Pethealth Inc. Announces a 16% Increase in Pre-tax Income on lower Revenues and its full results for the Quarter Ended March 31, 2011.

OAKVILLE, ON, May 12, 2011. (TSX: PTZ) Pethealth Inc. ("Pethealth" or "the Company") today announced its financial results for the quarter ended March 31, 2011.

Financial Highlights

Quarter ended March 31, 2011

- Total revenue for the quarter ended March 31, 2011 was $7.96 million, down 5% from Q1 2010.
- Net income, before taxes, was $746,000 vs. $645,000, up 16% over the prior year.
- Net income, after taxes, for the quarter was $605,000 ($0.001 per share after giving effect to the $585,000 dividend payment made in the first quarter) compared to the prior year's after tax net income of $557,000 (($0.002)) per share after giving effect to the $585,000 dividend payment made in the first quarter of 2010), up 9%.
- EBITDA (see non IFRS accounting measures) for the quarter was $1.21 million, up 9% from the same period in the prior year.
- Adjusted EBITDA (see non IFRS accounting measures) was $1.23 million for the quarter, up 20% from the same period in the prior year.

The 5% and 3% appreciation of the Canadian dollar against the US dollar and the British pound respectively had a significant impact on comparative year over year results as described below.

Transition to IFRS

This reporting period is the first under International Financial Reporting Standards (IFRS). A comprehensive summary of all the changes, including reconciliations of Canadian GAAP financial statements to those prepared under IFRS is presented in Note 22 "Transition to IFRS" of the Company's unaudited March 31, 2011 Condensed Consolidated Interim Financial Statements.

Adopting IFRS did not impact the cash the Company generates or how it conducts its businesses. Additionally, the transition to IFRS did not have a significant impact on the Company's reported results for the current or comparative quarters but did however have an impact on its accounting policies, the most significant of which relate to the Company's translation of foreign currency balances upon the consolidation of its US subsidiaries and its calculation of share based compensation expenses.

All results and balances reported in the release, including 2010 comparative results and balances, have been presented under IFRS.

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, Best Friends 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 2011	Q1 2010	Change Positive/ (Negative)
Revenue			
Insurance segment	$ 5,472	$ 6,321	(13%)
Non-insurance segment	2,491	2,031	23%
	$ 7,963	$ 8,352	(5%)
Net income (loss) before taxes			
Insurance segment	$ 1,271	$ 1,393	(9%)
Non-insurance segment	(525)	(748)	30%
	$ 746	$ 645	16%
Net income (loss) after taxes			
Insurance segment	$ 1,130	$ 1,305	(13%)
Non-insurance segment	(525)	(748)	30%
	$ 605	$ 557	9%
EBITDA [1]			
Insurance segment	$ 1,461	$ 1,654	(12%)
Non-insurance segment	(253)	(548)	54%
	$ 1,208	$ 1,106	9%
Adjusted EBITDA [2]			
Insurance segment	$ 1,481	$ 1,568	(6%)
Non-insurance segment	(253)	(548)	54%
	$ 1,228	$ 1,020	20%

[1] EBITDA, a non IFRS accounting measure, is operating income before amortization, plus interest on long-term debt and income taxes.
[2] Adjusted EBITDA, a non IFRS accounting measure, is EBITDA before 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.

The 5% and 3% appreciation of the Canadian dollar against the US dollar and the British pound respectively had a significant impact on comparative year over year results as described below:

('000)	Q1 2011	Q1 2010	Change Positive/ (Negative)
Revenue as reported	$ 7,963	$ 8,352	(5%)
Year over year foreign exchange impact on revenue	322	-	-
Pro forma revenue adjusted for changes in foreign exchange rates for comparative purposes	$ 8,285	$ 8,352	(1%)
Pre-tax Net income as reported	$ 746	$ 645	16%
Quarterly sequential non-cash translation foreign exchange gain reported	(26)	(99)	
Year over year foreign exchange impact on operating income	174	-	-
Pro forma pre-tax net income adjusted for the impact of changes in foreign exchange rates for comparative purposes	$ 894	$ 546	63%

At March 31, 2011, the Company had total assets of $23.3 million including unrestricted cash balances of $4.4 million compared to assets of $24.9 million including unrestricted cash balances of $5.1 million at December 31, 2010.

"Significant appreciation of the Canadian dollar unfortunately reduced the overall impact of what was a much better quarter," said Mark Warren, President and Chief Executive Officer of Pethealth. "Excluding the negative impact of foreign exchange, our pre-tax income rose 63%. While structural changes as previously announced impacted our insurance operations and will do so through May, our non-insurance business continues to show excellent top line growth but also now has started to make a significant move towards profitability."

Insurance Operations:

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 its core U.S. and U.K. aggregate underwriting results.

Pet insurance revenues are earned primarily through commissions and fees generated from the sale of pet insurance policies at a blended base commission rate of approximately 37% in the United States, 35% in Canada and 33% in the United Kingdom.

New policy sales in the United States are generated via animal welfare organizations, direct to consumer advertising, co-branded and white labelled programs, and the Company's own advertising platform, in that order. To date, the Company has focused limited attention on the veterinary clinic channel in the United States as a means of distributing its insurance except where it cross sells its insurance to pet owners who are clients of clinics using its 24PetWatch microchip program.

During the quarter, the Company announced a partnership with Best Friends Animal Society. In March of this year, Best Friends was identified by Harris Interactive as the number one not for profit brand name in the U.S. In addition to leveraging Best Friends' own network of animal welfare partners, donors, and subscribers to its various online properties, the Company intends to start testing the Best Friends brand in US veterinary clinics via a white labelled program in Q2, 2011.

In Canada, distribution of pet insurance is done primarily through animal welfare organizations, veterinary clinics (through both direct promotion and via the Company's 24PetWatch program), direct to consumer advertising, and via the Company's own advertising platform. In the United Kingdom, policy sales are generated via direct to consumer advertising and the veterinary channel both through exclusive relationships with selected veterinary clinics and hospitals as well as through the Company's microchip program.

Results

Insurance revenue during the quarter fell by 13%. The decline was due primarily to four factors:

(1) The restructuring of the Company's insurance program either via animal welfare organizations in the U.S. and Canada. This restructuring impacts the non-cash component of insurance revenue. As previously announced, restructuring of the program will have been fully completed by the end of May, 2011. The restructuring accounted for 51% of the decline in insurance revenue over the quarter but evidence of the long term positive impact of the change can be seen in the significant increase in the conversion rate of adopters enrolling in core policies and the overall net policy growth in the month of March which was the highest in North America since July, 2008.

(2) The appreciation of the Canadian dollar against both the U.S. dollar and Pound Sterling. Foreign exchange accounted for 23% of the decline;

(3) The decline in net policies in the United Kingdom over and above the foreign exchange impact on the U.K. business. Net policies declined due to a combination of premium increases made necessary to combat continued high veterinary inflation and the macroeconomic environment in the U.K. which remains challenged. The decline in the policy book accounted for approximately 17% of the total decline in insurance revenue.

(4) No revenue was recorded in the first quarter related to the Company's participation in its programs' underwriting results compared to $47,716 being recorded in Q1 2010 accounting for 5% of the decline in insurance revenue. The aggregate US/UK loss ratio is currently estimated to be between 48.5% and 51.5% for the 2011 year.

EBITDA from the insurance operations fell 12% and pre-tax net income fell 9% over the quarter. However, most of this decline can be attributed to the adverse foreign exchange impact as the Company continued to implement strong cost control measures in its insurance operations particularly in the areas of its administration costs.

Administration costs consist of claims adjudication, medical underwriting, billing, and customer service but exclude corporate expenses. For the quarter ended March 31, 2011, administration costs, represented 12.6% of gross premiums earned by the Company's carriers as compared to 11.1% for the same period in the prior year. When adjusted for the impact of foreign exchange and the change in the ShelterCare program, administration costs were broadly in-line with that reported last year. 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, it is 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 51.5% for the 2011 year. Actual results will be influenced by several factors through 2011 including, but not limited to, the U.S. and U.K claims inflation compared to premium increases, changes in the relative weightings of the U.S. and U.K. programs, the relative strength or weakness of the Pound Sterling vs. the U.S. dollar over the course of the year and the impact of changes in underwriting guidelines. Given the number of factors influencing the actual outcome by year end, the mid-point of the current range, or $0, was recorded in the first quarter related to the Company's participation in its programs' underwriting results compared to $47,716 being recorded in Q1 2010.

Non-Insurance Operations:

The Company's non-insurance segment focuses on generating revenues principally from North American pet owners who have acquired their pets through adoption, and from corporate entities and charitable foundations wishing to participate directly or indirectly with the adopter or in the pet adoption process. The non-insurance business leverages PetPoint, a cloud-computing network.

PetPoint had been licensed by 1,625 animal welfare organisations by March 31, 2011, an increase of 19% from those licensed at March 31, 2010. For the quarter, 459,612 intakes (animals entering the animal welfare organisations) and 201,002 adoptions were completed through PetPoint, an increase in both intakes and adoptions of 14% and 11% respectively from those completed last year. Recently, the Company added several new features including the Transfer Network (used to facilitate the movement of cats and dogs between animal welfare organisations) and the revamped Case Module (used for Animal Control and Humane Law Enforcement), features that are driving the number of animal welfare organisations licensing the system.

In addition to PetPoint, the Company has developed both the 24PetWatch microchip and database services business and the Petango pet portal which includes its adoptable search engine, social networking and thePetangoStore.com. These platforms have been used to develop what is now the premier network through which the Company can establish and maintain a relationship with the pet owner from the time they begin to search for their new dog or cat and through the lifetime of that newly adopted pet. As at March 31, 2011, the Company had in excess of 4.3 million individual files of pet and pet owner information in its 24PW database, up from 3.3 million in Q1 2010. 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. On an aggregated basis, revenue opportunities generated via the PetPoint network of animal welfare organisations include medical and data publishing, content syndication, e-commerce, and sponsorship and advertising.

The Company's petango.com brand operates in two areas:

(i) Adoptable search, whereby potential pet owners can access all pets available for adoption from the Company's network of approximately 1,625 animal welfare organizations running its PetPoint platform. Petango.com is the only adoptable search site featuring exclusively live, real time available animal data. Additionally, the Company uses its petango.com platform to power adoptable search on over 600 websites of animal welfare organizations using PetPoint. In Q1 2011, over 2.2-million unique visitors viewed over 21-million pages on the petango.com site;

(ii) Pet Specialty Retail. The petantostore.com offers pet owners, and principally adopters of pets, the ability to buy pet medications online at prices better than through traditional channels. A key advantage of the Petango Store is that as "cause giving" online becomes more entrenched in consumer purchasing habits, the petangostore.com offers adopters the ability to donate directly to the animal welfare organization of their choice via purchases made on the site. The Company's involvement in online pet medication is not only to drive additional revenue for the Company's existing platform, but it is also the Company's aim to enhance the profitability of its insurance operations to hold down the cost of claims related to pet medications made by the Company's insured customer base. By March 31 2011, the Company had over 3,300 skus on the site vs. 1,300 in Q1 2010.

Results

Revenue from non-insurance operations totalled $2.49-million in Q1, up 23% over Q1 2010. Adjusted for the impact of foreign exchange on the Company's non-insurance results, revenue would have increased by 29% over Q1 of last year.

The EBITDA loss from non-insurance operations declined to $253,000 in Q1 2011, a 54% improvement over Q1 2010 and the net loss on the Company's non-insurance operations after taxes fell 30% to $525,000 from Q1 last year.

24PetWatch/PetProtect microchip identification

During Q1 2011, the Company sold, in aggregate, 310,759 RFID microchips in the United States, Canada and the United Kingdom, a 3% increase in unit sales from the same period in 2010. Revenue from microchip sales increased 8% to $1.834-million in the quarter. Unit sales increased during the quarter to U.S. animal welfare organizations, Canadian animal welfare organizations, Canadian veterinary clinics and U.K. veterinary clinics, but declined to U.S. veterinary clinics. Timing issues tend to distort monthly and quarterly sales of microchip units. As a result, the Company expects unit sales for the year to trend towards historical norms of low double-digit increases driven mainly through U.S. animal welfare organizations where adoptions completed via the Company's software application increased by 10% over the quarter As a percentage of total non-insurance revenue over the quarter, microchip revenue fell from 83% in Q1 2010 to 74% in Q1 2011, indicating the Company's growing diversity in revenue generation through its non-insurance platform.

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 core insurance products and sales through the petangostore.com, accounted for $445,000 in revenue during Q1, a 60% increase over Q1 2010. Inbound calls to the Company's non-insurance call centre totalled 61,968 during Q1, representing a 21% increase over the same quarter last year. The conversion rate on those calls into sales reached 30% for the quarter, up from 29% in Q1 2010.

Petango.com/Petango Store

Sales via thepetangostore.com totalled $167,000 in Q1 2011, a 249% increase from sales recorded in Q1 2010. Approximately 55% of sales recorded were for pet medications.

Capital expenditure, Marketing costs and Debt repayments

Capital expenditure in Q1 2011 totalled $694,000, a decline of 5% over what the Company spent for capital purposes in Q1 last year. As previously announced, the Company's significant investment in its own technologies used for day-to-day operations and for its investment in the technology used by its animal welfare organisation partners peaked in the middle of 2010 and is set to decline steadily over the next 24 months with the Company's release of PetPoint 4.0 in early May. Future development in software applications for its animal welfare organisation partners will be on a pay-as-you-go basis, either from these groups directly or from corporate sponsors wishing to have their brand more closely associated with animal welfare.

Marketing expenses in Q1 declined 51% from Q1 last year. The decline in marketing costs relates principally to the restructuring of the Company's shelter insurance channel and as a result of a decrease in the cost of promoting its Petango brand. As was the case with both the Company's move into creating insurance solutions for animal welfare organisations and the introduction of its microchip program and services, its animal welfare organisation partners have become more efficient in the promotion of all of the Company's products and services to their adopters. The Company's own marketing spend to establish new programs is initially quite high and then is reduced over time as animal welfare organisation partners become more proficient in promoting the Company's offerings. Consistent with this approach in 2009 and through the first half of 2010, the Company invested significantly in promoting the Company's own Petango brand but now has been able to reduce its own marketing costs as its animal welfare organisation partners have become more familiar with and see the value of their own organisations in promoting Petango-related offerings.

Debt repayments of $680,000 were made during Q1, 2011 reducing the term debt associated with the Company's 2008 acquisition of PetProtect Limited to $905,000 by March 31, 2011. The Company will make its final debt payment associated with this loan on August 1, 2011.

Outlook

North America

During the first quarter, the Company saw evidence of a greater willingness among pet owners to increase discretionary spending on their dogs and cats. However, towards the end of the quarter, the rise in gas prices, the further declines in home prices, and increased instability in the employment outlook, has made the company slightly more cautious with respect to its outlook in the U.S. Market. Canada, for the time being, appears to be relatively stable.

U.K.

The Company's outlook remains cautious, with veterinary inflation continuing to be out of line with consumer confidence and overall discretionary spending in the U.K. economy.

The Company is hosting an investor conference call on Friday, May 13th, 2011, at 10:00 AM (EST) which can be accessed at 1-800-952-6845 or on-line at www.pethealthinc.com. For those unable to participate, a replay of the call will be available shortly after the call concludes on the Company's website at www.pethealthinc.com or at 1-800-408-3053 passcode 6500307.

CONSOLIDATED FINANCIAL HIGHLIGHTS:	For three months ended		
(‘000)	**Mar 31, 2011**	**Mar 31, 2010**	**Change %**
Insurance Commissions and Fees	$5,472	$6,321	(13)%
Microchip Technology and Non-insurance Revenue	2,491	2,031	23 %
Total Revenue	7,963	8,352	(5)%
Cost of Goods Sold	1,235	1,030	20 %
Selling and marketing	2,581	3,507	(26)%
Administrative and general	3,402	3,293	3 %
Other income	-	-	-
Other expenses	5	(167)	(103 %)
Total Expenses	7,223	7,663	(6)%
Results from operating activities	740	689	7 %
Finance revenue	16	9	78 %
Finance costs	(10)	(53)	(81)%
Profit before income tax	746	645	16 %
Income tax expense	141	88	60 %
Net Income	605	557	9 %
EPS – Basic *	0.001	(0.002)	-
EPS – Diluted *	0.001	(0.001)	-
EBITDA**	1,208	1,106	9 %
Adjusted EBITDA**	1,228	1,020	20 %
Gross Premiums Earned by Carriers	14,304	15,841	(10%)

(1) Basic and diluted earnings per share are adjusted to reflect the dividend payments made during the first quarter of 2011 and 2010. At March 31, 2011 the Company had weighted average basic common shares of 32,513,568 (2010 – 32,480,651) and fully diluted common shares of 37,612,053 (2010 – 38,046,661).

(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-IFRS earnings measure and does not have any standardized meaning prescribed by IFRS. 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-IFRS earnings measure and does not have any standardized meaning prescribed by IFRS. 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 U.S. 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-based application 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**,** Petango.com and ThePetangoStore.com**.**

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

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