MANAGEMENT'S DISCUSSION AND ANALYSIS

The following information, prepared as of August 29, 2019, should be read in conjunction with the condensed interim consolidated financial statements of Cautivo Mining Inc. (the "**Company**" or "**Cautivo**") for the six months ended June 30, 2019, together with the audited consolidated financial statements of the Company for the year ended December 31, 2018 and the accompanying management's Discussion and Analysis (the "Annual MD&A") for that fiscal year. The referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). References herein to "$" are to the United States dollar and "C$" are to the Canadian dollar.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this MD&A which are not historical in nature may constitute "forward-looking statements" within the meaning of that phrase under applicable securities law. When used in this MD&A, such statements generally use words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate", "budget", "scheduled", "estimates", "forecasts" and other similar terminology. These statements reflect management's current assumptions and expectations regarding future events and operating performance as of the date of this MD&A and by their nature are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. Accordingly, readers should not place undue reliance on forward-looking statements. A number of factors could cause actual results to vary significantly from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed in this MD&A under the heading "*Risk Factors*".

Forward-looking information in this MD&A may include, but is not limited to:

- information with respect to the Company's future financial and operating performance and that of its subsidiaries, including its statement that the Company's primary objective is to complete exploration with respect to the Las Lomas Project (as defined herein) with a view to developing such project;
- statements relating to changes or proposed changes in Peruvian mining regulations;
- costs and timing of exploration and, if warranted, development activities to improve its understanding of the economic mineral potential of the Las Lomas Project;
- the potential acquisition of surface rights and additional mining interests and the commencement of further exploration programs in Peru;
- timing and receipt of approvals, consents and permits under applicable legislation;
- the Company's assessment of potential environmental liabilities and its plans to minimize environmental impacts;
- results of future exploration and drilling;
- quality and marketability of mineral products;
- metals prices;
- adequacy of financial resources

Forward-looking information is based on assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made. The Company believes that the assumptions and expectations reflected in such forward-looking statements are reasonable. Assumptions have been made regarding, among other things: our ability to carry on exploration and development activities, the timely receipt of required approvals and acquisitions of applicable surface rights, the price of metals, the Company's ability to operate in a safe, efficient and effective manner and its ability to obtain financing as and when required and on reasonable terms. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used and that these factors and assumptions may be incomplete or incorrect.

Forward-looking statements are also subject to known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from those expressed or implied by such forward-looking information. Those risks include:

- foreign country risk;
- crime and business corruption risk;
- security risks;
- liquidity concerns and future financing requirements;
- negative cash flows from operations;
- requirement for substantial capital expenditures;
- infrastructure risks;
- risks related to future acquisitions and/or the acquisitions of applicable surface rights;
- risks related to exploration and mineral development;
- operating hazards and risks;
- mineral price fluctuations;
- foreign exchange rate fluctuations;
- price volatility of publicly traded securities;
- competition;
- title matters;
- environmental risks and other regulatory requirements;
- no known mineral resources or reserves;
- industry regulation;
- uninsured or uninsurable risks;
- insurance risks;
- conflicts of interest;
- dependence on, and protection of, key personnel;
- risks related to the business cycle;
- liquidity risks;
- adverse general economic conditions;
- shortages of critical parts, equipment and skilled labour;
- risk of community action;
- claims and legal proceedings;
- difficulty in enforcement of legal rights;
- financial reporting standards;
- internal controls;
- risk that an active or liquid market will not exist for the Company's securities;
- volatility in the price of the Company's securities;
- risk of shareholder dilution;
- risks concerning the Company's principal securityholders; and
- tax risks.

See “*Risk Factors*”.

Except as required by applicable securities laws, the Company does not intend to update or revise forward-looking statements made in this MD&A to reflect events or changes in circumstances that occur after the date of this MD&A. Forward-looking statements should not be construed as investment advice. Readers should perform a detailed, independent investigation and analysis of the Company before making any investment decision and are encouraged to seek independent professional advice.

BUSINESS OF THE COMPANY AND SUMMARY OF ACTIVITIES

Cautivo was incorporated under the Business Corporations Act (Ontario) on December 6, 2016, and is domiciled in Canada. Cautivo’s head office is located at Av Primavera 1796, Office 202, Santiago de Surco, Lima, Peru. Cautivo’s mailing address is 880 – 580 Hornby Street, Vancouver, BC, V6C 3B6, Canada.

Cautivo is an exploration company focused on acquiring, exploring and, if warranted, developing gold, silver, copper, zinc and lead mineral properties. The Las Lomas Project comprises the main asset of the Company. The Las Lomas Project consists of 58 existing or pending mining concessions totaling 34,429 ha, located in the Department of Piura in northern Peru, near the Ecuador border. Included in these are 3 concessions which are part of an exploration rights agreement with the local company Minerales de Ayabaca S.A.C. (“MdA”). Other assets of Cautivo are 7 mining concessions totaling 3,000 hectares in the La Libertad Region of Peru. Cautivo’s mining concessions are still in early-stage exploration and thus lack any reserve or resource estimation.

The Company’s objective is to develop into a producing junior mining company through further exploration in the Company’s prospective areas of interest in Peru and, if warranted, the successful development and operation of the Las Lomas Project. Towards this end, the Company intends to undertake an exploration program to improve its understanding of the economic mineral potential of the Las Lomas Project. Such exploration activities may require additional capital and there is no assurance that the Company will be able to raise such funds. See “Risk Factors”.

The Cautivo common shares trade on the Canadian Securities Exchange (“CSE”) under the trading symbol “CAI”.

RECENT DEVELOPMENTS

On August 14, 2019, the Company announced that it intends to complete a $1.5 million non-brokered private placement of common shares (the “Offering”), subject to regulatory approval. The Offering will be fully subscribed by Arias Resource Capital Fund II L.P. and Arias Resource Capital Fund II (Mexico) L.P. (together, “ARC Fund II”). The proceeds of the Offering will be used to finance the expenses of the Corporation, including an on-going drilling program on the Company’s Las Lomas Project, for a period of 3 – 4 months. The Company requires additional capital and the Offering is expected to close prior to the end of August, subject to regulatory approval.

ARC Fund II has advised the board of directors of the Company that ARC Fund II intends to propose a going-private transaction in order to eliminate the Company’s financial and management burden of operating as a reporting issuer. The Company requires significant and sustainable financing in order to continue to explore and develop its properties, which are still in the early stage of exploration and thus lack any reserve or resource estimation. Based on current market conditions and the difficulties of sourcing additional financing on acceptable terms and conditions, ARC Fund II does not believe the Company should continue as a public company. If the board receives a formal offer from ARC Fund II, the independent directors will review the fairness of the transaction from a financial point of view to shareholders other than ARC Fund II. The independent directors expect to obtain a formal valuation to assist them with their review. Any such transaction will be subject to shareholder approval at a special meeting of shareholders.

Neither the Company nor, to the knowledge of the Company after reasonable inquiry, the ARC Funds II have knowledge of any material information concerning the Company or its securities that has not been generally disclosed.

The sale of shares to ARC Fund II constitutes a "related party transaction" as defined under Multilateral Instrument 61-101 Protection of Minority Security Holders in Special Transactions ("MI 61-101"). The Company is exempt from the formal valuation and minority shareholder approval requirements of MI 61-101, as neither the fair market value of the shares to be distributed in the Offering nor the consideration to be received for those shares exceeds C$2.5 million and both of the Company's independent directors approved the Offering.

The Offering is expected to close at a price of C$0.10, which represents an approximate 10% discount to the closing price on August 12, 2019. ARC Fund II will receive approximately 20 million shares of common stock in exchange for its $1.5 million (C$1.9 million) investment.

If the Offering is completed, ARC Fund II ownership will increase from around 81% to approximately 92% of the issued and outstanding common shares of the Company.

EXPLORATION AND EVALUATION ASSETS

Las Lomas Project

The Las Lomas Project consists of 58 existing or pending mining concessions totalling 34,429 ha, located in the Department of Piura in northern Peru, near the Ecuadorian border. Under Article 71 of the Peruvian Constitution, foreign individuals (including Peruvian-domiciled companies owned ultimately by overseas investors) must obtain permission from the President of the Republic and the Board of Ministers, in the form of a Supreme Decree, in order to hold any type of concession over property located within 50 kilometers of Peru's national borders (the "**Border Zone**"). All of the concessions comprising the Las Lomas Project are within the Border Zone.

The Company, through its Peruvian subsidiary, Consorcio Minero Ate S.A.C. ("**Consorcio Minero Ate**" or "**CMA**"), previously known as San Miguelito S.A.C., has a 100% indirect interest in respect of 48 mining concessions of the Las Lomas Project, including three concessions which are part of an exploration rights agreement with MdA and one of such concessions that is subject to a 2% net smelter return royalty. CMA also indirectly holds 4 other concessions through option contracts with third parties, as well as another 3 concessions (the Hans X, Hans XX and Hans XXX concessions, collectively the "**Hans Concessions**") that are subject to a net smelter return royalty of 1.7%, up to a maximum of $500,000 per Hans Concession (the "**Hans Royalty**"), pursuant to an option agreement between CMA and the titleholder of the Hans Concessions, Minera Leona de Oro S.A.C. (the "**Hans Option Agreement**"). In order to complete the acquisition of the Hans Concessions, the Company must make a final option payment of $1,000,000 per concession ($3,000,000 total) by May 5, 2020.

As disclosed in a news release on August 20, 2018, the Company received the Supreme Decree from the President of the Republic and the Council of Ministers allowing the 3 Hans Concessions to be transferred to CMA once the Company makes the final option payment pursuant to the Hans Option Agreement.

As a Company ultimately controlled by foreign individuals, CMA is prohibited under Peruvian law from holding (directly or indirectly) any type of concession in the Border Zone until the required Supreme Decree has been obtained. Accordingly, certain other concessions forming part of the Las Lomas Project are held by Minera Ate S.A.C. ("**Minera Ate**"), which has, in turn, granted CMA the right to acquire such properties in the future as further described below. Minera Ate is a Peruvian Company owned by two Peruvian nationals.

Minera Ate was formed in March 2004. CMA has been making advances to Minera Ate to fund the activities of Minera Ate in respect of the existing or pending concessions currently and previously held by Minera Ate, as well as the Hans Concessions since June 2006, and it is expected that CMA will continue to make such advances to Minera Ate from time to time.

Minera Ate has direct mining rights in respect of 23 existing or pending concessions of the Las Lomas Project, and also indirectly holds 1 additional concession through an option contract with a third party. Pursuant to an option agreement between CMA and Minera Ate, CMA has the right, upon the receipt of the required Supreme Decree, to acquire some of the aforementioned existing or pending concessions currently held by Minera Ate in exchange for a payment amount which would be satisfied entirely through a reduction of advances that have been made by CMA in respect of these concessions. CMA expects to enter into a similar option agreement with Minera Ate in regards to all other existing or pending concessions directly or indirectly held, but has not done so at this time.

Minera Ate has also entered into letters of intent (the "LOIs") in respect of the acquisition of 4 additional concessions. On March 23, 2018 and April 10, 2018, Minera Ate entered into two LOIs with two families (the "Vendors") who, after forming a legal company ("NewCo"), must cause that NewCo sell to Minera Ate 4 additional mining concessions near the Las Lomas Project. On execution of the LOIs, the Company paid non-refundable advances totalling $100,000. As agreed to in the LOIs, the acquisition of these concessions will be subject to the completion of certain conditions, as well as customary due diligence. In addition, Minera Ate and CMA are expecting to enter into an option agreement, whereby if Minera Ate agrees to acquire the 4 concessions, CMA will lend Minera Ate the transaction amounts in order for Minera Ate to complete the acquisition. CMA would then, upon the receipt of the required Supreme Decree, acquire the 4 concessions contemplated in the LOIs. This amount to be paid would be satisfied entirely through a reduction of the advances made by CMA to Minera Ate in respect of these 4 concessions.

CMA is not contractually obligated to provide financing to Minera Ate. CMA may elect to provide financing to Minera Ate through loans in order to maintain the good standing of certain concessions which are held by Minera Ate. The Las Lomas Project is located in a region recognized for its mineral potential, where artisanal exploitation of gold has been carried out for decades in the province of Ayabaca, including the Project concessions in Tomapampa, Pampa Larga, San Sebastian and Sapillica. The Tambo Grande Cu-Zn-Au-Ag volcanogenic massive sulfide (VMS) deposit is located 50 km southwest of the Las Lomas Project.

On May 30, 2019, Cautivo's subsidiaries CMA and Minera Ate signed an exploration agreement with Minerales de Ayabaca S.A.C. ("MdA"), granting MdA the exploration rights in three mining concessions of the Las Lomas Project.

Surface Rights and Exploration Plan

The surface rights of the property are owned by Campesino Communities ("**Comunidades Campesinas**"). The Company, through its Peruvian subsidiary CMA, has entered into a surface rights agreement with a Comunidad Campesina San Sebastian authorizing the Company to conduct surface exploration on their property. The Company is keeping continuous dialogue with other Comunidades Campesinas with the goal of obtaining the necessary agreements to access the property in order to carry out future exploration campaigns.

The Campesino Communities are organizations of public interest, with legal entity status, formed by families that live in and control territories, linked by ancestral, social and cultural aspects expressed by the communal property of the land, communal work and mutual help.

On September 30, 2018, Comunidad Campesina San Sebastian granted a permit to CMA. In San Sebastian, the Company holds approximately 8,000 ha. One of the exploration targets in the Las Lomas Project is Cascajo Blanco, where geophysical surveying was performed during 2018, and anomalies were registered. These anomalies allowed the development of a drill program, consisting of 20 planned drill platforms. The exploration program has been designed considering geochemical soil anomalies and the existing mineralization found in veins. The program is expected to consist of approximately 6,000 m of drilling. Any drilling activity requires the land owner's authorization and CMA has submitted the applicable Environmental Impact Instrument (DIA: Declaración de Impacto Ambiental). The DIA calls for the concession holder to indicate where it plans to drill and how it plans to remediate the land after drilling. There are no separate environmental permits required. All environmental aspects are submitted as part of an overall permitting package.

The results of the exploration program will determine the Company's next priority activities. These could include additional drilling, the preparation of a mineral resource estimate in accordance with NI 43-101 standards, the acquisition of additional properties and, if warranted, plans to undertake development of the Las Lomas Project.

Beneficiation Plant and Option Agreement

As disclosed in a news release on August 14, 2019, CMA has signed an option agreement with shareholders of MdA. CMA can acquire 100% of MdA's shares by exercising the option agreement depending on exploration and operating results in its sole discretion. MdA has exploration rights pursuant to the exploration agreement with CMA and Minera Ate in three mining concessions, owns an ore processing mill with a 40 tonnes per day ("tpd") capacity (the "Minera Las Lomas Mill" or "MLL Mill" or "MLL"), and owns an area for a future ore processing mill in the Las Lomas area (the "Jahua de Pavas Mill" or "JdP Mill") with an intended capacity of 300 tpd. MdA has plans to operate both mills. MLL is a gold leaching processing plant in the west side of Las Lomas area. MLL plans to provide ore processing services to the local miners. MdA plans to build the JdP mill to process ore coming from MdA and CMA mining concessions.

CMA and MdA have also signed a loan agreement pursuant to which CMA has agreed to lend MdA up to $1,500,000 for exploration and ore processing mill start up purposes. Of this amount, around $970,000 has been drawn to date ($550,000 to purchase the MLL Mill, $160,000 to purchase land to build the JdP Mill and an additional $260,000 for mining claims, exploration permitting, and studies for MML plant permits and equipment upgrade.)

Details of exploration and evaluation expenditures

The following table includes the additions to exploration and evaluation assets:

	Six months ended June 30, 2019 $	**Year ended December 31, 2018 $**	**Year ended December 31, 2017 $**
Breakdown of additions to exploration and evaluation assets			
Concession fees	369,558	387,811	504,109
Option payments	150,000	150,000	200,000
LOI advances and other acquisitions	39,840	100,000	-
Surface rights with community	-	200,000	-
Salaries, technical reports and other	673,900	782,670	349,226
Tax payable on transfer of concessions	-	127,470	75,892
Total additions during the period	**1,233,298**	**1,747,951**	**1,129,227**

During the periods, the Company has been conducting surface exploration programs and working with local communities to obtain drilling rights.

DISCUSSION OF OPERATIONS

For the six months ended June 30, 2019

During the six months ended June 30, 2019, the Company incurred a loss of $444,411 (2018 – $411,435).

General and administrative expenses increased from $444,376 to $448,382. In the prior period, the Company incurred consulting and professional fees of $110,715 compared to $72,906 in the current period. Salaries, benefits and other general and administrative expenses increased from $279,994 in the prior period to $286,894 in the current period due to an increase in activity in Peru as the Company prepares for a future drill program.

Amortization increased from $2,658 in the 2018 period to $29,918 in the current period as a result of capitalizing an office lease as a right-of-use asset. Finance charge on lease of $14,500 in the current period is the deemed interest on the office lease liability.

In the current period, the Company earned $18,471 of interest income on cash invested in short-term deposits compared to $32,941 in 2018.

QUARTERLY SUMMARY FINANCIAL INFORMATION

The following is selected financial data from the Company's unaudited quarterly financial statements for the last eight quarters ending with the most recently completed quarter, being June 30, 2019.

	June 30, 2019 $	**March 31, 2019 $**	**December 31, 2018 $**	**September 30, 2018 $**
Revenue	-	-	-	-
Loss for the period	(146,528)	(297,883)	(544,361)	(637,632)
Basic and diluted loss per share	(0.01)	(0.02)	(0.04)	(0.04)

	June 30, 2018 $	**March 31, 2018 $**	**December 31, 2017 $**	**September 30, 2017 $**
Revenue	-	-	-	-
Loss for the period	(245,705)	(165,730)	(360,251)	(19,929)
Basic and diluted loss per share	(0.02)	(0.01)	(0.02)	(0.00)

The increase in loss during the quarters ended December 31, 2018, September 30, 2018 and December 31, 2017 were due to recognizing impairment of exploration and evaluation assets. The increase in loss during the 2018 and 2019 periods was also due to an increase in activity levels in Peru as the Company obtains surface exploration rights.

FINANCING ACTIVITIES

On August 14, 2019, the Company announced that it intends to complete a $1.5 million non-brokered private placement of common shares. Arias Resource Capital Fund II L.P. and Arias Resource Capital Fund II (Mexico) L.P. (together, "ARC Fund II"). The proceeds of the Offering will be used to finance the expenses of the Company, including an on-going drilling program on the Company's Las Lomas Project, for a period of 3 – 4 months. The Company requires additional capital and the offering is expected to close prior to the end of August, subject to regulatory approval.

The offering is expected to close at a price of C$0.10 per share, which represents an approximate 10% discount to the closing price on August 12, 2019.

If the offering is completed, the Arias Resource Capital funds ownership will increase from around 81% to approximately 92% of the issued and outstanding common shares of the Company.

LIQUIDITY AND CAPITAL RESOURCES

Cautivo had cash of $676,545 as at June 30, 2019 and working capital of $428,557. The Company will require additional capital to continue exploration and development activities at the Las Lomas Project in Peru.

The Company has not put into commercial production any of its mineral properties and as such has no operating revenues or cash flows. In the future, in order to continue its exploration and development activities, the Company will require additional equity or debt financing.

OUTSTANDING SHARE DATA

a) Authorized Capital:

Unlimited common shares, without par value

b) Issued and outstanding:

15,158,229 common shares as at August 29, 2019

c) Outstanding options and warrants as at August 29, 2019:

Security	Number	Exercise Price (C$)	Expiry date
Stock Options	-		
Warrants	-		

OFF BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements as at June 30, 2019.

TRANSACTIONS BETWEEN RELATED PARTIES

Key management includes the Chief Executive Officer, the Chief Operating Officer and the directors of the Company. Compensation paid or payable to key management during the three and six months ended June 30, 2019 and 2018 was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019 $	2018 $	2019 $	2018 $
Short-term benefits	49,867	87,411	136,771	175,555
	49,867	87,411	136,771	175,555

As at June 30, 2019, accounts payable and accrued liabilities included $25,000 of directors' fees payable (December 31, 2018 - $30,000).

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial risk
The Company is exposed to various types of risk due to the nature of the business activities it carries on, including those related to the use of financial instruments. The Company does not use financial derivatives.

Market risk
Market risk corresponds to the financial losses that the Company could incur because of unfavorable fluctuations in the value of financial instruments, following variations in the parameters underlying their evaluation, such as interest rates and exchange rates.

Foreign exchange risk
Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company has exposure to foreign exchange risk with respect to its cash balances.

As at June 30, 2019, the Company had the following cash and cash equivalent balances held in US dollars, Canadian dollars and Peruvian soles:

US dollars	4,894
Canadian dollars	785,239
Peruvian soles	235,732

Interest rate risk
As at June 30, 2019, the Company had no exposure to interest rate risk.

Credit risk
Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and amounts receivable. Cash is maintained with high credit quality financial institutions. Consequently, management considers the risk of non-performance related to cash to be minimal.

Liquidity risk
Liquidity risk represents the possibility that the Company may not be able to gather sufficient cash resources when required and under reasonable conditions to meet its financial obligations. The "Las Lomas Project" is in the exploration stage. At this time the Company has no operating revenue and does not anticipate earning any operating profits until it is able to place a project into production, or acquire a mining asset with operating cash flow. As at June 30, 2019, the Company had cash of $676,545. In order to continue exploration and development activities at the Las Lomas Project in Peru, the Company will require additional financing. On August 14, 2019, the Company announced a proposed private placement raising gross proceeds of $1.5 million.

DISCLOSURE CONTROLS AND PROCEDURES

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the financial statements for the six months ended June 30, 2019 and this accompanying MD&A (together, the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Interim Filings on SEDAR at www.sedar.com.

RISK FACTORS

An investment in the securities of the Company involves significant risks. The Company is subject to a number of risks which could affect its business, prospects, financial condition, results of operations and cash flows, including risks relating to foreign country risk; crime and business corruption risk; security risks; liquidity concerns and future financing requirements; negative cash flows from operations; requirement for substantial capital expenditures; risks related to future acquisitions and/or the acquisitions of applicable surface rights; risks related to exploration and mineral development; operating hazards and risks; mineral price fluctuations; foreign exchange rate fluctuations; title matters; environmental risks and other regulatory requirements; lack of known mineral resources or reserves; risk of community actions; and the risk that an active or liquid market will not exist for the Company's securities. Investment in the Company's securities should be regarded as highly speculative and should be considered only by those investors able to sustain a total loss of their investment. In addition to the other information set forth elsewhere in this MD&A, a detailed description of the risk factors associated with the Company and its business is contained in the Company's Final Prospectus dated July 10, 2017 filed on SEDAR at www.sedar.com.

ADOPTION OF NEW ACCOUNTING STANDARDS:

IFRS 16, Leases

The Company adopted all of the requirements of IFRS 16 Leases ("IFRS 16") as of January 1, 2019. IFRS 16 replaces IAS 17 Leases ("IAS 17"). IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company has adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and a cumulative catch up adjustment is recorded on January 1, 2019 for any differences identified, including adjustments to opening retained earnings balance.

The Company analyzed its contracts to identify whether they contain lease arrangements for the application of IFRS 16. On the date of transition, the Company recorded a right-of-use asset in property and equipment of $206,087 and a lease obligation of $213,970. The lease obligation was calculated by discounting the future cash flows from the date of transition using the Company's incremental borrowing rate of 15%. The net difference between right-of-use assets and lease liability on the date of transition was recognized as an adjustment to deficit of $7,883 on January 1, 2019.

The following is the Company's new accounting policy for leases under IFRS 16:

Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases of right-of-use assets are recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company's incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, except where the lease contains a bargain purchase option a right-of-use asset is depreciated over the asset's useful life.