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Interim Management's Discussion & Analysis

** Quarterly Highlights **

This Management's Discussion & Analysis – Quarterly Highlights ("**Quarterly Highlights**") of Southstone Minerals Limited (the "**Company**" or "**Southstone**") is prepared as of January 29, 2020 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the three months ended November 30, 2019, as well as the audited financial statements for the year ended August 31, 2019.

The interim unaudited financial statements have been prepared by management in accordance with International Accounting Standards 34 'Interim Financial Reporting' using accounting policies consistent with the International Financial Reporting Standards issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee.

All figures are in Canadian dollars unless otherwise stated. Additional information, including the above mentioned financial statements are available on SEDAR and may be accessed at www.sedar.com.

Forward-Looking Information

This Quarterly Highlights includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the mining industry (including operational risks in exploration development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of resource and reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of Southstone to obtain all permits, consents or authorizations required for its operations and activities; and health, safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the ability of Southstone to fund the capital and operating expenses necessary to achieve its business objectives, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by Southstone. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of Southstone should not place undue reliance on these forward-looking statements.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this document are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Analysis of the Company's Financial Performance and Condition

The Company is reporting a record quarter, having made a profit for the Q1 2020 period of $364,838 compared to a loss incurred in the comparative period in Q1 2019 of $88,636 from continuing operations. The profit is directly related to the increase in diamonds recovered from the Oena Diamond Mine ("Oena Mine"). A comparison of the operational expenses from continuing operations are discussed below.

Non-Exploration Expense Summary

Amortization	$	(34,868)	$	(2,163)
Amortization of service contracts		-		(4,630)
Exploration and evaluation expenses		(2,085,101)		(540,987)
Foreign exchange gain / (loss)		(20,653)		108,684
Management and consulting		(79,184)		(79,502)
Office and general		(23,370)		(6,337)
Professional fees		(37,474)		(43,242)
Project investigation costs		(2,916)		(1,953)
Raw material and engineering cost		(141)		(1,723)
Shareholder information		(11,340)		(4,956)
Travel and promotion		(8,398)		(5,467)

- Amortization of equipment increased quarter on quarter in line with the additional equipment deployed at the Oena Mine.

- The intangible asset related to the three Kwena Group service contracts were fully amortised in the fiscal year ended August 31, 2019. As a result, no more amortization related to the Kwena Group service contracts are being incurred.

- The exploration cost incurred at the Oena Mine have increased in line with the increase in production and the related sales. The Contract Mining and Diamond Recovery Agreement with Bluedust 7 Proprietary Limited makes provision for a split on diamond sales and therefore reduces the risk to the Company in the event the Oena Mine does not perform, but still allowing participation on the upside.

- The foreign exchange loss for the current period Q1 2020 mostly relates to the volatility of the South African Rand against the United States and Canadian Dollars. The Company does not hedge foreign exchange as revenue from continued operations are mostly earned in United States Dollars. Refer to the annual financial statements for the year ended August 31, 2019 for the complete policies and risk assessments related to foreign currency.

- The management and consulting charges are in line with the comparative quarter with no changes in management structure or compensation.

- General overheads, such as office and general, shareholder information and travel and promotion increased marginally in Q1 2020 compared to Q1 2019 due to higher activity in general.

- Professional fees reduced marginally in Q1 2020 compared to Q1 2019 as a result of lower utilization of professional consultants.

- No major costs were incurred on investigating new projects in both the current and comparative quarter.

- Since the cost related to exploration are reported in a separate line item, continued operations do not incur significant cost related to raw materials and engineering.

Exploration and Evaluation Expenditures

The following is a breakdown of the exploration and evaluation expenditures for the Oena Mine in Q1 2020 and Q1 2019.

		November 30, 2019		November 30, 2018
Exploration expenditures:				
Project staff salaries, benefits and consulting	$	116,576	$	51,389
Travel expenses		3,495		8,324
Supplies Expense		1,965,030		433,723
Recoveries		-		-
Exploration and evaluation expenditures		2,085,101		493,436
Net Recovery credited to the Oena Mine		-		-
Balance end of the period	$	-	$	-

Liquidity

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at November 30, 2019, the Company had current assets of $4,796,1243 (August 31, 2019 - $3,121,785) to settle current liabilities of $5,552,469 (August 31, 2019 - $4,417,997) resulting in working capital deficit of $401,026 (August 31, 2019 - $943,670). The Company intends to fund these through loans, private placements and profits generated form its operations. All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms.

Transactions with Related Parties

The Company incurred the following expenditures charged by companies controlled by current directors and officers of the Company:

		November 30, 2019	November 30, 2018
Management fees (included in Management and consulting and Employee benefits expense from continued operations)	$	70,184	70,502
Consulting fees (included in Management and consulting from continued operations)		9,000	9,000
Management fees included in discontinued operations		107,885	112,589
Office rental included in office and general from discontinued operations		9,451	9,021
Related party supplies included in raw materials and engineering cost in discontinued operations		344,435	162,842
Share based payments		-	-
Total	**$**	**540,955**	**363,954**

As at November 30, 2019, $800,717 (August 31, 2019, $1,099,041) is owed to the CEO, CFO and certain directors and officers of the Company. Amounts owing are non-interest bearing, unsecured and due on demand.