

***PhotoChannel Reports Record Revenues for Fiscal 2007 (Incorporates Pixology)
Announces New Partner Sam's Club USA***

VANCOUVER, BC – February 5, 2008, PhotoChannel Networks Inc. (TSX – V: PN; OTCBB: PNWIF), the leading innovator in digital photography and media solutions for retailers, reports its financial results for fiscal 2007 ending September 30, 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.

FISCAL 2007 AND RECENT HIGHLIGHTS

- Record revenues of \$7.5 million up 84% year-over-year
- Transactional revenues of \$4.5 million, up 186% year-over year
- Raised US\$15 million through a private placement (PIPE)
- Completed acquisition of Pixology PLC
- Announced strategic relationships with Kodak's Qualex division and FUJIFILM Canada which led to a contract with Kmart's online photo service;
- At December 31, 2007 the Company had more than \$7 million cash on its balance sheet

FISCAL 2008 NEW BUSINESS PARTNERS (subsequent to year end Sept 2007):

- Costco USA (November 2007)
- Sam's Club USA (February 2008)

"Fiscal 2007 has been a record and transformative year for PhotoChannel" stated Peter Fitzgerald, Chairman and CEO of PhotoChannel. "For the first time in our history we raised significant funds from US institutional investors, allowing us to successfully complete an all cash acquisition of Pixology. This financing also strengthened our balance sheet such that we were able to successfully compete for new business opportunities with major US retailers, including our agreement to partner with Costco USA. We expect to begin providing services to all Costco USA locations in April 2008. Additionally, we've just signed a contract with Sam's Club to launch a new online photo and gifting service for all of their US locations. More information on this new partnership will follow shortly".

"We 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. This gives our retail partners the ability to create a similar user experience whether in-store or online, which drives consumer confidence."

BUSINESS UPDATE AND OUTLOOK

The acquisition of Pixology’s kiosk software provides PhotoChannel with the ability to offer a total digital solution for retailers, making the retailer the centerpiece of in-store or online photo or gift product purchases. Further, Pixology provides the Company with an expanded base of quality clients such as Tesco, ASDA (Wal-Mart UK) and Boots who will soon benefit from the PhotoChannel online offerings.

The PNI Connected Kiosk, the first emergence of technology acquired in the purchase of Pixology, integrated within the PNI Digital Media Platform, will be a compelling offering for both existing and new potential customers and was showcased last week at the PhotoChannel booth at the annual Photo Marketing Association trade show, in Las Vegas. The Company currently has several customers ready to test this exclusive solution in the near future.

PhotoChannel continues to invest and build on these offerings, working to ensure customers are always provided with high quality solutions offering full scalability without having to compromise on convenience or pricing.

During fiscal 2007, the Company saw its large retail partners continue an aggressive marketing campaign of their online services. PhotoChannel believes this will continue during 2008 as retailers seek to maintain and increase their market share. The marketplace, where PhotoChannel provides one of the dominant online solutions for photofinishers, continues to accelerate rapidly. Unique features of the new PNI Digital Media Platform, including seamless up-sell options to higher margin items, provides retailers with opportunities to expand their service capabilities to their consumers.

“We believe that 2008 will be a turning point for PhotoChannel as we accelerate revenues from our new and existing retail partners” said Peter Fitzgerald. “We expect to deliver strong growth resulting in continued record revenue and transaction volumes over our platform. We are intently focused on execution, and are poised to deliver an unprecedented level of service to our retail partners, while in turn offering the best photo options available to consumers.”

FISCAL 2007 FINANCIAL RESULTS

	2007	2006	Change	% Change
Revenues:				
Transaction commission fees	\$ 4,823,523	\$ 1,687,204	\$ 3,136,319	186%
Installation fees	1,362,452	1,239,930	122,522	10%
Membership fees	866,082	751,408	114,674	15%
Archive fees	60,010	111,561	(51,551)	-46%
Professional fees	399,261	285,048	114,213	40%
	\$ 7,511,328	\$ 4,075,151	\$ 3,436,177	84%

Consistent with the Company’s long-term goal of moving to a transactional fee based model, revenue from transactions represented 64% of total revenue during 2007 compared with 41% in 2006. Organic growth of revenue is expected to continue as the Internet is increasingly adopted by consumers as a means to print images and gifting products.

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 2007 increased to \$6,072,236 compared to \$2,632,301 in 2006. Major contributors to this increased loss are as follows:

- \$916,000 of one-time costs incurred integrating Pixology into the PhotoChannel group
- An increase in amortization over fiscal 2006 of \$820,854, \$574,000 of which arose as a result of acquiring intangible assets as part of the acquisition of Pixology with the remainder of the increase as a result of purchasing more hardware and software allowing PhotoChannel to develop and deploy a new infrastructure.
- \$440,000 of development costs incurred in the UK operations related to next generation kiosk software
- Foreign exchange losses of \$1,727,932 incurred as a result of receiving proceeds from the private placement on March 31 in US dollars; a time when the US dollar was weakening against the Canadian dollar
- Increased non-cash expenses associated with the Company's stock based compensation plan of \$584,666

The Company is still in the process of fully integrating Pixology with the PhotoChannel group and may incur further one-time costs over the next few months during this process.

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.pnidigitalmedia.com.

PhotoChannel Networks Inc.
Consolidated Statements of Loss and Comprehensive Loss
(expressed in Canadian dollars)

	2007	2006
Revenue (note 12)	\$ 7,511,328	\$ 4,075,151
Expenses:		
Research and development	4,178,111	2,299,859
General and administration	3,216,000	1,468,713
Network delivery	2,523,174	1,800,882
Sales and marketing	1,134,350	738,013
Amortization	1,223,454	402,600
	12,275,089	6,710,067
Loss before the undemoted	(4,763,761)	(2,634,916)
Foreign exchange (loss) gain	(1,718,164)	(26,796)
Interest income	393,416	23,362
Interest expense	(2,229)	(4,244)
Miscellaneous	18,502	10,293
	(1,308,475)	2,615
Net loss	(6,072,236)	(2,632,301)
Other comprehensive loss:		
Unrealized foreign exchange loss on translation of self-sustaining foreign operations	(809,569)	-
Comprehensive loss	\$ (6,881,805)	\$ (2,632,301)
Per share information:		
Weighted average number of common shares outstanding	29,877,739	22,804,712
Basic and fully diluted net loss per share	\$ (0.20)	\$ (0.12)

**PhotoChannel Networks Inc.
Consolidated Balance Sheets**
(expressed in Canadian dollars)

	2007	2006
ASSETS		
Current		
Cash and cash equivalents	\$ 7,405,034	\$ 2,022,015
Accounts receivable (note 4)	4,045,035	1,311,867
Prepaid expenses and other current assets	523,356	156,476
	11,973,425	3,490,358
Property and equipment (note 5)	2,760,545	1,235,789
Deferred expenses	89,804	157,157
Intangible assets (note 6)	6,067,614	-
Goodwill (note 7)	4,867,231	-
	\$ 25,758,619	\$ 4,883,304
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 8)	\$ 7,510,751	\$ 1,221,948
Current portion of deferred revenue	344,833	179,647
	7,855,584	1,401,595
Deferred revenue	171,210	46,947
Asset retirement obligation (note 9)	120,699	-
Total liabilities	8,147,493	1,448,542
SHAREHOLDERS' EQUITY		
Share capital (note 11)	65,293,214	49,115,790
Warrants (note 11(d))	4,961,826	338,314
Contributed surplus	10,215,777	9,958,544
	80,470,817	59,412,648
Deficit	(62,050,122)	(55,977,886)
Accumulated other comprehensive income	(809,569)	-
	(62,859,691)	(55,977,886)
	17,611,126	3,434,762
	\$ 25,758,619	\$ 4,883,304

Non-GAAP Adjusted EBITDA Reconciliation ¹

For the year ended September 30	2007	2006
Loss from operations	\$ (4,763,761)	\$ (2,634,916)
Add back:		
Amortization	1,223,454	402,600
Stock based compensation expense	799,750	215,084
Balance, end of year	\$ (2,740,557)	\$ (2,017,232)

¹ Adjusted EBITDA is a non-GAAP measure and is defined as net loss from operations, excluding amortization and compensation expense associated with stock option grants

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 for 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.