

PhotoChannel Reports Record Revenues and Growth for Fiscal 2008

VANCOUVER, BC – January 13, 2009, PhotoChannel Networks Inc. (TSX – V: PN; OTCBB: PNWIF), the leading innovator in digital photography and media solutions for retailers, reports its financial results for the fiscal 2008 year ended September 30, 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.

The company will host a conference call and webcast to discuss fiscal 2008 results with Peter Fitzgerald, Executive Chairman, Kyle Hall, Chief Executive Officer, Aaron Rallo, President and Robert Chisholm, Chief Financial Officer of PhotoChannel, today, January 13, 2009, at 4:30 PM ET.

To access the conference call, investors should dial 1-888-300-0053 in North American or 1-647-427-3420 internationally and quote passcode 79055296. Please call 10 minutes prior to the scheduled start time.

PhotoChannel will also offer a live and archived webcast, available at: www.photochannel.com/webcast

FISCAL 2008 AND RECENT HIGHLIGHTS

- Record revenues of \$17 million up 127% year-over-year
- Transactional revenues of \$11 million, up 141% year-over year
- Signed partnership agreement with Costco USA
- Signed partnership agreement with SAM'S Club USA
- Signed agreement with Kodak China and Kodak Australia
- At December 31, 2008 the Company had approximately \$3 million cash on its balance sheet

ORDER METRICS

- For full year fiscal 2008 orders processed averaged 21,035 per day, significantly up from an average of 10,576 during fiscal 2007
- Average orders for the fourth quarter of 2008 were 34,037 per day
- Average orders for the first quarter of fiscal 2009 were approximately 53,400 per day.

“Fiscal 2008 has been a record year for PhotoChannel,” states Kyle Hall, CEO of PhotoChannel. “During 2008 we signed and successfully launched two (2) of the largest photofinishing retailers in North America as well as significant customers in the Asia Pacific region. The launch of the services for these retailers was in mid to late 2008 and therefore fiscal 2009 will be our first full year of revenues associated with these partners”.

“The PNI Platform is becoming a truly multi-dimensional Platform for the future growth of the Company. We now provide our customers and their consumers with two attractive choices, kiosks and online, for accepting and printing digital images or creating unique gifts. Today, PhotoChannel provides retailers' consumers with

the choice of bringing their 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. In 2009 we expect to see the PNI Platform deliver many new innovative services that leverage the foundation the Company has built.”

BUSINESS UPDATE AND OUTLOOK

PhotoChannel continues to invest and build on its 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 2008, the Company saw its large retail partners continue an aggressive marketing campaign of their online services. PhotoChannel believes this will continue during 2009 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.

“During fiscal 2008 a significant investment was made in developing our infrastructure and staffing,” said Kyle Hall. “We will leverage these past expenditures during fiscal 2009. 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 2008 FINANCIAL RESULTS

Description	2008		2007		Change	% Change
Transaction fees	\$	11,635,172	\$	4,823,523	\$ 6,811,649	141%
Installation fees		3,933,413		1,362,452	2,570,961	189%
Membership fees		802,105		866,082	(63,977)	(7)%
Professional fees		467,996		399,261	68,735	17%
Archive fees		210,901		60,010	150,891	251%
Total	\$	17,049,587	\$	7,511,328	\$ 9,538,259	127%

Consistent with the Company’s long-term goal of moving to a transactional fee based model, revenue from transactions represented 68% of total revenue during 2008 compared with 64% in 2007. 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:

- New customer additions during fiscal 2008;
- Full year of Pixology revenues subsequent to the July 2, 2007 acquisition; and
- Organic growth in usage of the PhotoChannel Network from customers of our photo-finishing retailers, as retailers push the convenience of one hour printing from online through continued marketing efforts.

Net loss for 2008 increased to \$8,717,026 compared to \$6,072,236 in 2007. Major contributors to this increased loss are as follows:

- An increase in amortization over fiscal 2007 of \$4,035,599, \$2,640,724 of which arose as a result of intangible assets related to the acquisition of Pixology with the remainder of the increase as a result of setting up a new data facility in Toronto and purchasing more hardware and software for new and existing retail customers.
- \$770,000 of hosting costs related to the new Toronto data facility
- \$1,664,208 related to new software development staff to grow and manage new and existing customers
- Increased non-cash expenses associated with the Company's stock based compensation plan of \$712,000
- \$1,086,577 taken as a goodwill write down related to Pixology, due to negative change in estimated future cash flows
- Change in foreign exchange losses (loss in 2007 versus gain in 2008) resulting in a net year on year gain of \$2,179,205 incurred as a result of holding an inter company account in UK pounds

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.

For more information please visit www.pnidigitalmedia.com.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue (note 12)	\$ 17,049,587	\$ 7,511,328	\$ 4,075,151
Expenses			
Network delivery	7,409,525	2,523,174	1,800,882
Software development	6,914,291	4,178,111	2,299,859
General and administration	4,603,450	3,199,727	1,462,664
Sales and marketing	1,140,028	1,134,350	738,013
Amortization	5,259,053	1,223,454	402,600
	<u>25,326,347</u>	<u>12,258,816</u>	<u>6,704,018</u>
Net loss from operations before the undernoted	(8,276,760)	(4,747,488)	(2,628,867)
Foreign exchange gain (loss)	461,041	(1,718,164)	(26,796)
Interest income	134,848	393,416	23,362
(Loss) on disposal of property, plant & equipment	(35,698)	-	-
Gain on settlement of asset retirement obligation (note 9)	86,120	-	-
Goodwill impairment (note 7)	(1,086,577)	-	-
	<u>(440,266)</u>	<u>(1,324,748)</u>	<u>(3,434)</u>
Net loss	(8,717,026)	(6,072,236)	(2,632,301)
Other comprehensive loss:			
Unrealized foreign exchange loss on translation of self-sustaining foreign operations	(346,964)	(809,569)	-
Comprehensive loss	<u>\$ (9,063,990)</u>	<u>\$ (6,881,805)</u>	<u>\$ (2,632,301)</u>
Basic and fully diluted net loss per share	\$ (0.26)	\$ (0.20)	\$ (0.12)
Weighted average number of common shares outstanding	33,383,866	29,877,739	22,804,712

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

	<u>September 30, 2008</u>	<u>September 30, 2007</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,670,988	\$ 7,405,034
Accounts receivable (note 4)	4,019,286	4,045,035
Prepaid expenses and other current assets	430,616	523,356
	<u>7,120,890</u>	<u>11,973,425</u>
Property and equipment (note 5)	6,786,650	2,760,545
Deferred expenses	52,882	89,804
Intangible assets (note 6)	5,164,492	6,067,614
Goodwill (note 7)	1,498,539	4,867,231
	<u>\$ 20,623,453</u>	<u>\$ 25,758,619</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 7,480,801	\$ 7,510,751
Current portion of deferred revenue	658,045	344,833
Current portion of capital lease obligations (note 14)	490,072	-
Loan payable (note 15)	969,886	-
	<u>9,598,804</u>	<u>7,855,584</u>
Deferred revenue	363,108	171,210
Long-term portion of capital lease obligations (note 14)	375,875	-
Asset retirement obligations (note 9)	22,009	120,699
	<u>10,359,796</u>	<u>8,147,493</u>
Shareholders' Equity (note 11)		
Share capital	\$ 65,614,347	\$ 65,293,214
Warrants	4,961,826	4,961,826
Contributed surplus	11,611,165	10,215,777
	<u>82,187,338</u>	<u>80,470,817</u>
Deficit	(70,767,148)	(62,050,122)
Accumulated other comprehensive loss	(1,156,533)	(809,569)
	<u>(71,923,681)</u>	<u>(62,859,691)</u>
	<u>10,263,657</u>	<u>17,611,126</u>
	<u>\$ 20,623,453</u>	<u>\$ 25,758,619</u>

Non-GAAP Adjusted EBITDA Reconciliation ¹		
	2008	2007
For the year ended September 30	\$	\$
Net loss	(8,717,026)	(6,072,236)
Add back:		
Amortization	5,259,053	1,223,454
Stock-based compensation	1,511,504	799,750
Goodwill impairment	1,086,577	
Non-GAAP Adjusted EBITDA	(859,892)	(4,049,032)

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

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.