

DORCHESTER MINERALS LP
Form DEF 14A
March 08, 2006

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

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934**

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

DORCHESTER MINERALS, L.P.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

DORCHESTER MINERALS, L.P.

3838 Oak Lawn Avenue, Suite 300

Dallas, Texas 75219-4541

March 31, 2006

To our fellow Unitholders:

We are pleased to report to you the results for fiscal year 2005 in which our partnership recorded the following results:

Net Income of \$52.8 million compared to of \$30.1 million in 2004

Total Limited Partner distributions of \$67.2 million compared to \$48.0 million in 2004

Identified 289 new wells and consumated 78 leases compared to 196 new wells and 42 leases in 2004.

I am privileged to be associated with a fine and dedicated group of colleagues and Board members. I thank each of these individuals for their contributions to our partnership's successes.

The enclosed Annual Report on Form 10-K includes information about activity on our Royalty Properties and Net Profits Interests. We encourage you to read this information and to contact us with any questions about your partnership. In addition, the enclosed Proxy contains important information concerning matters to be voted upon at our 2006 Annual Meeting. We encourage you to read the Proxy Statement and to submit your vote at your earliest convenience.

We thank you for your continued support.

**Very truly yours,
William Casey McManemin
Chief Executive Officer**

DORCHESTER MINERALS, L.P.

3838 Oak Lawn Avenue, Suite 300

Dallas, Texas 75219-4541

NOTICE OF ANNUAL MEETING OF LIMITED PARTNERS

To Be Held on May 3, 2006

To the Unitholders of Dorchester Minerals:

The Annual Meeting of the Limited Partners of Dorchester Minerals, L.P. will be held at 10:00 a.m. Central Time on Wednesday, May 3, 2006, at The Dallas Petroleum Club, 2200 Ross Avenue, 39th Floor, Dallas Texas 75201, for the following purposes:

1. To elect three managers who will serve on the Board of Managers and be appointed to the Advisory Committee until the 2007 Annual Meeting of Limited Partners;
2. To consider any other matters that may properly come before the meeting.

Only holders of record of common units as of the close of business on March 21, 2006 are entitled to notice of, and to vote at, the meeting.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, WE URGE YOU TO VOTE USING ONE OF THE VOTING METHODS DESCRIBED IN THE ATTACHED MATERIALS AT YOUR EARLIEST CONVENIENCE.

By Order of the Board of Managers of

Dorchester Minerals Management GP LLC,

/s/ William Casey McManemin

William Casey McManemin

Chief Executive Officer

March 31, 2006

DORCHESTER MINERALS, L.P.

3838 Oak Lawn Avenue, Suite 300

Dallas, Texas 75219-4541

PROXY STATEMENT

For

ANNUAL MEETING OF LIMITED PARTNERS

To Be Held on May 3, 2006

SOLICITATION OF PROXIES

This Proxy Statement is being furnished to holders of common units in connection with the solicitation of proxies by our Board of Managers for use at the Dorchester Minerals, L.P. 2006 Annual Meeting. Our general partner is Dorchester Minerals Management LP, and its general partner is Dorchester Minerals Management GP LLC. As a result, the Board of Managers of Dorchester Minerals Management GP LLC exercises effective control of us. Dorchester Minerals Management LP is referred to herein as our general partner and Dorchester Minerals Management GP LLC is referred to herein as the general partner of our general partner. The approximate date on which definitive copies of this proxy statement and form of proxy are intended to be released to Unitholders is March 31, 2006.

WHEN AND WHERE IS THE 2006 ANNUAL MEETING?

The 2006 Annual Meeting will be held at 10:00 a.m. Central Time on Wednesday, May 3, 2006, at The Dallas Petroleum Club, 2200 Ross Avenue, 39th Floor, Dallas, Texas 75201.

WHAT IS THE BOARD OF MANAGERS PROPOSAL?

To elect three managers who will serve on the Board of Managers and be appointed to the Advisory Committee.

HOW DOES THE BOARD OF MANAGERS RECOMMEND I VOTE ON THE PROPOSAL?

The Board of Managers recommends a vote FOR each of the nominees to serve on the Board of Managers and Advisory Committee.

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HOW WILL VOTING ON ANY OTHER BUSINESS BE CONDUCTED?

The Board of Managers does not know of any business to be considered at the 2006 Annual Meeting other than the proposal described in this Proxy Statement. However, if any other business is properly presented, your signed proxy card gives authority to the persons named in the proxy to vote on these matters at their discretion.

WHO IS ENTITLED TO VOTE?

Each Unitholder as of the close of business on March 21, 2006, the record date, is entitled to vote at the 2006 Annual Meeting.

HOW MANY UNITS MAY BE VOTED?

As of the record date, 28,240,431 units were outstanding. Each unit entitles its holder to one vote.

WHAT IS A QUORUM ?

A quorum is a majority of the outstanding units represented in person or by proxy at the 2006 Annual Meeting. There must be a quorum for the 2006 Annual Meeting to be held. If you submit a properly executed proxy card, you will be considered part of the quorum.

WHAT VOTE IS REQUIRED TO APPROVE THE PROPOSAL?

The affirmative vote of holders of a plurality of the outstanding units is required to elect each manager to the Board of Managers. Thus, any abstentions, broker non-votes (units held by brokers or nominees as to which they have no discretionary authority to vote on a particular matter and have received no instructions from the beneficial owner or person entitled to vote thereon) or other limited proxies will have no effect on the outcome for the proposal.

HOW DO I VOTE?

You may vote by any one of three different methods:

- (a) In Writing. You can vote by marking, signing and dating the enclosed proxy card and returning it in the enclosed envelope. If you return your signed proxy card but do not give instructions as to how you wish to vote, your units will be voted FOR the proposal.
- (b) By Telephone. You can vote by calling the telephone number on the proxy card and following the instructions. Please have the proxy card in hand when calling.
- (c) In Person. You can vote by attending the 2006 Annual Meeting.

Units represented by properly executed proxies that are not revoked will be voted in accordance with the instructions shown on the proxy card. You have the right to revoke your proxy at any time before the 2006 Annual Meeting by:

- (a) Delivering to Dorchester Minerals, L.P., Attn: 2006 Annual Meeting, 3838 Oak Lawn Avenue, Suite 300, Dallas, Texas, 75219-4541, a written revocation;
- (b) Voting in person at the 2006 Annual Meeting; or
- (c) Returning a later-dated proxy card.

Attendance at the 2006 Annual Meeting will not, without further action by you, revoke your proxy.

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Unitholders have no dissenters' rights or rights of appraisal under Delaware law or our Amended and Restated Agreement of Limited Partnership.

WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD?

If your units are registered differently and/or are in more than one account, you will receive more than one proxy card. Please mark, sign, date and return all of the proxy cards you receive to ensure that all of your units are voted. We encourage you to have all accounts registered in the same name and address (whenever possible). You can accomplish this by contacting our transfer agent, American Stock Transfer & Trust Company, at (800) 937-5449.

HOW CAN I VOTE IF MY UNITS ARE HELD IN STREET NAME ?

If your units are held in the name of your broker, a bank, or other nominee, that party will give you instructions about how to vote your units.

WHO WILL COUNT THE VOTES?

Representatives of American Stock Transfer & Trust Company, our transfer agent and an independent tabulator, will count the votes and act as the inspector of election.

WHERE AND WHEN WILL I BE ABLE TO FIND OUT THE RESULTS OF VOTING?

In addition to announcing the results at the 2006 Annual Meeting, you will also be able to find the results in our Form 10-Q for the second quarter of fiscal 2006.

WHO IS BEARING THE COST OF THIS PROXY SOLICITATION?

We are bearing the cost of soliciting proxies for the 2006 Annual Meeting. In addition to using the mail, managers, officers and employees may solicit proxies by telephone, personal interview or otherwise. They will not receive additional compensation for this activity, but may be reimbursed for their reasonable out of pocket expenses. We will reimburse brokerage houses and other custodians, nominees and fiduciaries for reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to Unitholders.

WILL THE INDEPENDENT ACCOUNTANTS ATTEND THE 2006 ANNUAL MEETING?

Representatives of Grant Thornton LLP, our independent accountants for the fiscal year ended December 31, 2005, will attend the 2006 Annual Meeting, will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

HOW CAN I OBTAIN A COPY OF THE ANNUAL REPORT ON FORM 10-K?

A copy of our 2005 Annual Report on Form 10-K, including the financial statements filed therewith is included with this proxy statement. We will provide an additional copy of our 2005 Annual Report on Form 10-K, including the financial statements, upon written request to Dorchester Minerals, L.P., Attn: 2006 Annual Meeting, 3838 Oak Lawn Avenue, Suite 300, Dallas, Texas 75219-4541. We will furnish a requesting Unitholder with any exhibit not contained therein upon payment of a reasonable fee.

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WHEN ARE THE UNITHOLDER PROPOSALS FOR THE 2007 ANNUAL MEETING OF LIMITED PARTNERS DUE?

We presently expect that our next Annual Meeting of Limited Partners will be held on May 2, 2007. Unitholder proposals for inclusion in the proxy materials relating to the 2007 Annual Meeting must be received at our principal executive office at 3838 Oak Lawn Avenue, Suite 300, Dallas, Texas 75219-4541, addressed to our general partner no later than November 28, 2006. In accordance with our Amended and Restated Agreement of Limited Partnership, Unitholders who intend to present a proposal at the 2007 Annual Meeting without inclusion of such proposal in our proxy materials are required to provide notice of such proposal to us no later than March 4, 2007 and Unitholders who intend to nominate a manager for election to the Board of Managers and Advisory Committee are required to provide notice of such proposal to us no later than February 2, 2007. If the date of the 2007 Annual Meeting is changed to a different month, we will advise our Unitholders of the new date for the submission of Unitholder proposals in one of our periodic filings with the Securities and Exchange Commission.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common units as of March 7, 2006. The information is set forth for (i) each appointed manager and named executive officer of the general partner of our general partner, (ii) all executive officers and appointed managers of the general partner of our general partner as a group, and (iii) all those known by us to be beneficial owners of more than 5% of our common units.

| Name of Beneficial Owner | Beneficial Ownership (1) | |
|---|--------------------------|------------|
| | Number of Units | Percentage |
| Named Executive Officers and Managers (2) | | |
| William Casey McManemin (3) | 1,197,527 | 4.2% |
| James E. Raley (4) | 14,706 | * |
| H.C. Allen, Jr. (5) | 172,555 | * |
| Preston A. Peak (6) | 1,577,412 | 5.6% |
| Robert C. Vaughn (7) | 504,748 | 1.8% |
| Buford P. Berry (8) | 0 | N/A |
| Rawles Fulgham (9) | 180 | * |
| C.W. (Bill) Russell (10) | 4,000 | * |
| All executive officers and managers as a group (8 persons) (11) | 3,412,373 | 12.1% |
| Holders of 5% or More Not Named Above | | |
| Energy Trust LLC (12) | 8,778,085 | 31.1% |

* Less than one percent (1%).

(1) As of record date, there were 28,240,431 common units outstanding.

(2) Unless otherwise indicated, the business address of each manager and executive officer of the general partner of our general partner is c/o Dorchester Minerals Management GP LLC, 3838 Oak Lawn Avenue, Suite 300, Dallas, Texas 75219-4541.

(3) Includes 157,573 units held by Mr. McManemin, 58,407 units held by 1307, Ltd., 5,531 units held by SAM Partners Management, Inc., 922,792 units held by Red Wolf Partners, and 53,224 units held by Smith Allen Oil & Gas, Inc. Mr. McManemin disclaims beneficial ownership of those common units owned by 1307, Ltd., SAM Partners Management, Inc., Red Wolf Partners, and Smith Allen Oil & Gas, Inc. in which he does not have an economic interest but which he may be deemed to beneficially own based on shared voting and investment power. Mr. McManemin is individually a general partner, is the President of the other general partner and is a limited partner of 1307, Ltd. All of the remaining limited partner interest of 1307, Ltd. is owned by Mr. McManemin's wife and minor children. Mr. McManemin is the Vice President and a shareholder of SAM Partners Management, Inc. and Smith Allen Oil & Gas, Inc. Mr. McManemin is the managing general partner of Red Wolf Partners.

(4) All of the units beneficially owned by Mr. Raley are held by the Linda S. Raley Residuary Trust of which he is the trustee.

(5) Includes 113,800 units held by Mr. Allen, 5,531 units held by SAM Partners Management, Inc. and 53,224 units held by Smith Allen Oil & Gas, Inc. Mr. Allen disclaims beneficial ownership of those common units owned by SAM Partners Management, Inc. and Smith Allen Oil & Gas, Inc. in which he does not have an economic interest but which he may be deemed to beneficially own based on shared voting and investment power. Mr. Allen is the Secretary and a shareholder of SAM Partners Management, Inc. and Smith Allen Oil & Gas, Inc.

(6) Includes 358,486 units held by the Preston A. Peak FBO Martha Ann Peak Trust, 358,554 units held by the PA Peak Trust for Mary Lee Peak, 358,482 units held by the PA Peak Trust for Margaret J. Peak, 12,179 units held by 4MP Corp, 488,711 units held by The Peak Revocable Living Trust and 1,000 units held by Hugoton Nominee, Inc. Mr. Peak disclaims beneficial ownership of those common units owned by the Preston A. Peak FBO Martha Ann Peak Trust, the PA Peak Trust for Mary Lee Peak, the P A Peak Trust for

- Margaret J. Peak, 4MP Corp, the Peak Revocable Living Trust and Hugoton Nominee, Inc. in which he does not have an economic interest but which he may be deemed to beneficially own based on shared voting and investment power. Mr. Peak is the trustee of the Preston A. Peak FBO Martha Ann Peak Trust, the PA Peak Trust for Margaret J Peak and the PA Peak Trust for Mary Lee Peak. Mr. Peak and his spouse are the beneficiaries of the Peak Revocable Living Trust and Mr. Peak is the trustee of the Peak Revocable Living Trust. The Peak Revocable Living Trust is the shareholder of 4MP Corp. The Peak Revocable Living Trust is also the shareholder of Hugoton Nominee, Inc.
- (7) Includes 465,300 units held by RCV, Ltd., 9,861 units held by the Jack C. Vaughn, Jr. Trust, 9,862 units held by the Robert C. Vaughn Trust, 9,863 units held by the Sharon E. Vaughn Trust and 9,862 units held by the David C. Vaughn Trust. Mr. Vaughn disclaims beneficial ownership of those common units owned by the Jack C. Vaughn, Jr. Trust, the Robert C. Vaughn Trust, the Sharon E. Vaughn Trust and the David C. Vaughn Trust, in which he does not have an economic interest but which he may be deemed to own based on shared voting and investment power. Mr. Vaughn and his wife are the only partners of the general partnership that owns all the partnership interests in RCV, Ltd. Mr. Vaughn is a co-trustee of the Jack C. Vaughn, Jr. Trust, the Robert C. Vaughn Trust, the Sharon E. Vaughn Trust and the David C. Vaughn Trust.
 - (8) The business address for Mr. Berry is 1700 Pacific Avenue, Suite 3300, Dallas, Texas 75201.
 - (9) The business address for Mr. Fulgham is 2121 San Jacinto, Suite 1110, Dallas, Texas 75201. Includes 180 common units held in an Individual Retirement Account for the benefit of Mr. Fulgham.
 - (10) The business address for Mr. Russell is 4695 N FM 2869, Winnsboro, Texas 75494. Includes 4,000 common units held in an Individual Retirement Account for the benefit of Mr. Russell.
 - (11) Pursuant to Instruction 5 to Item 403 of Regulation S-K, the 5,531 units owned by SAM Partners Management, Inc. and the 53,224 units owned by Smith Allen Oil & Gas, Inc. included in the beneficial ownership of both Mr. McManemin and Mr. Allen are only included once in this total.
 - (12) The business address of each party is c/o Energy Trust LLC, 551 Fifth Avenue, 37th Floor, New York, New York, 10176. Energy Trust LLC is the investment advisor to various pension funds that beneficially own the securities and Energy Trust LLC has sole voting and dispositive power over such securities. Mellon Trust of New England, N.A., as trustee for the Lucent Technologies Inc. Master Pension Trust, and Fano & Co., nominee for JP Morgan Chase Bank, N.A., as trustee for the Long Term Investment Trust, each have an interest in the common units reported by Energy Trust LLC. During February 2006, each of the various pension funds notified the Securities and Exchange Commission of their intent to sell in aggregate up to 280,000 common units in accordance with Rule 144. Although each of the various pension funds are required to notify the Securities and Exchange Commission of their intention to sell, only one of the pension funds is required to report on Form 4 the sales that have taken place. Energy Trust LLC reported on their Amendment No. 2 to Schedule 13-G filed on February 6, 2006 that 8,778,085 units were held in the various pension funds as of December 31, 2005.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our managers, officers and persons who own more than 10% of our common units to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common units. Managers, officers and 10% holders of the common units are required by Securities and Exchange Commission rules and regulations to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on a review of the copies of such reports furnished to us and representations that no other reports were required, all Section 16(a) filing requirements applicable to our managers, officers and 10% holders were met.

EXECUTIVE COMPENSATION

Our officers are not paid any compensation for their services as officers of our Partnership. Our officers, generally, serve in the same capacities for our general partner, the general partner of our general partner and for the operating subsidiary of our general partner and may be compensated by the operating subsidiary of our general partner for their service in those capacities. Such compensation is borne indirectly by us as a result of our obligation to reimburse our general partner and the operating subsidiary of our general partner for management expenses, subject to the limitation on reimbursement.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary | Bonus | Other ⁽¹⁾ |
|--|------|--------------------------|-----------|----------------------|
| William Casey McManemin Chief Executive Officer | 2005 | \$ 96,000 | | \$ 14,400 |
| | 2004 | \$ 96,000 | | \$ 14,400 |
| | 2003 | \$ 96,000 ⁽²⁾ | \$ 25,000 | \$ 18,150 |
| James E. Raley Chief Operating Officer | 2005 | \$ 96,000 | | \$ 14,400 |
| | 2004 | \$ 96,000 | | \$ 14,400 |
| | 2003 | \$ 96,000 ⁽²⁾ | | \$ 13,200 |
| H.C. Allen, Jr. Chief Financial Officer | 2005 | \$ 96,000 | | \$ 14,400 |
| | 2004 | \$ 96,000 | | \$ 14,400 |
| | 2003 | \$ 96,000 ⁽²⁾ | | \$ 13,200 |

(1) Compensation for SEP-IRA contributions.

(2) Salary was not paid for the month of January 2003, therefore the amount actually paid during 2003 was \$88,000.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION POLICY

The executive compensation policy, which applies to all officers, including the chief executive officer, focuses primarily on determining appropriate salary levels for our executive officers as the owners of our managing general partner, and is not specifically tied to the performance of our Partnership. To a much lesser extent, the compensation policy occasionally contemplates performance-based cash bonuses, the amount of which will be determined based on the contribution of the executive officer and the benefit to the Partnership of the contribution of the executive officer.

January 19, 2006

Rawles Fulgham

C.W. (Bill) Russell

Buford P. Berry

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Members of the Advisory Committee are currently Messrs. Berry, Fulgham and Russell. All determinations concerning executive compensation for the last fiscal year for our officers were made by the Advisory Committee. See Certain Relationships and Related Transactions below for certain information regarding relationships between us and entities with whom members of the Advisory Committee are affiliated.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Buford P. Berry is of counsel to the law firm Thompson & Knight L.L.P., which firm serves as primary outside counsel to us.

PERFORMANCE GRAPH

The following graph compares the performance of our common units with the performance of the NASDAQ Market Index (the NASDAQ Index) and a peer group index from the first day of trading of our common units, February 3, 2003, through December 31, 2005. The graph assumes that at the beginning of the period, \$100 was invested in each of (1) our common units, (2) the NASDAQ Index, and (3) the peer group, and that all distributions or dividends were reinvested. We do not believe than any published industry or line-of-business index accurately reflects our business. Accordingly, we have created a special peer group index consisting of companies whose royalty trust units are publicly traded on the New York Stock Exchange. Our peer group index includes the units of the following companies: Cross Timbers Royalty Trust, Mesa Royalty Trust, Sabine Royalty Trust, Permian Basin Royalty Trust, Hugoton Royalty Trust and the San Juan Basin Royalty Trust.

PARTNERSHIP GOVERNANCE

Our business and affairs are managed by and under the direction of the Board of Managers, which exercises all our corporate powers and establishes broad corporate policies. The Board of Managers consists of five managers appointed by the five members of the general partner of our general partner and three additional managers nominated by these members and elected annually by our limited partners. The elected managers, as a group, must meet the requirements of our Amended and Restated Agreement of Limited Partnership and the Securities and Exchange Commission and NASDAQ rules for members of an audit committee.

Messrs. Allen, McManemin, Peak, Raley and Vaughn are the five managers appointed by the members of the general partner of our general partner and will hold office until the earlier of their death, resignation or removal from office. In the event of any vacancy on the Board of Managers left by an appointed manager, the member who holds the right to appoint the appointed manager will designate the replacement appointed manager, unless the member who otherwise holds the right to appoint the replacement appointed manager has lost his appointment right.

Messrs. Berry, Fulgham and Russell are the three managers that currently occupy the three manager spots up for election at the 2006 Annual Meeting. Messrs. Berry, Fulgham and Russell are the three managers nominated by the members of the general partner of our general partner to stand for election to the Board of Managers at the 2006 Annual Meeting.

In the opinion of the Board of Managers, and as independent currently is defined by the NASDAQ rules, assuming the three nominated managers are elected by the limited partners at the 2006 Annual Meeting, a

majority of the Board of Managers after the 2006 Annual Meeting are independent of management and free of any relationship that would interfere with their exercise of independent judgment. The Board of Managers has affirmatively determined that Messrs. Berry, Fulgham, Peak, Russell and Vaughn are independent. In addition to the NASDAQ independent rules, the Board of Managers has also affirmatively determined that Messrs. Berry, Fulgham, and Russell also satisfy the definition of independent prescribed by the Securities and Exchange Commission for members of an audit committee.

The Board of Managers held 7 meetings in fiscal 2005. Each Manager attended at least 75% of the total number of meetings of the Board of Managers and of the committees of the Board of Managers on which such Manager served.

The Board of Managers strongly recommends each manager attend the 2006 annual meeting of our limited partners. All managers currently serving attended the 2005 annual meeting.

The Board of Managers has an Advisory Committee that consists of Messrs. Berry, Fulgham and Russell. The Advisory Committee functions as the audit committee and as the compensation committee. In addition the Advisory Committee addresses all matters concerning conflicts of interest and the application of the Business Opportunities Agreement. The Advisory Committee met 7 times during 2005.

The Board of Managers does not have a nominating committee or committee performing similar functions and has not adopted a resolution addressing the nominations process. This arrangement is appropriate as the nominations for all managers are made by the members of the general partner of our general partner. Messrs. McManemin, Raley, Allen, Vaughn and Peak all participate in the consideration of nominees for the Board of Managers in their capacities as officers and/or managers of the members of the general partner of our general partner. The Board of Managers has not adopted a resolution addressing the nominations process as the general partner of our general partner is legally required to provide its members with the ability to nominate managers.

The Board of Managers does provide a process for Unitholders to send communications to it. Unitholders may contact each member of the Board of Managers in writing at their respective business addresses. See Security Ownership of Certain Beneficial Owners and Management.

Our partnership adopted our Code of Business Conduct and Ethics on July 17, 2003. The Board of Managers reviewed the Code of Business Conduct and Ethics in 2005 for adequacy and was satisfied therewith. The Code of Business Conduct and Ethics applies to all officers, managers, advisors and employees of our partnership and its affiliates. Upon written request, we will provide any person, without charge, a copy of the Code of Business Conduct and Ethics. Written requests should be sent to Dorchester Minerals, L.P., Attn: Annual Report, 3838 Oak Lawn Avenue, Suite 300, Dallas, Texas 75219-4541.

ADVISORY COMMITTEE

In their service as the audit committee, the members of the Advisory Committee assist the Board of Managers in fulfilling its oversight responsibilities relating to our financial statements and other financial information; compliance with applicable laws, regulations and our code of conduct; independence and qualifications of the independent auditor; management's establishment of and adherence to a system of internal accounting and disclosure controls; and the performance of the internal audit function and independent auditors. The Advisory Committee is empowered to investigate any matter brought to its attention with full access to all our books, records, facilities and personnel and may retain outside counsel, auditors or other experts to assist it. Our Board of Managers has adopted a written charter for the Advisory Committee in its service as the audit committee specifying its purpose of overseeing the accounting and financial reporting processes. The charter is reviewed periodically to ensure that it meets all applicable legal and NASDAQ listing requirements. As interpreted in the Board of Managers' business

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judgment, assuming the three nominated managers are elected by the limited partners at the 2006 Annual Meeting, each member of the audit committee is financially literate and

Mr. Fulgham, in addition to other members of the Advisory Committee, possesses accounting or related financial management expertise. None of the members of the Advisory Committee has participated in the preparation of our financial statements in the previous three years.

In their service as the compensation committee, the members of the Advisory Committee exercise the power of the Board of Managers in connection with all matters relating to compensation of executive officers.

REPORT OF THE AUDIT COMMITTEE

As members of the Audit Committee of the Board of Managers, we are responsible for helping to ensure the reliability of the Partnership's financial statements. In keeping with this goal, the Board of Managers has adopted a written charter for the Audit Committee to follow. The Audit Committee reviewed and reassessed the charter's adequacy on March 7, 2006.

Independence of Audit Committee Members. All of the members of the Audit Committee are independent as defined by Rule 4200(a)(15) of the NASD Manual and the most recent interpretations of those standards.

Review and Discussions. The Audit Committee has reviewed and discussed the Partnership's audited financial statements with management. It has also discussed with the independent auditors the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU § 380). Additionally, the Audit Committee has received the written disclosures and the letter from the independent accountants at Grant Thornton LLP, as required by Independent Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with the independent accountants their independence.

Recommendation to Include Audited Financial Statements in Annual Report. Based on the Audit Committee's discussions with management and the independent accountants, and its review of the representation of management and the report of the independent accountants to the Audit Committee, the Audit Committee recommended that the Board of Managers include the audited consolidated financial statements in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission.

March 7, 2006

Rawles Fulgham

Buford P. Berry

C.W. (Bill) Russell

COMPENSATION OF DIRECTORS

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Appointed Managers receive no remuneration for serving on the Board of Managers, but each member of the Advisory Committee received an annual retainer fee of \$30,000 during 2005 and will receive \$35,000 during 2006. In addition, members of the Advisory Committee receive \$1,500 for each meeting of any special committees formed to address matters arising under the Business Opportunities Agreement. In 2005, no special committee meetings were held.

AUDIT AND NON-AUDIT FEES OF ACCOUNTANTS

The following table sets forth the aggregate fees billed to us for the fiscal years 2004 and 2005 by Grant Thornton LLP, our independent auditors.

| | <u>2004</u> | <u>2005</u> |
|--------------------|-------------|-------------|
| AUDIT FEES | \$ 193,869 | \$ 250,077 |
| AUDIT-RELATED FEES | 3,360 | |
| TAX FEES | | |
| ALL OTHER FEES | 3,000 | |

The Audit-Related Fees paid in 2004 relate to consultation on accounting matters related to potential acquisitions and distribution cash flows.

The Advisory Committee has adopted procedures for pre-approving all audit and permitted non-audit services provided by our independent auditor. Part of this approval process includes making a determination on whether non-audit services are consistent with the Securities and Exchange Commission's rules on auditor independence. The Advisory Committee periodically monitors the services rendered and actual fees paid to the independent auditors to ensure such services are within the parameters approved.

SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS

The Audit Committee has not selected and appointed independent auditors for the fiscal year ending December 31, 2006. Discussions with Grant Thornton LLP, our independent auditors for the fiscal year ending December 31, 2005, will be initiated in the near future regarding our selection of independent auditors for 2006.

EXECUTIVE OFFICERS AND MEMBERS OF THE BOARD OF MANAGERS

William Casey McManemin, age 45, has served as Chief Executive Officer and as a manager of Dorchester Minerals Management GP LLC, and as Chief Executive Officer of Dorchester Minerals Operating GP LLC and Dorchester Minerals since 2001. He received his Bachelor of Science degree in Petroleum Engineering from Texas A&M University in 1984.

H.C. Allen, Jr., age 66, has served as Chief Financial Officer and as a manager of Dorchester Minerals Management GP LLC, and as Chief Financial Officer of Dorchester Minerals Operating GP LLC and Dorchester Minerals since 2001. He co-founded SASI Minerals Company, Republic Royalty Company, Spinnaker Royalty Company, L.P. and CERES Resource Partners, LP with Mr. McManemin in 1988, 1993, 1996 and 1998, respectively. He received his Bachelor of Business Administration degree from the University of Texas in 1962, his Master of Business Administration degree from the University of North Texas in 1963, and has been a Certified Public Accountant since 1964.

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James E. Raley, age 66, has served as Chief Operating Officer and as a manager of Dorchester Minerals Management GP LLC, and as Chief Operating Officer of Dorchester Minerals Operating GP LLC and Dorchester Minerals since 2001. He had served as a general partner of Dorchester Hugoton since 1990. Mr. Raley previously served as an independent consulting engineer since 1984. Prior to 1984, Mr. Raley was President of Dorchester Gas Producing Company and Senior Vice President of Dorchester Gas Corporation. He received a Bachelor of Science degree in Mechanical Engineering from Texas Tech University in 1962. Mr. Raley has been a Registered Professional Engineer in Texas since 1969.

Preston A. Peak, age 83, has served as a manager of Dorchester Minerals Management GP LLC since 2001. Mr. Peak co-founded Dorchester Hugoton and was a general partner since 1982. He holds a Bachelor of Science degree from the U.S. Naval Academy and a Master of Business Administration degree from the Wharton School

of the University of Pennsylvania. From 1954 until 1984 he served Dorchester Gas Corporation in various financial capacities, including Vice Chairman. Mr. Peak previously served on the boards of directors of each of Kaneb Services, Inc. and Kaneb Pipe Line Partners, L.P.

Robert C. Vaughn, age 50, has served as a manager of Dorchester Minerals Management GP LLC since 2001. Mr. Vaughn has served in various capacities with Vaughn Petroleum, LLC, and affiliated entities since 1979, including as President and Chief Executive Officer from 1986 until 1995, and since 1995 as Chairman and Chief Executive Officer. He co-founded Republic Royalty Company in 1993, Vaughn Petroleum Royalty Partners, Ltd. in 1994 and Dorchester Minerals, L.P. in 2003. He received his Bachelor of Business Administration from the University of Texas at Austin. He currently serves on the Board of Trustees of the Culver Educational Foundation and the Development Board of the University of Texas at Austin.

ELECTION OF MANAGERS TO THE BOARD OF MANAGERS

WHO WILL BE APPOINTED TO THE ADVISORY COMMITTEE

(PROPOSAL NO. 1 ON THE PROXY CARD)

Unitholders are entitled to elect three managers to the Board of Managers who will also be appointed to serve on the Advisory Committee. Nominations for the election of these managers listed below were made by the members of the general partner of our general partner and approved by its Board of Managers. If elected, all nominees are expected to serve until the 2007 Annual Meeting of Limited Partners or until their successors are duly elected.

NOMINEES FOR ELECTION

Buford P. Berry, age 70, has served as a manager and an Advisory Committee Member of Dorchester Minerals Management GP LLC since February 2003. He is currently of counsel to Thompson & Knight L.L.P., a Texas based law firm. Mr. Berry has been an attorney with Thompson & Knight L.L.P., serving in various capacities since 1963, including as Managing Partner from 1986 to 1998. He also currently serves on the Board of Directors of Holly Corporation. Mr. Berry previously served as a Vice Chairman of the Advisory Board of the Institute for Energy Law of the Center for American and International Law (formerly Southwestern Legal Foundation). He is a past Chairman of the Natural Resources Committee of the Taxation Section of the American Bar Association and past Chairman of the Southwestern Legal Foundation Oil and Gas Tax Institute. From 1958 to 1960, Mr. Berry served as a Lieutenant in the United States Naval Reserve. He received his Bachelor of Business Administration degree in 1958 and his Bachelor of Laws Degree in 1963, both from the University of Texas.

Rawles Fulgham, age 78, has served as a manager and an Advisory Committee Member of Dorchester Minerals Management GP LLC since February 2003. He served as a member of the Advisory Committee and the Audit Committee of Dorchester Hugoton from 1995 until January 2003. He also served as Chairman of the Board and Chief Executive Officer of Global Industrial Technologies, Inc. from July 1998 until January 2002. From 1982 until December 1998, Mr. Fulgham served as senior advisor of the Investment Banking Division of Merrill Lynch & Co. Prior to that, he was employed in various capacities by First National Bank in Dallas and its successor holding companies from 1954 until 1982. He was President and co-Chief Executive Officer of the First National Bank in Dallas, and subsequently, President of its successor holding companies. Mr. Fulgham has served on the boards of directors of BancTec, Inc., NCH Corporation, Dresser Industries, Inc. and as Chairman of the Board of Directors of the Children's Medical Center of Dallas. In addition, Mr. Fulgham also served as a member of the Executive Committee of President Reagan's Grace Commission. He received a Bachelor of Arts degree from the Virginia Military Institute, a Bachelor of Business Administration degree from Southern Methodist University and has also completed several graduate courses for a Masters of Business Administration. Mr. Fulgham served in the United States Marine Corps, attaining the rank of captain.

C. W. Bill Russell, age 64, has served as a manager and an Advisory Committee Member of Dorchester Minerals Management GP LLC since May 2004. Mr. Russell was employed by KPMG, LLP and predecessor firms from 1967 until his retirement in 1995. Elected as a partner in 1974, Mr. Russell concentrated in the field of energy taxation and served in various capacities at KPMG including as National Director, technical tax services energy and chairman of the KPMG International Petroleum Group. He co-authored *Income Taxation of Natural Resources*, from 1986 to 2000. He currently performs tax services and related accounting functions for independent oil and gas producers and individuals. Mr. Russell is a graduate of the University of Texas at Arlington and is a certified public accountant.

THE BOARD OF MANAGERS RECOMMENDS THAT UNITHOLDERS VOTE FOR THE ELECTION OF EACH OF THE BOARD OF MANAGERS NOMINEES.

OTHER MATTERS

The Board of Managers does not intend to present any other matters at the 2006 Annual Meeting and knows of no other matters which will be presented. However, if any other matters come before the 2006 Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote in accordance with their judgment on such matters.

By Order of the Board of Managers of Dorchester Minerals Management GP LLC,

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

March 31, 2006

