

**RIFT VALLEY RESOURCES CORP.**

**Form 51-102F1 – Management Discussion and Analysis**

**Annual Report for the year ended December 31, 2012**

**DISCLAIMER FOR FORWARD-LOOKING INFORMATION**

Certain statements in this interim report are forward-looking statements, which reflect our management's expectations regarding our future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits we will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of December 31, 2012. These assumptions, which include, management's current expectations, estimates and assumptions about the global economic environment may prove to be incorrect. A number of risks and uncertainties could cause our actual results to differ materially from those expressed or implied by the forward-looking statements, including: (1) a downturn in general economic conditions, (2) inability to locate and identify potential business acquisitions, (3) potential negative financial impact from regulatory investigations, claims, lawsuits and other legal proceedings and challenges, and (4) other factors beyond our control. There is a significant risk that such forward-looking statements will not prove to be accurate. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information about these and other assumptions, risks and uncertainties are set out in the section entitled "Risk Factors" below.

***1.1 – Date and Basis of Discussion & Analysis***

This management discussion and analysis ("2012 Q4MD&A") is dated as of April 29, 2013 and should be read in conjunction with the audited financial statements of Rift Valley Resources Corp. for the year ended December 31, 2012 ("December 31, 2012 Financial Statements"). Our discussion in this 2012 Q4MD&A is based on the December 31, 2012 Financial Statements. The December 31, 2012 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"). Unless expressly stated otherwise, all financial information is presented in Canadian dollars.

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**1.2 – Overall Performance**

**Nature of Business**

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’s registered and records office address is 800-885 West Georgia 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.

At December 31, 2012, the Company had not yet achieved profitable operations, had accumulated a deficit of \$452,547 had working capital of \$86,677, which may not be sufficient to sustain operations over the next twelve months, and the Company expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company’s ability to continue as a going concern. However, it is expected that these funds are sufficient to complete its business as discussed in “Financing” below. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and to identify, evaluate and negotiate potential business acquisitions or participation agreements.

**Financing**

During the year ended December 31, 2011, the Company closed private placements with subscriptions for 7,500,000 shares at \$0.005, 625,000 shares at \$0.02, 1,000,000 shares at \$0.05 for total proceeds of \$100,000. The Company also issued 500,000 shares for property acquisition. The total number of shares issued was 9,625,000.

During the year ended December 31, 2012 the Company closed private placements with subscriptions of 6,396,667 shares at \$0.075 and 1,603,333 shares at \$0.15 for total proceeds of \$720,250 and total shares issued of 8,000,000.

Subsequent to the year ended December 31, 2012, the Company issued 666,667 common shares at \$0.15 on March 4, 2013 and 100,000 common shares at \$0.20 on March 11, 2013 for the total proceeds of \$120,000.05. All proceeds raised were used as planned to fund exploration activities and general working capital.

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

**RIFT VALLEY RESOURCES CORP.****Form 51-102F1 – Management Discussion and Analysis****Annual Report for the year ended December 31, 2012****Cat Mountain Property, British Columbia****Property Acquisition Details**

In September 2011, the Company entered into a memorandum of understanding with the Cat Mountain Syndicate to acquire an option to acquire an undivided 75% right, title and interest to twenty contiguous mineral claims (the “Cat Mountain Property”) 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. 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 acquire the interest 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. 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.

On January 4, 2013, the share issuance, cash payment and exploration expenditure schedule was amended. The consideration for this amended agreement is a cash payment of \$10,000 to be made by January 31, 2013 (paid) 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. The payments are due as follows:

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

The Company was required to pay the vendor a \$50,000 option fee and issue 500,000 shares on execution of the memorandum of understanding. The Company has made this payment and issued the shares in 2011.

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***Property Description***

The Cat Mountain Property is a copper-gold prospect situated in the Quesnellia geological terrane, approximately 300 kilometres northwest of Prince George, British Columbia. The project area measures 5,985 hectares and consists of 20 contiguous MTO mineral claims that are held in good standing. The claims are registered to Donald Bragg and are under option to Rift valley Resources. There is road access to the southern and central area of the property and 4WD access to the main mineral showings. Excellent gravel Forest Service Roads originating from Mackenzie, BC provide access to the property.

The property lies along the east perimeter of the large, polyphase, Late Triassic to Early Cretaceous Hogem Batholith, where small satellite intrusions of this body intrude the Witch Lake Formation of the Upper Triassic Takla Group volcanic sequence. The Witch Lake rocks are comprised of thick, massive basaltic breccias and pyroclastic rocks overlying tuffs, argillite and lesser limestone of the Inzana Lake Formation, which underlies much of the east slopes of Cat Mountain and the low lying terrain farther east. The Hogem Batholith is an important metallogenic intrusive body known to host significant porphyry copper-gold deposits such as the Lorraine and the Kwanika deposits.

Gold was first discovered on the summit area of Cat Mountain in the 1940's in the form of narrow magnetite-rich veins and lodes, which were later tested by trenching and several short diamond drill holes. Mineralization at the discovery showing is comprised of a number of steeply dipping magnetite and magnetite quartz-calcite veins of variable thickness with chalcopyrite, pyrite, native gold, hematite, malachite and azurite present. The "No. 1" vein contains visible gold and has returned assays up to 548 g/t Au. More typical assays are 11.7 g/t Au and 0.49% Cu over 1.1 m and 9.6 g/t Au and 0.58% Cu over 2.3 m. The area comprising the No. 1 vein hosts smaller magnetite-copper-gold bearing veins as well as disseminated and fracture controlled mineralization and collectively the area is referred to as the Bet Zone. Initial work focused on the high-grade vein systems, with the dramatic rise in the price of gold the Bet Zone has been reconsidered for its potential to host a relatively high-grade alkali gold porphyry deposit, and remains largely untested along strike and at depth. Significant drill results, in this light, include Hole 90-1 which returned 122 metres of 1.1 g/t Au (apparent width) and hole 94-1 which intersected 100 metres (apparent width) of 1.36 g/t Au.

Prospecting and extensive trenching on the summit also identified widespread porphyry-related copper-gold zones to the west and south of the main discovery that comprised disseminations and fracture-fillings of malachite, azurite, chalcopyrite, pyrite and chalcocite in intrusive syenitic rocks and coarse fragmental volcanic rocks of the Witch Lake Formation. These zones became known as the Upper and Lower Copper zones and the Hoffman zone. Historical trenching on these targets returned some significant results; including 0.65% Cu over 59 m in trench 53; and 2.07% Cu and 1.37 g/t Au over 15 m trench 45. Drill hole 90-1 had an intercept of 0.12% Cu and 1.23 g/t Au over 74 m. Significant drill results from the Hoffman zone include 46 metres (apparent width) of 0.24% Cu in hole 05-17, and 46 metres (apparent width) of 0.31% Cu in hole 07-24.

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***Property Description (continued)***

Exploration programs have been conducted on the property from the 1980's to the present day; the last significant work program completed prior to Rift Valley optioning the property was in 2007. These different programs have included drilling, trenching, geophysical surveys (magnetic and electromagnetic) soil geochemistry and geological mapping. Different operators have focused on different showings and there is considerable data available to guide future exploration programs.

A detailed program of geological and geochemical compilation, field survey and 3D IP and diamond core drilling is recommended for the property in 2012. The total estimated cost of the Phase One program is approximately \$940,000, including 10% contingency but net of sales tax (HST). A follow-up Phase Two program of more detailed IP and ground magnetometer survey and diamond drilling is recommended with an estimated cost of \$1,775,000, including 10% contingency but net of HST.

***Property Work to Date***

The Company performed a \$42,863 due diligence work program in 2011 in connection with the acquisition of the Cat Mountain Property option. The Company engaged Ridgeview Resources Ltd., with Ken McDonald PGeo, to complete a NI 43-101 compliant technical report of the Cat Mountain Property dated May 15, 2012. The Company performed a \$256,642 work program in the fall of 2012 (\$101,898 incurred to Sept 30, 2012 and an additional \$154,744 incurred to December 31, 2012). The exploration program completed by Rift Valley in 2012 consisted mainly of line-cutting and road improvements. Additional work was planned but not completed due to the lateness in receiving work permits and the onset of winter conditions.

An excavator was contracted to make improvements to the main access road leading to the summit of Cat Mountain. The road had deteriorated since 2007 and was only passable with an All-Terrain-Vehicle; the excavator widened some of the corners, improved switchbacks and cleaned loose debris allowing access for 4-wheel drive pickups. An old forestry road on the lower slopes of Cat Mountain was also rehabilitated to allow access to the line cutting grid on the lower, southern slopes of Cat Mtn. Two line cutting grids were proposed at the start of the program, the north grid covering the Bet Zone area and the south grid, covering potential porphyry targets and geophysical anomalies. There was some overlap with previous grids but the majority of the grids encompassed areas not previously surveyed. As the program developed, the two grids were merged into one. A total of 48 line-kilometres were cut and flagged, line spacing was 100 metres, stations were established along the grid lines at 25 metre intervals.

Rift Valley intends to complete the Geophysical work (IP survey) in 2013, make improvements to camp and drill test the Bet Zone along strike and at depth. Many past programs utilized small diameter core which resulted in considerable core loss in broken and fractured zones, often associated with mineralization. Future programs will use a minimum of NQ-size core and may start with HG at the top of the holes and reduce to NQ with depth.

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**1.3 – Selected Annual Information**

<b>As at</b>	<b>31-Dec-12</b>	<b>31-Dec-11</b>
<b>Current Assets</b>	192,065	68,240
<b>Mineral Assets</b>	382,927	116,547
<b>Other Assets</b>	31,004	
<b>Total Assets</b>	605,996	184,787
<b>Current Liabilities</b>	105,388	37,900
<b>Shareholders' Equity</b>	953,155	290,000
<b>Deficit</b>	(452,547)	(143,113)
<b>Total Liabilities and Shareholders' Equity</b>	605,996	184,787
<b>Years ended</b>	<b>31-Dec-12</b>	<b>31-Dec-11</b>
<b>Revenue</b>	-	-
<b>Operating Expenses</b>	309,343	30,614
<b>Stock Based Compensation</b>	-	112,500
<b>Loss and Comprehensive Loss for Period</b>	309,343	143,114
<b>Basic and diluted loss per share</b>	(0.024)	(0.055)
Weighted average number of common shares outstanding	13,158,056	2,588,085

**1.4 – Results of Operations**

Operations during the year ended December 31, 2012 were primarily related to obtaining the necessary licensing and permits to begin the work program, planning and completing initial work programs as well as continuing the identification and evaluation of mineral properties. There were no material contracts entered into during this period other than the Cat Mountain acquisition disclosed above. There were no investor relations arrangements entered into during this period. There were no legal proceedings, contingent liabilities, and defaults under debt or other contractual obligations, breach of any laws or special resolutions during the period.

During the year ended December 31, 2012, the Company incurred \$266,380 in mineral property exploration costs (2011 \$91,547 including property acquisition costs of \$50,000), and incurred operating expenses of \$309,434 (2011 \$143,113), consisting of consulting and salaries of \$157,853 (2011 \$20,080), professional fees of \$47,404 (2011 \$9,033), listing expense of \$40,539 (2011 \$nil), rent and occupancy of \$28,708 (2011 \$1,500), travel and promotion of \$27,648 (2011 \$nil), listing expense of \$40,539 (2011 \$nil), office and miscellaneous fees of \$6,458 (2011 \$11), amortization of \$1,004 (2011 \$nil) and stock based compensation of Nil (2011 \$112,500). The expenses were higher in 2012 because 2011 was an abbreviated stub period. The stock based compensation lower in 2012 because it was a onetime adjustment in 2011.

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During the three month period ended December 31, 2012, the Company incurred \$134,604 in mineral property exploration costs (2011 \$41,547), and incurred operating expenses of \$115,992 (2011 \$30,614), consisting of consulting and salaries of \$23,092 (2011 \$20,080), professional fees of \$23,490 (2011 \$9,023), listing expenses of \$40,539 (2011 \$nil), rent and occupancy of \$10,500 (2011 \$1,500), travel and promotion of \$16,435 (2011 \$nil), listing expense of \$40,539 (2011 \$nil) office and miscellaneous fees of \$1,434 (2011 \$11), amortization of \$502 (2011 \$nil) and stock based compensation of Nil (2011 \$112,500). The expenses were higher in 2012 because 2011 was an abbreviated stub period. The stock based compensation lower in 2012 because it was a onetime adjustment in 2011.

**1.5 – Summary of Quarterly Results (Unaudited)**

<b>As at</b>	<b>31-Dec-12</b>	<b>30-Sep-12</b>	<b>30-Jun-12</b>	<b>31-Mar-12</b>	<b>31-Dec-11</b>	<b>30-Sep-11</b>	<b>30-Jun-11</b>	<b>31-Mar-11</b>	<b>31-Dec-10</b>
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Current Assets</b>	222,065	425,203	189,340	192,404	68,240	50,000	-	-	-
<b>Mineral Assets</b>	383,930	212,925	122,715	121,170	116,547	50,000	-	-	-
<b>Total Assets</b>	605,995	638,128	312,055	313,574	184,787	100,000	-	-	-
<b>Current Liabilities</b>	105,388	19,281	30,816	38,323	37,900	-	-	-	-
<b>Shareholders' Equity</b>	953,155	955,402	502,250	441,750	290,000	212,500	-	-	-
<b>Deficit</b>	(452,547)	(336,555)	(221,011)	(166,499)	(143,113)	(112,500)	-	-	-
<b>Total Liabilities and Shareholders' Equity</b>	605,996	638,128	312,055	313,574	184,787	100,000	-	-	-
<b>Quarters ended</b>	<b>31-Dec-12</b>	<b>30-Sep-12</b>	<b>30-Jun-12</b>	<b>31-Mar-12</b>	<b>31-Dec-11</b>	<b>30-Sep-11</b>	<b>30-Jun-11</b>	<b>31-Mar-11</b>	<b>31-Dec-10</b>
<b>Revenue</b>	-	-	-	-	-	-	-	-	-
<b>Operating Expenses</b>	115,992	115,544	54,512	23,386	30,614	-	-	-	-
<b>Stock Based Compensation</b>	-	-	-	-	-	112,500	-	-	-
<b>Loss and Comprehensive Loss for Period</b>	115,992	115,544	54,512	23,386	30,614	112,500	-	-	-
<b>Basic and diluted loss per share</b>	(0.01)	(0.01)	(0.01)	-	-	(0.10)	-	-	-
Weighted average number of common shares outstanding	17,625,000	15,259,203	9,625,000	9,625,000	9,291,667	1,115,366	100	100	100

Note that the Company began operations on September 19, 2011, therefore the quarters ended June 30, 2011, March 31, 2011 and December 31, 2010 had no activity.

**1.6 – Liquidity and Capital Resources**

The Company is in the exploration stage and therefore has incurred losses and negative cash flows from operations. The Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placement.

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***1.6 – Liquidity and Capital Resources (continued)***

The Company's ability to raise cash depends on capital market conditions, commodities price, and the results of ongoing exploration programs. There is no assurance that the Company will be able to obtain any additional financing on terms acceptable to the Company. The quantity of funds to be raised and the terms of any equity financing that may be undertaken will be negotiated by management as opportunities to raise funds arise. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activity.

The mining industry is capital intensive and there can be no certainty that the Company's existing cash balances or that the proceeds from the issuance of its common shares will provide sufficient funds for all of the Company's cash requirements. Should the need arise, the Company may pursue other financing options or rely on joint venture partners to supply some of funds required to explore and develop any acquisitions. There is no assurance that the Company will be successful in obtaining the funds it may require for its program or that the terms of any financing obtained will be acceptable.

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 the company from January 1, 2013 to December 31, 2013 as rental for the use of the shared office premises.

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. Corporate finance fee of \$10,000 was to be paid upon signing of the agreement. The amount was fully paid in February 2013.

On March 21, 2012, the Company entered into a consulting agreement with DAG Consulting Corp. ("DAG"). 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 will 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

Other than the above mentioned agreements and the Option agreement for the Cat Mountain property, the Company has no other commitments for capital expenditures as at December 31, 2012.



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***1.6 – Liquidity and Capital Resources (continued)***

As at December 31, 2012, the Company had cash and cash equivalents on hand of \$155,317 (December 31, 2011 - \$68,240). The increase of cash and cash on hand was due to more cash raised than was used in operating activities during the year ended December 31, 2012.

Cash used in operating activities for the year ended December 31, 2012 was \$287,691 compared to a total of \$7,287 cash inflow in 2011. More cash was used in operations was due to the increase of consulting, professional and administrative activities as 2011 was an abbreviated stub period.

In Q4 2012, cash used in operating activities was \$(5,989) (Q4 2011 - cash inflow of \$7,287). More cash used in operation was because the Company incurred more loss due to increase of consulting, professional and administrative activities as 2011 was an abbreviated stub period.

Cash provided from financing activities for the year ended December 31, 2012 was \$663,155 compared to a total of \$152,500 cash generated from financing activities in 2011. All cash from financing activities were raised through equity financing conducted during the years.

In Q4 2012, cash used by financing activities was \$2,247 (Q4 2011 - \$52,500) through equity financing.

Cash used in investing activities for the year ended December 31, 2012 was \$288,387, compared to a total of \$91,547 cash used in investing activities in the 2011. The increase of cash used in investing activities was mainly due to the increase of exploration activities during the year of 2012 as 2011 was an abbreviated stub period.

In Q4 2012, a total of \$176,507 (Q4 2011 - \$41,547) cash was used in investing activities as more exploration activities were carried in Q4 2012 as 2011 was an abbreviated stub period.

Shareholder's equity as at December 31, 2012 was \$500,608 (2011 – \$146,887). The Company will need to raise additional sources of funding to maintain operations at the currently level. Although the Company has been successful in the past in rising the necessary funding to continue operations, there can be no certainty it will be able to do so in the future.

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The capital resources of the Company are primarily its cash and cash equivalents of \$155,317. The Company will require additional financing to fund any anticipated exploration expenditures, operating expenses or future acquisitions. The Company anticipates funding future expenditures through additional equity subscriptions, such as private placements or through the exercise of warrants and options. In light of the continually changing financial markets, there is no assurance that funding by equity subscriptions will be possible at the times required or for the amounts desired or that it can be obtained on terms acceptable to the Company and its shareholders. Accordingly, the Company is investigating various business opportunities that ideally will increase the Company's positive cash flow.

If additional funds are raised through the issuance of equity securities, the percentage ownership of current shareholders will be reduced and such equity securities may have rights, preferences, or privileges senior to those of the holders of the Company's common stock.

**1.8 – Off Balance Sheet Arrangements**

As at December 31, 2012, there are no off-balance sheet arrangements to which the Company is committed.

**1.9 – Transactions with Related Parties**

The Company had the following balances and transactions with executive officers or companies controlled by these officers:

	December 31, 2012	December 31, 2011
Transactions:		
Rent and occupancy costs paid to a company by controlled by executive officers	\$28,708	\$ 1,500
Consulting Fees:		
Chief Executive Officer	\$22,000	\$ 4,500
Chief Financial Officer	\$22,000	\$ 4,500
Executive Vice President	\$20,000	
Executive Vice President – Investor Relations	\$24,750	\$10,000
Balances:		
Accounts Payable:		
Company controlled by the same group of management	\$21,149	\$ 1,500

There were no other transactions with related parties except as noted in 1.2 above and 1.15 below.

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**1.10 – Fourth Quarter – N/A**

**1.11 – Proposed Transactions**

The Company entered into an amalgamation agreement with Avatar Ocean Technology Inc. (“Avatar”) on January 4, 2013. The amalgamation agreement contemplated a roll back of Avatar common shares to 2,000,000 common shares pre-amalgamation and an exchange of one common share of Avatar for each common share of Rift Valley. Avatar is currently 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.

The amalgamation agreement has been circulated for shareholder approval on February 12, 2013 by both companies. The details of the Arrangement, pro-forma financial statements and all other relevant supporting documents are provided in an information circular prepared by Avatar and Rift Valley dated January 8, 2013, and available at [www.sedar.com](http://www.sedar.com).

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.

The Company has not entered into any other proposed transactions during the year ended December 31, 2012, other than completing the Cat Mountain extension agreement disclosed above.

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***1.12 – Critical Accounting Estimates***

Pursuant to the Cat Mountain Property acquisition agreement, as described in 1.2 above, the Company issued 500,000 common shares to the property vendor (the “Acquisition Shares”). The Company assigned a value of \$.05 per common share for a total value of \$25,000 to the Acquisition Shares. This value was included in Mineral Assets on the balance sheet and in Share Capital. The Company determined the fair value of the Acquisition Shares based on the most recent private placement issue price.

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.

The Company has outlined the basis of its critical accounting estimates in Notes 2 and 3 of the December 31, 2012 audited financial statements.

***1.13 – Changes in Accounting Policies – International Financial Reporting Standards (“IFRS”)***

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed the date for publicly listed companies to use IFRS replacing Canadian Generally Accepted Accounting Principles for audited and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has completed its IFRS implementation plan and has adopted IFRS voluntarily. The financial statements for the year ended December 31, 2012 are prepared using IFRS. Accordingly, the Company has not restated its prior fiscal year ended December 31, 2011 or quarterly interim financial statements.

**Future Changes in Accounting Policies**

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, Consolidated Financial Statements (“IFRS 10”), IFRS 11, Joint Arrangements (“IFRS 11”), IFRS 12, Disclosure of Interests in Other Entities (“IFRS 12”), IAS 27, Separate Financial Statements (“IAS 27”), IFRS 13, Fair Value Measurement (“IFRS 13”) and amended IAS 28, Investments in Associates and Joint Ventures (“IAS 28”). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the new standards:

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***1.13 – Changes in Accounting Policies – International Financial Reporting Standards (“IFRS”)***

**Future Changes in Accounting Policies (continued)**

IFRS 7 relates to the disclosure of financial instruments. 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 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 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 venture 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 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and 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 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRSs. 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.

In addition, there have been amendments to existing standards, including IAS 1, IAS 27 and IAS 28. IAS 27 addresses the presentation of other comprehensive income. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

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***1.14 – Financial Instruments and Other Instruments***

The Company's financial instruments consist of cash and cash equivalents and accounts payable and accrued liabilities. The Company's financial instruments are exposed to the following risks:

**Credit Risk**

The Company's primary exposure to credit risk is the risk of illiquidity of cash and cash equivalents amounting to \$155,317 at December 31, 2012. As the Company's policy is to limit cash holdings to instruments issued by major Canadian banks, or investments of equivalent or better quality, the credit risk is considered by management to be negligible. Amounts recoverable as at December 31, 2012 include HST receivable of \$20,293 due from the Canadian government and \$16,456 in other receivables.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company's only liquidity risk from financial instruments is its need to meet operating accounts payable requirements. The Company has maintained sufficient cash balances to meet these needs at December 31, 2012.

**Foreign Exchange Risk**

The Company has virtually no foreign exchange risk as all its activities are carried out in Canada and all its financial assets and liabilities are denominated in Canadian dollars.

**Interest Rate Risk**

The Company has been exposed to interest rate risk on its cash and cash equivalents. The majority of these deposits have been in discounted instruments with pre-determined fixed yields. Interest rate movements will affect the fair value of these instruments so the Company manages maturity dates of these instruments to match cash flow needs, enabling realization at no loss in almost all cases. Unrealized gains and losses are reported in other comprehensive income. At December 31, 2012, the Company maintained all of its cash balance either on deposit in a chequing account or in a GIC permitting early redemption with a major Canadian bank.

**Price Risk**

The Company is not exposed to price risk. The carrying value of cash and cash equivalents and accounts payable and accrued liabilities approximate their fair values due to the short maturity of those instruments. There are no incomes, expenses, gains or losses associated with the financial instruments.

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**1.15 – Other MD&A Requirements**

**Share Capital**

The total number of common shares issued and outstanding as at December 31, 2012 was 17,625,000 and remains at that as at the date of this report.

**Disclosure of Outstanding Share Data**

- i) Authorized:  
Unlimited common shares without par value
  
- ii) Common Shares Issued:

	Issue Price	Number of Shares	Proceeds
Founders' Shares	\$0.005	7,500,000	\$ 37,500
Founders' Shares	\$ 0.02	625,000	\$ 12,500
Private Placement	\$ 0.05	1,000,000	\$ 50,000
Property Acquisition	\$ 0.05	500,000	
Private Placement	\$0.075	6,396,667	\$479,750
Private Placement	\$ 0.15	1,603,333	\$240,500
Total		17,625,000	\$820,250

As at the date of this report there were no stock options or warrants outstanding.

**RISK FACTORS AND UNCERTAINTIES**

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties, currently in British Columbia, Canada. Due to the nature of the Company's business and the present stage of exploration of its mineral properties (which are primarily early stage exploration properties with no known resources or reserves), many risk factors will apply. The risks described below are not the only ones facing the Company. Additional risks not presently known to the Company may also impair the business operations.

**Going Concern and Financing Risks**

The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects or to fulfill its obligations under any applicable agreements. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

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**RISK FACTORS AND UNCERTAINTIES (continued)**

**Competition**

The Company's business of the acquisition, exploration and development of mineral properties is intensely competitive. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

**Dependence on Others and Key Personnel**

The success of the Company's operations will depend upon numerous factors, many of which are beyond the Company's control, including (i) the ability to design and carry out appropriate exploration programs on its mineral properties; (ii) the ability to produce minerals from any mineral deposits that may be located; (iii) the ability to attract and retain additional key personnel in exploration, marketing, mine development and finance; and (iv) the ability and the operating resources to develop and maintain the properties held by the Company. There can be no assurance of success with any or all of these factors on which the Company's operations will depend, or that the Company will be successful in finding and retaining the necessary employees, personnel and/or consultants in order to be able to successfully carry out such activities.

**Dilution to the Company's Existing Shareholders**

The Company will require additional equity financing to be raised in the future. The Company may issue securities at less than favorable terms to raise sufficient capital to fund its business plan. Any transaction involving the issuance of equity securities or securities convertible into common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

**Insufficient Financial Resources**

The Company does not presently have sufficient financial resources to meet obligations when they become due, undertake by itself the acquisition, exploration and development of all of its planned acquisition, exploration and development programs. Future property acquisitions and the development of the Company's properties will therefore depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing, public financing, short or long term borrowings or other means. There is no assurance that the Company will be successful in obtaining the required financing. Failure to raise the required funds could result in the Company losing, or being required to dispose of, its interest in its properties.



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**RISK FACTORS AND UNCERTAINTIES (continued)**

**Fluctuation of Metal Prices**

Even if commercial quantities of mineral deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the metals produced. There can be no assurance that the price of any commodities will be such that any of the properties in which the Company has, or has the right to acquire, an interest may be mined at a profit.

**General Economic Conditions**

The recent events in global financial markets have had a profound impact on the global economy. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's growth and profitability. These factors could have a material adverse effect on the Company's financial condition and results of operations.

**Share Price Volatility**

There can be no assurance that an active trading market in our securities will be established and sustained. The market price for our securities could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of our peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the securities of our Company. The stock market has from time to time experienced extreme price and volume fluctuations, particularly in the mining sector, which have often been unrelated to the operating performance of particular companies.

**Government Regulation**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to prospecting, development, production, environmental protection, mining taxes, labor standards, property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

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**RISK FACTORS AND UNCERTAINTIES (continued)**

**Limited Experience**

The Company has very limited experience in placing mineral resource properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if it places its resource properties into production.

**Mineral Interests**

The agreements pursuant to which the Company has the right to acquire its properties provide that the Company must expend certain minimum amounts on the exploration of the properties or contribute its share of ongoing expenditures. The Company does not presently have the financial resources required to complete all expenditure obligations under its property acquisition agreements over their full term. Failure by the Company to make such expenditures in a timely fashion may result in the Company losing its interest in such properties. There can be no assurance that the Company will have, or be able to obtain, the necessary financial resources to be able to maintain all of its property agreements in good standing, or to be able to comply with all of its obligations there under, with the result that the Company could forfeit its interest in one or more of its mineral properties.

Substantial expenditures are required to be made by the Company to establish ore reserves. The property interests owned by the Company, or in which it has an option to earn an interest are in the exploration stages only, are without known bodies of commercial mineralization and have no ongoing mining operations. Mineral exploration involves a high degree of risk and only few properties which are explored are ultimately developed into producing mines. Exploration of the Company's mineral exploration may not result in any discoveries of commercial bodies of mineralization. If the Company's efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations.

**Permits and Licenses**

The operations of the Company will require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects, on reasonable terms or at all. Delays, or a failure to obtain such licenses and permits, or a failure to comply with the terms of any such licenses and permits that the Company does obtain, could have a material adverse effect on the Company.

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**RISK FACTORS AND UNCERTAINTIES (continued)**

**Title Matters**

Although the Company has taken steps to verify the title to the mineral properties in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples. Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties for which titles have been issued are in good standing.

**Speculative Business**

Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in size to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. There is no known resource, and there are no known reserves, on any of the Company's properties.

**Uncertainty of Resource Estimates/Reserve**

Unless otherwise indicated, mineralization figures presented in the Company's filings with securities regulatory authorities, press releases and other public statements that may be made from time to time are based upon estimates made by Company personnel and independent geologists. These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable.

**APPROVAL**

The Board of Directors of the Company has approved the disclosure contained in this MD&A.

**ADDITIONAL INFORMATION**

The September 30, 2012 Financial Statements, Pro-forma financial statements, Amalgamation Agreement, Option Agreement and 43-101 are included in the January 8, 2013 Information Circular filed on SEDAR as noted in section 1.11 above.