Microcap Research INDEPENDENT EQUITY ANALYSIS EAGR-2026-08-Q2update

East Side Games Group Inc.

TSX: EAGR · TECHNOLOGY / MOBILE GAMING · AUG 14, 2026 · Q2 2026 UPDATE

RATING	12-MO TARGET	AT PUBLICATION	IMPLIED UPSIDE	MARKET CAP
Avoid	C$0.06	C$0.08	-25%	C$8.3M (basic)

Bottom line: Microcap Research rates East Side Games Group Inc. (TSX: EAGR) Avoid with a 12-month price target of C$0.06, about 25% below the C$0.08 share price at publication on Aug 14, 2026. Market capitalisation at publication: C$8.3M (basic).

Downgrade to Avoid. Management cut FY2026 guidance to C$40–44M revenue and C$4.0–4.7M Adj. EBITDA just ten weeks after reaffirming C$50–56M at the close of an insider private placement. Net debt rose to C$7.3M despite the C$2.96M raise, going-concern language is now explicit, and RBC has moved the account to Special Loans. Three of five thesis pillars are broken, and at 4.3x reduced guidance on adjusted EV the shares price in a refinancing that has not closed.

KEY STATISTICS — AS OF AUG 14, 2026

Market Cap	C$8.3M
Adjusted EV	C$18.8M
EV / 2026E Adj. EBITDA	4.3x
Revenue (Q2 2026)	C$10.32M
Adj. EBITDA (TTM)	C$0.44M
Gross Margin (Q2 2026)	59.1%

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Update Summary

This update follows East Side Games Group's Q2 2026 earnings release on August 13, 2026. We **downgrade** our rating from **Speculative Buy** to **Avoid** and lower our 12-month price target to **C$0.06** from C$0.24, representing approximately -25% versus the current price of C$0.08 (the closing price on 2026-08-13, the date of the earnings release, per Yahoo Finance). Management cut FY2026 revenue guidance to C$40–44M from C$50–56M and Adj. EBITDA guidance to C$4.0–4.7M from C$7.5–10.0M — ten weeks after reaffirming the original outlook at the closing of an insider-participating private placement. The interim financial statements now carry explicit going-concern language, and the Company's primary lender has transferred its credit facilities to Special Loans.

Our initiation on EAGR was published May 9, 2026 (target C$0.30), revised to C$0.24 on May 20, 2026 following Q1. The original thesis held that a recapitalized free-to-play publisher with concrete management guidance was trading at roughly 2.0x guided 2026E Adj. EBITDA versus 4.7x for Western mobile peers. That thesis rested on the guidance being achievable and the May financing having cleared the solvency overhang. Q2 disproves both premises.

What Changed

- **Guidance cut, twice over:** FY2026 revenue guidance reduced to C$40–44M from C$50–56M (-21% at the midpoint) and Adj. EBITDA to C$4.0–4.7M from C$7.5–10.0M (-50% at the midpoint). The original outlook was explicitly reaffirmed on May 27, 2026 in the private placement closing release — at a point when roughly two months of the quarter's actuals were in hand and the quarter was tracking to C$10.3M.
- **Implied 2H is worse than reported 1H:** Against 1H actuals of C$22.77M revenue and C$3.10M Adj. EBITDA, the new full-year guide implies 2H revenue of C$17.2–21.2M (C$8.6–10.6M per quarter, flat to down versus Q2) and 2H Adj. EBITDA of C$0.90–1.60M — a 2H margin of 5.2–7.5% versus 13.6% in 1H. The headline "10–12% margin" is a full-year blend that conceals sequential deterioration.
- **Lender moved the account to Special Loans:** Disclosed only in Notes 1 and 19 — not in the MD&A and not in the press release. The Company has arranged to transition its operating line to a new financial institution, subject to formal approval from the incumbent bank. Both DSCR (minimum 1.25:1) and FDTER (maximum 2.50:1) were breached at June 30, and the full C$3.0M of drawn bank debt is classified as a current liability.
- **Explicit going-concern language:** The interim statements now state a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. This is an escalation from prior quarters.
- **Net debt rose despite the equity raise:** Net debt of C$7.26M at June 30 versus C$6.6M at March 31 and C$5.0M at December 31, 2025 — up C$2.3M year-to-date notwithstanding C$2.96M of gross proceeds. The mix shifted from bank debt (C$5.26M to C$3.00M) to related-party debt (nil to C$5.58M).
- **Truly Social Games settled:** C$3.0M cash (C$1.0M paid; C$2.0M in four semi-annual instalments of C$500K) plus 3,000,000 warrants at C$0.14 expiring November 2028. A one-time charge of C$3,130,800 was recognised. The contingent liability is resolved; C$2.0M of cash obligation replaces it.
- **Audience metrics deteriorated sequentially:** DAU of 118,872 fell 41.3% year-over-year and 18.3% quarter-over-quarter; MAU of 401,902 fell 52.1% and 22.4% respectively. ARPDAU held flat sequentially at C$0.95.

Thesis Check

Reviewing each of the five pillars from our May 9 initiation:

- **Pillar 1 — The 2026 Guidance Is Concrete and Implies a >9x EBITDA Reset (BROKEN):** The guidance was neither concrete nor durable. Cut by 21% on revenue and 50% on Adj. EBITDA within ten weeks of being reaffirmed. Guidance credibility was the load-bearing element of the initiation thesis and it has failed.
- **Pillar 2 — The May 2026 Financing De-Risks the Solvency Overhang (BROKEN):** The raise did not de-risk solvency. Net debt is higher post-raise, going-concern language is now explicit rather than technical, and the account has moved to a workout group. Only C$325K of headroom remains on the C$5.0M related-party facility, which with C$1.33M of cash is the entire liquidity runway absent the unconfirmed refinancing.
- **Pillar 3 — Insider Conviction Is Substantial (WEAKENED — and materially recharacterised):** *Correction to our May 20 update:* we attributed the director loan facility to Director Derek Lew. The Q2 related-party note identifies the counterparty as **Bailey Ransen Family Trust**, with C$5,866,194 included in the director loan facility and other payables. The lender is the family trust of Executive Chairman and CEO Jason Bailey, already the >50% controlling shareholder. Insider capital is real, but it is subordinated secured debt at 8% maturing March 5, 2028 — not equity conviction. The controlling shareholder now holds the fulcrum instrument in any restructuring, which is a governance concern rather than a positive signal.
- **Pillar 4 — The Core Portfolio Is a Real Cash-Generating Asset (WEAKENED):** Partially validated: the portfolio produced C$10.3M of revenue in Q2 on only C$1.21M of sales and marketing spend, down 82% year-over-year. But 1H Adj. EBITDA of C$3.10M was almost entirely consumed by C$2.76M of capitalised development and prepaid development costs, leaving C$0.34M before interest, settlement instalments and any debt reduction. Intangibles declined from C$7.70M to C$6.50M as capitalised spend ran below amortisation. The asset generates cash; it does not generate free cash.
- **Pillar 5 — Valuation Is Distressed-Pricing for a Recapitalized Business (BROKEN):** The business is not recapitalized. On adjusted enterprise value including the settlement obligation and minimum guarantees, EAGR trades at approximately 4.3x the midpoint of the *reduced* guidance — versus the 2.0x on prior guidance cited at initiation, and against a 4.7x peer benchmark that assumes no workout status. The discount has closed for the wrong reasons.

Updated Financials

METRIC	Q2 2025	Q1 2026	Q2 2026	YOY CHANGE
Revenue (C$M)	19.22	12.45	**10.32**	-46.3%
Gross Profit (C$M)	11.93	7.46	**6.09**	-48.9%
Gross Margin	62.1%	59.9%	**59.1%**	-300 bps
Adj. EBITDA (C$M)	1.54	1.74	**1.37**	-11.2%
Adj. EBITDA Margin	8.0%	14.0%	**13.2%**	+520 bps
EBITDA (C$M)	1.27	0.60	**(2.76)**	n/m
Net Loss (C$M)	(1.36)	(3.62)	**(4.52)**	n/m
Sales & Marketing (C$M)	6.68	2.33	**1.21**	-81.9%

METRIC	Q2 2025	Q1 2026	Q2 2026	YOY CHANGE
DAU	202,530	145,581	**118,872**	-41.3%
ARPDAU (C$)	1.04	0.95	**0.95**	-8.5%
Net Debt (C$M)	n/a (net cash)	6.60	**7.26**	n/m

Q2 2025 Adj. EBITDA restated by the Company to C$1.537M from C$1.554M as originally reported. Adj. EBITDA add-backs for "transaction, litigation and restructuring charges" totalled C$4.26M in Q2 2026 and C$7.22M over the trailing four quarters, against trailing-twelve-month Adj. EBITDA of C$0.44M.

Updated Valuation

Our valuation framework is unchanged in method — EV/Adj. EBITDA with a scenario range — but two inputs have moved materially. First, the earnings base is now management's reduced guidance of C$4.0–4.7M rather than the C$7.0M base case we carried after Q1. Second, we now capitalise the full obligation stack rather than net debt alone: the C$2.0M Truly Social Games settlement liability and C$1.24M of minimum guarantee commitments are contractual cash obligations that sit ahead of equity and were not captured in our prior work.

ITEM	AMOUNT (C$M)
Market capitalisation (103,843,096 shares at C$0.08)	**8.31**
Bank indebtedness (classified current)	**3.00**
Director loan facility (Bailey Ransen Family Trust)	**5.58**
Less: cash	(1.33)
Settlement obligation (current + non-current)	**2.00**
Minimum guarantees (current + non-current)	**1.24**
Adjusted enterprise value	**18.80**

At C$18.80M adjusted EV against the C$4.35M midpoint of reduced guidance, EAGR trades at approximately **4.3x forward Adj. EBITDA** — above the 3.5x we consider appropriate for a covenant-breached issuer in bank special loans, and close to the 4.7x Western mobile peer benchmark that assumes an ordinary-course balance sheet. All 31,146,816 outstanding warrants strike at C$0.14 and are out of the money at C$0.08, so basic shares are the correct count today; the overhang becomes 30% dilution if the shares recover past C$0.14.

SCENARIO	BASIS	PRICE / SHARE	VS. CURRENT
Bear Case	Refinancing fails; 3.5x on C$3.2M (guidance -25%)	**C$0.01**	-88%
Base Case	3.5x on C$4.35M guidance midpoint	**C$0.045**	-44%
Bull Case	Refinancing closes; 4.7x peer multiple on C$4.7M	**C$0.112**	+40%

Probability-weighted at 25% bear / 45% base / 30% bull, the scenario range implies approximately C$0.056. Our C$0.06 target reflects that weighting rounded. We weight the bull case below one-in-three because it requires both the refinancing to close and the reduced guidance to be met, and the reduced guidance is itself *two weeks old.*

Risk Update

- **Refinancing execution risk (HIGH — new):** The entire bull case rests on a single unexecuted event. The new facility is subject to formal approval from the incumbent bank, with no counterparty named and no binding commitment disclosed. Failure converts this position to the bear case with little warning.
- **Borrowing base contraction (HIGH — new):** The bank operating line carries a C$7.0M limit but is subject to a borrowing base of 85% of eligible receivables. Trade receivables fell from C$8.57M to C$3.99M, putting the borrowing base near C$3.39M against C$3.00M drawn. Available credit now contracts automatically as revenue declines — a self-reinforcing mechanism, and the C$4.57M receivables release that funded the half is not repeatable.
- **Related-party creditor concentration (HIGH — escalated):** The controlling shareholder's family trust is owed C$5.87M and holds only C$325K of undrawn capacity. Separately, C$997,693 was paid to Night Garden, a related party by common directorship, during 1H 2026 while the Company was in covenant breach.
- **Adj. EBITDA quality (HIGH — escalated):** C$7.22M of "non-recurring" charges across four consecutive quarters against C$0.44M of trailing Adj. EBITDA. When add-backs exceed the adjusted result by a factor of sixteen over a full year, the adjustment is describing the cost of operating the business.
- **Disclosure quality (MEDIUM — new):** The Special Loans transfer appears only in the notes, absent from both MD&A and press release. The going-concern note cites a six-month net loss of C$4,507,671 and cash used of C$2,520,036, neither of which reconciles to the face statements (C$8,141,529 and C$2,532,636 respectively). The December 31, 2025 comparative was restated to move C$908,927 from trade payables into the director loan facility without narrative disclosure, and that non-cash reclassification is grossed up through the cash flow statement as both a financing inflow and an operating outflow. The statements are unaudited and unreviewed.
- **EDC facility is ring-fenced (MEDIUM — clarified):** The US$4.0M Export Development Canada facility is in final approval stages, but proceeds are restricted exclusively to new game development and must be advanced within six months of approval. It cannot fund debt repayment, the settlement instalments, or working capital.
- **User acquisition restart (MEDIUM — new):** Management intends to materially expand UA spend from mid-August. Underlying cash operating expense of approximately C$4.86M per quarter against C$6.09M of gross profit implies an Adj. EBITDA breakeven near C$8.2M of quarterly revenue; UA sits inside that cost base, so expanding it raises the breakeven directly against a revenue line still declining 18% sequentially.
- **Liquidity and small-cap risk (HIGH — unchanged):** Average daily volume is minimal and the shares trade near an all-time low of C$0.06 set June 9, 2026. Position exit at scale is impractical.

Conclusion

The thesis we published in May was that concrete guidance plus a completed financing had converted EAGR from a solvency story into a valuation story. Q2 reverses that. Guidance proved unreliable within ten weeks of reaffirmation, the financing did not reduce net debt, the going-concern qualification became explicit, and the primary lender moved the account to a workout group. Three of five pillars are broken and the remaining two are weakened. We were wrong to underwrite management's outlook at face value, and we compounded it by mis-identifying the related-party lender in our Q1 update.

What remains is genuinely a binary. If the refinancing closes on the terms described, EAGR is a small, cash-generative game portfolio with a repaired capital structure trading at a defensible multiple, and the bull case is live. If it does not, the C$3.0M of current bank debt is callable against C$1.33M of cash and C$325K of remaining insider capacity, and the equity is close to worthless. That distribution is not adequately compensated at C$0.08. Our probability-weighted fair value of approximately C$0.056 sits roughly 30% below the market price, and the base case — management hitting its own freshly reduced guidance, valued at a multiple appropriate to a workout borrower — implies C$0.045. The shares already price in a successful refinancing that has not been signed. An investor buying here is not being paid to underwrite that risk; they are paying for the privilege of taking it.

What to watch: formal confirmation of the new credit facility and its covenant package; Q3 DAU, which must stabilise near 118,000 for the reduced guidance to hold; the incremental Adj. EBITDA impact of the mid-August UA restart; and whether the Q3 filing carries the same disclosure inconsistencies as this one.

At C$0.08 per share and a C$8.3M market capitalisation, we **downgrade** EAGR to **Avoid** from Speculative Buy and lower our 12-month price target to **C$0.06** from C$0.24. We would revisit the rating on formal confirmation of the new credit facility, which would remove the binary and return this to a valuation discussion.

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?**
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> **What is the investment thesis for East Side Games Group Inc. (EAGR)?**
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> **How is East Side Games Group Inc. (EAGR) valued?**
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> Our valuation framework is unchanged in method — EV/Adj. EBITDA with a scenario range — but two inputs have moved materially. First, the earnings base is now management's reduced guidance of C$4.0–4.7M rather than the C$7.0M base case we carried after Q1.

> **What are the key risks for East Side Games Group Inc. (EAGR)?**
>
> Risks flagged in this report — Refinancing execution risk (HIGH — new); Borrowing base contraction (HIGH — new); Related-party creditor concentration (HIGH — escalated); Adj. EBITDA quality (HIGH — escalated); Disclosure quality (MEDIUM — new); EDC facility is ring-fenced (MEDIUM — clarified); User acquisition restart (MEDIUM — new); Liquidity and small-cap risk (HIGH — unchanged)

> **What are the key financial metrics for East Side Games Group Inc. (EAGR)?**
>
> As of Aug 14, 2026 — Market Cap: C$8.3M · Adjusted EV: C$18.8M · EV / 2026E Adj. EBITDA: 4.3x · Revenue (Q2 2026): C$10.32M · Adj. EBITDA (TTM): C$0.44M · Gross Margin (Q2 2026): 59.1%.

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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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