

PhotoChannel Reports Record Revenues for Fiscal Q1, 2008

VANCOUVER, BC – June 2, 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 and six month periods ended March 31, 2008. 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

- Revenues of \$3.3 million up 147% period-over-period
- Transactional revenues of \$1.9 million, up 165% period-over-period
- Transaction fees represent 58% of total revenue vs. 54% during the same period last year
- Net loss for the period of \$2,622,228 compared to \$717,544 in same period of fiscal 2007.
- Non-GAAP EBITDA loss (defined as net loss, excluding amortization and compensation expense associated with stock option grants) of \$1,201,252 compared to \$418,190 during the second quarter of fiscal 2007
- Cash and cash equivalents at March 31, 2008 of \$1,521,879

NEW BUSINESS PARTNERS

- Costco USA (Launching June 2008)
- Sam's Club USA (Launched April 2008)
- Loblaw Companies Limited (Launched April 2008)

NEW BUSINESS PARTNERS to launch

- Kmart Australia
- Hallmark UK
- Kodak China

"We are very pleased with the successful launch of three very significant photofinishing retailers", said Peter Fitzgerald, CEO of PhotoChannel. "We believe that most of our large expenses are now 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. We are now providing consumers with

two attractive choices for printing their 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		Six Months Ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Transaction fees	\$ 1,904,819	\$ 717,589	\$ 4,923,301	\$ 1,761,784
Installation fees	985,073	280,056	1,958,136	423,119
Membership fees	155,365	235,163	325,687	467,642
Professional fees	119,844	70,115	256,571	156,633
Archive fees	94,398	15,000	94,398	30,007
Total	\$ 3,259,499	\$ 1,317,923	\$ 7,558,093	\$ 2,839,185

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.

Net loss for the period increased to \$2,622,228 compared to \$717,544 for the same period of fiscal 2007. Major contributors to this increased loss are as follows:

- Approximately \$155,000 of one-time costs related to the setup of a new hosting facility in Toronto;
- An approximate increase in amortization over second quarter fiscal 2007 of \$980,000, \$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 \$380,000) as a result of purchasing more hardware and software allowing PhotoChannel to develop and deploy new customers and infrastructure;
- Incremental staffing costs during the quarter as a result of new customers of approximately \$400,000 and incremental costs of approximately \$180,000 related to the new data centre, both of which were required for future revenue, however, there is no related revenue in this quarter as these sites launched after the end of the quarter; and
- Approximately \$62,000 related to stock options granted to management and staff in March 2008.

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 millions of transactions for major retailers around the world.

For more information please visit www.photochannel.com.

PhotoChannel Networks Inc.
Consolidated Balance Sheets
Unaudited – Prepared by Management
(expressed in Canadian dollars)

	<u>March 31, 2008</u>	<u>September 30, 2007</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,521,879	\$ 7,405,034
Accounts receivable (note 9)	3,204,486	4,045,035
Prepaid expenses and other current assets	475,536	523,356
	<u>5,201,901</u>	<u>11,973,425</u>
Property and equipment	6,614,559	2,760,545
Deferred expenses	56,127	89,804
Intangible assets	4,984,187	6,067,614
Goodwill	4,881,958	4,867,231
	<u>\$ 21,738,732</u>	<u>\$ 25,758,619</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,281,762	\$ 7,510,751
Current portion of deferred revenue	490,140	344,833
Current portion of capital lease obligations (note 14)	614,417	-
	<u>6,386,319</u>	<u>7,855,584</u>
Deferred revenue	149,965	171,210
Long-term portion of capital lease obligations (note 14)	634,047	-
Asset retirement obligations	125,642	120,699
	<u>7,295,973</u>	<u>8,147,493</u>
Shareholders' Equity		
Share capital	\$ 65,445,118	\$ 65,293,214
Warrants	4,961,826	4,961,826
Contributed surplus	10,570,559	10,215,777
	<u>80,977,503</u>	<u>80,470,817</u>
Deficit	(65,754,950)	(62,050,122)
Accumulated other comprehensive loss (note 10)	(779,794)	(809,569)
	<u>(66,534,744)</u>	<u>(62,859,691)</u>
	14,442,759	17,611,126
	<u>\$ 21,738,732</u>	<u>\$ 25,758,619</u>
Approved by the Board of Directors		
<u>“Cory Kent”</u> Director	<u>“Peter Fitzgerald</u> Director	

PhotoChannel Networks Inc.
Consolidated Statements of Loss and Comprehensive Loss
Unaudited – Prepared by Management
(expressed in Canadian dollars)

	Three Months Ended		Six Months Ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Revenue	\$ 3,259,499	\$ 1,317,923	\$ 7,558,093	\$ 2,839,185
Expenses				
Network delivery	1,644,677	441,588	3,467,794	771,908
Research and development	1,823,038	730,196	3,317,074	1,324,726
General and administration	878,758	547,160	1,958,650	937,574
Sales and marketing	351,737	218,355	621,980	368,776
Amortization	1,098,961	122,730	1,888,618	232,697
	<u>5,797,171</u>	<u>2,060,029</u>	<u>11,254,116</u>	<u>3,635,681</u>
Net loss before the undernoted	(2,537,672)	(742,106)	(3,696,023)	(796,496)
Foreign exchange loss	(147,136)	(1,407)	(145,674)	(1,979)
Interest income	36,839	25,969	111,128	43,740
Gain on disposal of property, plant & equipment	25,741	-	25,741	-
	<u>(84,556)</u>	<u>24,562</u>	<u>(8,805)</u>	<u>41,761</u>
Net loss	(2,622,228)	(717,544)	(3,704,828)	(754,735)
Other comprehensive loss:				
Unrealized foreign exchange gain on translation of self sustaining foreign operations (note 10)	525,776	-	29,775	-
Comprehensive loss	<u>\$ (2,096,452)</u>	<u>\$ (717,544)</u>	<u>\$ (3,675,053)</u>	<u>\$ (754,735)</u>
Basic and fully diluted net loss per share	\$ (0.08)	\$ (0.03)	\$ (0.11)	\$ (0.03)
Weighted average number of common shares outstanding	33,347,087	25,414,566	33,340,411	25,414,566

Non-GAAP Adjusted EBITDA Reconciliation

	Three Months Ended	
	March 31, 2008	March 31, 2007
Loss from operations	\$ (2,537,672)	\$ (742,106)
Add Back:		
Amortization	1,098,961	122,730
Stock-based compensation expense	237,459	201,186
Non-GAAP Adjusted EBITDA	\$ (1,201,252)	\$ (418,190)

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.