EMPIRE
MINING CORPORATION

Suite 307 – 475 Howe Street
Vancouver, B.C.
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MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED
MAY 31, 2011

Introduction

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 September 30, 2011.

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 labor 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 labor 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.

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 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 Turkey, Albania and Serbia.

Recent Developments

In Turkey, the Company announced a significant new discovery at its Bursa copper-gold project in January 2011. The Discovery hole drilled at the Demirtepe target intersected significant copper-gold-silver skarn mineralization including 2.02% copper, 0.96 g/t gold and 21.64 g/t silver over 47.35 m from 112.2 m to 159.55 m, which included 8.0 m of 9.1% copper, 4.68 g/t gold and 95.3 g/t silver. The drilling program at Demirtepe was expanded and accelerated and is focused on obtaining continuity within the skarns.

Empire is currently also evaluating the significance of wollastonite, a calcium silicate mineral, which is the exclusive host of the copper-gold-silver mineralization at Demirtepe. Initial studies commissioned by Empire on the wollastonite in the Main Zone indicate that it has potential economic importance in its own right and could potentially benefit the stripping ratio and economics of a future copper-gold mine development at Demirtepe.

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In Serbia, the Company is advancing four early stage copper and gold projects with significant exploration upside, with the aim of defining drill targets for future drilling campaigns.

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 (Serbia) International Mining Corporation, a BVI company, Empire Mining (Albania) Shpk, an Albanian company, Empire Mining BH, a Bosnian company and Empire Mining SR doo, a Serbian company.

Mineral Properties

Bulqiza Property

On December 20th, 2010, the Company completed a royalty sale concerning its 100% owned Bulqiza project in Albania.

The royalty sale represents the sale to Anglo Pacific Group PLC ("APG") of a 3% gross royalty (net of transportation costs and state royalties) on chromite mined at Bulqiza. In conjunction with the royalty sale, the Company also completed the sale to APG of 6,700,000 shares of Empire through a private placement. Net proceeds from the private placement and royalty sale totaled $4,105,000, of which $3,100,000 must be used by Empire on the property. There were no finders' fees or commissions payable in connection with the transactions.. As a result of the royalty sale in December 2010 which resulted in proceeds of $2,417,500, Bulqiza's carrying value of $1,406,948 was written down and a net gain after transaction costs of $1,010,552 was realized. Since then, the Company has spent $593,000 on the property to year end. A spending commitment of $2,507,000 remains outstanding at year end.

On September 30th, 2010, Empire announced that Phase I drilling at its Bulqiza-Batra chromite license in Albania had confirmed the existence of the eastern mineralized extension of the fold structures controlling and hosting the chromite ores in the productive Bulqiza and Batra mines (the "Orebody")* where recorded past production is about 20 million tonnes of high-grade (35%-42% Cr2O3) and high metallurgical quality (CrFe ratios of up to 3:1) ore. The drilling confirmed the Eastern Limb at both ends of the Orebody*, which extends over 2 km of strike and over an average width of 500 meters.

The Phase I drilling demonstrated that it is more cost effective to drill underground from adits and to develop new adits along mineralization than it is to carry out surface diamond drilling. As new adits are developed, mineralization can be evaluated by underground mapping and sampling and can be combined with short (20-40 m) offset underground diamond drill holes where required to provide new resource estimates.

In April 2011, Phase II drilling commenced at the Thekna adit which is located within the Bulqiza-Batra Licence, 5 km southeast of the Orebody* and is believed to be part of the same structure. Planned drilling consisted of up to 1,000 meters in up to 4 core holes and was designed to target a reported historical resource** identified from state drilling of 300 000 at 45% Cr_2O_3 where the Company believes there is scope for significant expansion.

The commencement of drilling required the Company's development team to complete the rehabilitation of the adit in harsh winter conditions which severely hampered progress. Overhead power-lines were installed from the main grid to the entrance of adit. Insulated cables and water lines were installed along 1.36 km in the gallery to support the operation of the drilling rig.

*The term "Orebody" is used in the historical sense and is not meant to imply current economic viability.

****Caution**: A qualified person has not done sufficient work to classify the historical estimate respecting the Thekna resource as a current mineral resource. The Company is not treating the historical estimate as a current mineral resource and the historical estimate should not be relied upon.

Bursa Property

On January 18, 2011, the Company announced drilling results for the first hole DTH-001 completed on the Demirtepe target at its Bursa project located in Turkey. Empire is earning a 65% interest in Bursa from Alacer Gold Corp. (formerly Anatolia Minerals Development Limited). There are two principal target areas at Bursa of which Demirtepe was the second to be drill tested by Empire.

The scout drilling program of up to 1,000 meters in four holes at Demirtepe, which commenced in November 2010, was designed to test copper-gold-molybdenum soil anomalies over an area of 1,500 by 500 meters. However, given the results received in the first hole, Empire accelerated and expanded the drilling campaign.

The first hole DTH-001 was stopped at 202.10m as a result of drilling difficulties before reaching target depth where geophysical surveys identified an anomaly that could be attributed to a blind porphyry system. However, the hole intersected copper-gold-silver skarn mineralization as follows:

- from 112.2m to 159.55m: 2.02%Cu, 0.96g/t Au, 21.64g/t Ag over a sampled width of 47.35m within which there are the following higher grade intercepts:
- from 112.2m to 117.55m: 2.09% copper, 0.72/t gold, 22.6g/t silver over a sampled width of 5.35m
- from 127.4m to 130.55m: 0.78% copper, 0.26g/t gold, 8.9g/t silver over a sampled width of 3.15m
- from 140.3m to 153.0m: 6.29% copper, 3.1g/t gold, 66.1g/t silver over a sampled width of 12.7m
- the above zone includes; from 140.3m to 148.3: 9.1% copper, 4.68g/t gold, 95.3g/t silver over a sampled width of 8.0m
- from 158.55 to 159.55: 2.49% copper, 0.63g/t gold, 25.2g/t silver over a sampled width of 1.00m

Visible mineralization occurs in skarn, marble and wollastonite (a mineral used in ceramics) and consists of bornite, with subordinate chalcopyrite (both copper minerals) forming intergrowths with wollastonite. Wollastonite is present though an estimated 25% of the hole length and appears to be a receptive host for copper. Lower grades are scattered throughout the remainder of the hole, but individual assays are generally below 0.2% copper. The drill-hole appears to have intercepted the copper mineralization at an angle approximate to true widths.

In May 2011, the Company reported additional assays confirming the continuity of the skarn mineralization at Demirtepe. Exploration is ongoing on the two principal project target areas, Demirtepe and Karapınar. Demirtepe is characterized by copper-gold-silver and molybdenum hosted by wollastonite (a calcium silicate mineral with a wide variety of industrial uses) and garnet, which is used as an abrasive. Karapınar is a copper porphyry where a number of drill intersections have displayed potentially leachable secondary enrichment mineralization

Nevlje Property

The 100% owned Nevlje Property, consisting of an exploration license covering 62 Km^2, is located 10 km south-west 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 geologic elements.

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, consisting of an exploration license covering 62 Km^2, is located 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, identified at least forty individual mineralized veins with grades ranging from 0.18 to 9.91% copper across thicknesses of 1 to 3.5 meters. 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.

Djavolja Varos Property

The 100% owned Djavolja Varos Property consists of one exploration license covering 96 sq. Km. It is located approximately 10-15 km south of Kursumlija township. It is situated just a few Km southeast of the already issued Kursumlija exploration license. The Company commenced compilation of voluminous historical data in the Lece volcanic complex in conjunction with minor prospecting of previously reported mineral occurrences. There are other licenses issued within the volcanic complex (Dundee precious metals, exploration license, porphyry copper deposit), (Reservoir Capital, exploration license, vein type lead and zinc deposit), (Farmakom, mining license, lead, zinc and gold vein deposit).

Povlen

The Povlen license covers a series of partially-explored copper-cobalt-zinc deposits in an historical VMS district in Serbia. The 90 km2 Povlen Project license lies some 130 km SSW of Belgrade in an area with good infrastructure. The license covers several copper deposits and numerous occurrences and prospects along approx. the principal two-thirds of a 30 km northwest-southeast trend hosted by a Jurassic chert-diabase formation. The license area has a long history of mining activity dating from Roman and Medieval times to the early-mid twentieth century. Detailed exploration was carried out on the license area by the state, principally in the 1970's, when more than 100 copper outcrops and occurrences were found and explored by geochemistry and very limited drilling. A large number of copper and other metals anomalies were delineated, however due to a lack of state funding, no new exploration has been undertaken since.

Copper is the dominant metal in the sampling and cobalt is anomalous at both the Rebelj and Recica Deposits. While it is too early to draw any conclusions from the geochemistry, the copper-cobalt-zinc association is characteristic of some ophiolite-hosted deposits like the well-known Outokumpu orebodies in Finland, which display compositional variations.

Mineralisation types described by Serbian geologists include: massive pyrite-chalcopyrite (Rebelj, Recica Deposits), massive pyrite-magnetite-chalcopyrite (Novakovaca Deposit), and stockwork/disseminated pyrite-chalcopyrite (Lajkovaca Deposit).

Selected Annual Information ($)

	May 31, 2011	May 31, 2010	May 31, 2009
Financial results			
Net loss for year	**870,263**	1,290,475	1,050,006
Basic and diluted loss per share	**0.02**	0.05	0.04
Expenditures on resource properties	**3,181,668**	861,817	1,069,642
Balance sheet data			
Cash and short term deposits	**5,294,074**	664,255	1,787,224
Resource properties	**4,119,950**	2,220,033	1,358,216
Total assets	**9,746,381**	3,129,924	3,320,088
Deficit	**4,708,423**	3,838,160	2,547,685

Results of Operations – Current Quarter

During the last quarter, the Company's Loss Before Other Income was $292,233 versus $320,978 in the prior year period.

Results of Operations – Year

The Company incurred a $870,263 loss during the current year versus a $1,290,475 loss during the prior year. This amounts to a decrease in the loss of $420,212. The decrease can be attributed to a one time sale of a royalty (see Note 4 of the Consolidated Financial Statements) resulting in a Gain on Royalty Sale of $1,010,552 in 2011. Notwithstanding this transaction, the Company's Loss Before Other Income (Expense) actually increased to $1,834,015 from $1,283,640 in the prior year, representing a 42.9% increase. For example, Stock Based Compensation increased by 155% to $773,792 from $303,669 in the prior year as more options were granted during the year. Other items such as Office and General increased to $209,563 from $182,503, representing an increase of 14.8%, and Professional Fees increased by 6.4% to $155,444 from $146,031 in the prior year.

Liquidity

The Company completed three private placements and a royalty sale raising $8,660,000 in gross proceeds. As a result of greater access to capital, the Company pursued developing its projects more aggressively than in the prior year evidenced by its spending $3,181,668 on exploring activities versus $831,817 in the prior year. Cash and cash equivalents at year end total $5,294,074 which must service current liabilities of $678,327. In addition, a spending commitment on Bulqiza of $2,507,000 remains outstanding at year end as the Company had committed to spending $3,100,000 to develop Bulqiza as part of the royalty sale. The Company has also committed to a one-time payment of US$1.5 million to Alacer Gold. For more detail on the transaction, see Subsequent Events.

Commitments

Bursa

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 with US$40,000 on closing, US$20,000 per year for years 1 through 4 and US$400,000 in year 5; (US$100,000 has been paid to date);

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; (800,000 shares issued to date);

iii. Making expenditures on the Property totaling US$7.5 million by the fifth anniversary ($1,240,745 incurred to date), of which US$300,000 (incurred) was required to be spent in year 1; and

iv. Completing a pre-feasibility report on the Property by the 6th anniversary of the Agreement.

Bulqiza

The Company completed a royalty and share sale in December 2010 for gross proceeds of $4,105,000 of which it is committed to spending $3,100,000 on developing Bulqiza as per the royalty agreement with Anglo Pacific Group (APG) dated November 2010. The Company used the proceeds, in part, to pay back a loan to APG of $200,000 and transaction costs of $180,000. The Company has spent $593,000 on Bulqiza at year end leaving a remaining spending commitment of $2,507,000 outstanding at year end. The Company has also pledged the shares of its British Virgin Islands subsidiary and its Albanian subsidiary to APG to secure the royalty interest in the Bulqiza property.

Selected Quarterly Financial Data ($)

Financial results:	May 31 2011	Feb 28 2011	Nov 30 2010	Aug 31 2010	May 31 2010	Feb 28 2010	Nov 30 2009	Aug 31 2009
Net Income (loss) for the period	80,956	(267,930)	(223,630)	(201,749)	(339,256)	(267,930)	(486,703)	(196,586)
Basic/Diluted Income /(loss) per share	0.00	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.02)	(0.01)

Balance sheet data:	May 31 2011	Feb 28 2011	Nov 30 2010	Aug 31 2010	May 31 2010	Feb 28 2010	Nov 30 2009	Aug 31 2009
Cash and GIC	5,294,074	4,398,517	127,925	150,469	664,255	1,173,630	1,360,407	1,478,850
Resource properties	4,119,950	3,462,861	3,082,910	2,706,422	2,220,033	1,923,635	1,730,161	1,470,824
Total assets	9,746,381	10,634,158	3,399,744	3,049,087	3,129,924	3,212,407	3,221,669	3,105,997
Shareholders' equity	9,068,054	5,327,525	3,047,620	2,691,525	2,893,274	3,166,334	3,119,774	3,039,216

Share Capital Information

At May 31, 2011 the following equity securities were outstanding:

	Price	Expiry date	Number of common shares
Common shares, issued and outstanding:			51,371,116
Securities convertible into common shares:			
Options	$0.39	May 26, 2016	775,000
	$0.37	January 4, 2016	1,980,000
	$0.33	December 3, 2015	300,000
	$0.15	March 26, 2015	500,000
	$0.15	October 19, 2014	1,550,000
	$0.25	April 28, 2014	650,000
	$0.25	November 5, 2013	300,000
	$0.40	January 24, 2013	195,000
			57,571,116

Stock Options

There were 3,055,000 options granted during the year, 1,180,000 options exercised and 60,000 options cancelled.

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 are 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.

The Company's current market price and the volatility of the Company's market price will affect the estimates made for stock-based compensation. The volatility of the Company's stock price and the stock price at the grant date have the most significant impact on the estimate of fair value of stock-based compensation. The Company expenses stock-based compensation for its employees whose options vest immediately at grant. For employees, whose options vest over time, the Company amortizes the fair value over the vesting period.

Stock-based compensation is accounted for using the fair value based method. Under the fair value based method,compensation cost is measured at fair value of the options at the date of grant and is expensed over the vesting period of the award. The Company estimates the fair value using the Black- Scholes option pricing model.

The Company operates in several jurisdictions and it estimates taxes in each jurisdiction taking into consideration different tax rates, non-deductible expenses, valuation allowances, changes in tax laws and expectations for future results.

The Company bases its estimates of future income taxes on temporary differences between the assets and liabilities reported in the financial statements, and the assets and liabilities determined by the tax laws in the various countries it operates in.

Subsequent Events

On July 26, 2011, the Company announced that it had entered into an agreement to acquire 100% interest in the Bursa project in Turkey. Empire has amended its agreement with Alacer Gold Corp., to allow it to terminate the prior agreement and purchase 100% interest in the project by making a cash payment of US$1.5 million and by issuing such number of common shares equal to 19.9% (less shares already owned by Alacer) of the Company's issued and outstanding share capital pro forma. Alacer will also get the pre-emptive right to participate in future equity offerings to maintain its ownership percentage. The Company received conditional acceptance for the transaction from the TSX Exchange on August 14, 2011.

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, 2011.

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.

g) The Company's operations are in foreign jurisdictions where there may be a number of risks over which it will have no control. These risks may include without limitation risks relating to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing and export duties as well as government control over domestic commodity pricing.

   Some of the jurisdictions in which the Company operates may have less developed legal systems than jurisdictions with more established economies which may result in risks including without limitation (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law, regulation, contract or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured

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.

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 any shareholder who requests it.

Changes in Accounting Policies

The Company adopted new accounting policies which are outlined in Note 2 of the audited annual consolidated financial statements. Furthermore, the Company will be adopting the new IFRS accounting policies effective as outlined below:

International Financial Reporting Standards (IFRS) changeover plan

The Accounting Standards Board of the CICA announced on February 13, 2008 that Canadian generally accepted accounting principles for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The transition date of June 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2011. Management has begun to assess its requirements and first time adoption methodologies, including its internal training and resource needs and first time adoption implications.

Off-Balance Sheet Arrangements

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

Other Information

Additional information about the Company is available on the Company's website at www.empireminingcorp.com or on the Company's SEDAR profile at www.sedar.com.

Corporate Information

Head Office:	Suite 307 – 475 Howe Street Vancouver, BC V6C 2B3
Directors:	Robert Giustra (Chairman) David Cliff Michael Johnson Nick Clarke
Officers:	David Cliff, President and Chief Executive Officer Joel Schuster, VP of Legal and Corporate Secretary Akbar Hassanally, Chief Financial Officer Jorge Martinez, Vice President Corporate Development
Auditor:	Dale Matheson Carr-Hilton Labonte LLP 1500 – 1140 West Pender Street Vancouver, BC V6E 4G1
Legal Counsel:	McMillan 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

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CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
MAY 31, 2011

DALE MATHESON
CARR-HILTON LABONTE LLP
DMCL CHARTERED ACCOUNTANTS

Partnership of:

Vancouver: Robert J. Burkart, Inc. | Alvin F. Dale Ltd. | Robert J. Matheson, Inc. | James F. Carr-Hilton Ltd. | Barry S. Hartley, Inc. | Rakesh I. Patel Inc. | Kenneth P. Chong Inc. | Reginald J. LaBonte Ltd. | F.M. Yada FCA Inc.
South Surrey: Michael K. Braun Inc. | Peter J. Donaldson, Inc.
Port Coquitlam: Wilfred A. Jacobson Inc. | G.D. Lee Inc. | Fraser G. Ross, Ltd. | Brian A. Shaw Inc.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Empire Mining Corporation.

We have audited the accompanying consolidated financial statements of Empire Mining Corporation which comprise the consolidated balance sheets as at May 31, 2011 and 2010, and the consolidated statements of loss, comprehensive loss and deficit, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Empire Mining Corporation and its subsidiaries as at May 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describe certain conditions that give rise to doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from this uncertainty.

"DMCL"

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
September 30, 2011

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EMPIRE MINING CORPORATION
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS

	May 31, 2011	May 31, 2010
ASSETS		
CURRENT		
Cash and cash equivalents	$ 5,294,074	$ 664,255
Prepaids and deposits	73,019	184,908
Receivables (Note 6)	223,014	8,839
	5,590,107	858,002
EQUIPMENT (Note 3)	36,324	51,890
INTEREST IN MINERAL PROPERTIES (Note 4)	4,119,950	2,220,033
	$ 9,746,381	$ 3,129,925
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 634,683	$ 223,477
Due to related parties (Note 6)	43,644	13,173
	678,327	236,650
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	11,833,990	5,406,681
CONTRIBUTED SURPLUS (Note 5)	1,942,487	1,324,754
DEFICIT	(4,708,423)	(3,838,160)
	9,068,054	2,893,275
	$ 9,746,381	$ 3,129,925

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS (Note 11)
SUBSEQUENT EVENTS (Note 12)

Approved on behalf of the Board:

"David Cliff"
David Cliff - Director

"Robert Giustra"
Robert Giustra – Chairman

EMPIRE MINING CORPORATION
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

	Year ended May 31, 2011	Year ended May 31, 2010
EXPENSES		
Amortization	$ 15,566	$ 12,414
Consulting fees (Note 6)	181,145	239,016
Corporate administration fees	72,322	8,313
Director fees (Note 6)	90,000	37,000
Management fees (Note 6)	126,284	108,354
Office and general	224,339	182,503
Professional fees	155,444	146,031
Property investigation	27,269	31,515
Shareholder relations	65,850	60,534
Stock-based compensation (Note 5)	773,792	303,669
Transfer agent and filing fees	22,069	27,877
Travel	79,935	126,414
LOSS BEFORE THE FOLLOWING	(1,834,015)	(1,283,640)
GAIN ON ROYALTY SALE (Note 4)	1,010,552	-
FOREIGN EXCHANGE LOSS	(65,602)	(17,998)
INTEREST INCOME	18,802	11,163
NET LOSS AND COMPREHENSIVE LOSS	(870,263)	(1,290,475)
DEFICIT, BEGINNING OF YEAR	(3,838,160)	(2,547,685)
DEFICIT, END OF YEAR	$ (4,708,423)	$ (3,838,160)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.02)	$ (0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-BASIC AND DILUTED	38,840,371	27,860,041

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

EMPIRE MINING CORPORATION
(An Exploration Stage Company)
- **CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended May 31, 2011	Year ended May 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (870,263)	$ (1,290,475)
Adjusted for items not involving cash:		
- amortization	15,566	12,414
- stock-based compensation	773,792	303,669
- interest accrued on term deposits	(18,339)	(237)
- gain on royalty sale	(1,010,552)	-
	(1,109,796)	(974,629)
Changes in non-cash working capital items:		
- decrease (increase) in prepaids and deposits	26,692	(78,646)
- increase in receivables	(195,836)	(6,413)
- increase in accounts payable and accrued liabilities	411,206	37,929
- increase in due to related parties	30,471	120,387
Net cash flows used in operating activities	(837,263)	(901,372)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and exploration of mineral properties	(3,181,668)	(831,817)
Acquisition of vehicles	-	(25,008)
Redemption of term deposits	-	526,595
Net cash flows used in investing activities	(3,181,668)	(330,230)
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares issued for cash, net of share issue costs	6,231,250	634,990
Net proceeds from royalty sale	2,417,500	-
Net cash flows from financing activities	8,648,750	634,990
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,629,819	(596,612)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	664,255	1,260,867
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,294,074	$ 664,255

SUPPLEMENTAL CASH-FLOW INFORMATION (Note 10)

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 is listed on the TSX Venture Exchange (the "TSX-V" or "Exchange") as 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 Eastern Europe and Turkey. To date, the Company has not received any revenue from mining operations and is considered to be in the exploration stage.

These financial statements have been prepared on a going concern basis which implies that the Company will continue realizing assets and discharging liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate, further adjustments to carrying values of assets and liabilities may be required. At May 31, 2011, the Company has working capital of $4,911,780 (2010 - $621,352) and an accumulated deficit of $4,708,423 (2010 - $3,838,160). Accordingly, the ability of the Company to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to obtain additional financing as needed and ultimately on generating future profitable operations. The Company has completed three private placements of shares and a royalty sale for gross proceeds of $8,660,000 during the year.

2. Significant Accounting Policies

(a) 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 (Serbia) International Mining Corporation, a 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.

(b) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments which are readily convertible to specified amounts of cash without penalty and / or with maturities of three months or less when purchased.

(c) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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 expenses during the period. Significant areas requiring the use of management estimates include the determination of the valuation allowance for future income tax assets, the assumptions used in the determination of stock-based compensation, impairment of mineral claims and deferred exploration expenditures, and rates for amortization. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(d) Equipment

Equipment is valued at cost less accumulated amortization. The Company provides for amortization using the declining balance method at 30% per annum and applies only one-half of the applicable rate in the year of acquisition.

2. Significant Accounting Policies (continued)

(e) 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 dollars 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.

(f) 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 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.

(g) 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.

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. Any property that is not considered to be a priority focus for exploration by the Company or by a joint venture partner is 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 estimate of recoverability is based on current conditions. However, it is possible that changes could occur in the near term, which could adversely affect management's estimates and may result in future write-downs of the capitalized property carrying values.

General exploration 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.

The proceeds from royalties granted are deducted from the cost of the related property and any excess is recorded as income.

2. Significant Accounting Policies (continued)

(h) 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 earnings 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 are calculated using the weighted average number of shares outstanding during the year.

(i) 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, 2011, the Company did not have any measurable asset retirement obligations.

(j) 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. Stock based payments are recognized either as compensation expense or capitalized mineral resource property cost over the vesting period of the options with a corresponding credit to contributed surplus. When the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(k) Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, and accounts payable. The value of the Company's arm's length short term financial instruments is estimated by management to approximate their carrying values due to their immediate or short-term maturity.

Cash and cash equivalents are classified as held for trading which is measured at fair value; receivables are classified as loans and receivables, which are measured at amortized cost; and accounts payable are classified as other financial liabilities, which are measured at amortized cost.

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of the fair value of financial assets and liabilities.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 -Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Net Smelter Royalties ("NSR") are a form of derivative financial instrument. The fair value of the Company's right to purchase the NSR is not determinable at the current stage of the Company's exploration program. No value has been assigned by management. The Company does not engage in any form of derivative or hedging instruments.

2. Significant Accounting Policies (continued)

(l) Comprehensive Income (loss)

Comprehensive income (loss) is defined as the change in equity from transactions and other events from non owner sources. Other comprehensive income (loss) refers to items recognized in comprehensive income (loss) that are excluded from net income (loss) calculated in accordance with generally accepted accounting principles.

For the years ended May 31, 2011 and 2010 the Company did not have other comprehensive income or loss, therefore the comprehensive loss for the year is equal to the net loss for the year.

(m) Recent Canadian Accounting Pronouncements not yet adopted

International Financial Reporting Standards ("IFRS")
In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of June 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2011. Management has begun to assess its requirements and first time adoption methodologies, including its internal training and resource needs and first time adoption implications.

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. Equipment

	Cost	Accumulated Amortization	May 31, 2011 Net Book Value
Vehicles	$ 66,372	$ 30,048	$ 36,324

	Cost	Accumulated Amortization	May 31, 2010 Net Book Value
Vehicles	$ 66,372	$ 14,482	$ 51,890

Empire Mining Corporation
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
For the Year Ended May 31, 2011

4. Mineral Properties

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

	Bulqiza	Bursa	Nevlje	Kursumlija	Djavolja Varos	Povlen	Total
Balance – May 31, 2009	**$ 211,474**	**$ 923,719**	**$ 151,541**	**$ 71,482**	**$ -**	**$ -**	**$ 1,358,216**
						-	
Acquisition	-	51,400	-	-	875	-	52,275
Administrative costs	10,487	11,519	(3,603)	2,734	6,476	-	27,613
Assays	21,095	-	-	-	-	-	21,095
Drilling	162,763	-	-	-	-	-	162,763
Maps and reports	117,762	-	474	4,998	2,414	-	125,648
Geological services	260,079	-	13,940	10,980	73,438	-	358,437
License/Permits/Renewals	22,511	25,377	50	223	-	-	48,161
Tools and supplies	24,933	-	-	-	-	-	24,933
Travel	36,495	-	2,027	2,370	-	-	40,892
Balance – May 31, 2010	**867,599**	**1,012,015**	**164,429**	**92,787**	**83,203**	**-**	**2,220,033**
Acquisition	-	61,000	-	-	-	-	61,000
Administrative costs	109,916	75,074	3,718	2,420	1,849	-	192,977
Assays	25,918	-	-	-	-	-	25,918
Drilling costs	236,349	1,755,902	-	-	-	-	1,992,251
Equipment and supplies	287,095	-	-	-	-	-	287,095
Maps and reports	20,333	-	-	-	-	-	20,333
Geological services	371,413	25,517	2,249	7,384	20,932	19,888	447,383
License/Permits/Renewals	26,918	183,219	-	184	-	-	210,321
Travel	54,319	14,410	858	-	-	-	69,587
Sale of royalty rights	(1,406,948)	-	-	-	-		(1,406,948)
Balance May 31, 2011	**$ 592,912**	**$ 3,127,137**	**$ 171,254**	**$ 102,775**	**$ 105,984**	**$ 19,888**	**$ 4,119,950**

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4. Mineral Properties (continued)

Bulqiza Property - Albania

On January 29, 2009, the Company was awarded 4 exploration licenses in the Republic of Albania. The licenses cover 64.5 km^2 of the chromite-bearing, Bulqiza ultramafic massif in eastern Albania. Two of the exploration licenses, 1310 and 1311, have been allowed to expire as management felt these were less promising territories given the government's plan to incorporate that area into a national park. Licenses 1308 and 1309 covering the Bulqiza-Batra-Thekna and Qafe Burreli regions remain in good standing. Both licenses were due for renewal in January 2011 and applications were submitted to the Ministry to renew them for another 2 year term. As a result of changes in mining law, the renewals had been delayed and, as of the date of this report, renewals have not yet been received. Renewal is judged by management to be received soon.

On December 22, 2010 the Company completed, a royalty and share sale with the Anglo-Pacific Group ("APG"). The Company received gross proceeds of $4,105,000, of which $1,507,500 represents the sale of 6,700,000 shares at $0.225 per share. The proceeds attributed to the royalty sale were $2,417,500 net of closing costs of $180,000 for a gross royalty of 3% on future net revenues generated from the sale of chromite on the Bulqiza property.

As a result of the sale, the net proceeds of $2,417,500 were applied to the carrying value of its Bulqiza property at the time in the amount of $1,406,948 and the remaining $1,010,552 was recognized as a gain on royalty sale.

As at May 31, 2011 the Company had incurred approximately $593,000 towards its $3,100,000 expenditure requirement on the Bulqiza property under the royalty agreement. In connection with the royalty sale the Company has executed a security agreement and has pledged to APG the securities of its 100% owned BVI subsidiary, Empire International Mining Corporation, and its 100% owned Albanian subsidiary, Empire Mining (Albania) SHPK.

Bursa Property - Turkey

The Company entered into an option agreement (the "Agreement") on September 17, 2007, as amended on February 13, 2009, with Alacer Gold Corp. (formerly Anatolia Minerals Development Ltd.) ("Alacer"), wherein it can earn a 65% interest in the Bursa copper-molybdenum-gold porphyry property (the "Property") located in western Turkey.

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

i. Making cash payments to Alacer totaling US$520,000 over 5 years with US$40,000 on closing, US$20,000 per year for years 1 through 4 and US$400,000 in year 5; (US$80,000 has been paid to date);

ii. Making payments to Alacer over 5 years of the Company's common shares at 200,000 shares per year with an additional amount in the fifth year to bring the total to 5% of the Company's fully diluted share capital as at the 5th anniversary of the Agreement; (600,000 shares issued to date);

iii. Making expenditures on the Property totaling US$7.5 million by the fifth anniversary ($1,012,015 incurred to date), of which US$300,000 (incurred) was 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, it is anticipated that the Company 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 by establishing the formation of a Turkish Corporation.

On July 26, 2011, the Company announced that it has entered into an agreement to acquire a 100% interest in the Bursa Project in Turkey (Note 12).

4. Mineral Properties (continued)

Nevlje Property - Serbia

The 100% owned Nevlje Property, consisting of an exploration license covering 62 Km^2, is located 10 km south-west of Demitrovgrad in southeast Serbia on the Bulgaria border.

Kursumlija Property - Serbia

The Kursumlija copper property, consisting of an exploration license covering 62 Km^2, is located immediately northwest of the Lece mining district and 320 km south of Belgrade in southern Serbia.

Djavolja Varos Property

The 100% owned Djavolja Varos Property consists of one exploration license covering 96 sq. Km. It is located approximately 10-15 km south of Kursumlija township.

Povlen – Serbia

The Povlen license covers a series of partially-explored copper-cobalt-zinc deposits in an historical VMS district in Serbia.

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 at May 31, 2009	**24,693,460**	**$ 4,741,691**	**$ 1,021,084**
Mineral property acquisition	200,000	30,000	-
Private placement (i)	6,453,500	645,350	-
Share issuance costs	-	(10,360)	-
Stock based compensation	-	-	303,669
Balance at May 31, 2010	**31,346,960**	**5,406,681**	**1,324,753**
Mineral property acquisition	200,000	40,000	-
Private placement (ii)	2,525,000	505,000	-
Private placement (iii)	6,700,000	1,507,500	-
Private placement (iv)	9,000,000	4,050,000	-
Finder's fee	419,156	188,620	-
Exercise of options	1,180,000	386,559	(156,058)
Share issuance costs	-	(250,370)	-
Stock based compensation	-	-	773,792
Balance at May 31, 2011	**51,371,116**	**$ 11,833,990**	**$ 1,942,487**

i) On December 11, 2009, the Company completed a non-brokered private placement $645,350 consisting of 6,453,500 common shares at $0.10 per share. Share issuance costs of $10,360 were paid in cash in conjunction with this financing.

ii) On October 16, 2010, the Company completed a non-brokered private placement for gross proceeds of $505,000 consisting of 2,525,000 common shares at $0.20 per share. Share issuance costs of $3,275 were paid in cash in conjunction with this financing.

5. Share Capital (continued)

iii) On December 22, 2010, the Company completed a non-brokered private placement for gross proceeds of $1,507,500 consisting of 6,700,000 common shares at $0.225 per share. The share issuance was in connection with a royalty sale agreement on the Bulqiza property that was completed for $4,105,000 including this private placement (Note 4). Share issuance costs of $8,288 were paid in cash in conjunction with this financing.

iv) On March 4, 2011, the Company completed a non-brokered private placement for gross proceeds of $4,050,000 consisting of 9,000,000 common shares at a price of $0.45 per share. In conjunction with this private placement share issue costs consisted of $50,187 cash and a finder's fee of 419,156 common shares with a fair value of $188,620.

c) Incentive Stock Options

The following table summarizes information about stock options outstanding at May 31, 2011:

Number of Stock Options	Exercise Price	Expiry Date
195,000	$0.40	January 24, 2013
300,000	$0.25	November 5, 2013
650,000	$0.25	April 28, 2014
1,500,000	$0.15	October 19, 2014
500,000	$0.15	March 26, 2015
300,000	$0.33	December 3, 2015
1,980,000	$0.37	January 4, 2016
775,000	$0.39	May 26, 2016
6,200,000		

	Options Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Grant Date Fair Value	Weighted Average Life in Years
		$	$	
Balance – May 31, 2009	**2,355,000**	**0.26**	**0.13**	**3.23**
Granted during the year	2,500,000	0.15	0.10	5.00
Cancelled during the year	(470,000)	(0.25)	-	-
Balance May 31, 2010	**4,385,000**	**0.20**	**0.09**	**3.72**
Granted during the year	3,055,000	0.18	0.34	5.00
Cancelled during the year	(60,000)	0.36	-	-
Exercised during the year	(1,180,000)	0.15	0.13	-
Balance May 31, 2011	**6,200,000**	**0.25**	**0.10**	**3.75**

On May 26, 2011, the Company granted a total of 775,000 stock options, exercisable on or before May 26, 2016 at a price of $0.39. These options vest over a 12 to 18 month period. The total fair value of the options granted was $271,762, of which $nil has been recorded as stock based compensation in the current year. The fair value will be amortized as stock based compensation equally over the vesting periods of one to two years. The fair value of the options granted were 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	145%
Risk-free interest rate	1.59%
Expected life of options	5 years

5. Share Capital (continued)

c) Incentive Stock Options (continued)

On January 4, 2011, the Company granted a total of 1,980,000 stock options, exercisable on or before January 4, 2016 at a price of $0.37. These options vested immediately. The total fair value of the options granted was $701,867, which was recorded as stock based compensation. The fair value of the options granted were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Assumption	Value
Expected dividend yield	0.00%
Expected stock price volatility	147%
Risk-free interest rate	2.34%
Expected life of options	5 years

On December 3, 2010, the Company granted a total of 300,000 stock options, exercisable on or before December 3, 2015 at a price of $0.33. The total fair value of the options granted was $84,020, of which $67,683 has been recorded as stock based compensation in the current year. Of the options granted, 100,000 vest over a 12 month period and their fair value will be amortized equally over this period. The balance of 200,000 options vested immediately and their fair value was recognized as stock based compensation. The fair value of the options granted were 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	147%
Risk-free interest rate	2.34%
Expected life of options	5 years

Included in stock-based compensation is $4,242 relating to options granted in prior years and vesting in the year ended May 31, 2011.

d) Agent Warrants

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	Weighted Average Time to Expiry
		$	
Balance – May 31, 2009	987,476	0.38	0.29
Expired during the year	(987,476)	0.38	-
Balance – May 31, 2011 and 2010	**nil**	**nil**	**nil**

5. Share Capital (continued)

e) Warrants

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

	Warrants outstanding	Weighted average exercise price per share	Weighted Average Time to Expiry
		$	
Balance – May 31, 2009	6,171,733	0.38	0.54
Expired during the year	(6,171,733)	0.38	-
Balance – May 31, 2011 and 2010	**nil**	**nil**	**nil**

6. Related Party Transactions

At May 31, 2011, the Company owed $43,644 (2010 - $13,173) for director fees and reimbursement of administrative expenses to companies with directors and/or officers in common. These are non-interest bearing and are paid under the same terms as normal accounts payable.

The following related party transactions were in the normal course of operations and are measured at their exchange amounts being the amount of consideration as agreed to between the parties and consists of the following items:

	May 31, 2011	May 31, 2010
HRG Management Ltd. – Former directors in common, administration fees	$ -	$ 50,707
David Cliff – Director; management fees and director fees (i)	145,333	120,354
Robert Giustra – Director; consulting services and director fees (ii)	137,000	77,000
Ken Judge – Former Director; consulting services and director fees	-	2,500
Michael Johnson – Director; director fees	22,000	12,000
Nick Clarke – Director; director fees	24,000	-
Total	**$ 328,333**	**$ 262,561**

(i) Payments to David Cliff include $22,000 in director fees and $123,333 in management fees to his company, DC Minerals Consultants. Total amounts paid for fiscal 2011 includes a bonus of $20,000.

(ii) Payments to Robert Giustra include $22,000 in director fees and $115,000 in consulting fees to his company, Perennial Capital Corp. Total amounts paid for fiscal 2011 include a bonus of $20,000.

At May 31, 2011 an amount of $43,232 is owing from a company with directors in common for expenses incurred on behalf of this company. This amount iss unsecured, non-interest bearing and has no specific repayment terms.

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 and receivables.

7. Capital Management (continued)

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. There have been no changes to the Company's capital management policies and procedures during the fiscal year.

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, Euros 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 low.

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, the governments of Serbia and Albania, as well as interest receivable. Management believes that the credit risk concentration with respect to receivables is low.

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, 2011, the Company had combined cash and cash equivalents of $5,294,074 (2010 - $664,255) to settle current liabilities of $678,327 (2010 - $236,650).

The Company has committed to spending $3,100,000 on its Bulqiza property of which it has spent approximately $593,000 leaving a spending commitment of approximately $2,500,000 outstanding at May 31, 2011. Also, as disclosed in Note 12, the Company has reached an agreement with Alacer to assume 100% ownership of the Bursa project in exchange for US$1,500,000 plus shares bringing Alacer to a 19.9% ownership level in the Company on a pro-forma basis.

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 and chromite. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Financial Instruments
The Company has designated its cash and cash equivalents 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, 2011, the carrying amount of receivables and payables equals fair market value.

Sensitivity analysis
Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over one year:

Cash and cash equivalents includes term deposits of $2,000,000 which are at variable interest rates. Sensitivity to a plus or minus 1% change in rates would affect net loss by approximately $20,000.

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 low.

Price risk is remote since the Company is currently not a producing entity.

9. Income Taxes

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

	May 31, 2011	May 31, 2010
Loss for the year	$ (870,263)	$ (1,290,475)
Tax rate	27.5%	29%
Expected income tax recovery	(239,322)	(374,238)
Tax rate change and differential in foreign jurisdictions	3,614	43,119
Non-taxable items	(64,565)	88,937
Future tax benefit of share issue costs not credited to share capital	(38,555)	(2,590)
Change in valuation allowance	338,828	244,772
Future income tax provision	**$ -**	**$ -**

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

	May 31, 2011	May 31, 2010
Non-capital loss carry-forwards	$ 1,159,594	$ 848,308
Share issuance costs	82,584	55,042
Valuation allowance	(1,242,178)	(903,350)
Net future income tax asset (liability)	**$ -**	**$ -**

9. Income Taxes (continued)

The Company has accumulated Canadian losses of approximately $4,177,000 which may be used to reduce future year's taxable income. These losses expire as follows:

2015	$	9,000
2016		174,000
2027		211,000
2028		936,000
2029		880,000
2030		960,000
2031		1,007,000
	$	**4,177,000**

The Company has foreign tax losses totalling approximately $461,000.

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.

10. Supplemental Cash Flow Information

		May 31, 2011		May 31, 2010
Cash and cash equivalents consist of:				
Cash	$	794,074	$	112,660
Term deposits		4,500,000		551,595
	$	5,294,074	$	664,255
Interest paid	$	-	$	-
Income taxes paid	$	-	$	-
Non-cash transactions not included in investing or financing activities				
Acquisition of mineral properties by the issuance of shares	$	40,000	$	30,000

11. Commitments

Under the royalty and share sale to APG (Note 4) the Company has committed to spending $3,100,000 on developing the Bulqiza property. The Company has spent approximately $593,000 on the property at May 31, 2011. In connection with this transaction, the Company has pledged to APG securities of its 100% owned BVI subsidiary, Empire International Mining Corporation, and its 100% owned Albanian subsidiary, Empire Mining (Albania) SHPK, in the standard event of default, including without limitation, the event of bankruptcy, cessation of business, or a failure to observe obligations under the royalty and pledge agreements in a material respect. The pledge will terminate upon APG receiving $7,500,000 in royalty payments from the Company.

12. Subsequent Events

On July 26, 2011 the Company announced that it has entered into an agreement to acquire a 100% interest in the Bursa Project in Turkey (Note 4). The Company has been earning a 65% interest in the Bursa Project pursuant to an option agreement with Alacer; however, the parties have now amended the agreement to allow the Company to terminate the original agreement and complete the purchase of an outright 100% interest in the project by making a cash payment of US$1,500,000 and by issuing such number of common shares equal to 19.9% of the Company's issued and outstanding share capital, less any shares of the Company already owned by Alacer on or before December 31, 2011. Provided that Alacer has an equity interest of at least 10% in the Company, it will also have the right to appoint a director to the Company's board and a pre-emptive right to participate in future equity. Alacer will have the right of first refusal on future private placements. The agreement is subject to TSX approval.