



**EVOLVED DIGITAL SYSTEMS INC. RELEASES ITS FINANCIAL
RESULTS FOR THE YEAR ENDED DECEMBER 31, 2004.
REVENUES INCREASE 35%, NET LOSSES DECLINE BY 88%.**

Montréal, (Québec, Canada) – March 31, 2005 / CNW/ - Evolved Digital Systems Inc. (TSX: EVD), a leading healthcare technology solutions company, today announced its results for the fourth quarter and the year ended December 31, 2004.

“Compared to several years ago when we were one of the ‘pioneers’ focusing on the mainstream hospital market, the rate of adoption of our target of midsize hospitals and clinics to fully digital imaging is now growing rapidly” stated Evolved Chairman, Richard J. Eskind. “We are making steady progress in positioning the Company for long term success. The financial impact of our operations streamlining process that we executed in 2004, combined with capturing our share of this new market growth, should result in additional improvements in performance throughout 2005 and beyond.”

Revenues for the year ended December 31, 2004 totaled \$16.4 million, up \$4.3 million and 35% compared to revenues of \$12.2 million for 2003. The increase in revenues for the year ended December 31, 2004 is a result of growth in customer volume for the combined Company during 2004 and the addition of cardiology-related revenues as of October 15, 2003. (Due to the treatment of the business combination creating Evolved as a reverse takeover, the consolidated results of operations for the period from January 1, 2003 through October 15, 2003 are those of INPHACT, Inc. only. Thereafter, the consolidated financial statements include the accounts of the former Electromed.)

Loss from operations for 2004 was \$9.8 million compared to a loss of \$26.8 million for 2003. The reduction in the loss from operations from the prior year is partially attributed to increased operating efficiencies resulting from the consolidation of operations of the former Electromed and INPHACT but also includes a number of one time, non-recurring items. These include \$1.3 million of restructuring charges in 2004 primarily related to the closure of its operations in France and severance costs for several employees versus \$0.3 million of restructuring charges in 2003. The loss from operations for 2004 also includes a gain on settlement of a contract of \$2.0 million. Included in the loss for 2003 was impairment on capitalized software expenses of \$4.4 million.

Net loss for 2004 was \$9.9 million, or \$0.18 per share, versus a net loss of \$86.2 million for 2003, or \$6.58 per share. The net loss for 2003 included \$59.9 million of non-recurring charges relating primarily to the impairment of goodwill related to the acquisition of Electromed and non-cash accrued interest expenses on INPHACT securities converted during the business combination.

On February 18th, 2005, the Company announced the completion of an equity and debt financing package of up to \$8,200,000, which as a subsequent event, is not reflected in the December 31, 2004 financial statements.

About Evolved

With over 100 customer locations across North America, Evolved has become a leading healthcare technology solutions company. Its services and enabling technologies transform hospital and clinic imaging departments from manual to digital-based systems, improving efficiency, turnaround time and patient care.

Evolved is a publicly traded company listed on the Toronto Stock Exchange. Corporate headquarters are based in Laval, Québec. U.S. offices are located in Brentwood, Tennessee. For more information contact EVOLVED at 877-5EVOLVED or visit the company's website at www.evolveddigital.com

Forward-looking statements

Certain statements in this communication may constitute forward-looking statements. They are based on management's current expectation and could be affected by numerous factors and are subject to various risks and uncertainties. Certain of those risks and uncertainties are discussed in company filings with the Canadian Securities Commission. Do not rely on any forward-looking statements, as we cannot predict or control many of the factors that ultimately may affect our ability to achieve the results estimated. We make no promise to update any forward-looking statement, whether as a result of changes in underlying factors, new information, or future events.

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EVOLVED DIGITAL SYSTEMS INC.

Consolidated Balance Sheets

December 31, 2004 and 2003

	2004	2003
		(note 1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 77,703	\$ 4,417,922
Temporary investment	–	5,999,688
Accounts receivable	1,890,244	1,780,914
Tax credits receivable	459,330	625,382
Current portion of investments in direct finance leases	1,114,115	963,958
Inventories	174,945	327,978
Prepaid expenses and other	245,159	885,471
	3,961,496	15,001,313
Property and equipment	3,290,995	5,897,642
Investments in direct finance leases	1,776,524	2,524,110
Equipment leased to customers under operating leases	332,382	1,408,475
Equipment held for sale	362,939	–
Future income taxes	429,709	611,401
Intangible and other assets	1,288,853	2,046,983
	\$ 11,442,898	\$ 27,489,924
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Bank loan	\$ –	\$ 288,825
Accounts payable	1,351,946	2,627,080
Deferred compensation payable	–	583,425
Accrued expenses	1,636,866	3,609,322
Current portion of long-term debt	512,748	967,775
Current portion of capital lease obligations	1,346,688	1,236,684
Deferred revenue	527,375	2,081,425
	5,375,623	11,394,536
Loans from stockholders	2,494,150	–
Long-term debt, net of current portion	1,452,548	1,921,200
Long-term capital lease obligations, net of current portion	1,966,800	2,994,769
Deferred revenue and other liabilities	446,240	1,251,146
Future income taxes	429,709	611,401
Shareholders' equity (deficiency):	(722,172)	9,316,872
	\$ 11,442,898	\$ 27,489,924

EVOLVED DIGITAL SYSTEMS INC.

Consolidated Statements of Operations

Years ended December 31, 2004 and 2003

	2004	2003
		(note 1)
Revenues:		
Technology services	\$ 9,825,783	\$ 6,808,181
Equipment solutions	2,407,646	2,738,544
Transcription services	1,948,174	1,355,783
Other	2,247,621	1,272,935
	16,429,224	12,175,443
Costs and expenses:		
Cost of services	8,851,013	9,158,734
Cost of goods sold	1,829,041	1,589,531
Selling and administration	8,937,494	10,389,450
Research and development	3,690,979	7,362,910
Depreciation and amortization	3,581,775	5,460,928
Restructuring charges	1,307,496	312,832
Loss on impairment of long-lived assets	—	4,639,276
Gain on settlement of contract	(1,985,219)	—
(Gain) loss on sale of assets	(7,563)	13,252
	26,205,016	38,926,913
Loss from operations	(9,775,792)	(26,751,470)
Other income (expense):		
Loss on impairment of goodwill	—	(40,378,372)
Net interest expense	(313,217)	(19,221,294)
Other gains	139,251	130,040
	(173,966)	(59,469,626)
Net loss	\$ (9,949,758)	\$ (86,221,096)
Basic and diluted loss per share	\$ 0.18	\$ 6.58
Weighted number of common shares outstanding during the year	56,488,540	13,109,203

EVOLVED DIGITAL SYSTEMS INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2004 and 2003

	2004	2003
		(note 1)
Net cash used in operating activities	(10,921,423)	(17,041,499)
Net cash provided by financing activities	195,139	28,532,633
Net cash provided by (used in) investing activities	5,719,002	(7,168,420)
Effect of exchange rate changes on cash and cash equivalents	667,063	(6,384)
Net increase (decrease) in cash and cash equivalents	(4,340,219)	4,316,330
Cash and cash equivalents, beginning of year	4,417,922	101,592
Cash and cash equivalents, end of year	\$ 77,703	\$ 4,417,922

1. Basis of presentation:

In July 2003, the Board of Directors of Evolved and InPHact unanimously approved an Exchange Agreement between the two companies. Effective October 15, 2003, the Company completed the acquisition of 100% of the outstanding common and preferred shares of InPHact, paid out dissident shareholders for cash consideration of \$267,515, granted rights to option holders of InPHact in exchange for their options, and purchased the aggregate amounts as per the Exchange Agreement of the InPHact short-term notes, the InPHact convertible subordinated notes and the InPHact promissory notes, altogether referred to as "InPHact Securities", in exchange for 34,972,365 Evolved common shares, including 2,219,119 million shares reserved for the exercise of options of InPHact option holders.

The business combination of the Company and InPHact has been accounted for using the reverse takeover method of purchase accounting. InPHact was deemed to be the acquirer and to have purchased the assets and liabilities of Evolved because the shareholders of InPHact, as a group, became owners of approximately 70% of the voting shares of the Company on a fully diluted basis following the business combination. The results of operations of Evolved are included in the consolidated financial statements from October 15, 2003, the date of the business combination. For accounting purposes, the Company is considered to be a continuation of InPHact except with regard to the authorized and issued capital stock, which is that of the legal parent company, Evolved. The consolidated results of operations and cash flows for the period from January 1, 2003 to October 15, 2003 are those of InPHact only. Thereafter, the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions have been eliminated.

The reporting currency of InPHact was changed from the US dollar to the Canadian dollar. In accordance with Emerging Issues Committee Abstract ("EIC") 130 – "Translation Method," when the reporting currency differs from the measurement currency or there is a change in reporting currency, the financial statements for all years presented were translated into the reporting currency using the current rate method. Under this method, the statement of operations and the cash flow statement items for each year were translated into the reporting currency using the rates in effect at the prevailing transaction dates, and assets and liabilities are translated using the exchange rate at the balance sheet date. All resulting exchange differences are reported as a separate component of shareholders' equity.