

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 April 23, 2021 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the six months ended February 28, 2021, as well as the audited financial statements for the year ended August 31, 2020.

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 loss for the six months ended February 28, 2021 of \$46,754, compared to a profit of \$345,733 for the comparative period in 2020. For the three months ended February 28, 2021, the Company incurred a loss of \$271,771, compared to a loss of \$61,971 for the same period in 2020. The biggest contributor for the losses in both periods are the lower recoveries in fiscal 2021 due to restrictions brought on by COVID-19.

Q1 and Q2 2020 saw exceptional diamonds with an average of US\$1,899 per carat, whereas Q1 and Q2 2021 yielded 35% less stones and 46% less carats at a lower average of US\$1,540 per carat. These types of fluctuations can be expected from alluvial diamond operations.

A comparison of the operational expenses from continuing operations are discussed below.

Non-Exploration Expense Summary

	Three months ended		Six months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Amortization	(23)	(357)	(848)	(737)
Foreign exchange (loss)/gain	(5,702)	(988)	11,717	(21,641)
Management and consulting	(104,394)	(73,827)	(190,212)	(153,011)
Office and general	(11,457)	(8,424)	(19,312)	(17,214)
Professional fees	(19,587)	(54,715)	(82,748)	(92,189)
Project investigation costs	(26,081)	(5,399)	(26,081)	(8,315)
Share based payments	-	66,061	-	66,061
Shareholder information	(3,637)	(12,202)	(7,060)	(23,542)

- Amortization of equipment remained in line for the six months ended February 28, 2021 and February 29, 2020, but reduced slightly for the three month period due to a vehicle having reached its residual value and no further amortization will be accounted for.
- The foreign exchange gains and losses fluctuating relates to the volatility of the South African Rand against the Canadian dollar for the period March 2020 to February 2021.
- The management and consulting charges increased during fiscal 2021 due to the payment of director fees to an independent director appointed in the second quarter of 2020.
- General overhead, such as office and general and shareholder information decreased in both the three and six months reporting periods in 2021 due to travel restrictions related to COVID-19.
- Professional fees decreased in both the three and six month for fiscal 2021 compared to fiscal 2020 due to lower utilization in South Africa had restrictions of movement due to COVID-19. These services include but are not limited to legal, advisory and environmental.
- The \$26,081 expenditure in fiscal 2021 on project investigation cost relates to the next exploration costs incurred on the Kareepan project.

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 from both operations as well as financing activities. As of February 28, 2021, the Company had cash of \$410,307 to settle current liabilities of \$1,332,687. The Company intends to meet its financial commitments through loans, private placements, debt conversion, and profits generated from its operations. All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms.

The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services, have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. The pandemic could continue to have a negative impact on the stock market, including trading prices of the Company's shares and its ability to raise new capital. Operations at the Oena Diamond Mine were halted between March 27, 2020 and May 4, 2020 in compliance with the South African government's instructions. On April 16, 2020, the South African Government announced amendments to the Regulations promulgated under the Disaster Management Act 57 of 2002 to prevent and combat the spread of COVID-19. The duration and impact of the COVID-19 pandemic is unclear at this time and as a result it is not possible for management to estimate the severity of the impact it may have on the financial results and operations of the Company in future periods.

Transactions with Related Parties

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

	February 28, 2021	February 29, 2021
Directors' fees	\$ 7,803	\$ -
Consulting fees (included in management and consulting)	182,409	153,011
Total	\$ 190,212	\$ 153,011

	Six months ended February 28 and 29,	
	2021	2020
Samer Khalaf (Director and CEO)	\$ 90,847	\$ 79,240
Terry Tucker (Director and Executive Chairman)	44,055	39,620
Neil Budd (Independent)	7,803	-
Wiklow Corporate Services - Donna Moroney (Director and Company Secretary)	30,000	18,000
Simon van der Loo – CFO	17,507	16,151
Total	\$ 190,212	\$ 153,011

As of February 28, 2021, \$189,131 (August 31, 2020 - \$241,099) is owed to the directors and officers of the Company. Amounts owing are non-interest bearing, unsecured and due on demand.

Subsequent events

Production at the Oena Diamond Mine during Q1 2021 operated at 38% of capacity due to holiday related breaks, COVID related matters and extremely high water in the Orange River which prevented access to the Sandberg area for much of the period. As a result, diamond production for the period was reduced from previous periods.

Production at the Gumrock Joint Venture during Q2 2021 operated at <47% pf capacity due to significant delays caused by rain. Further production and reclamation work during the quarter was completed on the Grass Camp. Mining operations were moved to the Cultivated Area where the 14-foot pan was erected. Work in the Cultivated

Area was extremely difficult to impossible during the quarter due to heavy rainfall during the latter part of December through to the end of February 2021.

The Farm Kareepan Agreement has been terminated and reclamation work has been fully completed and approved by the Department of Minerals Resources.