

# DORCHESTER MINERALS LP

## FORM 10-K (Annual Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005

Or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-50175

DORCHESTER MINERALS, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

81-0551518
(I.R.S. employer identification number)

3838 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219
(Address of principal executive offices)(Zip Code)

(214) 559-0300
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Table with 2 columns: Title of Each Class, Name of Exchange on which Registered. Row 1: None, Not applicable

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Title of Class
Common Units Representing Limited Partnership Interests

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.): Yes [ ] No [X]

The aggregate market value of the common units held by non-affiliates of the registrant (treating all managers, executive officers and 10% unitholders of the registrant as if they may be affiliates of the registrant) was approximately \$369,775,851.33 as of June 30, 2005, based on \$23.924 per unit, the closing price of the common units as reported on the NASDAQ National Market on such date.

Number of Common Units outstanding as of March 8, 2006: 28,240,431

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement for the registrant's 2006 Annual Meeting of Unitholders to be held on May 3, 2006, are incorporated by reference in Part III of this Form 10-K. Such definitive proxy statement will be filed with the Securities and Exchange Commission not later than 120 days subsequent to December 31, 2005.

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### **PART I.**

#### **ITEM 1. BUSINESS**

##### **General**

Dorchester Minerals, L.P. is a publicly traded Delaware limited partnership that commenced operations on January 31, 2003 upon the combination of Dorchester Hugoton, Ltd., Republic Royalty Company, L.P. and Spinnaker Royalty Company, L.P. Dorchester Hugoton was a publicly traded Texas limited partnership and Republic and Spinnaker were private Texas limited partnerships. Our common units are listed on the NASDAQ National Market. American Stock Transfer & Trust Company is our Registrar and Transfer Agent. Their address and telephone number is 59 Maiden Lane, New York, NY 10038, (800) 937-5449. Our executive offices are located at 3838 Oak Lawn Avenue, Suite 300, Dallas, Texas, 75219-4541 and our telephone number is (214) 559-0300. We do not have an Internet website. We will provide electronic or paper copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, or current reports on Form 8-K and amendments to those reports filed or furnished to the Securities and Exchange Commission, free of charge upon written request to us at our executive offices. In this report, the term “Partnership”, as well as the terms “us,” “our,” “we,” and “its,” are sometimes used as abbreviated references to Dorchester Minerals, L.P. itself or Dorchester Minerals, L.P. and its related entities.

Our general partner is Dorchester Minerals Management LP, which is managed by its general partner, Dorchester Minerals Management GP LLC. As a result, the Board of Managers of Dorchester Minerals Management GP LLC exercises effective control of our Partnership. In this report, the term “general partner” is used as an abbreviated reference to Dorchester Minerals Management LP. Our general partner also controls and owns, directly and indirectly, all of the partnership interests in Dorchester Minerals Operating LP and its general partner, Dorchester Minerals Operating GP LLC. Dorchester Minerals Operating LP owns working interests and other properties underlying our Net Profits Interests, provides day-to-day operational and administrative services to us and our general partner and is the employer of all of the employees who perform such services. In this report, the term “operating partnership” is used as an abbreviated reference to Dorchester Minerals Operating LP. Our wholly owned subsidiary, Dorchester Minerals Acquisition LP has been and may continue to be used as a vehicle through which we may acquire oil and gas properties.

Our general partner and the operating partnership are Delaware limited partnerships and the general partner of our general partner and Dorchester Minerals Operating GP LLC are Delaware limited liability companies. These entities and our Partnership were initially formed in December 2001 in connection with the combination that occurred on January 31, 2003. Dorchester Minerals Acquisition LP is an Oklahoma limited partnership and Dorchester Minerals Acquisition GP, Inc. is an Oklahoma corporation that serves as its general partner. Both were formed in September 2004 in connection with an acquisition of oil and gas properties that was consummated on September 30, 2004.

Our business may be described as the acquisition, ownership and administration of Net Profits Interests and Royalty Properties. The Net Profits Interests represent net profits overriding royalty interests in various properties owned by the operating partnership. The Royalty Properties consist of producing and nonproducing mineral, royalty, overriding royalty, net profits, and leasehold interests located in 573 counties and parishes in 25 states.

Our partnership agreement requires that we distribute quarterly an amount equal to all funds that we receive from the Net Profits Interests and the Royalty Properties less certain expenses and reasonable reserves.

We intend to grow by acquiring additional oil and natural gas properties, subject to the limitations described below. The approval of the holders of a majority of our outstanding common units is required for our general

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partner to cause us to acquire or obtain any oil and natural gas property interest, unless the acquisition is complementary to our business and is made either:

- in exchange for our limited partner interests, including common units, not exceeding 20% of the common units outstanding after issuance; or
- in exchange for cash, if the aggregate cost of any acquisitions made for cash during the twelve month period ending on the first to occur of the execution of a definitive agreement for the acquisition or its consummation is no more than 10% of our aggregate cash distributions for the four most recent fiscal quarters.

Unless otherwise approved by the holders of a majority of our common units, in the event that we acquire properties for a combination of cash and limited partner interests, including common units, (i) the cash component of the acquisition consideration must be equal to or less than 5% of the aggregate cash distributions made by our Partnership for the four most recent quarters and (ii) the amount of limited partnership interests, including common units, to be issued in such acquisition, after giving effect to such issuance, shall not exceed 10% of the common units outstanding.

### Basis of Presentation

Prior to January 31, 2003 we had no operations. The combination transaction consummated on that date among Dorchester Hugoton, Republic and Spinnaker was treated as a purchase by Dorchester Hugoton for accounting purposes. **In these circumstances, the financial condition, portions of the business and properties information, and the results of operations are required to be presented for the deemed accounting acquiror, Dorchester Hugoton, for all years ended on or before December 31, 2002. Our Partnership's financial condition, portions of the business and properties information and the results of operations for the twelve-month period ended December 31, 2003 are required to consist of the one-month period ended January 31, 2003 for Dorchester Hugoton and the eleven-month period ended December 31, 2003 for our Partnership. Consequently, only the twelve month periods ending December 31, 2004 and 2005 contain exclusively Partnership information.** For the purposes of this presentation, the term combination means the transactions consummated in connection with the combination of the business and properties of Dorchester Hugoton, Republic and Spinnaker.

### Credit Facilities and Financing Plans

We do not have a credit facility in place, nor do we anticipate doing so. We do not anticipate incurring any debt, other than trade debt incurred in the ordinary course of our business. Our partnership agreement prohibits us from incurring indebtedness, other than trade payables, (i) in excess of \$50,000 in the aggregate at any given time; or (ii) which would constitute "acquisition indebtedness" (as defined in Section 514 of the Internal Revenue Code of 1986, as amended), in order to avoid unrelated business taxable income for federal income tax purposes. We may finance any growth of our business through acquisitions of oil and natural gas properties by issuing additional limited partnership interests or with cash, subject to the limits described above and in our partnership agreement.

Under our partnership agreement, we may also finance our growth through the issuance of additional partnership securities, including options, rights, warrants and appreciation rights with respect to partnership securities, from time to time in exchange for the consideration and on the terms and conditions established by our general partner in its sole discretion. However, we may not issue limited partnership interests that would represent over 20% of the outstanding limited partnership interests immediately after giving effect to such issuance or that would have greater rights or powers than our common units without the approval of the holders of a majority of our outstanding common units. Except in connection with qualifying acquisitions, we do not currently anticipate issuing additional partnership securities. On May 2, 2005, we filed a registration statement on Form S-4 with the Securities and Exchange Commission to register 5,000,000 common units that may be offered and issued by the Partnership from time to time in connection with asset acquisitions or other business combination transactions. At present, none of the 5,000,000 units have been offered.

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#### **Regulation**

Many aspects of the production, pricing and marketing of crude oil and natural gas are regulated by federal and state agencies. Legislation affecting the oil and natural gas industry is under constant review for amendment or expansion, which frequently increases the regulatory burden on affected members of the industry.

Exploration and production operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes:

- requiring permits for the drilling of wells;
- maintaining bonding requirements in order to drill or operate wells;
- regulating the location of wells;
- the method of drilling and casing wells;
- the surface use and restoration of properties upon which wells are drilled;
- the plugging and abandonment of wells;
- numerous federal and state safety requirements;
- environmental requirements;
- property taxes and severance taxes; and
- specific state and federal income tax provisions.

Oil and natural gas operations are also subject to various conservation laws and regulations. These regulations regulate the size of drilling and spacing units or proration units and the density of wells which may be drilled and the unitization or pooling of oil and natural gas properties. In addition, state conservation laws establish a maximum allowable production from oil and natural gas wells. These state laws also generally prohibit the venting or flaring of natural gas and impose certain requirements regarding the ratability of production. These regulations limit the amount of oil and natural gas that the operators of our properties can produce and limit the number of wells or the locations at which the operators can drill.

The transportation of natural gas after sale by operators of our properties is sometimes subject to regulation by state authorities. The interstate transportation of natural gas is subject to federal governmental regulation, including regulation of tariffs and various other matters, by the Federal Energy Regulatory Commission.

#### **Customers and Pricing**

The pricing of oil and natural gas sales is primarily determined by supply and demand in the marketplace and can fluctuate considerably. As a royalty owner, we have extremely limited access to timely information, involvement, and operational control over the volumes of oil and natural gas produced and sold and the terms and conditions on which such volumes are marketed and sold.

The operating partnership sells most of its natural gas production to Williams Power Company, Inc. on a daily market price basis through October 2006. The operating partnership frequently reviews alternative gas purchasers. We believe that the loss of Williams Power by the operating partnership or the loss of any single customer would not have a material adverse effect on the results of our operations.

#### **Acquisitions**

On January 31, 2003, Dorchester Hugoton contributed assets to us and the operating partnership and then liquidated. Republic and Spinnaker contributed their working interest properties to the operating partnership and then merged with us. As a result, the operating partnership owns certain working interests and management assets and we own the Net Profits Interests and the Royalty Properties.

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On September 30, 2004, we acquired producing and nonproducing mineral, royalty and overriding royalty interests located in 104 counties and parishes in six states in exchange for total consideration of 1,200,000 of our common units. The transaction was structured as a merger between the seller and our wholly owned subsidiary, Dorchester Minerals Acquisition LP.

We acquired minor mineral and leasehold interests located in Steuben County, New York and Hidalgo County, Texas during 2004.

### **Competition**

The energy industry in which we compete is subject to intense competition among many companies, both larger and smaller than we are, many of which have financial and other resources greater than we have.

### **Operating Hazards and Uninsured Risks**

Our operations do not directly involve the operational risks and uncertainties associated with drilling for, and the production and transportation of, oil and natural gas. However, we may be indirectly affected by the operational risks and uncertainties faced by the operators of our properties, including the operating partnership, whose operations may be materially curtailed, delayed or canceled as a result of numerous factors, including:

- the presence of unanticipated pressure or irregularities in formations;
- accidents;
- title problems;
- weather conditions;
- compliance with governmental requirements; and
- shortages or delays in the delivery of equipment.

Also, the ability of the operators of our properties to market oil and natural gas production depends on numerous factors, many of which are beyond their control, including:

- capacity and availability of oil and natural gas systems and pipelines;
- effect of federal and state production and transportation regulations;
- changes in supply and demand for oil and natural gas; and
- creditworthiness of the purchasers of oil and natural gas.

The occurrence of an operational risk or uncertainty which materially impacts the operations of the operators of our properties could have a material adverse effect on the amount that we receive in connection with our interests in production from our properties, which could have a material adverse effect on our financial condition or result of operations.

In accordance with customary industry practices, we maintain insurance against some, but not all, of the risks to which our business exposes us. While we believe that we are reasonably insured against these risks, the occurrence of an uninsured loss could have a material adverse effect on our financial condition or results of operations.

### **Employees**

As of February 28, 2006, the operating partnership had 17 full-time employees in our Dallas, Texas office and nine full-time employees in field locations.

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#### ITEM 1A. RISK FACTORS

##### Risks Related to Our Business

*Our cash distributions are highly dependent on oil and natural gas prices, which have historically been very volatile.*

Our quarterly cash distributions depend in significant part on the prices realized from the sale of oil and, in particular, natural gas. Historically, the markets for oil and natural gas have been volatile and may continue to be volatile in the future. Various factors that are beyond our control will affect prices of oil and natural gas, such as:

- the worldwide and domestic supplies of oil and natural gas;
- the ability of the members of the Organization of Petroleum Exporting Countries and others to agree to and maintain oil prices and production controls;
- political instability or armed conflict in oil-producing regions;
- the price and level of foreign imports;
- the level of consumer demand;
- the price and availability of alternative fuels;
- the availability of pipeline capacity;
- weather conditions;
- domestic and foreign governmental regulations and taxes; and
- the overall economic environment.

Lower oil and natural gas prices may reduce the amount of oil and natural gas that is economic to produce and may reduce our revenues and operating income. The volatility of oil and natural gas prices reduces the accuracy of estimates of future cash distributions to unitholders.

*Terrorist attacks on oil and natural gas production facilities, transportation systems and storage facilities could have a material adverse impact on our business.*

Oil and natural gas production facilities, transportation systems and storage facilities could be targets of terrorist attacks. These attacks could have a material adverse impact if certain oil and natural gas infrastructure integral to our operations were interrupted, damaged or destroyed, thus preventing the sale of oil and natural gas.

*We do not control operations and development of the Royalty Properties or the properties underlying the Net Profits Interests that the operating partnership does not operate, which could impact the amount of our cash distributions.*

Essentially all of the producing properties we acquired from Republic and Spinnaker are royalty interests. As a royalty owner, we do not control the development of these properties or the volumes of oil and natural gas produced from them. The decision to develop these properties, including infill drilling, exploration of horizons deeper or shallower than the currently producing intervals, and application of enhanced recovery techniques will be made by the operator and other working interest owners of each property (including our lessees) and may be influenced by factors beyond our control, including but not limited to oil and natural gas prices, interest rates, budgetary considerations and general industry and economic conditions.

As the owner of a fractional undivided mineral or royalty interest, our ability to influence development of these nonproducing properties is severely limited. Also, since one of our stated business objectives is to avoid the generation of unrelated business taxable income, we are prohibited from participation in the development of our properties as a working interest or other expense-bearing owner. The decision to explore for oil and natural gas

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on these properties will be made by the operator and other working interest owners of each property (including our lessees) and may be influenced by factors beyond our control, including but not limited to oil and natural gas prices, interest rates, budgetary considerations and general industry and economic conditions.

Our unitholders are not able to influence or control the operation or future development of the properties underlying the Net Profits Interests. The operating partnership is unable to influence significantly the operations or future development of properties that it does not operate. The operating partnership and the other current operators of the properties underlying the Net Profits Interests are under no obligation to continue operating the underlying properties. The operating partnership can sell any of the properties underlying the Net Profits Interests that it operates and relinquish the ability to control or influence operations. Any such sale or transfer must also simultaneously include the Net Profits Interests at a corresponding price. Our unitholders do not have the right to replace an operator.

*Our lease bonus revenue depends in significant part on the actions of third parties which are outside of our control.*

A significant portion of the Royalty Properties are unleased mineral interests. With limited exceptions, we have the right to grant leases of these interests to third parties. We anticipate receiving cash payments as bonus consideration for granting these leases in most instances. Our ability to influence third parties' decisions to become our lessees with respect to these nonproducing properties is severely limited, and those decisions may be influenced by factors beyond our control, including but not limited to oil and natural gas prices, interest rates, budgetary considerations and general industry and economic conditions.

*The operating partnership may transfer or abandon properties that are subject to the Net Profits Interests.*

Our general partner, through the operating partnership, may at any time transfer all or part of the properties underlying the Net Profits Interests. Our unitholders are not entitled to vote on any transfer, however, any such transfer must also simultaneously include the Net Profits Interests at a corresponding price.

The operating partnership or any transferee may abandon any well or property if it reasonably believes that the well or property can no longer produce in commercially economic quantities. This could result in termination of the Net Profits Interests relating to the abandoned well.

*Cash distributions are affected by production and other costs, some of which are outside of our control.*

The cash available for distribution that comes from our royalty and mineral interests, including the Net Profits Interests, is directly affected by increases in production costs and other costs. Some of these costs are outside our control, including costs of regulatory compliance and severance and other similar taxes. Other expenditures are dictated by business necessity, such as drilling additional wells in response to the drilling activity of others.

*Our oil and natural gas reserves and the underlying properties are depleting assets, and there are limitations on our ability to replace them.*

Our revenues and distributions depend in large part on the quantity of oil and natural gas produced from properties in which we hold an interest. Our producing oil and natural gas properties over time will all experience declines in production due to depletion of their oil and natural gas reservoirs, with the rates of decline varying by property. Replacement of reserves to maintain production levels requires maintenance, development or exploration projects on existing properties, or the acquisition of additional properties.

The timing and size of any maintenance, development or exploration projects depends on the market prices of oil and natural gas and on other factors beyond our control. Many of the decisions regarding implementation of such projects, including drilling or exploration on any unleased and undeveloped acreage, will be made by third parties. In addition, development possibilities in the Hugoton field are limited by the developed nature of that field and by regulatory restrictions.

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Our ability to increase reserves through future acquisitions is limited by restrictions on our use of cash and limited partnership interests for acquisitions and by our general partner's obligation to use all reasonable efforts to avoid unrelated business taxable income. In addition, the ability of affiliates of our general partner to pursue business opportunities for their own accounts without tendering them to us in certain circumstances may reduce the acquisitions presented to our Partnership for consideration.

*Drilling activities on our properties may not be productive, which could have an adverse effect on future results of operations and financial condition.*

The operating partnership may undertake drilling activities in limited circumstances on the properties underlying the Net Profits Interests, and third parties may undertake drilling activities on our other properties. Any increases in our reserves will come from such drilling activities or from acquisitions.

Drilling involves a wide variety of risks, including the risk that no commercially productive oil or natural gas reservoirs will be encountered. The cost of drilling, completing and operating wells is often uncertain and drilling operations may be delayed or canceled as a result of a variety of factors, including:

- pressure or irregularities in formations;
- equipment failures or accidents;
- disputes with drill site landowners;
- unexpected drilling conditions;
- shortages or delays in the delivery of equipment;
- adverse weather conditions; and
- disputes with drill-site owners.

Future drilling activities on our properties may not be successful. If these activities are unsuccessful, this failure could have an adverse effect on our future results of operations and financial condition. In addition, under the terms of the Net Profits Interests, the costs of unsuccessful future drilling on the working interest properties that are subject to the Net Profits Interests will reduce amounts payable to us under the Net Profits Interests by 96.97% of these costs.

*Our ability to identify and capitalize on acquisitions is limited by contractual provisions and substantial competition.*

Our partnership agreement limits our ability to acquire oil and natural gas properties in the future, especially for consideration other than our limited partnership interests. Because of the limitations on our use of cash for acquisitions and on our ability to accumulate cash for acquisition purposes, we may be required to attempt to effect acquisitions with our limited partnership interests. However, sellers of properties we would like to acquire may be unwilling to take our limited partnership interests in exchange for properties.

Our partnership agreement obligates our general partner to use all reasonable efforts to avoid generating unrelated business taxable income. Accordingly, to acquire working interests we would have to arrange for them to be converted into overriding royalty interests, net profits interests, or another type of interest that does not generate unrelated business taxable income in a manner similar to the treatment of Dorchester Hugoton's properties in the combination. Third parties may be less likely to deal with us than with a purchaser to which such a condition would not apply. These restrictions could prevent us from pursuing or completing business opportunities that might benefit us and our unitholders, particularly unitholders who are not tax-exempt investors.

The duty of affiliates of our general partner to present acquisition opportunities to our Partnership is limited, including pursuant to the terms of the Amended and Restated Business Opportunities Agreement. Accordingly, business opportunities that could potentially be pursued by us might not necessarily come to our attention, which could limit our ability to pursue a business strategy of acquiring oil and natural gas properties.

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We compete with other companies and producers for acquisitions of oil and natural gas interests. Many of these competitors have substantially greater financial and other resources than we do.

*Any future acquisitions will involve risks that could adversely affect our business, which our unitholders generally will not have the opportunity to evaluate.*

Our current strategy contemplates that we may grow through acquisitions. We expect to participate in discussions relating to potential acquisition and investment opportunities. If we consummate any additional acquisitions, our capitalization and results of operations may change significantly and our unitholders will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in connection with the acquisition, unless the terms of the acquisition require approval of our unitholders. Additionally, our unitholders will bear 100% of the dilution from issuing new common units while receiving essentially 96% of the benefit as 4% of the benefit goes to our general partner.

Acquisitions and business expansions involve numerous risks, including assimilation difficulties, unfamiliarity with new assets or new geographic areas and the diversion of management's attention from other business concerns. In addition, the success of any acquisition will depend on a number of factors, including the ability to estimate accurately the recoverable volumes of reserves, rates of future production and future net revenues attributable to reserves and to assess possible environmental liabilities. Our review and analysis of properties prior to any acquisition will be subject to uncertainties and, consistent with industry practice, may be limited in scope. We may not be able to successfully integrate any oil and natural gas properties that we acquire into our operations or we may not achieve desired profitability objectives.

*A natural disaster or catastrophe could damage pipelines, gathering systems and other facilities that service our properties, which could substantially limit our operations and adversely affect our cash flow.*

If gathering systems, pipelines or other facilities that serve our properties are damaged by any natural disaster, accident, catastrophe or other event, our income could be significantly interrupted. Any event that interrupts the production, gathering or transportation of our oil and natural gas, or which causes us to share in significant expenditures not covered by insurance, could adversely impact the market price of our limited partnership units and the amount of cash available for distribution to our unitholders. We do not carry business interruption insurance.

*The vast majority of the properties subject to the Net Profits Interests are geographically concentrated, which could cause net proceeds payable under the Net Profits Interests to be impacted by regional events.*

The vast majority of the properties subject to the Net Profits Interests are all natural gas properties that are located almost exclusively in the Hugoton field in Oklahoma and Kansas. Because of this geographic concentration, any regional events, including natural disasters, that increase costs, reduce availability of equipment or supplies, reduce demand or limit production may impact the net proceeds payable under the Net Profits Interests more than if the properties were more geographically diversified.

The number of prospective natural gas purchasers and methods of delivery are considerably less than would otherwise exist from a more geographically diverse group of properties. As a result, natural gas sales after gathering and compression tend to be sold to one buyer in each state, thereby increasing credit risk.

*Under the terms of the Net Profits Interests, much of the economic risk of the underlying properties is passed along to us.*

Under the terms of the Net Profits Interests, virtually all costs that may be incurred in connection with the properties, including overhead costs that are not subject to an annual reimbursement limit, are deducted as production costs or excess production costs in determining amounts payable to us. Therefore, to the extent of the

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revenues from the burdened properties, we bear 96.97% of the costs of the working interest properties. If costs exceed revenues, we do not receive any payments under the Net Profits Interests. However, except as described below, we are not required to pay any excess costs.

The terms of the Net Profits Interests provide for excess costs that cannot be charged currently because they exceed current revenues to be accumulated and charged in future periods, which could result in our not receiving any payments under the Net Profits Interests until all prior uncharged costs have been recovered by the operating partnership. The practice of combining several years' Net Profits Interests that have excess costs has enabled the operating partnership to recoup excess costs out of revenues from a greater number of properties, deferring to some degree payments to us with respect to such Net Profits Interests.

*Damage claims associated with the production and gathering of our oil and natural gas properties could affect our cash flow.*

The operating partnership owns and operates the gathering system and compression facilities acquired from Dorchester Hugoton. Casualty losses or damage claims from these operations would be production costs under the terms of the Net Profits Interests and could adversely affect our cash flow.

*We may indirectly experience costs from repair or replacement of aging equipment.*

Some of the operating partnership's current working interest wells were drilled and have been producing since prior to 1954. The 132-mile Oklahoma gas pipeline gathering system acquired from Dorchester Hugoton was originally installed in or about 1948, and because of its age is in need of periodic repairs and upgrades. Should major components of this system require significant repairs or replacement, the operating partnership may incur substantial capital expenditures in the operation of the Oklahoma properties previously owned by Dorchester Hugoton prior to the consummation of the combination, which, as production costs, would reduce our cash flow from these properties.

*Our cash flow is subject to operating hazards and unforeseen interruptions for which we may not be fully insured.*

Neither we nor the operating partnership are fully insured against certain of these risks, either because such insurance is not available or because of high premium costs. Operations that affect the properties are subject to all of the risks normally incident to the oil and natural gas business, including blowouts, cratering, explosions and pollution and other environmental damage, any of which could result in substantial decreases in the cash flow from our overriding royalty interests and other interests due to injury or loss of life, damage to or destruction of wells, production facilities or other property, clean-up responsibilities, regulatory investigations and penalties and suspension of operations. Any uninsured costs relating to the properties underlying the Net Profits Interests will be deducted as a production cost in calculating the net proceeds payable to us.

*Governmental policies, laws and regulations could have an adverse impact on our business and cash distributions.*

Our business and the properties in which we hold interests are subject to federal, state and local laws and regulations relating to the oil and natural gas industry as well as regulations relating to safety matters. These laws and regulations can have a significant impact on production and costs of production. For example, both Oklahoma and Kansas, where properties that are subject to the Net Profits Interests are located, have the ability, directly or indirectly, to limit production from those properties, and such limitations or changes in those limitations could negatively impact us in the future.

As another example, Oklahoma regulations currently require administrative hearings to change the concentration of gas production wells from one well for each 640 acres in the Guymon-Hugoton field (the location of former Dorchester Hugoton properties). Previously, certain interested parties have sought regulatory

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changes in Oklahoma for “infill,” or increased density, drilling similar to that which is available in Kansas, which allows one well for each 320 acres. Should Oklahoma change its existing regulations to readily permit infill drilling, it is possible that a number of producers will commence increased density drilling in areas adjacent to the properties in Oklahoma that are subject to the Net Profits Interests. If the operating partnership or other operators of our properties do not do the same, our production levels relating to these properties may decrease or mineral owners may demand increased density drilling. Capital expenditures relating to increased density on the properties underlying the Net Profits Interests would be deducted from amounts payable to us under the Net Profits Interests.

*Environmental costs and liabilities and changing environmental regulation could affect our cash flow.*

As with other companies engaged in the ownership and production of oil and natural gas, we always expect to have some risk of exposure to environmental costs and liabilities because the costs associated with environmental compliance or remediation could reduce the amount we would receive from our properties. The properties in which we hold interests are subject to extensive federal, state, tribal and local regulatory requirements relating to environmental affairs, health and safety and waste management. Governmental authorities have the power to enforce compliance with applicable regulations and permits, which could increase production costs on our properties and affect their cash flow. Third parties may also have the right to pursue legal actions to enforce compliance. It is likely that expenditures in connection with environmental matters, as part of normal capital expenditure programs, will affect the net cash flow from our properties. Future environmental law developments, such as stricter laws, regulations or enforcement policies, could significantly increase the costs of production from our properties and reduce our cash flow.

*Our oil and gas reserve data and future net revenue estimates are uncertain.*

Estimates of proved reserves and related future net revenues are projections based on engineering data and reports of independent consulting petroleum engineers hired for that purpose. The process of estimating reserves requires substantial judgment, resulting in imprecise determinations. Different reserve engineers may make different estimates of reserve quantities and related revenue based on the same data. Therefore, those estimates should not be construed as being accurate estimates of the current market value of our proved reserves. If these estimates prove to be inaccurate, our business may be adversely affected by lower revenues. We are affected by changes in oil and natural gas prices. Oil prices and natural gas prices may experience inverse price changes.

### Risks Inherent In An Investment In Our Common Units

*Cost reimbursement due our general partner may be substantial and reduce our cash available to distribute to our unitholders.*

Prior to making any distribution on the common units, we reimburse the general partner and its affiliates for reasonable costs and expenses of management. The reimbursement of expenses could adversely affect our ability to pay cash distributions to our unitholders. Our general partner has sole discretion to determine the amount of these expenses, subject to the annual limit of 5% of an amount primarily based on our distributions to partners for that fiscal year. The annual limit includes carry-forward and carry-back features, which could allow costs in a year to exceed what would otherwise be the annual reimbursement limit. In addition, our general partner and its affiliates may provide us with other services for which we will be charged fees as determined by our general partner.

*Our net income as reported for tax and financial statement purposes may differ significantly from our cash flow that is used to determine cash available for distributions.*

Net income as reported for financial statement purposes is presented on an accrual basis in conformity with accounting principles generally accepted in the United States of America. Unitholder K-1 tax statements are calculated based on applicable tax conventions, and taxable income as calculated for each year will be allocated

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among unitholders who hold units on the last day of each month. Distributions, however, are calculated on the basis of actual cash receipts, changes in cash reserves, and disbursements during the relevant reporting period. Consequently, due to timing differences between the receipt of proceeds of production and the point in time at which the production giving rise to those proceeds actually occurs, net income reported on our financial statements and on unitholder K-1's will not reflect actual cash distributions during that reporting period.

*Our unitholders have limited voting rights and do not control our general partner, and their ability to remove our general partner is limited.*

Our unitholders have only limited voting rights on matters affecting our business. The general partner of our general partner manages our activities. Our unitholders only have the right to annually elect the managers comprising the Advisory Committee of the Board of Managers of the general partner of our general partner. Our unitholders do not have the right to elect the other managers of the general partner of our general partner, on an annual or any other basis.

Our general partner may not be removed as our general partner except upon approval by the affirmative vote of the holders of at least a majority of our outstanding common units (including common units owned by our general partner and its affiliates), subject to the satisfaction of certain conditions. Our general partner and its affiliates do not own sufficient common units to be able to prevent its removal as general partner, but they do own sufficient common units to make the removal of our general partner by other unitholders difficult.

These provisions may discourage a person or group from attempting to remove our general partner or acquire control of us without the consent of our general partner. As a result of these provisions, the price at which our common units trade may be lower because of the absence or reduction of a takeover premium in the trading price.

*The control of our general partner may be transferred to a third party without unitholder consent.*

Our general partner has agreed not to withdraw voluntarily as our general partner on or before December 31, 2010 (with limited exceptions), unless the holders of at least a majority of our outstanding common units (excluding common units owned by our general partner and its affiliates) approve the withdrawal. However, the general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of our unitholders. Other than some transfer restrictions agreed to among the owners of our general partner relating to their interests in our general partner, there is no restriction in our partnership agreement or otherwise for the benefit of our limited partners on the ability of the owners of our general partner to transfer their ownership interests to a third party. The new owner of the general partner would then be in a position to replace the management of our Partnership with its own choices.

*Our general partner and its affiliates have conflicts of interests, which may permit our general partner and its affiliates to favor their own interests to the detriment of unitholders.*

We and our general partner and its affiliates share, and therefore compete for, the time and effort of general partner personnel who provide services to us. Officers of our general partner and its affiliates do not, and are not required to, spend any specified percentage or amount of time on our business. In fact, our general partner has a duty to manage our Partnership in the best interests of our unitholders, but it also has a duty to operate its business for the benefit of its partners. Some of our officers are also involved in management and ownership roles in other oil and natural gas enterprises and have similar duties to them and devote time to their businesses. Because these shared officers function as both our representatives and those of our general partner and its affiliates and of third parties, conflicts of interest could arise between our general partner and its affiliates, on the one hand, and us or our unitholders, on the other, or between us or our unitholders on the one hand and the third parties for which our officers also serve management functions. As a result of these conflicts, our general partner and its affiliates may favor their own interests over the interests of unitholders.

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*We may issue additional securities, diluting our unitholders' interests.*

We can and may issue additional common units and other capital securities representing limited partnership units, including options, warrants, rights, appreciation rights and securities with rights to distributions and allocations or in liquidation equal or superior to the securities described in this document, however, a majority of the unitholders must approve such issuance if (i) the partnership securities to be issued will have greater rights or powers than our common units or (ii) if after giving effect to such issuance, such newly issued partnership securities represent over 20% of the outstanding limited partnership interests.

If we issue additional common units, it will reduce our unitholders' proportionate ownership interest in us. This could cause the market price of the common units to fall and reduce the per unit cash distributions paid to our unitholders. In addition, if we issued limited partnership units with voting rights superior to the common units, it could adversely affect our unitholders' voting power.

*Our unitholders may not have limited liability in the circumstances described below and may be liable for the return of certain distributions.*

Under Delaware law, our unitholders could be held liable for our obligations to the same extent as a general partner if a court determined that the right of unitholders to remove our general partner or to take other action under our partnership agreement constituted participation in the "control" of our business.

The general partner generally has unlimited liability for the obligations of our Partnership, such as its debts and environmental liabilities, except for those contractual obligations of our Partnership that are expressly made without recourse to the general partner.

In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that, under certain circumstances, a unitholder may be liable for the amount of distribution for a period of three years from the date of distribution.

Because we conduct our business in various states, the laws of those states may pose similar risks to our unitholders. To the extent to which we conduct business in any state, our unitholders might be held liable for our obligations as if they were general partners if a court or government agency determined that we had not complied with that state's partnership statute, or if rights of unitholders constituted participation in the "control" of our business under that state's partnership statute. In some of the states in which we conduct business, the limitations on the liability of limited partners for the obligations of a limited partnership have not been clearly established.

*We are dependent upon key personnel, and the loss of services of any of our key personnel could adversely affect our operations.*

Our continued success depends to a considerable extent upon the abilities and efforts of the senior management of our general partner, particularly William Casey McManemin, its Chief Executive Officer, James E. Raley, its Chief Operating Officer, and H. C. Allen, Jr., its Chief Financial Officer. The loss of the services of any of these key personnel could have a material adverse effect on our results of operations. We have not obtained insurance or entered into employment agreements with any of these key personnel.

*We are dependent on service providers who assist us with providing Schedule K-1 tax statements to our unitholders.*

There are a very limited number of service firms that currently perform the detailed computations needed to provide each unitholder with estimated depletion and other tax information to assist the unitholder in various United States income tax computations. There are also very few publicly traded limited partnerships that need these services. As a result, the future costs and timeliness of providing Schedule K-1 tax statements to our unitholders is uncertain.

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### **Disclosure Regarding Forward-Looking Statements**

Statements included in this report which are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto), are forward-looking statements. These statements can be identified by the use of forward-looking terminology including “may,” “believe,” “will,” “expect,” “anticipate,” “estimate,” “continue” or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other “forward-looking” information.

These forward-looking statements are made based upon management’s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

Because these forward-looking statements involve risks and uncertainties, actual results could differ materially from those expressed or implied by these forward-looking statements for a number of important reasons, including those discussed under “Risk Factors” and elsewhere in this report.

You should read these statements carefully because they may discuss our expectations about our future performance, contain projections of our future operating results or our future financial condition, or state other “forward-looking” information. Before you invest, you should be aware that the occurrence of any of the events herein described in “Risk Factors” and elsewhere in this report could substantially harm our business, results of operations and financial condition and that upon the occurrence of any of these events, the trading price of our common units could decline, and you could lose all or part of your investment.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

#### **Facilities**

Our office in Dallas consists of 11,847 square feet of leased office space. The operating partnership owns a field office in Hooker, Oklahoma and leases part of an office in Amarillo, Texas.

#### **Properties**

Our Partnership owns two categories of properties, the Net Profits Interests and the Royalty Properties.

##### *Net Profits Interests*

We own net profits overriding royalty interests (referred to as the Net Profits Interests) in various properties owned by the operating partnership. All of the properties formerly owned by Dorchester Hugoton and various mineral, royalty and working interests formerly owned by Republic and Spinnaker were conveyed to the operating partnership subject to a Net Profits Interest upon our formation. We receive monthly payments equaling 96.97% of the net profits actually realized by the operating partnership from these properties in the preceding month. In the event costs exceed revenues in a given month for properties subject to a Net Profits Interest, no payment is made and any deficit is accumulated and carried over and reflected in the following month’s calculation of net profit.

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In accordance with our partnership agreement we have the continuing right to create additional Net Profits Interests by transferring properties to the operating partnership subject to the reservation of a Net Profits Interest identical to the Net Profit Interests created upon our formation. One such interest was created in each of calendar years 2003, 2004 and 2005 by transferring various properties to the operating partnership subject to a Net Profit Interest. These interests were subsequently combined effective December 31, 2004 and 2005 and we refer to it as the 2003/2004/2005 NPI. As of December 31, 2005 cumulative costs and expenses, which include an interest equivalent, totaled \$3,020,000 attributable to the 2003/2004/2005 NPI and exceeded cumulative revenues by \$561,000, an amount which we refer to as the 2003/2004/2005 NPI deficit. Our financial statements do not reflect activity attributable to properties subject to Net Profits Interests that are in a deficit status. Consequently, revenues, expenses, production sales volumes and prices, and oil and gas reserves set forth herein do not reflect amounts attributable to the 2003/2004/2005 NPI properties, but information concerning acreage owned and drilling activity thereon do reflect amounts attributable to these properties. All such deficits are borne 100% by our General Partner until the deficit is extinguished. Thereafter, we receive the 96.97% Net Profits Interests attributable to the previously deficit property groups.

#### *Acreage Summary*

The following tables set forth as of December 31, 2005 information concerning properties owned by the operating partnership and subject to the Net Profits Interests. Acreage amounts listed under Leasehold reflect gross acres leased by the operating partnership and the working interest share (net acres) in those properties. Acreage amounts listed under Mineral reflect gross acres in which the operating partnership owns a mineral interest and the undivided mineral interest (net acres) in those properties. The operating partnership's interest in these properties may be unleased, leased by others or a combination thereof. Acreage amounts may not add across due to overlapping ownership among categories.

	<u>Mineral</u>	<u>Royalty</u>	<u>Leasehold</u>	<u>Total</u>
Number of States	10	1	4	11
Number of Counties/Parishes	43	1	5	47
Gross Acres	44,227	640	87,847	132,714
Net Acres (where applicable)	4,763	—	81,165	85,928

The following table reflects the states in which the acreage amounts listed above are located.

	<u>Leasehold</u>		<u>Mineral/Royalty</u>		<u>Total</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Oklahoma	79,861	74,031	9,246	601	89,107	74,632
Kansas	7,035	7,035	640	20	7,675	7,055
All Others	951	99	34,981	4,142	35,932	4,241
Totals	<u>87,847</u>	<u>81,165</u>	<u>44,867</u>	<u>4,763</u>	<u>132,714</u>	<u>85,928</u>

The operating partnership owns working interests below the currently producing horizons in 47,360 gross/46,960 net acres in Texas County, Oklahoma. The operating partnership has from time to time farmed out its leasehold interests in portions of these lands, reserving an overriding royalty interest therein, and will consider additional exploration or development of these lands as circumstances warrant.

#### *Drilling Activity*

During 2005, the operating partnership participated as a working interest or unleased mineral interest owner in 49 wells located on lands subject to the Net Profits Interest. These wells were located in 15 counties in seven states. As of December 31, 2005, 20 of these wells had been completed as producing oil or natural gas wells, one was deemed to be a dry hole and 12 were in various stages of drilling or completion operations. In addition, four

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wells that were drilling as of December 31, 2004 were completed as producing oil or natural gas wells during 2005. Selected new wells drilled in 2005 and the working and net revenue interests owned therein by the operating partnership are summarized in the following table:

State	County/Parish	Operator	Well Name	Ownership		Test Rates	
				WI (1)	NRI (1)	Gas, mcf	Oil, bbls
Montana	Richland	Continental Res.	Carda 1-28H	5.9%	5.9%	—	789
Montana	Richland	Headington	Childers 24X-2	2.0%	1.4%	282	511
Oklahoma	Roger Mills	Chesapeake	Alexander 1-30	1.5%	1.5%	2,017	13
Oklahoma	Roger Mills	Chesapeake	Fowler 3-6	1.5%	1.5%	2,679	40
Oklahoma	Roger Mills	JMA	Hutson Farms 2-18	1.6%	1.6%	6,113	12
Oklahoma	Roger Mills	Chesapeake	Davis 1-30	1.5%	1.5%	2,836	—
Oklahoma	Roger Mills	JMA	Hutson Farms 1-18	1.6%	1.6%	3,608	9
Oklahoma	Roger Mills	JMA	Hutson Farms 4-18	1.6%	1.6%	2,406	3
Oklahoma	Roger Mills	JMA	Hutson Farms 3-18	1.6%	1.6%	1,900	3
Oklahoma	Roger Mills	JMA	Hutson Farms 5-18	1.6%	1.6%	2,946	—

(1) WI and NRI mean working interest and net revenue interest, respectively.

#### Costs Incurred

The following table sets forth information regarding 100% of the costs incurred on a cash basis by the operating partnership during the periods indicated in connection with the properties underlying the Net Profits Interests.

	Years Ended December 31,		
	2005	2004	2003
	(in thousands)		
Acquisition costs <sup>(1)</sup>	\$ —	\$ 213	\$ 3
Development costs <sup>(1) (2)</sup>	1,295	1,038	1,393
	<u>\$1,295</u>	<u>\$1,251</u>	<u>\$1,396</u>

(1) Information prior to January 31, 2003 attributable to properties formerly owned by Republic and Spinnaker is excluded. We believe the exclusion of this information is immaterial.

(2) The years ended December 31, 2003, 2004 and 2005 include \$336,000, \$875,000 and \$1,086,000, respectively, attributable to the 2003/2004/2005 NPI.

#### Productive Well Summary

The following table sets forth as of December 31, 2005 the combined number of producing wells on the properties subject to the Net Profits Interests. Gross wells refer to wells in which a working interest is owned. Net wells are determined by multiplying gross wells by the working interest in those wells.

Location	Productive Wells/Units <sup>(1)</sup>	
	Gross	Net
Oklahoma	176	116.7
Kansas	20	20.0
All others	105	5.9
Total	<u>301</u>	<u>142.6</u>

(1) Multiple well units operated by someone other than the operating partnership and in which we own Net Profits Interests are included as one gross well.

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#### *Royalty Properties*

We own Royalty Properties representing producing and nonproducing mineral, royalty, overriding royalty, net profits and leasehold interests in properties located in 573 counties and parishes in 25 states. Acreage amounts listed herein represent our best estimates based on information provided to us as a royalty owner. Due to the significant number of individual deeds, leases and similar instruments involved in the acquisition and development of the Royalty Properties by us or our predecessors, acreage amounts are subject to change as new information becomes available. In addition, as a royalty owner, our access to information concerning activity and operations on the Royalty Properties is limited. Most of our producing properties are subject to old leases and other contracts pursuant to which we are not entitled to well information. Some of our newer leases provide for access to technical data and other information. We may have limited access to public data in some areas through third party subscription services. Consequently, the exact number of wells producing from, or drilling on the Royalty Properties is not determinable. The primary manner by which we will become aware of activity on the Royalty Properties is the receipt of division orders or other correspondence from operators or purchasers.

#### *Acreage Summary*

The following table sets forth as of December 31, 2005 a summary of our gross and net, where applicable, acres of mineral, royalty, overriding royalty and leasehold interests, and a compilation of the number of counties and parishes and states in which these interests are located. The majority of our net mineral acres are unleased. Acreage amounts may not add across due to overlapping ownership among categories.

	Mineral	Royalty	Overriding Royalty	Leasehold	Total
Number of States	25	17	18	8	25
Number of Counties/Parishes	464	190	140	35	573
Gross	2,256,669	586,418	243,038	35,398	3,121,523
Net (where applicable)	344,862	—	—	—	344,862

Our net interest in production from royalty, overriding royalty and leasehold interests is based on lease royalty and other third party contractual terms which vary from property to property. Consequently, net acreage ownership in these categories is not determinable. Our net interest in production from properties in which we own a royalty or overriding royalty interest may be affected by royalty terms negotiated by the mineral interest owners in such tracts and their lessees. Our interest in the majority of these properties is perpetual in nature. However, a minor portion of the properties are subject to terms and conditions pursuant to which a portion of our interest may terminate upon cessation of production.

The following table sets forth as of December 31, 2005 the combined summary of total gross and net (where applicable) acres of mineral, royalty, overriding royalty and leasehold interests in each of the states in which these interests are located.

State	Gross	Net	State	Gross	Net
Alabama	106,074	7,797	Missouri	334	43
Arkansas	46,951	15,113	Montana	281,991	62,630
California	924	162	Nebraska	3,360	257
Colorado	22,880	1,424	New Mexico	44,530	2,194
Florida	88,832	24,249	New York	23,077	18,440
Georgia	3,676	1,024	North Dakota	293,614	37,201
Illinois	4,729	885	Oklahoma	228,655	15,999
Indiana	303	113	Pennsylvania	9,511	4,653
Kansas	13,981	2,385	South Dakota	14,408	1,266
Kentucky	1,995	553	Texas	1,637,822	134,507
Louisiana	133,408	1,670	Utah	5,937	200
Michigan	54,367	2,623	Wyoming	28,128	1,057
Mississippi	72,036	8,417			

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#### *Leasing Activity*

We received cash payments in the amount of \$1,734,000 from various sources during 2005, including lease bonus attributable to 69 leases and nine pooling elections and extensions of four leases in lands located in 26 counties and parishes in five states. These leases reflected bonus payments ranging up to \$800/acre and initial royalty terms ranging up to 30%. Many of these leases contain additional overriding royalty interests, and provisions for optional working interest participation in subsequent wells, back-in working interests after payout or escalating royalty terms. These cash payments are reflected in our financial statements in various categories including, but not limited to, lease bonus and other income.

We received cash payments in the amount of \$1,168,000 from various sources during the fourth quarter of 2005, including lease bonus attributable to 27 leases and pooling elections of our interests in lands located in 14 counties and parishes in four states. These leases reflected bonus payments ranging up to \$700/acre and initial royalty terms ranging up to 30%. These cash payments are reflected in our financial statements in various categories including, but not limited to, lease bonus and other income.

The following table sets forth a summary of leases and pooling elections consummated during 2003 through 2005.

	2005	2004	2003
Consummated Leases			
Number	78	42	27
Number of States	5	5	8
Number of Counties	26	26	20
Average Royalty	24.8%	24.0%	23.2%
Average Bonus, \$/acre	\$ 309	\$ 256	\$ 96
Total Lease Bonus	\$1,680,000	\$1,654,000	\$252,000
Other Land Revenue	54,000	253,000	374,000
Total Land Revenue	<u>\$1,734,000</u>	<u>\$1,907,000</u>	<u>\$626,000</u>

Fifteen leases were granted for no bonus consideration in 2005 but which reflected primary terms of as little as six months and royalty terms ranging from 25% to 30%. Average bonus and royalty terms reflected above include these fifteen leases. Ten leases were granted in 2005 which included (in addition to royalty or bonus) an overriding royalty interest, back-in working interest or optional working interest participation. Average royalty terms reflected above do not reflect these additional interests. Amounts reflected above may differ from the financial statements which are presented on an accrual basis. Average Royalty and Bonus exclude amounts attributable to pooling elections. Other Land Revenue includes gas storage, shut-in and delay rental payments, coal royalty, surface use agreements, litigation judgments and settlement proceeds, proceeds of royalty payment audits and other sources. These cash payments are reflected in our financial statements in various categories including, but not limited to, lease bonus, and other income. Other Land Revenue does not include interest income and note principal payments which totaled \$413,000 in 2005.

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#### Drilling Activity

We received division orders for, or otherwise identified 289 new wells completed on our Royalty Properties and Net Profits Interests in 66 counties and parishes in 13 states during 2005. We received division orders for, or otherwise identified 77 new wells completed on our Royalty Properties and Net Profits Interests in 35 counties and parishes in eight states during the fourth quarter of 2005. Selected new wells and the net revenue interest (NRI) owned therein by us are summarized in the following table.

State	County/Parish	Operator	Well Name	Ownership	Test Rates	
				Net Revenue Interest	Gas, mcf	Oil, bbls
Louisiana	Pointe Coupee	Energy Production	LaBarre Plantation 1	0.5%	7,000	38
Louisiana	Pointe Coupee	Energy Production	LaBarre Plantation 2	1.0%	10,350	28
Oklahoma	Beckham	Apache	Perryman 4-21	3.1%	1,072	—
Oklahoma	Beckham	Apache	Perryman 6-25	1.5%	3,205	7
Oklahoma	Beckham	Apache	Perryman 7-25	1.5%	2,618	2
Oklahoma	Custer	Cimarex	Kephart 3-33	5.4%	4,898	21
Texas	Starr	Petrohawk	Cleopatra 3	1.6%	2,244	—
Texas	Starr	Petrohawk	Cleopatra 4	1.6%	2,996	41
Texas	Tyler	Anadarko	Wheat Mineral Trust 2	1.5%	2,842	548
Texas	Dewitt	Hurd	Kornfuehrer 1	1.2%	2,148	24
Texas	Hidalgo	Samson	Schaleben 7	2.1%	1,749	5
Texas	Hidalgo	Shell	Woods Christian 46	2.7%	2,419	60

Additional information concerning selected recent activity is summarized below:

*T-Patch (Reklaw OSO) Field, Jim Hogg and Starr Counties, Texas*—We own varying undivided mineral interests totaling 4,994/1,583 gross/net acres in three tracts in Jim Hogg and Starr Counties, Texas and which we leased to EOG Resources, Inc. (“EOG”) in 2004.

EOG has drilled and completed eight wells on one of these tracts (which we call the Southwest Texas Corp. tract) since August 2004. Initial production test rates from these wells as reported to the Texas Railroad Commission ranged up to 8,970 mcf and 184 barrels of oil per day. These wells produce natural gas and condensate from the Queen City “Reklaw” reservoir at approximately 9,000 feet and have exhibited significant declines from initial production rates. Total gas production from the Southwest Texas Corp. tract declined from a peak of 32,500 mcf per day from five wells in May, 2005 to 14,181 mcf/d from seven wells in November. Based on available production data, management is unable to project whether these wells will exhibit hyperbolic or exponential decline profiles. These wells contributed significantly to the increase in royalty gas sales volumes and related cashflow during 2005. We expect volumes and cashflow attributable to these wells to continue to decline in 2006. We received \$3,015,000 in cash receipts in 2005 attributable to production during November 2004 through October 2005 from these wells including \$1,058,000 in the fourth quarter. We received \$505,000 in January and February 2006 attributable to production during November and December 2005 from these wells. Our estimated proved reserves as of December 31, 2005 reflect our 5.12% net revenue interest share of estimated gross remaining reserves of 12.8 bcf and 180,296 barrels attributable to these eight wells. These reserves reflect average gross ultimate reserves of 2.5 bcf and 42,700 barrels per well. No proved undeveloped reserves have been assigned to this property.

EOG has drilled one well and is drilling another on the second of these tracts (which we call the Guerra Mineral Trust tract). The Guerra Mineral Trust No. 1 well spud in January 2006 to a permitted total depth of 8,100 feet and is currently waiting on completion operations. The Guerra Mineral Trust No. 2 well spud in March 2006 to a permitted total depth of 8,000 feet and is currently drilling. We own a 10.2% net revenue interest in this tract.

EOG has not permitted a well to be drilled on the third tract leased in 2004. We own varying undivided mineral interests in eight tracts adjacent to or in the vicinity of this third tract totaling 3,254/1,306 gross/net mineral acres. On January 23, 2006, we circulated a Request For Proposals (RFP) to industry participants, soliciting expressions of interest to lease our interests in these eight tracts. We are currently negotiating an offer with one party. We can not project if, when or with whom we may elect to lease our interests in these lands.

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*Jeffress (Vicksburg S) Field, Hidalgo County, Texas*—We own varying undivided mineral interests in several thousand acres in the greater Jeffress Field area of western Hidalgo County, Texas. Jeffress and associated nearby fields produce gas and condensate from tight Vicksburg sandstone reservoirs at depths ranging from 8,000 feet to 14,000 feet. El Paso Production and XTO Energy are the most active operators in this area. We leased our interest in approximately 417 acres to Dan A. Hughes Company (“Hughes”) in October 2005 for a 25% royalty. In addition, the operating partnership was granted a five percent overriding royalty interest in the first well which is convertible to a 25% working interest at payout. The operating partnership has the option to participate for a 25% working interest in all future wells drilled on the 417 acre tract or within a surrounding area comprising approximately 1,000 acres. In the event the operating partnership does not exercise this option it will receive a 5% override in wells drilled on the 417 acre tract. Each of these interests is proportionately reduced to our mineral interest, resulting in our ownership of a 6.25% net royalty interest and the operating partnership’s 1.3% net overriding royalty interest or 6.25% working interest.

Hughes drilled the Coates-Dorchester 1 well in November 2005 to a permitted total depth of 11,500 feet. As of December 31, 2005 the well was waiting on completion operations. The well was tested to sales on January 26, 2006 at rates of 3,263 mcf and 96 barrels per day and was flowing at rates of 4,093 mcf and 72 barrels per day on March 7, 2006. No proved reserves have been assigned to our 6.25% net revenue interest or the operating partnership’s 1.3% overriding royalty interest in this well. The overriding royalty interest, back-in working interest and optional working interest in future wells (if any) is part of the 2003/2004/2005 NPI.

*Haley Field Area, Loving and Winkler Counties, Texas*—We own varying undivided mineral and royalty interests in over 90 sections located in north central Loving and western Winkler counties, Texas and southeastern Lea County, New Mexico portions of the Delaware basin in the vicinity of the Haley Field. Operators active in this area include Anadarko, Browning Oil, Chesapeake Energy and Forest Oil. We leased our interests in 2004 and 2005 in 39 sections for a one-quarter royalty and bonuses ranging up to \$700/acre. In addition, the operating partnership has the option to participate for a 10% working interest in wells drilled in 11 of these sections, which option is exercisable after the first well is drilled in each of these sections and in all subsequent wells. Each of these interests is proportionately reduced to our mineral interest in each tract. The optional working interest is part of the 2003/2004/2005 NPI.

As of December 31, 2005, no wells were permitted on these lands.

*Fayetteville Shale Trend of Northern Arkansas*—We own varying undivided mineral interests totaling 19,543/9,753 gross/net acres located in Cleburne, Conway, Faulkner, Pope, Van Buren and White Counties, Arkansas. These lands are unleased, perpetual mineral interests and are located in what is commonly referred to as the “Fayetteville Shale” trend of the Arkoma Basin. Southwestern Energy and Chesapeake Energy are the most active operators in the play. We have received numerous lease offers for our interests in this area, which offers we have declined to date in order to gather additional information.

On January 30, 2006, we circulated a Request For Proposals (RFP) to industry participants, which RFP solicited expressions of interest to lease our interests in this play. We are currently evaluating several offers. We can not project if, when or with whom we may elect to lease our interests in these lands.

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### Oil and Natural Gas Reserves

The following table reflects the Partnership's proved developed and total proved reserves, future net revenues and SEC PV-10 at December 31, 2003, 2004 and 2005. The reserves and future net revenues are based on the reports of the independent petroleum engineering consulting firms of Calhoun, Blair & Associates as to the Net Profits Interests and Huddleston & Co., Inc. as to the Royalty Properties. Other than those filed with the SEC, our estimated proved reserves have not been filed with or included in any reports to any federal agency.

	2005			2004			2003		
	Net Profits Interest <sup>(1)</sup>	Royalty Properties	Total	Net Profits Interest <sup>(1)</sup>	Royalty Properties	Total	Net Profits Interest <sup>(1)</sup>	Royalty Properties	Total
Proved reserves									
Natural gas (mmcf) <sup>(2)</sup>	37,334	28,965	66,299	39,833	29,626	69,459	41,773	28,354	70,127
Oil (mbbls) <sup>(3)</sup>	81	3,948	4,029	44	3,893	3,937	47	3,722	3,769
Future net revenues (\$, in thousands)	\$ 214,430	\$ 404,950	\$ 619,380	\$ 155,933	\$ 295,326	\$ 451,259	\$ 156,496	\$ 252,464	\$ 408,960
SEC PV-10 <sup>(4)</sup> (\$, in thousands)	\$ 142,574	\$ 201,107	\$ 343,681	\$ 105,693	\$ 148,894	\$ 254,587	\$ 105,477	\$ 128,345	\$ 233,822

- (1) Reserves, revenues and present values reflect 96.97% of the corresponding amounts assigned to the operating partnership's interests in the properties underlying the Net Profits Interests.
- (2) Total proved reserves include 218 mmcf, 583 mmcf, and 582 mmcf of proved undeveloped gas reserves attributable to the Royalty Properties at December 31, 2005, 2004 and 2003, respectively.
- (3) Total proved reserves include 2 mbbls, 2 mbbls, and 2 mbbls of proved undeveloped oil reserves attributable to the Royalty Properties at December 31, 2005, 2004 and 2003, respectively.
- (4) We do not reflect a federal income tax provision since our partners will include the income of our Partnership in their respective federal income tax returns.

### Title to Properties

Our general partner believes we have satisfactory title to all of our assets. Record title to essentially all our assets has undergone the appropriate filings in the jurisdictions in which such assets are located. Title to property may be subject to encumbrances. Our general partner believes that none of such encumbrances should materially detract from the value of our properties or from our interest in these properties or should materially interfere with their use in the operation of our business.

### ITEM 3. LEGAL PROCEEDINGS

In connection with the combination, we succeeded to the rights and liabilities of Dorchester Hugoton, Republic and Spinnaker with respect to all legal proceedings involving those partnerships.

In January 2002, some individuals and an association called Rural Residents for Natural Gas Rights sued Dorchester Hugoton, Ltd., along with several other operators in Texas County, Oklahoma. The operating partnership now owns and operates the properties formerly owned by Dorchester Hugoton. These properties contribute a major portion of the Net Profits Interests amounts paid to the Partnership. The plaintiffs consist primarily of Texas County, Oklahoma residents who, in residences located on leases use natural gas from gas wells located on the same leases, at their own risk, free of cost. The plaintiffs seek declaration that their domestic gas use is not limited to stoves and inside lights and is not limited to a principal dwelling as provided in the oil and gas leases entered into in the 1930s to the 1950s. Plaintiffs' claims against defendants include failure to prudently operate wells, violation of rights to free domestic gas, and fraud. Plaintiffs also seek certification of class action against defendants. On October 1, 2004, the plaintiffs severed claims against the operating partnership regarding royalty underpayments. The operating partnership believes plaintiffs' claims, including severed claims, are completely without merit. Based upon past measurements of such domestic gas usage, the operating partnership believes the domestic gas damages sought by plaintiffs to be minimal. An adverse decision could reduce amounts the Partnership receives from the Net Profits Interests.

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The Partnership and the operating partnership are involved in other legal and/or administrative proceedings arising in the ordinary course of their businesses, none of which have predictable outcomes and none of which are believed to have any significant effect on financial position or operating results.

#### ITEM 4. SUBMISSION OF A MATTER TO A VOTE OF UNITHOLDERS

No matters were submitted to a vote of unitholders during the fourth quarter of the year ended December 31, 2005.

### PART II.

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED UNITHOLDER MATTERS

Our Partnership's common units began trading on the NASDAQ National Market on February 3, 2003. The following summarizes the high and low sales information for the common units for the period indicated. The information below reflects inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	2005		2004	
	High	Low	High	Low
First Quarter	\$24.82	\$22.03	\$20.15	\$17.01
Second Quarter	\$24.50	\$21.07	\$20.57	\$16.94
Third Quarter	\$30.72	\$23.50	\$20.53	\$17.78
Fourth Quarter	\$30.59	\$24.05	\$24.94	\$20.20

As of December 31, 2005, there were 6,973 common unitholders.

Beginning with the quarter ended March 31, 2003, as required by our partnership agreement, we distributed and will continue to distribute, on a quarterly basis, within 45 days of the end of the quarter, all of our available cash. Available cash generally means, all cash and cash equivalents on hand at the end of that quarter, less any amount of cash reserves that our general partner determines is necessary or appropriate to provide for the conduct of its business or to comply with applicable law or agreements or obligations to which we may be subject.

Since our Partnership's combination on January 31, 2003, unitholder cash distributions per common unit have been:

Year	Quarter	Record Date	Payment Date	Per Unit Amount
2003	1st (partial)	April 28, 2003	May 8, 2003	\$ 0.206469
2003	2nd	July 28, 2003	August 7, 2003	\$ 0.458087
2003	3rd	October 31, 2003	November 10, 2003	\$ 0.422674
2003	4th	January 26, 2004	February 5, 2004	\$ 0.391066
2004	1st	April 30, 2004	May 10, 2004	\$ 0.415634
2004	2nd	July 26, 2004	August 5, 2004	\$ 0.415315
2004	3rd	October 25, 2004	November 4, 2004	\$ 0.476196
2004	4th	February 1, 2005	February 11, 2005	\$ 0.426076
2005	1st	April 29, 2005	May 9, 2005	\$ 0.481242
2005	2nd	July 25, 2005	August 4, 2005	\$ 0.514542
2005	3rd	October 24, 2005	November 3, 2005	\$ 0.577287
2005	4th	January 30, 2006	February 9, 2006	\$ 0.805543

Distributions beginning with the third quarter 2004 were paid on 28,240,431 units; previous distributions were paid on 27,040,431 units. The partnership agreement requires the next cash distribution to be paid by May 15, 2006.

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Please see “Fourth Quarter 2005 Distribution Indicated Price” discussion contained in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Distributions for production periods and cash receipts and weighted average prices corresponding to the fourth quarter 2005 distribution.

### Recent Sales of Unregistered Securities

In connection with the closing of the combination on January 31, 2003, under the terms of the combination agreement we issued (i) a number of common units determined in accordance with the combination agreement to Dorchester Hugoton which were distributed to the former general partners of Dorchester Hugoton as part of the liquidation of Dorchester Hugoton and (ii) general partner interests in our Partnership to the former general partners of Republic and Spinnaker. The former general partners of Dorchester Hugoton, Republic and Spinnaker contributed the common units and general partner interests, as applicable, to our general partner in accordance with the terms of the Contribution Agreement dated December 13, 2001. Under the terms of our partnership agreement, the common units contributed to our general partner by the former general partners of Dorchester Hugoton were converted into general partner interests in our Partnership. The foregoing transactions were exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof on the basis that the transactions did not involve a public offering. No underwriters were involved in the foregoing transactions.

### ITEM 6. SELECTED FINANCIAL DATA

The combination of Republic, Spinnaker and Dorchester Hugoton on January 31, 2003 was accounted for as a purchase and Dorchester Hugoton was designated as the accounting acquirer in connection with the combination. Prior to January 31, 2003, our Partnership had no combined operations. As a result, the following table sets forth a summary of historical selected financial and operating data for Dorchester Hugoton for 2001 through 2002, and certain pro forma operating data assuming the combination occurred on January 1, 2002. As required, the data presented for fiscal year ended December 31, 2003 consists of 11 months of our Partnership’s results and January 2003 results for Dorchester Hugoton. The years ended December 31, 2004 and 2005 are exclusively our Partnership data. This table should be read in conjunction with the financial statements and related notes included elsewhere in this document. All of the historical data presented prior to 2003 has been derived from the audited financial statements of Dorchester Hugoton and does not contain any information with respect to Republic or Spinnaker, or our Partnership, pre-combination.

	Fiscal Year Ended December 31, (in thousands, except per unit data)						
	2003	2002	2005	2004	2003	2002	2001
	Pro Forma		Historic				
Total operating revenues	\$ 51,113	\$ 37,547	\$ 79,765	\$ 56,767	\$ 49,224	\$ 18,738	\$ 26,779
Depreciation, depletion and amortization	\$ 25,390	\$ 25,844	\$ 20,858	\$ 20,795	\$ 23,639	\$ 2,130	\$ 2,105
Impairment	\$ 43,804	\$ —	\$ —	\$ —	43,804	—	—
Net earnings (loss)	\$ (26,976)	\$ 6,524	\$ 52,775	\$ 30,076	\$ (26,827)	\$ 12,963	\$ 18,351
Net earnings (loss) per unit	\$ (0.97)	\$ 0.24	\$ 1.82	\$ 1.07	\$ (1.02)	\$ 1.19	\$ 1.69
Cash distributions <sup>(1)</sup>			\$ 58,028	\$ 47,701	\$ 50,798	\$ 8,791	\$ 13,349
Cash distributions per unit <sup>(1)</sup>			\$ 2.00	\$ 1.70	\$ 1.94	\$ 0.81	\$ 1.23
Total assets			\$ 200,830	\$ 206,173	\$ 198,951	\$ 40,103	\$ 41,454
Total liabilities			\$ 945	\$ 1,035	\$ 512	\$ 1,233	\$ 4,118
Partners’ equity			\$ 199,885	\$ 205,138	\$ 198,439	\$ 38,870	\$ 37,336

<sup>(1)</sup> Because of depletion (which is usually higher in the early years of production), a portion of every distribution of revenues from properties represents a return of a limited partner’s original investment. Until a limited partner receives cash distributions equal to his original investment, in certain circumstances, 100% of such distributions may be deemed

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to be a return of capital. Cash distributions for 2003 include Dorchester Hugoton's liquidating distribution declared in January 2003. Cash distributions for 2003 through 2005 exclude the fourth quarter distribution declared in January 2004, 2005 and 2006 and paid in February 2004, 2005 and 2006. Cash distributions for 2004 and 2005 include the 2003 and 2004, respectively, fourth quarter distributions.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Basis of Presentation

In the combination completed on January 31, 2003 and accounted for as a purchase, Dorchester Hugoton was designated as the accounting acquiror. Prior to January 31, 2003, our Partnership had no combined operations. **In these circumstances, we are required to present, discuss and analyze the financial condition and results of operations of Dorchester Hugoton, the accounting acquiror, for the one month period ended January 31, 2003 and the financial condition and results of operations for our Partnership for the eleven month period ended December 31, 2003. Information for the years ended December 31, 2004 and 2005 are exclusively our Partnership.** For the purposes of this presentation, the term combination means the transactions consummated in connection with the combination of the business and properties of Dorchester Hugoton, Republic and Spinnaker.

### Critical Accounting Policies

We utilize the full cost method of accounting for costs related to our oil and gas properties. Under this method, all such costs are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the units-of-production method. These capitalized costs are subject to a ceiling test however, which limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved oil and gas reserves discounted at 10% plus the lower of cost or market value of unproved properties. In accordance with applicable accounting rules, Dorchester Hugoton was deemed to be the accounting acquiror of the Republic and Spinnaker assets. Our Partnership's acquisition of these assets was recorded at a value based on the closing price of Dorchester Hugoton's common units immediately prior to consummation of the combination transaction, subject to certain adjustments. Consequently, the acquisition of these assets was recorded at values that exceed the historical book value of these assets prior to consummation of the combination transaction. Our Partnership did not assign any book or market value to unproved properties, including non-producing royalty, mineral and leasehold interests. The full cost ceiling is evaluated at the end of each quarter. For 2003, our unamortized costs of oil and gas properties exceeded the ceiling test. As a result, in 2003, our Partnership recorded full cost write-downs of \$43,804,000. No additional impairments have been recorded since the quarter ended September 30, 2003.

The discounted present value of our proved oil and gas reserves is a major component of the ceiling calculation and requires many subjective judgments. Estimates of reserves are forecasts based on engineering and geological analyses. Different reserve engineers may reach different conclusions as to estimated quantities of natural gas or crude oil reserves based on the same information. Our reserve estimates are prepared by independent consultants. The passage of time provides more qualitative information regarding reserve estimates, and revisions are made to prior estimates based on updated information. However, there can be no assurance that more significant revisions will not be necessary in the future. Significant downward revisions could result in an impairment representing a non-cash charge to earnings. In addition to the impact on calculation of the ceiling test, estimates of proved reserves are also a major component of the calculation of depletion.

While the quantities of proved reserves require substantial judgment, the associated prices of oil and gas reserves that are included in the discounted present value of our reserves are objectively determined. The ceiling test calculation requires use of prices and costs in effect as of the last day of the accounting period, which are generally held constant for the life of the properties. As a result, the present value is not necessarily an indication of the fair value of the reserves. Oil and gas prices have historically been volatile and the prevailing prices at any given time may not reflect our Partnership's or the industry's forecast of future prices.

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. For example, estimates of uncollected revenues and unpaid expenses from royalties and Net Profits Interests in properties operated by non-affiliated entities are particularly subjective due to inability to gain accurate and timely information. Therefore, actual results could differ from those estimates. Please see Item 1. Business—Customers and Pricing and Item 2. Properties—Royalty Properties for additional discussion.

### New Accounting Standards

None.

### Contractual Obligations

Our office lease in Dallas, Texas comprises our contractual obligations.

Contractual Obligations	Total	Payments due by Period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Lease Obligations	\$2,138,000	\$ 204,000	\$429,000	\$453,000	\$ 1,052,000

### Results of Operations

Normally, our period-to-period changes in net earnings and cash flows from operating activities are principally determined by changes in oil and natural gas sales volumes and prices, and to a lesser extent, by capital expenditures deducted under the Net Profits Interests calculation. Our portion of oil and gas sales volumes and weighted average sales prices are shown in the following table. The portion of the sales volumes during January 2003 from the properties formerly owned by Dorchester Hugoton is not comparable to production volumes from the same properties in Note 7 of the Notes to Financial Statements because of fuel, shrinkage and pipeline loss.

	Years Ended December 31,		
	2005	2004	2003
<b>Accrual Basis Sales Volumes:</b>			
Dorchester Hugoton Gas Sales (mmcf) <sup>(1)</sup>	—	—	448
Net Profits Interests Gas Sales (mmcf)	4,873	5,351	5,001
Net Profits Interests Oil Sales (mbbls)	11	8	7
Royalty Properties Gas Sales (mmcf)	3,890	3,469	3,288
Royalty Properties Oil Sales (mbbls)	340	299	297
<b>Accrual Basis Weighted Averages Sales Price:</b>			
Dorchester Hugoton Gas Sales (\$/mcf)	—	—	\$ 5.20
Net Profits Interests Gas Sales (\$/mcf)	\$ 7.82	\$ 5.67	\$ 5.36
Net Profits Interests Oil Sales (\$/bbl)	\$50.58	\$37.51	\$28.74
Royalty Properties Gas Sales (\$/mcf)	\$ 7.43	\$ 5.56	\$ 5.11
Royalty Properties Oil Sales (\$/bbl)	\$51.07	\$38.44	\$28.63
<b>Accrual Basis Production Costs Deducted under the</b>			
Net Profits Interests (\$/mcf) <sup>(2)</sup>	\$ 1.43	\$ 1.20	\$ 1.17

(1) For purposes of comparison the January 2003 Dorchester Hugoton volumes have been reduced to reflect our 96.97% Net Profits Interests in production from the underlying properties.

(2) Provided to assist in determination of revenues; applies only to Net Profit Interest sales volumes and prices.

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#### *Comparison of the twelve-month periods ended December 31, 2005, 2004 and 2003*

Net Profits Interests Properties oil sales volumes increased 38% from 8 mbbbls during 2004 to 11 mbbbls during 2005, primarily as a result of improved production in North Dakota properties. Net Profits Interests Properties gas sales volumes decreased 9% from 5,351 mmcf during 2004 to 4,873 mmcf during 2005 principally as a result of natural reservoir depletion in the Guymon-Hugoton field in Oklahoma.

Royalty Properties oil sales volumes increased 14% from 299 mbbbls during 2004 to 340 mbbbls during 2005. Royalty Properties gas sales volumes increased 12% from 3,469 mmcf during 2004 to 3,890 mmcf during 2005. The increases in Royalty Property oil and gas sales volumes are attributable to the effects of the acquisition consummated at the end of third quarter of 2004 and new wells drilled in late 2004 and early 2005. See discussion under Drilling Activity in Item 2. Properties—Royalty.

Oil and natural gas sales volumes attributable to the Royalty Properties and oil and natural gas sales volumes attributable to the Net Profits Interests in properties formerly owned by Republic and Spinnaker prior to February 2003 are not included in the table above. See “—Basis of Presentation” and Note 1 of the Notes to Financial Statements. As a result, direct comparison of 2003/2004 volumes is not accurate. Assuming average monthly volumes for the 11 months of results for 2003 are representative of the full year of production, management estimates the 2004 aggregate gas sales volumes from these properties are 2% lower than 2003 and the 2004 aggregate crude oil volumes are 8% lower than 2003. These declines reflect normal reservoir depletion, partially offset by the effects of new drilling activity and properties acquired at the end of the 2004 third quarter.

Weighted average oil sales prices attributable to the Royalty Properties increased 33% from \$38.44 per bbl in 2004 to \$51.07 per bbl in 2005. Similarly, Royalty Properties weighted average gas sales prices increased 34% from \$5.56 per mcf during 2004 to \$7.43 per mcf during 2005. Weighted average Net Profits Interests Properties gas sales prices increased 38% from \$5.67 per mcf during 2004 to \$7.82 per mcf during 2005. Net Profits Interests Properties weighted average oil sales prices increased 35% from \$37.51 per bbl during 2004 to \$50.58 per bbl during 2005. All such increases resulted from changing market conditions.

Weighted average oil and natural gas sales prices attributable to the Royalty Properties and oil and natural gas sales prices attributable to the Net Profits Interests in properties formerly owned by Republic and Spinnaker prior to February 2003 are not included in the table above. See “—Basis of Presentation” and Note 1 of the Notes to Financial Statements. As a result, direct comparison of 2003/2004 prices is not accurate. Management estimates the 2003 weighted average oil and natural gas sales prices from these properties would not change significantly by inclusion of January 2003. Consequently, Net Profits Interests oil pricing increased approximately 31% and Royalty oil pricing increased approximately 34% from 2003 to 2004. Similarly, Net Profits Interests gas pricing increased approximately 6% and Royalty gas pricing increased approximately 9% from 2003 to 2004.

Our 2005 net operating revenues increased 41% from \$56,767,000 during 2004 to \$79,765,000 primarily as a result of increased oil and natural gas sales prices. Our 2004 net operating revenues increased 15.3% from \$49,224,000 during 2003 to \$56,767,000 primarily as a result of increased oil and natural gas sales prices. Management cautions the reader in the comparison of 2003 results because revenues attributable to properties formerly owned by Republic and Spinnaker are not included in January 2003. See “—Basis of Presentation” and Note 1 of the Notes to Financial Statements.

General and administrative costs (“G&A”) decreased from \$2,580,000 in 2004 to \$2,354,000 in 2005 primarily due to the completion of the Partnership’s office relocation in 2004 as well as the elimination of certain costs that did not occur in 2005. G&A increased from \$2,401,000 in 2003 to \$2,580,000 in 2004 primarily because of approximately \$300,000 in increased costs related to additional personnel and other employee expenses, approximately \$125,000 increase related to the October 2004 office relocation, and approximately \$170,000 increase due to a one-time production tax deposit by the operating partnership, partially offset by one-time expenses incurred in 2003.

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Tax and regulatory expenses decreased from \$1,033,000 in 2004 to \$525,000 in 2005 primarily due to reduced compliance costs of both audit and Sarbanes Oxley 404 internal controls over financial reporting, and stabilizing of costs related to the preparation of Annual Form K-1's for investors. Tax and regulatory expenses increased from \$587,000 in 2003 to \$1,033,000 in 2004 primarily due to increased compliance costs of both audit and Sarbanes Oxley 404 internal controls over financial reporting costs as well as the preparation of Annual Form K-1's for investors.

During 2004, several categories of costs were lower than in 2003 as a result of non-recurring expenses associated with the 2003 liquidation of Dorchester Hugoton. Such comparisons include no combination and related expenses in 2004 compared with \$3,080,000 primarily as a result of approximately \$2,500,000 in 2003 severance payments and related costs. Similarly, management fees in 2003 include a one-time \$496,000 charge. See “—Basis of Presentation” and Note 1 of the Notes to Financial Statements.

Depletion and amortization was \$20,795,000 in 2004 compared to \$20,858,000 in 2005 primarily as a result of a lower depletable base due to the effects of previous depletion. Depletion, depreciation and amortization decreased from \$23,639,000 in 2003 to \$20,795,000 in 2004 primarily as a result of a lower depletable base due to effects of previous depletion, depreciation and impairment of assets during 2003. Cash flow from operations and cash distributions to unitholders are not affected by depletion, depreciation and amortization. Management cautions the reader in the comparison of 2003 results because operations of the properties formerly owned by Republic and Spinnaker are not included in January 2003. See “—Basis of Presentation,” and Note 1 of the Notes to Financial Statements.

During 2003, our Partnership recorded non-cash charges against earnings totaling \$43,804,000. The write-down represents an impairment of oil and gas properties that resulted primarily from the difference, after accumulated depletion and prior write-downs, between the discounted present value of our Partnership's proved natural gas and oil reserves using the quarter ending gas and oil prices as compared to the initial book value assigned to former Republic and Spinnaker assets in accordance with purchase accounting rules, which value significantly exceeded historic book value. The write-down is a function of such increased initial book value, accumulated depletion and prior write-downs, and changes in prevailing oil and gas prices since the combination transaction. Cash flow from operations and cash distributions to unitholders are not affected by the write-down. See Notes 1 and 5 of the Notes to Financial Statements and “—Critical Accounting Policies.” Considering the impairment (asset write-down) representing the non-cash charge to earnings, 2004 net earnings increased from a loss of \$26,827,000 during 2003 to \$30,076,000 during 2004. Management cautions the reader in the comparison of results for 2003 because operations of the properties formerly owned by Republic and Spinnaker are not included for January 2003. See “—Basis of Presentation” and Note 1 of the Notes to Financial Statements.

Net cash provided by operating activities increased 42.1% from \$48,629,000 during 2004 to \$69,112,000 during 2005 and increased 25.6% from \$38,727,000 during 2003 to \$48,629,000 during 2004 due primarily to the effects of increased oil and natural gas sales prices compared to the prior periods. Management cautions the reader in the comparison of results for 2003 because operations of the properties formerly owned by Republic and Spinnaker are not included for January 2003. See “—Basis of Presentation” and Note 1 of the Notes to Financial Statements.

### Liquidity and Capital Resources

#### *Capital Resources*

Our primary sources of capital are our cash flow from the Net Profits Interests and the Royalty Properties. Our only cash requirements are the distributions to our unitholders, the payment of oil and gas production and property taxes not otherwise deducted from gross production revenues and general and administrative expenses incurred on our behalf and allocated in accordance with our partnership agreement. Since the distributions to our unitholders are, by definition, determined after the payment of all expenses actually paid by us, the only cash requirements that may create liquidity concerns for us are the payments of expenses. Since most of these

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expenses vary directly with oil and natural gas prices and sales volumes, we anticipate that sufficient funds will be available at all times for payment of these expenses. See Item 5. Market for Registrant's Common Equity and Related Unitholder Matters for the amounts and dates of cash distributions to our unitholders.

We are not directly liable for the payment of any exploration, development or production costs. We do not have any transactions, arrangements or other relationships that could materially affect our liquidity or the availability of capital resources.

Pursuant to the terms of our partnership agreement, we cannot incur indebtedness, other than trade payables, (i) in excess of \$50,000 in the aggregate at any given time or (ii) which would constitute "acquisition indebtedness" (as defined in Section 514 of the Internal Revenue Code of 1986, as amended).

#### *Off-Balance Sheet Arrangements*

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to unitholders.

#### *Expenses and Capital Expenditures*

The operating partnership does not currently anticipate drilling additional wells as a working interest owner in the Fort Riley zone or the Council Grove formations or elsewhere in the Oklahoma properties previously owned by Dorchester Hugoton. Successful activities by others in these formations or other developments currently underway could prompt a reevaluation of this position. Any such drilling is estimated to cost \$300,000 to \$350,000 per well. The operating partnership anticipates continuing additional fracture treating in the Oklahoma properties previously owned by Dorchester Hugoton but is unable to predict the cost as a specific engineering study is required for each fracture treatment. Three fracture treatments in those properties were conducted in 2005 and cost between \$50,000 and \$80,000 per well. The wells did not require casing repairs. The increases in production ranged from 0 mcf/d to 119 mcf/d. Such activities by the operating partnership could influence the amount we receive from the Net Profits Interests.

The operating partnership owns and operates the wells, pipelines and gas compression and dehydration facilities located in Kansas and Oklahoma previously owned by Dorchester Hugoton. The operating partnership anticipates gradual increases in expenses as repairs to these facilities become more frequent, and anticipates gradual increases in field operating expenses as reservoir pressure declines. The operating partnership does not anticipate incurring significant expense to replace these facilities at this time. These capital and operating costs are reflected in the Net Profits Interests payments we receive from the operating partnership.

In 1998, Oklahoma regulations removed production quantity restrictions in the Guymon-Hugoton field, and did not address efforts by third parties to persuade Oklahoma to permit infill drilling in the Guymon-Hugoton field. Both infill drilling and removal of production limits could require considerable capital expenditures. The outcome and the cost of such activities are unpredictable. Such activities by the operating partnership could influence the amount we receive from the Net Profits Interests. No additional compression affecting the wells formerly owned by Dorchester Hugoton has been installed since 2000 by operators on adjoining acreage. The operating partnership believes it now has sufficient field compression and permits for vacuum operation to remain competitive with adjoining operators for the foreseeable future.

#### *Liquidity and Working Capital*

Year-end cash and cash equivalents totaled \$23,389,000 for 2005, \$12,365,000 for 2004, and \$10,881,000 for 2003.

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#### *Distributions*

Distributions to limited partners and general partners related to cash receipts for the period from October 2003 through December 2005 were as follows:

Year	Quarter	Record Date	Payment Date	Per Unit Amount	Limited Partners	General Partners
2004	4th	February 1, 2005	February 11, 2005	\$0.426076	\$12,032,570	\$ 327,837
2005	1st	April 29, 2005	May 9, 2005	\$0.481242	\$13,590,481	\$ 363,211
2005	2nd	July 25, 2005	August 4, 2005	\$0.514542	\$14,530,881	\$ 411,445
2005	3rd	October 24, 2005	November 3, 2005	\$0.577287	\$16,302,833	\$ 468,033
Total distributions paid in 2005					\$56,456,765	\$1,570,526
2005	4th	January 30, 2006	February 9, 2006	\$0.805543	\$22,748,882	\$ 632,624

Beginning with the third quarter 2004, distributions were paid on 28,240,431 units; previous distributions were paid on 27,040,431 units. In general, the limited partners are allocated 99% of the Net Profits Interest Receipts and 96% of the Royalty Properties Net Receipts.

#### *Net Profits Interests*

We receive monthly payments from the operating partnership equal to 96.97% of the net proceeds actually realized by the operating partnership from the properties underlying the Net Profits Interests. The operating partnership retains the 3.03% balance of these net proceeds. Net proceeds generally reflect gross proceeds attributable to oil and natural gas production actually received during the month less production costs actually paid during the same month. Production costs generally reflect drilling, completion, operating and general and administrative costs and exclude depletion, amortization and other non-cash costs. The operating partnership made Net Profits Interests Payments to us totaling \$25,018,854 during October 2004 through September 2005, which payments reflected 96.97% of total net proceeds of \$25,800,574 realized from September 2004 through August 2005. Net proceeds realized by the operating partnership during September through November 2005 were reflected in Net Profits Interests payments made during October through December 2005. These payments were included in the fourth quarter distribution paid in early 2006 and are excluded from this 2005 analysis.

#### *Royalty Properties*

Revenues from the Royalty Properties are typically paid to us with proportionate severance (production) taxes deducted and remitted by others. Additionally, we generally pay ad valorem taxes, general and administrative costs, and marketing and associated costs since royalties and lease bonuses generally do not otherwise bear operating or similar costs. After deduction of the above described costs including cash reserves, our net cash receipts from the Royalty Properties during the period October 2004 through September 2005 were \$33,008,437: \$31,688,100 (96%) of which was distributed to the limited partners and \$1,320,337 (4%) of which was distributed to the general partner. Proceeds received by us from the Royalty Properties during the period October through December 2005 became part of the distribution paid in 2006. Such distribution is excluded from this 2005 analysis.

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#### *Distribution Determinations*

The actual calculation of distributions is performed each calendar quarter in accordance with our partnership agreement and the following calculation covering the period October 2004 through September 2005 demonstrates the method.

	<u>\$ In Thousands</u>	
	<u>Limited Partners</u>	<u>General Partner</u>
1% of Net Profits Interest Paid to our Partnership	\$ 0	\$ 250
99% of Net Profits Interests Paid to our Partnership	24,769	0
4% of Net Cash Receipts from Royalty Properties	0	1,320
96% of Net Cash Receipts from Royalty Properties	31,688	0
<b>Total Distributions</b>	<u>\$56,457</u>	<u>\$1,570</u>
Operating Partnership Share (3.03% of Net Proceeds)	0	782
<b>Total General Partner Share</b>		<u>\$2,352</u>
% of Total	96%	4%

In summary, our limited partners received 96% and our general partner received 4% of the net cash generated by our activities and those of the operating partnership during this period. Due to these fixed percentages, our general partner does not have any incentive distribution rights or other right or arrangement which will increase its percentage share of net cash generated by our activities or those of the operating partnership.

During the period October 2004 through September 2005, our Partnership's quarterly distribution payments to limited partners were based on all of its available cash. Our Partnership's only significant cash reserves that influenced quarterly payments were \$748,000 for ad valorem taxes. Additionally, certain production costs under the Net Profits Interests calculation and a small portion of management expense reimbursements include amounts for which funds were set aside monthly to enable payment when due. Examples are pension contributions and payroll taxes. These amounts generally are not held for periods over one year.

#### *Fourth Quarter 2005 Distribution Indicated Price*

In an effort to provide the reader with information concerning prices of oil and gas sales that correspond to our quarterly distributions, management calculates the weighted average price by dividing gross revenues received by the net volumes of the corresponding product without regard to the timing of the production to which such sales may be attributable. This "indicated price" does not necessarily reflect the contractual terms for such sales and may be affected by transportation costs, location differentials, and quality and gravity adjustments. While the relationship between the Partnership's cash receipts and the timing of the production of oil and gas may be described generally, actual cash receipts may be materially impacted by purchasers' release of suspended funds and by prior period adjustments.

Cash receipts attributable to the Partnership's Net Profits Interests during the 2005 fourth quarter totaled \$10,088,000. These receipts generally reflect oil and gas sales from the properties underlying the Net Profits Interests during August through October 2005. The weighted average indicated prices for oil and gas sales during the 2005 fourth quarter attributable to the Net Profits Interests were \$56.78/bbl and \$9.75/mcf, respectively.

Cash receipts attributable to the Partnership's Royalty Properties during the 2005 fourth quarter totaled \$12,969,000. These receipts generally reflect oil sales during September through November 2005 and gas sales during August through October 2005. The weighted average indicated prices for oil and gas sales during the 2005 fourth quarter attributable to the Royalty Properties were \$58.08/bbl and \$9.25/mcf, respectively.

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#### *General and Administrative Costs*

In accordance with our partnership agreement, we bear all general and administrative and other overhead expenses subject to certain limitations. We reimburse our general partner for certain allocable costs, including rent, wages, salaries and employee benefit plans. This reimbursement is limited to an amount equal to the sum of 5% of our distributions plus certain costs previously paid. Through December 31, 2005, the limitation was substantially in excess of the reimbursement amounts actually paid or accrued.

#### **Unaudited Pro Forma Data**

The following table sets forth summary unaudited pro forma financial data for our Partnership for the year ended December 31, 2003 as though the combination occurred as of January 1, 2003. The pro forma amounts are not necessarily indicative of the results that may be reported in the future. Pro forma adjustments have been made to depletion, depreciation, and amortization to reflect the new basis of accounting for the assets of Spinnaker and Republic as of January 31, 2003, and to revenues to reflect the revenues of Dorchester Hugoton as Net Profits Interests.

	<b>Year Ended December 31, 2003</b>
	<b>(in thousands except per unit data)</b>
Statement of Operations Data:	
Total operating revenues	\$ 51,113
Operating expenses, excluding depreciation, depletion and amortization	\$ 9,203
Depreciation, depletion and amortization	\$ 25,390
Impairment	\$ 43,804
Total operating expenses	\$ 78,397
Other income	\$ 308
Net loss	\$ (26,976)
Net loss per unit	\$ (0.97)

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Quantitative and Qualitative Disclosures About Market Risk**

The following information provides quantitative and qualitative information about our potential exposures to market risk. The term “market risk” refers to the risk of loss arising from adverse changes in oil and natural gas prices, interest rates and currency exchange rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses.

#### *Market Risk Related to Oil and Natural Gas Prices*

Essentially all of our assets and sources of income are from the Net Profits Interests and the Royalty Properties, which generally entitle us to receive a share of the proceeds from oil and natural gas production on those properties. Consequently, we are subject to market risk from fluctuations in oil and natural gas prices. Pricing for oil and natural gas production has been volatile and unpredictable for several years. We do not anticipate entering into financial hedging activities intended to reduce our exposure to oil and natural gas price fluctuations.

#### *Absence of Interest Rate and Currency Exchange Rate Risk*

We do not anticipate having a credit facility or incurring any debt, other than trade debt. Therefore, we do not expect interest rate risk to be material to us. We do not anticipate engaging in transactions in foreign currencies which could expose us to foreign currency related market risk.

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#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements are set forth herein commencing on page F-1.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

#### ITEM 9A. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our Partnership's principal executive officer and principal financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on their evaluation, they have concluded that our Partnership's disclosure controls and procedures effectively ensure that the information required to be disclosed in the reports the Partnership files with the SEC is recorded, processed, summarized and reported, within the time periods specified by the SEC.

##### Managements Annual Report on Internal Control Over Financial Reporting

Management acknowledges its responsibility for establishing and maintaining adequate internal control over financial reporting in accordance with Rule 13a-15(f) promulgated under the Exchange Act. Management has also evaluated the effectiveness of its internal control over external financial reporting in accordance with generally accepted accounting principles within the guidelines of the COSO framework. Based on the results of this evaluation, Management has determined that the Partnership's internal control over financial reporting was effective as of December 31, 2005. The Partnership's external auditor, Grant Thornton LLP, has audited the Partnership's financial statements and has issued an attestation report on Management's assessment of the Partnership's internal control over financial reporting. This report is included on page F-2.

##### Changes in Internal Controls

There were no changes in our Partnership's internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### ITEM 9B. OTHER INFORMATION

None.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this item is incorporated herein by reference to the 2006 Proxy Statement, which will be filed with the Commission not later than 120 days subsequent to December 31, 2005.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated herein by reference to the 2006 Proxy Statement, which will be filed with the Commission not later than 120 days subsequent to December 31, 2005.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED UNITHOLDER MATTERS**

The information required by this item is incorporated herein by reference to the 2006 Proxy Statement, which will be filed with the Commission not later than 120 days subsequent to December 31, 2005.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this item is incorporated herein by reference to the 2006 Proxy Statement, which will be filed with the Commission not later than 120 days subsequent to December 31, 2005.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is incorporated herein by reference to the 2006 Proxy Statement, which will be filed with the Commission not later than 120 days subsequent to December 31, 2005.

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### PART IV

#### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) Financial Statements and Schedules
  - (1) See the Index to Financial Statements on page F-1.
  - (2) No schedules are required.
  - (3) Exhibits.

<u>Number</u>	<u>Description</u>
3.1	Certificate of Limited Partnership of Dorchester Minerals, L.P. (incorporated by reference to Exhibit 3.1 to Dorchester Minerals' Registration Statement on Form S-4, Registration Number 333-88282)
3.2	Amended and Restated Agreement of Limited Partnership of Dorchester Minerals, L.P. (incorporated by reference to Exhibit 3.2 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002)
3.3	Certificate of Limited Partnership of Dorchester Minerals Management LP (incorporated by reference to Exhibit 3.4 to Dorchester Minerals' Registration Statement on Form S-4, Registration Number 333-88282)
3.4	Amended and Restated Agreement of Limited Partnership of Dorchester Minerals Management LP (incorporated by reference to Exhibit 3.4 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002)
3.5	Certificate of Formation of Dorchester Minerals Management GP LLC (incorporated by reference to Exhibit 3.7 to Dorchester Minerals' Registration Statement on Form S-4, Registration Number 333-88282)
3.6	Amended and Restated Limited Liability Company Agreement of Dorchester Minerals Management GP LLC (incorporated by reference to Exhibit 3.6 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002)
3.7	Certificate of Formation of Dorchester Minerals Operating GP LLC (incorporated by reference to Exhibit 3.10 to Dorchester Minerals' Registration Statement on Form S-4, Registration Number 333-88282)
3.8	Limited Liability Company Agreement of Dorchester Minerals Operating GP LLC (incorporated by reference to Exhibit 3.11 to Dorchester Minerals' Registration Statement on Form S-4, Registration Number 333-88282)
3.9	Certificate of Limited Partnership of Dorchester Minerals Operating LP (incorporated by reference to Exhibit 3.12 to Dorchester Minerals' Registration Statement on Form S-4, Registration Number 333-88282)
3.10	Amended and Restated Agreement of Limited Partnership of Dorchester Minerals Operating LP (incorporated by reference to Exhibit 3.10 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002)
3.11	Certificate of Limited Partnership of Dorchester Minerals Oklahoma LP (incorporated by reference to Exhibit 3.11 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002)
3.12	Agreement of Limited Partnership of Dorchester Minerals Oklahoma LP (incorporated by reference to Exhibit 3.12 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002)
3.13	Certificate of Incorporation of Dorchester Minerals Oklahoma GP, Inc. (incorporated by reference to Exhibit 3.13 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002.)
3.14	Bylaws of Dorchester Minerals Oklahoma GP, Inc. (incorporated by reference to Exhibit 3.14 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002)

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<u>Number</u>	<u>Description</u>
3.15	Certificate of Limited Partnership of Dorchester Minerals Acquisition LP (incorporated by reference to Exhibit 3.15 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2004.)
3.16	Agreement of Limited Partnership of Dorchester Minerals Acquisition LP (incorporated by reference to Exhibit 3.16 to Dorchester Minerals' Report on Form 10-Q for the quarter ended September 30, 2004)
3.17	Certificate of Incorporation of Dorchester Minerals Acquisition GP, Inc. (incorporated by reference to Exhibit 3.17 to Dorchester Minerals' Report on Form 10-Q for the quarter ended September 30, 2004)
3.18	Bylaws of Dorchester Minerals Acquisition GP, Inc. (incorporated by reference to Exhibit 3.18 to Dorchester Minerals' Report on Form 10-Q for the quarter ended September 30, 2004)
10.1	Amended and Restated Business Opportunities Agreement dated as of December 13, 2001 by and between the Registrant, the General Partner, Dorchester Minerals Management GP LLC, SAM Partners, Ltd., Vaughn Petroleum, Ltd., Smith Allen Oil & Gas, Inc., P.A. Peak, Inc., James E. Raley, Inc., and certain other parties. (incorporated by reference to Exhibit 10.1 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002)
10.2	Transfer Restriction Agreement (incorporated by reference to Exhibit 10.2 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002.)
10.3	Registration Rights Agreement (incorporated by reference to Exhibit 10.3 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002)
10.4	Lock-Up Agreement by William Casey McManemin (incorporated by reference to Exhibit 10.4 to Dorchester Minerals' Report on Form 10-K for the year ended December 31, 2002)
10.5	Form of Lock-Up Agreement (incorporated by reference to Exhibit 10.5 to Dorchester Minerals' Registration Statement on Form S-4, Registration Number 333-88282)
10.6	Agreement and Plan of Merger among Dorchester Minerals, L.P., Dorchester Minerals Acquisition LP and Bradley Royalty Partners, LLC dated September 24, 2004 (incorporated by reference to Exhibit 10.1 to Dorchester Minerals' Report on Form 10-Q for the quarter ended September 30, 2004)
10.7	Form of Registration Rights Agreement dated September 30, 2004 (incorporated by reference to Dorchester Minerals' Report on Form 10-Q for the quarter ended September 20, 2004)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of Grant Thornton LLP
23.2*	Consent of Calhoun, Blair & Associates
23.3*	Consent of Huddleston & Co., Inc.
31.1*	Certification of Chief Executive Officer of our Partnership pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2*	Certification of Chief Financial Officer of our Partnership pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1*	Certification of Chief Executive Officer of our Partnership pursuant to 18 U.S.C. Sec. 1350
32.2*	Certification of Chief Financial Officer of our Partnership pursuant to 18 U.S.C. Sec. 1350

\* Filed herewith

## GLOSSARY OF CERTAIN OIL AND GAS TERMS

The definitions set forth below shall apply to the indicated terms as used in this document. All volumes of natural gas referred to herein are stated at the legal pressure base of the state or area where the reserves exist and at 60 degrees Fahrenheit and in most instances are rounded to the nearest major multiple.

“*bbl*” means a standard barrel of 42 U.S. gallons and represents the basic unit for measuring the production of crude oil, natural gas liquids and condensate.

“*b cf*” means one billion cubic feet under prescribed conditions of pressure and temperature and represents a unit for measuring the production of natural gas.

“*Depletion*” means (a) the volume of hydrocarbons extracted from a formation over a given period of time, (b) the rate of hydrocarbon extraction over a given period of time expressed as a percentage of the reserves existing at the beginning of such period, or (c) the amount of cost basis at the beginning of a period attributable to the volume of hydrocarbons extracted during such period.

“*Division order*” means a document to protect lessees and purchasers of production, in which all parties who may have a claim to the proceeds of the sale of production agree upon how the proceeds are to be divided.

“*Enhanced recovery*” means the process or combination of processes applied to a formation to extract hydrocarbons in addition to those that would be produced utilizing the natural energy existing in that formation. Examples of enhanced recovery include water flooding and carbon dioxide (CO<sub>2</sub>) injection.

“*Estimated Future Net Revenues*” (also referred to as “estimated future net cash flow”) means the result of applying current prices of oil and natural gas to estimated future production from oil and natural gas proved reserves, reduced by estimated future expenditures, based on current costs to be incurred, in developing and producing the proved reserves, excluding overhead.

“*Formation*” means a distinct geologic interval, sometimes referred to as the strata, which has characteristics (such as permeability, porosity and hydrocarbon saturations) which distinguish it from surrounding intervals.

“*Gross acre*” means the number of surface acres in which a working interest is owned.

“*Gross well*” means a well in which a working interest is owned.

“*Lease bonus*” means the initial cash payment made to a lessor by a lessee in consideration for the execution and conveyance of the lease.

“*Leasehold*” means an acre in which a working interest is owned.

“*Lessee*” means the owner of a lease of a mineral interest in a tract of land.

“*Lessor*” means the owner of the mineral interest who grants a lease of his interest in a tract of land to a third party, referred to as the lessee.

“*Mineral interest*” means the interest in the minerals beneath the surface of a tract of land. A mineral interest may be severed from the ownership of the surface of the tract. Ownership of a mineral interest generally involves four incidents of ownership: (1) the right to use the surface; (2) the right to incur costs and retain profits, also called the right to develop; (3) the right to transfer all or a portion of the mineral interest; and (4) the right to retain lease benefits, including bonuses and delay rentals.

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“*mcf*” means one thousand cubic feet under prescribed conditions of pressure and temperature and represents the basic unit for measuring the production of natural gas.

“*mbbls*” means one thousand standard barrels of 42 U.S. gallons and represents the basic unit for measuring the production of crude oil, natural gas liquids and condensate.

“*mmcf*” means one million cubic feet under prescribed conditions of pressure and temperature and represents the basic unit for measuring the production of natural gas.

“*Net acre*” means the product determined by multiplying “gross” acres by the interest in such acres.

“*Net well*” means the product determined by multiplying “gross” oil and natural gas wells by the interest in such wells.

“*Net profits interest*” means a non-operating interest that creates a share in gross production from another (operating or non-operating) interest in oil and natural gas properties. The share is determined by net profits from the sale of production and customarily provides for the deduction of capital and operating costs from the proceeds of the sale of production. The owner of a net profits interest is customarily liable for the payment of capital and operating costs only to the extent that revenue is sufficient to pay such costs but not otherwise.

“*Operator*” means the individual or company responsible for the exploration, development, and production of an oil or natural gas well or lease.

“*Overriding royalty interest*” means a royalty interest created or reserved from another (operating or non-operating) interest in oil and natural gas properties. Its term extends for the same term as the interest from which it is created.

“*Proved developed reserves*” means reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as “proved developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

“*Proved reserves*” means the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the “proved” classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

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(iii) Estimates of proved reserves do not include the following: (a) oil that may become available from known reservoirs but is classified separately as “indicated additional reserves”; (b) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (c) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (d) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.

“*Proved undeveloped reserves*” means proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

“*Royalty*” means an interest in an oil and gas lease that gives the owner of the interest the right to receive a portion of the production from the leased acreage (or of the proceeds of the sale thereof), but generally does not require the owner to pay any portion of the costs of drilling or operating the wells on the leased acreage.

“*SEC PV-10*” means the pretax present value of estimated future net revenues to be generated from the production of proved reserves calculated in accordance with SEC guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation, without giving effect to non-property related expenses such as general and administrative expenses, debt service and depreciation, depletion and amortization, and discounted using an annual discount rate of 10%.

“*Severance tax*” means an amount of tax, surcharge or levy recovered by governmental agencies from the gross proceeds of oil and natural gas sales. Production tax may be determined as a percentage of proceeds or as a specific amount per volumetric unit of sales. Severance tax is usually withheld from the gross proceeds of oil and natural gas sales by the first purchaser (e.g. pipeline or refinery) of production.

“*Standardized measure of discounted future net cash flows*” (also referred to as “standardized measure”) means the SEC PV-10 defined above, less applicable income taxes.

“*Undeveloped acreage*” means lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas regardless of whether such acreage contains proved reserves.

“*Unitization*” means the process of combining mineral interests or leases thereof in separate tracts of land into a single entity for administrative, operating or ownership purposes. Unitization is sometimes called “pooling” or “communitization” and may be voluntary or involuntary.

“*Working interest*” (also referred to as an “operating interest”) means a real property interest entitling the owner to receive a specified percentage of the proceeds of the sale of oil and natural gas production or a percentage of the production, but requiring the owner of the working interest to bear the cost to explore for, develop and produce such oil and natural gas. A working interest owner who owns a portion of the working interest may participate either as operator or by voting his percentage interest to approve or disapprove the appointment of an operator and certain activities in connection with the development and operation of a property.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DORCHESTER MINERALS, L.P.

By: Dorchester Minerals Management LP,  
its general partner

By: Dorchester Minerals Management GP LLC,  
its general partner

By: /s/ William Casey McManemin  
William Casey McManemin  
Chief Executive Officer

Date: March 8, 2006

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ William Casey McManemin  
William Casey McManemin  
Chief Executive Officer and Manager  
(Principal Executive Officer)  
Date: March 8, 2006

/s/ James E. Raley  
James E. Raley  
Chief Operating Officer and Manager  
Date: March 8, 2006

/s/ Rawles Fulgham  
Rawles Fulgham  
Manager  
Date: March 8, 2006

/s/ C.W. Russell  
C.W. Russell  
Manager  
Date: March 8, 2006

/s/ H.C. Allen, Jr.  
H.C. Allen, Jr.  
Chief Financial Officer and Manager  
(Principal Financial and Accounting Officer)  
Date: March 8, 2006

/s/ Buford P. Berry  
Buford P. Berry  
Manager  
Date: March 8, 2006

/s/ Preston A. Peak  
Preston A. Peak  
Manager  
Date: March 8, 2006

/s/ Robert C. Vaughn  
Robert C. Vaughn  
Manager  
Date: March 8, 2006

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**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the General Partner and  
Unitholders of Dorchester Minerals, L.P.

We have audited management’s assessment included in “Management’s Annual Report on Internal Control Over Financial Reporting” that Dorchester Minerals, L.P. (a Delaware Limited Partnership) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Dorchester Minerals, L.P.’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the partnership’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management’s assessment that Dorchester Minerals, L.P. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Dorchester Minerals, L.P. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Dorchester Minerals, L.P. as of December 31, 2005 and 2004, and the related statements of operations, changes in partnership capital, and cash flows for each of the three years in the period ended December 31, 2005, and our report dated March 8, 2006 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP  
Grant Thornton LLP

Dallas, Texas  
March 8, 2006

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the General Partner and Unitholders of Dorchester Minerals, L.P.

We have audited the accompanying balance sheets of Dorchester Minerals, L.P. as of December 31, 2005 and 2004, and the related statements of operations, changes in partnership capital, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dorchester Minerals, L.P. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Dorchester Minerals, L.P.'s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 8, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting.

/s/ Grant Thornton LLP  
Grant Thornton LLP  
Dallas, Texas  
March 8, 2006

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**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

**BALANCE SHEETS**  
**December 31, 2005 and 2004**  
**(Dollars in Thousands)**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 23,389	\$ 12,365
Trade receivables	7,615	5,389
Net profits interests receivable-related party	6,996	4,750
Current portion of note receivable-related party	50	50
Prepaid expenses	22	6
Total current assets	<u>38,072</u>	<u>22,560</u>
Note receivable—related party less current portion	55	105
Other non-current assets	19	19
Total	<u>74</u>	<u>124</u>
Property and leasehold improvements—at cost:		
Oil and natural gas properties (full cost method)	291,875	291,855
Less accumulated full cost depletion	<u>129,643</u>	<u>108,834</u>
Total	<u>162,232</u>	<u>183,021</u>
Leasehold improvements	512	480
Less accumulated amortization	<u>60</u>	<u>12</u>
Total	<u>452</u>	<u>468</u>
Net property and leasehold improvements	<u>162,684</u>	<u>183,489</u>
Total assets	<u>\$ 200,830</u>	<u>\$ 206,173</u>
<b>LIABILITIES AND PARTNERSHIP CAPITAL</b>		
Current liabilities:		
Accounts payable and other current liabilities	\$ 580	\$ 630
Current portion of deferred rent incentive	39	39
Total current liabilities	<u>619</u>	<u>669</u>
Deferred rent incentive less current portion	<u>326</u>	<u>366</u>
Total liabilities	<u>945</u>	<u>1,035</u>
Commitments and contingencies (Note 4)	—	—
Partnership capital:		
General partner	7,663	7,807
Unitholders	<u>192,222</u>	<u>197,331</u>
Total partnership capital	<u>199,885</u>	<u>205,138</u>
Total liabilities and partnership capital	<u>\$ 200,830</u>	<u>\$ 206,173</u>

The accompanying notes are an integral part of these financial statements.

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**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

**STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 2005, 2004 and 2003**  
**(Dollars in Thousands, except per unit amounts)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Net profits interest	\$31,800	\$24,387	\$ 21,268
Natural gas sales	—	—	2,401
Royalties	46,285	30,770	25,250
Lease bonus	1,680	1,610	293
Other	—	—	12
Total operating revenues	<u>79,765</u>	<u>56,767</u>	<u>49,224</u>
Costs and expenses:			
Production taxes	2,347	1,317	1,211
Operating expenses	1,261	1,206	1,113
Depreciation, depletion and amortization	20,858	20,795	23,639
Impairment of full cost properties	—	—	43,804
Tax and regulatory expenses	525	1,033	587
General and administrative expenses	2,354	2,580	2,401
Management fees	—	—	524
Combination costs and related expenses	—	—	3,080
Total costs and expenses	<u>27,345</u>	<u>26,931</u>	<u>76,359</u>
Operating income (loss)	52,420	29,836	(27,135)
Other income, net:			
Investment income	363	109	125
Other income (expense), net	(8)	131	183
Total other income, net	<u>355</u>	<u>240</u>	<u>308</u>
Net earnings (loss)	<u>\$52,775</u>	<u>\$30,076</u>	<u>\$(26,827)</u>
Allocation of net earnings (loss):			
General Partner	<u>\$ 1,427</u>	<u>\$ 770</u>	<u>\$ (641)</u>
Unitholders	<u>\$51,348</u>	<u>\$29,306</u>	<u>\$(26,186)</u>
Net earnings (loss) per common unit (in dollars)	<u>\$ 1.82</u>	<u>\$ 1.07</u>	<u>\$ (1.02)</u>
Weighted average common units outstanding (000's)	<u>28,240</u>	<u>27,343</u>	<u>25,682</u>

The accompanying notes are an integral part of these financial statements.

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**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2005, 2004 and 2003**  
**(Dollars in Thousands)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:			
Net earnings (loss)	\$ 52,775	\$ 30,076	\$ (26,827)
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, depletion and amortization	20,858	20,795	23,639
Impairment of full cost properties	—	—	43,804
Write-off related to unsuccessful acquisition	57	87	—
Amortization of deferred rent	(40)	(10)	—
Gain on sale of assets	—	—	(55)
Changes in operating assets and liabilities, net of effect of combination:			
Trade receivables	(2,226)	(1,908)	2,474
Net profits interests receivable – related party	(2,246)	(573)	(4,177)
Prepaid expenses	(16)	44	61
Accounts payable and other current liabilities	(50)	118	(192)
Net cash provided by operating activities	<u>69,112</u>	<u>48,629</u>	<u>38,727</u>
Cash flows from investing activities:			
Note received in combination	—	—	(255)
Proceeds from note receivable – related party	50	50	50
Cash received in combination	—	—	68
Acquisition of royalty interests	—	1,068	—
Capital expenditures	(110)	(562)	(40)
Net cash provided by (used in) investing activities	<u>(60)</u>	<u>556</u>	<u>(177)</u>
Cash flows from financing activities:			
Distributions paid to partners	(58,028)	(47,701)	(50,798)
Increase (decrease) in cash and cash equivalents	11,024	1,484	(12,248)
Cash and cash equivalents at beginning of year	12,365	10,881	23,129
Cash and cash equivalents at end of year	<u>\$ 23,389</u>	<u>\$ 12,365</u>	<u>\$ 10,881</u>
Noncash investing and financing activities:			
Acquisition of assets for units			
Oil and gas properties	\$ —	\$ 24,324	\$233,466
Receivables	—	—	3,660
Cash	—	—	68
Value assigned to assets acquired	<u>\$ —</u>	<u>\$ 24,324</u>	<u>\$237,194</u>
Supplemental cash flow and other information:			
Noncash additions to leasehold improvements	<u>\$ —</u>	<u>\$ 415</u>	<u>\$ —</u>

The accompanying notes are an integral part of these financial statements.

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**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

**STATEMENTS OF CHANGES IN PARTNERSHIP CAPITAL**  
**For the Years Ended December 31, 2005, 2004 and 2003**  
**(Dollars in Thousands)**

<u>Year</u>		<u>General Partner</u>	<u>Unitholders</u>	<u>Total</u>
2003				
	Balance at January 1, 2003	\$ 312	\$ 38,558	\$ 38,870
	Net loss – January	(17)	(1,725)	(1,742)
	Liquidating distribution to Dorchester Hugoton, Ltd. Partners (\$1.90 per Unit)	(199)	(20,414)	(20,613)
	Acquisition of assets for units	9,560	227,634	237,194
	Net loss – February through December	(624)	(24,461)	(25,085)
	Distributions (\$1.08723 per Unit)	(786)	(29,399)	(30,185)
	Balance at December 31, 2003	<u>8,246</u>	<u>190,193</u>	<u>198,439</u>
2004				
	Net earnings	770	29,306	30,076
	Acquisition of assets for units	—	24,324	24,324
	Distributions (\$1.698211 per Unit)	(1,209)	(46,492)	(47,701)
	Balance at December 31, 2004	<u>7,807</u>	<u>197,331</u>	<u>205,138</u>
2005				
	Net earnings	1,427	51,348	52,775
	Distributions (\$1.999147 per Unit)	(1,571)	(56,457)	(58,028)
	Balance at December 31, 2005	<u>\$ 7,663</u>	<u>\$ 192,222</u>	<u>\$ 199,885</u>

The accompanying notes are an integral part of these financial statements.

**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005, 2004 and 2003**

**1. General and Summary of Significant Accounting Policies**

*Nature of Operations* —In these Notes, the term “Partnership,” as well as the terms “us,” “our,” “we,” and “its” are sometimes used as abbreviated references to Dorchester Minerals, L.P. itself or Dorchester Minerals, L.P. and its related entities. Our Partnership is a Dallas, Texas based owner of producing and non-producing natural gas and crude oil royalty, net profits, and leasehold interests in 573 counties and 25 states. Dorchester Hugoton, Ltd.’s operations consisted principally of the operation of natural gas properties located in Kansas and Oklahoma.

*Basis of Presentation* —Our Partnership is a publicly traded Delaware limited partnership that was formed in December 2001 in connection with the combination, which was completed on January 31, 2003, of Dorchester Hugoton, Ltd., (Dorchester Hugoton) which was a publicly traded Texas limited partnership, and Republic Royalty Company (Republic) and Spinnaker Royalty Company, L.P. (Spinnaker), both of which were privately held Texas partnerships.

The accompanying financial statements reflect the combination completed on January 31, 2003 and accounted for using the purchase method of accounting. See Note 2 Combination Transactions and Acquisitions. In accordance with the purchase method of accounting, Dorchester Hugoton was designated as the accounting acquiror. Under the purchase method of accounting, our Partnership used the market price of Dorchester Hugoton’s partnership units on January 31, 2003, adjusted for the liquidating distribution to Dorchester Hugoton unitholders, to determine the value of the Republic and Spinnaker oil and gas properties merged into our Partnership. Such method increased the historic book values of the oil and gas properties of Republic and Spinnaker by approximately \$192,000,000 which increased our Partnership’s depletion.

Our Partnership is required to present the financial statements of the accounting acquiror of our Partnership for the twelve month period ended December 31, 2003, which includes the results of operations for Dorchester Hugoton, for the one month period ended January 31, 2003 and the financial condition and results of operations for our Partnership for the eleven month period ended December 31, 2003. Subsequent years contain only Partnership information.

Per-unit information is calculated by dividing the earnings or loss applicable to holders of our Partnership’s common units by the weighted average number of units outstanding. The Partnership has no potentially dilutive securities and consequently basic and dilutive earnings per unit do not differ.

*Reclassification* —Certain amounts in the 2003 and 2004 financial statements have been reclassified to conform to the 2005 presentation.

*Estimates* —The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. For example, estimates of uncollected revenues and unpaid expenses from royalties and Net Profits Interests in properties operated by non-affiliated entities are particularly subjective due to inability to gain accurate and timely information. Therefore, actual results could differ from those estimates. See Item 1. Business—Customers and Pricing and Item 2. Properties—Royalty Properties for additional discussion.

**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2005, 2004 and 2003**

The discounted present value of our proved oil and gas reserves is a major component of the ceiling calculation and requires many subjective judgments. Estimates of reserves are forecasts based on engineering and geological analyses. Different reserve engineers may reach different conclusions as to estimated quantities of natural gas reserves based on the same information. Our reserve estimates are prepared by independent consultants. The passage of time provides more qualitative information regarding reserve estimates, and revisions are made to prior estimates based on updated information. However, there can be no assurance that more significant revisions will not be necessary in the future. Significant downward revisions could result in an impairment representing a non-cash charge to earnings. In addition to the impact on calculation of the ceiling test, estimates of proved reserves are also a major component of the calculation of depletion. See the discussion under Property and Equipment.

*General Partner*—Our general partner is Dorchester Minerals Management LP, referred to in these Notes as “our general partner.” Our general partner owns all of the partnership interests in Dorchester Minerals Operating LP, the operating partnership. See Note 3 Related Party Transactions. The general partner is allocated 1% and 4% of our Net Profits Interests and Royalty Properties revenues, respectively. Our executive officers all own an interest in our general partner and receive no compensation for services as officers of our Partnership.

*Cash and Cash Equivalents*—Our principal banking is with major financial institutions. Cash balances in these accounts may, at times, exceed federally insured limits. We have not experienced any losses in such cash accounts and do not believe we are exposed to any significant risk on cash and cash equivalents. Short term investments with a maturity of three months or less are considered to be cash equivalents and are carried at cost, which approximates fair value.

*Concentration of Credit Risks*—Our Partnership, as a royalty owner, has no control over the volumes or method of sale of oil and natural gas produced and sold from the Royalty Properties. It is believed that the loss of any single customer would not have a material adverse effect on the results of our operations.

*Fair Value of Financial Instruments*—The carrying amount of cash and cash equivalents, trade receivables and payables approximates fair value because of the short maturity of those instruments. These estimated fair values may not be representative of actual values of the financial instruments that could have been realized as of year-end or that will be realized in the future.

*Trade Receivables*—Our Partnership’s trade receivables consist primarily of Royalty Properties payments receivable and Net Profits Interest payments receivable. Most payments are received two to four months after production date. No allowance for doubtful accounts is deemed necessary.

*Note Receivable-Related Party*—Our Note Receivable consists of a five-year note payable by Dorchester Minerals Operating LP, referred to in these Notes as “the operating partnership,” bearing interest at 6% having an original amount of \$250,836. Principal and interest payments are received quarterly.

*Property and Equipment*—We (and Dorchester Hugoton) utilize the full cost method of accounting for costs related to our oil and gas properties. Under this method, all such costs are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the units-of-production method. These capitalized costs are subject to a ceiling test, however, which limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved oil and gas reserves discounted at 10% plus the lower of cost or market value of unproved properties. In accordance with applicable accounting rules, Dorchester Hugoton was deemed

**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2005, 2004 and 2003**

to be the accounting acquiror of the Republic and Spinnaker assets. Our Partnership's acquisition of these assets was recorded at a value based on the closing price of Dorchester Hugoton's common units immediately prior to consummation of the combination transaction, subject to certain adjustments. Consequently, the acquisition of these assets was recorded at values that exceed the historical book value of these assets prior to consummation of the combination transaction. Our Partnership did not assign any value to unproved properties, including nonproducing royalty, mineral and leasehold interests. The full cost ceiling is evaluated at the end of each quarter. For the second and third quarters of 2003, our unamortized costs of oil and gas properties exceeded the ceiling test. During 2003, our Partnership recorded full cost write-downs of \$43,804,000. No additional impairments have been recorded since the quarter ended September 30, 2003.

While the quantities of proved reserves require substantial judgment, the associated prices of oil and gas reserves that are included in the discounted present value of our reserves are objectively determined. The ceiling test calculation requires use of prices and costs in effect as of the last day of the accounting period, which are generally held constant for the life of the properties. As a result, the present value is not necessarily an indication of the fair value of the reserves. Oil and gas prices have historically been volatile and the prevailing prices at any given time may not reflect our Partnership's or the industry's forecast of future prices.

Our Partnership's properties are being depleted on the unit-of-production method using estimates of proved oil and gas reserves. Gains and losses are recognized upon the disposition of oil and gas properties involving a significant portion of our Partnership's reserves. Proceeds from other dispositions of oil and gas properties are credited to the full cost pool. No gains or losses have been recorded for 2005, 2004 or 2003.

Leasehold improvements include \$415,000 received in 2004 as an incentive in our office space lease and is offset in liabilities as deferred rent. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease life of 10 years. For leases with renewal periods at the partnership's option, we have used the original lease term, excluding renewal option periods to determine useful life. Deferred rent is being amortized to general and administrative expense over the same term as the leasehold improvements, which is 10 years.

*Asset Retirement Obligations*— In July 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Dorchester Minerals adopted SFAS No. 143, as interpreted by FIN47, on January 1, 2003. Based on the nature of our properties we evaluated our obligations under SFAS No. 143 each period and determined that we have no material obligation required to be recorded.

*Revenue Recognition*— The pricing of oil and natural gas sales from the Royalty Properties is primarily determined by supply and demand in the marketplace and can fluctuate considerably. As a royalty owner, we have extremely limited involvement and operational control over the volumes and method of sale of oil and natural gas produced and sold from the Royalty Properties.

Revenues from Royalty Properties and Net Profits Interests are recorded under the cash receipts approach as directly received from the remitters' statement, accompanying the revenue check. Since the revenue checks are generally received two to four months after the production month, the Partnership accrues for revenue earned but not received by estimating production volumes and product prices.

**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2005, 2004 and 2003**

*Income Taxes* —We are treated as a partnership for income tax purposes and, as a result, our income or loss is includible in the tax returns of the individual unitholders. Unitholders should consult tax advisors concerning their own tax situation. Depletion of natural gas properties is an expense allowable to each individual partner and the depletion expense as reported on the financial statements will not be indicative of the depletion expense an individual partner or Unitholder may be able to deduct for income tax purposes.

*Simplified Employee Pension Plan* —Contributions aggregating \$273,267 were made to eligible employees' accounts for 2003 under Dorchester Hugoton's simplified employee pension plan. Contributions in 2003 included \$259,323 recorded to combination cost and related expenses on the financial statements that is applicable to Dorchester Hugoton's severance payments made in January 2003 prior to closing of the combination.

*Severance Payments* —Dorchester Hugoton adopted a severance policy in 1998. Benefits were generally payable to employees and General Partner(s) in the event Dorchester Hugoton no longer existed, incurred reduction in force or eliminated a position or group of positions. Pursuant to the combination, approximately \$2.7 million in severance payments were paid by Dorchester Hugoton in January 2003 prior to the closing of the combination which included \$496,000 that was included in management fees on the financial statements.

**2. Combination Transaction and Acquisitions**

On January 31, 2003, Dorchester Hugoton transferred certain assets to the operating partnership in exchange for a Net Profits Interest, contributed the Net Profits Interest and other assets to our Partnership and subsequently liquidated. Republic and Spinnaker transferred certain assets to the operating partnership in exchange for Net Profits Interests and subsequently merged with our Partnership. For accounting purposes Dorchester Hugoton is deemed the acquiror. The value assigned to the assets of Republic and Spinnaker was based on the market capitalization of Dorchester Hugoton and the share of the total common units of our Partnership received by the former partners of Republic (10,953,078 common units) and Spinnaker (5,342,973 common units). The assets of Republic and Spinnaker were valued at \$237,194,000 which was allocated as follows:

Cash	\$ 68,000
Oil and gas properties	233,466,000
Receivables	<u>3,660,000</u>
Total	<u>\$ 237,194,000</u>

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### DORCHESTER MINERALS, L.P. (A Delaware Limited Partnership)

#### NOTES TO FINANCIAL STATEMENTS—(Continued) December 31, 2005, 2004 and 2003

The following reflects unaudited pro forma data related to the combination discussed herein. The unaudited pro forma data assumes the combination had taken place as of the beginning of each period. The pro forma amounts are not necessarily indicative of the results that may be reported in the future. Pro forma adjustments have been made to depletion, depreciation, and amortization to reflect the new basis of accounting for the assets of Spinnaker and Republic as of January 31, 2003, and to revenues to reflect the revenues of Dorchester Hugoton as Net Profits Interests.

	Fiscal Year Ended December 31, 2003
Revenues	\$ 51,113
Depletion	\$ 25,390
Impairment	\$ 43,804
Net Loss	\$ (26,976)
Loss per common unit	\$ (0.97)
Nonrecurring items:	
Severance and related costs	\$ 3,003
Combination-related costs	\$ 670

On September 30, 2004, we acquired, through Dorchester Minerals Acquisition LP, assets related to oil and gas properties consisting of producing and non-producing perpetual mineral and royalty interests located in 104 counties and parishes in six states in exchange for 1,200,000 common units of Dorchester Minerals. Net assets acquired at the date of acquisition totaled \$24,324,000.

On May 2, 2005, we filed a registration statement on Form S-4 with the Securities and Exchange Commission to register 5,000,000 common units that may be offered and issued by the Partnership from time to time in connection with asset acquisitions or other business combination transactions. At present, none of the 5,000,000 units have been offered.

### 3. Related Party Transactions

Our general partner owns all of the partnership interests in the operating partnership. It is the employer of all personnel, owns the working interests and other properties underlying our Net Profits Interests, and provides day-to-day operational and administrative services to us and the general partner. In accordance with our partnership agreement, we reimburse the general partner for certain allocable General and Administrative costs, including rent, salaries, and employee benefit plans. These types of reimbursements are limited to 5% of distributions, plus certain costs previously paid. All such costs have been substantially below the 5% limit amount. Additionally, certain reimbursable direct costs such as professional and regulatory fees and ad valorem and severance taxes are not limited. Significant activity between the partnership and the operating partnership consists of the following:

<u>From/To Operating Partnership</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net Profits Interests Payments Receivable or Accrued <sup>(1)</sup>	\$ 6,996,522	\$ 4,750,041	\$ 4,177,538
Note Receivable	\$ 104,515	\$ 154,682	\$ 204,849
Interest Income related to Net Profits Interest Payment	\$ 6,000	—	—
General & Administrative Amounts Payable	\$ 86,000	\$ 28,000	\$ 86,000
General & Administrative Amounts Accrued	\$ 19,000	\$ 29,000	\$ 16,000
Total General & Administrative Amounts Paid	\$ 1,716,000	\$ 1,789,000	\$ 1,097,000

(1) All Net Profits Interests income on the financial statements is from the operating partnership.

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### DORCHESTER MINERALS, L.P. (A Delaware Limited Partnership)

#### NOTES TO FINANCIAL STATEMENTS—(Continued) December 31, 2005, 2004 and 2003

Less than \$15,000 in fees for legal services were paid in 2005, 2004 and 2003 to a family member of a member of our executive management.

#### 4. Commitments and Contingencies

In January 2002, some individuals and an association called Rural Residents for Natural Gas Rights sued Dorchester Hugoton, Ltd., along with several other operators in Texas County, Oklahoma. The operating partnership now owns and operates the properties formerly owned by Dorchester Hugoton. These properties contribute a major portion of the Net Profits Interests amounts paid to the Partnership. The plaintiffs consist primarily of Texas County, Oklahoma residents who, in residences located on leases use natural gas from gas wells located on the same leases, at their own risk, free of cost. The plaintiffs seek declaration that their domestic gas use is not limited to stoves and inside lights and is not limited to a principal dwelling as provided in the oil and gas leases entered into in the 1930s to the 1950s. Plaintiffs' claims against defendants include failure to prudently operate wells, violation of rights to free domestic gas, and fraud. Plaintiffs also seek certification of class action against defendants. On October 1, 2004, the plaintiffs severed claims against the operating partnership regarding royalty underpayments. The operating partnership believes plaintiffs' claims, including severed claims, are completely without merit. Based upon past measurements of such domestic gas usage, the operating partnership believes the domestic gas damages sought by plaintiffs to be minimal. An adverse decision could reduce amounts the Partnership receives from the Net Profits Interests.

Our Partnership and the operating partnership are involved in other legal and/or administrative proceedings arising in the ordinary course of their businesses, none of which have predictable outcomes and none of which are believed to have any significant effect on financial position or operating results.

*Operating Leases* —We have entered into a non-cancelable, renewable at prevailing rate for an additional five years, operating lease agreement in the ordinary course of our business activities. The lease is for our office space at 3838 Oak Lawn Avenue, Suite 300, Dallas, Texas, and expires in 2015. Rental expense related to the lease was \$203,000 and \$54,000 for the years ended December 31, 2005 and 2004, respectively. At December 31, 2005, our total commitment under the non-cancelable operating lease was \$2.1 million. Minimum rental commitments under the terms of our operating leases are as follows (in thousands):

Years Ended December 31,	Minimum Payments
2006	\$ 204
2007	213
2008	216
2009	225
2010	228
Thereafter	1,052
Total	<u>\$ 2,138</u>

**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2005, 2004 and 2003**

**5. Impairment of Oil and Gas Properties**

During the second and third quarters of 2003, our Partnership recorded non-cash charges against earnings totaling \$43,804,000. The write-downs represent an impairment of assets that results primarily from the difference, after accumulated depletion, between the discounted present value of our Partnership's proved oil and natural gas reserves using quarter ending oil and gas prices as compared to the initial book value assigned to former Republic and Spinnaker assets in accordance with purchase accounting rules, which value significantly exceeded historic book value. Cash flow from operations and cash distributions to unitholders are not affected by the write-down. See Note 1.

**6. Distribution To Holders Of Common Units**

Since our Partnership's combination on January 31, 2003, unitholder cash distributions per common unit have been:

<u>Year</u>	<u>Quarter</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Per Unit Amount</u>
2003	1st (partial)	April 28, 2003	May 8, 2003	\$ 0.206469
2003	2nd	July 28, 2003	August 7, 2003	\$ 0.458087
2003	3rd	October 31, 2003	November 10, 2003	\$ 0.422674
2003	4th	January 26, 2004	February 5, 2004	\$ 0.391066
2004	1st	April 30, 2004	May 10, 2004	\$ 0.415634
2004	2nd	July 26, 2004	August 5, 2004	\$ 0.415315
2004	3rd	October 25, 2004	November 4, 2004	\$ 0.476196
2004	4th	February 1, 2005	February 11, 2005	\$ 0.426076
2005	1st	April 29, 2005	May 9, 2005	\$ 0.481242
2005	2nd	July 25, 2005	August 4, 2005	\$ 0.514542
2005	3rd	October 24, 2005	November 3, 2005	\$ 0.577287
2005	4th	January 30, 2006	February 9, 2006	\$ 0.805543

Distributions beginning with the third quarter of 2004 were paid on 28,240,431 units; previous distributions were paid on 27,040,431 units. The partnership agreement requires the next cash distribution to be paid by May 15, 2006.

Please see "Fourth Quarter 2005 Distribution Indicated Price" discussion contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Distributions for production periods and cash receipts and weighted average prices corresponding to the fourth quarter 2005 distribution.

**7. Unaudited Oil and Natural Gas Reserve and Standardized Measure Information**

The Net Profits Interests represent net profits overriding royalty interests in various properties owned by the operating partnership. The Royalty Properties consist of producing and nonproducing mineral, royalty, overriding royalty, net profits, and leasehold interests located in 573 counties and parishes in 25 states. We retained the independent petroleum engineering firm of Huddleston & Co., Inc. to estimate proved oil and natural gas reserves attributable to the Royalty Properties as of December 31, 2005. The operating partnership retained the independent petroleum engineering firm of Calhoun, Blair & Associates, Inc. to estimate proved oil and natural

**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2005, 2004 and 2003**

gas reserves attributable to its interest in the properties underlying the Net Profits Interests as of December 31, 2005. Amounts set forth herein attributable to the Net Profits Interests reflect our 96.97% net share of Calhoun, Blair's estimates. Although new discoveries have occurred on certain of the Royalty Properties, based on engineering studies available to date, no events have occurred since December 31, 2005 that would have a material effect on our estimated proved developed reserves.

In accordance with SFAS No. 69 and Securities and Exchange Commission ("SEC") rules and regulations, the following information is presented with regard to the Net Profits Interests and Royalty Properties oil and gas reserves, all of which are proved, developed and located in the United States. These rules require inclusion as a supplement to the basic financial statements a standardized measure of discounted future net cash flows relating to proved oil and gas reserves. The standardized measure, in management's opinion, should be examined with caution. The basis for these disclosures are independent petroleum engineer's reserve studies which contains imprecise estimates of quantities and rates of production of reserves. Revision of prior year estimates can have a significant impact on the results. Also, exploration and production improvement costs in one year may significantly change previous estimates of proved reserves and their valuation. Values of unproved properties and anticipated future price, and cost increases or decreases are not considered. Therefore, the standardized measure is not necessarily a "best estimate" of the fair value of oil and gas properties or of future net cash flows.

The following summaries of changes in reserves and standardized measure of discounted future net cash flows were prepared from estimates of proved reserves developed by independent petroleum engineers. The production volumes and reserve volumes shown for properties formerly owned by Dorchester Hugoton are wellhead volumes which differ from sales volumes shown in "Management's Discussion and Analysis of Financial Condition and Results of Operations" because of fuel, shrinkage and pipeline loss. The Standardized Measure of Discounted Future Net Cash Flows reflects adjustments for such fuel, shrinkage and pipeline loss.

**Summary of Changes in Proved Reserves**

	Oil (mdbl)			Natural Gas (mmcf)		
	2005	2004	2003	2005	2004	2003
Estimated quantity, beginning of year	3,937	3,769	—	69,459	70,127	43,519
Purchase of minerals in place	—	241	4,036 <sup>(1)</sup>	—	3,033	29,307 <sup>(1)</sup>
Revisions in previous estimates	443	234	37	6,128	5,703	6,586
Production	(351)	(307)	(304) <sup>(2)</sup>	(9,288)	(9,404)	(9,285) <sup>(2)</sup>
Estimated quantity, end of year	<u>4,029</u>	<u>3,937</u>	<u>3,769</u>	<u>66,299</u>	<u>69,459</u>	<u>70,127</u>

(1) Includes 4,035,822 bbls of oil and 30,610,400 mcf of gas attributable to properties acquired from Republic and Spinnaker as of January 31, 2003 less 1,303,736 mcf as an adjustment to reflect the 3.03% interest in the former Dorchester Hugoton properties now owned by the operating partnership.

(2) Includes 502,735 mcf of gas attributable to production by Dorchester Hugoton for the one month of January 2003 and 5,493,470 mcf of gas and 7,012 bbls of oil for the eleven months of 2003 attributable to the Net Profits Interests properties and 3,288,455 mcf of gas and 296,886 bbls of oil for the eleven months of 2003 attributable to the Royalty Properties.

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**DORCHESTER MINERALS, L.P.**  
**(A Delaware Limited Partnership)**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2005, 2004 and 2003**

**Standardized Measure of Discounted Future Net Cash Flows**  
**(Dollars in Thousands)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Future estimated gross revenues	\$ 651,583	\$ 474,897	\$ 428,860
Future estimated production costs	(32,203)	(23,638)	(19,900)
Future estimated net revenues	619,380	451,259	408,960
10% annual discount for estimated timing of cash flows	(275,699)	(196,672)	(175,138)
Standardized measure of discounted future estimated net cash flows	<u>\$ 343,681</u>	<u>\$ 254,587</u>	<u>\$ 233,822</u>
Sales of natural oil and gas produced, net of production costs	\$ (76,157)	\$ (54,244)	\$ (46,900)
Purchase of reserves in place	—	15,159	137,136
Net changes in prices and production costs	90,466	19,827	24,434
Revisions of previous quantity estimates	33,375	19,438	17,170
Accretion of discount	25,459	23,382	8,971
Change in production rate and other	15,951	(2,797)	3,302
Net change in standardized measure of discounted future estimated net cash flows	<u>\$ 89,094</u>	<u>\$ 20,765</u>	<u>\$ 144,113</u>
Depletion of oil and natural gas properties (dollars per mcfe)	<u>\$ 1.83</u>	<u>\$ 1.85</u>	<u>\$ 2.16</u>
Development costs incurred	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2</u>
Property acquisition costs	<u>\$ —</u>	<u>\$ 23,568</u>	<u>\$ 233,466</u>

**8. Unaudited Quarterly Financial Data**

Quarterly financial data for the last two years (dollars in thousands except per unit data) is summarized as follows:

	<u>2005 Quarter Ended</u>				<u>2004 Quarter Ended</u>			
	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>
Net operating revenues	\$ 14,397	\$ 16,962	\$ 23,653	\$ 24,753	\$ 13,441	\$ 13,380	\$ 14,433	\$ 15,513
Net earnings	\$ 7,876	\$ 10,191	\$ 16,403	\$ 18,305	\$ 6,651	\$ 7,308	\$ 7,893	\$ 8,224
Net earnings per Unit	\$ 0.27	\$ 0.35	\$ 0.57	\$ 0.63	\$ 0.24	\$ 0.26	\$ 0.29	\$ 0.29
Weighted average common units outstanding (000's)	28,240	28,240	28,240	28,240	27,040	27,040	27,053	28,240

**Exhibit 21.1**

1. Dorchester Minerals Oklahoma LP, an Oklahoma limited partnership
2. Dorchester Minerals Oklahoma GP Inc., an Oklahoma corporation
3. Dorchester Minerals Acquisition LP, an Oklahoma limited partnership
4. Dorchester Minerals Acquisition GP Inc., an Oklahoma corporation

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our reports dated March 8, 2006, accompanying the financial statements and management's assessment of the effectiveness of internal control over financial reporting included on Form 10-K for the year ended December 31, 2005. We hereby consent to the incorporation by reference of said report in the Registration Statements of Dorchester Minerals L.P., Inc. on Form S-4 (File No. 333-124544, effective May 2, 2005).

/s/ Grant Thornton LLP

Grant Thornton LLP

Dallas, Texas

March 8, 2006

CALHOUN, BLAIR & ASSOCIATES  
PETROLEUM CONSULTANTS  
4625 GREENVILLE AVENUE, SUITE 102  
DALLAS, TEXAS 75206  
214-522-4925  
RGBLAIR@SWBELL.NET

March 1, 2006

Dorchester Minerals, L.P.  
3838 Oak Lawn Avenue, Suite 300  
Dallas, TX 75219

Gentlemen:

As independent petroleum consultants, we hereby consent to the incorporation by reference in the Registration Statement on Form S-4 (No. 333-124544) of Dorchester Minerals, L.P. of our estimates of reserves, included in this Annual Report on Form 10-K, and to all references to our firm included in this Annual Report.

CALHOUN, BLAIR & ASSOCIATES

/s/ ROBERT G. BLAIR, P.E.

Robert G. Blair, P.E.

President

*Huddleston & Co., Inc.*  
*Petroleum and Geological Engineers*

1 H OUSTON C ENTER  
1221 M C K INNEY , S UITE 3700  
H OUSTON , T EXAS 77010

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PHONE (713) 209-1100 • FAX (713) 752-0828

**CONSENT OF INDEPENDENT PETROLEUM CONSULTANTS**

Huddleston & Co., Inc. does hereby consent to the incorporation by reference in the Registration Statement on Form S-4 (No. 333-124544) of Dorchester Minerals, L.P. of our estimates of reserves, included in this Annual Report on Form 10-K, and to all references to our firm included in this Annual Report.

HUDDLESTON & CO., INC.

/s/ Gregory S. Floyd, P.E.

By: Gregory S. Floyd, P.E.  
Vice President

Houston, Texas  
March 1, 2006

CERTIFICATION

I, William Casey McManemin, Chief Executive Officer of Dorchester Minerals Management GP LLC, General Partner of Dorchester Minerals Management LP, General Partner of Dorchester Minerals, L.P., (the "Registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of Dorchester Minerals, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ William Casey McManemin

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William Casey McManemin  
Chief Executive Officer

Date: March 8, 2006

CERTIFICATION

I, H.C. Allen, Jr., Chief Financial Officer of Dorchester Minerals Management GP LLC, General Partner of Dorchester Minerals Management LP, General Partner of Dorchester Minerals, L.P., (the "Registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of Dorchester Minerals, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ H.C. Allen, Jr.

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H.C. Allen, Jr.  
Chief Financial Officer

Date: March 8, 2006

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the accompanying Annual Report of Dorchester Minerals, L.P., (the "Partnership") on Form 10-K for the period ended December 31, 2005 (the "Report"), each of the undersigned officers of Dorchester Minerals Management GP LLC, General Partner of Dorchester Minerals Management LP, General Partner of the Partnership, hereby certifies that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: March 8, 2006

/s/ William Casey McManemin

William Casey McManemin  
Chief Executive Officer

Date: March 8, 2006

/s/ H.C. Allen, Jr.

H.C. Allen, Jr.  
Chief Financial Officer