



***Pethealth Inc. Announces quarterly revenue of \$8,318,000 and net income of \$764,000 and its full results for the Quarter and Nine months Ended September 30, 2011.***

OAKVILLE, ON, November 9, 2011. (TSX: PTZ) Pethealth Inc. ("Pethealth" or "the Company") today announced its financial results for the quarter and nine months ended September 30, 2011.

## Financial Highlights

### ***Quarter ended September 30, 2011***

- Total revenue for the quarter ended September 30, 2011 was \$8.3 million, up 2% from Q3 2010.
- Net income, before taxes, was \$785,000, up 46% from the prior year.
- Net income, after taxes, for the quarter was \$764,000 (\$0.02 per share) compared to prior year's after tax net income of \$410,000 (\$0.01 per share), up 86%
- EBITDA (see non IFRS accounting measures) for the quarter was \$1.2 million compared to EBITDA of \$984,000 for the same period in the prior year, up 26%.
- Adjusted EBITDA (see non IFRS accounting measures) was \$1.27 million for the quarter vs. \$929,000 for the same period in the prior year, up 37%.

Foreign exchange had an impact on year over year quarterly results particularly the 6% appreciation of the Canadian dollar against the U.S. dollar.

### ***Nine months ended September 30, 2011***

- Total revenue for the nine months September 30, 2011 was \$24.4 million, up 1% from 2010.
- Net income, before taxes, was \$2.2 million, up 61% from the prior year.
- Net income, after taxes, for the nine months was \$1.92 million (\$0.04 per share after giving effect to the \$585,000 dividend payment made in the first quarter of 2011) compared to prior year's after tax net income of \$1.68 million (\$0.03) per share after giving effect to the \$585,000 dividend payment made in the first quarter of 2010 and which included a \$500,000 tax recovery in the second quarter of 2010, up 15%.
- EBITDA (see non IFRS accounting measures) for the nine months was \$3.6 million compared to EBITDA of \$2.75 million for the same period in the prior year, up 31%.
- Adjusted EBITDA (see non IFRS accounting measures) was \$3.65 million for the nine months vs. \$2.73 million for the same period in the prior year, up 33%.

Foreign exchange had an impact on year over year nine month results particularly the 6% appreciation of the Canadian dollar against the U.S. dollar.

(\$'000)	For the three months ended			For the nine months ended		
	Sept 30 2011	Sept 30 2010	Change	Sept 30 2011	Sept 30 2010	Change
Revenue						
Insurance segment	\$5,466	\$5,784	(5%)	\$16,399	\$17,798	(8%)
Non-insurance segment	2,852	2,397	19%	8,047	6,593	22%
	8,318	8,181	2%	24,446	24,391	1%
Net income (loss) before taxes						
Insurance segment	1,152	1,396	(17%)	3,581	3,915	(9%)
Non-insurance segment	(367)	(858)	57%	(1,345)	(2,524)	47%
	785	538	46%	2,236	1,391	61%
Net income (loss) after taxes						
Insurance segment	1,131	1,268	(11%)	3,266	4,199	(22%)
Non-insurance segment	(367)	(858)	57%	(1,345)	(2,524)	47%
	764	410	86%	1,921	1,675	15%
EBITDA <sup>(1)</sup>						
Insurance segment	1,330	1,637	(19%)	4,129	4,654	(11%)
Non-insurance segment	(91)	(653)	86%	(529)	(1,905)	72%
	1,239	984	26%	3,600	2,747	31%
Adjusted EBITDA <sup>(2)</sup>						
Insurance segment	1,360	1,582	(14%)	4,176	4,640	(10%)
Non-insurance segment	(91)	(653)	86%	(529)	(1,905)	72%
	1,269	929	37%	3,647	2,735	33%

(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.

Foreign exchange had an impact on year over year results particularly the 6% appreciation of the Canadian dollar against the U.S. dollar as follows:

(\$'000)	For the three months ended			For the nine months ended		
	Q3 2011	Q3 2010	Change %	Q3 2011	Q3 2010	Change %
Revenue as reported	\$ 8,318	\$ 8,181	2%	\$24,446	\$ 24,391	1%
Year over year foreign exchange impact on revenue	359	-		985	-	
Revenue adjusted for changes in foreign exchange rates for comparative purposes	\$ 8,677	\$ 8,181	6%	\$ 25,431	\$ 24,391	4%

(\$'000)	For the three months ended			For the nine months ended		
	Q3 2011	Q3 2010	Change %	Q3 2011	Q3 2010	Change %
Pre-tax net income as reported	\$ 785	\$ 538	46%	\$ 2,236	\$ 1,391	61%
Year over year foreign exchange impact	255	-		592	-	
Pre-tax net income adjusted for the impact of changes in foreign exchange rates for comparative purposes	\$ 1,040	\$ 538	93%	\$ 2,828	\$ 1,391	103%

At September 30, 2011, the Company had total assets of \$25.0 million including unrestricted cash balances of \$5.46 million compared to assets of \$24.9 million including unrestricted cash balances of \$5.1 million at December 31, 2010.

"I am pleased to report our Q3 numbers, which showed both sequential and annual revenue growth as well as a significant improvement in net income," said Mark Warren, President and Chief Executive Officer of Pethealth Inc. "Our insurance operations have stabilised and our non-insurance business not only continued to show good year on year revenue growth, but also continued the steady trend towards profitability. Our Company's performance looks good against the backdrop of economic stress in the three countries in which we operate with consumer confidence, retail spending, and particularly discretionary spending, all continuing to be weak."

#### Insurance Operations:

The insurance segments results were primarily influenced by the following:

##### Quarter

(1) The appreciation of the Canadian dollar against the U.S. dollar.

For the three months ended September 30, 2011, the Canadian dollar appreciated by 6% against its U.S. counterpart while remaining relatively flat against the Pound Sterling. For the quarter, the Canadian dollar's appreciation reduced insurance segment revenues by \$204,000.

(2) The decline in net policies in the United Kingdom

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 UK policy book accounted for approximately a \$159,000 comparative decline in commission and fee revenue for the quarter.

(3) Participation in underwriting results

A \$79,000 provision was recorded in the quarter related to the Company's participation in its programs' underwriting results compared to a provision of \$133,000 being recorded in the same period in the previous year.

##### Nine Months to September 30, 2011

(1) The appreciation of the Canadian dollar against the U.S. dollar.

For the nine months ended September 30, 2011, the Canadian dollar appreciated by 6% against its U.S. counterpart while remaining relatively flat against the Pound Sterling. For the nine month period, the Canadian dollar's appreciation reduced insurance segment revenues by \$556,000.

(2) The restructuring of the Company's insurance program via animal welfare organisations in the U.S. and Canada.

On May 1, 2010, the Company restructured its insurance program delivered through North American animal welfare organisations which reduced both the non-cash component of its insurance revenue and the program's marketing expenses. The restructuring was fully completed at April 30, 2011. The change in the *ShelterCare* program reduced, on a foreign exchange adjusted basis, non-cash revenues by \$617,000 for the nine month period and increased net income and cash flows by \$516,000 by virtue of lower associated marketing costs. Evidence of the long term positive impact of the change can be seen in the increase in the conversion rate of adopters enrolling in core policies and an overall positive impact on net policy growth, particularly in the United States.

(3) The decline in net policies in the United Kingdom

The decline in the UK policy book, excluding the impact of foreign exchange, accounted for approximately a \$429,000 comparative decline in commission and fee revenue for the nine months ended September 30, 2011.

(4) Participation in underwriting results

A \$79,000 provision was recorded in the nine month period related to the Company's participation in its programs' underwriting results compared to a provision of \$133,000 being recorded in the same period in the previous year.

Administration costs consist of claims adjudication, medical underwriting, billing, and customer service but exclude corporate expenses. For the nine months ended September 30, 2011, administration costs were 12.7% as compared to 12% for the same period in the prior year. When adjusted for the impact of foreign exchange, administration costs were broadly in-line with that reported last year. All marketing costs are expensed when incurred.

## Non-Insurance Operations:

Revenue from non-insurance operations totalled \$2.85 million for the three months ended September 30, 2011, up 19% over the same period in the prior year. Adjusted for the impact of foreign exchange on the Company's non-insurance results, revenue would have increased by 25% over the same period in the prior year.

Revenue from non-insurance operations totalled \$8.0 million for the nine months ended September 30, 2011, up 22% over the same period in the prior year. Adjusted for the impact of foreign exchange on the Company's non-insurance results, revenue would have increased by 29% over the same period in the prior year.

The EBITDA loss from non-insurance operations declined to \$91,000 for the three months ended September 30, 2011, from EBITDA losses of \$653,000 in the prior year, an 86% improvement. The net operating loss on the Company's non-insurance operations after taxes fell 57% to \$367,000 over the same period in the prior year.

The EBITDA loss from non-insurance operations declined to \$529,000 for the nine months ended September 30, 2011, from EBITDA losses of \$1,905,000 in the prior year, a 72% improvement. The net operating loss on the Company's non-insurance operations after taxes fell 47% to \$1,345,000 over the same period in the prior year.

## PetPoint

*PetPoint* had been licensed by 1,725 animal welfare organisations by September 30, 2011, an increase of 15% from those licensed at September 30, 2010. For the quarter and nine months ended September 30, 2011, 639,681 and 1,714,518 intakes (animals entering the welfare organisations) and 237,467 and 642,879 adoptions, respectively, were completed through *PetPoint*, an increase in intakes of 10% for the three and nine months and adoptions of 13% for the three and nine months from those completed last year.

## 24PetWatch/PetProtect microchip identification

For the three months ended September 30, 2011, the Company sold, in aggregate, 359,642 RFID microchips in the United States, Canada and the United Kingdom, a 7% increase in unit sales from the same period in 2010. Revenue from microchip sales for the three months ended September 30, 2011 increased 7% to \$2.09 million from the same period in the prior year. As a percentage of total non-insurance revenue over the quarter, microchip revenue fell to 73% in Q3 2011 from 81% in Q3 2010, indicating the Company's growing diversity in revenue generation through its non-insurance platform.

For the nine months ended September 30, 2011, the Company sold, in aggregate, 995,052 RFID microchips in the United States, Canada and the United Kingdom, a 5% increase in unit sales from the same periods in 2010. Revenue from microchip sales for the nine months ended September 30, 2011 increased 8% to \$5.75 million from the same period in the prior year.

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 *thepetangostore.com*, accounted for \$481,000 in revenue during Q3, a 77% increase over Q3 2010. Inbound calls to the Company's non-insurance call centre totalled 59,114 during Q3, representing a 6% increase over the same quarter last year. The conversion rate on those calls into sales reached 31% for the quarter, up 7% from Q3 2010.

The sale of ancillary products and services to the *24PetWatch* database of pet owners accounted for \$1,446,000 in revenue for the nine months ended September 30, 2011, a 78% increase from the same period in the prior year. Inbound calls to the Company's non-insurance call centre totalled 177,186 during the nine months ended September 30, 2011, representing a 13% increase over the same period last year. The conversion rate on those calls into sales reached 32% for the same period in the prior year, up 6% from the same period in the prior year.

## Petango.com/Petango Store

In Q3 2011, over 2.4-million unique visitors viewed over 24 million pages on the *petango.com* site.

Sales via *thepetangostore.com* totalled \$209,000 and \$620,000 for the three and nine months ended September 30, 2011, a 100% and 170% increase from sales recorded in the same periods in the prior year. Approximately 72% of sales recorded were for pet medications.

## Consolidated Capital expenditures, Marketing costs and Debt repayments

Capital expenditure for the three and nine months ended September 30, 2011, totalled \$689,000 and \$2.04 million, a decline of 17% and 16% over what the Company spent for capital purposes in the same period in the prior year. As previously announced, the Company's significant investment in its own technologies used for its own day-to-day operations and for its investment in the technology used by its animal welfare organisation partners peaked in the current cycle and is now in a downward trend over the next 24 months as the Company began deploying the final free version of *PetPoint*, *PetPoint 4.0*, during the second quarter. Future development in software applications for its animal welfare organisations 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 for the three and nine months ended September 30, 2011, declined 22% and 39% from the same period in the prior 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 historically cyclical where it 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 \$359,000 were made during Q3, 2011 retiring the term debt associated with the Company's 2008 acquisition of Pet Protect Limited.

## **OUTLOOK**

### U.S.

The decline in consumer confidence noted in previous quarters persists. Based on macro conditions and the reported financial results of bellwether companies operating in the companion animal markets, Pethealth remains cautious in its outlook for the remainder of the year and early 2012. Trends in the purchase of veterinary services and other pet-related discretionary products and services indicate fragility in pet-related discretionary spending in general and continued bifurcation in the pet owning consumer.

### Canada

Conditions in Canada, as compared to the United States and the U.K., remain relatively stable although pet owners would appear to be continuing to extend the periods between visits to veterinary clinics except for needed treatments and surgeries.

### U.K.

Consumer spending in the U.K. remains challenged and earnings reports of companies operating in the companion animal marketplace indicate continued reluctance on the part of pet owners to make discretionary purchases and continued trading down to lower end products and services for their pets.

The Company is hosting an investor conference call on Thursday, November 10th, 2011, at 10:00 AM (EST) which can be accessed at 1-877-240-9772 or on-line at [www.pethealthinc.com](http://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](http://www.pethealthinc.com).

CONSOLIDATED FINANCIAL HIGHLIGHTS: (‘000)	For three months ended		
	Sep 30, 2011	Sep 30, 2010	Change %
Insurance Commissions and Fees	\$5,466	\$5,784	(5) %
Microchip Technology and Non-insurance Revenue	2,852	2,397	19 %
Total Revenue	8,318	8,181	2 %
Cost of Goods Sold	1,461	1,337	9 %
Selling and marketing	2,724	3,020	(10) %
Administrative and general	3,252	3,279	(1) %
Other income	-	-	-
Other expenses	106	(16)	763 %
Total Expenses	7,543	7,620	(1) %
Results from operating activities	775	561	38 %
Finance revenue	15	14	7 %
Finance costs	(5)	(37)	86 %
Profit before income tax	785	538	46 %
Income tax expense	21	128	(84) %
Net Income	764	410	86 %
EPS – Basic <sup>(1)</sup>	0.02	0.01	100 %
EPS – Diluted <sup>(1)</sup>	0.02	0.01	100 %
EBITDA <sup>(2)</sup>	1,239	984	26 %
Adjusted EBITDA <sup>(3)</sup>	1,269	929	37 %
Gross Premiums Earned by Carriers	14,289	15,367	(7) %

<sup>(1)</sup> Basic and diluted earnings per share are adjusted to reflect the dividend payments made during the first quarter of 2011 and 2010. For the quarter ended September 30, 2011 the Company had weighted average basic common shares of 32,513,568 (2010 – 32,505,235) and fully diluted common shares of 37,515,527 (2010 – 37,484,539).

<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-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.

<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-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.

CONSOLIDATED FINANCIAL HIGHLIGHTS: (‘000)	For nine months ended		
	Sep 30, 2011	Sep 30, 2010	Change %
Insurance Commissions and Fees	\$16,399	\$17,798	(8) %
Microchip Technology and Non-insurance Revenue	8,047	6,593	22 %
Total Revenue	24,446	24,391	0.2 %
Cost of Goods Sold	4,088	3,481	17 %
Selling and marketing	7,928	9,680	(18) %
Administrative and general	10,077	9,710	4 %
Other income	-	-	-
Other expenses	147	36	308 %
Total Expenses	22,240	22,907	(3) %
Results from operating activities	2,206	1,484	49 %
Finance revenue	55	41	34 %
Finance costs	(25)	(134)	81 %
Profit before income tax	2,236	1,391	61 %
Income tax expense	315	(284)	211 %
Net Income	1,921	1,675	15 %
EPS – Basic <sup>(1)</sup>	0.04	0.03	33 %
EPS – Diluted <sup>(1)</sup>	0.04	0.03	33 %
EBITDA <sup>(2)</sup>	3,600	2,747	31 %
Adjusted EBITDA <sup>(3)</sup>	3,647	2,735	33 %
Gross Premiums Earned by Carriers	42,745	45,819	(7) %

<sup>(1)</sup> Basic and diluted earnings per share are adjusted to reflect the dividend payments made during the first quarter of 2011 and 2010. At September 30, 2011 the Company had weighted average basic common shares of 32,513,568 (2010 – 32,493,401) and fully diluted common shares of 37,566,882 (2010 – 37,883,262).

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## 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](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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