

PhotoChannel Reports Record Revenues for Fiscal Q1, 2008

VANCOUVER, BC – March 3, 2008, PhotoChannel Networks Inc. (TSX – V: PN; OTCBB: PNWIF), the leading innovator in online digital photography and media solutions for retailers, reports its financial results for the three month period ended December 31, 2007. The following discussion is qualified in its entirety by reference to the company's financial statements and accompanying management discussion and analysis, which are accessible on the SEC'S website at www.sec.gov/edgar.shtml and on SEDAR at www.sedar.com.

HIGHLIGHTS FOR THE QUARTER

- Record revenues of \$4.3 million up 183% period-over-period
- Transactional revenues of \$3.0 million, up 189% period-over-period
- Transaction fees represent 70% of total revenue vs. 68% during the same period last year
- Net loss for the period of \$1,082,600 compared to \$37,191 in same period of fiscal 2007.
- Non-GAAP EBITDA loss (defined as net loss from operations, excluding amortization and compensation expense associated with stock option grants) of \$191,071 compared to a profit of \$175,060 during the first quarter of fiscal 2007
- Cash and cash equivalents at December 31, 2007 of \$5,582,280

NEW BUSINESS PARTNERS to launch in March – April 2008

- Costco USA
- Sam's Club USA

SUBSEQUENT EVENTS

- Signed a contract Wal-Mart Argentina
- Signed new contract with Wal-Mart Canada and maintained pricing

"PhotoChannel has invested heavily in the belief that a company offering integrated online and kiosk solutions will be the dominant player in the industry", said Peter Fitzgerald, CEO of PhotoChannel. "The integration of Pixology is complete and the build out of the new platforms for Costco and Sam's Club is well underway. We believe that most of our large expenses are behind us. We remain confident that 2008 will be a turning point for PhotoChannel as we accelerate revenues from our new and existing retail partners and expect strong growth resulting in continued record revenue and transaction volumes. With the launch of our new customers we fully expect to be cash flow positive going forward."

"Increased expenses during the quarter are primarily attributable to the addition of our Pixology subsidiary and the build out of new development teams for new customers, including Costco USA and Sam's Club USA. In addition, the Company has added a new data centre in Toronto to handle our new customers, allow for future growth and efficiently service our UK customer base, along with permitting European growth."

"We continue to strongly believe the opportunity to present a completely integrated digital photo and gifting solution to our retail partners is well worth the investments and one-time charges incurred as a

result of the acquisition of Pixology. We are now providing consumers with two attractive choices for printing your digital images or creating unique gifts through your favorite retailer – either bringing your images into the store for uploading at a kiosk; or ordering your photos or gifts online from the convenience of your home or office.”

Q1 FINANCIAL RESULTS

Revenue

Description	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Change	% Change
Transaction fees	\$ 3,018,482	\$ 1,044,195	\$ 1,974,287	189 %
Installation fees	973,063	143,063	830,000	580 %
Membership fees	170,322	232,479	(62,157)	(27) %
Professional fees	136,727	86,518	50,209	58 %
Archive fees	-	15,007	(15,007)	(100) %
Total	\$ 4,298,594	\$ 1,521,262	\$ 2,777,332	183 %

The Company’s overall increase in revenues was primarily attributable to three factors:

- Pixology acquisition effective July 2, 2007;
- Organic growth in usage of the PhotoChannel Network from customers of our photo-finishing retailers; and
- Retailers push the convenience of one hour printing from online through continued marketing efforts during the holiday season.

Net loss for the period increased to \$1,082,600 compared to \$37,191 for the same period of fiscal 2007. Major contributors to this increased loss are as follows:

- Approximately \$77,000 of one-time costs incurred integrating Pixology into the PhotoChannel group
- An approximate increase in amortization over first quarter fiscal 2007 of \$680,000, \$600,000 of which relates to Pixology, of which \$550,000 arose as a result of acquiring intangible assets as part of the acquisition of Pixology with the remainder of the increase (approximately \$80,000) as a result of purchasing more hardware and software allowing PhotoChannel to develop and deploy new customers and infrastructure.

About PhotoChannel- Founded in 1995, PhotoChannel operates PNI Digital Media to provide services for major retailers, wireless carriers and content providers. The PNI Digital Media Platform connects consumer ordered digital content with retailers that have on-demand manufacturing capabilities for the production of merchandise. PNI Digital Media generates transactions for retailers and their thousands of locations worldwide including Wal-Mart, Sam’s Club, Costco, CVS/pharmacy, Tesco and Boots.

For more information please visit www.photochannel.com.

PhotoChannel Networks Inc.
Consolidated Balance Sheets
Unaudited – Prepared by Management

(expressed in Canadian dollars)

	<u>December 31, 2007</u>	<u>September 30, 2007</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 5,582,280	\$ 7,405,034
Accounts receivable	4,628,577	4,045,035
Prepaid expenses and other current assets	602,141	523,356
	<u>10,812,998</u>	<u>11,973,425</u>
Property and equipment	3,287,351	2,760,545
Deferred expenses	72,966	89,804
Intangible assets	5,321,221	6,067,614
Goodwill	4,736,683	4,867,231
	<u>\$ 24,231,219</u>	<u>\$ 25,758,619</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,470,703	\$ 7,510,751
Current portion of deferred revenue	237,632	344,833
	<u>7,708,335</u>	<u>7,855,584</u>
Deferred revenue	167,629	171,210
Asset retirement obligations	118,504	120,699
	<u>7,994,468</u>	<u>8,147,493</u>
Shareholders' Equity		
Share capital	\$ 65,333,337	\$ 65,293,214
Warrants	4,961,826	4,961,826
Contributed surplus	10,379,880	10,215,777
	<u>80,675,043</u>	<u>80,470,817</u>
Deficit	(63,132,722)	(62,050,122)
Accumulated other comprehensive income	(1,305,570)	(809,569)
	<u>(64,438,292)</u>	<u>(62,859,691)</u>
	16,236,751	17,611,126
	<u>\$ 24,231,219</u>	<u>\$ 25,758,619</u>

PhotoChannel Networks Inc.
Consolidated Statements of Loss and Comprehensive Loss
Unaudited – Prepared by Management

(expressed in Canadian dollars)

	Three Months Ended	
	December 31, 2007	December 31, 2006
Revenue	\$ 4,298,594	\$ 1,521,262
Expenses		
Network delivery	1,823,117	330,320
Research and development	1,494,036	594,530
General and administration	1,077,729	390,414
Sales and marketing	270,243	150,421
Amortization	789,657	109,967
	<u>5,454,782</u>	<u>1,575,652</u>
Net loss before the undernoted	(1,156,188)	(54,390)
Foreign exchange gain (loss)	1,461	(572)
Interest income	74,290	17,771
Accretion expense	(2,163)	-
	<u>73,588</u>	<u>17,199</u>
Net loss	(1,082,600)	(37,191)
Other comprehensive loss:		
Unrealized foreign exchange loss on translation of self sustaining foreign operations	(496,001)	-
Comprehensive loss	<u>\$ (1,578,601)</u>	<u>\$ (37,191)</u>
Basic and fully diluted net loss per share	\$ (0.03)	\$ (0.00)
Weighted average number of common shares outstanding	33,321,561	24,149,268

Non-GAAP Adjusted EBITDA Reconciliation

	Three Months Ended	
	December 31, 2007	December 31, 2006
Loss from operations	\$ (1,156,188)	\$ (54,390)
Add Back:		
Amortization	789,657	109,967
Stock-based compensation expense	175,460	119,483
Non-GAAP Adjusted EBITDA	\$ (191,071)	\$ 175,060

Adjusted EBITDA is a non-GAAP financial measure that the Company defines as earnings before interest, taxes, depreciation, amortization, compensation expense associated with stock options and foreign exchange gains or losses.

Caveat

The statements that are not historical facts contained in this release are forward-looking statements that involve risks and uncertainties. PhotoChannel's actual results could differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, changes in technology, employee retention, inability to deliver on contracts, failure of customers to continue marketing the online solution, competition, general economic conditions, foreign exchange and other risks detailed in the Company's annual report and other filings. Additional information related to the Company can be found on SEDAR at www.sedar.com and on the SEC'S website at www.sec.gov/edgar.shtml

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WARNING: The TSX Venture Exchange has neither approved nor disapproved the information contained in this release. PhotoChannel relies upon litigation protection for "forward-looking" statements.