



Pethealth Inc. Announces Record Quarterly Net Income of \$902,000 and its full results for the First Quarter Ended March 31, 2009.

OAKVILLE, ON, May 13, 2009. (TSX: PTZ) Pethealth Inc. ("Pethealth" or "the Company") today announced its financial results for the three months ended March 31, 2009.

Financial Highlights

Quarter ended March 31, 2009

- Total revenue for the quarter ended March 31, 2009 was a record \$8.73 million, up 57% over Q1 2008.
- Net income for Q1 2009 was a record \$902,000 (\$0.01 per share after giving effect to the \$600,000 dividend paid during the first quarter to holders of the Company's convertible preferred shares), inclusive of a non-cash accounting charge of \$209,000 related to the translation of \$US denominated long-term debt as well as \$130,000 related to the amortization of intangible assets related to the Company's Pet Protect acquisition, compared to net income of \$725,000 (\$0.004 per share after giving effect to the \$600,000 dividend paid during the first quarter of 2008 to holders of the Company's convertible preferred shares) for the same period in the prior year.
- EBITDA for Q1 2009 was \$1.34 million, inclusive of a non-cash \$209,000 accounting charge related to the translation of \$US denominated long-term debt, compared to an EBITDA of \$913,000 for the same period in the prior year.
- Operating cash flow (EBITDA plus stock option expenses and non-cash foreign currency accounting translation gains and losses) was \$1.59 million for the quarter, a 63% increase.
- Q1 2009 loss ratio for the aggregate U.S. / U.K. core pet insurance book of business underwritten by QBE Insurance Group subsidiaries ("QBE") was 42.7%. The Company participates in a portion of its programs' U.S. / U.K. core policy underwriting results for those policies underwritten by QBE.
- Administration costs for the quarter were 10.1% as a percentage of earned premiums.

On May 6, 2009, the Company announced that it had launched Petango.com, it's new and technologically advanced adoptable search site for pet owners looking to adopt a dog or cat. Today, nearly 1,400 animal welfare organizations representing over 725,000 adoptions annually can have their adoptable animals made available through Petango.

Results of Operations

Pethealth Inc. reports its financial results in two reportable segments, its insurance operations and its non-insurance operations. The 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 non-insurance operations are made up of its 24PetWatch 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 the operation of Petango, it's on-line adoptable search site. The following table details the operational results from each segment:

For the Three Months Ended						
	March 31, 2009			March 31, 2008		
	Insurance	Non-Insurance	Total	Insurance	Non-Insurance	Total
Operating revenue	\$6,865,618	\$1,850,760	\$8,716,378	\$4,289,160	\$1,225,459	\$5,514,619
Interest and other income	15,059	-	15,059	29,903	-	29,903
Total revenue	\$6,880,677	\$1,850,760	\$8,731,437	\$4,319,063	\$1,225,459	\$5,544,522
Employment	1,515,478	706,273	2,221,751	1,067,649	483,055	1,550,704
Marketing	1,852,562	147,340	1,999,902	1,048,827	158,580	1,207,407
General & administration	1,379,003	284,840	1,663,843	740,321	189,919	930,240
Cost of sales	-	1,211,556	1,211,556	-	878,840	878,840
Interest Expense on L/T Debt	82,449	-	82,449	-	-	-
Foreign exchange	253,410	-	253,410	(499)	-	(499)
Other	248,075	148,879	396,954	139,465	113,854	253,319
Total expenses	\$5,330,977	\$2,498,888	\$7,829,865	\$2,995,763	\$1,824,248	\$4,820,011
Operating income (loss)	\$1,549,700	\$(648,128)	\$ 901,572	\$1,323,300	\$(598,789)	\$724,511
Add:						
Capital asset amortization	205,949	148,879	354,828	74,464	113,854	188,318
Interest Expense on L/T Debt	82,449	-	82,449	-	-	-
Operating EBITDA	\$1,838,098	\$(499,249)	\$1,338,849	\$1,397,764	\$(484,935)	\$912,829
Add:						
Stock option expense	42,126	-	42,126	65,001	-	65,001
Non operating f/x*	209,189	-	209,189	-	-	-
Operating cash flow	2,089,413	(499,249)	1,590,164	1,462,765	(484,935)	977,830

* Non operating f/x is the accounting loss (gain) associated with the translation of the Company's long term debt denominated in United States dollars.

"Our Q1 2009 numbers not only represent record revenues, earnings and cash flow for the company, but also represent the culmination of a lot of hard work and effort on the part of the Pethealth team," said Mark Warren, President and Chief Executive Officer of Pethealth. "With the launch of Petango, which went live May 5th, we have now developed the only fully integrated Internet-based media and advertising platform for those companies looking to access the growing segment of pet owners who choose to adopt their dogs and cats. We are confident that Petango will quickly become the most trafficked site for adoptable search given its technological superiority over all others and we can now begin to fully commercialise the potential of our non-insurance operations."

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. 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 37% in the United States, 35% in Canada and 23% in the United Kingdom (see discussion related to U.K. commissions and fees below). For the quarter ended March 31, 2009, the Company achieved commission and fee revenue \$6.87 million, an increase of 60% over the same period in the prior year and a 6% sequential increase over commission and fee revenues reported in Q4 2008.

The pet insurance operations contributed operating income of \$1.55 million to the consolidated net income during the quarter as compared to contributed operating income of \$1.32 million for the same period in the prior year. The current year operating results include a non-cash foreign exchange loss associated with the accounting translation of the long term debt of \$209,000 for the quarter and intangible asset amortization associated with the acquisition of Pet Protect of \$125,446 for the quarter.

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 quarter ended March 31, 2009, administration costs represented 10.1% of earned premiums earned by the Company's carriers inclusive of Pet Protect. 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.

The pet insurance operations achieved operating cash flow (EBITDA plus stock option expense and accounting translation of foreign currency gains and losses) of \$2.09 million for the three months ended March 31, 2009 compared to operating cash flow of \$1.46 million for the same period in the prior year, a 43% increase.

2008 United Kingdom Acquisition

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"). Under the terms of the agreement, Pethealth acquired 100% of Pet Protect for a purchase price of £3.5-million (\$7.1-million) in cash. The purchase price represented 27% of fiscal 2007 gross written premiums placed by Pet Protect or approximately £63.59 (\$127) per policy based on 55,041 paid policies in force at closing. The Pet Protect business currently constitutes approximately 3% of the pet insurance market in the United Kingdom. Policies in the U.K. are currently sold under the Pet Protect and the petPals brands.

QBE Insurance (Europe) Limited ("**QBE (Europe)**"), a subsidiary of QBE Insurance Group Limited, acts as the underwriter for the Pet Protect business on a renewals basis. As the Pet Protect policies have annual renewals, D&G will continue to act as an underwriter on a declining basis until September 2009 when it is expected that existing policies will have been renewed by QBE (Europe). Pet Protect earns commission and fee revenues representing approximately 17% of earned premiums for those policies underwritten by D&G and 33% for those policies underwritten by QBE (Europe), plus or minus 2.5% depending on underwriting profitability as described below. The following table outlines the expected blended commission rates which the Company expects to earn from renewal business, in the U.K., during the transition from D&G to QBE (Europe):

Period	Expected split of renewal premium by Carrier		Expected Blended Commission
	QBE (Europe)	D&G	
Q3 - 2008	0%	100%	17%
Q4 - 2008	12.5%	87.5%	19%
Q1 - 2009	37.5%	62.5%	23%
Q2 - 2009	62.5%	37.5%	27%
Q3 - 2009	87.5%	12.5%	31%
Q4 - 2009 and thereafter	100%	0%	33%

Beginning on August 16, 2008, all new policy sales in the United Kingdom were placed with QBE (Europe) earning base commissions and management fees of 33%.

The all cash transaction was financed through a 3-year loan agreement with a recognised financial institution at a fixed interest rate of 4.52%. The loan is repayable in equal monthly instalments over the term. The Company has posted the policy renewals on its U.S. pet insurance portfolio, which is underwritten by the Praetorian Financial Group ("Praetorian") a subsidiary of QBE Insurance Group Limited, as security. The terms of the loan restrict the Company from paying dividends other than to holders of the Company's Series I 6% convertible preferred shares.

Participation in U.S./U.K Underwriting Results:

The underwriting risk associated with the Company's pet insurance policies was borne entirely by its carriers prior to February 9, 2006. The Company announced on February 9, 2006, that it had added Praetorian as an underwriter for its pet insurance policies in the United States. Under the terms of the agreement, the Company participates in a portion of the underwriting results for the policies placed with Praetorian.

The Pet Protect business, began to transition, on a renewals basis, to QBE (Europe) over a period of twelve months, on October 1, 2008. Under the terms of the agreement with Praetorian, the U.S. and the U.K. underwriting profitability underwritten by Praetorian and QBE (Europe) is aggregated and the Company participates in the underwriting profitability on the same terms as have been in place on its U.S. portfolio, on a consolidated basis.

The U.S. and U.K. core underwriting results for policies underwritten by Praetorian and QBE (Europe) in aggregate was 42.7%. The Company participates positively in the aggregate underwriting results for policies underwritten by Praetorian and QBE (Europe) when the actual weighted average accident year loss ratio for those policies placed with these entities is less than 50% and negatively when the actual accident year loss ratio for policies placed with these entities exceeds 50%. For the three months ended March 31, 2009, revenues of \$270,821 were recorded related to underwriting profitability participation as compared to \$136,090 for the same period in the prior year.

Non-Insurance Operations:

Non-insurance revenues are earned from the sale of microchip technology, media and advertising and database and information services leveraging the Company's PetPoint, 24PetWatch and EVE 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 designed to operate as stand alone sources of revenue. Instead, these platforms are used to deliver database and information services from which the Company expects to generate significant business at margins greater than those that can be expected to be earned from the insurance operations.

As of March 31, 2009, 1,127 animal welfare organisations had licensed the PetPoint application. During Q1 2009, 366,018 animal intakes were completed, up 29% over those recorded in Q1 2008. Assuming the same year on year growth rate, Q1 2009 intakes suggest that 1,900,000 intakes will occur during 2009. Similarly 158,314 adoptions were recorded through the PetPoint application during Q1 2009, a 34% increase from Q1 2008. Assuming the same year on year growth rate, Q1 2009 adoption numbers suggest that 800,000 total adoptions will be completed during 2009, making PetPoint the most widely used animal management software in North America. As of the date of this release, 1,152 animal welfare organisations had licensed the application. The Company estimates that annualized adoptions completed by animal welfare organizations who have licensed PetPoint represent better than 35% of the total adoption market.

The distribution model for PetPoint is relatively new, but not unique. PetPoint is provided free to those animal welfare organisations that are using the Company's 24PetWatch microchip program and agree to also promote its ShelterCare insurance program to their adopters. As a hosted solution, PetPoint provides the Company with the ability to deliver messaging to the pet adopter at the point of adoption. Through this "virtual pipeline", the Company believes that it is able to not only inform adopters about the products and services that are available, but also to influence where they will purchase these products and services. Thus, the Company believes it will be able to develop several revenue streams from PetPoint through the offering of retail products and services to adopters.

The Company's strategic advantage is that it is both able to make this connection with the adopter at the point of adoption 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-line social networking and on-line adoptable search, which leverage the integration of the PetPoint and the 24PetWatch RFID microchip and pet recovery infrastructures.

In November, 2007 the Company launched PawsConnect.com, its on-line social network aimed at empowering the lives of pet owners by providing them with new and innovative ways to interact and learn more about the best way to care for their dogs and cats. The PawsConnect.com site remains in beta format as the Company continues to experiment with its design and with its functionality.

On May 5, 2009, the Company launched Petango, it's on-line adoptable search site for pet owners looking to adopt a new cat or dog. The launch of Petango marks the completion of what is now the pet industry's only fully integrated advertising platform for those national brands, national retailers and local retailers looking to advertise their brand to adopters. Unlike any other adoptable pet search engine, Petango displays results in real time, a competitive advantage made possible through its full integration with PetPoint. In addition to real time searches, the site also offers potential adopters many additional features including watch lists, e-mail alerts and on-line pet adoption

applications. As of today's date, nearly 1,400 animal welfare organisations representing over 725,000 adoptions annually can have their adoptable animals made available through Petango.

For the three months ended March 31, 2009, the Company generated revenues of \$1.85 million from its non-insurance businesses, an increase of 50% from the \$1.23 million generated for the same period last year. In addition to the sale of microchip technology, the Company expects to continue to generate revenues from various non-insurance opportunities which it expects will include, amongst other things, the sale of products and services to the 24PetWatch database which, as of today's date, exceeds 2.4 million pet registrations, agency and sponsorship fees from manufacturers and retailers accessing PetPoint for distribution and from other third parties looking to improve their advertising and distribution capabilities to pet adopters including the recently launched Petango.

For the three months ended March 31, 2009, the Company's non-insurance business reported an operating loss of (\$648,128) as compared to an operating loss of (\$598,789) for the same period in the prior year as the Company continues to invest in the significant build out of its non-insurance platforms.

Foreign Exchange:

The Company operates in the Canadian, the United States and the United Kingdom markets and is exposed to unpredictable foreign exchange markets.

The United States subsidiaries generate 100% of their revenues in U.S. dollars while expending administrative costs in both U.S. and Canadian dollars. Similarly, Pet Protect earns 100% of its revenues in Pounds Sterling while expending its administrative expenses in both Pounds Sterling and Canadian dollars. The Company expects that as the Pet Protect business becomes more developed within the Pethealth Group the relative administrative expenses incurred in Canadian dollars as a percentage of the total will increase. At present, approximately 61% of the United States administrative costs and 30% of the United Kingdom administrative costs are incurred in Canadian dollars. As such, a reduction in the value of the Canadian dollar relative to the U.S. dollar or the Pound Sterling results in an increase in reported operating revenue and operating earnings as well as a realized increase in cash flow. The opposite is true when the Canadian dollar increases in value relative to its US and UK counterparts.

For the quarter ended March 31, 2009 the average Canadian dollar exchange rate relative to its U.S. counterpart declined by 19% as compared to the average Canadian dollar exchange rate in place during Q1 2008 increasing the quarter's year on year revenues by approximately \$1,128,000 and net income by approximately \$444,000.

The Company's reported financial results are also impacted by the non-cash accounting translation of its U.S. dollar denominated long term debt. On July 25, 2008, the Company borrowed directly US\$7,098,480 (\$7,256,066) to finance the acquisition of Pet Protect Limited. At March 31, 2009, this balance had been reduced to US\$5,633,088. As such, non-cash foreign exchange accounting translation gains and losses are recorded on the statement of income and other comprehensive income when the relative value of the exchange rate between the Canadian and U.S. dollar fluctuates. The Company repays its U.S. denominated debt with cash generated from its U.S. business and as such does not experience a cash flow impact from holding U.S. dollar denominated debt. For the quarter ended March 31, 2009, an accounting translation loss of \$209,189 was recorded through the statement of income.

The Company does not employ a foreign currency derivative hedging program.

Consolidated Results

The Company had record consolidated net income of \$901,572 for the three months ended March 31, 2009 as compared to net income of \$724,511 for the same period in the prior year. Earnings per share were \$0.01 vs. \$0.004 in the prior year after giving effect to the \$600,000 dividend payment made in the first quarter of each year. EBITDA was \$1,338,849 for the quarter as compared to \$912,829 in the prior year. The Company's operating cash flow (EBITDA plus stock option expenses and non-cash foreign currency accounting translation gains and losses) for the quarter was \$1,590,164, an increase of 63% from that reported in the same period in the prior year. The Company generated operating cash flows on a per share basis for the quarter of \$0.056 vs. \$0.034 in the prior year.

At March 31, 2009, the Company had total assets of \$17,278,322 including unrestricted cash resources of \$2,206,505 compared to assets of \$8,991,428 including unrestricted cash balances of \$2,311,629 at March 31, 2008.

The Company is hosting an investor conference call on Thursday, May 14, 2009 at 10:00 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, passcode 4070682.

CONSOLIDATED FINANCIAL HIGHLIGHTS:	For Three Months Ended		
	Mar 31, 2009	Mar 31, 2008	Change %
Insurance Commissions and Fees	\$6,865,618	\$4,289,160	60%
Microchip Technology and Non-insurance Revenue	1,850,760	1,225,459	51%
Interest and Other Income	15,059	29,903	(50%)
Total Revenue	\$8,731,437	\$5,544,522	57%
Cost of Sales – Microchip Technology	1,211,556	878,840	38%
Marketing Expenses	1,999,902	1,207,407	66%
Employment Expenses	2,221,751	1,550,704	43%
Stock Option Expense	42,126	65,001	(35%)
Administration Expenses	1,663,843	930,240	79%
Foreign Exchange (Gain) Loss	253,410	(499)	-
Interest Expense on Long Term Debt	82,449	-	-
Amortization of Capital, Intangible and Other Assets	354,828	188,318	88%
Net Income For the Period	\$901,572	\$724,511	24%
EPS – Basic *	0.010	0.004	-
EPS – Diluted *	0.010	0.003	-
Add Back: Amortization	354,828	188,318	88%
: Interest Expense on Long Term Debt	82,449	-	-
EBITDA**	\$1,338,849	\$912,829	47%
Stock Option Expense	42,126	65,001	(35%)
Foreign exchange translation loss on long term debt	209,189	-	-
Operating Cash Flow	1,590,164	977,830	63%
Gross Premiums Earned by Carriers	\$18,570,699	\$9,802,081	90%

* Basic and diluted earnings per share are adjusted to reflect the dividend payments made during the first quarter of 2009 and 2008. At March 31, 2009 the Company had weighted average basic common shares of 28,385,535 (2008 – 28,385,087) and fully diluted common shares of 28,505,535 (2008 – 28,385,087).

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

About Pethealth

Founded in 1998, Pethealth is the second largest provider of pet insurance to pet owners in North America, and 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*, *ShelterCare*, *QuickCare*, *24PetWatch*, *PetPoint*, *PawsConnect* and *Petango*. The Company is also a provider of pet health insurance in the United Kingdom through its *Pet Protect* and *petPals* brands.

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 to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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