SOUTHSTONE MINERALS LIMITED

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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 April 27, 2020 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 29, 2020, 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 ("**IAS**") 34 'Interim Financial Reporting' ("**IAS 34**") 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, which contain extensive disclosure of the history and properties of the Company 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. Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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 generated a profit of $345,734 compared to a loss of $270,502 for the six months ended February 28, 2019 from continued operations. For the three months ended February 29, 2020 the Company incurred a loss of $19,104, compared to a loss of $190,647 for the same period in fiscal 2019 from continued operations.

From discontinued operations, the Company incurred a profit of $157,525 for the six months ended February 29, 2020, compared to a loss of $58,222 for the same period in fiscal 2019 and for the three months ended February 29, 2020 the Company incurred a profit of $81,074, compared to a loss of $89,565 for the three months ended February 28, 2019.

The profit from continued operations is mainly attributed to the good recoveries made at the Oena diamond property and the profit made on the discontinued operations mainly relate to a change in product mix yielding higher revenue.

Operational Expense Summary

	Three months ended		Six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	$	$	$	$
Revenues	1,376,716	1,153,365	4,060,546	1,655,581
Operating expenses				
Amortization *(Note 10)*	(33,229)	(24,314)	(68,097)	(26,478)
Amortization of service contracts	-	(4,857)	-	(9,487)
Exploration and evaluation expenses *(Note 9)*	(1,225,242)	(890,100)	(3,310,343)	(1,422,307)
Foreign exchange (loss)/gain	(988)	(22,667)	(21,641)	86,016
Management and consulting (*Note 17*)	(73,827)	(97,418)	(153,011)	(176,920)
Office and general	(21,868)	(7,685)	(45,238)	(14,021)
Professional fees	(54,715)	(204,032)	(92,189)	(247,274)
Project investigation costs	(5,399)	2,409	(8,315)	457
Raw material and engineering cost	(2,039)	(42)	(2,180)	(1,765)
Share based payments (*Note 21*)	66,061	-	66,061	-
Shareholder information	(12,202)	(12,248)	(23,542)	(17,204)
Travel and promotion	(3,496)	(5,625)	(11,894)	(11,092)
	(1,366,944)	(1,266,579)	(3,670,389)	(1,840,075)

A summary of the material operational expense activity variances during the six months and three months ended February 29, 2020, compared to the six months and three months ended February 28, 2019 are as follows:

- Amortization of equipment increased with the addition of equipment to the Oena project. This is applicable to the three- and six-months periods.

- There was no charge in the three- and six-months periods ended February 29, 2020 for amortization on the service contracts due to the service contracts being fully amortised.

- Exploration and evaluation expenditures increase in line with the increase in diamond recoveries as the biggest component are the subcontractor share of the recoveries in line with the Contract Mining and Diamond Recovery Agreement.

- The foreign exchange gains and losses reported in the income statement remains volatile due to the mineral properties, and associated plant and infrastructure being consolidated into the group accounts converted from the South African Rand.

- Management and consulting fees show a reduction on both the three- and six-month periods due to management agreeing to reduced packages for the current financial year.

- Office and general expenses increased for both the three- and six-months reporting periods due to the inclusion of the joint operational costs form the Oryx partnership which ran from May 2019 to January 2020.

- Professional fees decreased for both the three- and six-month reporting periods due to not having to contract specific professional consultants during the current reporting periods compared to the previous reporting periods.

- Project investigation costs are reported marginal for both the three- and six-months reporting periods, current and prior year, due to more focus being placed on the current operations.

- Raw materials and engineering costs are reported marginal for both three- and six-months reporting periods, current and prior due to reporting the coal operations as a discontinued operation.

- The share-based payments line shows an income due to the expiry of certain share options. No further share options were issued in the current three- and six-months periods nor was there in the comparative periods.

- Shareholder information associated costs increased in the current reporting periods for both three and six months compared to the previous three and six months reporting periods mainly as a result of the increased costs associated with the anticipated disposition of the coal operations as announced October 3, 2019 and on March 23, 2020.

- Travel and promotion are in line with the comparative reporting periods for the three and six months due to cost saving initiatives as well as there not being a direct link related to travel and the increase in production.

Exploration and Evaluation Expenditures

The following is a breakdown of the exploration and evaluation expenditures for the Oena project for the three and six months ended February 29, 2020 and 2019:

		February 29, 2020		February 28, 2019
Exploration expenditures:				
Project staff salaries, benefits and consulting	$	(225,827)	$	(111,912)
Travel expenses		(7,261)		(12,159)
Supplies Expense		(3,077,255)		(1,349,195)
Recoveries		4,060,546		1,655,580
Exploration and evaluation expenditures	$	750,203	$	182,314

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. Historically the Company generated cash flow primarily from its financing activities. From about the first quarter of 2020, however, the Oena Diamond Mine have been a major contributor in financing its own as well as group related operational expenditures. As at February 29, 2020, the Company had cash from continuing operations of $531,442 (August 31, 2019: $45,5195) to settle current liabilities from continuing operations of $2,145,104 (August 31, 2019: $2,254,533). The Company intends to meet its financial commitments 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.

Subsequent to the quarter ended February 29, 2020, there has been a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally 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 March 27, 2020, the Company announced the closure of the Oena Diamond Mine in compliance with the South African's instructions for a 21 day lockdown period which was subsequently extended to the end of April 2020. 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 dated April 11, 2020.

The Minister of Natural Resources and Energy stressed that all collieries linked to Eskom will continue production at 100% capacity and all others will operate, as directed by the Minister, at 50%. According to amendment 11J, this has been put in place to address the potential risk of seismic activity occurring in underground mines and thereafter may only be increased as determined by the Minister of Mineral Resources and Energy.

The following specific conditions set out in 11K of the amendment will be applied to the starting and increasing of the capacity of mining operations:

- a rigorous screening and testing program must be implemented for all employees returning to work, to aid in the prohibition of the spread of COVID-19;
- the mining industry must provide quarantine facilities for employees who have tested positive for COVID-19;
- all data collected by the mining operations during the testing and screening programme must promptly be submitted to the relevant authority;
- mining companies must arrange transport for their South African employees, from their homes to their respective areas of operations; and
- all workers from neighboring Southern African development community countries must be recalled to their place of employment at the end of the lockdown, in accordance with these Regulations and the Regulations applicable in those countries.

Section 11B of the Regulations, has been amended by section 8(a) to promote decongestion of the ports. The Regulations now allow for the transportation of cargo from ports of entry to their intended destination, as well as cargo currently at ports of entry, thereby allowing mining operations to move commodities offshore.

In line with the conditions set out in 11K of the amendment as referred to above, African Star Minerals (Pty) Ltd and it's contractor Bluedust 7 (Pty) Ltd have started the application process to commence with operations at the Oena Diamond Mine on May 4, 2020. Due to the uncertainty surrounding the impact of the COVID-19 regulations the Company will communicate any changes.

These factors, amongst others, could have a significant impact on the Company's operations. As a result, there exists material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

Transactions with Related Parties

The Company incurred the following expenditures charged by companies controlled by directors and officers of the Company from continued operations:

	Three months ended		Six months ended	
	February 29 2020	February 28 2019	February 29 2020	February 28 2019
Management fees	$ 64,827	$ 88,418	$ 135,011	$ 158,920
Consulting fees	9,000	9,000	18,000	18,000
Total	**$ 73,827**	**$ 97,418**	**$ 153,011**	**$ 176,920**

The Company incurred the following expenditures charged by companies controlled by directors and officers of the Company from discontinued operations:

	Three months ended		Six months ended	
	February 29 2020	February 28 2019	February 29 2020	February 28 2019
Management fees	$ 95,221	$ 128,078	$ 203,106	$ 240,667
Office rental	10,491	9,065	20,981	18,626
Related party supplies	345,521	172,466	691,042	335,308
Total	**$ 451,233**	**$ 309,609**	**$ 915,129**	**$ 594,601**

Management fees are paid as and when funds are available. Short payments are included in the amount owing to and from related parties as. Management fees accrued are made up as follow:

	Three months ended February 29, 2020	Three months ended February 28 2019	Six months ended February 29, 2020	Six months ended February 28 2019
Samer Khalaf (Director and CEO)	$ 39,552	$ 39,922	$ 79,240	$ 71,099
Terry Tucker (Director and Executive Chairman)	19,776	39,922	39,620	71,099
Kevin Gallagher (Director)	45,256	46,541	90,512	93,082
Wiklow Corporate Services - Donna Moroney (Director and Company Secretary)	9,000	9,000	18,000	18,000
Simon van der Loo – CFO	26,917	27,915	53,835	55,831
Management	20,018	53,196	40,036	90,476
Total	**$ 160,519**	**$ 216,496**	**$ 321,243**	**$ 328,488**

As at February 29, 2020, $661,060, (August 31, 2019 - $800,457) 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.