



Pethealth Inc. Announces Quarterly Revenue of \$8,375,000 and Net Income of \$528,000 and its full results for the First Quarter Ended March 31, 2010.

OAKVILLE, ON, May 13, 2010. (TSX: PTZ) Pethealth Inc. ("Pethealth" or "the Company") today announced its financial results for its quarter ended March 31, 2010.

Financial Highlights

First quarter ended March 31, 2010

- Total revenue for the quarter ended March 31, 2010 was \$8.4 million, down 4% from 2009.
- Net income, before taxes, for the quarter ended March 31, 2010 was \$616,000 (\$0.00 per share after giving effect to the \$585,000 annual dividend payment made in the first quarter to holders of the Company's convertible preference shares) vs. \$902,000 (\$0.01 per share after giving effect to the annual \$600,000 dividend payment made in the first quarter of 2009) in the prior year.
- Net income, after taxes, was \$528,000 ((\$0.00) per share after giving effect to the \$585,000 dividend) compared to the prior year's net income of \$902,000 (\$0.01 per share after giving effect to the \$600,000 dividend payment made in the first quarter of 2009).
- EBITDA (see definition on page 2) for the quarter was \$1.07 million, down 20% from the prior year.
- Adjusted EBITDA (see definition on page 2) was \$1.0 million for the quarter, a 37% decrease over the same period in the prior year.

The 20% and 10% appreciation of the Canadian dollar against the U.S. dollar and the British pound respectively had a significant impact on comparative year over year quarterly results as described below.

Results of Operations

Pethealth Inc. reports its financial results in two reportable segments; its insurance operations and its non-insurance operations. Its insurance operations currently consist of the distribution and administration of the PetCare, Pet Protect, petPals, ShelterCare, QuickCare, CherryBlue and other co-branded, white labelled or private labelled pet insurance programs, while its non-insurance operations are made up of its 24PetWatch and Pet Protect manufacturer-neutral pet registry and recovery service, the distribution of RFID microchip technology, the development and distribution of PetPoint, its animal shelter management software program, and Petango.com, its on-line pet portal which includes its on-line adoptable search engine, thePetangoStore.com and social networking:

(^000)	Q1 2010	Q1 2009	Change
Revenue			
Insurance segment	\$6,330	\$6,881	(8%)
Non-insurance segment	2,045	1,850	10%
	\$8,375	\$8,731	(4%)
Net income (loss) before taxes			
Insurance segment	\$1,350	\$1,550	(13%)
Non-insurance segment	(734)	(648)	(13%)
	\$616	\$902	(32%)
Net income (loss) after taxes			
Insurance segment	\$1,262	\$1,550	(19%)
Non-insurance segment	(734)	(648)	(13%)
	\$528	\$902	(41%)
EBITDA ⁽¹⁾			
Insurance segment	\$1,605	\$1,838	(13%)
Non-insurance segment	(534)	(499)	(7%)
	\$1,071	\$1,339	(20%)
Adjusted EBITDA ⁽²⁾			
Insurance segment	\$1,532	\$2,089	(26%)
Non-insurance segment	(534)	(499)	(7%)
	\$998	\$1,590	(37%)

⁽¹⁾ EBITDA, a non GAAP accounting measure, is operating income plus amortization plus interest on long-term debt plus income taxes.

⁽²⁾ Adjusted EBITDA, a non GAAP accounting measure, is EBITDA plus stock option and equity-based compensation expenses and adjusted for non-cash foreign currency accounting translation gains and losses resulting from the Company's U.S. denominated debt. At March 31, 2010, the Company had total assets of \$21.7 million including unrestricted cash balances of \$6.8 million compared to assets of \$17.3 million including unrestricted cash balances of \$2.2 million at March 31, 2009.

The 20% and 10% appreciation of the Canadian dollar against the U.S. dollar and the British pound respectively had a significant impact on comparative year over year quarterly results as set out below:

(^000s)	Q1 2010	Q1 2009
Revenue as reported	\$ 8,375	\$ 8,731
Year over year foreign exchange impact on revenue	1,230	-
Pro forma revenue adjusted for changes in foreign exchange rates for comparative purposes	9,605	8,731
Net income as reported	528	902
Quarterly sequential non-cash translation foreign exchange (gain) loss reported	(99)	209
Year over year foreign exchange impact on operating income	441	-
Pro forma net income adjusted for the impact of changes in foreign exchange rates for comparative purposes	\$ 870	\$ 1,111

"Taking into account the considerable foreign exchange impact on our business, I am pleased with our results for Q1," said Mark Warren, President and Chief Executive Officer of Pethealth Inc. "On a year on year basis, policy sales are up, insurance policy cancellations are down, microchipping sales remain robust, and an ever increasing number of animal welfare organisations are choosing Pethealth to provide them with their software, microchipping, data hosting, and insurance solutions. While I was disappointed that our commercial insurance program, launched in Q1 2010 to provide packaged commercial insurance specifically designed to meet the needs of shelters, did not lead to new business during the quarter due to us having to make coverage adjustments in our program, we are now in a position to generate commission income from it over the rest of 2010 and beyond. Similarly, the Petango Store, after the usual challenges associated with any new venture, is now on track in terms of sales and being widely promoted by our network of animal welfare organisations."

Insurance Operations:

Results

The Company is North America's number two provider of pet insurance operating in Canada, the United States and the United Kingdom. In all three jurisdictions, the Company operates as a Managing General Agent ("MGA") and, as such, is responsible for all aspects of its pet insurance programs other than the underwriting risk which is entirely borne by its third party carriers other than the Company's limited participation in underwriting results.

Pet insurance revenues are earned primarily through commissions and fees generated from the sale of pet insurance policies at a blended commission rate of approximately 39% in the United States, 35% in Canada and 33% in the United Kingdom.

The insurance operations reported a decrease in operating revenue of 8% and pretax operating income of 13% for the quarter as compared to a year ago which can be directly attributable to the appreciation of the Canadian dollar. In the absence of the Canadian dollar's appreciation, operating revenue would have increased by 5% and pretax operating income would have increased by 13%.

Over 50% of the Company's new policy sales during Q1 2010 were generated from the North American shelter channel. The Company expects this channel to remain the primary organic growth engine for commission and fee revenue supported by:

- (1) The current trend that adoption is growing as a source of new pet acquisition, which the Company believes is set to continue. This trend was supported in a recent study released by PetSmart Charities and based on IPSOS market research, which showed that pet adoption accounted for 25% of all new pet acquisitions in 2009, when compared to a previous 2005/2006 APPMA Survey, which showed adoptions at approximately 15% of new pet acquisitions. Based on the trending of these two studies, 2010 is expected to be the first year when more people acquire new dogs and cats via adoption than any other single channel.
- (2) The continued growth of the Company's shelter network, centered around the licensing of its PetPoint animal management system, which will result in more adoptions occurring through the Company's applications and programs,
- (3) An integrated program focused on increasing the number of adopters who, subsequent to completing an adoption, purchase a pet insurance policy. This program focuses specifically on upgrading adopters from the Company's 30 day ShelterCare gift of insurance offered to adopters by animal welfare organisations running PetPoint.

In addition to organic growth, the Company intends to acquire other pet insurance businesses both in the United Kingdom and North America as and when they become available.

Administration costs, consisting of claims adjudication, medical underwriting, billing, and customer service but excluding corporate expenses, are measured on a percentage of premium basis. For the three months ended March 31, 2010, administration costs, inclusive of North American insurance business and the Pet Protect business, represented 11.1% of gross premiums earned by the Company's carriers as compared to 10.1% in Q1 2009. When adjusted for the impact of foreign exchange, administration costs as a percentage of earned premium were consistent with that reported in Q1 2009. The Company believes that its administrative costs, as a percentage of gross premiums earned, continue to be the best in the industry. All marketing costs are expensed when incurred.

Under the terms of its MGA agreement with Praetorian Financial Group (USA) and QBE (Europe)(UK), both subsidiaries of QBE Insurance Group (collectively "QBE"), the Company participates in a portion of the underwriting results for core pet insurance policies placed with QBE in the U.S. and the U.K. on an aggregated weighted basis. The Company participates positively for policies underwritten by QBE when the aggregate weighted average accident year loss ratio is less than 50% and negatively when the actual accident year loss ratio exceeds 50%. The Company's participation in QBE's underwriting results is capped at 2.5% of earned premium.

As the Company's participation is based on the actual calendar year end loss ratio we are required to use estimates for interim reporting purposes. The U.S. and U.K. core underwriting results for policies underwritten by Praetorian and QBE (Europe) in aggregate are currently estimated to be between 48.5% and 49.75% for the year. The mid-point of the range, or \$47,716 was recorded in Q1 2010. This compared to a combined participation of 2.5% of earned premium in the prior year resulting in \$270,822 being recorded in Q1 2009. The increase in the year over year aggregate loss ratio reflects the increased weighting of the U.K. business which runs at higher loss ratios than the US business. For Q1 2010, the UK business represented 44% of the aggregate UK/US business eligible for profit participation, up from 26% in 2009.

Non-Insurance Operations:

The non-insurance operations focus on generating revenues from North American pet owners who have acquired their pet through adoption and from corporate entities and charitable foundations wishing to have access to the individual adopter or prior to the adoption process itself. The Company's non-insurance operations are centered on the provision of PetPoint, the Company's web based SAAS shelter management system which, by March 31, 2010 had been licensed by 1,370 animal welfare organizations representing approximately 50% of North American pet adoptions occurring through animal welfare organizations. PetPoint is provided free to those animal welfare organisations that are using the Company's 24PetWatch microchip program and who agree to also promote its ShelterCare insurance program to their adopters.

To date, the Company's non-insurance business has been focused on building out its technology platforms, including PetPoint, 24PetWatch and, most recently, Petango.com. These platforms are used to develop a network through which the Company can establish a relationship with the pet owner from the time they begin to search for their new dog or cat through the lifetime of that pet. The Company's strategic advantage is that it is both able to make this connection with the adopter and influence purchasing decisions prior to that adopter establishing his or her buying habits for their new dog or cat as well as the ability to maintain an on-going relationship based on the provision of various products and services, including pet insurance.

Revenue opportunities resulting from the promotion of the PetPoint animal management application to this network of animal welfare organisations falls into five categories:

1. Advertising;
2. Sponsorship;
3. E-commerce;
4. Content syndication;
5. Medical/Data Publishing.

1. Advertising

The Company intends to take advantage of two trends in advertising: (i) the growing shift towards Internet advertising generally and highly targeted digital advertising, specifically; (ii) the growing trend amongst retailers and national brands to advertise non-pet products on high traffic pet related sites.

While advertising revenues throughout the industry have recently shown some signs of recovery from a soft 2009, we have continued to build out our platform so as to position it to take advantage of a sustained return in Internet based advertising spend which we anticipate will occur during 2010 and 2011.

2. Sponsorship

The Company believes that, given its multi-faceted program of products and services to the animal welfare community, it can generate significant sponsorship related revenues outside of those advertising revenues generated through its Petango/PetPoint platform including the Company's ShelterCare insurance and 24PetWatch microchip programs.

3. E-commerce

In December 2009, the Company launched ThePetangoStore.com web site promoting the sale of pet pharmacy and pet specialty retailer products to pet owners in the United States. Revenue from The Petango Store in Q1 2010 was not material to the Company's financial results. However, the Store is expected to contribute materially for 2010 as a whole.

4. Content Syndication

The syndication of adoptable search content (the pictures of adoptable dogs and cats with page descriptions) is not a new concept. Many of Pethealth's competitors in adoptable search are currently syndicating their own content to other third parties. Pethealth's advantage is that any adoptable search content syndicated by the Company will be live to those third parties whereas much of the content of Pethealth's competitors is stale, meaning that the animals posted as available for adoption have, in many cases, already been adopted or, in some cases, euthanized.

5. Medical/Data Publishing

Pethealth, via its PetPoint animal management application, is now the largest aggregator of animal welfare organisations' data in North America. In Q1 2010, 404,000 animal "intakes" were completed by shelters running PetPoint and 181,000 adoptions were completed by these same organisations.

The Company believes that significant revenue can be generated by providing access to this aggregated information to charitable organisations working with the animal welfare community. As evidence, the Company in 2009 completed a 30 month agreement with PetSmart Charities whereby they will pay the Company a minimum of \$400,000 over the life of the contract to have access to aggregated data to help further their own initiatives directed towards the animal welfare community. The Company expects to execute other similar deals over the course of 2010 and beyond.

Non-insurance results

The sale of RFID microchips to animal welfare organisations and veterinary clinics accounted for revenue of \$1,705,000 in Q1 2010 representing 83% of the total non-insurance revenues for the quarter. This compared to \$1,671,000 in 2009, a 2% increase. On May 11, 2010, we announced that we had entered into an exclusive supply and purchase agreement with Allflex (USA) effective January 1, 2010. Under the terms of the agreement, Allflex has agreed to handle all shipping logistics in the United States and Canada as well as fix the wholesale pricing of its microchip technology over 4 years. The agreement is expected to reduce our cost of sales by approximately \$450,000 in the first year and by a minimum of \$500,000 annually thereafter.

In addition, the sale of ancillary products and services to the 24PetWatch database of pet owners, such as pet tags and change of address fees but excluding insurance products, accounted for an additional \$339,000 in revenue, 89% higher than the \$180,000 sold in the prior year. Our 24PetWatch call center received 51,214 inbound calls from subscribers of the 24PetWatch service during Q1 2010, representing a 24% increase over Q1 2009. Subscribers representing 28.5% of total inbound calls chose to purchase one or more of the Company's products and services during the quarter vs. 22.6% in Q1 2009. We expect that the growth of both Petango and the Petango Store will provide further opportunities to cross sell products and services to the 24PetWatch database of pet owners.

Since selling its first microchip in January 2003, Pethealth has become one of the largest providers of RFID microchip technology for companion animal purposes in the world. Sales of microchips were 301,083 in Q1 2010, a 17% increase over Q1 2009. The Company now sells microchips in Canada, the United States and the United Kingdom. In Canada and the U.S., microchips are sold under the 24PetWatch brand and in the U.K. under the Pet Protect brand.

By the end of Q1 2010, the 24PetWatch database exceeded 3.27 million pet owner/pet subscriptions.

The Company is hosting an investor conference call later today, Thursday, May 13, 2010, at 4 PM (EST) which can be accessed at 1-866-226-1792. For those unable to participate, an instant replay of the call will be available for 7 days at 1-800-408-3053 pass code 1303162.

CONSOLIDATED FINANCIAL HIGHLIGHTS:	For Three Months Ended		
	31-Mar-10	31-Mar-09	Change %
Insurance Commissions and Fees	\$6,321,438	\$6,865,618	(8%)
Microchip Technology and Non-insurance Revenue	2,044,821	1,850,760	10 %
Interest and Other Income	8,574	15,059	(43%)
Total Revenue	8,374,833	8,731,437	(4%)
Cost of Sales – Microchip Technology & Petango Store	1,029,801	1,211,556	(15%)
Marketing Expenses	2,278,227	1,999,902	14 %
Employment Expenses	2,531,160	2,221,751	14 %
Stock Option Expense	25,771	42,126	(39%)
Administration Expenses	1,575,164	1,663,843	(5%)
Foreign Exchange (Gain) Loss	(136,518)	253,410	-
Interest Expense on Long Term Debt	41,832	82,449	(49%)
Amortization of Capital, Intangible and Other Assets	413,892	354,828	17 %
Earnings before tax	615,504	901,572	(32%)
Income taxes	87,803	-	-
Net Income	527,701	901,572	(41%)
EPS – Basic ⁽¹⁾	(0.00)	0.01	-
EPS – Diluted ⁽¹⁾	(0.00)	0.01	-
EBITDA ⁽²⁾	1,071,228	1,338,849	(20%)
Adjusted EBITDA ⁽³⁾	998,384	1,590,164	(37%)
Gross Premiums Earned by Carriers	15,840,633	17,900,847	(12%)

⁽¹⁾ Basic and diluted earnings per share are adjusted to reflect the dividend payments made during the first quarter of 2010 and 2009. At March 31, 2010 the Company had weighted average basic common shares of 32,480,651 (2009 – 28,385,535) and fully diluted common shares of 33,117,947 (2009 – 28,505,535).

⁽²⁾ 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. EBITDA is net income adjusted for interest, taxes and amortization.

⁽³⁾ The Company believes the presentation of Adjusted EBITDA is a useful means of providing investors with additional information in reviewing and analyzing the Company's operating results. Adjusted 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. Adjusted EBITDA is EBITDA adjusted for stock option and equity-based compensation expense and non-cash translation gains and losses associated with the company's US denominated debt.

About Pethealth

Pethealth is North America's second largest provider of medical insurance for dogs and cats to pet owners, operating in Canada, the United States and the United Kingdom. In addition, the Company is the leading provider of management software to North American animal welfare organisations through its SaaS program and is the leading provider of pet related database 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, 24PetWatch, Pet Protect, petPals Direct, ShelterCare, PetPoint, PawsConnect and Petango.

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

Forward-Looking Statements

This press release contains information that is forward-looking information within the meaning of applicable securities laws. In some cases, forward-looking information can be identified by the use of terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts.

Forward-looking information by its nature necessarily involves risks and uncertainties including, without limitation, the difficulty of predicting the current regulatory and supervisory environment, the timing and conditions to obtaining any regulatory approval, reliance on insurance underwriters for pet insurance policies, market acceptance and demand for existing and new products and services, including PetPoint and EVE Software and the 24PetWatch microchip program, the Company's ability to maintain and service new and existing customers, the protection of intellectual property associated with its products and services, the impact of competition generally and new competitive products, currency and foreign exchange fluctuations, risks associated with the Company's customer care solutions facility, and related risks and uncertainties. Additional risks and uncertainties affecting the Company can be found in the Company's Annual Information Form available on SEDAR at www.sedar.com. If any of these risks or uncertainties were to materialize, or if the factors and assumptions underlying the forward-looking information were to prove incorrect, actual results could vary materially from those that are expressed or implied by the forward-looking information contained herein. The Company disclaims any intention or obligation, other than those required by security laws, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Investor Relations Contacts:

Mark Warren, President and Chief Executive Officer
Glen Tennison, Chief Financial Officer
Pethealth Inc.
(905) 842-2615