

IGC UNITHOLDER REPORT

IGC Provides Updated Real Estate, Waste Company and Liquidation Status Report

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Interstate General Company L.P. provides this Unitholder Report to update the company's status.

(1.) Real Estate Sales

IGC closed on the sale of Lots 6 and 7 in Towne Center South, Waldorf, Maryland on December 2, 2005. The sale price was \$1,107,500. Proceeds were used to reduce bank debt and fund a bank debt reserve escrow account on the Towne Center South property bank note in the approximate amount of \$7,600,000.

IGC has agreed to a further amendment to the purchase agreement for approximately 68 acres of land in Towne Center South in Waldorf, Maryland for \$16,600,000. The new amendment provides in material part: (a) buyer's Due Diligence Period is extended, (b) buyer shall increase the earnest money from \$650,000 to \$1,000,000 one day after expiration of the Due Diligence Period, if the agreement is not terminated, and pay seller \$300,000 which is applied against the purchase price, but non-refundable, absent a default by seller, (c) buyer may extend the Closing Date up to nine months from expiration of the Due Diligence Period and shall pay an Extension Fee of \$75,000 per month for each month's extension, which payment is nonrefundable, absent a default by seller, but which sums shall be applied to reduce the Purchase Price, and (d) the Purchase Price shall be increased by \$200,000 (less the \$75,000 non-refundable payment) for each 30 day extension of the Closing Date beyond the Due Diligence Date (expected to expire by the end of January, 2006) provided the delay is not caused by the seller. The extension was necessary because additional development approvals were

required of buyer. The Towne Center South property represents approximately 75% of the remaining assets of IGC.

Sales efforts are continuing with respect to IGC's remaining parcels totaling approximately 23 acres in Charles County, Maryland.

(2.) Waste Company Status Report

(A.) Puerto Rico

CWT reached agreement with Caguas, its sponsoring municipality, on a waste processing agreement in November, 2005. The agreement provides that Caguas shall deliver an agreed amount of waste for 30 years and pay a processing fee per ton which escalates over the 30 year term. Signature of the agreement is expected soon. This will be the model contract used in negotiations with other municipalities. A number of meetings have been held among the private sponsor, government officials and the government's electric utility to conclude a power purchase agreement. Management believes that an acceptable agreement will be reached shortly.

CWT has signed an engagement letter with a major New York investment bank to raise, on a best efforts basis, the additional development capital required to get to financial close of the Puerto Rico project.

(B.) Virgin Islands

CWT remains locked in litigation with the electric utility. The delay caused by the electric utility is likely to cause the Waste Management Authority to rebid the project.

(C.) Independent Analyses of IWT Team and Thermostelect Technology

The City and County of Los Angeles have separate waste facility competitive procurements under way. The first step in each was to analyze all available advanced technologies. The city and county hired URS Corporation, the largest engineering company in the United States, to prepare separate reports evaluating all sponsors and technologies. URS prepared two detailed studies and ranked IWT and the Thermostelect technology first based on supplier credibility, existing operational experience, completeness of engineering, landfill diversion, permitability and economics.

Earlier, New York City hired a different industry expert to perform a

similar study. IWT and Thermosteel were ranked first with one other competitor based on technology readiness, reliability, facility design, environmental performance, beneficial use of waste, marketability of recycled products and experience and resources of the project sponsor.

(D.) Japanese Thermosteel Facilities

Japan now has six Thermosteel facilities operating successfully and a seventh facility is scheduled to start operation this year. We believe the earlier questions about the technology have been answered and that this successful operations experience demonstrates that the technology is now proven and commercialized.

(E.) U. S. Waste Facility Procurements

New York City, Los Angeles, and the County of Los Angeles have ongoing competitive procurements in which IWT has been found qualified.

(F.) Additional Waste Company Capitalization

Management has several efforts underway to raise additional working capital to grow the waste business and will report further when these efforts have progressed.

(3.) Recapitalization of IWT/CWT And Termination Of IGC Partnership

It has taken longer than management and the Board expected to transition IWT/CWT from a development to an operating company. Early challenges with the technology and other factors delayed IWT/CWT project implementation.

Obviously, there is no assurance IWT/CWT will be successful. However, we believe there is a reasonable probability the Puerto Rico project will go forward and that IWT/CWT will win additional projects. We believe there has been a positive change in the marketplace toward advanced technologies and away from incinerators and landfills.

IGC's business plan since 1998 has been to sell its real estate assets to fund the startup and success of IWT/CWT. IGC is no longer a publicly traded company. It was delisted by the American and Pacific Stock Exchanges in December 2004. The Board and management have studied how to accomplish IGC's goal of successfully launching IWT/CWT in the most efficient, cost-effective manner.

The Board and management concluded that it was in unitholders' best interest to recapitalize IWT/CWT by combining IGC's assets and liabilities with IWT/CWT and terminating the IGC partnership. This combination was effective as of January 1, 2006. When complete, the transfer will reduce the administrative costs of IGC and strengthen IWT/CWT's financial qualifications to enable it to better compete for existing and new projects.

IGC previously announced its intention to make a unitholder distribution in 2006. That remains our intention. The amount and timing of the distribution depends on closing the pending purchase agreement for 68 acres in Towne Center South.

IWT is a Delaware corporation. CWT is a Puerto Rico corporation. IGC unitholders' interest is currently held by a Trust.

Periodic unitholder reports about the status of IWT/CWT activities will continue to be prepared. All IGC unitholders will receive a copy of the final audited IGC financial statement.

(4.) K-1 Questions

A number of unitholders have raised questions about the income allocation reported on their IGC 2004 K-1s. For the first time since 1998, the IGC partnership reported a gain on its tax return due to the sale of the Brandywine property. Management asked the Company's outside tax accountants to conduct an additional audit of the income allocations for 2004. The methodology and numbers had already been audited as part of the K-1 preparation process. The supplemental audit confirmed that the methodology used by PriceWaterhouseCoopers, the K-1 preparer, based on income reported from the company's tax return is correct. It is possible that an individual K-1 may be incorrect due to a computer input error, but no such mistakes were found either in the initial or follow-up audits.

IGC is a partnership. In 1987, it made an Internal Revenue Code Section 754 election as required by the underwriters of its units when IGC went public. Section 754 is a very complicated section of the Tax Code which requires that the company track the difference between the market value of the company's assets and the tax basis of the company's units on a unit-by-unit basis. When a unitholder purchases a unit, the difference between what he or she paid (market value) and the tax

basis of the company's assets is calculated and becomes a separate "asset". This "asset" is tied solely to the individual unitholder and is tracked for the remainder of the time the units are held. If the market value is greater than the proportionate tax basis of the company's assets, this creates a positive asset or step up. If the reverse is true, there is a step down in basis. A step up is depreciated over time and results in an additional deduction for the unitholder upon disposition of the asset depending on the sales price. A step down can cause additional income for the unitholder. In short, depending on the date of purchase, two unitholders could have very different income allocations. Similarly, depending on the date of purchase, unitholders could have smaller losses or larger gains than their percentage ownership of outstanding units times the income or loss reported by IGC on its tax return.

Management expects that IGC will not show a profit or gain in 2005. Taxes in the future will be paid at the IWT/CWT corporate level.

This report contains forward-looking statements. Investors are cautioned that all forward-looking statements involve risks, uncertainties, and other factors that could cause actual results to differ materially from those in the forward-looking statement. Forward-looking statements relate to anticipated revenues, gross margins, earnings, and the growth of the market for our products. Numerous factors could cause results to differ, including but not limited to changes in market demand and acceptance of company facilities, impact of competitive facilities and pricing, dependence on third party suppliers, changes in government regulations, and the normal cyclical nature of the real estate and development economy. Although the Company believes the expectations reflected in such forward-looking statements are based on reasonable assumptions, it gives no assurance that its expectations will be attained.

