included a cash balance of \$241,858 and liquid GICs' totaling \$900,000. Subsequent to year end, the Company announced a private placement to raise up to an additional \$2,000,000 in equity financing. (See subsequent events) Management believes that with the completion of the proposed equity financing the Company will have sufficient capital with which to explore its new mineral exploration projects and provide for general working capital requirements for the next 12 months.

Selected Quarterly Financial Data (\$)

| Financial results: | May 31 2008 | Feb. 28 2008 | Nov. 30 2007 | Aug. 31 2007 | May 31 2007 | Feb. 28 2007 | Nov. 30 2006 | Aug. 31 2006 |
|------------------------------|----------------|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|-----------------|
| Net loss for the period | 458,889 | 410,030 | 102,376 | 98,422 | 94,168 | 37,815 | 33,238 | 50,352 |
| Basic/Diluted loss per share | 0.09 | 0.04 | 0.01 | 0.01 | 0.01 | 0.01 | 0.00 | 0.01 |
| Resource expenditures | 64,614 | 57,703 | 166,257 | - | - | - | - | - |

| Balance sheet data: | May 31 2008 | Feb. 28 2008 | Nov. 30 2007 | Aug. 31 2007 | May 31 2007 | Feb. 28 2007 | Nov. 30 2006 | Aug. 31 2006 |
|----------------------------|----------------|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|-----------------|
| Cash and GIC | 1,161,501 | 808,782 | 1,160,918 | 1,392,183 | 69,104 | 112,960 | 158,203 | 210,950 |
| Resource properties | 288,574 | 57,703 | 166,257 | - | - | - | - | - |
| Total assets | 2,217,272 | 1,133,070 | 1,410,649 | 1,446,803 | 111,068 | 137,809 | 171,915 | 225,100 |
| Shareholders' equity | 2,138,159 | 1,067,377 | 1,388,863 | 1,381,239 | 39,487 | 133,655 | 171,470 | 202,208 |

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

Share Capital Information

As of August 6, 2008 the following equity securities were outstanding:

| | Price | Expiry date | Number of common shares |
|--|--------|------------------|-------------------------|
| Common shares, issued and outstanding: | | | 24,493,460 |
| Securities convertible into common shares: | | | |
| Warrants | \$0.38 | October 10, 2009 | 432,810 |
| | \$0.38 | October 10, 2009 | 2,705,066 |
| | \$0.38 | February 6, 2010 | 3,466,667 |
| Broker Warrants | \$0.38 | February 6, 2010 | |
| Options | \$0.10 | October 31, 2010 | 610,000 |
| | \$0.35 | July 17, 2011 | 60,000 |
| | \$0.40 | January 24, 2013 | 1,330,000 |
| | | | 33,652,669 |

Private Placements

- i) On July 23, 2007, the Company completed a non-brokered private placement consisting of 4,999,995 common shares for gross proceeds of \$1,499,998. There were no warrants attached to the offering. Share issuance costs of \$59,824 were paid in conjunction with this financing.
- ii) On April 10, 2008 the Company completed a brokered private placement raising gross proceeds of \$1,623,039.60 through the issuance of 5,410,132 units. The units were sold at a price of \$0.30 per unit and are comprised of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$0.38 per common share at any time prior to October 10, 2009.

The warrants attached to the above private placement have been valued at \$262,461 based upon the Black Scholes model which utilizes the following assumptions: Expected dividend yield of nil, expected stock price volatility of 73%, Risk-free interest rate of 2.80%, and Expected life of warrants of 18 months.

Share issuance costs of \$251,680 were paid in conjunction with this financing, including a cash commission of \$129,843 (equal to 8% of the gross proceeds), legal fees of \$4,979, filing fees of \$66,764 and 432,810 agent warrants. These agent warrants have been determined to have a fair value of \$50,094 based upon the Black Scholes model which utilized the following assumptions: Expected dividend yield of nil, Expected stock price volatility of 73%, Risk free interest rate of 2.80%, Expected life of warrants of 18 months. The agent warrants are exercisable at a price of \$0.38 for a period of 18 months and are exercisable on or before October 10, 2009. Fair value of \$40,699 that relate to the share issuance costs has been credited to contributed surplus.

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

Share Capital Information (continued)

Warrants

- i) In conjunction with the April 10, 2008 private placement, 5,410,132 half warrants were granted. Each whole warrant will entitle the holder to purchase one additional common share at a price of \$0.38 per common share at any time prior to October 10, 2009. *(See note 5ii to consolidated financial statements).*
- ii) In conjunction with the April 10, 2008 private placement, 432,810 agent warrants were granted as part of the compensation to the agent. *(See note 5ii to consolidated financial statements).*
- iii) During the year, the Company had 100,000 warrants exercised for total proceeds of \$10,000. As part of the warrant exercises, there was \$4,265 in fair value associated with the fair value of the agent's warrants granted during a previous year's private placement. These amounts were transferred from contributed surplus to common shares.

Stock Options

- i) During the year, the Company granted a total of 1,330,000 stock options, exercisable on or before January 24, 2013 at a price of \$0.40. The total fair value of the options granted during the period was \$354,172 with \$196,762 being recorded in the Company's accounts as stock based compensation. The balance of \$157,410 will vest over a period of 18 months with 25% vesting on each successive date that is six months from the date of the grant.
- ii) On July 17, 2006, a total of 60,000 stock options exercisable at \$0.35 for a period of 5 years were granted to officers of the Company. A fair value of \$17,143 was determined on the grant date and has been recorded as stock-based compensation in the Company's accounts.

Commitments

Effective February 1, 2008, the Company entered into a services agreement with HRG in which the Company will pay a monthly fee of approximately \$12,514 that includes office rent, corporate administration, accounting, corporate secretarial, chief financial officer and other related services. HRG is a management company jointly owned by the Company and certain other public companies, all of which share office space and staff on a cost recovery basis. The agreement will expire December 31, 2008 and requires 180 days notice prior to termination by either party. The Company shares two directors in common with HRG. The Company has a \$33,630 deposit paid to HRG for management services. *(See Note 6b to consolidated financial statements)*

Related Party Transactions

- a. At May 31, 2008, the Company owed \$977 (May 31, 2007 - \$10,238) to companies with directors and officers in common. These are non-interest bearing and are paid under the same terms as normal accounts payable.
- b. At May 31, 2008, a management services company, with two directors in common, owed the Company \$33,630 (May 31, 2007 - \$40,630) relating to deposits for services paid to the related company. *(See Note 9 to the consolidated financial statements)*

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

Related Party Transactions (continued)

- c. The following related party transactions were in the normal course of operations and are measured at fair value being their exchange amounts and consists of the following items:

| | May 31, 2008 | May 31, 2007 |
|--|-------------------|-------------------|
| HRG Management Ltd. - Directors & Officers in common (* see below) | \$ 134,690 | \$ 92,661 |
| DC Minerals Consultants – Officer in common, consulting services | 117,203 | - |
| Perennial Capital Corp – Director in common, consulting services | 37,500 | - |
| John Prochnau- Former Director, consulting services | 70,857 | 10,331 |
| Total | \$ 360,250 | \$ 102,992 |

* HRG Management Ltd. (“HRG”) is a management company jointly owned by the Company and certain other companies that share Vancouver office space and administrative services at cost. The Company shares two directors in common with HRG (*See Note 9 to consolidated financial statements*).

Subsequent Events

- a) On August 6, 2008, the Company completed, subject to final TSX Venture Exchange approval, a non-brokered private placement of 6,933,332 units at \$0.30 per unit for gross proceeds of \$2,080,000. Each unit is comprised of one common share and one half of one share purchase warrant (“Warrant”). Each whole Warrant entitles the holder to purchase one additional common share at the price of \$0.38 until February 6, 2010.

Integral Wealth Securities Limited (“the Agent”) received a cash finder's fee of \$166,400 and 554,666 finder's warrants. Each finder's warrant entitles the Agent to acquire one common share of the Company at a price of \$0.38 per share until February 6, 2010.

- b) Subsequent to year-end, the Company had a deposit returned back in the amount of \$642,900 related to an unsuccessful mining claim tender bid.

Changes in Accounting Policies

The Company implemented the following accounting policy changes during the year.

Effective March 1, 2008, the Company adopted two new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”); Section 1530, “Comprehensive Income” and Section 3855, “Financial Instruments – recognition and measurement”. These standards were adopted on a prospective basis, and as such prior periods have not been restated.

The Company implemented the following accounting policy changes during the year.

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

Changes in Accounting Policies (continued)

Effective March 1, 2008, the Company adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”); Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments – Disclosure, Section 3863 – Financial Instruments – Presentation. These standards were adopted on a prospective basis, and as such prior periods have not been restated.

- a) Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. These standards require an entity to disclose the following:
 - i. its objectives, policies and processes for managing capital;
 - ii. summary quantitative data about what the Company views as capital;
 - iii. whether during the period, it complied with any externally imposed capital requirements to which it is subject;
 - iv. when the entity has not complied with such requirement, the consequences of such non-compliance.

- b) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863)

These standards replace CICA 3861, Financial Instruments – Disclosure and Presentation. They increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity’s key management personnel.

Recent Accounting Pronouncements

Recent Canadian accounting pronouncements that have been issued but are not yet effective, and which may affect the Company’s financial reporting are summarized below:

- (i) Going Concern

In April 2007, the CICA approved amendments to Handbook Section 1400, *General Standards of Financial Statement Presentation*. These amendments require management to assess an entity’s ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity’s ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The new requirements of the standard are applicable for interim and annual financial statements relating to fiscal years beginning on or after March 1, 2008. The Company is currently evaluating the impact of this standard.

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

Recent Accounting Pronouncements (continued)

(ii) International Financial Reporting Standards (“IFRS”)

In January 2006, CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

(iii) Accounting changes

Effective December 1, 2007, the Company adopted revised CICA Section 1506, *Accounting Changes*, which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under this standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information. The adoption of this section had no material impact on the consolidated financial statements of the Company.

(iv) Equity

Effective December 1, 2007, the Company adopted CICA Section 3251, *Equity*, which establishes standards for the presentation of equity and changes in equity during the reporting periods presented. As there are no changes resulting from the adoption of this policy, there has been no impact on the Company’s consolidated financial statements for any of the years presented.

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 consolidated financial statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned, or written down, where appropriate. The Company’s accounting policy is to capitalize exploration costs consistent with Canadian GAAP and applicable guidelines for exploration stage companies. The policy is consistent with other junior exploration companies which have not established mineral reserves objectively. An alternative policy would be to expense these costs until sufficient work has been done to determine that there is a probability a mineral reserve can be established; or alternatively, to expense such costs until a mineral reserve has been objectively established. Management is of the view that its current policy is appropriate for the Company at this time. Based on annual impairment reviews made by management, or earlier if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the write-down charged to operations. A write-down may be warranted in situations where a property is to be sold or abandoned; or exploration activity ceases on a property due to unsatisfactory results or insufficient available funding.

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

Disclosure and Internal Controls

Disclosure controls and procedures have been established to provide reasonable assurance that material information relating to the Company is made known to management, particularly during the period in which annual filings are being prepared. Furthermore, internal controls have been established to ensure the Company's assets are safeguarded and to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP.

There have been no changes in the Company's internal controls during the year ended May 31, 2008.

Risks and Uncertainties

The Company is in 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 metal 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 year, 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 continue its exploration and development activities in the future.
- f) There is no certainty that the properties which the Company has deferred as assets on its balance sheet will be realized at the amounts recorded. These amounts should not be taken to reflect realizable value.

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. The Company has not completed a feasibility study on any of its deposits to determine if it hosts a mineral resource that can be economically developed and profitably mined.

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For the Year Ended May 31, 2008

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 consolidated 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 consolidated 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. The Company's CEO and CFO have confirmed to the Company that they are satisfied with the effectiveness of the Company's system of disclosure controls and procedures as at May 31, 2008 based upon their evaluation of the effectiveness of such disclosure controls and procedures.

Approval

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of EMPIRE has approved the consolidated financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

Off-Balance Sheet Arrangements

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

Other Information

Additional information about the Company is available on the Company's website at www.empireminingcorp.com or SEDAR at 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 Discussion and Analysis

For the Year Ended May 31, 2008

Corporate Information

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

Directors: Robert Giustra
Kenneth Judge
David Cliff

Officers: David Cliff, President and Chief Executive Officer
Sean McGrath, Chief Financial Officer
Jacqueline Collins, Corporate Secretary

Auditor: PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place
7th Floor, 250 Howe Street
Vancouver, BC V6C 3S7

Legal Counsel: Lang Michener LLP
Suite 1500 - 1055 West Georgia Street
Vancouver, BC V6E 4N7

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



EMPIRE
MINING CORPORATION

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

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2008 and 2007**

Management Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles, and contain estimates based on management's judgment. A system of internal control is maintained to provide reasonable assurance that financial information is accurate and reliable.

The Company's independent auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards to allow them to express an opinion on the financial statements.

The audit committee of the Board of Directors, which is comprised of a majority of independent directors, has met with the Company's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

“Ken Judge”

Chairman of the Board

“David Cliff ”

President and CEO

August 6, 2008
Vancouver, British Columbia

August 11, 2008

AUDITORS' REPORT

To the shareholders of Empire Mining Corporation

We have audited the consolidated balance sheets of Empire Mining Corporation as at May 31, 2008 and 2007 and the consolidated statements of loss, comprehensive income and deficit and cash flows for each of the years in the two-year period 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 audits.

We conducted our audits 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, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two-year period then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

Empire Mining Corporation

(A Development Stage Company)

Consolidated Balance Sheets

As at

Canadian Funds

Statement 1

| ASSETS | May 31, 2008 | May 31, 2007 |
|--|---------------------|-------------------|
| Current | | |
| Cash and cash equivalents | \$ 241,858 | \$ 69,104 |
| Term deposits (Note 3) | 919,643 | - |
| Receivables | 15,799 | 1,334 |
| Due from related parties (Note 6) | 33,630 | 40,630 |
| Prepaid and deposits | 717,768 | - |
| | <u>1,928,698</u> | <u>111,068</u> |
| Mineral Properties (Note 4) | 288,574 | - |
| | <u>\$ 2,217,272</u> | <u>\$ 111,068</u> |
| <hr/> | | |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 78,136 | \$ 61,343 |
| Due to related parties (Note 6) | 977 | 10,238 |
| | <u>79,113</u> | <u>71,581</u> |
| <hr/> | | |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (Note 5) | 3,108,148 | 404,112 |
| Contributed Surplus (Note 5) | 527,690 | 63,337 |
| Deficit | (1,497,679) | (427,962) |
| | <u>2,138,159</u> | <u>39,487</u> |
| | <u>\$ 2,217,272</u> | <u>\$ 111,068</u> |

Nature of Operations (Note 1)

Commitments (Note 9)

Subsequent Events (Note 12)

Approved by the Board of Directors:

"Ken Judge"

Ken Judge
Director

"David Cliff"

David Cliff
Director

The accompanying notes are an integral part of these consolidated financial statements

Empire Mining Corporation

(A Development Stage Company)

Statement 2

Consolidated Statements of Loss, Comprehensive Income and Deficit

For the Years Ended May 31, 2008 and 2007

Canadian Funds

| | May 31, 2008 | May 31, 2007 |
|---|---------------------|-------------------|
| Expenses | | |
| Consulting fees | \$ 116,747 | \$ 37,752 |
| Corporate administration fees | 58,896 | 51,186 |
| Director fees | 24,500 | - |
| Management fees | 51,597 | - |
| Office and general | 55,301 | 27,198 |
| Professional fees | 128,217 | 56,519 |
| Property investigation | 325,197 | - |
| Shareholder relations | 16,741 | 3,103 |
| Stock-based compensation (Note 5d) | 196,762 | 17,143 |
| Telecommunications | 1,200 | 980 |
| Transfer agent and regulatory fees | 65,635 | 6,228 |
| Travel | 63,743 | 21,741 |
| Loss before other (income) expenses | 1,104,536 | 221,850 |
| Other (income) expenses | | |
| Interest income | (41,951) | (5,748) |
| Foreign exchange (gain) loss | 7,132 | (529) |
| | (34,819) | 6,277 |
| Loss and comprehensive income for the year | 1,069,717 | 215,573 |
| Deficit - Beginning of Year | 427,962 | 212,389 |
| Deficit – End of Year | \$ 1,497,679 | \$ 427,962 |
| Weighted Average Shares Outstanding | 12,070,317 | 6,843,220 |
| Loss per Share – Basic and Diluted | \$ 0.09 | \$ 0.03 |

The accompanying notes are an integral part of these consolidated financial statements

Empire Mining Corporation

(A Development Stage Company)

Consolidated Statements of Cash Flows

For the Years Ended May 31, 2008 and 2007

Canadian Funds

Statement 3

| | May 31, 2008 | May 31, 2007 |
|---|--------------------|------------------|
| Cash Resources Provided By (Used In) | | |
| Operating Activities | | |
| Loss for the year | \$ (1,069,717) | \$ (215,573) |
| Items not affected by cash: | | |
| Stock based compensation | 196,762 | 17,143 |
| Interest accrued on term deposit | (19,643) | - |
| Changes in non-cash working capital items: | | |
| Decrease (increase) in receivables | (14,465) | 1,247 |
| Decrease in due to related parties | (2,261) | (20,973) |
| Increase in accounts payable | 16,792 | 34,361 |
| Increase in prepaids and deposits | (717,768) | - |
| Net cash used in operating activities | <u>(1,610,300)</u> | <u>(183,795)</u> |
| Financing Activities | | |
| Common shares issued for cash | 3,123,039 | - |
| Exercise of agent's options | 10,000 | 2,500 |
| Share issuance costs | (261,411) | - |
| Net cash provided by financing activities | <u>2,871,628</u> | <u>2,500</u> |
| Investing Activities | | |
| Deferred exploration expenditures | (127,322) | - |
| Acquisition of mineral properties | (61,252) | - |
| Redemption (purchase) of term deposit | (900,000) | 200,000 |
| Net cash provided by (used in) investing activities | <u>(1,088,574)</u> | <u>200,000</u> |
| Net change in Cash | 172,754 | 18,705 |
| Cash - Beginning of Year | <u>69,104</u> | <u>50,399</u> |
| Cash - End of Year | \$ 241,858 | \$ 69,104 |

Supplementary Cash Flow Information (Note 11)

The accompanying notes are an integral part of these consolidated financial statements

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

1. Nature of Operations

Empire Mining Corporation (the “Company” or “Empire”) was incorporated under the Business Corporations Act (B.C.) on January 4, 2005. The Company completed an initial public offering and commenced trading on the TSX Venture Exchange (the “TSX-V” or “Exchange”) on October 31, 2005 and was classified as a Capital Pool Company (“CPC”) as defined in the TSX-V Listings Policy 2.4. On November 12, 2007 the Company completed its qualifying transaction and became a tier 2 mining issuer.

Its principal business activity is the exploration and development of mineral properties. All of the Company’s mineral properties are currently located in Eastern Europe. The Company is in the process of exploring and developing its mineral properties, but has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. To date, the Company has not received any revenue from mining operations and is considered to be in the development stage.

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements are presented in accordance with generally accepted accounting principles (“GAAP”) applicable in Canada. These consolidated financial statements include the accounts of Empire Mining Corporation and its wholly owned subsidiaries, Empire International Mining Corporation, a British Virgin Island (“BVI”) company, Empire Mining (Albania) Corp, an Albanian company, and Empire Mining SR, a Serbian company. All inter-company transactions and balances have been eliminated upon consolidation.

Accounting changes

CICA Section 1506, *Accounting Changes*, provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under this standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information. The adoption of this section had no material impact on the consolidated financial statements of the Company.

Equity

CICA Section 3251, *Equity*, establishes standards for the presentation of equity and changes in equity during the reporting periods presented.

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

2. Significant Accounting Policies (continued)

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

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 graded vesting period. If or when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Loss per Share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per common share is recognized from the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Diluted loss per common share has not been presented separately as this calculation proved to be anti-dilutive.

Basic and diluted loss per common share is calculated using the weighted average number of shares outstanding during the period.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid debt investments with remaining maturities at point of purchase of three months or less. The Company places its cash and cash investments with institutions of high credit worthiness. At times, such investments may be in excess of federal insurance limits.

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

2. Significant Accounting Policies (continued)

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.

Mineral properties

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the property is put into commercial production, sold or abandoned. Under this method, the amounts reported represent costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

If the property is put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the property is sold or abandoned, then the expenditure will be charged to operations. The Company does not accrue the estimated future costs of maintaining in good standing its mineral properties.

In the event that reserves are determined, the carrying values of a mineral property interest, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, then the mineral property will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalized is dependent upon the identification of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and to realize profitable production and proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment are based on current conditions. However, it is possible that changes could occur in the near term, which could adversely affect management's estimates and result in future write-downs of the capitalized property carrying values.

Property investigation costs consist of exploration expenditures incurred in the process of evaluating potential property acquisitions. These costs are expensed as incurred unless the property is subsequently acquired and then the expenses are deferred.

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

2. Significant Accounting Policies (continued)

Financial Instruments – Recognition and Measurement

During the current year the Company adopted CICA Handbook Section 3855 which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the Balance Sheet when the Company becomes a party to contractual provisions of the financial instrument or a derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with gains and losses recognized in the Company's loss for the period. Financial assets held-to-maturity, loans and receivables and financial liabilities, other than those held-for-trading, are measured at amortized cost using the effective interest method of amortization.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instruments or other contracts but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in the Company's loss for the period, except for derivatives that are designated as a cash flow hedge, the fair value change for which is recognized in OCI.

The Company also adopted Section 3865 which specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed, as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item. The Company is not currently engaged in hedging activities.

The Company's financial instruments include cash and cash equivalents, term deposits, receivables, amounts Due to Related Parties, amounts Due from Related Parties, and accounts payable. The fair value of these financial instruments approximates their carrying value due to their short-term to maturity.

Upon adoption of this new standard, the Company designated its cash and cash equivalents and term deposits as held-for-trading, which is measured at fair value. Receivables have been designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities, which are measured at amortized cost.

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 Company also adopted Section 3865 which specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed, as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item. The Company is not currently engaged in hedging activities.

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

2. Significant Accounting Policies (continued)

Capital Disclosures

Effective March 1, 2008, the Company adopted CICA Handbook Section 1535 – Capital Disclosures. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- i. its objectives, policies and processes for managing capital;
- ii. summary quantitative data about what the Company views as capital;
- iii. whether during the period, it complied with any externally imposed capital requirements to which it is subject;
- iv. when the entity has not complied with such requirement, the consequences of such non-compliance.

The Company has included the disclosures recommended by the new Handbook section in Note 7 to these consolidated financial statements.

Financial Instruments

Effective March 1, 2008, the Company adopted CICA Handbook Sections 3862 (Disclosures) and Section 3863 (Presentation). These standards replace CICA 3861, Financial Instruments – Disclosure and Presentation. They increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

The Company has included the disclosures recommended by the new Handbook section in Note 8 to these consolidated financial statements.

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

Recent Canadian Accounting Pronouncements

Recent Canadian accounting pronouncements that have been issued but are not yet effective, and which may affect the Company's financial reporting are summarized below:

(i) Going Concern

In April 2007, the CICA approved amendments to Handbook Section 1400, *General Standards of Financial Statement Presentation*. These amendments require management to assess an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The new requirements of the standard are applicable for the Company starting June 1, 2008. The Company is currently evaluating the impact of this standard.

(ii) International Financial Reporting Standards ("IFRS")

In January 2006, CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

3. Term Deposits

Details are as follows:

| | <u>May 31, 2008</u> | May 31, 2007 |
|-----------------------------------|---------------------|--------------|
| Short-term Investment Certificate | \$500,000 | - |
| Maturity date | July 31, 2008 | - |
| Interest rate per annum | 4.40% | - |
| Short-term Investment Certificate | \$400,000 | - |
| Maturity date | April 20, 2009 | - |
| Interest rate per annum | 3.00% | - |

The short-term investment certificates were issued by the Bank of Montreal and is redeemable at any time but within the first 30 days it is non-interest bearing.

Accrued interest of \$19,643 has been included in the balance to reflect the fair value of the term deposits held at May 31, 2008.

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

4. Mineral Properties

On September 17, 2007, the Company entered into an option agreement (the "Agreement") with Anatolia Minerals Development Ltd. ("Anatolia"), wherein it can earn a 65% interest in the Bursa copper-molybdenum-gold porphyry property (the "Property") located in western Turkey.

Bursa Property

Pursuant to the terms of the Agreement Empire can earn a 65% interest in the Property by:

- i. Making cash payments to Anatolia totaling US\$520,000 over 5 years; (of which \$40,000 has been paid)
- ii. Making payments to Anatolia over 5 years of Empire common shares totaling 5% of Empire's fully diluted share capital as at the 5th anniversary of the Agreement; (200,000 shares issued)
- iii. Making expenditures on the Property totaling US\$7.5 million over 5 years, of which US\$500,000 is required to be spent in year 1 and US\$300,000 is mandatory; and
- iv. Completing a pre-feasibility report on the Property by the 6th anniversary of the Agreement.

Upon earning a 65% interest in the Property, Empire and Anatolia will enter into a formal joint venture agreement establishing each party's ownership, rights and obligations in the joint development and operation of the Property.

Bulqiza Property

On May 15, 2008, the Company was granted a prospecting permit in the Republic of Albania. The permit allows the Company to explore the property for six months from the date of grant. The property covers an area of 134.25 square kilometres in the Bulqiza region of Eastern Albania.

A breakdown of the exploration expenditures by type incurred during the year is as follows:

| Mineral Properties Exploration Costs | Bulqiza | Bursa | Total |
|---|-----------------|-------------------|-------------------|
| Balance – May 31, 2007 | \$ - | \$ - | - |
| Acquisition | - | 161,252 | 161,252 |
| Administrative costs | - | 17,199 | 17,199 |
| Laboratory Analysis/Assays | - | 37,809 | 37,809 |
| Drilling costs | - | 734 | 734 |
| Maps and reports | 315 | - | 315 |
| Geological services | - | 52,569 | 52,569 |
| License/Permits/Renewals | 940 | 2,239 | 3,179 |
| Travel | - | 15,517 | 15,517 |
| Balance – May 31, 2008 | \$ 1,255 | \$ 287,319 | \$ 288,574 |

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

5. Share Capital

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

b) **Issued and Outstanding:**

| | Number of Shares | Share Capital | Contributed Surplus |
|--|---------------------|---------------------|------------------------|
| Balance, as at May 31, 2006 | 6,825,001 | \$ 400,546 | \$ 47,260 |
| Agent's options exercised | 25,000 | 2,500 | - |
| Fair value of Agent's options exercised | - | 1,066 | (1,066) |
| Stock options issued | - | - | 17,143 |
| Balance, as at May 31, 2007 | 6,850,001 | 404,112 | 63,337 |
| Non-brokered private placement (i) | 4,999,995 | 1,499,998 | - |
| Brokered private placement (ii) | 5,410,132 | 1,360,578 | 262,461 |
| Mineral property acquisition | 200,000 | 100,000 | - |
| Share issuance costs | - | (270,805) | (40,699) |
| Stock based compensation | - | - | 196,762 |
| Agent's warrants exercised | 100,000 | 10,000 | - |
| Fair value of agent's warrants exercised | - | 4,265 | (4,265) |
| Fair value of agent's warrants granted | - | - | 50,094 |
| Balance, as at May 31, 2008 | 17,560,128 | \$ 3,108,148 | \$ 527,690 |

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

5. Share Capital (continued)

- i) On July 23, 2007, the Company completed a non-brokered private placement consisting of 4,999,995 common shares for gross proceeds of \$1,499,998. There were no warrants attached to the offering. Share issuance costs of \$59,824 were paid in conjunction with this financing.
- ii) On April 10, 2008 the Company completed a brokered private placement raising gross proceeds of \$1,623,039 through the issuance of 5,410,132 units. The units were sold at a price of \$0.30 per unit and are comprised of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$0.38 per common share at any time prior to October 10, 2009.

The warrants attached to the above private placement have been valued at \$262,461 based upon the Black Scholes model which utilizes the following assumptions: Expected dividend yield of nil, expected stock price volatility of 73%, Risk-free interest rate of 2.80%, and Expected life of warrants of 18 months.

Share issuance costs of \$251,680 were paid in conjunction with this financing, including a cash commission of \$129,843 (equal to 8% of the gross proceeds), legal fees of \$4,979, filing fees of \$66,764 and 432,810 agent warrants. These agent warrants have been determined to have a fair value of \$50,094 based upon the Black Scholes model which utilized the following assumptions: Expected dividend yield of nil, Expected stock price volatility of 73%, Risk free interest rate of 2.80%, Expected life of warrants of 18 months. The agent warrants are exercisable at a price of \$0.38 for a period of 18 months and are exercisable on or before October 10, 2009. Fair value of \$40,699 that relates to the share issuance costs has been credited to contributed surplus.

- c) **Escrowed Shares** – There are 4,438,126 common shares that are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities. A total of 10% of these shares held in escrow were released upon completion of the Company's Qualifying Transaction and the balance will be released at a rate of 15% every six months thereafter. As at May 31, 2008, a total of 3,373,126 common shares remained in escrow.

d) Incentive Stock Options

The following table summarizes information about stock options outstanding at May 31, 2008:

| Number of Stock Options | Exercise Price | Expiry Date |
|-------------------------|----------------|------------------|
| 610,000 | \$0.10 | October 31, 2010 |
| 60,000 | \$0.35 | July 17, 2011 |
| 1,330,000 | \$0.40 | January 24, 2013 |

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

5. Share Capital (continued)

d) Incentive Stock Options (continued)

| | Options Outstanding | Weighted Average Exercise Price Per Share | Weighted Average Time to Expiry |
|-------------------------------|--------------------------------|--|--|
| Balance – May 31, 2006 | 660,000 | \$0.10 | 4.42 yrs |
| Granted during the year | 60,000 | 0.35 | 5.00 yrs |
| Cancelled during the year | (50,000) | 0.10 | - |
| Balance – May 31, 2007 | 670,000 | 0.12 | 3.49 yrs |
| Granted during the year | 1,330,000 | 0.40 | 5.00 yrs |
| Balance – May 31, 2008 | 2,000,000 | \$0.40 | 4.08 yrs |

During the year, the Company granted a total of 1,330,000 stock options, exercisable on or before January 24, 2013 at a price of \$0.40. The total fair value of the options granted during the period was \$354,172 with \$196,762 being recorded in the Company's accounts as stock based compensation. The balance of \$157,410 will vest over a period of 18 months with 25% vesting on each successive date that is six months from the date of the grant.

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

| Assumption | Value |
|---------------------------------|--------------|
| Expected dividend yield | 0.00% |
| Expected stock price volatility | 85% |
| Risk-free interest rate | 3.45% |
| Expected life of options | 5 years |

On July 17, 2006, a total of 60,000 stock options exercisable at \$0.35 for a period of 5 years were granted to officers of the Company. The options granted vested immediately. A fair value of \$17,143 was determined on the grant date and has been recorded as stock-based compensation in the prior year.

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

5. Share Capital (continued)

d) Incentive Stock Options (continued)

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

| Assumption | Value |
|---------------------------------|--------------|
| Expected dividend yield | 0.00% |
| Expected stock price volatility | 110% |
| Risk-free interest rate | 4.10% |
| Expected life of options | 5 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.

e) Agent Warrants

In conjunction with the April 10, 2008 private placement, 432,810 agent warrants were granted as part of the compensation to the agent. (See note 5ii). The following is a summary of the changes in the Company's agent warrants during the year:

| | Warrants outstanding | Weighted average exercise price per share |
|-------------------------------|-------------------------|---|
| Balance – May 31, 2006 | 125,000 | \$0.10 |
| Exercised during the year | (25,000) | 0.10 |
| Balance – May 31, 2007 | 100,000 | 0.10 |
| Granted during the year | 432,810 | 0.38 |
| Exercised during the year | (100,000) | 0.10 |
| Balance – May 31, 2008 | 432,810 | \$0.38 |

During the year, the Company had 100,000 warrants exercised for total proceeds of \$10,000. As part of the warrant exercises, there was \$4,265 in fair value associated with the fair value of the agent's warrants granted during a previous year's private placement. These amounts were transferred from contributed surplus to common shares.

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

5. Share Capital (continued)

f) Warrants

Warrants have been granted and are exercisable allowing the holders to purchase common shares of the Company as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|------------------------------|-----------------------|---------------------------------------|
| Balance, May 31, 2007 | - | \$ - |
| Granted during the year | 2,705,066 | 0.38 |
| Exercised during the year | - | - |
| Expired during the year | - | - |
| Balance, May 31, 2008 | 2,705,066 | \$ 0.38 |

In conjunction with the April 10, 2008 private placement, 5,410,132 half warrants were granted. Each whole warrant will entitle the holder to purchase one additional common share at a price of \$0.38 per common share at any time prior to October 10, 2009. (See note 5ii).

6. Related Party Transactions

- At May 31, 2008, the Company owed \$977 (May 31, 2007 - \$10,238) to companies with directors and officers in common. These are non-interest bearing and are paid under the same terms as normal accounts payable.
- At May 31, 2008, a management services company, with two directors in common, owed the Company \$33,630 (May 31, 2007 - \$40,630) relating to deposits for services paid to the related company. (See Note 9)

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

6. Related Party Transactions (continued)

- c. The following related party transactions were in the normal course of operations and are measured at fair value being their exchange amounts and consists of the following items:

| | May 31, 2008 | May 31, 2007 |
|---|-------------------|-------------------|
| HRG Management Ltd. - Directors & Officers in common (* see below) | \$ 134,690 | \$ 92,661 |
| DC Minerals Consultants – Officer in common, consulting services | 117,203 | - |
| Perennial Capital Corp – Director in common, consulting services | 37,500 | - |
| John Prochnau- Former Director, consulting services | 70,857 | 10,331 |
| Total | \$ 360,250 | \$ 102,992 |

* HRG Management Ltd. (“HRG”) is a management company jointly owned by the Company and certain other companies that share Vancouver office space and administrative services at cost. The Company shares two directors in common with HRG (*See Note 9*).

7. Capital Management

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares.

In the management of capital, the Company includes the components of shareholders’ equity as well as cash and cash equivalents, receivables, investments and investment tax credit receivable balances.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

7. Capital Management (continued)

The Company's investment policy is to invest its cash in low risk highly liquid short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

The Company expects its current capital resources will be sufficient to carry its exploration and development plans and operations through its current operating period.

8. Management of Financial Risk

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

Foreign Currency Risk

The Company's functional currency is the Canadian dollar. However, the Company is exposed to the currency risk related to the fluctuation of foreign exchange rates as some of the Company's operations are located in the Republics of Turkey, Albania and Serbia. The Company also has liabilities denoted in US dollars and UK pound sterling. A significant change in the currency exchange rates between the Canadian dollar relative to the Turkish Lira, Serbian Dinar, Albanian Lek, US dollar, Euro, and the UK pound sterling could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

Interest rate and credit risk

The Company has significant cash balances and no interest-bearing debt. The Company has no significant concentrations of credit risk arising from operations. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by reputable financial institutions with which it keeps its bank accounts and management believes the risk of loss to be remote. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Accounts and other receivable consist of goods and services tax due from the Federal Government of Canada, interest receivable, and amounts due to/from related parties. Management believes that the credit risk concentration with respect to receivables is remote.

Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash and cash equivalent balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short term obligations. As at May 31, 2008, the Company had a cash balance of \$1,141,858 (May 31, 2007 - \$69,104) to settle current liabilities of \$79,097 (May 31, 2007 - \$71,581).

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

8. Management of Financial Risk (continued)

Commodity Price risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market prices of copper. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

The Company has designated its cash and cash equivalents and term deposits as held-for-trading, which are measured at fair value with all gains and losses included in net loss (earnings) in the period in which they arise. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As of May 31, 2008, the carrying amount of accounts receivable and payable equals fair market value.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

- Cash and cash equivalents include deposits which are at variable interest rates. Sensitivity to a plus or minus 1% change in rates would affect net loss by \$11,420.
- The Company holds balances in foreign currencies to give rise to exposure to foreign exchange risk. However, the balances are minimal and therefore the exposure to foreign exchange risk is very low.
- Price risk is remote since the Company is currently not a producing entity.

9. Commitments

Effective February 1, 2008, the Company entered into a services agreement with HRG in which the Company will pay a monthly fee of approximately \$12,514 that includes office rent, corporate administration, accounting, corporate secretarial, chief financial officer and other related services. HRG is a management company jointly owned by the Company and certain other public companies, all of which share office space and staff on a cost recovery basis. The agreement will expire December 31, 2008 and requires 180 days notice prior to termination by either party. The Company shares two directors in common with HRG. The Company has a \$33,630 deposit paid to HRG for management services. (See Note 6b)

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

10. Income Taxes

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

| | 2008 | 2007 |
|----------------------------------|--------------|--------------|
| Loss for the period | \$ 1,069,717 | \$ (215,573) |
| Tax rate | 29% | 34.12% |
| Expected income tax recovery | (310,218) | (73,554) |
| Change in statutory tax rate | 20,504 | - |
| Non-taxable items | 57,450 | 5,849 |
| Deductible taxable items | (19,026) | (4,546) |
| Unrecognized tax losses | 251,290 | 72,251 |
| Total income tax recovery | \$ - | \$ - |

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

| | 2008 | 2007 |
|--|-------------|-------------|
| Non-capital loss carry-forwards | \$ 386,103 | \$ 134,813 |
| Share issuance costs | 72,240 | 13,639 |
| Valuation allowance | (458,343) | (148,452) |
| Net future income tax asset (liability) | \$ - | \$ - |

The Company has accumulated losses of \$1,331,373 which may be used to reduce future year's taxable income. These losses expire as follows:

| | |
|------|---------------------|
| 2015 | \$ 9,416 |
| 2016 | 173,944 |
| 2027 | 210,808 |
| 2028 | 937,205 |
| | <u>\$ 1,331,373</u> |

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 because of uncertainty of their recovery.

Empire Mining Corporation

(A Development Stage Company)

Notes to the Consolidated Financial Statements

For the Years Ended May 31, 2008 and 2007

11. Supplemental Cash Flow Information

| | May 31, 2008 | May 31, 2007 |
|-----------------------------------|---------------------|------------------|
| Cash position consists of: | | |
| Cash | \$ 241,858 | \$ 69,104 |
| Term deposits | 919,643 | - |
| Cash position end of year | \$ 1,161,501 | \$ 69,104 |

The only significant non-cash investing or financing transactions during the year ended May 31, 2008 was the issuance of 200,000 common shares at a fair value of \$0.50 per share in connection with the Bursa Property option agreement (*See Note 4ii*) and the agent warrants issued in conjunction with the April 10, 2008 private placement. These agent warrants have been determined to have a fair value of \$50,094. (*See note 5ii*)

12. Subsequent Events

- a) On August 6, 2008, the Company completed, subject to final TSX Venture Exchange approval, a non-brokered private placement of 6,933,332 units at \$0.30 per unit for gross proceeds of \$2,080,000. Each unit is comprised of one common share and one half of one share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to purchase one additional common share at the price of \$0.38 until February 6, 2010.

The Agent") received a cash finder's fee of \$166,400 and 554,666 finder's warrants. Each finder's warrant entitles the Agent to acquire one common share of the Company at a price of \$0.38 per share until February 6, 2010.

- b) Subsequent to year-end, the Company had a deposit returned back in the amount of \$642,900 related to an unsuccessful mining claim tender bid.