



EMPIRE
MINING CORPORATION

Suite 910 – 475 Howe Street
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MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE YEAR ENDED
MAY 31, 2009**

EMPIRE MINING CORPORATION

Management Discussion and Analysis

For Year Ended May 31, 2009

Introduction

The following discussion of performance and financial condition should be read in conjunction with the annual consolidated financial statements for the years ended May 31, 2009 and 2008. 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 25, 2009.

Caution Regarding Forward Looking Statements

This document contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to as "forward-looking statements"). Often, but not always, forward-looking statements can be identified by the use of words such as "plans," "expects" or "does not expect," "is expected," "planned," "budget," "scheduled," "estimates," "continues," "forecasts," "projects," "predicts," "intends," "anticipates" or "does not anticipate," or "believes," or variations of such words and phrases, or statements that certain actions, events or results "may," "could," "would," "should," "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any of our future results, performance or achievements expressed or implied by the forward-looking statements; consequently, undue reliance should not be placed on forward-looking statements.

These risks, uncertainties and other factors include, but are not limited to: changes in Canadian dollar exchange rates; our strategies and objectives; our tax position and the tax and royalty rates applicable to us; our ability to acquire necessary permits and other authorizations in connection with our projects; risks associated with environmental compliance, including without limitation changes in legislation and regulation, and estimates of reclamation and other costs; our cost reduction and other financial and operating objectives; our environmental, health and safety initiatives; the availability of qualified employees and labour for our operations; risks that may affect our operating or capital plans; risks created through competition for mining properties; risks associated with exploration projects, and mineral reserve and resource estimates, including the risk of errors in assumptions and methodologies; risks associated with our dependence on third parties for the provision of critical services; risks associated with non-performance by contractual counterparties; risks associated with title; and general business and economic conditions.

Forward-looking statements are based on a number of assumptions that may prove to be incorrect, including, but not limited to, assumptions about: general business and economic conditions; the timing of the receipt of required approvals for our operations; the availability of equity and other financing on reasonable terms; power prices; our ability to procure equipment and operating supplies in sufficient quantities and on a timely basis; our ability to attract and retain skilled labour and staff; the impact of changes in Canadian dollar and other foreign exchange rates on our costs and results; market competition; and our ongoing relations with our employees and with our business partners and joint venturers.

We caution you that the foregoing list of important factors and assumptions is not exhaustive. Events or circumstances could cause our actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. We undertake no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise, except as may be required under applicable laws.

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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 and Turkey. 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) Shpk, an Albanian company, Empire Mining BH, a Bosnian 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 US\$60,000 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; (400,000 shares issued)
- iii. Making expenditures on the Property totaling US\$7.5 million over 5 years, of which US\$300,000 (incurred) is required to be spent in year 1; 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.

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% Mo towards the bottom of these holes and occasionally exceeded 0.04% Mo and gold averaged 0.15g/t Au.

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During the year, the Company completed a Phase I drilling program at Bursa consisting of six core holes totaling 1,601 metres. The program was designed to confirm and expand the known porphyry copper occurrences at the Karapinar system. Results of the program are outlined in the following table.

Hole No.	Total Depth (m)	From (m)	To (m)	Intercept (m)	Cu (%)	Mo (%)	Au (g/t)
KDH-006	363.00	0.00	99.70	99.70	0.50	0.0071	0.10
		138.70	227.00	88.30	0.23	0.0022	0.06
KDH-007	380.50	5.50	133.20	127.70	0.31	0.0133	0.11
		363.00	380.50	17.50	0.49	0.0112	0.07
KDH-008	323.00	0.00	224.00	224.00	0.36	0.0110	0.08
Including		20.00	141.00	121.00	0.47	0.0153	0.12
Including		43.00	86.00	43.00	0.72	0.0114	0.18
Including		43.00	68.00	25.00	1.01	0.0118	0.21
Including		202.00	218.40	16.40	0.62	0.0056	NS
KDH-009	278.00	19.00	206.60	187.60	0.34	0.0110	NS
Including		75.00	113.60	38.60	0.57	0.0190	NS
Including		97.90	113.60	15.70	0.77	0.0333	NS
KDH-010	101.00	No Significant Results					
KDH-011	155.50	0.00	155.5	155.6	0.25	0.0148	NS
Including		60.00	84.00	24.00	0.46	0.0314	NS
total	1601.00						

NS = no significant values

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 special advisor to the Company.

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Bulqiza Property

On February 26th, 2009 the Company announced that it was awarded four Exploration Licenses at its Bulqiza chromite project in eastern Albania. The Company first announced on May 21st, 2008, that it had been awarded an Exclusive Prospecting Permit covering the most prospective geological terrain within the productive Bulqiza Ultramafic Massif in eastern Albania. The Prospecting Permit provided the exclusive option to acquire exploration rights within the Prospecting Permit area.

The Exploration Licenses cover 64.5 km², in four discrete project areas containing numerous chromite showings, prospects and past-producing mines. The licenses provide exclusive rights for conversion to Mining Permits. A map of the project areas can be viewed here:

www.empireminingcorp.com/i/maps/albania/nr_bulqiza_locations-geology.pdf

The Bulqiza chromite deposits are noted for exceptional continuity along strike and dip and rank among the largest ophiolite-hosted, folded stratiform occurrences in the world. The ores are characterized by high grades (+40% Cr₂O₃) and metallurgical quality (CrFe ratios of 3:1) and command premium prices in global markets. Prior to the collapse of communism in the late 1980's the Albanian chromite industry, anchored by the famous Bulqiza Mine, was the third largest producer in the world.

The Company's Bulqiza-Batra License (38.8 km²) covers much of the southern half of the Massif, surrounds the Bulqiza Mine and covers the undeveloped south extension of the productive Bulqiza chromite structure within the adjacent Batra Mine. Other important historic mines within the license area include the Thekna, Lugu Gjat-10 Korriku, Ushitari and Ternova mines. Existing historic resources within the license documented and reported by the Albanian Geological Survey, total about 2 million tonnes grading +40% Cr₂O₃.

The Company's Bulqiza Veriore License (6.9 km²) contains numerous unexplored chromite showings and prospects and the projected deep north extension of the productive Bulqiza Mine ore structure. The Qafe Burreli (6.1 km²) and Liqeni i Dhive (12.7 km²) Licenses are located in the northern sector of the Bulqiza Massif and cover a number of significant but incompletely developed chromite occurrences and former mines with near surface resource potential.

The Bulqiza massif contains over 350 chromite occurrences and deposits including the producing Bulqiza-Batra Mine (excluded from the Empire permit) which is widely recognized as one of the largest podiform chromite deposits in the world with past production of about 20 million tonnes grading 35-42% Cr₂O₃ and reported reserves of 18 million tonnes grading +35% Cr₂O₃.

Albania was the world's third largest producer of chromite in the 1980's when production amounted to more than 1 million tonnes per year, mainly from the Bulqiza massif, however, primarily as a consequence of the collapse of communism the local industry has been largely dormant since that time. Bulqiza ores are characterized by exceptionally high grades and generally command premium prices on world markets.

The current program consists of compilation and interpretation of the extensive historic data base assembled by the Albanian Geological Survey and the former state company, Albkrom, during the communist era. The Company's initial objective is to re-confirm state-defined resources, principally at the Batra and Thekna mines, and implement drilling and underground development programs necessary to expand existing resources and upgrade them to 43-101 standards.

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The historic resources and figures indicated are not NI 43-101 compliant and a qualified person has not done sufficient work to confirm the figures or to classify the historic estimates as current mineral resources. They should not be relied upon and the Company does not treat them as current. The Company has retained ECTerra, a geological consulting firm, to prepare a 43-101 report and delivery is expected in September 2009.

Nevlje Property

The 100% owned Nevlje Property, consisting of an exploration license covering 62 Km², is located 10 km southwest of Demitrovgrad in southeast Serbia on the Bulgaria border. The property is adjacent to and immediately across the border from Teck Cominco's and Euromax' Trun gold project in Bulgaria.

The Nevlje license area occurs within the productive Tethyan Belt which contains the Bor (7.94 billion lbs of copper, 3.5 million oz. of gold) and Majdanpek (13.2 billion lbs of copper, 10.6 million oz. of gold) porphyry copper-gold mines and contains similar geological settings.

Historic exploration at Nevlje, limited to surface prospecting, trenching and two short drill holes, has identified porphyry-style disseminated and skarn copper mineralization with assay values up to 1.7% copper in altered volcanic rocks. The area of widespread copper showings at Nevlje is also coincident with a strong magnetic anomaly which is believed to reflect a buried intrusive body.

Empire has commenced detailed field work on the license, including mapping, soil geochemistry and geophysics in order to develop drill targets for future drilling.

Kursumlija Property

The Kursumlija copper property covers 62 km², located immediately northwest of the Lece mining district and 320 km south of Belgrade in southern Serbia.

The license area contains swarms of copper-bearing veins and zones of disseminated copper mineralization generally related to the margins of northwest-elongated gabbro and diabase bodies and a coincident magnetic anomaly. Limited historic exploration, carried out in the 1950's and 1960's by state companies, and identified at least forty individual mineralized veins with grades ranging from 0.18 to 9.91% copper across thicknesses of 1 to 3.5 metres. An area of hydrothermally altered gabbro, with associated disseminated copper mineralization, has also been defined over a surface area of 2 km² near the village of Trebinja. There has been no drilling within the license area.

Empire has commenced an initial field program designed to evaluate the known mineralized showings within the license area and prospect for others. The program includes geologic mapping, soil and rock geochemical surveys and possible geophysics to define drill targets.

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Selected Annual Information

	May 31, 2009	May 31, 2008	May 31, 2007
Financial results			
Net loss for year	1,050,006	1,069,717	215,573
Basic and diluted loss per share	0.04	0.09	0.03
Expenditures on resource properties	1,069,642	288,574	-
Balance sheet data			
Cash and short term deposits	1,787,224	1,161,501	69,104
Resource properties	1,358,216	288,574	-
Total assets	3,320,088	2,217,272	111,068
Deficit	2,547,685	1,497,679	427,962

Results of Operations

The Company incurred a \$1,050,006 loss during the current year versus a \$1,069,717 loss during the prior year. This amounts to a \$19,711 (2%) decrease which can be primarily attributed to two material account changes. There was an increase in administrative and management costs which was counterbalanced with a decrease in property investigation costs. After acquiring the Bulquiza project the Company has expanded its management team and focused on the new Albanian assets.

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, 2009, the Company had a working capital balance of \$1,817,578 which included a cash balance of \$1,260,868 and liquid GICs totaling \$526,357. Management believes that 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.

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Selected Quarterly Financial Data (\$)

Financial results:	May 31 2009	Feb. 28 2009	Nov. 30 2008	Aug. 31 2008	May 31 2008	Feb. 28 2008	Nov. 30 2007	Aug. 31 2007
Net loss for the period	277,997	268,185	201,795	302,029	458,889	410,030	102,376	98,422
Basic/Diluted loss per share	0.01	0.01	0.01	0.01	0.09	0.04	0.01	0.01
Resource expenditures	161,582	112,212	213,138	582,710	64,614	57,703	166,257	-

Balance sheet data:	May 31 2009	Feb. 28 2009	Nov. 30 2008	Aug. 31 2008	May 31 2008	Feb. 28 2008	Nov. 30 2007	Aug. 31 2007
Cash and GIC	1,787,224	2,222,476	2,507,751	2,889,133	1,161,501	808,782	1,160,918	1,392,183
Resource properties	1,358,216	1,196,634	1,084,422	871,284	288,574	57,703	166,257	-
Total assets	3,320,088	3,543,366	3,728,114	3,918,650	2,217,272	1,133,070	1,410,649	1,446,803
Shareholders' equity	3,215,090	3,463,877	3,696,773	3,803,675	2,138,159	1,067,377	1,388,863	1,381,239

Share Capital Information

On May 31, 2009 the following equity securities were outstanding:

	Price	Expiry date	Number of common shares
Common shares, issued and outstanding:			24,693,460
Securities convertible into common shares:			
Warrants	\$0.38	October 10, 2009	2,705,066
	\$0.38	February 6, 2010	3,466,667
Broker Warrants	\$0.38	October 10, 2009	432,810
	\$0.38	February 6, 2010	554,666
Options	\$0.10	October 31, 2010	610,000
	\$0.35	July 17, 2011	60,000
	\$0.40	January 24, 2013	735,000
	\$0.25	November 5, 2013	300,000
	\$0.25	April 28, 2014	650,000
			34,207,669

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Private Placements

- i) On August 6, 2008, the Company completed a non-brokered private placement consisting of 6,933,332 units for gross proceeds of \$2,080,000. Each unit was comprised of a common share and one half of one share purchase warrant wherein each whole share purchase warrant is exercisable into a common share at \$0.38 per share until February 6, 2010.

Warrants

- i) In conjunction with the August 6, 2008 private placement 3,466,667 warrants were granted. Each 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 February 6, 2010. (See note 5iii to interim consolidated financial statements).
- ii) During the current period, 554,666 agent warrants were granted in conjunction with the private placement on August 6, 2008 as part of the compensation to the agent. (See note 5iii to the interim consolidated financial statements).

Stock Options

- i) During the year, 595,000 options were cancelled.
- ii) During the period, the Company granted a total of 300,000 stock options, exercisable on or before November 5, 2013 at a price of \$0.25.
- iii) During the year, the Company granted a total of 650,000 stock options, exercisable on or before April 28, 2014 at a price of \$0.25.

Commitments

Effective November 1, 2008, the Company entered into a consulting contract with a corporation controlled by a director in which the Company will pay monthly fees of \$5,000. The agreement will expire on December 31, 2009.

Related Party Transactions

- a. At May 31, 2009, the Company owed \$1,908 (2008 - \$977) for consulting services and reimbursement of administrative expenses 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, 2009, a management services company with two directors in common owed the Company \$26,664 (2008 - \$33,630) relating to deposits for future services. (See Note 7 to the consolidated financial statements)

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Subsequent Events

Effective June 1, 2009, the Company entered into a new management agreement with a company controlled by the CEO. The agreement provides for a monthly fee \$8,333. The agreement expires on December 31, 2009.

Changes in Accounting Policies

Section 1535, Capital Disclosures

Handbook Section 1535 is effective for annual and interim periods beginning on or after October 1, 2007 and requires disclosure of the Company's objectives, policies, and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and, if the Company has not complied, the consequences of such non-compliance. The new accounting standard covers disclosure only and has had no effect on the financial statements.

Section 1400, General Standards of Financial Statement Presentation

In June 2007, the CICA amended this Section to include additional requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The mandatory effective date is for annual and interim financial statements for years beginning on or after January 1, 2008. The Company has provided the additional disclosure required in Note 1 of the financial statements.

Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Canadian Accounting Standards Board ("AcSB") issued EIC Abstract 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities ("EIC 173"), which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 should be applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. Adoption of this EIC did not have a significant impact on the Company's financial statements.

Mining exploration costs

In March 2009 the Company adopted CICA issued Emerging Issues Committee Abstract 174 - *Mining Exploration Costs* which amends EIC-126 - *Accounting by Mining Enterprises for Exploration Costs*, to provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs are required. EIC - 126 has been withdrawn. Adoption of EIC 174 did not have a significant impact on the Company's financial statements.

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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:

a) 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.

b) Goodwill and intangible assets

In October 2007, the CICA approved Handbook Section 3064, "Goodwill and Intangible Assets" which replaces the existing Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company is currently assessing the impact of this new accounting standard on its financial statements.

c) Business Combination, Non-Controlling Interest, and Consolidation

In January 2009, the CICA issued Handbook Sections 1582, Business Combination ("Section 1582"), 1601, Consolidated Financial Statements. ("Section 1601") and 1602, Non-controlling Interests, ("Section 1602") which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations and acquisition dates on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 is applicable for the Company's interim and annual financial statements for its fiscal year beginning January 1, 2011. Early adoption of this section is permitted. If the Company chooses to adopt any one of these sections, the other sections must also be adopted at the same time. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

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.

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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.

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, 2009.

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.

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- 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.

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 interim 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 February 28, 2009 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 the Company 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.

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Other Information

The Company announced the appointment of Professor Michael Johnson to the Board of Directors and the resignation of Ken Judge as Chairman of the Board. Joel Schuster was appointed to the positions of Vice President of Commercial Affairs and Corporate Secretary after the resignation of Jacqueline Collins. Additional information about the Company is available on the Company's website at www.empireminingcorp.com or SEDAR at www.sedar.com.

Corporate Information

Head Office: Suite 910 – 475 Howe Street
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Directors: Robert Giustra
David Cliff
Michael Johnson

Officers: David Cliff, President and Chief Executive Officer
Sean McGrath, Chief Financial Officer
Joel Schuster, VP of Commercial Affairs and Corporate Secretary

Auditor: Dale Matheson Carr-Hilton Labonte LLP
1500 – 1140 West Pender Street
Vancouver, BC V6E 4G1

Legal Counsel: Lang Michener LLP
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EMPIRE
MINING CORPORATION

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**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2009 AND 2008**

AUDITORS' REPORT

To the Shareholders of Empire Mining Corporation

We have audited the consolidated balance sheet of Empire Mining Corporation as at May 31, 2009 and the consolidated statements of loss, comprehensive loss 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The audited consolidated financial statements at May 31, 2008 and for the year then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated August 11, 2008.

“DMCL”

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
July 31, 2009

Empire Mining Corporation

(A Development Stage Company)

Consolidated Balance Sheets

Canadian Funds

	May 31, 2009	May 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,260,868	\$ 241,858
Term deposits (note 3)	526,357	919,643
Prepays and deposits	106,262	717,768
Due from related parties (note 7)	26,664	33,630
Receivables	2,425	15,799
	1,922,576	1,928,698
Equipment (note 5)	39,296	-
Mineral Properties (note 4)	1,358,216	288,574
	\$ 3,320,088	\$ 2,217,272
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 103,090	\$ 78,136
Due to related parties (note 7)	1,908	977
	104,998	79,113
Shareholders' Equity		
Share capital (note 6)	4,741,691	3,108,148
Contributed surplus (note 6)	1,021,084	527,690
Deficit	(2,547,685)	(1,497,679)
	3,215,090	2,138,159
	\$ 3,320,088	\$ 2,217,272

Nature of operations and going concern (note 1)

Commitments (notes 4 and 8)

Subsequent events (note 14)

On behalf of the Board:

/S/ David Cliff

David Cliff - Director

/S/ Robert Giustra

Robert Giustra - Director

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

Empire Mining Corporation

(A Development Stage Company)

Consolidated Statements of Loss, Comprehensive Loss and Deficit

Canadian Funds

	Year Ended May 31, 2009	Year Ended May 31, 2008
EXPENSES		
Amortization	\$ 2,068	\$ -
Consulting fees	144,664	116,747
Corporate administration fees	74,211	58,896
Director fees	43,000	24,500
Management fees	147,575	51,597
Office and general	145,449	55,301
Professional fees	137,529	128,217
Property investigation	159,366	325,197
Shareholder relations	29,315	16,741
Stock-based compensation (note 6d)	167,799	196,762
Telecommunications	9,306	1,200
Transfer agent and filing fees	20,329	65,635
Travel	21,219	63,743
Loss Before Other Income (Expenses)	(1,101,830)	(1,104,536)
Other Income (Expenses)		
Interest income	52,614	41,951
Foreign exchange loss	(790)	(7,132)
Loss and Comprehensive Loss for the Year	(1,050,006)	(1,069,717)
Deficit, Beginning of Year	(1,497,679)	(427,962)
Deficit, End of Year	\$ (2,547,685)	\$ (1,497,679)
Basic and Diluted Loss Per Common Share	\$ (0.04)	\$ (0.09)
Weighted Average Number of Common Shares Outstanding (Basic and Diluted)	23,388,803	12,070,317

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

Empire Mining Corporation

(A Development Stage Company)

Consolidated Statements of Cash Flows

Canadian Funds

	Year Ended May 31, 2009	Year Ended May 31, 2008
Cash Flows Provided by (Used in)		
Operating Activities		
Loss for the year	\$ (1,050,006)	\$ (1,069,717)
Items not affecting cash:		
Amortization	2,068	-
Interest accrued on term deposit	18,286	(19,643)
Stock-based compensation	167,799	196,762
Changes in non-cash working capital items:		
Decrease (increase) in prepaids and deposits	611,506	(717,768)
Decrease in due from related parties	6,966	7,000
Decrease (increase) in receivables	13,373	(14,465)
Increase (decrease) in due to related parties	931	(9,261)
Increase in accounts payable	24,954	16,792
Net cash used in operating activities	(204,123)	(1,610,300)
Investing Activities		
Acquisition and exploration of mineral properties	(1,011,642)	(188,574)
Acquisition of vehicles	(41,364)	-
Redemption (purchase) of term deposit	375,000	(900,000)
Net cash used in investing activities	(678,006)	(1,088,574)
Financing Activities		
Common shares issued for cash	2,080,000	3,123,039
Exercise of agent's options	-	10,000
Share issuance costs	(178,861)	(261,411)
Net cash provided by financing activities	1,901,139	2,871,628
Increase in cash and cash equivalents	1,019,010	172,754
Cash and cash equivalents, beginning	241,858	69,104
Cash and cash equivalents, ending	\$ 1,260,868	\$ 241,858

Supplemental Cash Flow Information - note 12

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

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

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.

The Company is a tier 2 mining issuer, and its principal business activity is the exploration and development of mineral properties. All of the Company’s mineral properties are currently located in 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. Management believes the Company has adequate funds to carry out its exploration plans for the upcoming fiscal period.

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) SHPK, an Albanian company, Empire Mining SR doo, a Serbian company and Empire Mining BH, a Bosnian Company. All inter-company transactions and balances have been eliminated upon consolidation.

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.

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.

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

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.

Stock-Based Compensation

All stock-based awards made to employees and non-employees are measured and recognized using the Black-Scholes option pricing model incorporating assumptions regarding risk-free interest rates, dividend yield, volatility factor of the expected market price of the Company's stock and the weighted average expected life of the options. 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.

Foreign currency translation

The Company's functional and reporting currency is the Canadian dollar and the Company uses the temporal method of foreign currency translation for translating the operations of its integrated subsidiaries. Transactions are translated into Canadian dollar equivalents as follows:

- a) Monetary items at the rate prevailing at the balance sheet date;
- b) Non-monetary items at the historical exchange rate;
- c) Revenue and expense at the average exchange rate for the period;
- d) Gains or losses arising on translation are included in the statement of loss.

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, a full valuation allowance is recorded.

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

2. Significant Accounting Policies (continued)

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 expenditures are deferred.

Asset retirement obligations

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. As at May 31, 2009, the Company did not have any significant asset retirement obligations.

Equipment

Equipment is valued at cost less accumulated amortization. The Company provides for amortization for all equipment classes using the declining balance method at a rate of 30%.

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

2. Significant Accounting Policies (continued)

Financial Instruments and Comprehensive Income, and Hedges

The Company adopted the CICA Handbook Sections 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3862, *Financial Instruments – Disclosure*; Section 3863, *Financial Instruments - Presentation*; and Section 3865, *Hedges*.

(i) Financial Instruments

Under Section 3855, financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as held-for-trading, available for sale financial assets, held to maturity, loans and receivables, or other financial liabilities as follows:

- Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period.
- Available for sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. However, where no active market exists, the financial asset is held at cost.
- Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.
- Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period unless the instrument is a cash flow hedge and hedge accounting applies in which case changes in fair value are recognized in other comprehensive income.

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. Prepaids and deposits, receivables and due from related parties 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 fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity for prompt liquidation.

Under Sections 3862 and 3863, the Company is required to provide disclosure of quantitative and qualitative information in its financial statements that enable users to evaluate (a) the significance of financial instruments for the Company's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. The Company has provided disclosure under these sections in Note 10.

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

2. Significant Accounting Policies (continued)

(ii) Comprehensive Income (Loss)

Section 1530 introduces the concept of comprehensive income, which is calculated by including other comprehensive income (loss) with net income (loss). Other comprehensive income (loss) represents changes in shareholders' equity arising from transactions and other events with non-owner sources such as unrealized gains and losses on financial assets classified as available-for sale.

(iii) Hedges

Section 3865 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.

Upon adoption of these new sections, the transition rules require that the Company adjusts either the opening deficit or accumulated other comprehensive income (loss) as if the new rules had always been applied in the past, without restating comparative figures of prior years. The Company has evaluated the impact of these new sections on its consolidated financial statements and determined that no significant adjustments were required upon adoption.

Accounting Policies Recently Adopted

Section 1535, Capital Disclosures

Handbook Section 1535 is effective for annual and interim periods beginning on or after October 1, 2007 and requires disclosure of the Company's objectives, policies, and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and, if the Company has not complied, the consequences of such non-compliance. The new accounting standard covers disclosure only and has had no effect on the financial statements. Refer to Note 9.

Section 1400, General Standards of Financial Statement Presentation

In June 2007, the CICA amended this Section to include additional requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The mandatory effective date is for annual and interim financial statements for years beginning on or after January 1, 2008. The Company has provided the additional disclosure required in Note 1.

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

2. Significant Accounting Policies (continued)

Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Emerging Issues Committee (“EIC”) of the Canadian Accounting Standards Board (“AcSB”) issued EIC Abstract 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities (“EIC 173”), which establishes that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 should be applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. Adoption of this EIC did not have a significant impact on the Company’s financial statements.

Mining exploration costs

In March 2009 the Company adopted CICA issued Emerging Issues Committee Abstract 174 - *Mining Exploration Costs* which amends EIC-126 - *Accounting by Mining Enterprises for Exploration Costs*, to provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs are required. EIC – 126 has been withdrawn. Adoption of EIC 174 did not have a significant impact on the Company’s financial statements.

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:

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 impact of the transition to IFRS on the Company’s financial statements has yet to be determined.

During 2009 and 2010, the Company will assess its requirements and first time adoption methodologies, including its internal training and resource needs. The Company expects that by the second calendar quarter of 2010 management will have assessed conversion and first time adoption implications. During 2010 additional disclosures and analysis of impacts will be provided leading up to adoption in the first quarter of 2011.

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

2. Significant Accounting Policies (continued)

Section 3064, Goodwill and Intangible Assets

The new standard establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including those developed internally. At the same time the CICA accounting standards board amended section 1000, Financial Statement Concepts, to clarify the criteria for recognition of an asset. Therefore items that no longer meet the definition of an asset are no longer recognized with assets. The new standard and amended standard are both effective for annual and interim periods beginning on or after October 1, 2008. The adoption of this new standard did not have a material impact on the Company's financial statements.

Business Combination, Non-Controlling Interest, and Consolidation

In January 2009, the CICA issued Handbook Sections 1582, Business Combination ("Section 1582"), 1601, Consolidated Financial Statements. ("Section 1601") and 1602, Non-controlling Interests, ("Section 1602") which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations and acquisition dates on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 is applicable for the Company's interim and annual financial statements for its fiscal year beginning January 1, 2011. Early adoption of this section is permitted. If the Company chooses to adopt any one of these sections, the other sections must also be adopted at the same time. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

3. Term Deposits

Details are as follows:

	2009	2008
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%
Short-term Investment Certificate	\$525,000	-
Maturity date	February 19, 2010	-
Interest rate per annum	0.85%	-

The short-term investment certificates were issued by the Bank of Montreal and are redeemable at any time, but if redeemed within the first 30 days of issue then interest will not be paid. At May 31, 2009 the Company has accrued interest of \$1,357 on this short term investment (2008 - \$19,643).

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

4. Mineral Properties

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

Mineral Properties Exploration Costs	Bulqiza	Bursa	Nevlje	Kursumlija	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
Acquisition	-	79,402	-	-	79,402
Administrative costs	4,014	19,365	9,712	7,971	41,062
Laboratory Analysis/Assays	1,400	50,720	24,644	1,575	78,339
Drilling costs	-	278,058	-	-	278,058
Maps and reports	29,806	-	4,559	3,462	37,827
Geological services	114,485	160,635	85,241	49,228	409,589
Geophysics	-	-	5,772	2,656	8,428
License/Permits/Renewals	26,025	10,050	1,670	-	37,745
Travel	10,454	30,478	19,943	6,590	67,465
Equipment and supplies	24,035	7,692	-	-	31,727
Balance – May 31, 2009	\$ 211,474	\$ 923,719	\$ 151,541	\$ 71,482	\$ 1,358,216

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

4. Mineral Properties (continued)

The Company entered into an option agreement (the "Agreement") on September 17, 2007, as amended on February 13, 2009, 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 at US\$20,000 on closing, US\$20,000 per year for years 1 through 4 and US\$400,000 in year 5; (of which US\$60,000 has been paid);
- ii. Making payments to Anatolia over 5 years of Empire common shares at 200,000 shares per year with an additional amount in the fifth year to bring the total to 5% of Empire's fully diluted share capital as at the 5th anniversary of the Agreement; (400,000 shares issued);
- iii. Making expenditures on the Property totaling US\$7.5 million over 5 years, of which US\$300,000 (incurred) is required to be spent in year 1; 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 January 29, 2009, the Company was awarded 4 exploration licenses in the Republic of Albania. The licenses cover much of the chromite-bearing, Bulqiza ultramafic massif in eastern Albania.

Nevlje Property

The 100% owned Nevlje Property, consisting of an exploration license covering 62 Km², is located 10 km south-west of Demitrovgrad in southeast Serbia on the Bulgaria border.

Kursumlija Property

The Kursumlija copper property, consisting of an exploration license covering 62 Km², is located immediately northwest of the Lece mining district and 320 km south of Belgrade in southern Serbia.

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

5. Equipment

	Cost	Accumulated Amortization	May 31, 2009 Net Book Value
Vehicles	\$ 41,364	\$ 2,068	\$ 39,296

6. Share Capital

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

b) **Issued and Outstanding:**

	Number of Shares	Share Capital	Contributed Surplus
Balance 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 at May 31, 2008	17,560,128	3,108,148	527,690
Non-brokered private placement (iii)	6,933,332	1,776,772	303,228
Share issuance costs	-	(201,229)	(34,342)
Mineral property acquisition	200,000	58,000	-
Fair value of agent's warrants granted	-	-	56,709
Stock based compensation	-	-	167,799
Balance at May 31, 2009	24,693,460	\$ 4,741,691	\$ 1,021,084

i) During the year ended May 31, 2008, 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.

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

6. Share Capital (continued)

ii) During the year ended May 31, 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 share purchase 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 on or before October 10, 2009. In addition, a pro rata portion of the share issuance costs applicable to the private placement warrants has been applied to contributed surplus in the amount of \$40,699.

iii) During the year ended May 31, 2009, the Company completed a non-brokered private placement consisting of 6,933,332 units for gross proceeds of \$2,080,000. Each unit was comprised of a common share and one half of one share purchase warrant wherein each whole share purchase warrant is exercisable into a common share at \$0.38 per share until February 6, 2010.

The warrants attached to the above private placement have been valued at \$303,228 based upon the Black Scholes model which utilizes the following assumptions: Expected dividend yield of nil, expected stock price volatility of 85%, Risk-free interest rate of 3.20%, and Expected life of warrants of 18 months

Share issuance costs of \$235,571 were paid in conjunction with this financing including a cash commission of \$166,400 (equal to 8% of the gross proceeds), legal fees of \$1,212, filing fees of \$11,250 and 554,666 agent warrants. These agent warrants have been determined to have a fair value of \$56,709 based upon the Black Scholes model which utilized the following assumptions: Expected dividend yield of nil, Expected stock price volatility of 85%, Risk free interest rate of 3.20%, Expected life of warrants of 18 months. The agent warrants are exercisable at a price of \$0.38 on or before February 6, 2010. In addition, a pro rata portion of the share issuance costs applicable to the private placement warrants has been applied to contributed surplus in the amount of \$34,342.

- c) **Escrowed Shares** – Pursuant to the Company's initial public offering, a total of 4,497,501 common shares were placed into escrow. In accordance with the escrow agreement, a total of 10% of these shares were released on November 7, 2007 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, 2009, a total of 2,023,875 common shares remained in escrow.

Empire Mining Corporation

(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

6. Share Capital (continued)

d) Incentive Stock Options

The following table summarizes information about stock options outstanding at May 31, 2009:

Number of Stock Options	Exercise Price	Expiry Date
610,000	\$0.10	October 31, 2010
60,000	\$0.35	July 17, 2011
735,000	\$0.40	January 24, 2013
300,000	\$0.25	November 5, 2013
650,000	\$0.25	April 28, 2014

	Options Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Grant Date Fair Value	Weighted Average Time to Expiry
Balance – May 31, 2007	670,000	\$0.12	\$0.08	3.49 yrs
Granted during the year	1,330,000	\$0.40	\$0.27	5.00
Balance – May 31, 2008	2,000,000	\$0.31	\$0.21	4.08
Granted during the year	950,000	\$0.25	\$0.05	5.00
Cancelled during the year	(595,000)	\$0.40	\$0.27	-
Balance – May 31, 2009	2,355,000	\$0.26	\$0.13	3.48 yrs

- i) During the year ended May 31, 2008, 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 during the year ended May 31, 2008 and \$138,769 during the year ended May 31, 2009. A total of 595,000 options were cancelled during the year ended May 31, 2009. The remaining balance of option fair value excluding cancelled options which total \$5,437 will vest during the year ended May 31, 2010.

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6. 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	85%
Risk-free interest rate	3.45%
Expected life of options	5 years

- ii) During the year ended May 31, 2009, the Company granted a total of 300,000 stock options, exercisable on or before November 5, 2013 at a price of \$0.25. The total fair value of the options granted was \$12,236 with \$9,091 being recorded in the Company's accounts as stock based compensation. The balance of \$3,145 will be recorded over the vesting period wherein 25% vests on each successive date that is six months from the date of the grant.

The fair value of the 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	95%
Risk-free interest rate	2.79%
Expected life of options	5 years

- iii) During the year ended May 31, 2009, the Company granted a total of 650,000 stock options, exercisable on or before April 28, 2014 at a price of \$0.25. The total fair value of the options granted was \$61,089 with \$19,939 being recorded in the Company's accounts as stock based compensation. The balance of \$41,150 will be recorded over the vesting period wherein 25% vests on each successive date that is six months from the date of the grant.

The fair value of the 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	146%
Risk-free interest rate	2.01%
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.

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For the Years Ended May 31, 2009 and 2008

6. Share Capital (continued)

e) Agent Warrants

The following is a summary of the changes in the Company's agent warrants during the period:

	Warrants outstanding	Weighted average exercise price per share	Weighted Average Time to Expiry
Balance – May 31, 2007	100,000	\$ 0.10	0.42 yrs
Granted during the year	432,810	0.38	1.50
Exercised during the year	(100,000)	0.10	-
Balance – May 31, 2008	432,810	0.38	1.36 yrs
Granted during the year	554,666	0.38	1.50
Balance – May 31, 2009	987,476	\$ 0.38	0.54 yrs

- During the year ended May 31, 2008, 432,810 agent warrants were granted as part of the compensation to the agent. (See note 6(b)ii).
- During the year ended May 31, 2008, 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.
- During the year ended May 31, 2009, 554,666 agent warrants were granted in conjunction with the private placement on August 6, 2008 as part of the compensation to the agent. (See note 6(b)iii).

f) Warrants

- In conjunction with the August 6, 2008 private placement 3,466,667 warrants were granted. Each 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 February 6, 2010. (See note 6(b)iii).

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7. Related Party Transactions

- a. At May 31, 2009, the Company owed \$1,908 (2008 - \$977) for consulting services and reimbursement of administrative expenses 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, 2009, a management services company with two directors in common owed the Company \$26,664 (2008 - \$33,630) relating to deposits for future services.
- 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:

	2009	2008
HRG Management Ltd. - Directors in common (* see below)	\$ 228,143	\$ 134,690
David Cliff – Director, consulting services and director fees	94,256	117,203
Robert Giustra – Director, consulting services and director fees	50,000	37,500
John Prochnau – Former Director, consulting services	94,135	70,857
Ken Judge – Former Director, consulting services and director fees	21,000	7,000
Michael Johnson – Director, consulting services and director fees	7,000	-
Total	\$ 494,534	\$ 367,250

* HRG Management Ltd. (“HRG”) is a management company that was jointly owned by the Company and certain other companies that share Vancouver office space and administrative services at cost. The Company shared two directors in common with HRG. Subsequent to year-end, there were no directors in common and the companies ceased to be related parties. By agreement dated July 15, 2009 and effective September 1, 2009, the Company entered into a 4 month office rental contract with HRG at a rate of \$2,834 per month.

8. Commitments

Effective November 1, 2008, the Company entered into a consulting contract with a corporation controlled by a director in which the Company will pay monthly fees of \$5,000. The agreement will expire on December 31, 2009.

Refer to note 4.

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Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

9. 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 and term deposits.

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 reviewed and approved by the Board of Directors.

The Company expects its current capital resources will be sufficient to carry its exploration and development plans and operations through the current fiscal year.

10. Management of Financial Risk

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'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, Bosnia and Serbia. The Company also has liabilities denoted in US dollars and Euros. 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.

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Notes to Consolidated Financial Statements

For the Years Ended May 31, 2009 and 2008

10. Management of Financial Risk (continued)

The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Receivables consist of goods and services tax due from the Federal Government of Canada and amounts due 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, 2009, the Company had a combined cash and liquid term deposit balance of \$1,787,225 (2008 - \$1,161,501) to settle current liabilities of \$104,998 (2008 - \$79,113).

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 and chromite. 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. Receivables 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, 2009, the carrying amount of receivables and payables equal 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 \$17,872.
- The Company holds balances in foreign currencies which 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.

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Notes to Consolidated Financial Statements

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11. Income Taxes

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

	2009	2008
Loss for the period	\$ 1,050,006	\$ 1,069,717
Tax rate	29%	29%
Expected income tax recovery	(304,502)	(310,218)
Change in statutory tax rate	-	20,504
Tax rate change and differential in foreign jurisdictions	96,424	-
Non-taxable items	49,317	57,450
Future tax benefit of share issue costs not credited to share capital	(46,503)	(19,026)
Other	5,029	-
Change in valuation allowance	200,235	251,290
Total income tax recovery	\$ -	\$ -

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

	2009	2008
Non-capital loss carry-forwards	\$ 578,175	\$ 386,103
Share issuance costs	80,403	72,240
Valuation allowance	(658,578)	(458,343)
Net future income tax asset (liability)	\$ -	\$ -

The Company has accumulated losses of \$2,206,890 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	936,177
2029	876,545
	<u>\$ 2,206,890</u>

The Company has foreign tax losses totalling approximately \$104,000.

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.

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12. Supplemental Cash Flow Information

	2009	2008
Cash	\$ 237,173	\$ 241,858
Flexible term deposit	1,000,000	-
Total cash and cash equivalents	\$1,237,173	\$ 241,858
<hr/>		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

The only significant non-cash financing transaction during the year ended May 31, 2009 was the determination of the fair value of the warrants and agent warrants issued in conjunction with the August 6, 2008 private placement. These warrants have been determined to have a fair value of \$303,228 and the agent warrants have been determined to have a fair value of \$56,709. (See note 6(b)iii)

The only significant non-cash investing transaction during the year ended May 31, 2009 was the issuance of 200,000 common shares valued at \$58,000.

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 4) 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 6).

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13. Segmented Information

	2009	2008
Current Assets		
Canada	\$1,753,644	\$1,882,155
Europe	168,932	46,543
Total	\$1,922,576	\$1,928,698
Capital Assets		
Canada	\$ -	\$ -
Europe	1,397,512	288,574
Total	\$1,397,512	\$ 288,574
Total Assets		
Canada	\$1,753,644	\$1,882,155
Europe	1,566,444	335,117
Total	\$3,320,088	\$2,217,272
Net Loss		
Canada	\$ 945,225	\$1,066,189
Europe	104,781	3,528
Total	\$1,050,006	\$1,069,717

14. Subsequent Events

Effective June 1, 2009, the Company entered into a new management agreement with a company controlled by the CEO. The agreement provides for a monthly fee \$8,333. The agreement expires on December 31, 2009.