The survival and success of Canadian penny stock IPOs

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Notes

1. The definition of a penny stock has been debated for years. In the US, a penny stock IPO is priced under US$ 5 and is generally traded on over-the-counter markets, such as the Over the Counter Bulletin Board Exchange (OTCBB)

maintain a financial situation that allows it to meet the ongoing listing requirements.

5. The propensity of newly listed firms to fail or succeed is estimated using rates of failure or success in some studies, whereas other researchers measure the time elapsed between the IPO and the event. We use both methods in this study.

6. We do not refer to profitability ratios commonly used in US studies because more than 70% of the new Canadian issuers exhibit a loss at IPO.

7. The Capital Pool Program has been implemented in Canada to ease the creation of shells, ultimately used in reverse merger listings by operating

being delisted. NASDAQ delists a company if the stock trades under US$ 1 for 30 days, and if the situation is not corrected during the following 6 months. In 2007, the ongoing listing requirements to Tier 2 of TSXV refer to a minimum market capitalization of CAN$ 100,000, and minimum working capital of CAN$ 50,000. No conditions apply to the stock price.

12. We use the 10-cent limit given that Canadian IPO prices are, on average, one tenth of prices in the US.

13. Graduation and cross-listing are not perfect measures of success for IPOs, because some firms that fulfill the listing requirements of the major exchanges do not move their listing. We consider these firms to have survived, but not to have truly succeeded because they do not attempt to

collinearity on the results. The model and coefficients estimated using this approach are similar to those reported in Table 6.

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