



ANNUAL REPORT
FISCAL 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the financial condition and results of the operations of Rex Diamond Mining Company (the "Company" or "Rex") constitutes management's review of the Company's financial and operating performance in fiscal 2009 (April 1, 2008 - March 31, 2009) and factors reasonably expected to impact on future operations and results. The following should be read in conjunction with the Consolidated Financial Statements and related notes thereto which appear elsewhere in this report. All figures in the following section are in US dollars (\$ or USD), unless stated otherwise. The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

OVERVIEW

Rex is a Canadian incorporated, public company. On September 26, 2006, the Toronto Stock Exchange ("TSX") determined to suspend trading of Rex's common shares, due to the Company's failure to comply with the continued listing requirements of the TSX. On October 27, 2006, Rex's shares were de-listed from the TSX.

On May 23, 2008 Rex completed the sale of its Belgian diamond trading subsidiaries, Rex Mining Company NV ("Rex NV") and Rex Diamonds NV ("Rex Diamonds"), to Mr. Muller. The main benefit of this transaction is the elimination from the Company's consolidated financial statements, of \$3,741,600 of debt. The sale closed with an effective date of March 31, 2008.

The Company's only remaining assets consists of 30 million Afgem shares and the Afgem royalty receivable. On March 7, 2007, Afgem suspended trade in its shares on the Johannesburg Stock Exchange ("JSE"). Due to the uncertainty of the recoverability of the investment in the Afgem shares, management decided to write down the investment to \$1, resulting in a charge in fiscal 2007 of \$2.8 million to operations.

GOING CONCERN

The accompanying audited consolidated financial statements have been prepared in accordance with Canadian GAAP on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has an accumulated

deficit of \$97.4 million as at March 31, 2009 and its ability to continue as a going concern is dependent upon its ability to obtain additional financing. Although to date, the Company has been successful in obtaining financing from an officer and director of the Company and corporations controlled by the same individual, there can be no assurance that the Company will be successful in obtaining further financing.

During fiscal 2006, the Company responded to inquiries from the Staff of the Ontario Securities Commission ("OSC") during the course of an investigation into, amongst other things, past instances of the Company's public disclosure. The OSC issued a notice of hearing commencing on December 10, 2007, seeking an order that Rex submit to a review of its practices and procedures. On August 21, 2008, the OSC issued its Reasons and Decision concluding the Company acted contrary to the public interest. The Company has filed notice of appeal which is pending. On May 7, 2009, the Company received submissions of Staff of the OSC in respect of sanctions pursuant to which the OSC has sought an order to request, among other things, that the Company pay costs associated with the investigation and hearing of \$60,000 and administrative penalties of \$100,000. The Company has not provided for any possible fines or costs as at March 31, 2009 as management believes that the outcome is uncertain at this time.

The March 31, 2009 audited consolidated financial statements do not include any adjustments to the recoverability and classification of certain recorded asset amounts and classification of certain liabilities that might be necessary, if the Company were unable to continue as a going concern. Such adjustments could be material.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SELECTED FINANCIAL INFORMATION (in \$)

	2009	2008	2007
Cash	2,589	62,297	95,058
Net working capital deficiency	(512,704)	(278,087)	(2,248,238)
Total assets	8,850	65,293	931,957
Total issued and outstanding shares	95,417,152	95,417,152	95,417,152
Total outstanding options and warrants	-	-	8,000,000
Continued Operations			
Total revenue	-	4,828,454	5,505,357
Net (loss)	(234,617)	(1,028,475)	(2,906,356)
Basic and diluted (loss) per share	(0.002)	(0.010)	(0.030)
Operating cash flow	(108,235)	(902,537)	(908,248)

QUARTERLY SELECTED FINANCIAL INFORMATION (in \$)

2009	Q1	Q2	Q3	Q4	Total
Total revenue	-	-	-	-	-
Net (loss)	(68,745)	(88,627)	(53,192)	(24,053)	(234,617)
Basic and diluted (loss) per share	(0.001)	(0.001)	(0.001)	(0.000)	(0.002)
2008	Q1	Q2	Q3	Q4	Total
Total revenue	1,180,790	823,177	1,488,596	1,335,891	4,828,454
Net profit (loss)	(178,975)	(134,420)	(230,605)	(484,475)	(1,028,475)
Basic and diluted profit (loss) per share	(0.002)	(0.001)	(0.002)	(0.005)	(0.010)

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Trading of rough and polished diamonds

On May 23, 2008 Rex completed the sale of its Belgian diamond trading subsidiaries (Rex NV and Rex Diamonds NV) to Mr. Muller. The sale closed with an effective date of March 31, 2008.

Administration and other costs

Selling, general and administrative expenses decreased during the year from \$1.3 million to \$0.2 million as result of the sale of the trading operations in fiscal 2008 and reduced legal fees.

Valuation of the Afgem shares and royalty

On March 7, 2007, Afgem suspended trade of its shares on the Johannesburg Stock Exchange (JSE). On June 4, 2007, Afgem announced a proposed sale of the Simolotse mine to a privately held South African company. These circumstances have increased the uncertainty of the recoverability of the investment in the Afgem shares. Therefore management decided to write down the investment to \$1, resulting in a charge in fiscal 2007 of \$2.8 million to operations.

On October 17, 2008, Afgem announced its voluntary liquidation. On December 4, 2008, Afgem announced that not all conditions precedent have been fulfilled for the voluntary liquidation. No further announcement has been made since.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As a result of the sale of the Belgian subsidiaries in fiscal 2008 including its debts, the change of the working capital deficiency of the Company will depend on the amount of general and administrative expenses of the operations during the period.

The working capital deficiency increased from \$278,087 at March 31, 2008 to \$512,704 at March 31, 2009. The increase amounts to \$234,617 and equals the net loss for fiscal 2009.

Financing

On May 23, 2008 Rex completed the sale of its Belgian diamond trading subsidiaries (Rex NV and Rex Diamonds NV) to Mr. Muller. The main benefit of this transaction was the elimination from the Company's consolidated financial statements, of \$3,741,600 of loans payable and \$994,554 of accounts payable and accrued liabilities. The sale closed with an effective date of March 31, 2008. The remaining loan payable to Rex NV of \$250,000 increased during the year to \$315,195 and bears interest at 6% per annum, is unsecured and due on demand.

The Company has no off-balance sheet financing arrangements or significant capital or operating lease arrangements, purchase obligations or other contractual commitments that could materially reduce its level of liquidity.

Related Party Transactions

(a) Included in loans payable as at March 31, 2009 is \$315,195 (2008 - \$250,000) owing to a corporation controlled by a director who is also an officer of the Company. These amounts are unsecured, due on demand and bear interest at 6% per annum.

(b) Included in accounts payable and accrued liabilities as at March 31, 2009 is \$12,000 (2008 - \$nil) due to a director and officer of the Company for director fees. These amounts are unsecured, non-interest bearing, and are due on demand.

(c) Included in accounts payable and accrued liabilities as at March 31, 2009 is \$120,000 (2008 - \$nil) owing to a corporation controlled by a director who is also an officer of the Company for management fees. These amounts are unsecured, non-interest bearing, and are due on demand.

(d) For the year ended March 31, 2009, the Company incurred legal fees of \$29,162 to a law firm of which a director of the Company is a partner. Included in accounts payable and accrued liabilities as at March 31, 2009 is \$2,638 owing to this law firm. This amount is unsecured, non-interest bearing and is due on demand.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(e) During the year ended March 31, 2008, sales of rough and polished diamonds totaling \$2,321,431 were made to a corporation related to a director and officer of the Company.

(f) During the year ended March 31, 2008, the Company was charged rent for office premises of \$155,552 by a corporation controlled by an officer and a director who is also an officer of the Company.

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

On May 23, 2008, the Company completed the sale of its Belgian diamond trading subsidiaries (Rex NV and Rex Diamonds NV) to an officer, who is also a director and significant shareholder of the Company. The sale closed with an effective date of March 31, 2008.

CRITICAL ACCOUNTING ESTIMATES

Long-term investments

The cost method is used for investment in entities for which the Company does not have the ability to exercise significant influence over the operations of the entity, as the Afgem shares do not have a quoted market price in an active market. The Company periodically reviews the carrying value of its investments. When a decline in the value of an investment is other than temporary, the investment is written down to its net realizable value.

Income taxes

The Company accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on the differences between the tax bases of assets and liabilities and the amounts reported in the financial statements. The future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to reverse. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

CHANGES IN ACCOUNTING POLICIES AND NEW PRONOUNCEMENTS

Effective April 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). The new standards and accounting policy changes are as follows:

Capital disclosures (Section 1535)

In December 2006, the Canadian Accounting Standards Board issued CICA Handbook Section 1535, "Capital Disclosures". This standard requires disclosure regarding what the Company defines as capital and its objectives, policy and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The Company has included disclosures recommended by the new Handbook section in Note 12 to these consolidated financial statements.

Financial instruments (Section 3862 – 3863)

In December 2006, the Canadian Accounting Standards Board issued two new CICA Handbook sections in relation to financial instruments: Section 3862, "Financial Instruments - Disclosures", and Section 3863, "Financial Instruments - Presentation". The Company has included disclosures recommended by the new Handbook section in Note 11 to these consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified 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. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

RECENT ACCOUNTING PRONOUNCEMENTS

Goodwill and intangible assets

The Canadian Accounting Standards Board has also issued a new Section 3064, "Goodwill and Intangible

MANAGEMENT'S DISCUSSION AND ANALYSIS

Assets", to replace current Section 3062, "Goodwill and Other Intangible Assets". The new section establishes revised standards for recognizing, measuring, presenting and disclosing goodwill and intangible assets. This section is effective for fiscal years beginning on or after October 1, 2008.

International financing reporting standards

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

Section 1582 - Business Combinations

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company will adopt this standard on April 1, 2011

Section 1601 – Consolidations and Section 1602 – Non-Controlling Interests

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company will adopt this standard on April 1, 2011.

FINANCIAL INSTRUMENTS

The carrying values of the Company's short-term financial instruments, comprising cash, accounts

receivable, accounts payable and accrued liabilities and loans payable approximate their fair values.

The Company estimates that the fair value of other financial instruments approximates their carrying value at March 31, 2009 and 2008.

Foreign exchange risk

The US dollar is the functional currency of the Company and is the currency in which the financial statements are presented. The Company operates currently in Canadian and US dollars, and the Euro, and as such may be negatively impacted by fluctuations in foreign exchange rates. The Company manages this risk by minimizing the number of transactions that result in the settlement currency differing from the currency of the initial transaction.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interest rate risk

The Company has currently no outstanding variable interest bearing loans and, therefore the Company is not exposed to interest rate risk through fluctuations in the prime interest rate.

Political and economic risks

The Company is subject to the considerations and risks of having equity interests and royalty income in South Africa. These include risks associated with the political and economic environment, foreign currency exchange and changes in legislation. These economies differ significantly from the economies of North American and European nations in such respects as structure, level of development, resource allocation, self-sufficiency, rate of inflation and the level of development and enforcement of existing laws.

Credit risk

As a result of the sale of the Belgian operations during fiscal 2008, the Company has no significant concentration of credit risk arising from operations.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

RISK AND UNCERTAINTIES

The consolidated financial statements, to which this management's discussion and analysis relate, have been prepared using Canadian generally accepted accounting principles (GAAP). The accounting policies for the purpose of Canadian GAAP are described in Note 2 to the consolidated financial statements and are applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business.

FORWARD LOOKING STATEMENTS

Certain of the statements in this MD&A are forward-looking statements, which are by their very nature, not guarantees of the Company's future operational or financial performance. These statements involve known and unknown risks, uncertainties and other factors that may cause the Company's or its industry's actual results, levels of activity, performance or achievements or other future events to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include developments in world diamond markets, diamond valuations, local, regional or global political developments, results of drilling and sampling and other mineral exploration activities, changes in government regulation or permitting, financing availability and other factors. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", "continue" or the negative of these terms or comparable terminology. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or other future events. Readers of this MD&A are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date of this MD&A.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on the SEDAR website at www.sedar.com.

Antwerpen, July 20, 2009



Ben Holemans

Chief Financial Officer
Rex Diamond Mining Corporation

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Rex Diamond Mining Corporation:

The accompanying financial statements, their presentation and the information contained in the annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial information on the Company presented elsewhere in this annual report is consistent with that in the financial statements.

The integrity of the financial reporting process is the responsibility of management. Management maintains systems of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and reliable financial information is produced. Management selects accounting principles and methods that are appropriate to the Company's circumstances and makes certain determinations of amounts reported in which estimates or judgments are required.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee consists of one outside directors. The Committee meets periodically with management and the external auditor to discuss internal controls, auditing matters and financial reporting issues. The Committee satisfies itself that each party is properly discharging its responsibilities, reviews the quarterly and annual financial statements and any reports by the external auditors and recommends the appointment of the external auditors for review by the Board and approval by the shareholders.

The external auditors audit the financial statements annually on behalf of the shareholders. The external auditors have full and free access to management and the Audit Committee.



Ben Holemans
Chief Financial Officer



Serge Muller
Chief Executive Officer

Rex Diamond Mining Corporation

Antwerp, Belgium
July 20th, 2009

AUDITORS' REPORT

To the Shareholders of Rex Diamond Mining Corporation:

We have audited the consolidated balance sheets of Rex Diamond Mining Corporation as at March 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGovern, Hurley, Cunningham, LLP



Chartered Accountants
Licensed Public Accountants

Toronto, Canada
July 14, 2009

CONSOLIDATED BALANCE SHEETS

As at March 31, 2009 and 2008
(All dollar amounts are in US dollars)

	2009	2008
ASSETS		
Current		
Cash	\$ 2,589	\$ 62,297
Accounts receivable	6,260	2,995
	8,849	65,292
Investment (Note 4)	1	1
	\$ 8,850	\$ 65,293
LIABILITIES AND SHAREHOLDERS' (DEFICIENCY)		
Current liabilities		
Accounts payable and accrued liabilities (Notes 9(b) and (c))	\$ 206,358	\$ 93,379
Loans payable (Notes 5 and 9(a))	315,195	250,000
	521,553	343,379
Commitments and contingencies (Notes 1 and 14)		
Shareholders' (deficiency)		
Share capital (Note 6)	92,652,999	92,652,999
Deficit	(97,353,088)	(97,118,471)
Contributed surplus (Note 6)	4,187,386	4,187,386
	(512,703)	(278,086)
	\$ 8,850	\$ 65,293

Going concern (Note 1)

See accompanying notes to the consolidated financial statements.

Approved by the Board,

(Signed) "James P. Boyle"
Director

(Signed) "Serge Muller"
Director

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the years ended March 31, 2009 and 2008
(All dollar amounts are in US dollars)

	2009	2008
Revenue		
Diamond and jewellery sales	\$ -	\$ 4,779,154
Other income	-	49,300
	-	4,828,454
Expenses		
Cost of sales	-	4,214,190
Depreciation	-	11,781
Selling, general and administrative	238,478	1,295,340
	238,478	5,521,311
(Loss) before the undernoted	(238,478)	(692,857)
Other expenses (income)		
Interest expense	18,502	196,752
Foreign exchange (gain) loss	(22,363)	138,866
(Loss) before income taxes	(234,617)	(1,028,475)
Income taxes (Note 7)	-	-
Net (loss) for the year	(234,617)	(1,028,475)
(Deficit), beginning of year	(97,118,471)	(96,089,996)
(Deficit), end of year	\$ (97,353,088)	\$ (97,118,471)
Basic and diluted (loss) per share	\$ (0.002)	\$ (0.010)
Weighted average number of shares outstanding	95,417,152	95,417,152

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2009 and 2008
(All dollar amounts are in US dollars)

	2009	2008
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
Operating activities		
Net loss from operations	\$ (234,617)	\$ (1,028,475)
Items not affecting cash flow		
Accrued royalty	-	(48,843)
Depreciation	-	11,781
Foreign exchange (gain) loss	(1,834)	100,473
Accrued interest on loans payable	18,502	194,349
	(217,949)	(770,715)
Net change in non-cash working capital balances (Note 8)	109,714	(131,822)
	(108,235)	(902,537)
Investing activities		
Cash disposed of as part of the sale of the Company's Belgian diamond trading operations (Note 3)	-	(451,334)
Additions to equipment	-	(4,102)
Decrease in other assets	-	133
	-	(455,303)
Financing activities		
Loans payable	48,527	1,325,079
(Decrease) in cash during the year	(59,708)	(32,761)
Cash beginning of year	62,297	95,058
Cash end of year	\$ 2,589	\$ 62,297
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ -	\$ 2,403
Income taxes paid	-	-
Sale of Belgian diamond trading operations (See Note 3)		

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2009 and 2008
(All dollar amounts are in US dollars)

1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND GOING CONCERN

Rex Diamond Mining Corporation (the "Company" or "Rex") is a Canadian incorporated, public company.

On May 23, 2008 Rex completed the sale of its Belgian diamond trading operations to an officer, who is also a director and significant shareholder of the Company. The sale closed with an effective date of March 31, 2008. (See Note 3)

As at March 31, 2009, the Company had a working capital deficiency of \$512,704. The Company's ability to continue operations is dependent on management's ability to secure additional financing, and while it has been successful in doing so in the past, there can be no assurances that it will be able to do so in the future.

These consolidated financial statements have been presented using accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business. After the sale of its Belgian diamond trading operations, the Company has no ongoing operations and is currently seeking new business opportunities. Success in identifying a suitable new business for the Company cannot be determined, and there are no opportunities which have been identified at the present time. Furthermore, the Company has limited working capital to pursue such opportunities.

These consolidated financial statements do not include any adjustments to the recoverability and classification of certain recorded asset amounts and classification of certain liabilities that might be necessary, if the Company were unable to continue as a going concern. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year, except as disclosed below.

The following are the significant accounting policies used in the preparation of these financial statements:

Principles of consolidation

The consolidated financial statements of the Company include the accounts of the Company, and its subsidiary Rex Mining Corporation Ltd. The Company sold its interests in Rex Mining Company NV ("Rex NV") and Rex Diamonds NV ("Rex Diamonds") effective March 31, 2008 and the consolidated statements of operations and cash flows reflect the operations of Rex NV and Rex Diamonds up to the date of disposition (see Note 3).

All intercompany transactions and balances have been eliminated for the purposes of these consolidated financial statements.

Use of estimates and measurement uncertainty

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

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable and royalties, the investment in Afgem and the provision for income taxes and composition of future income tax assets and future income tax liabilities.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in the future could be significant.

Translation of foreign currencies

The US dollar is the functional currency of the Company and is the currency in which the financial statements are presented.

Foreign currency transactions and balances, and the accounts of foreign operations, which are integrated, are translated into US dollars using the temporal method. Under this method, monetary assets and liabilities of the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2009 and 2008
(All dollar amounts are in US dollars)

Company denominated in foreign currencies are translated into US dollars at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical rates. Revenue and expense items are translated at the average rate prevailing during the year, except for depreciation, depletion, amortization and write downs, which are translated at the same exchange rates as the assets to which they relate. Gains and losses on translation are reflected in net loss for the year.

Long-term investment

The long term investment in African Gem Resources Ltd. ("Afgem") for which the Company does not have the ability to exercise significant influence over the operations of the entity are measured at cost as the Afgem shares do not have a quoted market price in an active market. The Company periodically reviews the carrying value of its investments. When a decline in the value of an investment is other than temporary, the investment is written down to its net realizable value.

Revenue recognition

Revenue from diamond and jewellery sales is recognized on shipment, which is when title passes to the customer.

Stock-based compensation

The Company has a stock option plan, which is administered by the directors of the Company and is described in Note 6. The fair value of stock options granted to employees, officers and directors is estimated at the grant date based on the Black-Scholes option pricing model. Consideration paid for shares on exercise of the options is credited to share capital. Stock-based compensation expense is recognized over the vesting periods of the options.

Income taxes

The Company accounts for income taxes using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on the differences between the tax bases of assets and liabilities and the amounts reported in the financial statements. The future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to reverse. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

Loss per share

Loss per share is calculated based on the weighted average number of shares issued and outstanding during the year. Diluted loss per common share, when applicable, considers the potential exercise of outstanding options and warrants using the treasury-based method. There were no potentially dilutive securities as at March 31, 2009 and 2008.

Changes in accounting policies and new pronouncements

Effective April 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). The new standards and accounting policy changes are as follows:

Capital disclosures (Section 1535)

In December 2006, the Canadian Accounting Standards Board issued CICA Handbook Section 1535, "Capital Disclosures". This standard requires disclosure regarding what the Company defines as capital and its objectives, policy and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The Company has included disclosures recommended by the new Handbook section in Note 12 to these consolidated financial statements.

Financial instruments (Section 3862 – 3863)

In December 2006, the Canadian Accounting Standards Board issued two new CICA Handbook sections in relation to financial instruments: Section 3862, "Financial Instruments - Disclosures", and Section 3863, "Financial Instruments - Presentation". The Company has included disclosures recommended by the new Handbook section in Note 11 to these consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified 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. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2009 and 2008
(All dollar amounts are in US dollars)

Company is continually evaluating its counterparties and their credit risks.

RECENT ACCOUNTING PRONOUNCEMENTS

Goodwill and intangible assets

The Canadian Accounting Standards Board has also issued a new Section 3064, "Goodwill and Intangible Assets", to replace current Section 3062, "Goodwill and Other Intangible Assets". The new section establishes revised standards for recognizing, measuring, presenting and disclosing goodwill and intangible assets. This section is effective for fiscal years beginning on or after October 1, 2008.

International financing reporting standards

In January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of the 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 the convergence of Canadian GAAP and IFRS.

Section 1582 - Business Combinations

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company will adopt this standard on April 1, 2011.

Section 1601 – Consolidations and Section 1602 – Non-Controlling Interests

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International

Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company will adopt this standard on April 1, 2011.

3. SALE OF ASSETS

Belgian Diamond Trading Operations

Effective March 31, 2008, the shares of Rex NV and Rex Diamonds NV were sold to an officer, who is also a director and significant shareholder of the Company in exchange for the assumption of certain liabilities of the Belgian subsidiaries and a loan of \$250,000 advanced from Rex NV to the Company. The sale of Rex NV and Rex Diamonds NV was approved by the disinterested shareholders of the Company at the annual and special meeting of shareholders held April 30, 2008.

In accordance with CICA Handbook Section 3840 "Related Party Transactions", this transaction was measured at the carrying amount as it was not in the normal course of operations and the amount of the exchange was not supported by independent evidence. The gain on the disposition of the Belgian operations was reflected as an increase to contributed surplus.

The following table details the carrying value of the net liabilities disposed of:

Cash	\$ 451,334
Inventories	1,055,727
Accounts receivable	238,279
Long term assets	39,869
Accounts payable and accrued liabilities	(994,554)
Loans payable	(3,991,600)
Net liabilities disposed of	\$ (3,200,945)
Consideration – Loan payable (See Note 5)	250,000
Net gain on sale	\$ (2,950,945)

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4. INVESTMENT

	2009	2008
African Gem Resources Ltd.	\$ 1	\$ 1

During the year ended March 31, 2006, the Company acquired 50,000,000 ordinary shares of Afgem valued at \$3.7 million as partial consideration for the sale of the Company's South African diamond mines. Due to the uncertainty of the recoverability of the investment in the Afgem shares, management decided to write down the investment to \$1, resulting in a charge in fiscal 2007 of \$2.8 million to operations. On June 24, 2008, pursuant to the terms of a court order obtained by Afgem, 20,000,000 of these shares were sold at public auction by Afgem.

On October 17, 2008, Afgem announced its voluntary liquidation. On December 4, 2008, Afgem announced that not all conditions precedent have been fulfilled for the voluntary liquidation. No further announcement has been made since.

5. LOANS PAYABLE

	2009	2008
Rex NV	\$ 315,195	\$ 250,000

Pursuant to the sale of the Belgian diamond trading operations effective March 31, 2008 as described in Note 3, the only remaining loan owed by the Company to Rex NV amounts to \$315,195. This US dollar loan bears interest at 6% per annum, is unsecured and due on demand.

6. SHAREHOLDERS' EQUITY

Share capital - authorized and issued

The authorized share capital of the Company consists of an unlimited number of common shares.

A summary of the outstanding share capital of the Company is as follows:

Common shares	Number	Amount
Outstanding March 31, 2007, March 31, 2008 and March 31, 2009	95,417,152	\$92,652,999

Share option plan

The Company was de-listed from the Toronto Stock Exchange during fiscal 2007, resulting in the cancellation of the share option plan. Consequently there were no options outstanding as at March 31, 2009 and 2008. The Company did not issue any stock options in 2009 and 2008; therefore, there was no compensation expense recognized in 2009 and 2008.

Warrants

Warrants	Number	Weighted-Average Exercise Price
Outstanding March 31, 2007	8,000,000	\$ 0.85 Cdn\$0.99
Expired	(8,000,000)	0.85 0.99
Outstanding March 31, 2008 and March 31, 2009	-	\$ - Cdn\$ -

Contributed surplus

A summary of contributed surplus is as follows:

	Amount
March 31, 2007	\$ 1,236,441
Sale of Belgian diamond trading operations (Note 3)	2,950,945
March 31, 2008 and 2009	\$ 4,187,386

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7. INCOME TAXES

The Company and its subsidiary carried out activities in several countries. The income tax effect on operations depends on the tax legislation in each country and the operating results of the Company and each subsidiary. The Company utilizes the asset and liability method of accounting for incomes taxes.

Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of 33% (2008 – 36%) were as follows:

	2009	2008
(Loss) from operations	\$ (234,617)	\$ (1,028,475)
Expected income tax recovery based on statutory rate	(78,300)	(370,300)
Adjustments to expected income tax benefit		
Non-deductible expenses	-	228,800
Other		(71,100)
Change in expected tax rates	399,200	-
Foreign exchange adjustment	3,770,500	2,061,500
Sale of Belgian subsidiaries	-	(3,417,000)
Expiry of non-capital losses	332,600	641,400
Change in valuation allowance	(4,424,000)	926,700
Future income tax (recovery)	\$ -	\$ -

Future Tax Balances

The tax effects of temporary differences that give rise to future income tax assets from continuing operations as at March 31, 2009 and 2008 were as follows:

	2009	2008
Future income tax assets (liabilities)		
Mining properties and equipment	\$ 3,474,100	\$ 4,209,600
Long-term investments	419,000	508,100
Capital loss carry forwards	12,909,500	15,339,300
Non-capital loss carry forwards	3,995,000	5,164,600
	20,797,600	25,221,600
Valuation allowance	(20,797,600)	(25,221,600)
	\$ -	\$ -

Taxable income for the year ended March 31, 2009 is \$Nil (2008 - \$Nil). Based on the lack of historical taxable income, it cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income tax assets. Consequently, the future recovery of losses arising from differences in tax values and accounting values have been reduced by an equivalent valuation allowance. The valuation allowance will be adjusted in the period that it is determined that it is more likely than not that some portion or all of the future tax assets will be realized.

(a) At March 31, 2009, the Company had non-capital loss carry forwards in Canada of approximately \$4,870,300 (Cdn\$6,085,300) which expire at various dates as follows:

Fiscal Year	US\$	Cdn\$
2010	966,800	1,208,000
2014	792,600	990,400
2015	698,200	872,300
2016	1,297,400	1,621,100
2027	556,400	695,200
2028	327,400	409,000
2029	231,500	289,300
Total	4,870,300	6,085,300

(b) At March 31, 2009, the Company has net operating loss carry forwards from continuing operations in South Africa of approximately \$9,121,000 (ZAR88,662,475) and capital loss carry forwards of \$11,897,000 (ZAR96,332,000) which do not expire.

(c) At March 31, 2009, the Company had capital loss carry forwards of \$77,134,000 (Cdn\$96,379,000) in Canada, which can be applied against future net realizable capital gains.

(d) At March 31, 2009 the Company had foreign exploration and development expenditures of approximately \$11,980,000 (Cdn\$14,900,000) which, under certain circumstances, may be utilized to reduce taxable income of future years.

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8. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	2009	2008
Accounts receivable	\$ (3,265)	\$ 240,651
Inventories	-	(748,435)
Accounts payable and accrued liabilities	112,979	375,962
Total	\$ 109,714	\$ (131,822)

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

On May 23, 2008, the Company completed the sale of its Belgian diamond trading subsidiaries (Rex NV and Rex Diamonds NV) to an officer, who is also a director and significant shareholder of the Company. See Note 3. The sale closed with an effective date of March 31, 2008.

9. RELATED PARTY TRANSACTIONS

(a) Included in loans payable as at March 31, 2009 is \$315,195 (2008 - \$250,000) owing to a corporation controlled by a director who is also an officer of the Company. These amounts are unsecured, due on demand and bear interest at 6% per annum.

(b) Included in accounts payable and accrued liabilities as at March 31, 2009 is \$12,000 (2008 - \$nil) due to a director and officer of the Company for director's fees. These amounts are unsecured, non-interest bearing, and are due on demand.

(c) Included in accounts payable and accrued liabilities as at March 31, 2009 is \$120,000 (2008 - \$nil) owing to a corporation controlled by a director who is also an officer of the Company for management fees. These amounts are unsecured, non-interest bearing, and are due on demand.

(d) For the year ended March 31, 2009, the Company incurred legal fees of \$29,162 to a law firm of which a director of the Company is a partner. Included in accounts payable and accrued liabilities as at March 31, 2009 is \$2,638 owing to this law firm. This amount is unsecured, non-interest bearing and is due on demand.

(e) During the year ended March 31, 2008, sales of rough and polished diamonds totaling \$2,321,431 were made to a corporation related to a director and officer of the Company.

(f) During the year ended March 31, 2008, the Company was charged rent for office premises of \$155,552 by a corporation controlled by an officer and a director who is also an officer of the Company.

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10. FINANCIAL INSTRUMENTS

Fair values

The carrying values of the Company's short-term financial instruments, comprising cash, accounts receivable, accounts payable and accrued liabilities and loan payable approximate their fair values.

The Company has designated its cash as held-for-trading, which is measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and loan payable are classified as other financial liabilities, which are measured at amortized cost.

The Company estimates that the fair values of its financial instruments approximate their carrying values at March 31, 2009 and 2008 because of the limited term of these instruments.

11. FINANCIAL RISK MANAGEMENT

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

As a result of the sale of the Belgian operations during fiscal 2008, the Company has no significant concentration of credit risk arising from operations.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

Market risk

a) Interest rate risk: The Company does not currently have any outstanding variable interest bearing loans and, therefore the Company is not exposed to interest rate risk through fluctuations in the prime interest rate.

b) Foreign currency risk: The Company operates currently in Canadian and US dollars, and the Euro, and as such may be negatively impacted by fluctuations in foreign exchange rates. The Company manages this risk by minimizing the number of transactions that result in

the settlement currency differing from the currency of the initial transaction.

c) Political and economic risks: The Company is subject to the considerations and risks of having equity interests and royalty income in South Africa. These include risks associated with the political and economic environment, foreign currency exchange and changes in legislation. This economy differs significantly from the economies of North American and European nations in such respects as structure, level of development, resource allocation, self-sufficiency, rate of inflation and the level of development and enforcement of existing laws.

Sensitivity Analysis:

As at March 31, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately the same.

As at March 31, 2009 the Company did not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

12. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of share capital, accumulated deficit, contributed surplus and loan payable. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended March 31, 2009. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

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13. SEGMENTED INFORMATION

The Company's revenues for the year ended March 31, 2008 were substantially derived from rough and polished diamond sales in Belgium, mainly to European and Israeli customers relating to the business sold effective March 31, 2008 (see Note 3).

During the year ended March 31, 2008, 48% of revenues were generated from the sale of rough diamonds to a corporation related to a director (see Note 9(e)). During 2008, 66% of the Company's rough diamond and jewelry sales was generated from the sale of rough diamonds to three corporations, while 72% of the cost of sales was derived from the purchase of rough diamonds from four different suppliers.

14. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company is involved in legal proceedings and claims which arise in the ordinary course of its business. In the opinion of the management, the amount of ultimate liability with respect to these actions will not materially affect the financial position, results of operations or cash flows of the Company.

(a) On February 22, 2005, charges were filed against a former director and an officer of Rex's subsidiary that operated the Loxton mine in South Africa and an officer of the Company. The charges alleged that misrepresentations were made to employees of the mine between August 2003 and July 2004 regarding contributions made towards the pension and provident funds established for the employees. On August 5, 2004, Rex signed an agreement with Afgem for the sale of Rex's South African operating subsidiaries, including the subsidiary holding the Loxton mine, whereby Afgem assumed all liabilities. Afgem reached a settlement with the creditors in terms of section 311 of the Companies Act of South Africa, which was then sanctioned by the South African High Court on April 14, 2005. All outstanding debts, including these contributions, were then settled by Afgem and the sale of Rex's operational subsidiaries to Afgem was completed in June 2005. On February 20, 2007, the National Union of Mineworkers has withdrawn its claim against Rex Mining Corporation LTD. In May 2007, the charges were withdrawn against

the former director and an officer of Rex's subsidiary that operated the Loxton mine in South Africa. The case against the officer of the Company has not yet been withdrawn. The Company considers that these legal proceedings are without merit and is vigorously defending its position.

b) During fiscal 2006, the Company responded to inquiries from the Staff of the Ontario Securities Commission ("OSC") during the course of an investigation into, amongst other things, past instances of the Company's public disclosure. The OSC issued a notice of hearing commencing on December 10, 2007, seeking an order that Rex submit to a review of its practices and procedures. On August 21, 2008, the OSC issued its Reasons and Decision concluding the Company acted contrary to the public interest. The Company has filed notice of appeal which is pending. On May 7, 2009, the Company received submissions of Staff of the OSC in respect of sanctions pursuant to which the OSC has sought an order to request, among other things, that the Company pay costs associated with the investigation and hearing of \$60,000 and administrative penalties of \$100,000. The Company has not provided for any possible fines or costs as at March 31, 2009 as management believes that the outcome is uncertain at this time.

(c) During fiscal 2006, a dispute arose between Afgem and the Company relating to the remaining payable towards Afgem of ZAR6.7 million (\$923,843). From these amounts a total of \$875,000 was deducted for the royalty receivable from Afgem during fiscal 2007 and \$48,843 during fiscal 2008.

Afgem asserts that the total payable amounts to ZAR8.5 million (\$1.2 million) and that the royalty is not guaranteed for 16 years to a yearly amount of \$700,000 and should not be offset against the payable. The Company believes this to be without merit and is vigorously pursuing its claim.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Serge Muller

Director and member of the audit committee

James P. Boyle

Director and member of the audit committee

OFFICERS

Serge Muller

President and Chief Executive Officer

Ben Holemans

Chief Financial Officer

OFFICES

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SHARE TRANSFER AGENT

Olympia Transfer Services Inc.

Toronto

AUDITORS FOR FISCAL 2009

Canada

McGovern, Hurley, Cunningham, LLP

Toronto

LEGAL COUNSELS

Canada

Boyle & Co. LLP

Toronto

Crawley Meredith LLP

Toronto

SHARE INFORMATION

Shares outstanding

95,417,152

Warrants and options

nil