

**British Columbia Securities Commission
Quarterly and Year End Report
BC Form 51-901F**

ISSUER DETAILS

NAME OF ISSUER	FOR QUARTER ENDED	DATE OF REPORT
		Y M D
PhotoChannel Networks Inc.	December 31, 2002	2003 02 24

ISSUER ADDRESS

506 – 425 Carrall Street

CITY	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.
Vancouver	B. C.	V6B 6E3	604-893-8966	604-893-8955

CONTACT NAME	CONTACT POSITION	CONTACT TELEPHONE NO.
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CERTIFICATE

The Three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

		Y	M	D
<i>“Peter Scarth”</i>	Peter Scarth	2003	02	24
Director’s Signature	Print Full Name	Date Signed		

<i>“Cory Kent”</i>	Cory Kent	2003	02	24
Director’s Signature	Print Full Name	Date Signed		

PhotoChannel Networks Inc.

Consolidated Balance Sheet

Unaudited – Prepared by Management

(expressed in Canadian dollars)

	<u>December 31, 2002</u>	<u>September 30, 2002</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 223,978	\$ 85,586
Short-term deposits	15,000	15,000
Accounts receivable	132,889	117,685
Prepaid expenses	30,235	34,967
	<u>402,102</u>	<u>253,238</u>
Capital assets	<u>223,527</u>	<u>455,999</u>
	<u>\$ 625,629</u>	<u>\$ 709,237</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 2,036,585	\$ 2,324,905
Accrued liabilities	257,283	256,556
Due to related parties	74,341	273,612
Demand loan	324,240	-
	<u>\$ 2,692,449</u>	<u>\$ 2,855,073</u>
Shareholders' Deficiency		
Capital stock	\$ 27,216,559	\$ 26,390,849
Contributed surplus	6,189,605	6,189,605
Loans receivable	(227,470)	(227,470)
Warrants	3,214,845	3,214,845
Limited partnership equity	1,365,000	1,250,000
Deficit	(39,825,359)	(38,963,665)
	<u>(2,066,820)</u>	<u>(2,145,836)</u>
	<u>\$ 625,629</u>	<u>\$ 709,237</u>

The accompanying notes are an integral part of these financial statements.

PhotoChannel Networks Inc.

Consolidated Statements of Income (Loss) and Deficit

Unaudited – Prepared by Management

(expressed in Canadian dollars)

	Three Months Ended	
	December 31, 2002	December 31, 2001
Revenue	\$ 68,469	\$ 53,423
Cost of sales	13,267	81,547
Gross profit (loss)	55,202	(28,124)
Expenses		
General and administration	328,555	908,968
Sales and marketing	108,743	73,900
Research and development	150,860	164,426
Amortization	211,115	112,981
	799,273	1,260,275
Net loss from operations	744,071	1,288,399
Other Income (loss)		
Expense recovery	-	2,746,944
Loss on disposal of property, plant and equipment	(117,417)	
Translation loss	(421)	(180,744)
Interest and miscellaneous income	215	493
	(117,623)	2,566,693
Net (loss) gain for the period	(861,694)	1,278,294
Deficit - beginning of period	(38,963,665)	(37,112,004)
Deficit - end of period	\$ (39,825,359)	\$ (35,833,710)
(Loss) Gain per share attributable to common shareholders	\$ (0.01)	\$ 0.03
Weighted average number of common shares outstanding	84,775,885	41,776,587

The accompanying notes are an integral part of these financial statements.

PhotoChannel Networks Inc.

Consolidated Statements of Cash Flows

Unaudited – Prepared by Management

(expressed in Canadian dollars)

	Three Months Ended	
	December 31, 2002	December 31, 2001
Cash flows from operating activities		
Net (loss) gain for the period	\$ (861,694)	\$ 1,278,294
Items not affecting cash		
Amortization	211,115	112,981
Loss on sale of property, plant and equipment	117,417	-
	(533,162)	1,391,275
Net change in non-cash working capital items	(497,336)	(3,612,059)
	(1,030,498)	(2,220,784)
Cash flows from investing activities		
(Purchase) Disposal of property, plant and equipment	(196,060)	28,678
Proceeds from sale of property, plant and equipment	100,000	-
	(96,060)	28,678
Cash flows from financing activities		
Cash in trust	-	(2,307)
Demand loan	324,240	(467,986)
Issuance of common shares and exercise of warrant - net of financing costs	825,710	-
Issuance of special warrants	-	2,657,638
Issuance of limited partnership units	115,000	-
	1,264,950	2,187,345
Increase (decrease) in cash and cash equivalents	138,392	(4,760)
Cash and cash equivalents - beginning of period	85,586	5,791
Cash and cash equivalents - end of period	\$ 223,978	\$ 1,031

The accompanying notes are an integral part of these financial statements.

PhotoChannel Networks Inc.

Notes to Consolidated Financial Statements

December 31, 2002

Unaudited – Prepared by Management

(expressed in Canadian dollars)

Note 1:

While the information presented in the accompanying interim three month financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim period presented. It is suggested that these interim financial statements be read in conjunction with the Company's September 30, 2002 annual audited statements. These financial statements follow the same accounting policies and methods as the Company's September 30, 2002 annual financial statements.

Note 2:

Loss per share figures are calculated using the weighted average number of shares outstanding during the period. Diluted loss per share information is not presented where the effect would be anti-dilutive.