RIFT VALLEY RESOURCES CORP.

(formerly “Metal Quest Capital Corp.”)
(An Exploration Stage Company)

FINANCIAL STATEMENTS

Years Ended December 31, 2012 and 2011

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Directors of
Rift Valley Resources Corp. (formerly "Metal Quest Capital Corp.")

We have audited the accompanying financial statements of Rift Valley Resources Corp. (formerly "Metal Quest Capital Corp.") which comprise the statements of financial position as at December 31, 2012 and 2011 and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Rift Valley Resources Corp. as at December 31, 2012 and 2011, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Rift Valley Resources Corp. to continue as a going concern

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 26, 2013

RIFT VALLEY RESOURCES CORP. (formerly "Metal Quest Capital Corp.")
(An Exploration Stage Company)
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012 AND 2011
(Expressed in Canadian Dollars)

	Note	2012	2011
		$	$
ASSETS			
Current Assets			
Cash		155,317	68,240
Amounts receivable		36,749	–
		192,066	68,240
Deposits	4	30,000	–
Mineral property interests	5	382,927	116,547
Office Equipment, net	6	1,004	–
		605,997	184,787
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	7	105,388	37,900
SHAREHOLDERS' EQUITY			
Share capital	8	953,155	237,500
Share subscriptions received	8	–	52,500
Deficit		(452,546)	(143,113)
		500,609	146,887
		605,997	184,787

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Approved on behalf of the Board:

"Craig Robson"
Craig Robson, CEO, Director

"Bill Grossholz"
Bill Grossholz, CFO, Director

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

RIFT VALLEY RESOURCES CORP. (formerly "Metal Quest Capital Corp.")
(An Exploration Stage Company)
STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Expressed in Canadian Dollars)

	Note	2012	2011
		$	$
Expenses			
Consulting fees	7	157,853	20,080
Professional fees		47,404	9,033
Listing expense		40,539	–
Rent	7	28,708	1,500
Travel and promotion		27,468	–
Office and miscellaneous		6,458	–
Depreciation		1,003	–
Share-based compensation	8	–	112,500
Net loss and comprehensive loss		(309,433)	(143,113)
Loss per share, Basic and Diluted		(0.02)	(0.06)
Weighted average common shares outstanding		13,052,177	2,588,085

RIFT VALLEY RESOURCES CORP. (formerly "Metal Quest Capital Corp.")
(An Exploration Stage Company)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Expressed in Canadian Dollars)

	Amount	Share Subscriptions Received	Accumulated Deficit	Total
	$	$	$	$
Balances, December 31, 2010	1	-	-	1
Share redeemed	(1)	-	-	(1)
Shares issued for cash	100,000	-	-	100,000
Share-based compensation	112,500	-	-	112,500
Shares issued for mineral property	25,000	-	-	25,000
Share subscriptions received - cash	-	52,500	-	52,500
Comprehensive loss	-	-	(143,113)	(143,113)
Balance, December 31, 2011	237,500	52,500	(143,113)	146,887
Shares issued for cash	720,250	(52,500)	-	667,750
Share issue costs	(4,595)	-	-	(4,595)
Comprehensive loss	-	-	(309,433)	(309,433)
Balance, December 31, 2012	953,155	-	(452,546)	500,609

RIFT VALLEY RESOURCES CORP. (formerly "Metal Quest Capital Corp.")
(An Exploration Stage Company)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Expressed in Canadian Dollars)

	Note	2012	2011
		$	$
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net loss		(309,433)	(143,113)
Items not affecting cash			
Amortization		1,003	–
Share-based compensation		–	112,500
		(308,430)	(30,613)
Changes in non-cash working capital balances and rental security deposit:			
Amounts recoverable		(36,749)	–
Rental deposit		(10,000)	–
Accounts payable and accrued liabilities		67,488	37,900
Cash provided by (used in) operating activities		(287,691)	7,287
INVESTING ACTIVITIES			
Office Equipment		(2,007)	–
Mineral property security deposits		(20,000)	–
Mineral property interests		(266,380)	(91,547)
Cash used in investing activities		(288,387)	(91,547)
FINANCING ACTIVITIES			
Shares subscribed for cash		–	52,500
Shares issued for cash, net		663,155	100,000
Cash provided by financing activities		663,155	152,500
Increase in cash		87,077	68,240
Cash, beginning		68,240	–
Cash, ending		155,317	68,240

Supplemental disclosures		
Cash paid for interest	–	–
Cash paid for income taxes	–	–

For the supplemental disclosures for non-cash investing and financing transactions, see Notes 6 and 8.

1. NATURE AND CONTINUANCE OF OPERATIONS

Rift Valley Resources Corp. (the "Company" or "Rift Valley"), formerly Metal Quest Capital Corp., was incorporated under the Laws of the Province of British Columbia on December 14, 2009. On September 19, 2011, the Company changed its name to Rift Valley Resources Corp. The address of the Company's corporate office and its principal place of business is 500-900 West Hastings Street, Vancouver, British Columbia, Canada.

The Company began operations on September 19, 2011 and its principal business activity is the acquisition, exploration and development of mineral properties in British Columbia, Canada. As of December 31, 2012 the Company was in the exploration stage.

For the year ended December 31, 2012, the Company incurred a loss of $309,433 (2011 - $143,113) and has an accumulated deficit of $452,546 and $143,113 at December 31, 2012 and December 31, 2011, respectively. The Company has never generated revenue on cash flows from operations. This raises significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations as intended are dependent on its ability to obtain necessary financing and raise capital sufficient to cover its exploration and operating costs.

2. BASIS OF PRESENTATION

a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 26, 2013.

b) Going concern

These financial statements are prepared on a going concern basis, which assumes that the Company will continue its operations for a reasonable period of time. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Measurement basis

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in paragraphs (n) and (o). In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Use of estimates

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Significant areas requiring the use of management estimates include the determination of amortization of capital assets, impairment of mineral properties, decommissioning liabilities, deferred income tax assets and liabilities, and assumptions used in valuing options in share-based payment calculations. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

c) Use of judgments

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgments or assessments with a significant risk of material adjustment in the next year.

(i) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. The directors monitor future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 1.

(ii) Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If information becomes available after expenditure is capitalized suggesting that the recovery of expenditure is unlikely, the amount capitalized as mineral property interests is written off in the profit or loss in the period the new information becomes available.

d) Cash and cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and held in lawyer trust accounts and are available on demand by the Company for its programs, and are not invested in any asset backed deposits/investments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Deferred finance costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations.

f) Amortization

Equipment is recorded at cost less accumulated amortization and impairment. Amortization is calculated at the following annual rates:

Office equipment	50% declining-balance

Useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than the estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of loss.

Where an item of equipment comprises significant components with different useful lives, the components are accounted for as separate items of equipment. Subsequent costs to replace parts of an item of equipment are recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and the cost of the item can be measured reliably.

g) Mineral property interests

All expenditures related to the cost of exploration and evaluation of mineral resource claim including acquisition costs for interests in mineral claims are capitalized as mineral property interests and are classified as intangible assets. General exploration costs not related to specific mineral properties or for which the Company does not have a claim are expensed as incurred. When shares are issued as part of mineral property exploration costs, they are valued at the closing share price on the date of issuance unless the fair value of goods or services received is determinable.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, capitalized costs of the related property are reclassified as mining assets and upon commencement of commercial production, are amortized using the units of production or other suitable method over estimated recoverable reserves. Impairment is assessed at the level of cash-generating units. Management regularly assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if one of the following factors are present; the rights to explore have expired or are near to expiry with no expectation of renewal, no further substantive expenditures are planned or budgeted, exploration and evaluation work is discontinued in an area for which commercially viable quantities have not been discovered, indications that the carrying amount is unlikely to be recovered in full through development or sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Mineral properties (continued)

The recoverability of mineral property interests and capitalized exploration and development costs is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its mineral properties contain economically recoverable reserves. Amounts capitalized to mineral properties as exploration and development costs do not necessarily reflect present or future values.

Mineral properties are regularly reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amounts of properties may exceed its recoverable amount. When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of a value in use (being the present value of expected future cash flows of the relevant cash-generating unit) and fair value less costs to sell. If the carrying amount of an asset exceeds the recoverable amount an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized, however, for corporate income tax purposes, the Company has no right to claim these costs as tax deductible expenses.

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values of resource properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.

Payments on mineral property option agreements are made at the discretion of the Company and, accordingly, are recorded on a cash basis.

h) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As at December 31, 2012, the Company has not incurred any decommissioning costs related to the exploration and evaluation of its mineral properties and accordingly no provision has been recorded for such site reclamation or abandonment.

i) Government assistance

B.C. mining exploration tax credits for certain exploration expenditures incurred in B.C., if applicable, are treated as a reduction of the exploration and development costs of the respective mineral property. The Company will record any recovered tax credits at the time of receipt unless certainty of receipt can be established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Share-based payments

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date and each tranche is recognized on a graded vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

k) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

l) Income tax

Income tax expense comprises current and deferred income tax. Tax is recognized in the income statement except to the extent that it relates to items recognized directly into equity, in which case the related tax effect is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax expense is calculated using tax rates, laws and government policies that were enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable income. Deferred tax is calculated based on the expected manner in which temporary differences related to the carrying amounts of assets and liabilities are expected to reverse using tax rates and laws enacted or substantively enacted at the balance sheet date which are expected to apply in the period of reversal.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and which do not affect accounting or taxable profit or loss at the time of the transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Flow-through shares

Resource expenditures for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. At the time flow-through shares are issued, there maybe a potential premium paid on the flow-through shares calculated based on the share issuance price and the market price at the time of closing. A liability is recognized for the premium on the flow-through shares and is subsequently reversed and recorded as other income or deferred tax expense as the Company incurs qualifying Canadian exploration expenses.

In instances where the Company has issued flow-through shares by way of a unit offering, the proceeds are allocated first to capital stock based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve first based on the fair value of the warrant component on grant date using the Black-Scholes option pricing model. Any remaining residual value is then recognized as a liability for the premium on the flow-through shares.

n) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. At December 31, 2012 and December 31, 2011, the Company classified amounts receivables as loans and receivables.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

o) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized costs using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable is classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) New accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

New accounting standards effective January 1, 2013 unless otherwise noted

IFRS 1 – First time adoption of IFRS - In March 2012, the IASB issued an amendment to this standard, which a new exception was included in respect of government loans. Measurement of below-market rate government loans is allowed to be applied prospectively at date of transition. In addition, if the entity had obtained the information to measure the loan at its fair value at the inception of the loan, it could re-measure the loan on transition. This exception is to be applied on a loan-by-loan basis.

IFRS 7 - Financial Instruments: Disclosures - In December 2011, the IASB issued an amendment to this standard, which requires entities to provide additional information about offsetting of financial assets and financial liabilities that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognized financial assets and recognized financial liabilities, on the entity's financial position.

IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements.*

IFRS 11 *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) New accounting standards issued but not yet effective (continued)

IAS 1 – Presentation of Financial Statements - In June 2011, the IASB issued an amendment to IAS 1, which requires entities to separately present items in other comprehensive income based on whether or not they may be recycled to profit or loss in future periods.

IAS 19 – Employee Future Benefits - In June 2011, the IASB issued an amendment to IAS 19, which changes the recognition, measurement and presentation of defined benefit pension expense and provides for additional disclosures for all employee benefits.

IAS 27 – Separate Financial Statements - As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

IAS 28 – Investments in Associates and Joint Ventures - As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provided the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - IFRIC 20 addresses the accounting for overburden waste removal (stripping) costs in the production phase of a surface mine. Stripping activity may result in two types of benefits: i) inventory produced and ii) improved access to ore that will be mined in the future. Stripping costs associated with inventory production should be accounted for as a current production cost in accordance with IAS 2 Inventories, and those associated with improved access to ore should be accounted for as an addition to, or enhancement of, an existing asset.

The following standard will be effective for annual periods beginning on or after January 1, 2014:

IAS 32 – Financial Instruments: Presentation - In December 2011, the IASB issued an amendment to clarify the meaning of the offsetting criterion and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. Earlier application is permitted when applied with corresponding amendment to IFRS 7.

The following standard will be effective for annual periods beginning on or after January 1, 2015:

IFRS 9 – Financial Instruments - In November 2009, as part of the IASB project to replace IIAS 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the first phase of IFRS 9 *Financial Instruments*, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.

The extent of the impact of adoption of these standards and interpretations on the financial statements of the Company has not been determined.

(Expressed in Canadian Dollars)

4. DEPOSITS

	2012	2011
	$	$
Mineral property reclamation bonds	20,000	-
Rental deposit	10,000	-
	30,000	-

5. MINERAL PROPERTY INTERESTS

Expenditures on interests in mineral properties are considered exploration and evaluation assets.

	2012	2011
	$	$
Opening balance, January 1	75,000	-
Mineral property interests acquired for shares	-	25,000
Option payment made	-	50,000
Balance, December 31	75,000	75,000
Opening balance, January 1	41,547	-
Geological and geophysical	217,334	41,547
Line Cutting	61,510	-
Mining Exploration Tax Credit	(12,464)	-
Balance, December 31	307,927	41,547
Total	382,927	116,547

The impairment assessment of exploration and evaluation assets did not result in any impairment provisions on Company's properties.

Cat Mountain Claims, British Columbia

In September 2011, the Company entered into a memorandum of understanding to acquire an option to acquire an undivided 75% right, title and interest to twenty contiguous mineral claims located in west central British Columbia, except for a 2% net smelter royalty (the "NSR"), comprised of approximately 5,984 hectares. The memorandum of understanding was extended into an Option Agreement (the "Agreement") on November 30, 2011. The agreement was amended on January 9, 2013 for the purpose of deferral of the terms of cash payments and share issuances. The consideration for this amended agreement is a cash payment of $10,000 to be made by January 31, 2013 and the issuance of 100,000 common shares to the optionors on the date that the shares of the Company initially begin trading to be made on the stock exchange (see also Note 13(g)).

(Expressed in Canadian Dollars)

5. MINERAL PROPERTY INTERESTS (continued)

Pursuant to the agreement, the Company may purchase 1% of the two percent 2% NSR at any time for $2,000,000. The Company can maintain its option to acquire the interest in the claims by issuing an aggregate of 1,000,000 common shares of Rift Valley, paying $500,000 in cash and incurring $1,500,000 in expenditures on the property within five years. The payments are due as follows:

	Share Issuance	Cash Payment	Exploration Expenditures
		$	$
On signing memorandum of understanding (paid)		50,000	-
On first day of execution of Agreement (issued)	500,000	-	-
On or before March 30, 2013	100,000	50,000	-
On or before October 31, 2013	-	-	350,000
On or before March 30, 2014	100,000	-	-
On or before October 31, 2014	-	100,000	-
On or before March 30, 2015	100,000	-	-
On or before October 31, 2015	-	100,000	400,000
On or before March 30, 2016	100,000	-	-
On or before October 31, 2016	-	100,000	-
On or before March 30, 2017	100,000	-	-
On or before October 31, 2017	-	100,000	750,000
	1,000,000	500,000	1,500,000

Upon acquiring the 75% interest, the Company can acquire an additional 15% undivided interest upon completing an additional $3,500,000 in expenditures on the property within three years. The Company can acquire an additional 10% undivided interest upon funding the property until commercial production has begun.

6. OFFICE EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value December 31, 2012	Net Book Value December 31, 2011
	$	$	$	$
Office Equipment	2,007	1,003	1,004	-
Total	2,007	1,003	1,004	-

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS AND BALANCES

During the year ended December 31, 2012, the Company incurred the following related party transactions:

(a) $28,708 (2011 - $1,500) in rent fees to companies controlled by the President and CFO.

(b) The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-terms benefits and termination benefits were made during the year ended December 31, 2012. Short-term key management compensation paid to directors and senior officers or companies controlled by them consists of the following for the years ended December 31, 2012 and 2011:

	2012	2011
	$	$
Consulting fees	88,750	20,080

(c) As at December 31, 2012, included in accounts payable is $21,149 (2011 - $1,500) to the companies controlled by the officers and a company controlled by the same group of management.

8. SHARE CAPITAL

(a) Authorized Share Capital

The Company is authorized to issue an unlimited number of common shares without par value

(b) Issued and Outstanding Common Shares

	Number of Common Shares	Amount
		$
Balances, December 31, 2010	100	-
Shares repurchased at $0.01 per share	(100)	-
Issued for cash at $0.005 per share	7,500,000	37,500
Share-based payments	-	112,500
Issued for cash at $0.02 per share	625,000	12,500
Issued for cash at $0.05 per share	1,000,000	50,000
Shares issued for mineral property interest in Cat Mountain Claims	500,000	25,000
Balance, December 31, 2011	9,625,000	237,500
Issued for cash at $0.075 per share	6,396,667	479,750
Issued for cash at $0.15 per share	1,603,333	240,500
Share issue costs	-	(4,595)
Balance, December 31, 2012	17,625,000	953,155

On December 14, 2009 and September 20, 2011, the Company issued and redeemed 100 common shares at $0.01 per share for a total of $1 respectively.

(Expressed in Canadian Dollars)

8. SHARE CAPITAL (continued)

(b) Issued and Outstanding Common Shares (continued)

The Company issued 7,500,000 common seed shares on September 20, 2011 at $0.005 per share for a total of $37,500 and issued 625,000 common seed shares on September 22, 2011 at $0.02 per share for a total of $12,500. The fair value of the 7,500,000 common seed shares at the time of issue was considered to be $0.02 per share or $150,000 in total based on the issuance of similar shares for cash in September 22, 2011. The Company recorded $112,500 representing the difference between the cash received and the value of the share as share-based compensation expense.

On December 31, 2011, the Company issued 1,000,000 common seed shares at $0.05 per share for a total of $50,000.

In November 2011, pursuant to an Option Agreement, the Company issued 500,000 common shares valued at $0.05 per share for a total of $25,000.

On July 24, 2012, the Company issued 6,396,667 common seed shares at $0.075 per share for a total of $479,750, of which $52,500 was received prior to December 31, 2011.

On August 9, 2012, the Company issued 1,603,333 common seed shares at $0.15 per share for a total of $240,500.

During the year ended December 31, 2012, the Company incurred share issue costs of $4,595 (2011 - $nil).

(c) Stock Options

As at December 31, 2012 and 2011, the Company had not issued any stock options.

9. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	2012	2011
	$	$
Combined statutory rate	25.5%	28.5%
Expected income tax recovery	(77,358)	(40,787)
Net adjustment for deductible and non-deductible amounts	(700)	32,063
Change of income tax rates	-	1,071
Deferred tax asset not recognized	78,058	7,653
	-	-

Significant components of the Company's deferred income tax assets are as follows:

	2012	2011
	$	$
Future income tax rates	25%	25%
Future income tax assets:		
Non-capital loss	84,792	7,653
Share issue costs	919	-
Deferred tax assets not recognized	85,711	7,653

(Expressed in Canadian Dollars)

9. INCOME TAXES (continued)

As at December 31, 2012, the Company has available for deduction against future taxable income non-capital losses of approximately $339,000 (2011 - $31,000) and resource-related expenditures of approximately $383,000 (2011 - $117,000) available for deduction against future Canadian taxable income. Non-capital losses, if not utilized will expire as follows:

2031	31,000
2032	308,000
	$ 339,000

No deferred income tax asset has been recognized because the amount of future taxable profit that will be available to realize such assets is unpredictable. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

10. MANAGEMENT OF CAPITAL

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern (see Note 1). The Company does not have any externally imposed capital requirements to which it is subject.

As at December 31, 2012, the Company had capital resources consisting of all components of shareholders’ equity. 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 common shares.

11. FINANCIAL INSTRUMENTS

Fair values

The Company’s financial instruments include cash, amounts receivable and accounts payable. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature. The fair values of these financial instruments approximates their carrying values because of the current nature.

The following table summarizes the carrying values of the Company’s financial instruments:

	2012	2011
	$	$
FVTPL (i)	155,317	68,240
Loans and receivables (ii)	16,456	-
Other financial liabilities (iii)	105,388	37,900

(i) Cash
(ii) Amounts receivable
(iii) Accounts payable

11. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices 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 that are not based on observable market data

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
As at December 31, 2012:				
Cash	155,317	-	-	155,317
As at December 31, 2011:				
Cash	68,240	-	-	68,240

Financial risk management objectives and policies

The Company's financial instruments include cash, amounts receivable and accounts payable. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Currency risk*

The Company's expenses are denominated in Canadian dollars. The Company's corporate office is based in Canada and current exposure to exchange rate fluctuations is minimal.

(ii) *Interest rate risk*

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term. The Company has not entered into any derivative instruments to manage interest rate fluctuations.

(iii) *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk on cash the Company places the instrument with financial institution.

(iv) *Liquidity risk*

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and exploration activity. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.

12. COMMITMENTS

a) Pursuant to the option agreement entered on November 30, 2011 and amended on January 9, 2013, the Company is committed to the payments, share issuance and exploration expenditure required to maintain the option to acquire the 75% undivided interest on the Cat Mountain properties as described in Note 5.

b) On March 21, 2012, the Company entered into a consulting agreement with DAG Consulting Corp. ('DAG") under which DAG will act as corporate finance advisor and listing project manager in overseeing execution of a Reverse Takeover transaction between the Company and a listed CNSX company. The Company is committed to pay $25,000 plus HST in the following installments:
   (i) $5,000 on acceptance of agreement (paid)
   (ii) $7,500 on final agreement with a reporting issuer (paid)
   (iii) $12,500 on conditional acceptance of a listing application by the CNSX
   (iv) Finders' fees to be negotiated for funds introduced by DAG

13. SUBSEQUENT EVENTS

a) On January 1, 2013, the Company extended an agreement regarding rent, phone, and equipment usage provided by a company controlled by the Company's officer. Rift Valley Resources Corp. will pay $3,500 per month to this company from January 1, 2013 to December 31, 2013 as rental for the use of the shared office premises.

b) On January 9, 2013, the Agreement for the Cat Mountain Claims was amended (see Note 5). The Company agreed to pay the vendor $10,000 cash by January 31, 2013 and issue 100,000 common shares to the vendor at the time the shares of the Company begin trading on the stock exchange as an extension fee to extend the dates to complete the exploration expenditures by one year. On January 24, 2013, the Company made the cash payment.

c) On February 8, 2013, the Company entered into an Advisory Agreement with 0893624 BC Ltd. and Marcel Rada (collectively the "Advisor"). The Advisor will act as the company's non-exclusive corporate finance advisor, commencing on February 8, 2013 for one year. A corporate finance fee of $10,000 was paid upon signing of the agreement.

d) On March 4, 2013 and March 11, 2013, the Company issued 666,667 shares at $0.15 per share for proceeds of $100,000 and 100,000 shares at $0.20 per share for proceeds of $20,000 respectively.

e) On March 13, 2013, the Company received $37,000 from the founders which will be recorded as contributed surplus to the Company.

f) On March 20, 2013, in accordance with the Amalgamation Agreement dated January 18, 2013, the Company amalgamated with Avatar Ocean Technology Inc. ("Avatar"). The new company will continue under the name Rift Valley Resources Corp. (the "Amalgamated Company"). Avatar is a reporting issuer in each of the provinces of British Columbia, Alberta and Ontario although its common shares are currently not listed on any stock exchange. On April 9, 2013, pursuant to the Amalgamation Agreement, a total of 20,391,652 common shares were issued to the former shareholders of Avatar and Rift Valley Resources Corp. 1,999,985 common shares were issued to the former shareholders of Avatar who received one (1) share of the Company for every three and a half (3.5) shares of Avatar. 18,391,667 common shares were issued to the shareholders of the Company.