

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 July 26, 2021 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the nine months ended May 31, 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 nine months ended May 31, 2021 of \$112,175, compared to a profit of \$132,843 for the comparative period in 2020. For the three months ended May 31, 2021, the Company reported a loss of \$65,422, compared to a loss of \$212,890 for the same period in 2020. The biggest contributor for the loss for the nine month period in fiscal 2021 was the low recoveries during the first half of the year. Recoveries improved in the third quarter which helped to reduce the loss compared to the comparative period.

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

Non-Exploration Expense Summary

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Nine months ended May 31, 2020
Revenues	269,454	428,178	2,054,221
Cost of sales	(256,926)	(394,973)	(1,745,083)
Gross Profit	12,528	33,205	673,950
Operating expenses			
Amortization (Note 9)	(6)	(3,247)	(854)
Foreign exchange (loss)/gain	34,258	(48,841)	45,975
Management and consulting (Note 14)	(89,389)	(82,941)	(279,601)
Office and general	(1,948)	(2,053)	(21,260)
Professional fees	(21,685)	(103,655)	(104,433)
Project investigation costs	-	67	(26,081)
Raw material and engineering cost	-	(2,082)	-
Share based payments (Note 20)	-	-	66,061
Shareholder information	(4,243)	(3,652)	(11,303)
	(83,013)	(246,404)	(397,557)
			(496,992)

- Amortization of equipment reduced for both the three and nine month periods 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 May 2021.
- The management and consulting charges increased marginally compared to the comparative periods due to restructuring of the compensation paid to the Corporate Secretary, CFO and exchange fluctuations between United States- and Canadian dollars.
- Office and general expenditure is in line with the three and nine month reporting periods due to there being minimal office infrastructure and spending.
- Professional fees decreased in both the three and nine month for fiscal 2021 compared to fiscal 2020 due to lower utilization of professional consultants. 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 exploration costs incurred on the Kareepan project.

- Shareholder information decreased in both the three and nine months reporting periods in 2021 due to travel restrictions related to COVID-19 and a reduction in reportable activity.

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 at May 31, 2021, the Company had cash of \$254,254 to settle current liabilities of \$1,239,629. 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.

Going concern

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations in the foreseeable future. Realization values may be substantially different from the carrying values as shown and these unaudited condensed consolidated interim financial statements, and do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

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.

For the nine months ended May 31, 2021, the Company reported a loss and has an accumulated deficit of \$20,982,611. The Company will require additional financing in order to further develop its business, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. If the going concern assumption was not used, then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these consolidated financial statements.

Transactions with Related Parties

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

	Three months ended May 31,		Nine months ended May 31,	
	2021	2020	2021	2020
Directors fees	\$ 3,697	4,183	\$ 11,500	\$ 4,183
Consulting fees	85,692	78,758	268,101	231,769
Total	\$ 89,389	82,941	\$279,601	\$ 235,952

	Nine months ended May 31	
	2021	2020
Samer Khalaf (Director and CEO)	\$ 127,818	\$ 121,091
Terry Tucker (Director and Executive Chairman)	63,909	60,546
Neil Budd (Independent)	11,500	4,183
Wiklow Corporate Services - Donna Moroney (Director and Corporate Secretary)	45,000	27,000
Simon van der Loo – CFO	31,374	23,132
Total	\$ 279,601	\$ 235,952

As at May 31, 2021, \$183,337, (August 31, 2020, \$241,099) is owed to the CEO and a director of the Company. Amounts owing are non-interest bearing, unsecured and due on demand.

Subsequent events

The global pandemic outbreak of COVID-19 has had a material adverse effect on the global economy and, specifically, the regional economies in which the Company operates. 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. On June 27, 2021, the South African Government announced heightened restrictions due to a surge in Covid 19 infection rates. On July 9, 2021 unrest and rioting broke out around major regions in South Africa resulting in disruption in supply chains and service delivery in the country with billions of Rands in damages to infrastructure. At the time of this report operations have not been affected. The long lasting effect of the stipulated regulations, the ban on international travel and the social and political climate is unknown and could remain so in the short term.