



***Pethealth Inc. Announces Annual Revenue of \$35,244,271 and Net Income of \$4,148,088 and its full results for the Year and Quarter Ended December 31, 2009.***

OAKVILLE, ON, March 10, 2010. (TSX: PTZ) Pethealth Inc. ("Pethealth" or "the Company") today announced its financial results for the year and quarter ended December 31, 2009.

## Financial Highlights

### ***Year ended December 31, 2009***

- Total revenue for the year ended December 31, 2009 was \$35.2 million, up 34% from 2008.
- Net income, before taxes, for the year ended December 31, 2009 was \$4.6 million (\$0.14 per share after giving effect to the \$600,000 dividend payment made in the first quarter of 2009) vs. \$709,000 (\$0.003 per share after giving effect to the \$600,000 dividend payment made in the first quarter of 2008) in the prior year.
- Net income, after taxes, was \$4.1 million (\$0.12 per share after giving effect to the \$600,000 dividend payment made in the first quarter of 2009) compared to the prior year's net income of \$709,000 (\$0.003 per share after giving effect to the \$600,000 dividend payment made in the first quarter of 2008).
- EBITDA (see definition on page 2) for the year was \$6.4 million, up 245% from the prior year.
- Adjusted EBITDA (see definition on page 2) was \$5.8 million for 2009, a 66% increase over the same period in the prior year.
- On December 23, 2009, the Company completed a public offering of 3,965,517 common shares for gross proceeds of \$5,750,000.

### ***Quarter ended December 31, 2009***

- Total revenue for the quarter ended December 31, 2009 was \$8.88 million, up 8% over Q4 2008.
- Net income, before taxes, for Q4 2009 was \$1.0 million (\$0.035 per share) for the quarter vs. a net loss of (\$480,000) ((\$0.017) for the same period in the prior year.
- Net income, after taxes, was \$515,000 (\$0.02 per share) compared to net loss of (\$480,000) ((\$0.017) per share).
- EBITDA (see definition on page 2) for Q4 2009 was \$1.47 million compared to an EBITDA loss of (\$40,000) for the same period in the prior year.
- Adjusted EBITDA (see definition on page 2) was \$1.45 million for the quarter, a 29% increase from the same period in the prior year.

## 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)	2009	2008	Change	Q4 2009	Q4 2008	Change
Revenue						
Insurance segment	\$27,909	\$20,762	34%	\$7,207	\$6,530	10%
Non-insurance segment	7,335	5,580	31%	1,677	1,682	0%
	<u>\$35,244</u>	<u>\$26,342</u>	34%	<u>\$8,884</u>	<u>\$8,212</u>	8%
Net income (loss) before taxes						
Insurance segment	\$7,809	\$3,039	157%	\$2,040	\$105	1,843%
Non-insurance segment	(3,173)	(2,330)	36%	(1,038)	(585)	77%
	<u>\$4,636</u>	<u>\$709</u>	554%	<u>\$1,002</u>	<u>(\$480)</u>	-%
Net income (loss) after taxes						
Insurance segment	\$7,322	\$3,039	141%	\$1,553	\$105	1,379%
Non-insurance segment	(3,173)	(2,330)	36%	(1,038)	(585)	77%
	<u>\$4,149</u>	<u>\$709</u>	485%	<u>\$515</u>	<u>(\$480)</u>	-%
EBITDA <sup>(1)</sup>						
Insurance segment	\$8,918	\$3,689	142%	\$2,307	\$403	473%
Non-insurance segment	(2,478)	(1,819)	36%	(833)	(443)	88%
	<u>\$6,440</u>	<u>\$1,870</u>	245%	<u>\$1,474</u>	<u>(\$40)</u>	-%
Adjusted EBITDA <sup>(2)</sup>						
Insurance segment	\$8,247	\$5,292	56%	\$2,283	\$1,565	46%
Non-insurance segment	(2,478)	(1,819)	36%	(833)	(443)	88%
	<u>\$5,769</u>	<u>\$3,473</u>	66%	<u>\$1,450</u>	<u>\$1,121</u>	29%

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

<sup>(2)</sup> 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 December 31, 2009, the Company had total assets of \$23.3 million including unrestricted cash balances of \$7.3 million compared to assets of \$16.7 million including unrestricted cash balances of \$1.9 million.

"I am pleased to be presenting these results for 2009," said Mark Warren, President & Chief Executive Officer of Pethealth. "Most impressive was the way in which our team executed on the profit improvement plan for PetProtect, following our acquisition, and I think the numbers speak for themselves. In addition, the ongoing expansion of our non-insurance platform allows us to provide the pet industries' first integrated media and advertising platform, and this will be monetised over the course of 2010 and beyond. This expansion is driven by both the broader use of our PetPoint SaaS application by animal welfare organizations, and by the successful launch of Petango.com and ThePetangostore.com."

#### 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 40% in the United States, 35% in Canada and 31.5% in the United Kingdom. On July 28, 2008, the Company completed its acquisition of Pet Protect, a pet insurance intermediary operating in the United Kingdom, from Domestic and General Insurance Group ("**D&G**"). On September 30, 2009, the Company completed the transition, on a renewals basis, of the Pet Protect business from D&G to QBE Insurance (Europe) Limited ("**QBE (Europe)**"). Pet Protect earned approximately 17% commission for those policies underwritten by D&G and earns 33% for those policies underwritten by QBE (Europe).

Over 50% of the Company's new policy sales during 2009 was 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 our 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 2009, administration costs represented 11.5% of earned premiums earned by the Company's carriers which is consistent with past periods when adjusted for differences in foreign exchange rates. The Company believes that its administrative costs, as a percentage of premiums, 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.

The U.S. and U.K. core underwriting results for policies underwritten by Praetorian and QBE (Europe) in aggregate were 46.6% resulting in positive participation of 1.7% of earned premium for the year. This compared to a combined underwriting result of 41.3% in the prior year. The increase in the year over year loss ratio reflects the increased weighting of the U.K. business as policies renewed with QBE (Europe). For the year and three months ended December 31, 2009, revenues of \$766,119 and \$60,364 respectively were recorded relating to the Company's participation in the underwriting results as compared to \$602,625 and \$176,554 respectively for the same period in the prior year.

#### 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 around the provision of PetPoint, the Company's web based SAAS shelter management system which, by December 31, 2009 had been licensed by 1,302 animal welfare organizations representing approximately 50% of North American adoptions. 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 remained soft in 2009, the Company continued to build out its platform so as to position it to take advantage of a return in Internet based advertising spend which it anticipates in 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 2009 was not material to the Company's financials. However, the Store is expected to contribute materially in 2010.

#### 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 2009 alone, 1.8-million animal "intakes" were completed by shelters running PetPoint and 680,000 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 two-year plus 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.

#### Results

For 2009, the sale of microchips to animal welfare organisations and veterinary clinics accounted for revenue of \$6,536,455 representing 89% of the total non-insurance revenues for the year. This compared to \$5,037,506 in 2008, a 30% increase. 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 \$798,895 in revenue, 47% higher than the \$542,518 sold in the prior year.

For Q4, 2009, the sale of microchips to animal welfare organisations and veterinary clinics accounted for revenue of \$1,467,216 representing 87% of the total non-insurance revenues for the quarter. This compared to \$1,432,367 in Q4 2008, a 2% increase. In addition, the sale of ancillary products and services to the 24PetWatch database of pet owners accounted for an additional \$209,753 in revenue, 16% lower than the \$249,974 sold in the same period in the prior year.

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 exceeded 1.06-million in 2009, an increase of 175,393 over 2008. 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 2009, nearly 3.1-million pets had been registered in the 24PetWatch database, with the database having doubled in approximately twenty-two months.

Sales of microchips in the U.K. started in September 2009. Whereas in the United States and Canada the majority of microchips sold are sold to animal welfare organisations, sales in the U.K. in 2010 will be sold principally to veterinary clinics. The success of the Pet Protect microchip program is then expected to assist the Company's Pet Protect pet insurance program in 2010 and beyond.

The Company is hosting an investor conference call on Thursday, March 11, 2010 at 11:30 AM (EST) which can be accessed at 1-866-225-0198. 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 Year Ended		
	Dec 31, 2009	Dec 31, 2008	Change %
Insurance Commissions and Fees	\$27,864,943	\$20,640,136	35 %
Microchip Technology and Non-insurance Revenue	7,335,350	5,580,024	31 %
Interest and Other Income	43,978	121,907	(64)%
Total Revenue	35,244,271	26,342,067	34 %
Cost of Sales – Microchip Technology	4,706,072	3,655,547	29 %
Marketing Expenses	8,103,709	6,731,821	20 %
Employment Expenses	9,378,702	7,608,725	23 %
Stock Option and Equity-Based Compensation Expense	207,472	217,367	(5)%
Administration Expenses	7,016,320	4,926,929	42 %
Foreign Exchange (Gain) Loss	(608,347)	1,332,309	-
Interest Expense on Long Term Debt	262,068	145,136	81 %
Amortization of Capital, Intangible and Other Assets	1,542,834	1,015,159	52 %
Earnings Before Taxes	4,635,441	709,074	554 %
Income Taxes	487,353	-	-
Net Income	4,148,088	709,074	485 %
EPS – Basic <sup>(1)</sup>	0.12	0.003	3,900 %
EPS – Diluted <sup>(1)</sup>	0.12	0.003	3,900 %
EBITDA <sup>(2)</sup>	6,440,343	1,869,369	245 %
Adjusted EBITDA <sup>(3)</sup>	5,768,613	3,473,089	66 %
Gross Premiums Earned by Carriers	68,860,014	53,095,857	30 %

CONSOLIDATED FINANCIAL HIGHLIGHTS:	For Three Months Ended		
	Dec 31, 2009	Dec 31, 2008	Change %
Insurance Commissions and Fees	\$7,197,368	\$6,489,893	11 %
Microchip Technology and Non-insurance Revenue	1,676,970	1,682,341	(0)%
Interest and Other Income	10,015	40,280	(75)%
Total Revenue	8,884,353	8,212,514	8 %
Cost of Sales – Microchip Technology	1,051,565	1,039,746	1 %
Marketing Expenses	2,306,016	2,086,995	10 %
Employment Expenses	2,377,752	2,471,180	(4)%
Stock Option and Equity-Based Compensation Expense	81,346	42,458	92 %
Administration Expenses	1,659,798	1,575,832	5 %
Foreign Exchange (Gain) Loss	(66,066)	1,036,377	-
Interest Expense on Long Term Debt	50,132	88,825	(44)%
Amortization of Capital, Intangible and Other Assets	421,454	350,917	20 %
Earnings Before Taxes	1,002,356	(479,816)	-
Income Taxes	487,353	-	-
Net Income	515,003	(479,816)	-
EPS – Basic <sup>(1)</sup>	0.018	(0.017)	-
EPS – Diluted <sup>(1)</sup>	0.018	(0.017)	-
EBITDA <sup>(2)</sup>	1,473,942	(40,074)	-
Adjusted EBITDA <sup>(3)</sup>	1,450,349	1,121,125	29%
Gross Premiums Earned by Carriers	16,138,542	18,185,238	(11)%

<sup>(1)</sup> Basic and diluted earnings per share are adjusted to reflect the dividend payments made during the first quarter of 2009 and 2008. At December 31, 2009 the Company had weighted average basic common shares of 28,436,375 (2008 – 28,385,087) and fully diluted common shares of 29,222,171 (2008 – 28,385,087).

<sup>(2)</sup> 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.

<sup>(3)</sup> 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](http://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](http://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.

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