



Pethealth Inc. Announces Q3 Net Income of \$288,452 and its full results for the third quarter ended September 30, 2006

OAKVILLE, ON, November 9, 2006. Pethealth Inc. (TSXV:PTZ) ("Pethealth" or "the Company") today announced its financial results for the quarter and nine months ended September 30, 2006.

Highlights

Quarter ended September 30, 2006

- Total revenue for the three months ended September 30, 2006 was \$4.72 million, up 25% over the three months ended September 30, 2005.
- Net income for the three months ended September 30, 2006 was \$288,452 (\$0.0008 per share), compared to a net loss of \$581,034* (\$0.0020 per share) recorded in Q3, 2005.
- EBITDA for Q3 2006 was \$410,719 compared to an EBITDA loss of \$472,932* for the same period in the prior year.
- Gross premiums earned by the Company's insurance carriers were \$9.1 million for the three months ended September 30, 2006, up 15% from the same period in the prior year.

Nine months ended September 30, 2006

- Total revenue for the nine months ended September 30, 2006 was \$13.72 million, up 31% over the nine months ended September 30, 2005.
- Net income for the nine months ended September 30, 2006 was \$227,630 (\$0.0013 per share), compared to a net loss of \$1,387,913* (\$0.0070 per share) recorded in the prior year.
- EBITDA for the nine months ended September 30, 2006 was \$586,401 compared to an EBITDA loss of \$1,084,449* for the same period in the prior year.
- The cumulative calendar 2006 loss ratio for the U.S. core pet insurance book of business stood at 45.7% as at September 30, 2006 as the Company began to participate in a portion of its programs' underwriting results in the United States.
- Gross premiums earned by the Company's insurance carriers were \$27.0 million for the nine months ended September 30, 2006, up 20% from the same period in the prior year.

Results of Operations

Pethealth Inc. reports its financial results in a single reportable segment. However, in order to provide readers of the financial results greater insight into the growing diversity of the Company's operations, it has elected to provide financial results by program line, that is, by its "insurance operations" and its "non-insurance operations". The Company's insurance operations currently consist of the distribution and administration of the PetCare, ShelterCare, QuickCare and CherryBlue pet insurance programs while non-insurance operations are made up of its 24PetWatch manufacturer-neutral pet registry, recovery and database management and information services, including the distribution of microchip technology, and the development and distribution of PetPoint, its animal shelter management software program. The following table details the operational results from each program line:

For the three months ended						
September 30, 2006				September 30, 2005 (restated*)		
	Insurance	Non- Insurance	Total	Insurance	Non- Insurance	Total
Revenues	\$ 3,833,445	\$ 885,166	\$ 4,718,611	\$ 3,294,823	\$ 481,451	\$ 3,776,274
Employment	846,883	339,883	1,186,766	907,465	266,534	1,173,999
Marketing	1,411,149	92,361	1,503,510	1,689,700	118,413	1,808,113
General & administration	770,181	145,676	915,857	644,013	127,807	771,820
Cost of sales		608,008	608,008		422,000	422,000
Other	173,518	42,500	216,018	146,869	34,507	181,376
Total expenses	\$ 3,201,731	\$ 1,228,428	\$ 4,430,159	\$ 3,388,047	\$ 969,261	\$ 4,357,308
Operating income (loss)	631,714	\$ (343,262)	\$ 288,452	\$ (93,224)	\$ (487,810)	\$ (581,034)
Add:						
Capital asset amortization	79,767	42,500	122,267	73,595	34,507	108,102
EBITDA	\$ 711,481	\$ (300,762)	\$ 410,719	\$ (19,629)	\$ (453,303)	\$ (472,932)
For the nine months ended						
September 30, 2006				September 30, 2005 (restated*)		
	Insurance	Non- Insurance	Total	Insurance	Non- Insurance	Total
Revenues	\$ 11,267,804	\$ 2,448,349	\$ 13,716,153	\$ 9,336,191	\$ 1,163,855	\$ 10,500,046
Employment	2,598,132	938,864	3,536,996	2,642,251	688,699	3,330,950
Marketing	4,632,869	278,550	4,911,419	4,771,941	184,848	4,956,789
General & administration	2,347,611	433,282	2,780,893	1,722,647	375,071	2,097,718
Cost of sales		1,625,829	1,625,829		977,931	977,931
Other	506,784	126,602	633,386	446,511	78,060	524,571
Total expenses	\$ 10,085,396	\$ 3,403,127	\$ 13,488,523	\$ 9,583,350	\$ 2,304,609	\$ 11,887,959
Operating income (loss)	\$ 1,182,408	\$ (954,778)	\$ 227,630	\$ (247,159)	\$(1,140,754)	\$(1,387,913)
Add:						
Capital asset amortization	232,169	126,602	358,771	225,404	78,060	303,464
EBITDA	\$ 1,414,577	\$ (828,176)	\$ 586,401	\$ (21,755)	\$(1,062,694)	\$(1,084,449)

"We are very pleased to be able to show continuing progress in our business," said Mark Warren, President and Chief Executive Officer of Pethealth. "Of particular note, our cash flow from all operations for the quarter was \$504,513 when adding back stock option expense. Operating income from our insurance business was \$631,714 for the quarter and the 85% growth in our non-insurance business, which in large part is laying the foundation for further growth, bodes well for the future. Finally, it should be noted that the restructuring of our shelter business undertaken during the second quarter has now been completed, and evidence of our success is not only the increased profitability of our insurance business but the fact that in October we established a new record for monthly sales, driven principally by record sales through our shelter channel."

Insurance Operations:

The Company is the number two provider of pet insurance to the companion animal market in North America as measured by both policies in force and gross written premium.

Pet insurance revenues are earned primarily through commissions and fees generated from the placement of pet insurance policies at a blended commission rate of approximately 36%. Commissions and fees earned in Q3 2006 from the insurance operation increased by 16% to \$3,805,835 from Q3 2005. For the nine months ended September 30, 2006, the Company achieved commission and fee revenue of \$11,189,194 an increase of 21% over the prior year.

The Company's U.S. core pet insurance programs produced a calendar year loss ratio of 45.7%. During the second quarter, the Company began to place business in certain U.S. states with Praetorian Insurance Group. Under the terms of the agreement, the Company participates in a portion of the underwriting results for policies placed with Praetorian.

The Company recorded an average annual administration cost per policy of \$31 for the rolling twelve month period ended September 30, 2006, down from \$37* in the preceding twelve month rolling period. This 16% reduction is the result of the Company's continued efforts to leverage its infrastructure and to create operational efficiencies. The Company believes that this cost per policy, whether measured on an absolute basis or as a percentage of premiums, is the best in the industry. Acquisition cost per policy was an average of US\$64 compared to US\$65 for the same twelve month period in the prior year. Acquisition cost per policy was relatively flat through the period as the relative weightings of the various marketing channels from which policies were acquired remained stable.

The pet insurance operations contributed operating income of \$631,714 to the consolidated operating income during the quarter compared to a contributed operating loss of \$93,224* for the same period in the prior year. For the nine month period ended September 30, 2006, the insurance business contributed operating income of \$1,182,408 to the consolidated net income vs. an operating loss of \$247,159* in the prior year. In addition, the pet insurance operations achieved EBITDA of \$711,481 for the period and \$1,414,577 for the nine months year-to-date compared to an EBITDA loss of \$19,629* and \$21,755* for the same periods in the prior year.

Non-Insurance Operations:

Non-insurance revenues are earned from the sale of microchip technology and database and information services leveraging the Company's PetPoint, EVE and 24PetWatch infrastructures. To date, the Company's non-insurance business has been focused on building out its technology platforms, which, in and of themselves, were not initially designed to generate significant margins. These platforms will be used to deliver database and information services from which the Company expects to generate significant revenues at much greater margins.

During the quarter, the Company achieved revenues of \$885,166 from its non-insurance businesses, an increase of 84% from the \$481,451* earned in the prior year. For the nine months ended September 30, 2006, the Company generated revenues of \$2,448,349 an increase of 110% from the \$1,163,855* earned in the prior year.

The Company's non-insurance business contributed an operating loss of \$343,262 to the consolidated net income of \$288,452 for the quarter ended September 30, 2006 as compared to an operating loss contribution of \$487,810* to the consolidated net loss for the same period in the prior year. For the nine months ended September 30, 2006 the non-insurance business contributed an operating loss of \$954,778 to the consolidated net income of \$227,630 as compared to an operating loss contribution of \$1,140,754* for the same period in the prior year.

Consolidated Results

The Company had consolidated net income of \$288,452 (\$0.0008 per share) for the quarter and a consolidated net income of \$227,630 (\$0.0013 per share) for the first nine months of the year compared to net losses of \$581,034* (\$0.0020 per share) and \$1,387,913* (0.0070 per share) for the same period in the prior year. The Company's consolidated EBITDA was \$410,719 for the quarter and \$586,401 for the nine months to date compared to EBITDA losses of \$472,932* and \$1,084,449* respectively for the same periods in the prior year.

At September 30, 2006, the Company had total assets of \$6,512,019 including cash resources of \$1,996,046.

The Company will be hosting an investor conference call on Friday, November 10, 2006 at 11:00 AM (EST) which can be accessed at 1-877-888-3490. For those unable to participate, an instant replay of the call will be available for 7 days at 1-888-509-0081, passcode 634940.

CONSOLIDATED FINANCIAL HIGHLIGHTS:	For Quarter Ended		
	September 30, 2006	September 30, 2005 (restated)*	Change %
Insurance Commissions and Fees	\$3,805,835	\$3,268,683	16%
Microchip Technology and Non-insurance Revenue	885,166	481,450	84%
Interest and Other Income	27,610	26,141	6%
Total Revenue	\$4,718,611	\$3,776,274	25%
Expenses			
Cost of Sales – Microchip Technology	608,008	422,000	44%
Marketing Expenses	1,503,510	1,808,113	(17%)
Employment Expenses	1,186,766	1,173,999	1%
Stock Option Expense	93,793	87,641	7%
Administration Expenses	915,857	771,820	19%
Foreign Exchange	(42)	(14,367)	
Amortization of Capital, Intangible and Other Assets	122,267	108,102	13%
Income			
Net Income (Loss) For the Period	288,452	(581,034)	150%
EPS – Basic	0.0010	(0.0020)	
EPS - Fully Diluted	0.0008	(0.0020)	
Other			
Add Back: Amortization	122,267	108,102	
EBITDA**	\$ 410,719	\$ (472,932)	187%
Stock Option Expense	93,793	87,641	7%
Cash Flow From Operations	504,512	(385,291)	231%
Balance Sheet			
Cash Resources	1,996,046	3,325,669	(40%)
Total Assets	6,512,019	7,459,106	(13%)
Gross Premiums Earned by Carriers***	\$ 9,116,546	\$ 7,931,967	15%

CONSOLIDATED FINANCIAL HIGHLIGHTS:	For the Nine Months Ended		
	September 30, 2006	September 30, 2005 (restated)*	Change %
Insurance Commissions and Fees	\$11,189,194	\$ 9,259,046	21%
Microchip Technology and Non-insurance Revenue	2,448,349	1,163,854	110%
Interest and Other Income	78,610	77,146	2%
Total Revenue	\$13,716,153	\$10,500,046	31%
Cost of Sales – Microchip Technology	1,625,829	977,931	66%
Marketing Expenses	4,911,419	4,956,789	(1)%
Employment Expenses	3,536,996	3,330,950	6%
Stock Option Expense	277,438	236,705	17%
Administration Expenses	2,780,893	2,097,718	33%
Foreign Exchange	(2,823)	(15,598)	
Amortization of Capital, Intangible and Other Assets	358,771	303,464	18%
Net Income (Loss) For the Period	227,630	(1,387,913)	116%
EPS – Basic	(0.0013)	(0.0070)	
EPS – Fully Diluted	(0.0013)	(0.0070)	
Add Back: Amortization	358,771	303,464	
EBITDA**	\$ 586,401	\$ (1,084,449)	154%
Stock Option Expense	277,438	236,705	17%
Cash Flow From Operations	863,840	(847,744)	202%
Gross Premiums Earned by Carriers ***	\$ 27,013,763	22,547,854	20%

* Restatement of comparative balances – Following a prior review of its cash management system, the Company determined that certain errors had been made in the recording of certain electronic customer payments and service fees processed in the United States during 2004 and 2005. As a result, cash was over-stated and selling, general and administrative expenses were understated. These items were previously corrected by restating the 2004 and 2005 financial statements. The Q3 2005 and the nine months ended September 30, 2006 comparative balances reflect this correction.

** The Company believes the presentation of EBITDA is a useful means of providing investors with additional information in reviewing and analyzing the Company's operating results. EBITDA is considered to be a non-GAAP earnings measure and does not have any standardized meaning prescribed by GAAP. It is, therefore, unlikely to be comparable to similar measures presented by other issuers.

*** As the Company writes new or renewing pet insurance policies, its insurance carriers earn written premiums and pay the Company commissions. The Company's revenues consist of commissions and fees, microchip technology sales, database and information services, and interest and other income.

About Pethealth

Pethealth is a leading provider of pet insurance and pet related data management services to the North American companion animal industry. Pethealth offers a unique range of products and services for veterinarians, shelters and pet owners through a number of wholly owned subsidiaries using a range of brand names including PetCare, ShelterCare, QuickCare, CherryBlue, 24PetWatch, PetPoint, PetMedInfo and PetMedAlert.

Pethealth is based in Oakville, Ontario. To find out more about Pethealth, visit the web site at www.pethealthinc.com.

The TSX Venture Exchange Inc. has not reviewed and does not accept responsibility for the adequacy or accuracy of this release.

Statements contained in this news release, if not historical, are forward-looking statements, which involve risks and uncertainties that could cause actual results to differ materially from the results described in forward-looking statements.

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