4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertain tax positions and interest and penalties related to uncertain tax positions are accounted for under IFRIC 23, Uncertainty over Income Tax Treatments. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit or liability to recognize in the financial statements. The tax position is measured as the amount of benefit or liability that is likely to be realized upon ultimate settlement. The Company assesses the validity of conclusions regarding uncertain tax positions on a quarterly basis to determine if facts or circumstances have arisen that might cause the Company to change their judgment regarding the likelihood of a tax position.

(q) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(r) Revenue recognition

Revenues from diamond sales are recognized when the purchaser obtains control of the diamond. For diamonds sold through tender or Clara, control is transferred when the Company receives payment for the diamonds sold and title is transferred to the purchaser according to contract terms.

In 2020, the Company entered into a sales agreement, amended and extended in 2021 and 2022, to sell its large stone production (diamonds greater than 10.8 carats) to HB. For diamonds sold to HB, control is transferred when the stones are delivered and the analysis of the rough diamond are agreed according to the contract terms. The initial purchase price paid for the rough diamonds is based on an initial estimated polished outcome with a true up paid to the Company if the actual achieved polished sales price (less HB's cost of manufacturing and profit margin) exceeds the initial price paid, or a repayment to HB if the actual achieved polished sales price (less HB's cost of manufacturing and profit margin) is below the initial price paid , after HB's fees and the cost of manufacturing . Thus, the arrangement contains elements of variable consideration as the Company's final consideration is contingent on price obtained in the future sale by HB. Variable consideration is recognized to the extent that it is highly probable that its inclusion will not result in a significant revenue reversal when the uncertainty has been subsequently resolved when the manufactured diamond is sold to an end buyer.

(s) Share-based compensation

The Company has share-based compensation plans, under which the entity receives services as consideration for equity instruments (stock options or share units) of the Company.

Stock options and equity-settled share units granted to employees are measured on the grant date. Stock options granted to non-employees are measured on the date that the goods or services are received. Share units which do not meet the criteria for equity-settlement are recorded as a liability and measured at fair value at each reporting period.

The fair value of the employee and non-employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the stock options and share units granted and the vesting periods. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The cash subscribed for the shares issued when the options are exercised is credited to share capital, net of any directly attributable transaction costs.