

SUPERSEDED — NOT THE CURRENT CALL

This May 20, 2026 report is no longer current. Microcap Research has since changed its rating on East Side Games Group Inc. (EAGR) from Spec. Buy to Avoid, with a C\$0.06 price target, in the Aug 14, 2026 update.

Current report: <https://microcapresearch.ca/reports/eagr-east-side-games-group-inc-2026-q2update>

East Side Games Group Inc.

TSX: EAGR · TECHNOLOGY / MOBILE GAMING · MAY 20, 2026 · Q1 2026

RATING	12-MO TARGET	AT PUBLICATION	IMPLIED UPSIDE	MARKET CAP
Spec. Buy	C\$0.24	C\$0.095	153%	C\$10.4M

Bottom line: Microcap Research rates East Side Games Group Inc. (TSX: EAGR) Spec. Buy with a 12-month price target of C\$0.24, about 153% above the C\$0.095 share price at publication on May 20, 2026. Market capitalisation at publication: C\$10.4M.

Q1 2026 confirms the turnaround thesis is structurally intact — Adj. EBITDA margin expanded 330 bps YoY to 14% despite a deliberate 32% revenue cut driven by UA discipline. Management publicly committed to eliminating all bank debt by year-end 2026, direct-to-consumer revenue tripled to 11% of IAP in a single quarter, and Trailer Park Boys Match launched with >40% Day-1 retention. We lower our price target to C\$0.24 on revised base-case EBITDA of C\$7.0M, but the risk/reward at C\$0.095 — 2.6x annualised Q1 EBITDA — remains asymmetric.

KEY STATISTICS — AS OF MAY 20, 2026

Market Cap (FD)	C\$10.4M
EV / 2026E Adj. EBITDA	~2.2x
Revenue (Q1 2026)	C\$12.45M
Adj. EBITDA (Q1 2026)	C\$1.74M
Adj. EBITDA Margin	14.0%
D2C Mix (IAP)	11%

CONTENTS

01	Executive Summary	3
02	Q1 2026 vs. Initiation Thesis — What Changed	3
03	Company Overview	4
04	Investment Thesis — Five Pillars	5
05	Financial Summary	6
06	Valuation	7
07	Key Risks	7
08	Conclusion	8

Executive Summary

East Side Games Group Inc. (TSX: EAGR) reported Q1 2026 results on May 14, 2026, confirming that the hard profitability pivot initiated in December 2025 is producing real structural margin improvement — even as reported revenue declined sharply. Revenue of C\$12.45M fell 32% year-over-year, a direct and deliberate consequence of tightening the user acquisition (UA) return-on-ad-spend (ROAS) window from 365 days (FY2025 peak) to 30 days — the most conservative stance the Company has ever operated under. Adjusted EBITDA of C\$1.74M (14.0% margin) represents a 330-basis-point improvement over Q1 2025's 10.7% and a dramatic recovery from Q3 2025's -14.8% trough. The share price has drifted further to C\$0.095 since our May 9 initiation, widening implied upside to 153% against our revised C\$0.24 price target.

Three incremental developments strengthen the long-term thesis beyond the pure margin story: direct-to-consumer (D2C) revenue tripled from 3% to 11% of in-app purchase (IAP) revenue in a single quarter, reducing platform fee leakage from 30% to 5–10% on that volume; Trailer Park Boys Match launched March 17 with paid cohort Day-1 retention above 40% (versus industry average of 25–30%); and management made an unambiguous public commitment on the May 14 earnings call to eliminate all remaining bank debt by December 31, 2026 — a harder target than anything in the written filings. The going-concern note remains technically required until covenants are formally cured, but the C\$3.6M private placement announced in May (with Director Derek Lew personally writing a C\$2M director loan plus C\$1M PP subscription) has materially reduced the acute solvency risk flagged at initiation.

The report is not without blemish. Cash of C\$163K at March 31 is critically thin, the Truly Social Games trial commenced May 25 with no provision booked, and management notably omitted any verbal reaffirmation of the full-year revenue guide (C\$50–56M) during the earnings call — while explicitly reaffirming that Adj. EBITDA margin is "on pace with guidance." At Q1's revenue run-rate of C\$12.45M, full-year revenue annualizes to approximately C\$50M — the floor of guidance — implying no sequential improvement is currently assumed. We take a conservative stance and revise our base-case 2026E Adj. EBITDA to C\$7.0M (from C\$8.75M midpoint at initiation) and lower our 12-month price target to C\$0.24 from C\$0.30. The Speculative Buy rating is maintained.

We maintain our **Speculative Buy** rating and revise our 12-month price target to C\$0.24 (from C\$0.30 at initiation on May 9, 2026), representing approximately 153% upside from the current price of C\$0.095. The Q1 2026 results confirm margin expansion is real and structural, with D2C mix acceleration and the Google fee reduction (effective June 30) providing two additional visible profit tailwinds not reflected in the current valuation.

Q1 2026 vs. Initiation Thesis — What Changed

This report is a quarterly update to our May 9, 2026 initiation. The core thesis — a recapitalized free-to-play mobile publisher with a proven profitability playbook, trading at a deep discount to peers — remains intact. The following table summarises the key changes since initiation:

ITEM	AT INITIATION (MAY 9)	POST-Q1 (MAY 20)	DIRECTION
Share price	C\$0.110	C\$0.095	-14%

ITEM	AT INITIATION (MAY 9)	POST-Q1 (MAY 20)	DIRECTION
Price target	C\$0.30	C\$0.24	Revised down
Implied upside	173%	153%	Still asymmetric
2026E Adj. EBITDA (base)	C\$8.75M	C\$7.0M	More conservative
Debt elimination commitment	Aspiration (written MD&A)	Public CEO commitment (earnings call)	Stronger
D2C as % of IAP	~3% (Q4 2025)	11% (Q1 2026)	Accelerating
TSG litigation	Trial date set (May 2026)	Trial commenced May 25	Active binary risk
Cash on hand	Not yet reported	C\$163K at Mar 31	Critically thin
TPB Match	Not yet launched	>40% D1 retention, C\$0.60 ARPDAU	Encouraging early data

Company Overview

ESGG is a Vancouver-based free-to-play mobile gaming publisher operating a portfolio of 14+ live-service titles through two studios — Eastside Games Inc. ("ESG") and LDRLY (Technologies) Inc. — with approximately 110 employees. The Company monetizes through in-app purchases of virtual goods (74.5% of Q1 2026 revenue) and in-game advertising (25.5%), distributed via Apple App Store and Google Play globally, with concentration in North America and Europe.

- **Licensed IP portfolio (~80% of revenue):** Trailer Park Boys, RuPaul's Drag Race, The Office, Star Trek: Lower Decks, Doctor Who, Power Rangers, AEW, Squishmallows, Cheech & Chong. Multi-year licensing deals with NBC Universal, CBS Viacom, BBC Studios, Hasbro, World of Wonder, and Jazwares.
- **Owned IP (~20% of revenue):** Bud Farm and Milk Farm franchises carrying no royalty obligations. Bud Farm Idle Tycoon has been live for seven-plus years.
- **GameKit platform (licensing optionality):** Proprietary game development framework licensed externally to partner studios. Three of the top five revenue titles in the last four years are GameKit products.

The Q1 2026 operating model reflects a Company in deliberate contraction — sacrificing top-line users to recover margin. DAU of 145,581 (-30.5% YoY) and MAU of 518,000 (-39.4% YoY) reflect UA pullback, not product failure. ARPDAU of C\$0.95 (-3.4% YoY) confirms the retained user base continues to monetize at near-prior-year levels. The DAU/MAU stickiness rate rose to 28.1% (+14.7% YoY) — meaning the users who remained became more habitually engaged, a counterintuitive quality improvement inside the contraction.

Investment Thesis — Five Pillars

1. MARGIN EXPANSION IS STRUCTURAL, NOT CYCLICAL

The most important number in the Q1 2026 report is not revenue — it is Adj. EBITDA margin of 14.0%. This is 330 basis points above Q1 2025's 10.7% margin on C\$6.1M less revenue, demonstrating that the cost restructuring has genuinely changed the economics of the operating model. CFO Chan confirmed on the earnings call that Q1's margin is "on pace with our guidance" — the clearest reaffirmation management offered on the annual Adj. EBITDA range of C\$7.5–10M.

Three permanent structural changes underpin the margin shift. First, the reduction in force, project cancellations, and in-housing of live operations (previously outsourced to Night Garden) delivered approximately C\$4M in annualized operating savings — visible in Q1 G&A of C\$3.28M versus C\$4M+ run-rates in H1 2025. Second, tightening the ROAS window to 30 days eliminated loss-making UA spend that diluted margins throughout 2025. Third, R&D expense fell 70% YoY to C\$217K, reflecting the leaner post-RIF team. The C\$1.14M in one-time charges recorded in Q1 (Night Garden exit C\$594K, TSG litigation C\$228K, severance C\$322K) are expected to largely not recur in Q2 — adding approximately 9 percentage points of margin tailwind on a clean-quarter basis.

2. D2C AND GOOGLE FEE REDUCTION ARE COMPOUNDING PROFIT TAILWINDS

The single most underappreciated development in the Q1 cycle is the acceleration of direct-to-consumer (D2C) revenue, which CPO Wagner disclosed tripled from 3% to 11% of IAP revenue quarter-over-quarter. D2C routes player payments through ESGG's own payment rails at a 5–10% processor fee rather than through Apple/Google at 30% — a 20–25 percentage point improvement in net margin on that revenue slice. On Q1's C\$9.3M of IAP revenue, 11% D2C penetration generated approximately C\$1M in D2C revenue, saving roughly C\$200K in platform fees in the quarter alone. Wagner guided further D2C mix gains in Q2 as successful A/B test results roll across the full portfolio.

Separately, Google's new tiered platform fee structure (10–25%, down from 30%) takes effect June 30, 2026. All ESGG titles are tracking toward compliance ahead of that deadline, and management confirmed an expected C\$500K per year in incremental profit — a clean, recurring contribution beginning in Q3 2026. Together, these two platform economics improvements could contribute C\$700K–C\$1M of incremental annualised EBITDA relative to the legacy cost structure.

3. BALANCE SHEET DE-RISKING HAS ADVANCED — DEBT ELIMINATION IS NOW A PUBLIC COMMITMENT

The going-concern note in the Q1 2026 financial statements is required under IFRS given the covenant history, but the practical solvency picture has improved materially since initiation. Director Derek Lew drew a C\$2M personal director loan in Q1 2026, enabling ESGG to repay Bank Facility #3 (~C\$1.58M) in full on April 30, 2026 — satisfying the lender's condition for maintaining access to remaining credit facilities. The C\$3.6M private placement provides a further cash injection that, once closed, reduces pro forma net debt from C\$6.6M to approximately C\$3M.

More significantly, CEO Bailey opened the May 14 earnings call with a public commitment to eliminate all remaining bank debt by December 31, 2026. For a CEO with a >50% equity stake, a public debt-elimination commitment implies confidence in H2 cash generation that the appropriately cautious written filings cannot articulate. If achieved, pro forma year-end EV at current prices would be approximately C\$10.4M against C\$7M+ Adj. EBITDA — roughly 1.5x on a debt-free basis, an extreme discount to any reasonable mobile gaming comparable.

4. TRAILER PARK BOYS MATCH SHOWS GENUINE PRODUCT QUALITY

Trailer Park Boys Match launched globally on March 17, 2026. CPO Wagner disclosed two hard metrics on the earnings call: paid cohort Day-1 retention above 40% and ARPDAU averaging approximately C\$0.60. D1 retention of 40%+ is meaningfully above the casual mobile industry average of 25–30%, indicating the product has genuine engagement hooks beyond paid traffic. ARPDAU of C\$0.60 is below the mature portfolio average of C\$0.95 but typical for a newly launched title before monetization layers are fully tuned. The game is built on the same IP as Trailer Park Boys: Greasy Money, which has attracted more than 10 million players and remains profitable nearly a decade after launch — providing a validated audience and credible long-tail reference point.

5. VALUATION REMAINS DISTRESSED AT C\$0.095

At C\$0.095 per share with approximately 109M basic shares outstanding (143M fully diluted), EAGR's enterprise value is approximately C\$19.5M (market cap ~C\$10.4M plus net debt ~C\$6.6M, partially offset by PP proceeds in-transit). Against Q1 annualised Adj. EBITDA of C\$6.96M, the current valuation implies approximately 2.8x — still materially below the Western mobile gaming peer group median of 4–5x forward EV/EBITDA. The share price has declined 14% since our initiation at C\$0.11, meaning the same fundamentals are available at a lower price than when we initiated. If Q2–Q4 deliver sequential Adj. EBITDA improvement — supported by disappearing one-time items, further D2C gains, and Google fee reduction from Q3 — the forward multiple compresses further from an already undemanding base.

Financial Summary

METRIC	FY2025	Q1 2025	Q1 2026	YOY CHANGE
Revenue (C\$M)	77.58	18.54	12.45	-32.8%
Gross Profit (C\$M)	47.67	11.04	7.46	-32.4%
Gross Margin	61.4%	59.5%	59.9%	+40 bps
Adj. EBITDA (C\$M)	0.79	1.99	1.74	-11.3%
Adj. EBITDA Margin	1.0%	10.7%	14.0%	+330 bps
Net Loss (C\$M)	(18.94)	(0.62)	(3.62)	n/m
DAU	209K avg	209K	145,581	-30.5%
ARPDAU	C\$1.02	C\$0.98	C\$0.95	-3.4%
DAU/MAU stickiness	25.0%	24.5%	28.1%	+14.7%
Net Debt (C\$M)	4.9	—	6.6	n/m

Net loss in Q1 2026 includes a C\$2.20M non-cash deferred tax asset (DTA) write-down with zero cash impact — the write-down reflects accounting conservatism given the going-concern note, not an economic loss. Adj. EBITDA adds back depreciation (C\$1.94M), SBC, one-time charges (C\$1.14M), and the DTA write-down. Net debt elevated temporarily due to director loan; partially repaid post-quarter with PP proceeds.

QUARTERLY (C\$M)	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
Revenue	18.54	19.22	20.05	19.76	12.45
Gross Profit	11.04	11.93	12.49	12.20	7.46
Adj. EBITDA	1.99	1.55	(2.96)	0.29	1.74
Adj. EBITDA Margin	10.7%	8.1%	(14.8%)	1.5%	14.0%

Q1 2026 margin of 14.0% is the highest in five quarters, achieved on the lowest absolute revenue base. One-time charges of C\$1.14M should largely not recur in Q2, providing a natural margin step-up.

Valuation

We revise our valuation using a more conservative base-case 2026E Adj. EBITDA of C\$7.0M, reflecting Q1 tracking the floor of guidance rather than the midpoint, and management's decision not to explicitly reaffirm the revenue guide on the call. We use the current share price of C\$0.095, fully diluted shares of approximately 143M (post-financing, including all warrants), and pro forma net debt of approximately C\$3M post-PP close. Western mobile gaming peers trade at approximately 4.7x forward EV/EBITDA; we apply a 4.5x base-case multiple reflecting EAGR's smaller scale and residual litigation risk.

SCENARIO	2026E ADJ. EBITDA	EV MULTIPLE	PRICE / SHARE	VS. C\$0.095
Bear Case	C\$5.0M (guide miss)	3.0x	C\$0.07	-26%
Base Case	C\$7.0M (low-end guide)	4.5x	C\$0.24	+153%
Bull Case	C\$9.0M (guide midpoint)	5.5x	C\$0.38	+300%

All scenarios use ~143M fully diluted shares and C\$3M pro forma net debt post-PP close. The bear case notes that even at C\$0.07 per share, EAGR's core live-service portfolio retains meaningful cash-flow liquidation value — the downside is not zero.

Key Risks

- **Truly Social Games Litigation (HIGH):** Trial commenced May 25, 2026 in British Columbia. ESGG spent C\$228K on litigation in Q1 alone with no provision booked. An adverse outcome could produce a material cash judgment that the Company — with C\$163K cash at quarter-end — cannot absorb without emergency financing. This is the single largest near-term binary risk and received zero airtime on the Q1 earnings call.
- **Revenue Trajectory (HIGH):** Q1 revenue of C\$12.45M annualises to C\$49.8M — the absolute floor of the C\$50–56M full-year guide — and management did not verbally reaffirm the revenue figure on the call. If Q2 does not show sequential stabilisation or improvement, the full-year number becomes unreachable without a step-change in UA spend that would undo the margin gains. Revenue growth and EBITDA margin expansion cannot simultaneously be maximised at a 30-day ROAS window.
- **Cash Position (HIGH):** C\$163K of cash at March 31, 2026. PP proceeds and the EDC facility (up to US\$4M, referenced in the MD&A but not yet closed as of the report date) are the only near-term liquidity sources. Any delay in either closing would create an acute cash shortfall within weeks.

- **Severe Illiquidity / Microcap Risk (HIGH):** Fully diluted market cap of approximately C\$10.4M at C\$0.095. Average daily trading volume in the low tens of thousands of shares. The four-month statutory hold on placement units creates a supply overhang in September 2026. Position sizing must reflect very limited exit liquidity.
- **Dilution and Off-Balance-Sheet Obligations (MEDIUM):** Basic share count has risen from 76.9M to ~109M; fully diluted reaches ~143M on warrant exercise. The Bailey Ransen Family Trust escrow payable of C\$3.1M (including interest) is an off-balance-sheet obligation not yet due but represents additional claims on future cash flow above the headline net debt figure.
- **DAU Stabilisation (MEDIUM):** The stickiness rate improvement (28.1%) is encouraging but does not resolve whether the absolute DAU base will stabilise now that UA has been tightened. If DAU continues falling through Q2–Q3 without recovery, ARPDAU would need to increase commensurately — and there is limited historical precedent for portfolio-level ARPDAU expanding materially as titles mature.
- **Controlling Shareholder Concentration (MEDIUM):** CEO Jason Bailey holds >50% of outstanding shares. Minority shareholders have limited ability to influence strategic decisions including future financings, asset sales, or a take-private transaction. All future share issuances are effectively at Bailey's discretion given his ability to provide written consent in lieu of a shareholder vote.

Conclusion

The Q1 2026 results are a Rorschach test for EAGR investors. Pessimists see C\$12.45M of revenue — a third below a year ago — alongside a going-concern note, critically thin cash, and a live trial on material litigation. Optimists see the highest Adj. EBITDA margin in five quarters, a D2C inflection that tripled in a single quarter, a CEO who opened his earnings call by publicly committing to debt elimination, and a new product launch hitting retention metrics above industry averages. Both readings are internally consistent. The question is which one the market is pricing in twelve months from now.

The pessimist case appears more than adequately reflected in the current share price of C\$0.095 — 14% below our initiation price and now implying roughly 2.8x annualised Q1 Adj. EBITDA. At this level EAGR is priced for continued failure rather than a pivot that is producing visible and measurable margin improvement each quarter. The three near-term risks that could break the thesis (TSG litigation loss, cash shortfall, Q2 revenue miss) are real; the two that were most acute at initiation (covenant default, director/CEO support) have materially improved. The share price decline since initiation reflects the market's impatience, not new fundamental deterioration — on the contrary, the Q1 margin result and D2C acceleration are both incremental positives.

We revise our 12-month price target to C\$0.24 (from C\$0.30) reflecting a more conservative C\$7.0M 2026E Adj. EBITDA base case and a 4.5x multiple, and maintain our **Speculative Buy** rating. The TSG trial outcome and Q2 revenue trajectory are the two catalysts that will determine whether this target is achievable. Investors with existing positions should hold; new positions should be sized modestly given the liquidity constraints and binary litigation risk. This remains a piece of a speculative microcap basket, not a concentrated bet.

East Side Games Group Inc. (EAGR) — key questions

What is Microcap Research's rating and price target on East Side Games Group Inc. (EAGR)?

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What does East Side Games Group Inc. (EAGR) do?

ESGG is a Vancouver-based free-to-play mobile gaming publisher operating a portfolio of 14+ live-service titles through two studios — Eastside Games Inc. ("ESG") and LDRLY (Technologies) Inc. — with approximately 110 employees. The Company monetizes through in-app purchases of virtual goods (74.5% of Q1 2026 revenue) and in-game advertising (25.5%), distributed via Apple App Store and Google Play globally, with...

What is the investment thesis for East Side Games Group Inc. (EAGR)?

Q1 2026 confirms the turnaround thesis is structurally intact — Adj. EBITDA margin expanded 330 bps YoY to 14% despite a deliberate 32% revenue cut driven by UA discipline. Management publicly committed to eliminating all bank debt by year-end 2026, direct-to-consumer revenue tripled to 11% of IAP in a single quarter, and Trailer Park Boys Match launched with >40% Day-1 retention. We lower our price target to C\$0.24 on revised base-case EBITDA of C\$7.0M, but the risk/reward at C\$0.095 — 2.6x annualised Q1 EBITDA — remains asymmetric.

How is East Side Games Group Inc. (EAGR) valued?

We revise our valuation using a more conservative base-case 2026E Adj. EBITDA of C\$7.0M, reflecting Q1 tracking the floor of guidance rather than the midpoint, and management's decision not to explicitly reaffirm the revenue guide on the call.

What are the key risks for East Side Games Group Inc. (EAGR)?

Risks flagged in this report — Truly Social Games Litigation (HIGH); Revenue Trajectory (HIGH); Cash Position (HIGH); Severe Illiquidity / Microcap Risk (HIGH); Dilution and Off-Balance-Sheet Obligations (MEDIUM); DAU Stabilisation (MEDIUM); Controlling Shareholder Concentration (MEDIUM)

What are the key financial metrics for East Side Games Group Inc. (EAGR)?

As of May 20, 2026 — Market Cap (FD): C\$10.4M · EV / 2026E Adj. EBITDA: ~2.2x · Revenue (Q1 2026): C\$12.45M · Adj. EBITDA (Q1 2026): C\$1.74M · Adj. EBITDA Margin: 14.0% · D2C Mix (IAP): 11%.

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CORRECTIONS

If you believe a report contains a factual error, Microcap Research wants to correct it. Material corrections are made to the report itself and noted in the subsequent update.

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