As filed with the Securities and Exchange Commission on May 15, 2002

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Dorchester Minerals, L.P.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	1311 (Primary Standard Industrial Classification No.)	Applied For (I.R.S. Employer Identification No.)

c/o Dorchester Minerals Management GP LLC
3738 Oak Lawn, Suite 300
Dallas, Texas 75219
(214) 559-0300
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

William Casey McManemin
Dorchester Minerals Management GP LLC
3738 Oak Lawn, Suite 300
Dallas, Texas 75219
(214) 559-0300
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Joe Dannenmaier
David G. Harris
Thompson & Knight, L.L.P.
1700 Pacific Avenue,
Suite 3300
Dallas, Texas 75201

Bryan E. Bishop
Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201

Approximate date of commencement of proposed sale to the public: Upon the effective date of the Combination described in this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [_]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this Form is a post-effective amendment filed pursuant to Section 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Common Units of partnership interest, par value $.01 per share..................	27,040,431 common units(1)	N/A	$197,934,490(2)	$18,210

(1) Consists of (a) 27,040,431 common units issuable upon (i) the conversion pursuant to the Mergers of Republic and Spinnaker and (ii) the transfer by Dorchester Hugoton of certain assets.

(2) Estimated solely for the purpose of determining the registration fee pursuant to Rule 457(f), based on the average of the high and low sales prices for Dorchester Hugoton's partnership interests on the Nasdaq National Market on May 9, 2002 and on the book value of the partnership interests of Republic and Spinnaker to be received or cancelled by the Registrant.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

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DORCHESTER HUGOTON, LTD.
1919 S. Shiloh Road, Suite 600 - LB 48
Garland, Texas 75042

NOTICE OF SPECIAL MEETING OF LIMITED PARTNERS
To be Held on , 2002

To the Limited Partners of
Dorchester Hugoton, Ltd.

Dorchester Hugoton, Ltd. will hold a special meeting of limited partners on , 2002 at a.m. (Dallas, Texas time) at , Dallas, Texas for the following purposes:

1. To consider and vote upon a proposal to adopt and approve the combination agreement, dated as of December 13, 2001, among Dorchester Hugoton, Ltd., Republic Royalty Company, L.P., Spinnaker Royalty Company, L.P., Dorchester Minerals, L.P., Dorchester Minerals Management LP and Dorchester Minerals Management GP LLC, and the transactions contemplated by it; and

2. To transact any other business that may properly be presented at the special meeting or any adjournments of the meeting.

The parties to the combination agreement will not complete the combination transaction unless Dorchester Hugoton's limited partners adopt and approve the combination agreement and the transactions contemplated by it.

Only limited partners of record as of the close of business on , 2002 are entitled to notice of and to vote at the meeting and any adjournments of the meeting.

Please complete, date, sign and promptly return your proxy card so that your partnership interests may be voted in accordance with your wishes and so that the presence of a quorum at the meeting may be assured. Giving a proxy does not affect your right to vote in person if you attend the meeting. You may revoke your proxy at any time before it is exercised at the meeting.

By Order of the General Partners,

P.A. Peak, Inc., General Partner

By: -----------------------------
Preston A. Peak,
President

James E. Raley, Inc., General Partner

By: -----------------------------
James E. Raley,
President

Dallas, Texas
, 2002

SPINNAKER ROYALTY COMPANY, L.P.
3738 Oak Lawn, Suite 300
Dallas, Texas 75219

NOTICE OF SPECIAL MEETING OF LIMITED PARTNERS
To be Held on , 2002

To the Limited Partners of
Spinnaker Royalty Company, L.P.

Spinnaker Royalty Company, L.P. will hold a special meeting of limited partners on , 2002 at a.m. (Dallas, Texas time) at , Dallas, Texas for the following purposes:

1. To consider and vote upon a proposal to adopt and approve the combination agreement, dated as of December 13, 2001, among Dorchester Hugoton, Ltd., Republic Royalty Company, L.P., Spinnaker Royalty Company, L.P., Dorchester Minerals, L.P., Dorchester Minerals Management LP and Dorchester Minerals Management GP LLC, and the transactions contemplated by it; and

2. To transact any other business that may properly be presented at the special meeting or any adjournments of the meeting.

The parties to the combination agreement will not complete the combination transaction unless Spinnaker's limited partners adopt and approve the combination agreement and the transactions contemplated by it.

Only limited partners of record as of the close of business on , 2002 are entitled to notice of and to vote at the meeting and any adjournments of the meeting.

Please complete, date, sign and promptly return your proxy card so that your partnership interests may be voted in accordance with your wishes and so that the presence of a quorum at the meeting may be assured. Giving a proxy does not affect your right to vote in person if you attend the meeting. You may revoke your proxy at any time before it is exercised at the meeting.

By Order of the General Partner,

Smith Allen Oil & Gas, Inc.

By: --------------------------------
H.C. Allen, Jr.
Secretary

Dallas, Texas
, 2002

Preliminary Draft Dated May 15, 2002, Subject to Completion

DORCHESTER MINERALS, L.P.

COMMON UNITS OF PARTNERSHIP INTEREST

Dear Limited Partners:

On December 13, 2001, Dorchester Hugoton, Ltd., Republic Royalty Company, and Spinnaker Royalty Company entered into agreements providing for the creation of a new limited partnership, Dorchester Minerals, L.P.

... The agreements also provide for the combination of the businesses and properties of each of the three combining partnerships: Dorchester Hugoton, Republic and Spinnaker.

... The general partners of the combining partnerships are sending this document to you together.

Dorchester Minerals' objective will be to distribute quarterly all cash beyond that required to pay costs and fund reasonable reserves.

Dorchester Hugoton is a publicly-traded limited partnership, and Republic and Spinnaker are privately held, each by a small number of industry or institutional investors. Except where the context otherwise requires, discussions in this document assume that the reorganization of Republic described on page 56 has occurred and references to the limited partners of the combining partnerships include the holders of Dorchester Hugoton's depositary receipts.

If the combination is completed, limited partners of the combining partnerships will receive common units of partnership interests of Dorchester Minerals, called the common units. The former limited partners of Dorchester Hugoton will receive one common unit of Dorchester Minerals for each depositary receipt of Dorchester Hugoton representing in the aggregate approximately 39.73% of the common units, while the former limited partners of Republic will receive approximately 40.51% and the former limited partners of Spinnaker will receive approximately 19.76%, in each case with respect to their limited partnership interests. For a more detailed description of the combination exchange ratios and how they were computed, see "Background and Reasons for the Combination--Combination Exchange Ratios and Consideration Allocated to General Partner Interests" beginning on page 42.

The combination is expected to be tax-free to Dorchester Minerals and the owners of the combining partnerships, including limited partners, except those who elect to exercise dissenters' rights and except for certain distributions of cash to limited partners.

The combination will not occur unless the limited partners of each of the combining partnerships approve the combination. Special meetings of the Dorchester Hugoton and Spinnaker partners will be held to consider and vote upon the proposal to adopt the combination, and Republic partners are being asked to execute a written consent in lieu of meeting, in each case specified in the applicable accompanying notice.

Prior to this transaction there has been no public market for Dorchester Minerals common units. Dorchester Minerals will apply to have the common units listed on the Nasdaq National Market System under the symbol "DMLP."

Your vote is important. Whether or not you plan to attend the applicable special meeting, please take the time to vote by completing and mailing to us your enclosed proxy card or consent card, as applicable. This will not prevent you from revoking your proxy or consent card, as applicable, at any time prior to the special meeting or from voting your partnership interest in person if you later choose to attend the special meeting.

Sincerely,

P.A. Peak, Inc. James E. Raley, Inc. General Partners of Dorchester Hugoton	SAM Partners, Ltd. Vaughn Petroleum, Ltd. General Partners of Republic
Smith Allen Oil & Gas, Inc. General Partner of Spinnaker	

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this document or the accompanying supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The combination involves various risks described in "Summary--Risk Factors" on page 11 and "Risk Factors" beginning on page 14. These risks include among others:

- The combination exchange ratios for each combining partnership were negotiated based in part upon reserve estimates that may vary significantly from the quantities of oil and natural gas actually recovered by that partnership, and consequently future net revenues may be materially different from the estimates used in the negotiation of the combination exchange ratio for a particular partnership.

- The combination exchange ratio for a combining partnership will not be adjusted for changes in oil and natural gas prices between the date the ratios were established and the completion of the combination.

- No appraisals or valuations, other than the reserve reports, have been done for any of the combining partnerships.

- You were not independently represented in establishing the terms of the combination.

- The consideration limited and general partners receive and the terms of the combination were determined by the general partners of the combining partnerships, which have inherent conflicts of interest.

The date of this document is , 2002.

WHERE YOU CAN FIND MORE INFORMATION

Dorchester Hugoton files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any reports or other information that Dorchester Hugoton files at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of these materials may also be obtained from the SEC for a fee by writing to the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Dorchester Hugoton's filings with the SEC are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at www.sec.gov.

Dorchester Hugoton's depositary receipts are quoted on the Nasdaq National Market System under the symbol "DHULZ." Dorchester Hugoton's reports and other information filed with the SEC can also be inspected at the offices of the NASD or at www.nasdaq.com.

We have filed a registration statement on Form S-4 to register with the SEC our common units to be issued to the limited partners of the combining partnerships. This document is part of that registration statement and constitutes the prospectus of our partnership in addition to being the proxy statement of Dorchester Hugoton and Spinnaker and the consent solicitation of Republic. As allowed by SEC rules, this document does not contain all the information you can find in the registration statement or the exhibits to the registration statement.

The SEC allows Dorchester Hugoton to incorporate by reference information into this document, which means that Dorchester Hugoton can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be a part of this document, except for any information superseded by information in this document. This document incorporates by reference the document sets forth below that Dorchester Hugoton has previously filed with the SEC and that contain important information about Dorchester Hugoton and its finances:

- Annual Report on Form 10-K for the year ended December 31, 2001.

Dorchester Hugoton is also incorporating by reference additional documents that it files with the SEC under sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 between the date of this document and the date of the special meeting or the date the consent card must be returned by, as applicable, for each partnership.

The supplement to this document for each combining partnership contains important information about each partnership. The supplement for each combining partnership constitutes an integral part of this document. Please carefully read the supplement for each combining partnership in which you are a limited partner.

Dorchester Hugoton has supplied all information contained or incorporated by reference in this document relating to Dorchester Hugoton, and our partnership, Republic and Spinnaker have supplied all the information contained in this document relating to them.

You can obtain any of the documents incorporated by reference from Dorchester Hugoton or the SEC. Documents incorporated by reference are available from Dorchester Hugoton without charge upon oral or written request to Dorchester Hugoton, Ltd., 1919 S. Shiloh Road, Suite 600-LB 48, Garland, Texas 75042, telephone (972) 864-8610, Attention: James E. Raley. Exhibits to documents will not be sent, however, unless those exhibits have specifically been incorporated by reference as exhibits in this document.

If you would like to request information from us or a combining partnership in which you own an interest, please do so by   , 2002 so that you may receive them before the applicable special meeting or the date you must return the written consent by, as applicable. If you request any incorporated documents, we or the applicable combining partnership will mail them to you by first class mail or other equally prompt means as soon as practicable after we or the applicable combining partnership receives your request.

You should rely on the information contained or incorporated by reference in this document to vote on the participation in the combination of each combining partnership in which you own an interest. We have not

authorized anyone to give any information that is different from what is contained in this document. This document is dated , 2002. You should not assume that the information contained in this document is accurate as of any date other than that date, and neither the mailing of this document to you nor the issuance of our common units creates an implication to the contrary.

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QUESTIONS AND ANSWERS ABOUT THE COMBINATION

Q: What are the general partners of the combining partnerships proposing?

A: The general partners of the combining partnerships are proposing the combination of the businesses and properties of Dorchester Hugoton, Republic and Spinnaker into a new publicly traded limited partnership. Discussions in this document assume that the reorganization of Republic described beginning on page 56 has occurred, except where the context otherwise requires.

Q: Why is the combination being proposed?

A: The general partners of the combining partnerships believe that the combination is in the best interests of the limited partners of the combining partnerships. After the completion of the combination, limited partners should benefit from:

- a larger and more diversified asset base;
- improved capital efficiencies; and
- the opportunity for future growth from both undeveloped property and from acquisitions.

See the discussion beginning on page 33 for a more complete discussion of the reasons for the combination.

Q: What will I receive as a result of the combination?

A: Limited partners will receive our common units based on set combination exchange ratios, in proportion to their limited partnership interest compared to the total limited partnership interests in that combining partnership. The number of common units to be issued by us to Dorchester Hugoton in exchange for its assets has been determined so that Dorchester Hugoton depositary receipt holders will receive one common unit for each depositary receipt of Dorchester Hugoton.

Q: What will happen to the cash on hand in Dorchester Hugoton when the combination occurs?

A: Prior to the combination, Dorchester Hugoton will sell its Exxon Mobil Corporation stock. These proceeds and any other cash on hand, but net of amounts used to fund its (i) combination costs, (ii) payments to its depositary receipt holders who dissent, if any, and (iii) severance payments and other accrued expenses, will remain in Dorchester Hugoton immediately following its transfer of assets to Dorchester Minerals. Dorchester Hugoton will then liquidate, and this remaining cash will be distributed to Dorchester Hugoton's depositary receipt holders and general partners. See the discussion beginning on page 58 for a more complete description of the liquidation of Dorchester Hugoton.

Q: When and where are the meetings of limited partners?

A: The special meeting of Dorchester Hugoton depositary receipt holders will be held on   , 2002, at   a.m. at   , Dallas, Texas. The special meeting of Spinnaker limited partners will be held on   , 2002, at   a.m. at   , Dallas, Texas. No meeting of Republic partners will be held, but Republic partners are being asked to execute and return the enclosed consent card in order to vote for the combination.

Q: What do I need to do now?

A: After reading this document, please fill out and sign your proxy card (or consent card, as applicable), then mail your signed proxy card (or consent card, as applicable) in the enclosed return envelope as soon as possible. Your interests will be voted at the applicable special meeting in accordance with your instructions.

Q: What does my general partner recommend I do?

A: The general partner(s) of your partnership recommends that you vote "FOR" adoption and approval of the Combination Agreement and the transactions contemplated by it. The general partner(s) of your partnership has agreed to vote all of its partnership interests in favor of the combination.

Q: What happens if I do not return a proxy card or consent card?

A: The failure to return your proxy card or consent card will have the same effect as voting against the combination for each partnership in which you own an interest.

Q: May I vote in person?

A: Yes, in the case of Dorchester Hugoton and Spinnaker. You may attend the applicable special meeting for each partnership in which you own an interest and vote your partnership interests in person, rather than signing and mailing your proxy card. No meeting will be held for Republic.

Q: Can Dorchester Hugoton and Spinnaker limited partners change their vote after they have mailed their signed proxy card?

A: Yes. You may revoke your vote at any time before your proxy is voted at the special meeting for each partnership in which you own an interest by following the instructions on page 73 . You then may either change your vote by sending in a new proxy card or by attending the special meeting for each partnership in which you own an interest and voting in person.

Q: Can Republic limited partners revoke their approval once the consent card is mailed?

A: Yes. Any Republic limited partner can revoke his or her consent, or any withholding of consent, at any time prior to the requisite Republic limited partner approval of the combination. Republic limited partner approval of the combination will occur as soon as consents representing the requisite Republic limited partner approvals are delivered to Republic, but no sooner than 60 calendar days after the date this document is mailed to Republic limited partners.

You can revoke your consent by following the instructions on page 73. You may then change your vote by sending in a new consent card.

Q: If my Dorchester Hugoton depositary receipts are held in "street name," will my broker vote my depositary receipts for me?

A: No. You must instruct your broker how to vote your interests or else your broker will not vote your interests.

Q: Should I send in my certificates for my partnership interest now?

A: No. If the mergers of Republic and Spinnaker are completed, your certificates representing your partnership interests in those partnerships, if any, will be cancelled without further action by you. We will mail certificates representing our common units issued to you on completion of the merger of that partnership. Depositary receipt holders of Dorchester Hugoton will receive a letter of transmittal and instructions to use in getting certificates representing our common units and the limited partner's proportionate share of the liquidating distribution of Dorchester Hugoton. Limited partners of all combining partnerships will receive a transfer application, which you must complete and deliver in order to be admitted as a limited partner of Dorchester Minerals.

Q: What are the tax consequences of the combination?

A: For federal income tax purposes, the combination will be treated as a transfer of the assets and liabilities of each combining partnership to Dorchester Minerals in exchange for common units, followed by the distribution of the common units to the partners of the combining partnerships, and should be tax free to you, unless you elect to exercise dissenters' rights, if available. However, part or all of any cash

distributions by a combining partnership could be taxable to you if the distribution exceeds your tax basis in your partnership interest. You should consult your tax advisor concerning federal and other tax consequences of the combination. See "Material United States Federal Income Tax Consequences" for a more complete discussion of the tax consequences of the combination.

Q: Am I entitled to dissenters' rights of appraisal?

A: Limited partners of Dorchester Hugoton and Spinnaker may, subject to the conditions provided in the Combination Agreement elect to receive, in lieu of a final cash distribution and common units, cash in an amount determined by an independent appraisal conducted at the direction of Dorchester Minerals or Dorchester Hugoton or Spinnaker, as applicable. The combination requires 100% approval by the Republic limited partners, so there will not be Republic dissenters if the combination occurs. See page 68 for a more complete discussion of the dissenters' process.

Q: What happens to my future cash distributions?

A: Since your partnership interests in the combining partnerships will be cancelled upon completion of the combination, you will not receive any future distributions on those interests. Dorchester Minerals contemplates making quarterly cash distributions following the completion of the combination. See page 161 for a more complete discussion of cash distributions Dorchester Minerals will make following the completion of the combination.

Q: Who can help answer my questions?

A: If you have any questions about the combination, please call Dorchester Minerals' information agent, D. F. King & Co. at [phone number to be assigned].

SUMMARY

This summary highlights selected information in this document. To understand the combination and the related transactions and to obtain a more detailed description of the legal terms, you should carefully read this entire document, the related partnership supplements, and the documents described in "Where You Can Find More Information" on the inside front cover page of this document. For definitions of oil and natural gas terms used in this document, see "Glossary of Certain Oil and Natural Gas Terms" beginning on page 181.

In the remainder of this document, when we use the term "Dorchester Minerals," "our partnership," "we," "us," or "our," we are referring to Dorchester Minerals, L.P. as if the transactions contemplated by the combination agreement had already occurred. Except where the context otherwise requires, references to the limited partners of the combining partnerships include the depositary receipt holders of Dorchester Hugoton.

The Parties

Dorchester Minerals, L.P.
3738 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219
(214) 559-0300

We are a Delaware limited partnership formed in connection with the combination. We prepared this document to offer our common units to you. If your partnership approves the combination, you will receive our common units.

Our general partner is Dorchester Minerals Management LP.

Dorchester Hugoton, Ltd.
1919 S. Shiloh Road, Suite 600-LB 48
Garland, Texas 75042
(972) 864-8610

Dorchester Hugoton is a publicly traded limited partnership that owns, produces, gathers and sells natural gas almost exclusively from wells in the Hugoton gas field in western Oklahoma and Kansas. Sales are currently made primarily to two customers under short-term contracts that provide for prices based on the field market price.

Dorchester Hugoton's principal operating assets consist of working interests and support facilities for properties that produce natural gas from the Hugoton field. Most of Dorchester Hugoton's current working interest wells were drilled and have been producing since prior to 1954. Dorchester Hugoton has operated most of its properties since July 1, 1984. Dorchester Hugoton owns total proved developed producing reserves of 48,302 MMcf of natural gas as of December 31, 2001 with SEC PV-10 present value of $44,726,000.

Depositary receipts for units of Dorchester Hugoton limited partnership interest are traded on the Nasdaq National Market System under the symbol "DHULZ." Dorchester Hugoton files annual, quarterly and special reports and other information with the Securities and Exchange Commission. You may obtain these SEC filings from the SEC to read and copy. See "Where You Can Find More Information" on the inside front cover of this document.

The general partners of Dorchester Hugoton are P. A. Peak, Inc. and James E. Raley, Inc.

See "Information Concerning Dorchester Hugoton" beginning on page 102 of this document for more information on Dorchester Hugoton.

Republic Royalty Company, L.P.
3738 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219
(214) 559-0300

Republic was formed in 1993 as a Texas general partnership to acquire oil and natural gas properties from multiple sellers. Republic's properties consist primarily of producing and non-producing royalty and mineral interests located in 392 counties and parishes in 23 states. Republic funded the acquisition of its properties with the proceeds of the sale of overriding royalty interests, which we refer to as the Republic ORRIs. The Republic ORRIs receive a portion of all net proceeds from all of Republic's properties. However, immediately prior to or

simultaneous with the combination, Republic will complete a reorganization in which:

- ... Republic will convert from a general partnership to a limited partnership; and

- ... the owners of the Republic ORRIs burdening Republic's properties will contribute their Republic ORRIs to Republic in exchange for limited partnership interests in Republic.

Republic is privately held. As a result of the Republic reorganization, Republic's partnership interests will be held by two general partners and a total of 11 limited partners, each of whom are industry or institutional investors.

Republic's business objective prior to the reorganization is to receive payment of oil and natural gas production revenue, lease bonus and all other sources of income and to pay all of its expenses. Republic determines the payments under the Republic ORRIs and distributes that amount to the Republic ORRI owners monthly.

Republic owns total proved reserves of 3,401,083 Bbl of oil and 20,154 MMcf of natural gas, as of December 31, 2001 with SEC PV-10 present value of $50,090,627.

SAM Partners, Ltd. and Vaughn Petroleum, Ltd. are currently the general partners of Republic.

See "Information Concerning Republic" beginning on page 115 of this document for more information on Republic.

Spinnaker Royalty Company, L.P.
3738 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219
(214) 559-0300

Spinnaker was formed in 1996 as a Texas general partnership to purchase oil and natural gas properties. Proceeds from a private offering were used to capitalize Spinnaker upon its formation, to fund the acquisition of the properties and for general partnership business purposes. Spinnaker was reorganized as a Texas limited partnership in August 1997 in connection with the acquisition of properties from SASI Minerals Company.

Spinnaker is privately held. As of January 1, 2002, Spinnaker's partnership interests are held by one general partner and a total of 15 limited partners, each of whom are industry or institutional investors.

Spinnaker's properties consist primarily of producing and non-producing royalty and mineral interests located in 353 counties and parishes in 21 states.

Spinnaker owns total proved reserves equivalent to 973,680 Bbl of oil and 14,537 MMcf of natural gas, as of December 31, 2001 with SEC PV-10 present value of $26,826,911.

Smith Allen Oil & Gas, Inc. is currently the general partner of Spinnaker.

See "Information Concerning Spinnaker" beginning on page 128 of this document for more information on Spinnaker

The Combination

The combination involves the following steps:

- ... Creation of ORRIs. Dorchester Hugoton will transfer all of its oil and natural gas properties to Dorchester Minerals Operating LP, in exchange for retention of 96.97% net profits overriding royalty interests in the properties conveyed, referred to as the Dorchester Hugoton ORRIs. On or about the closing of the combination, each of Republic and Spinnaker will convey minor working interest properties to Dorchester Minerals Operating LP (an affiliate of our general partner), in exchange for 96.97% net profits overriding royalty interests in those properties on substantially similar terms. We refer to the Dorchester Hugoton ORRIs and the overriding royalty interests received by Republic and Spinnaker as the Operating ORRIs.

- ... Asset Sale and Liquidation, and Mergers. Immediately following, or simultaneously with, the creation of the Operating ORRIs described above the following will occur:

  Dorchester Hugoton will transfer all of its remaining operating assets to either us or

Dorchester Minerals Operating LP and then liquidate, distributing to its partners remaining cash and our common units. The transfers will be made as follows:

* to Dorchester Minerals Operating LP, its management and remaining operating assets, in exchange for a promissory note and the assumption of certain obligations; and

* to us, the Dorchester Hugoton ORRIs created as described above, certain other non-cash assets and cash to fund certain obligations, all in exchange for our common units and the assumption of Dorchester Hugoton's remaining obligations.

Republic, after completing an internal reorganization, will merge into our partnership, with the Republic limited partners receiving our common units and the Republic general partners receiving general partner interests.

Spinnaker, after completing an internal reorganization, will merge into our partnership, with the Spinnaker limited partners receiving our common units and the Spinnaker general partner receiving general partner interests

As a result of the combination, our common units will initially be held in approximately the following proportions:

... 40.51% by former limited partners of Republic;

... 39.73% by former limited partners of Dorchester Hugoton; and

... 19.76% by former limited partners of Spinnaker.

Business After Completion of the Combination

If the combination is consummated, our business plan is to own and hold the Operating ORRIs and the properties acquired from Republic and Spinnaker, which will generally consist of producing and non-producing mineral, royalty, overriding royalty, net profits and leasehold interests and which we refer to as the royalty properties. We will distribute on a quarterly basis all cash that we receive from the ownership of those interests beyond that required to pay our costs and fund reasonable reserves. We do not anticipate incurring any debt other than trade debt incurred in the ordinary course of our business. One of our objectives will be to avoid unrelated business taxable income for federal income tax purposes.

We may acquire oil and natural gas properties in the future after the combination, but under our Partnership Agreement our ability to do so for consideration other than our limited partnership interests will be limited, unless we obtain majority approval of our common unit holders. See "The Partnership Agreement--Issuance of Additional Securities."

On a pro forma basis as of December 31, 2001, our proved reserves consisted of 81,530,409 Mcf of natural gas and 4,374,768 Bbl of oil, with SEC PV-10 present value of $120,288,700.

Structure and Management of the Combining Partnerships Prior to the Combination

The chart on page 7 illustrates the ownership structure of the combining partnerships prior to the combination.

Structure and Management of Dorchester Minerals After the Combination

The chart on page 8 illustrates our ownership structure, as well as that of our general partner and the entity that will own overriding royalty interests burdening certain of our properties.

[FLOW CHART]

Structure Prior to the Combination flow chart.

[FLOW CHART]

Structure After the Combination flow chart.

Our General Partner (see the discussion beginning on page 139)

Following the combination, our general partner will own a general partner interest in us that will entitle it to:

- a 1% partnership interest and sharing percentage in each of the Operating ORRIs conveyed to us in connection with the combination, and in any similar overriding royalty interests created in the future; and

- 4% partnership interest and sharing percentage in all of our other assets, properties, obligations and liabilities and all our other items of revenue, cost and expense.

Our general partner will not receive any management fee or compensation in connection with its management of our business, but will be reimbursed for direct and indirect expenses incurred on our behalf, subject to certain limitations. See "Management--Absences of Management Fees; Reimbursement of General Partner" for a description of the reimbursement of expenses.

The executive officers of Dorchester Minerals Management LP are: William Casey McManemin, Chief Executive Officer; James E. Raley, Chief Operating Officer; and H.C. Allen, Jr., Chief Financial Officer.

Dorchester Minerals Management GP LLC (see the discussion beginning on page 141)

Dorchester Minerals Management GP LLC, a Delaware limited liability company, is the general partner of our general partner and is owned by the five current general partners of the combining partnerships. A Board of Managers consisting of five managers appointed by its members, and at least three independent managers, will govern Dorchester Minerals Management GP LLC. Certain governance matters will be handled through committees of managers.

Each member of Dorchester Minerals Management GP LLC has the power to appoint one manager. The initial appointed managers will be:

- H.C. Allen, Jr., appointed by SAM Partners, Ltd.;

- Robert C. Vaughn, appointed by Vaughn Petroleum, Ltd.;

- William Casey McManemin, appointed by Smith Allen Oil & Gas, Inc.;

- Preston A. Peak, appointed by P.A. Peak Holdings LP; and

- James E. Raley, appointed by James E. Raley General Partnership.

By virtue of the ownership structure of our partnership, Dorchester Minerals Management LP and Dorchester Minerals Management GP LLC, the Board of Managers of Dorchester Minerals Management GP LLC will exercise the effective control of our partnership.

The executive officers of Dorchester Minerals Management GP LLC are: William Casey McManemin, Chief Executive Officer; James E. Raley, Chief Operating Officer; and H.C. Allen, Jr., Chief Financial Officer.

Dorchester Minerals Operating LP (see the discussion beginning on page 144)

Our general partner owns, directly or indirectly, 100% of Dorchester Minerals Operating LP, and its general partner, Dorchester Minerals Operating GP LLC. After the consummation of the combination, Dorchester Minerals Operating LP will hold the working interests and most of the other operational assets now owned by Dorchester Hugoton, Republic and Spinnaker and will also provide day-to-day operational support and services to us and to our general partner, such as accounting, land and tax services. Actual and reasonable costs incurred by Dorchester Minerals Operating LP in performing the services will be reimbursed by us, subject to certain limitations with respect to those matters outside the scope of the Operating ORRIs.

The executive officers of Dorchester Minerals Operating LP are: William Casey McManemin, Chief Executive Officer; James E. Raley, Chief Operating Officer; H.C. Allen, Jr., Chief Financial Officer; and Kathleen A. Rawlings, Controller.

Recommendations of the Combination

Background and Reasons for the Combination

Prior to their introduction, the general partners of each of the combining partnerships were each actively exploring various strategic alternatives available to their partnerships. Among the common objectives of the general partners was the objective to

pursue a transaction that could be accomplished without triggering a taxable event and would result in the limited partners of the combining partnerships holding publicly traded securities in a partnership or a similar flow-through entity for tax purposes. Although each of the combining partnerships engaged in discussions with other potential strategic transaction participants, the general partners of each of the combining partnerships have concluded that the combination will best serve the interests of their respective partnerships and limited partners.

Alternatives to the Combination

The general partners of each of the combining partnerships have considered various alternatives to the combination, including the continued operation of each of their partnerships under their existing business plans. The general partners of the combining partnerships also considered various transaction structures which could be accomplished on a non-taxable basis, as well as certain structures that would trigger a taxable event for their partners, including transactions involving cash consideration.

See "Background and Reasons for the Combination--Background of the Combination" beginning on page 33 for a more detailed description of the alternatives to the combination considered by the general partners of each of the combining partnerships.

Fairness of the Combination

The general partners of each of the combining partnerships have both approved the combination and believe that the combination is fair and in the best interests of the applicable combining partnership and its limited partners. The general partners of the combining partnerships considered various factors in determining that the combination is fair to their partnerships and limited partners. Some of the factors that are common to all of the general partners of the combining partnerships include:

- a larger and more diversified asset base;
- improved capital efficiencies; and
- the opportunity for future growth from both unleased, undeveloped property and from acquisitions.

See "Background and Reasons of the Combination--Reasons for the Combination" beginning on page 44 for a more detailed discussion other factors considered by the general partners of the combining partnerships.

The general partners of Dorchester Hugoton and its Advisory Committee also considered the fairness opinion from Bruce E. Lazier, P.E.

As described below under the heading "Methods of Determining Combination Exchange Ratios," the combination exchange ratios were determined as the result of arm's-length negotiations considering multiple factors.

Fairness Opinion of Financial Advisor

Bruce E. Lazier, P.E. has issued a fairness opinion dated December 13, 2001, updating an earlier opinion dated July 30, 2001, that, subject to the qualifications expressed in the opinion, the combination is fair from a financial point of view to Dorchester Hugoton and its depositary receipt holders. The full text of the written opinions of Lazier are attached as Appendix A-1 and A-2 to this document. Neither Republic nor Spinnaker has received a fairness opinion in connection with the combination.

Methods of Determining Combination Exchange Ratios

The general partners of the combining partnerships have agreed in the Combination Agreement to the manner in which interests in our partnership will be allocated to the partners of the combining partnerships. These agreements were reached as the result of arm's-length negotiations.

During those negotiations, the parties did not assign a value to each combining partnership or to categories of their assets, but considered multiple factors, which are described in more detail under "Background and Reasons for the Combination--Background of the Combination." As described in more detail in "Background and Reasons for the Combination--Combination Exchange Ratios and Consideration Allocated to General Partner Interests" on page 42, our common units will initially be held in approximately the following proportions as a result of the combination:

- 40.51% by former limited partners of Republic;

- 39.73% by former limited partners of Dorchester Hugoton; and 19.76% by former limited partners of Spinnaker.

Our common units will initially be held in approximately the following amounts as a result of the combination, based on 27,040,431 common units to be issued in the combination:

- 10,953,078, by the former limited partners of Republic;

- 10,744,380, by the former limited partners of Dorchester Hugoton; and

- 5,342,973, by the former limited partners of Spinnaker.

Risk Factors

You should carefully consider the risks associated with the combination described in "Risk Factors" beginning at page 14 of this document. These include:

- The combination exchange ratios for each combining partnership were negotiated based in part upon reserve estimates that may vary significantly from the quantities of oil and natural gas actually recovered by that partnership, and consequently future net revenues may be materially different from the estimates used in the negotiation of the combination exchange ratio for a particular partnership.

- The combination exchange ratio for a combining partnership will not be adjusted for changes in oil and natural gas prices before the completion of the combination.

- No appraisals or valuations, other than the reserve reports, have been done for any of the combining partnerships.

- You were not independently represented in establishing the terms of the combination.

- The consideration limited and general partners receive and the terms of the combination were determined by the general partners of the combining partnerships, which have inherent conflicts of interest.

- Cash distribution policies will be dependent on oil and natural gas prices which have historically been very volatile.

- Our partnership will not control operations or development.

- There has been no prior market for our common units.

Combination Agreement

We have entered into a Combination Agreement with the combining partnerships, Dorchester Minerals Management LP, Dorchester Minerals Management GP LLC and Dorchester Minerals Operating LP relating to the terms and conditions of the combination.

Conditions to the Combination

The consummation of the combination is conditioned upon, among other things:

- the approval of the combination by the holders of more than 50% of the depositary receipts of Dorchester Hugoton, by all of the partners of Republic (including the Republic ORRI owners, who will become limited partners upon Republic's reorganization) and by the limited partners owning at least 85.9883% of the sharing percentages of Spinnaker;

- the completion of the reorganizations of Republic and Spinnaker and the conveyance of their working interests to Dorchester Minerals; and

- the absence of any material adverse change in the financial conditions of the combining partnerships (other than changes due to changes in oil and natural gas prices or general economic conditions).

Dissenters' Rights; Investor Lists

As a condition to being listed on the Nasdaq National Market System, the NASD requires that limited partners in transactions such as the combination must be provided with dissenters' rights. Accordingly, limited partners of Dorchester Hugoton and Spinnaker are entitled to such rights. The combination requires the approval of all of the

Republic limited partners, so there will not be Republic dissenters if the combination occurs. See the discussion at "The Combination--Dissenters' Rights" beginning on page 68 of this document.

A limited partner may obtain a list of limited partners in his partnership by making a written request to the general partner(s) of his partnership at the address shown for each partnership in "The Parties" section of this Summary.

Regulatory Approvals

No federal or state regulatory approvals are required in connection with the consummation of the combination by any of the combining partnerships, except filing certificates of merger with Secretary of State of the State of Delaware and the Secretary of State of the State of Texas with respect to the mergers of Republic and Spinnaker with and into Dorchester Minerals.

Partner Vote Required to Approve the Combination

Approval requires the favorable vote of the holders of more than 50% of the depositary receipts of Dorchester Hugoton, of all of the partners of Republic (including the Republic ORRI owners, who will become limited partners upon Republic's reorganization) and of the limited partners owning at least 85.9883% of the sharing percentages of Spinnaker. The general partners of the combining partnerships are generally entitled under the respective partnership agreements to vote partnership interests they hold as limited partners at the special meetings or, in the case of Republic, by returning the consent card. The general partners of the combining partnerships plan to vote all of their partnership interests for the combination. The voting interests that each of the general partners hold in the respective combining partnerships is found in "Information Concerning Dorchester Hugoton--Security Ownership," "Information Concerning Republic--Security Ownership" and "Information Concerning Spinnaker--Security Ownership."

Comparison of Rights of Partners

For a comparison of the rights of our partners under Delaware law and our Partnership Agreement with the rights of the partners of each of the combining partnerships under Texas law and in the respective partnership agreements, see "Comparison of Rights of Partners" beginning on page 168 of this document.

Resales of Common Units

Our common units to be issued in connection with the combination have been registered under the Securities Act. All units will be freely tradable after completion of the combination, except for common units issued to (i) any partner of a combining partnership that is an "affiliate" of a combining partnership, as applicable, for purposes of Rule 145 of the Securities Act or (ii) any partner that becomes an "affiliate" of our partnership after the combination. See the discussion at "The Combination Agreement--Resales of Common Units" on page   of this document.

Other Information

Summary of United States Income Tax Consequences

For federal income tax purposes, the combination will be treated as a transfer of the assets and liabilities of each combining partnership to Dorchester Minerals in exchange for common units, followed by the distribution of the common units to the partners of the combining partnerships. These transfers should be tax free to you unless you elect to exercise dissenters' rights, if available to you. In addition, if you receive a cash distribution from one of the combining partnerships prior to or in connection with the combination, this distribution could be taxable to you depending on your basis in your partnership interest. See "Material United States Federal Income Tax Consequences" for a more complete discussion of the tax consequences of the combination.

Tax matters are very complicated. You should consult your tax advisor for a full understanding of the particular tax consequences of the combination to you.

Accounting Treatment

The combination will be accounted for using purchase accounting. Dorchester Hugoton has been

designated the acquiror for purchase accounting purposes. See "The Combination Agreement--Accounting Treatment" on page 69 of this document.

Comparative per Unit Market Price Information

On August 1, 2001, the last full trading day before the public announcement of the combination, Dorchester Hugoton's depositary receipts closed at $13.00 per unit. On , 2002, Dorchester Hugoton's depositary receipts closed at $. No liquid market currently exists for interests in our partnership or in Republic or Spinnaker.

Certain Pro Forma Financial Data

The following table sets forth summary unaudited pro forma financial date for our partnership. It should be read in conjunction with the unaudited pro forma financial information and related notes included in this document beginning on page P-1, and with the historical financial statements of the combining partnerships and related notes included in this document beginning on page F-1.

	Year ended December 31, 2001 (in thousands except per unit data)
Total operating revenues	$ 49,725
Operating expenses, excluding depreciation, depletion and amortization and asset impairment	4,517
Depreciation, depletion and amortization	21,413
Impairment of assets	73,101
Total operating expenses	99,031
Other income	44
Net loss	(49,262)
Net loss per unit--basic and diluted	(1.73)
Cash distributions	39,148
Cash distributions per unit	1.40
Net cash provided by operating activities	50,261
Total assets	124,006
Total liabilities	--
Partners' capital	124,006

RISK FACTORS

You should carefully consider the following risk factors, together with other information contained in this document and the information we have incorporated by reference, in determining whether to vote in favor of the combination.

Risks Related to Our Business

Cash distributions will be highly dependent on oil and natural gas prices, which have historically been very volatile.

Our partnership's quarterly cash distributions will 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, referred to as "OPEC," to agree to and maintain oil price 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 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.

Our partnership will not control operations and development.

Essentially all of the producing properties we will acquire from Republic and Spinnaker are royalty interests. As a royalty owner, we will 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.

Most of the nonproducing properties we will acquire from Republic and Spinnaker are mineral and royalty interests. As the owner of a fractional undivided mineral or royalty interest, our ability to influence development of these nonproducing properties will be severely limited. Also, since one of our partnership's stated business objectives is to avoid the generation of unrelated business taxable income, we will generally avoid 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 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 will not be able to influence or control the operation or future development of the properties underlying the Operating ORRIs, except by removal of our general partner. Dorchester Minerals Operating LP will be unable to influence significantly the operations or future development of properties that it does not operate. Dorchester Minerals Operating LP (as successor to Dorchester Hugoton) and the other current operators of the properties underlying the Operating ORRIs will be under no obligation to continue operating the underlying properties. Dorchester Minerals Operating LP can sell any of the properties underlying the Operating ORRIs that it operates and relinquish the ability to control or influence operations. Our unitholders will not have the right to replace an operator.

Our lease bonus revenue will depend in significant part on the actions of third parties.

A significant portion of the nonproducing properties to be acquired from Republic and Spinnaker are mineral interests. With limited exceptions, we will 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 will be 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.

Dorchester Minerals Operating LP may transfer or abandon properties that will be subject to the Operating ORRIs.

Although it has no current intention of selling any of the underlying properties, our general partner, through Dorchester Minerals Operating LP, may at any time transfer all or part of the properties underlying the Operating ORRIs. You will not be entitled to vote on any transfer, and our partnership will not receive any proceeds of the transfer. Following any material transfer, the underlying properties will continue to be subject to the Operating ORRIs, but the net proceeds from the transferred property would be calculated separately and paid by the transferee. The transferee would be responsible for all of Dorchester Minerals Operating LP's obligations relating to the Operating ORRIs on the portion of the underlying properties transferred, and Dorchester Minerals Operating LP would have no continuing obligation to our partnership for those properties.

Dorchester Minerals Operating LP 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 Operating ORRIs relating to the abandoned well.

Cash distributions will be affected by production and other costs.

The cash available for distribution that will come from our royalty and mineral interests, including the Operating ORRIs, will be directly affected by increases in production costs and other costs. Some of these costs will be outside our control, including costs of regulatory compliance and severance and other similar taxes. Other expenditures will be 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 will 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 will depend 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 that we acquire from Republic or Spinnaker, 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.

Our ability to increase reserves through future acquisitions is limited by restrictions on our use of cash and limited partnership units 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.

Although it is not contemplated that we will be directly engaged in the drilling of wells, Dorchester Minerals Operating LP may undertake drilling activities in limited circumstances on the properties underlying the Operating ORRIs, 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 Operating ORRIs, the costs of unsuccessful future drilling on the working interest properties that will be subject to the Operating ORRIs will reduce amounts payable to us under the Operating ORRIs by 96.97%, although we will never have liability to pay costs relating to those properties in excess of the amounts payable under the Operating ORRIs.

Our ability to identify and capitalize on acquisitions will be limited by contractual provisions and substantial competition.

Our Partnership Agreement will limit our ability to acquire oil and natural gas properties in the future, especially for consideration other than our limited partnership interests. See "Business of Dorchester Minerals After the Combination--General" and "The Partnership Agreement--Issuance of Additional Securities." 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 also will obligate 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 or another type of interest that did not generate

unrelated business taxable income in a manner similar to the treatment of Dorchester Hugoton's properties in the combination. Although such arrangements are possible as a condition to our acquisition of interests, 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 will be limited, including pursuant to the terms of the 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.

We will 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.

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 future acquisitions, our capitalization and results of operations may change significantly and you 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.

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 cannot assure you that we will be able to successfully integrate any oil and natural gas properties that we acquire into our operations or that we will 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 on 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 will not carry business interruption insurance.

The properties currently held by Dorchester Hugoton that will be subject to the Operating ORRIs will be geographically concentrated.

The properties currently held by Dorchester Hugoton and that will be subject to the Operating ORRIs 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 Operating ORRIs more than if the properties were more geographically diversified.

Despite having two pipelines available and numerous buyers on each pipeline, 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 Operating ORRIs, much of the economic risk of the underlying properties is passed along to us.

We will generally not be responsible to third parties for costs that would be charged to a working interest owner, and we will not be obligated to make any payments to Dorchester Minerals Operating LP if its costs exceed revenues from the properties that will be subject to the Operating ORRIs. However, under the terms of the Operating ORRIs, 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, we will bear 96.97% of the costs of the working interest properties, and if costs exceed revenues, we will not receive any payments under the Operating ORRIs.

In addition, the terms of the Operating ORRIs 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 Operating ORRIs until all prior uncharged costs have been recovered by Dorchester Minerals Operating LP.

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

Dorchester Minerals Operating LP will own and operate the gathering system and compression facilities that will be acquired from Dorchester Hugoton. Casualty losses or damage claims from these operations would be production costs under the terms of the Operating ORRIs and could adversely affect our cash flow.

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

Most of Dorchester Hugoton's current working interest wells were drilled and have been producing since prior to 1954. Dorchester Hugoton's 132-mile Oklahoma gas pipeline gathering system 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, Dorchester Minerals Operating LP may incur substantial capital expenditures in the operation of the Oklahoma properties owned by Dorchester Hugoton prior to the consummation of the combination, which, as production costs, would reduce our cash flow from these properties.

We are not fully insured against operating hazards.

While we will maintain insurance coverage that we consider reasonable and that will be similar to that maintained by peer companies in the oil and natural gas industry and we expect that Dorchester Minerals Operating LP will do the same, neither we nor Dorchester Operating Minerals LP will be 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 will be 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 Operating ORRIs would 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 us.

Our business and the properties in which we hold interests will be 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 will be subject to the Operating ORRIs are located, have the ability, directly or indirectly, to limit production from those properties, and, although limitations on production do not currently affect those properties in either state, such limitations or changes in those limitations could negatively impact us in the future.

As another example, Oklahoma regulations currently restrict the concentration of gas production wells in the field in which Dorchester Hugoton's wells are located to one well for each 640 acres. For some time, certain interested parties have sought regulatory changes in Oklahoma which would permit "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 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 will be subject to the Operating ORRIs. If Dorchester Minerals Operating LP, or other operators of our properties do not do the same, our production levels relating to these properties may decrease. Capital expenditures relating to increased density on the properties underlying the Operating ORRIs would be deducted from amounts payable to us under the Operating ORRIs.

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, even though we will not own working interests in oil and natural gas properties, the costs associated with environmental compliance or remediation could reduce the amount we would receive from our properties. The properties in which we will hold interests are subject to extensive federal, state 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.

We will be subject to currently pending litigation of Republic and Dorchester Hugoton after the combination.

Republic and Dorchester Hugoton are currently involved in legal proceedings arising in the ordinary course of their businesses. Republic is a party to various proceedings, including the Salinas litigation described under "Information Concerning Republic--Legal Proceedings" beginning at page 126. Dorchester Hugoton is a party to a case pending in the District Court of Texas County, Oklahoma, referred to as the RRNGR litigation, which is described under "Information Concerning Dorchester Hugoton--Legal Proceedings" beginning at page 112.

As a result of the combination, we will assume any liabilities relating to these legal proceedings and the costs of defense of such proceedings. Upon consummation of the combination, we will be entitled to indemnification from a limited partnership affiliated with Republic for liabilities and expenses relating to the Salinas litigation, but will not be indemnified with respect to the RRNGR litigation. Our financial position and ability to make distributions could be materially and adversely affected due to losses relating to such legal proceedings if we are not fully indemnified or if losses that might be suffered in the Salinas litigation exceed the value of the assets of the indemnifying limited partnership, which will consist of approximately 984,750 of our common units.

Numerous uncertainties exist in estimating our quantities of proved reserves and future net revenues.

Estimates of proved reserves and related future net revenues are based on various assumptions, which may prove to be inaccurate. Therefore, those estimates should not be construed as being accurate as being accurate estimates of the current market value of our proved reserves. Although Dorchester Hugoton is affected only by changes in natural gas prices, Republic and Spinnaker are affected by changes in both oil and natural gas prices. Oil and natural gas prices may not experience corresponding price changes.

Risks Related to the Combination

The combination exchange ratios for each combining partnership were negotiated based in part upon reserve estimates that may vary significantly from the quantities of oil and natural gas actually recovered by that partnership, and consequently future net revenues may be materially different from the estimates used in the negotiation of the combination exchange ratio for a particular partnership.

The calculations of each combining partnership's estimated reserves of oil and natural gas, and future net revenues from those reserves, considered in the negotiation of combination exchange ratios were only estimates. Actual prices, production, operating expenses and quantities of recoverable oil and natural gas reserves may vary significantly from those assumed in the estimates. Any such variance from the assumptions used could result in a material variance between the actual quantity of each combining partnership's reserves and future net revenues and the estimates used in the negotiation of the combination exchange ratio for that partnership. The use of these estimates in determining the combination exchange ratios could therefore result in an undervaluation or overvaluation of your combining partnership in determining the common units you will receive in the combination.

The combination exchange ratio for a combining partnership will not be adjusted for changes in oil and natural gas prices before the completion of the combination.

The combination exchange ratio for the combining partnership in which you own an interest determines the number of our common units that you will receive in the combination. See "Background and Reasons for the Combination--Combination Exchange Ratios and Consideration Allocated to General Partner Interests" for a discussion of these combination exchange ratios. While oil and natural gas prices have fluctuated significantly in recent years and may continue to do so, the combination exchange ratio for a subject partnership will not be adjusted as of the combination closing to reflect any general changes in oil and natural gas prices, or any other matter generally affecting the oil and natural gas industry, occurring after the date of the Combination Agreement and prior to the combination closing date.

No appraisals or valuations, other than the reserve reports, have been done for any of the combining partnerships.

The combination exchange ratios for the combining partnerships used to determine the common units you will receive were determined by arm's-length negotiations among the combining partnerships. Other than the reserve reports described in this document, there were no independent valuations or appraisals performed on the assets of the combining partnerships, and the general partners did not have any such valuations or appraisals available to them as they negotiated the terms of the combination. The combination exchange ratios determined by negotiation may be different from the combination exchange ratios that would result if the combining partnerships' assets were appraised and the combination exchange ratios determined by formula based on that factor alone.

The fairness opinion to Dorchester Hugoton was issued before the most recent reserve reports became available for the combining partnerships.

Dorchester Hugoton engaged Bruce E. Lazier, P.E. to render an opinion as to the fairness, from a financial point of view, of the combination to Dorchester Hugoton and its limited partners. Mr. Lazier's latest opinion, which was issued on December 13, 2001, was based in part upon reserve information through only December 31, 2000, and therefore is not based upon the latest reserve information now available. Reserve information for Dorchester Hugoton, Republic and Spinnaker as of December 31, 1999, 2000 and 2001 is set forth in this document.

You were not independently represented in establishing the terms of the combination.

Representatives of the general partners of the combining partnerships determined the terms of the combination, including the combination exchange ratio of each combining partnership, the type and amount of interests in our partnership to be received by the general partners and limited partners of each of the combining partnerships, the terms of the Operating ORRIs and other terms as to which the general partners may be deemed to have interests different from the interests of the limited partners. The general partners of the combining partnerships did not seek recommendations about the type of transaction or the terms or prices from any independent underwriter, financial advisor or other securities professional, except that Dorchester Hugoton engaged Bruce E. Lazier, P.E. to assess the fairness of the combination to the depositary receipt holders of Dorchester Hugoton from a financial point of view. Mr. Lazier's opinion addressed the fairness of terms that had already been negotiated, and he did not participate in those negotiations. The only independent representatives in the combination were the Advisory Committee members of Dorchester Hugoton. However, the Advisory Committee members reviewed the combination only from the standpoint of fairness to Dorchester Hugoton's depositary receipt holders, not from the standpoint of fairness to limited partners of Republic and Spinnaker. In addition, while the Advisory Committee did give input to the general partners of Dorchester Hugoton concerning certain terms of the combination while those terms were being negotiated, they did not participate in the negotiation of the combination exchange ratios. Therefore, no representative group of limited partners and no outside experts or consultants, such as investment bankers, legal counsel, accountants or financial experts, were engaged solely to represent the independent interests of the limited partners of any partnership in structuring and negotiating the terms of the combination for any partnership. If you had been separately represented, the terms of the combination might have been different and possibly more favorable to you.

The consideration limited and general partners receive and the terms of the combination were determined by the general partners of the combining partnerships, which have inherent conflicts of interest.

The interests of the general partners of the combining partnerships and their officers may differ from your interests. For example, each general partner has a duty to manage the applicable combining partnership in the best interests of its limited partners, but also has a duty to operate its business for the benefit of its owners. See "Conflicts of Interest and Fiduciary Duties--Interests of Certain Persons in the Combination."

Some common management and ownership exists between one of the Republic general partners and the general partners of Spinnaker.

H.C. Allen, Jr., Frederick M. Smith, II and William Casey McManemin each serve as an officer of SAM Partners, Ltd., one of the general partners of Republic, and of Smith Allen Oil & Gas, Inc., the general partner of Spinnaker. As a result of this common management, these representatives participated in the negotiation of the combination exchange ratios for both Republic and Spinnaker. These management representatives or their family members own both SAM Partners, Ltd. and Smith Allen Oil & Gas, Inc. and own some limited partner interests in both Republic and Spinnaker. Vaughn Petroleum, Ltd., a general partner of Republic that is not otherwise affiliated with SAM Partners, Ltd. or Smith Allen Oil & Gas, Inc., was involved in negotiating the combination exchange ratios on behalf of Republic. Vaughn Petroleum, Ltd. is also the general partner of a limited partnership that is a limited partner of Spinnaker. However, if no common management or ownership existed between the

general partners of Republic and Spinnaker, the terms of the combination might have been different and possibly more favorable to the limited partners of either of Republic or Spinnaker.

It is not certain what the market demand is for any combining partnership or its assets or that the terms of the combination are as favorable as could be obtained in a third party sale.

Except for the internal review of strategic alternatives by the general partners of Dorchester Hugoton and their contacts with potential parties to a strategic transaction discussed under "Background and Reasons for the Combination--Background of the Combination" beginning at page 33, the combining partnerships have not actively solicited bids from third parties. An invitation for third party bids could result in a better price to the partners than the terms of the combination. While the contacts by Dorchester Hugoton described under "Background of the Combination" produced no other offer consistent with what the general partners believed its depositary receipt holders' objectives to be, and no alternative transaction for any of the combining partnerships was proposed by any third party after the non-binding letter of intent was publicly announced, we cannot be certain of the market demand for any combining partnership or its assets, individually or as a whole with the other combining partnerships, or what a third party might offer for any combining partnership if additional efforts to market the combining partnerships had occurred.

The alternatives to the combination could potentially be more beneficial to limited partners than the combination.

You should also note that, instead of entering into the combination, any given combining partnership could have continued its independent operations and possibly achieved greater success than it will under the combination, or with the approval of its partners, sought to liquidate the partnership's assets and distributed the liquidation proceeds in accordance with the provisions of the respective partnership agreement. This would have enabled limited partners to reinvest proceeds from the asset sales and avoid the market risks associated with the ownership of our common units, but would have resulted in a taxable event.

Potential litigation challenging the combination may delay or prevent the transaction and your receipt of the common units.

It is possible that one or more of the partners of the combining partnerships could oppose the combination and initiate legal action to stop the combination or to seek damages for certain alleged violations of federal or state laws. Litigation challenging the combination may delay or prevent the closing. If any lawsuits are filed by governmental agencies or if injunctive relief were issued in any private litigation, the combination could be terminated. If the action of a combining partnership required to complete the combination is delayed or terminated, the issuance of the common units that you would otherwise receive will be delayed or terminated.

Partners of Dorchester Hugoton and Spinnaker could be bound by the Combination Agreement even if they do not vote in favor of the combination.

If you are a limited partner in Dorchester Hugoton or Spinnaker, you will be bound by the Combination Agreement if the necessary percentage of the partners in each of the partnerships vote in favor of the combination, even if you vote against the combination or do not vote. If the combination occurs, you will be entitled to receive only a cash distribution and an amount of common units based on the combination exchange ratio of your partnership interests in the partnership in which you own an interest unless you exercise your dissenters' rights.

If the combination is not consummated, all or a portion of the transaction costs will be borne by the combining partnerships.

The combination is a very complex transaction, and the transaction costs associated with regulatory compliance will be significant. Most of the costs will be incurred throughout the course of the transaction, and a

risk exists that the transaction could be terminated prior to its estimated completion but after the incurrence of substantial costs. In this event, the combining partnerships generally will bear their respective separate costs and a portion of common costs as described in "The Combination Agreement--Expenses and Fees." In accordance with the partnership agreements of the combining partnerships, but subject to certain terms of the Combination Agreement and undertakings of the general partners, the limited partners of each combining partnership will bear a portion of the transaction costs. See "The Combination Agreement--Expenses and Fees" for more information.

Our general partner may experience difficulties in integrating the former businesses and management operations of the combining partnerships.

Our general partner will endeavor to integrate the businesses and operations of the combining partnerships to operate in an efficient manner, but we may experience inefficiencies, costs and demands upon management resources that may adversely affect our business.

A significant portion of Dorchester Hugoton's management operations have been focused on operating its gas properties. Those operations will have to be divided between managing the working interests to be owned by Dorchester Minerals Operating LP and managing the Operating ORRIs and other interests, and the latter management operations will have to be coordinated with the management of the former Republic and Spinnaker properties. Republic and Spinnaker have operated as privately held entities and their operations and practices will have to be adjusted to operating as a publicly held concern. The Dorchester Hugoton and Republic and Spinnaker management operations are in separate locations and will remain so for an indefinite time after the combination. Having two separate office locations may lead to inefficiencies in operations.

Dissenters' rights of appraisal will not be available for Republic and are limited for Spinnaker and Dorchester Hugoton.

Under the terms of the Combination Agreement, limited partners in Dorchester Hugoton and Spinnaker are given certain contractual dissenters' rights of appraisal. However, these dissenters' rights are not available to the limited partners of either Dorchester Hugoton or Spinnaker if that partnership receives approval of the Combination Agreement by holders of 75% or more of the limited partnership interests, based on the percentage interests in profits at the time of the applicable partnership vote, including limited partnership interests held by the general partners. Therefore, you will not have the opportunity to receive appraised value for your limited partnership interests if more than 75% of the partners in your partnership approve the combination and you may be forced to receive our common units in exchange for your limited partnership interests.

Because the combination will not be consummated by Republic unless 100% of its partners approve the transaction, the holders of limited partnership interests in Republic will not have dissenters' rights.

If the Combination Agreement is terminated under certain circumstances, a termination fee payable by your partnership may result.

In certain circumstances, your combining partnership may owe a termination fee of up to $3,000,000. If a termination fee were payable in the situation of an acquisition proposal, there can be no assurance that an alternative transaction would actually be consummated, or, if consummated, that it would be on more favorable terms. In that case, a partnership obligated to make all or a portion of the termination payment would bear the entire cost from its own assets without the receipt of consideration from a third party by it or its partners. See "The Combination Agreement--Termination Fee" for a detailed description of the termination fee.

The termination fee is limited to $3,000,000, and transaction expenses are not separately payable. Therefore, it is possible that the costs incurred by a recipient of a termination payment in connection with the combination might absorb a large portion of the payment or even that the termination fee might not cover all costs incurred by

the recipient during the course of the combination. In that case, the recipient would not be compensated or compensated fully for its lost opportunity.

Our reserves will be more geographically concentrated than those of Republic or Spinnaker.

There are certain business risks associated with the increased concentration of reserves as a result of the combination, when viewed from the perspective of current limited partners of Republic and Spinnaker. Currently, the business properties and reserves of Republic and Spinnaker are scattered throughout the United States. Upon the consummation of the combination, approximately 40% of our business, properties and assets will have a concentration in the Hugoton field in Kansas and Oklahoma. As a result, a current investor in Republic or Spinnaker will face investment risks associated with a heavier geographic concentration of reserves which will characterize our business following the consummation of the combination.

The larger size of the combined company may expose us to increased liabilities.

We will assume all liabilities and obligations of Dorchester Hugoton, Republic and Spinnaker except to the extent previously assumed by Dorchester Minerals Operating LP. These will include any unknown liabilities, any undisclosed liabilities and any disclosed but contingent liabilities of the combining partnerships. The increased size of the combined company may make it more likely that we will be exposed to these liabilities, which may include claims for title defects, claims relating to environmental matters or other liabilities associated with operations or ownership of oil and natural gas properties. Except in connection with one pending litigation proceeding involving Republic, none of the general partners of the combining partnerships or their affiliates will have any obligation to indemnify us against any such liabilities.

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 you.

Prior to making any distribution on the common units, we will 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 you. Our general partner has sole discretion to determine the amount of these expenses, subject to the annual limit described under "Management--Absence of Management Fees; Reimbursement of General Partner," which 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 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 will be presented on an accrual basis in accordance with generally accepted accounting practices. Unitholder K-1 tax statements will be calculated based on applicable tax conventions. Distributions, however, will be 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.

You will have limited voting rights and will not control our general partner, and your ability to remove our general partner will be limited.

You will have only limited voting rights on matters affecting our business. The general partner of our general partner, whose managers you do not elect, manages our activities. You will have no right to elect these managers 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 will not own sufficient common units upon completion of the combination to be able to prevent its removal as general partner, but they will own sufficient common units to make the removal of our general partner by other unitholders difficult. See "The Partnership Agreement--Withdrawal or Removal of the General Partner." Furthermore, any common units held by a person or group (other than the general partner and its affiliates or a direct transferee of the general partner or its affiliates) that owns 20% or more of our common units cannot be voted on any matter.

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 will 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. Furthermore, although the owners of our general partner have agreed among themselves to some transfer restrictions 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 interest and limited fiduciary responsibilities, 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 will 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 will not be 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 will have similar duties to them and will 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 you, on the other, or between us or you 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, even though various affiliates of the general partner and its executive officers will own a significant number of common units upon completion of the combination and therefore will also have interests aligned with unitholders in general. The nature of these conflicts include the following considerations.

- We have renounced certain business opportunities in the Business Opportunities Agreement for the benefit of affiliates of our general partner. Except for limited contractual commitments of certain affiliates in the Business Opportunities Agreement, our general partner's affiliates are not prohibited from engaging in other business or activities, including those in direct competition with us. The businesses of many of these affiliates are substantially similar to that of our partnership, and some of these affiliates have well established relationships in the oil and natural gas industry and access to significant resources.

- Our general partner and its affiliates may limit their liability and reduce their fiduciary duties, while also restricting the remedies available to unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty. Unitholders are deemed to have consented to some actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under applicable state law.

- Our general partner is allowed to take into account the interests of parties in addition to our partnership in resolving conflicts of interest, thereby limiting its fiduciary duties to our unitholders.

- Our general partner determines the amount and timing of asset purchases and sales, capital expenditures and cash reserves, each of which can affect the amount of cash that is distributed to unitholders.

- Our general partner is not restricted from causing us to pay it or its affiliates for any services rendered on terms that are fair and reasonable to us or entering into additional contractual arrangements with any of these entities on our behalf.

- Our Partnership Agreement requires us to indemnify our general partner and various affiliates of the general partner to the fullest extent permitted by law, which could result in us indemnifying our general partner for negligent acts.

There has been no prior public market for our common units.

There has been no prior market for the common units. While we intend to include the common units for quotation on the Nasdaq National Market System, we do not know the extent to which investor interest in the common units will lead to a the development of a trading market or how the common units will trade in the future. The price at which the common units will trade will be established by the market, and there is no assurance that such price will be equal to the value of the depositary receipts or limited partnership interests exchanged.

We may issue additional securities, diluting your 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, for any amount and on any terms and conditions established by our general partner. Unitholders will have not rights to approve such issuances, unless, after giving effect to such issuance, such newly issued partnership securities would represent over 20% of the outstanding limited partner interests.

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

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

Under Delaware law, you 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. See "The Partnership Agreement--Limited Liability" for a discussion of the implications of the limitations on liability to a unitholder.

Because we will conduct our business in various states, the laws of those states may pose similar risks to you. To the extent to which we conduct business in any state, you might be held liable for our obligations as if you were a general partner 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 will 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.

Our continued success will depend 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.

Sales of common units after the combination may cause the price of our common units to drop.

It is possible that a significant amount of our common units could be offered for sale immediately after the closing date for various reasons, including the liquidity that the combination will afford to limited partners of Spinnaker and Republic, who have not previously had access to a trading market for their partnership interests. Sales by these limited partners, or the perception that they may occur, may tend to lower the market price for our common units. Except for the one-year lock-up agreements that the general partners of the combining partnerships, the managers of our general partner's general partner and the officers of our general partner's operating subsidiary will enter into, it is not anticipated that any unitholders will be subject to lock-up agreements following the combination. See "The Partnership Agreement--Registration Rights" for information regarding registration rights of our general partner and its affiliates.

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.

Tax Risks

For a general discussion of the anticipated material United States federal income tax consequences of transactions occurring prior to the combination, the combination itself, and owning and disposing our common units after the combination, see "Material United States Federal Income Tax Consequences" beginning on page 74.

We have not received a ruling or assurances from the IRS or any state or local taxing authority on any matters affecting us.

We have not requested, and will not request, any ruling from the Internal Revenue Service, or IRS, or any state or local taxing authority with respect to the consequences of transactions occurring prior to the combination, the combination itself, owning and disposing of our common units following the combination or any other matter. Accordingly, the IRS or other taxing authority may propose positions that differ from the conclusions expressed by our counsel in this document or the positions taken by us in the absence of an opinion of counsel. It may be necessary to resort to administrative or court proceedings in an effort to sustain some or all of those conclusions or positions, and some or all of those conclusions or positions ultimately may not be sustained. Our unitholders and general partner will bear, directly or indirectly, the costs of any contest with the IRS or other taxing authority.

The federal income tax treatment of Dorchester Hugoton's conveyance of its working interest in mineral properties to Dorchester Minerals Operating LP may not be respected by the IRS.

Prior to the combination, Dorchester Hugoton will convey its working interest in its mineral properties to Dorchester Minerals Operating LP and retain an overriding royalty interest in the properties. This transfer should be treated, for federal income tax purposes, as a lease of the working interest from Dorchester Hugoton to Dorchester Minerals Operating LP and should not cause the Dorchester Hugoton unitholders to recognize taxable gain or loss at the time of the transfer. There is no assurance that the IRS will not challenge this position. Such a challenge, if successful, could cause the Dorchester Hugoton unitholders and general partners to recognize more taxable income or to recognize taxable loss as a result of the combination.

Dorchester Hugoton's depositary receipt holders may recognize gain or loss as a result of a pre-combination sale of stock by Dorchester Hugoton.

Prior to the combination, Dorchester Hugoton intends to sell 128,000 shares of Exxon Mobil stock with an average cost basis of $19.67 per share. As a result, Dorchester Hugoton will recognize long term capital gain in an amount equal to the difference between the amount realized in the sale and Dorchester Hugoton's adjusted tax basis in the stock. This gain will be allocated among Dorchester Hugoton's depositary receipt holders and general partners and will be includible in their gross income for federal income tax purposes. However, as a result of Dorchester Hugoton's section 754 election, a depositary receipt holder who purchased its Dorchester Hugoton units from a current or former Dorchester Hugoton depositary receipt holder may be allocated more or less gain than other depositary receipt holders holding the same number of units, or may be allocated a loss, from the sale of the Exxon Mobil stock.

Dorchester Hugoton's depositary receipt holders may not be able to use passive activity losses that are suspended until they sell our common units.

We do not anticipate that we will generate any material amount of passive activity income. As a result, all or substantially all suspended passive activity losses that a Dorchester Hugoton depositary receipt holder has at the time of the combination will remain suspended until that partner disposes of our common units in a fully taxable transaction with an unrelated third party. However, a partner will be entitled to recognize otherwise suspended passive activity losses to the extent the partner receives a distribution of money upon the liquidation of Dorchester Hugoton in excess of the partner's basis in his partnership interests in Dorchester Hugoton.

Limited partners of the combining partnerships may recognize gain as a result of certain distributions of cash.

Prior to the combination, Republic and Spinnaker intend to distribute cash to their partners in proportion to their partnership interests. As part of its transfer of assets to us and subsequent liquidation, Dorchester Hugoton will make a cash distribution to its depositary receipt holders. Limited partners of the combining partnerships will recognize gain for federal income tax purposes to the extent that any cash received exceeds the partner's adjusted tax basis in its partnership interest.

The combination will result in a closing of the taxable years of each of the combining partnerships, which may result in adverse tax consequences to you.

The termination of Republic and Spinnaker for federal income tax purposes, and the dissolution and liquidation of Dorchester Hugoton, will result in a closing of the taxable years of each of the combining partnerships as of the date of the combination (for Republic and Spinnaker) or the liquidation of Dorchester Hugoton. As a result, if you have a taxable year that ends after the date of the combination or liquidation, as applicable, but before December 31, 2002, you will be required to include in the same taxable year your allocable share of income, gain, loss, deduction, credits and other items of Republic, Spinnaker or Dorchester Hugoton from both the taxable year ending December 31, 2001 and the short taxable year ending at the time of the combination (in the case of Republic and Spinnaker) or the liquidation of Dorchester Hugoton.

Post-combination transactions may cause you to recognize all or a part of your taxable gain, if any, deferred through the combination.

Even if you are not required to recognize taxable gain at the time of the combination, a subsequent sale of our assets could cause you to recognize part or all of such gain. If we sell an asset that a combining partnership held prior to the combination, the former partners of the partnership that originally contributed the property to us will be allocated, for federal income tax purposes, the portion of the gain from the sale that is attributable to any remaining unrealized gain that existed when the asset was contributed to us. Those former partners that are specially allocated gain under these rules would report the additional gain on their own federal income tax returns, but would not be entitled to any special distributions from us. As a general rule, our general partner is not required to take into account the tax consequences to, or obtain the consent of, our unitholders in deciding whether to cause us to undertake specific transactions that could have adverse tax consequences to our unitholders. Our general partner has not made any commitment to any of the combining partnerships or any of their partners not to undertake transactions that will cause the former partners of the combining partnerships to recognize all or part of the taxable gain that was deferred through the combination.

Our tax treatment depends on our classification as a partnership.

Based upon the continued accuracy of the representations of the combining partnerships set forth in "Material United States Federal Income Tax Consequences - Consequences of Ownership of Our Common Units After The Combination--Classification of Our Partnership as a Partnership for Federal Income Tax Purposes" on page 80, our counsel believes that under current law and regulations we will be classified as a partnership and will not be taxed as a corporation for federal income tax purposes. However, as stated above, we have not requested, and will not request, any ruling from the IRS as to this status, and our counsel's opinion is not binding on the IRS. In addition, you cannot be sure that those representations will continue to be accurate. If the IRS were to challenge our federal income tax status, such a challenge could result in an audit of your entire tax return and adjustments to items on that tax return that are unrelated to your ownership of our common units. In addition, you would bear the cost of any expenses incurred in connection with an examination of your personal tax return.

If we were taxable as a corporation for federal income tax purposes in any taxable year, our income, gain, losses and deductions would be reflected on our tax return rather than being passed through proportionately to

you, and our net income would be taxed at corporate rates. In addition, some or all of the distributions made to you would be treated as dividend income without offset for depletion, and distributions would be reduced as a result of the federal, state and local taxes paid by us.

We will use a monthly convention of allocating items of our income, gain, deduction and loss between transferors and transferees, which may not be accepted by the IRS.

In general, each of our items of income, gain, loss and deduction will be, for federal income tax purposes, determined at least on a quarterly basis and, if quarterly, one third of each quarterly amount will be allocated to those unitholders who hold common units on the last business day of each month in that quarter. In certain circumstances we may make these allocations in connection with extraordinary or nonrecurring events on a more frequent basis. As a result, transferees of our common units may be allocated items of our income, gain, loss and deduction realized by us prior to the date of their acquisition of our common units. There is no specific authority addressing the utilization of this method of allocating items of income, gain, loss and deduction by a publicly traded partnership such as us between transferors and transferees of its common units. If this method is determined to be an unreasonable method of allocation, our income, gain, loss and deduction would be reallocated among our unitholders and our general partner. Our general partner is authorized to revise our method of allocation between transferors and transferees, as well as among our other unitholders whose common units otherwise vary during a taxable period, to conform to a method permitted or required by the Internal Revenue Code and the regulations or rulings promulgated thereunder.

You may not be able to deduct losses attributable to your common units.

Any losses relating to your common units will be losses related to portfolio income and your ability to use such losses may be limited.

Your partnership tax information may be audited.

We will furnish you with a Schedule K-1 tax statement that sets forth your allocable share of income, gains, losses and deductions. In preparing this schedule, we will use various accounting and reporting conventions and various depreciation and amortization methods we have adopted. You cannot be sure that this schedule will yield a result that conforms to statutory or regulatory requirements or to administrative pronouncements of the IRS. Further, our tax return may be audited, and any such audit could result in an audit of your individual income tax return as well as increased liabilities for taxes because of adjustments resulting from the audit. An audit of your return also could be triggered if the tax information relating to your common units is not consistent with the Schedule K-1 that we are required to provide to the IRS.

Our method for determining the adjusted tax basis of your common units may not be respected by the IRS.

In general, we intend to adopt a reporting convention that will enable you to track the basis of your individual common units or unit groups and use this basis in calculating your basis adjustments under section 743 of the Internal Revenue Code and gain or loss on the sale of common units. Although we believe this method is reasonable, it does not comply with an IRS ruling that requires a portion of the combined tax basis of all common units to be allocated to each of the common units owned by you upon a sale or disposition of less than all of the common units. No assurance can be given that this method will not be challenged. If such a challenge is successful, you may have to recognize more taxable income or less taxable loss with respect to common units disposed of and common units you continue to hold.

We cannot assure tax-exempt investors that they will recognize no unrelated business taxable income.

Generally, unrelated business taxable income, or UBTI, can arise from a trade or business unrelated to the exempt purposes of the tax-exempt entity that is regularly carried on by either the tax-exempt entity or a

partnership in which the tax-exempt entity is a partner. However, UBTI does not apply to interest income, royalties (including overriding royalties) or net profits interests, whether the royalties or net profits are measured by production or by gross or taxable income from the property. Pursuant to the provisions of our Partnership Agreement, our general partner shall use all reasonable efforts to prevent us from realizing income that would constitute UBTI. However, there is no assurance that we will not incur UBTI.

You may not be entitled to deductions for percentage depletion with respect to our oil and natural gas interests.

You will be entitled to deductions for the greater of either cost depletion or (if otherwise allowable) percentage depletion with respect to the oil and natural gas interests owned by us. However, percentage depletion is generally available to you only if you qualify under the independent producer exemption contained in the Internal Revenue Code. For this purpose, an independent producer is a person not directly or indirectly involved in the retail sale of oil, natural gas, or derivative products or the operation of a major refinery. If you do not qualify under the independent producer exemption, you generally will be restricted to deductions based on cost depletion. Also, if you are a Dorchester Hugoton partner who is currently restricted from using percentage depletion with respect to some or all of Dorchester Hugoton's properties by transfer rules in effect at the time you acquired your Dorchester Hugoton units, you may continue to be restricted from using percentage depletion with respect to your share of our income attributable to these properties.

We will employ a method of allocating depletion deductions that may not be accepted by the IRS.

The Internal Revenue Code requires that income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for a partnership interest in the partnership must be allocated so that the contributing partner is charged with, or benefits from, respectively, the unrealized gain or unrealized loss associated with the property at the time of its contribution to the partnership. Our Partnership Agreement provides that the adjusted tax basis of the oil and natural gas properties contributed to us will be allocated to the partners of the combining partnership that contributed the properties for the purpose of separately determining depletion deductions. Any gain or loss recognized by us on the disposition of any oil and natural gas property contributed to us will be allocated to the partners of the combining partnership that contributed the property, in proportion to their percentage interest in the combining partnership, to the extent of the difference between the property's fair market value and its adjusted tax basis at the time of its contribution, referred to as "Built-in Gain" and "Built-in Loss," respectively. Although this method of allocating Built-in Gain and Built-in Loss is not specifically permitted by the Treasury regulations, we believe that the above method should be respected as reasonable and consistent with the underlying purposes of section 704(c) of the Internal Revenue Code. However, there is no assurance that the IRS will not challenge the method to be used by us. Such a challenge, if successful, could cause you to recognize more taxable income or less taxable loss on an ongoing basis in respect of your common units.

We will use a method of determining a common unitholder's share of the basis of partnership property for common units purchased after the combination that may not be accepted by the IRS.

With respect to common units purchased after the combination, our general partner intends to utilize a method of calculating each unitholder's share of the basis of partnership property which will result in an aggregate basis for depletion purposes that reflects the purchase price of common units as paid by the unitholder. The method the general partner intends to utilize is not specifically authorized under applicable Treasury regulations, but we believe it is a reasonable method of determining a unitholder's net income or loss. However, there is no assurance that the IRS will not challenge the method to be used by us. Such a challenge, if successful, could cause you to recognize more taxable income or less taxable loss on an ongoing basis in respect of your common units.

The ratio of the amount of taxable income that will be allocated to you to the amount of cash that will be distributed to you is uncertain.

The amount of taxable income realized by you will be dependent upon a number of factors including: (i) the amount of taxable income recognized by us; (ii) the amount of any gain recognized by us that is attributable to specific asset sales that may be wholly or partially attributable to Built-in Gain and the resulting allocation of such gain to you, depending on the asset being sold; (iii) the amount of basis adjustment pursuant to the Internal Revenue Code available to you based on the purchase price for any common units and the amount by which such price was greater or less than your proportionate share of inside tax basis of our assets attributable to the common units when the common units were purchased; and (iv) the method of depletion available to you. Therefore, it is not possible for us to predict the ratio of the amount of taxable income that will be allocated to you to the amount of cash that will be distributed to you.

You may lose your status as a partner of our partnership for federal income tax purposes if you lend our common units to a short seller to cover a short sale of such common units.

If you loan your common units to a short seller to cover a short sale of common units you may be considered as having disposed of your ownership of those common units for federal income tax purposes. If so, you would no longer be a partner of our partnership for tax purposes with respect to those common units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period, any of our income, gain, loss or deduction with respect to those common units would not be reportable by you, and any cash distributions received by you for those common units would be fully taxable and may be treated as ordinary income. Our counsel is not rendering an opinion regarding the treatment of a unitholder whose common units are loaned to a short seller. Therefore, if you desire to assure your status as a partner for federal income tax purposes and avoid the risk of gain recognition you should modify any applicable brokerage account agreements to prohibit your broker from loaning your common units.

Assignees of common units who fail to execute and deliver transfer applications may not be treated as partners of our partnership for federal income tax purposes.

As there is no direct authority addressing assignees of our common units who fail to execute and deliver transfer applications, our counsel is unable to opine whether such assignees will be treated as partners for federal income tax purposes. A purchaser or other transferee of common units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record unitholders unless the common units are held in a nominee or street name account with a qualified securities broker. Income, gain, deduction or losses would not be reportable by a unitholder who is not a partner of our partnership for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner of our partnership for federal income tax purposes would, therefore, be fully taxable as ordinary income.

A sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period could result in adverse tax consequences to you.

We will terminate for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A termination would result in the closing of our taxable year for you. As a result, if you have a different taxable year than we have, you may be required to include your allocable share of our income, gain, loss, deduction, credits and other items from both the taxable year ending prior to the year of our termination and the short taxable year ending at the time of our termination in the same taxable year. A termination also could result in penalties if we were unable to determine that the termination occurred.

You should also consider the potential foreign, state and local tax consequences of owning our common units.

You may be required to file tax returns and be subject to tax liability in the foreign, state or local jurisdictions where you reside and in each state or local jurisdiction in which we have assets or otherwise do business. We also may be required to withhold state income tax from distributions otherwise payable to you. For example, withholding will be required with respect to properties located in Louisiana. As a result of reduced concentration of revenues in two states, a smaller number of former Dorchester Hugoton depositary receipt holders may be subject to income taxes in those states but could become subject to income taxes in other states.

BACKGROUND AND REASONS FOR THE COMBINATION

Background of the Combination

Investigation of Strategic Alternatives by Dorchester Hugoton

From its inception, Dorchester Hugoton's business was adversely affected by governmental price controls on natural gas and by related litigation. By 1993, however, price controls were no longer in effect and by 1996 the related litigation had been resolved, and Dorchester Hugoton commenced a number of previously deferred production enhancements to its properties.

The favorable preliminary results of those production enhancements combined with (i) the absence of litigation, (ii) the awareness of Dorchester Hugoton's general partners of numerous mergers and other transactions that were occurring in the natural gas and energy industry, and (iii) a favorable market price for natural gas, caused the general partners of Dorchester Hugoton to decide to review strategic alternatives that might be available to Dorchester Hugoton.

In early February 1998, Dorchester Hugoton included the following paragraph in its 1997 Annual Report on Form 10-K:

> "The Partnership is reviewing its strategic alternatives in light of the various mergers and other business transactions occurring in the natural gas and energy industry. Although no decision to sell or combine the Partnership's business with others has been made, the Partnership anticipates possible discussions with third parties which could result in such a decision. The Partnership has no timetable for any such discussions, and there is no assurance that any such discussions will lead to a transaction.
>
> The Partnership expects to adopt a severance policy for its employees during the first quarter of 1998 which would provide up to approximately $2.8 million of severance payments if such obligation occurs."

A severance policy was adopted later in February 1998. Its purpose was to act as an employee retention program and to avoid the departure of skilled personnel during the period of time required to review possible transactions.

Following this announcement, over the next two years the general partners of Dorchester Hugoton reviewed and analyzed publicly available information concerning between 60 and 70 parties, mostly in the oil and natural gas industry, including some publicly traded limited partnerships. In the judgment of the general partners, potential transactions with many of these parties did not appear to offer mutual benefits. In addition, a number of the parties reviewed were engaged in divestiture programs concerning oil and natural gas properties or had some other characteristics that in the judgment of Dorchester Hugoton's general partners made them unsuitable candidates for a potential transaction.

In their review of strategic alternatives, the general partners of Dorchester Hugoton considered a number of alternatives, including:

- a taxable business combination;
- a non-taxable business combination in which the holders of depositary receipts would continue to own or would receive equity interests in the surviving entity;
- a partially non-taxable business combination in which the holders of depositary receipts would receive partly cash consideration and partly equity in the surviving corporation;
- a sale of Dorchester Hugoton's assets for cash and a liquidation of Dorchester Hugoton; and
- a continuation of Dorchester Hugoton under its existing business plan.

The general partners felt that, in general, these were the most likely strategic alternatives that would be available but were open to consider other alternatives that might be proposed by interested parties.

The general partners believed that any potential combination would need to be with another partnership or the transaction would be a taxable event. If a combination were taxable, then it would need to be at a premium over prevailing market prices for Dorchester Hugoton's depositary receipts to cover taxes and create an incentive for the transaction to occur.

As a procedural matter, a sale of Dorchester Hugoton's properties for cash and a liquidation of Dorchester Hugoton could be accomplished by the general partners without a vote of the depositary receipt holders. Because its properties are closely related geographically and are served by a common gathering system, a sale of the properties as a whole is more practical than a sale of individual wells or interests in wells and, in the judgment of the general partners, would command a higher price. However, during the exploration of strategic alternatives no potential buyer emerged who expressed an interest in a cash purchase of Dorchester Hugoton's properties. A sale for cash and a liquidation would be a taxable event for Dorchester Hugoton's depositary receipt holders and would not give holders a choice to remain an equity holder and continue to maintain an interest in the business without paying tax on the sale of properties. If properties were not sold as a whole or in a limited number of major transactions, the process could last for a considerable period until all properties were disposed of, during which time the administrative overhead would have to be borne by a decreasing asset base as properties were sold. For these reasons, the general partners felt that the combination was a better course to pursue than to attempt to sell Dorchester Hugoton's properties for cash and to liquidate.

The general partners also considered the alternative of continuing Dorchester Hugoton in accordance with its current business plan. However, Dorchester Hugoton is severely constrained by limitations on its activities in its partnership agreement and by the high vote required to amend its partnership agreement to change those restrictions. As a result of those restrictions and regulatory requirements in Oklahoma and Kansas, Dorchester Hugoton's ability to grow is restricted to replacement of existing wells and fracture treatments and other production enhancements of existing wells. Consequently, for the long term, Dorchester Hugoton's asset base could continue to decline as its existing properties are produced.

During the period between March 1998 and December 2000, the general partners of Dorchester Hugoton contacted 12 parties and were contacted by representatives of a total of nine other parties (in addition to the representatives of Spinnaker and Republic) regarding a possible transaction. Most of the persons contacted by or contacting Dorchester Hugoton were in the upper executive levels in their respective organizations. Some of the 21 parties with whom contacts were established were in the oil and natural gas business, and these seemed to offer the potential for possible operating efficiencies and other enhancements of Dorchester Hugoton's business operations. The remainder were in unrelated businesses. Of the 21 parties, 15 were considerably larger than

Dorchester Hugoton. During the 1998-2000 period, two of the parties executed confidentiality agreements and performed preliminary due diligence investigations, and one of them toured Dorchester Hugoton's field operations. After this initial interest, neither of these two parties pursued a strategic transaction with Dorchester Hugoton any further. Discussions did not progress with the remainder of the 21 parties for a variety of reasons. As a result, the combination is the only currently active alternative available other than continuing Dorchester Hugoton's current business.

Although there is no compelling necessity for Dorchester Hugoton to engage in a strategic transaction at the present time, the general partners felt that the environment created by the cessation of price controls, the absence of price-related litigation and generally higher market prices for gas make this a favorable time to engage in a strategic transaction, and for the reasons above believe that the combination will serve the interests of the Dorchester Hugoton depositary receipt holders better than continuing its business under its present business plan.

Investigation of Strategic Alternatives by Republic

Since its formation in 1993, the general partners of Republic have pursued numerous strategic alternatives with the goal of achieving the following objectives:

- operation as a partnership or similar flow-through entity for tax purposes;
- increases in oil and natural gas reserves and cash flow without increased administrative cost;
- exposure to public market valuations for oil and natural gas companies;
- elimination or avoidance of unrelated business taxable income for investors;
- increased liquidity for investors; and
- the ability to accomplish an alternative without triggering a taxable event.

In connection with their investigation of strategic alternatives, the general partners investigated and analyzed various business analogues, including publicly and privately held partnerships, master limited partnerships, royalty trusts and real estate investment trusts. Although potential strategic transaction participants were generally attracted to the high quality and geographic diversification of Republic's properties, the general partners of Republic found those potential participants to be unwilling to engage in negotiations because of Republic's current ownership structure and the existence of the Republic ORRIs. Furthermore, most owners of complementary assets are private entities and have tax and liquidity objectives similar to those stated above and, as a result, have been interested in receiving publicly traded securities in exchange for their interests.

The general partners considered the alternative of selling Republic's properties subject to the Republic ORRIs for cash and liquidating the partnership. As a procedural matter, the sale of properties and liquidation of Republic would generally require the consent of the Republic ORRI owners. A sale of its properties for cash and a liquidation would be a taxable event for Republic's general partners and would not give the general partners a choice to remain an equity holder and continue to maintain an interest in the business without paying tax on the sale of the properties. Because of the geographic diversity of Republic's properties, the sale of those properties might not command a higher price than if the properties were closely related geographically. In addition, if the properties were not sold as a whole or in a limited number of major transactions, the process could last for a considerable period of time until all properties were disposed of, during which time the administrative overhead would have to be borne by a decreasing asset base as properties were sold. The existence of the Republic ORRIs might also have an adverse impact on the general partners' ability to sell the Republic properties. For these reasons, the general partners of Republic felt that the combination was a better course to pursue than to attempt to sell Republic's properties for cash and to liquidate.

The general partners also considered the alternative of continuing Republic in accordance with its current business plan. Although the Republic ORRI owners would continue to receive the monthly payout under the Republic ORRIs, neither the general partners nor the Republic ORRI owners would own a liquid interest in

Republic. In addition, without adding new reserves, production and cash flow are likely to decline. General and administrative expenses as a percentage of cash flow would increase, thereby reducing net operating margins.

In considering both the liquidation and continuation of Republic, the general partners also considered that the Republic ORRI owners currently do not have the benefit of an agreement similar to the Business Opportunities Agreement, which after the Republic reorganization and the combination will allow the Republic ORRI owners to participate indirectly as a unitholder of our partnership in certain acquisition opportunities subject to the Business Opportunities Agreement.

Due to the diversity of tax perspectives and operating strategies of the Republic general partners and Republic ORRI owners, the general partners believe that reorganization as a limited partnership followed by a tax-deferred exchange of Republic partnership interests for publicly traded securities of a partnership, such as the combination, would be the most likely transaction structure acceptable to both the general partners and the Republic ORRI owners.

Investigation of Strategic Alternatives by Spinnaker

Since its formation in 1996, the general partner of Spinnaker has pursued numerous strategic alternatives with the goal of achieving the following objectives:

- diversification of the geographic and geologic distribution of its properties;

- increases in oil and natural gas reserves and cash flow without increased administrative cost;

- exposure to public market valuations for oil and natural gas companies;

- increased liquidity for investors; and

- the ability to accomplish an alternative without triggering a taxable event.

In connection with its investigation of strategic alternatives, the general partner investigated and analyzed various business analogues, including publicly and privately held partnerships, master limited partnerships, royalty trusts and real estate investment trusts. Although potential strategic transaction participants were generally attracted to the high quality and geographic diversification of Spinnaker's properties, the general partner of Spinnaker found those potential participants to be unwilling to engage in negotiations because Spinnaker's status as a privately held partnership. Furthermore, most owners of complementary assets are private entities and have tax and liquidity objectives similar to those stated above and, as a result, have been interested in receiving publicly traded securities in exchange for their interests.

The general partner engaged in extended negotiations with three parties with respect to a strategic transaction designed to achieve some or all of these objectives. These negotiations resulted in one completed transaction in which Spinnaker reorganized as a limited partnership in connection with the non-taxable contribution of properties. Please read "Information Concerning Spinnaker--General" for more information regarding this transaction.

The general partner considered the alternative of selling Spinnaker's properties for cash and liquidating the partnership. As a procedural matter, the sale of properties and liquidation of Spinnaker would require the approval of limited partners holding at least 85.9883% of the sharing percentages of Spinnaker. A sale of its properties for cash and a liquidation would be a taxable event for Spinnaker's partners and would not give the partners a choice to remain an equity holder and continue to maintain an interest in the business without paying tax on the sale of the properties. Because of the geographic diversity of Spinnaker's properties, the sale of those properties might not command a higher price than if the properties were closely related geographically. In addition, if the properties were not sold as a whole or in a limited number of major transactions, the process could last for a considerable period of time until all properties were disposed of, during which time the

administrative overhead would have to be borne by a decreasing asset base as properties were sold. For these reasons, the general partner of Spinnaker felt that the combination was a better course to pursue than to attempt to sell Spinnaker's properties for cash and to liquidate.

The general partner also considered the alternative of continuing Spinnaker in accordance with its current business plan. While Spinnaker's properties are relatively diverse geographically, a significant portion of those properties are located in a relatively small area in south Texas and Louisiana. As a result, the continuation of Spinnaker in accordance with its current business plan involves significant reliance on the performance of this group of properties, while the combination would mitigate the reliance on one or a few groups of properties. Further, although the Spinnaker partners would continue to receive monthly cash distributions to the extent determined by the general partner, the Spinnaker partners would not own a liquid interest in Spinnaker. In addition, without adding new reserves, production and cash flow are likely to decline. General and administrative expenses as a percentage of cash flow would increase, thereby reducing net operating margins.

In considering both the liquidation and continuation of Spinnaker, the general partner also considered that the Spinnaker limited partners currently do not have the benefit of an agreement similar to the Business Opportunities Agreement, which after the combination will allow the Spinnaker limited partners to participate indirectly as a unitholder of our partnership in certain acquisition opportunities subject to the Business Opportunities Agreement.

Due to the diversity of tax perspectives and operating strategies of the Spinnaker partners, the general partner believes that a tax-deferred exchange of Spinnaker partnership interests for publicly traded securities of a partnership, such as the combination, would be the most likely transaction structure acceptable to all of Spinnaker's partners.

Discussions Between Dorchester Hugoton, Republic and Spinnaker

On March 1, 2000, Messrs. Peak and Raley, representing the general partners of Dorchester Hugoton, met with William Casey McManemin, who represented Republic and Spinnaker. Neither Mr. Raley nor Mr. Peak had met Mr. McManemin previously or were familiar with Spinnaker or Republic, but upon inquiry learned that both Republic and Spinnaker were private partnerships that owned extensive oil and natural gas mineral and royalty interests. Mr. McManemin was generally familiar with Dorchester Hugoton although his familiarity with Dorchester Hugoton's business and operations was limited to publicly available information. During the meeting the participants discussed in general terms the businesses and assets of their partnerships and their objectives. Based on these discussions the parties expressed a mutual interest in pursuing further discussions.

On March 14, 2000, Messrs. Peak, Raley and McManemin met again to further explore their objectives. Mr. McManemin indicated that the goals of Republic and Spinnaker were to become a publicly traded entity, such as a partnership, that could:

- use partnership units to acquire additional royalty interests;
- have a life of 25 years or more;
- distribute a large portion of its revenues to its unitholders; and
- use Republic's and Spinnaker's large, undeveloped acreage to fuel growth of royalty and bonus income.

The parties exchanged and reviewed certain information concerning revenues and property ownership and locations. Based on these conversations and the review of this information, the parties' representatives executed confidentiality agreements on March 19, 2000 and April 6, 2000. During May 2000, lists of documents to be reviewed for due diligence purposes were prepared and exchanged, and representatives of the parties had several meetings concerned with their respective due diligence investigations.

On May 17, 2000, Republic and Spinnaker presented Dorchester Hugoton with an analysis they had prepared of a possible basis for determining the shares allocable to the combining partnerships in a combined enterprise. That analysis used reserve studies of Republic and Spinnaker dated January 1, 2000 by Huddleston & Co., Inc. and of Dorchester Hugoton dated January 1, 2000 by Calhoun, Blair and Associates for a portion of the analysis. The analysis prepared by Republic and Spinnaker considered various factors. Republic and Spinnaker did not present the analysis as a proposal, and Dorchester Hugoton did not respond to either the method used or the resulting ownership ratios.

Following this, Dorchester Hugoton engaged Calhoun, Blair and Associates to review the reserve studies of Republic and Spinnaker done by Huddleston & Co., Inc. and met with its attorneys concerning how a business combination might be structured and to discuss the analysis presented by Republic and Spinnaker. In addition, during June 2000, the parties continued to meet and to perform their respective due diligence investigations, exchanging records and documents and engaging petroleum landmen to review title and payment matters and accountants to review financial and other records.

In July 2000, the parties agreed, for purposes of further analysis, to adjust their January 1, 2000 reserve studies using a common set of market prices for natural gas and crude oil equal to their average prices quoted on the New York Mercantile Exchange on July 1, 2000 through the last future date for which prices were quoted and then escalated 3% per year. Each party was responsible for additional adjustments to the common set of prices to more accurately reflect price adjustments for transportation and quality. The January 2000 Republic and Spinnaker reserve studies had separately stated probable and possible reserves as well as proved developed producing reserves and proved undeveloped reserves. Dorchester Hugoton's January 2000 reserve study had included only proved developed producing reserves. Because its general partners felt that Dorchester Hugoton's reserves potentially would be enhanced by additional fracture treatments, the reserve study was also adjusted to separately estimate the potential increase in reserves from the successful fracture treatment program then underway. The results of the adjusted reserve studies were provided by Republic and Spinnaker on August 22, 2000 and by Dorchester Hugoton on October 9, 2000.

During the Summer of 2000 discussions continued between the parties and their attorneys with respect to how the possible transaction might be structured. By September 2000, the parties' landmen and accountants had concluded their reviews and reported their findings. None of the combining partnerships viewed the findings as raising any serious deficiencies.

On October 13, 2000, Dorchester Hugoton prepared a further analysis, based upon the adjusted January 1, 2000 adjusted reserve reports by Calhoun Blair and Associates with respect to Dorchester Hugoton's reserves and by Huddleston & Co., Inc. with respect to Republic's and Spinnaker's reserves, which included all categories of reserves, including probable and possible, and the results of fracture treatments on certain of Dorchester Hugoton's properties. The agreed upon New York Mercantile Exchange oil and natural gas pricing assumptions were used for all properties. Using the same factors as used in the May 17, 2000 analysis discussed above, this revised analysis produced an allocation of ownership in a combined entity of Dorchester Hugoton - 38%, Republic - 41% and Spinnaker 21%. The results of this analysis were provided to representatives of Republic and Spinnaker for comparative purposes, but were not presented as a proposal.

In November 2000, Messrs. Peak and Raley met with Mr. Frederick M. Smith, II and Mr. H.C. Allen, Jr., principals with Mr. McManemin in Smith Allen Oil & Gas, Inc., the general partner of Spinnaker, and in SAM Partners, Ltd., a co-general partner of Republic, and with Mr. Robert C. Vaughn, a principal in Vaughn Petroleum, Inc., the other co-general partner of Republic, to review the overall status of the discussions and to become acquainted. Later in November 2000, the October 13, 2000 analysis was further revised by Dorchester Hugoton to use only proved developed producing reserves and to exclude proved non-producing, proved undeveloped and possible reserves and to exclude the projected effect of fracture treatment increases. The pricing assumptions and other factors were not changed. This analysis produced the same ownership percentages in a combined entity that the October 13, 2000 analysis had produced. The results of this further analysis were also provided to representatives of Republic and Spinnaker, but it was not presented as a proposal.

Subsequently, the combining partnerships had their two reservoir engineering firms re-review the other engineering firm's work. Based on those reviews, on December 4, 2000, two different sets of modifications were made to the October 13, 2000 analysis for comparative purposes. Both used the same factors as the previous analyses. One of the December 4, 2000 analyses assumed no change to the Republic and Spinnaker reserves, which included all categories of reserves, and reduced Dorchester Hugoton's projected reserves from facture treating by one-third. This resulted in an allocation of ownership in a combined entity of Dorchester Hugoton--37%, Republic--42% and Spinnaker--21%. The other December 4, 2000 analysis assumed no change to Dorchester Hugoton's reserves, which included additional reserves based on anticipated fracture treatments, and reduced Republic's and Spinnaker's combined discounted future net reserves by 12% in order to allow for the possibility of greater than anticipated production declines in some areas. This resulted in an allocation of 40% to Dorchester Hugoton and 60% to Republic and Spinnaker combined. The results of these analyses were shared, but no party presented either of these analyses as a proposal. All parties recognized that none of the analyses done to date had included a value attributable to Dorchester Hugoton's status as a public company.

On December 8, 2000, an additional analysis was prepared by Dorchester Hugoton that suggested a methodology of determining the value to a new entity of succeeding to Dorchester Hugoton's status as a public company. That methodology considered the value of avoiding a 9% underwriting fee on a company with a projected market capitalization equal to Spinnaker's and Republic's projected percentage ownership of the combined entity. Dorchester Hugoton used a 9% assumed underwriting fee, which it believed was typical of underwriting fees in initial public offerings. The other factors were unchanged. Based on these assumptions, the ownership ratio produced was Dorchester Hugoton--41% and Republic and Spinnaker combined--59%.

In reviewing the various analysis that had been done, the parties observed that varying the weighting assigned to the various factors considered in these analyses seemed to make only minor differences in the results. Other factors considered by the parties in addition to the December 8, 2000 analysis included the unassigned value of potential land surface value and timber sales, exploitation potential on producing properties, value of gas gathering, dehydration and compression facilities, potential lease bonus receipts from undeveloped property, possible lower per unitholder costs of Scheduled K-1 tax statement preparation, acquisition possibilities (especially using publicly traded units as currency), no indebtedness, broader geographic basis, large undeveloped, unleased acreage holdings in numerous locations and certain pending litigation of Republic. The parties assigned no specific weights to any of these factors and the parties considered them generally along with the analyses discussed above.

Reviewing all of the analyses that had been conducted to date and considering the other factors discussed above, the representatives of the combining partnerships concluded that a relative percentage ownership of the combined entity on the basis of Dorchester Hugoton--39%, Republic 41% and Spinnaker--20% would be acceptable, if all other issues concerning the combination could be resolved, including the transaction not being a taxable event, agreement upon an appropriate structure for the combined entity and its general partner and depletion amounts for various unitholders in the combined entity being acceptable. The parties decided to attempt to arrive at a definitive agreement that satisfied these objectives.

Throughout the process of their discussions, the representatives of the combining partnerships from time to time discussed strategic considerations in the context of various other business analogues, including publicly and privately traded limited partnerships, master limited partnerships, royalty trusts and real estate investment trusts, in order to further refine the structure of a proposed transaction and the business model of the resulting company.

During April 2001, Messrs. McManemin, Allen, Raley and Mr. John L. Dannelley, Dorchester Hugoton's production manager, met in Guymon, Oklahoma and toured Dorchester Hugoton's facilities.

The Letter of Intent

During June and July 2001, representatives of the combining partnerships negotiated the terms of a non-binding letter of intent for the proposed combination. On July 5, 2001, following interviews with other

candidates, Dorchester Hugoton engaged Mr. Bruce Lazier, a Dallas, Texas investment banker, to examine any proposed transaction from the standpoint of its fairness from a financial point of view to the depositary receipt holders of Dorchester Hugoton. Also, on July 5, 2001, Dorchester Hugoton concluded a review of the January 1, 2001 reserve studies of Republic and Spinnaker by Huddleston & Co., Inc., which had recently become available, and compared those results with Dorchester Hugoton's reserve study prepared as of January 1, 2001 by Calhoun, Blair and Associates. Only proved developed producing reserves were compared as the Dorchester Hugoton reserve study contained only that category.

The results of the comparison showed that there were no material shifts in the relative reserves of the combining partnerships. Accordingly, in the judgment of the general partners of Dorchester Hugoton the January 1, 2001 reserve status did not warrant a re-evaluation of the shares of the combined entity to be held by Dorchester Hugoton, Republic and Spinnaker.

Between July 10 and 26, 2001, the members of Dorchester Hugoton's Advisory Committee and Mr. Lazier were furnished with material concerning the proposed combination, including a draft of the proposed letter of intent and a number of updated revisions, a memorandum concerning the negotiation of the letter of intent, a booklet containing the analyses of the reserve studies and the resulting new entity ownership percentages by the combining partnerships, copies of the reserve studies, an analysis of Dorchester Hugoton's general partners' compensation before and after the proposed combination, information concerning Republic and Spinnaker and information concerning Mr. Bruce E. Lazier for their review as the negotiations between Dorchester Hugoton, Republic and Spinnaker progressed.

On July 27, 2001, the Advisory Committee of Dorchester Hugoton met to consider the non-binding letter of intent. The Advisory Committee heard presentations from and asked questions of:

- Mr. Raley, regarding the proposed combination, how the proposed ownership percentages of the combining partnerships were determined and the general partners' compensation before and after the combination;

- Mr. McManemin, regarding the assets, operations, business plans and philosophies of Republic and Spinnaker;

- Messrs. Raley and McManemin, regarding the business plan and philosophy contemplated for the proposed combined entity;

- Tax counsel to Dorchester Hugoton, regarding the tax aspects of the proposed combination and the proposed combined entity; and

- Counsel to Dorchester Hugoton, regarding the role of the Advisory Committee, the legal aspects of the proposed transaction and those aspects of it that might be deemed to involve conflicts of interest on the part of the general partners of Dorchester Hugoton.

In addition, at the July 27, 2001 meeting, Mr. Lazier made an oral presentation concerning his fairness opinion and furnished a draft of his opinion for review by the Advisory Committee. The Advisory Committee then excused all other participants from the meeting so that they could discuss the matters presented. The Advisory Committee then recessed the meeting for the weekend to further consider the matters that had been presented. The Advisory Committee reconvened the meeting by conference telephone call on Monday, July 30. Mr. Lazier's fairness opinion dated July 30, 2001 was delivered in substantially the same form as the draft previously presented. After further discussion, the Advisory Committee adopted resolutions:

- finding the proposed combination to be fair to and in the best interests of the depositary receipt holders and Dorchester Hugoton;

- approving the proposed combination, including those elements of it that might be deemed to be with affiliates of the general partners or in which the general partners may be deemed to have an interest,

subject to the further approval of definitive agreements with respect to the combination by the Advisory Committee;

- approving the proposed form of the letter of intent; and

- ratifying the appointment of Mr. Lazier to render the fairness opinion.

The general partners of Dorchester Hugoton then adopted resolutions approving the proposed combination and the non-binding letter of intent.

The general partners of Republic then adopted resolutions approving the proposed combination and the non-binding letter of intent.

The general of Spinnaker then adopted resolutions approving the proposed combination and the non-binding letter of intent.

All parties executed the non-binding letter of intent on July 30, 2001. Although it was contemplated that the definitive agreements would contain provisions restricting the ability of the parties to solicit and respond to alternative acquisition proposals and for the payment of a termination fee in certain circumstances involving an alternative acquisition proposal, the letter of intent contained no such provisions that would be effective prior to the execution of definitive agreements. On August 2, 2001 Dorchester Hugoton issued a news release with respect to the signing of the letter of intent and the proposed transaction and filed reports with the Securities and Exchange Commission with the news release and a copy of the letter of intent as exhibits.

The Definitive Agreements

Counsel for Dorchester Hugoton and for Republic and Spinnaker resumed preparation of definitive transaction documentation, and the parties and their counsel participated in a number of meetings to negotiate the terms of the definitive agreements. On October 25 and then again on December 2, 2001, the parties extended the term of the letter of intent to permit the completion of negotiations.

During the period from the announcement of the letter of intent on July 30, 2001 to the date the definitive agreements were signed on December 13, 2001, none of the combining partnerships were contacted by any third parties with respect to any acquisition proposal or any request for information in connection with a possible acquisition proposal, although Dorchester Hugoton did receive on September 6, 2001, one unsolicited form letter sent by a third party to a number of public companies seeking to determine if there was interest in a reverse merger. No additional contacts with the party occurred.

During November and December 2001 drafts of the definitive agreements and projections of general and administrative costs, using a 5% limitation on management expenses, memoranda regarding projected directors' and officers' insurance costs and tax matters were furnished to the members of the Advisory Committee of Dorchester Hugoton for their review. On November 27, 2001 the Advisory Committee of Dorchester Hugoton met to review and discuss the definitive agreements in draft form. The Advisory Committee heard presentations from and asked questions of:

- Mr. Raley, with respect to general and administrative cost projections and directors' and officers' liability insurance cost projections;

- Counsel to Dorchester Hugoton, with respect to the role of the Advisory Committee, the structure of the proposed combination, a description of the principal terms of each of the definitive agreements, a description of those elements of the definitive agreement and the combination in which the general partners or their affiliates might be deemed to have an interest;

- Tax counsel to Dorchester Hugoton, regarding the tax aspects of the proposed combination agreement and the proposed combined entity; and

- Mr. Lazier, who made an oral presentation regarding an update of his fairness opinion and delivered a copy of his revised/updated draft opinion to the Committee members.

The Advisory Committee took no action at this meeting pending finalization of the definitive agreements. As the definitive agreements were negotiated, revised drafts were circulated to the Advisory Committee members and to Mr. Lazier for their review.

On December 13, 2001 the Advisory Committee met again to consider the definitive agreements, which were in substantially final form. Mr. Raley and counsel to Dorchester Hugoton outlined the principal changes in the definitive agreements from the drafts reviewed at the November 27, 2001 meeting and responded to questions from the members of the Committee. Mr. Lazier delivered his written fairness opinion concerning the fairness from a financial point of view of the combination to the holders of depositary receipts. The Advisory Committee then unanimously adopted resolutions:

- finding the proposed combination to be fair to and in the best interests of the depositary receipt holders and Dorchester Hugoton;

- approving the proposed combination, including those elements of it that might be deemed to be with affiliates of the general partners or in which the general partners may be deemed to have an interest; and

- approving the proposed form of the definitive agreements, including the Combination Agreement, our Partnership Agreement, the Business Opportunities Agreement, the conveyances to us and Dorchester Minerals Operating LP, the Contribution Agreement and the partnership agreement of Dorchester Minerals Management LP and the limited liability company agreement of Dorchester Minerals Management GP LLC.

The general partners of Dorchester Hugoton then adopted resolutions approving the proposed combination and the definitive agreements on December 13, 2001.

The general partners of Republic adopted resolutions approving the proposed combination and the definitive agreements on December 13, 2001.

The general partner of Spinnaker adopted resolutions approving the proposed combination and the definitive agreements on December 13, 2001.

The parties executed the Combination Agreement, the Business Opportunities Agreement and the Contribution Agreement on December 13, 2001, and on December 14, 2001, Dorchester Hugoton issued a news release and filed reports with the Securities and Exchange Commission with the news release and definitive agreements as exhibits.

Combination Exchange Ratios and Consideration Allocated to General Partner Interests

General

As described above under "--Background of the Combination," the general partners of the combining partnerships have agreed in the Combination Agreement to the manner in which interests in our partnership will be allocated to partners in the combining partnerships. These agreements were reached as a result of arm's-length negotiations. Each general partner of a combining partnership, or in the case of Dorchester Hugoton and Republic, both general partners acting together, independently assessed the relative merits of the proposed combination and considered the combination exchange ratios from the perspective of its partnership. Although there is overlap in the ownership and management of the general partner of Spinnaker and one of the general partners of Republic, the other general partner of Republic is not so affiliated and participated in the negotiations. However, the other general partner is the general partner of a limited partnership that is a limited partner of Spinnaker.

During such negotiations, the parties did not assign a value to each combining partnership or to categories of their assets, but considered multiple factors, which are described above under "--Background of the

Combination." As described in that section, the representatives of the combining partnerships agreed that the consideration to be paid in the consideration would reflect that Republic as an enterprise represented 41% of the combined company's value, Dorchester Hugoton as an enterprise represented 39% of the combined value and Spinnaker as an enterprise represented 20% of the combined value. Below, we refer to these percentages as the "preliminary allocations." As described in more detail below, starting from these preliminary allocations, our common units will initially be held in approximately the following proportions as a result of the combination:

- 40.51% by former limited partners of Republic;
- 39.73% by former limited partners of Dorchester Hugoton; and
- 19.76% by former limited partners of Spinnaker.

Below, we refer to this allocation of common units to be received by the limited partners of each of the combining partnerships as the "combination exchange ratios."

The combination exchange ratios are not affected by any combining partnership's liabilities. Each combining partnership has agreed in the Combination Agreement to use its reasonable best efforts to determine the amounts of and satisfy any undisputed liabilities accrued through the closing of the combination which are due and payable in the ordinary course of the combining partnership's business. See "The Combination--Certain Covenants" on page 63 for a more complete description of the combining partnerships obligations.

Derivation of Combination Exchange Ratios from Preliminary Allocations

In deriving the combination exchange ratios from the preliminary allocations, the general partners of the combining partnerships assumed that in the Republic and Spinnaker mergers into our partnership, the limited partners of Republic and Spinnaker should receive common units representing 96% of the respective enterprise values of those two partnerships in respect of their limited partnership interests, with general partners receiving general partnership interests representing the remaining 4% of the enterprise value. The 4% interest of the general partners of Republic and Spinnaker is approximately the same as the interest of the general partners of Dorchester Hugoton in the net income of Dorchester Hugoton, taking into account their 1% general partner interest and the approximately 3% interest in the revenues of Dorchester Hugoton's working interest properties through the receipt of management and other fees. See "The Combination--Preparatory Steps" for information regarding the reorganizations of Republic and Spinnaker that will result in this 96% and 4% split.

The general partners also assumed in the derivation that in Dorchester Hugoton's sale of its assets to our partnership and liquidation, since the general partners of Dorchester Hugoton would be treated the same as limited partners in the liquidation, common units representing 100% of the Dorchester Hugoton enterprise value would need to be issued to Dorchester Hugoton. In order for the general partners of Dorchester Hugoton to receive general partnership interests in the combined entity, the common units those general partners received in liquidation in respect of their general partner interests in Dorchester Hugoton, which would represent approximately one percent of the common units issued to Dorchester Hugoton, would have to be contributed to our general partner and converted into general partnership interests in us. See "The Combination--Transfer of Assets by Dorchester Hugoton and Liquidation--Transfer of Dorchester Hugoton ORRIs and Liquidation" for more information regarding the liquidation provisions of the Dorchester Hugoton partnership agreement.

Using the preliminary allocations as substitutes for actual enterprise values, the combination ratios were mathematically derived after giving effect to the issuances of common units in the Republic and Spinnaker mergers and in the Dorchester Hugoton sale and liquidation, as well as the effect of the conversion of 1% of those initially-issued common units to general partnership interests.

Consideration Allocated to General Partners

At the time of the combination, the general partner or partners of Republic and Spinnaker will collectively own a 4% interest in each of those combining partnerships' capital and profits; accordingly, in the mergers of those combining partnerships, the general partner or partners of each partnership will initially receive in the aggregate a 4% interest, in our partnership's capital and profits, relating solely to the assets previously owned by that combining partnership. At the time of the combination, the general partners of Dorchester Hugoton will own a 1% interest in the capital and profits of Dorchester Hugoton; accordingly, the common units they receive in the liquidation in respect of their general partnership interests will be converted into an aggregate 1% interest, in our partnership's capital and profits, relating solely to the assets previously owned by Dorchester Hugoton. As a result of the transactions described under "The Combination--Contributions to Dorchester Minerals Management LP," these interests will be consolidated in our general partner.

The general partners of the combining partnerships also will receive common units in the combination in respect of any limited partnership interests in the combining partnerships that they may own, on the same terms as other limited partners.

Reasons for the Combination

Dorchester Hugoton's Reasons for the Combination.

The general partners of Dorchester Hugoton have both approved the combination and believe that the combination is fair to and in the best interests of Dorchester Hugoton and its depositary receipt holders. Dorchester Hugoton's Advisory Committee has reviewed the terms of the combination, including, specifically, those in which the general partners or their affiliates may be deemed to have an interest, and has found such terms to be fair to and in the best interests of Dorchester Hugoton and its depositary receipt holders.

The general partners recommend that the holders of Dorchester Hugoton's depositary receipts vote "FOR" the approval of the combination.

The principal reasons for the general partners' recommendation are:

- opportunities for growth--both from the large amount of unleased undeveloped property and acquisition of minerals and royalties using partnership units;
- the diversification of risk--lessening exposure to changes by a single state or in a single field;
- the ability of pension funds, IRAs and other tax exempt investors to invest without exposure to unrelated business taxable income;
- maintenance of current tax advantages of being a partnership;
- the proposed combination can be accomplished generally without triggering a taxable event;
- potential gains in efficiency in such areas as Schedule K-1 tax statement preparation and in preparation costs for public company filings; and
- addition of complementary skills to management, including broader areas of expertise and advice from the management group.

The reasons stated above are the principal reasons the general partners are recommending the combination, but in their review of strategic alternatives and of the combination in particular, the general partners of Dorchester Hugoton considered a number of factors, including the following.

- The general partners considered the proved, developed producing reserves held by Republic and Spinnaker and the large number of wells and the diverse locations of those properties which they believe

- will diversify the risk of concentration of property ownership in one general location that presently applies to Dorchester Hugoton.

- The general partners considered the significant amount of proved undeveloped reserves and probable and possible reserves, which include large amounts of unleased undeveloped mineral acreage, held by Republic and Spinnaker, and the possible future growth potential for the combined businesses from these existing properties without significant cash outlays due to the nature of the royalty interests held by Republic and Spinnaker.

- The general partners considered the reserve reports of Huddleston & Co., Inc. and Calhoun Blair and Associates on the proved, developed producing properties of Republic, Spinnaker and Dorchester Hugoton as well as with respect to other categories of reserves.

- The general partners considered our partnership's potential for additional growth through the acquisition of additional properties, which Dorchester Hugoton is presently restricted from doing except in very limited circumstances. The general partners also considered the restrictions on future acquisitions in our Partnership Agreement due to the limit on the amount of common units that may be used for acquisitions without the need for unitholder approval and due to the limit on the amount of cash that may be used for acquisition purposes.

- The general partners considered that our partnership would be structured so as to permit investment in our common units by certain types of investors such as pension funds and IRAs who presently may be unwilling to invest in Dorchester Hugoton because of unrelated business taxable income issues.

- The general partners considered that the combination would add to the management of our partnership additional executive management with skills that complement those of Dorchester Hugoton's management.

- The general partners considered the fact that the combination could be structured as a non-taxable transaction as compared to some other transactions such as a sale of Dorchester Hugoton's properties for cash and a liquidation.

- The general partners considered the fact that litigation presently affects certain of Republic's properties and that Dorchester Minerals would be indemnified with respect to that litigation.

- The general partners considered that a method of depletion was available for our partnership that, in the opinion of the general partners, would not materially disadvantage any particular group of limited partners.

- The general partners considered that two factors which they believe adversely affected the market price for Dorchester Hugoton depositary receipts in the past--governmental price controls and related litigation--no longer affect Dorchester Hugoton.

- The general partners considered the ability of persons affiliated with Dorchester Minerals Management LP, our general partner, to engage in the oil and natural gas business in potential competition with our partnership and that certain of such persons are subject to the Business Opportunities Agreement.

- The general partners considered that certain aspects of the combination and the ownership structure of our partnership, its general partner and their affiliates will involve potential conflicts of interest with the general partners or their affiliates and the fact that the Advisory Committee has reviewed and approved the combination and the matters presenting a potential for such a conflict.

- The general partners considered that the total compensation received by the general partners under the provisions of the existing Dorchester Hugoton partnership agreement has been greater than or equal to the compensation that Dorchester Hugoton would have paid the general partners under a formula like that used to compensate our general partners.

- The general partners considered the fairness opinion of Bruce E. Lazier, P.E. that the combination was fair to Dorchester Hugoton and to the holders of depositary receipts from a financial viewpoint.

- The general partners considered the current and long term market environment for Dorchester Hugoton's and our partnership's businesses, perceived industry trends and anticipated oil and natural gas price volatility.

- The general partners also recognized the potential for a single state's income or severance tax policy to affect Dorchester Hugoton more than our partnership due to the latter's more diverse holdings but also recognized the potential for us to have to file tax returns and pay taxes in a larger number of states than Dorchester Hugoton.

- The general partners considered the terms of each of the definitive agreements, including the conditions to the obligations of each of the parties to consummate the combination, and the rights of termination of the parties.

- The general partners considered that holders of Dorchester Hugoton's depositary receipts would be given voting rights on the proposed combination, as well as contractual dissenters' rights and the opportunity to receive an appraised value for their depositary receipts.

- The general partners considered historical and recent market prices for the depositary receipts and that Dorchester Hugoton has essentially no debt and, consequently, no urgency to engage in a transaction.

- The general partners considered the reciprocal restrictions on soliciting or cooperating with proposals for alternative transactions and for the payment of a termination fee in connection with terminations related to alternative transactions, as well as the ability of the general partners of the combining partnerships to terminate the definitive agreements for fiduciary reasons. The general partners recognized that these provisions could decrease the likelihood that a third party would offer to acquire Dorchester Hugoton. However, the general partners believed that the provisions included in the definitive agreements were not likely to preclude an interested party from making a proposal to Dorchester Hugoton. The general partners also considered that prior efforts to find a third party interested in pursuing a strategic transaction with Dorchester Hugoton consistent with what the general partners believed the depositary receipt holders' objectives to be had not proved to be successful, and that no third party had presented a specific interest since the announcement of the non-binding letter of intent.

- The general partners considered that the receipt of our common units potentially exposes the depositary receipt holders to the potential benefits and to the risk of fluctuations in market prices instead of having a fixed liquidated amount of consideration as would be the case in a taxable cash transaction. The general partners also considered that a cash transaction would preclude its depositary receipt holders from participating in potential future growth of the combined enterprise.

- The general partners also considered other possible alternatives to the combination, such as a merger with an unrelated party, a cash sale and liquidation, and remaining independent and continuing its business, and the potential value to depositary receipt holders of such alternate transactions.

- The general partners considered the fact that even though Dorchester Hugoton has publicly indicated since 1998 that it is reviewing strategic alternatives and has contacted a number of potential partners for a strategic transaction, there has been limited interest by others in such a transaction by others consistent with what the general partners believed the depositary receipt holders' objectives to be, and Dorchester Hugoton has not been successful in pursuing any other opportunities that would yield similar benefits to its depositary receipt holders.

The foregoing discussion of the factors and information considered by the general partners is not meant to be exhaustive, but the general partners believe that it includes all material factors considered by them. The general partners did not find it practical to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching its determination. Rather the general partners considered their determinations and recommendation as being based upon the totality of the information presented to and reviewed by them.

Opinion of Dorchester Hugoton's Financial Advisor

Pursuant to an engagement letter signed July 5, 2001, Dorchester Hugoton retained Bruce E. Lazier, P.E. to assist Dorchester Hugoton with the evaluation of the combination and to provide his opinion as to the fairness, from a financial viewpoint, of the combination to Dorchester Hugoton and the holders of its depositary receipts. At the meeting of the Advisory Committee of Dorchester Hugoton on July 27, 2001, prior to execution of the non-binding letter of intent with respect to the combination, Mr. Lazier gave his oral opinion, subsequently confirmed in writing on July 30, 2001, to Dorchester Hugoton, its general partners, members of the Advisory Committee and depositary receipt holders, that as of that date and on the basis of the matters described in that opinion, the combination was fair, from a financial viewpoint, to Dorchester Hugoton and its depositary receipt holders. In addition, at the meetings of the Advisory Committee on November 27, 2001 and December 13, 2001, prior to the execution of the definitive agreements with respect to the combination, Mr. Lazier gave his oral opinions, subsequently confirmed and updated in writing on December 13, 2001, to Dorchester Hugoton, its general partners, members of the Advisory Committee and depositary receipt holders, that as of that date and on the basis of the matters described in that opinion, the combination was fair, from a financial point of view, to Dorchester Hugoton and its depositary receipt holders.

The number and ratio of our common units to be received by the holders of depositary receipts of Dorchester Hugoton was determined through negotiations among the general partners of Dorchester Hugoton, Republic and Spinnaker. Mr. Lazier was not asked to, and did not recommend to, Dorchester Hugoton that any specific amount of our common units constituted the appropriate amount of consideration in the combination.

The full text of the written opinions of Bruce E. Lazier, P.E. dated July 30 and December 13, 2001, which set forth the assumptions made, matters considered and limits on the review undertaken, are attached as Appendix A-1 and A-2 to this document. Mr. Lazier has consented to the use of his written opinion in this document. No limitations were placed by Dorchester Hugoton's general partners on Mr. Lazier with respect to the investigations made or procedures followed by him in furnishing his opinion. The general partners of Dorchester Hugoton encourage you to read the opinion carefully and in its entirety.

Mr. Lazier's opinion is addressed to Dorchester Hugoton, its general partners, its Advisory Committee and its depositary receipt holders and is limited to the fairness, from a financial viewpoint, of the combination to Dorchester Hugoton and its depositary receipt holders, and Mr. Lazier expressed no opinion as to the merits of the underlying decision by Dorchester Hugoton to engage in the combination. Mr. Lazier's opinion does not constitute a recommendation to any holder of a depositary receipt as to how to vote with respect to the combination. The summary of Mr. Lazier's opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion.

In arriving at his opinion dated December 13, 2001, Mr. Lazier reviewed, among other things:

- the current state of the domestic and international oil and natural gas industry;
- the present relative value of the net assets, reserves, future production and anticipated future cash flow of the combining partnerships;
- sensitivities and revised sensitivities of gas prices, reserves, Dorchester Hugoton's assets and discount rates to the value of our partnership;
- "Estimates of Gas Reserves," with respect to Dorchester Hugoton dated January 17, 2001 and prepared by Calhoun, Blair & Associates;
- "Republic Royalty Company and Spinnaker Royalty Company, L.P., Estimated Reserves and Future Net Revenue, as of January 1, 2001" prepared by Huddleston & Co., Inc.;
- the revised reserve study by Calhoun, Blair and Associates, dated August 14, 2001, accounting for the acquisition of the production payment by Dorchester Hugoton;

- summary of reserves of Republic and Spinnaker received from Dorchester Hugoton, dated July 5, 2001;

- opening calculations prepared by Republic and Spinnaker, based on January 1, 2000 SEC type reserve studies and projected year 2000 income;

- Republic and Spinnaker reserve studies, dated July 1, 2000, at agreed upon escalated prices;

- Dorchester Hugoton reserve study, dated July 1, 2000, at agreed upon escalated prices;

- various reserve studies and analyses prepared by Dorchester Hugoton;

- rework of May 17, 2000 calculation by Dorchester Hugoton using July 1, 2000 reserve studies including probable and possible reserves;

- rework of May 17, 2000 calculation by Dorchester Hugoton using July 1, 2000 reserve studies including proved producing reserves only;

- two reworks of October and November 2000 calculations by Dorchester Hugoton;

- adjustment of October 2000 calculations by Dorchester Hugoton for the value of already being publicly traded;

- 2000 Net Cash Flow Comparison--revised February 21, 2001;

- Annual Report of Dorchester Hugoton on Form 10-K for the year ended December 31, 2000, Quarterly Reports of Dorchester Hugoton on Form 10-Q for the quarters ended March 31, 2001, June 30, 2001 and September 30, 2001 and other publicly-available information concerning Dorchester Hugoton;

- balance sheets and income statements, dated June 30, 2001 and September 30, 2001, of Republic and Spinnaker;

- draft letter of intent;

- the draft of our Partnership Agreement;

- the draft Combination Agreement pursuant to which the combining partnerships will combine;

- the draft Contribution Agreement pursuant to which the general partners of the combining partnerships will contribute certain limited and/or general partner interests received in the combination by the generals partner of Dorchester Hugoton, Republic and Spinnaker;

- drafts of the assignments, conveyances and assumption agreements from Dorchester Hugoton to our partnership and Dorchester Minerals Operating LP;

- the draft Amended and Restated Limited Partnership Agreement of Dorchester Minerals Management LP;

- the draft Amended and Restated Limited Liability Company Agreement of Dorchester Minerals Management GP LLC;

- the draft Transfer Restriction Agreement of Dorchester Minerals Management LP and Dorchester Minerals Management GP LLC which governs the transfer of interests therein;

- The draft Business Opportunities Agreement that sets forth the rights and responsibilities of Dorchester Minerals, Dorchester Minerals Management LP and related parties with respect to business opportunities; and

- various transactions involving acquisitions of oil and natural gas properties through merger and/or purchase and the trading history of public companies subsequent to such acquisitions.

In addition, Mr. Lazier has held discussions with the general partners of Dorchester Hugoton with respect to certain aspects of the combination, the past and current operations of Dorchester Hugoton, the financial condition

and future prospects of Dorchester Hugoton and certain other matters Mr. Lazier believed necessary or appropriate to his inquiry. Mr. Lazier reviewed and considered such other information as he deemed appropriate for purposes of his opinion.

In giving his opinion, Mr. Lazier relied upon and assumed, without independent verification, the completeness, accuracy and fair presentation of all financial and other information, data, advice, opinions and representations obtained by him from public sources or otherwise pursuant to his engagement, and his opinion is conditional upon such completeness, accuracy and fair presentation. In connection with his opinion, Mr. Lazier received the representations of the general partners of Dorchester Hugoton, among other things, that the information, data, opinions and other materials provided to him on behalf of Dorchester Hugoton are complete and correct in all material respects at the date the information was provided, and that since the date of the information, there had been no material change, financially or otherwise, in the position of the combining partnerships or in their collective assets, liabilities, businesses or operations and that there has been no change of any material fact of a nature to render the information untrue or misleading in any material respect. Mr. Lazier did not conduct any appraisal or valuation or any reserve study of any assets or liabilities of Dorchester Hugoton nor were any such valuations, appraisals or reserve studies provided to him other than those cited above. In his analysis and in connection with the preparation of his opinion, Mr. Lazier has made a number of assumptions with respect to industry performance, general business, market and economic conditions and other matters, which assumptions Mr. Lazier believes are reasonable to make in the context of the combination.

Mr. Lazier based his opinion on securities market, economic and general business and financial conditions prevailing on the dates of the opinions and the condition and prospects, financial and otherwise, of Dorchester Hugoton as reflected in the information reviewed by him and as represented to him in discussions with the general partners of Dorchester Hugoton. Mr. Lazier's opinions were based upon market, economic and other conditions as they existed and could be evaluated on the dates thereof, and Mr. Lazier assumes no responsibility to update or revise either of his opinions based upon circumstances or events occurring after the date thereof.

In accordance with customary investment banking practices, Mr. Lazier employed generally accepted valuation methods in rendering his opinion. The principal method used by Mr. Lazier was a comparison of the proved oil and natural gas reserves of Spinnaker, Republic and Dorchester Hugoton as each was estimated by independent petroleum engineers and then comparing those results with the resultant ownership of the former owners of Spinnaker, Republic and Dorchester Hugoton in the new entity. Using the engineering reports, Mr. Lazier also evaluated the reserves on the basis of current cash flow, categories of reserves and reserve to production ratios, in order to determine how commensurate the different reserves were. Among other approaches, Mr. Lazier treated the transaction as a purchase of assets by Dorchester Hugoton and compared a putative price per equivalent barrel of reserves purchased from Spinnaker and Republic with the purchase price per barrel of oil equivalent in other transactions during the past two years. Finally, Mr. Lazier reviewed the effects of the transaction on the financial strength of the new entity as compared with the financial strength of Dorchester Hugoton as it currently stands.

The summary set forth above is not a complete description of the analyses or data utilized by Mr. Lazier. In arriving at his opinion, Mr. Lazier considered the results of all the analyses as a whole. No single factor or analysis was determinative of his fairness determination. Rather, the totality of the factors considered and analyses performed operated collectively to support his determination. Mr. Lazier based his analyses on assumptions that he deemed reasonable, including assumptions concerning general business and economic conditions and industry specific factors.

Mr. Lazier has a degree in petroleum engineering and a Master in Business Administration from Stanford University and has worked in his career both as a petroleum engineer and investment banker. In the course of his 40 year career, Lazier has been frequently engaged in the valuation of oil and natural gas companies, their properties and securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other

purposes. The general partners of Dorchester Hugoton selected Mr. Lazier to render the fairness opinion on the basis of such experience and his specific experience with respect to the oil and natural gas industry.

The amount of fees paid to Mr. Lazier in connection with his engagement was negotiated with Dorchester Hugoton and set forth in his engagement letter. Mr. Lazier has received fees of $35,000 for his services. In addition, Dorchester Hugoton will indemnify Mr. Lazier against certain liabilities, including liabilities under the federal securities laws. Mr. Lazier has had no other engagement or relationship with Dorchester Hugoton, Republic or Spinnaker or their respective affiliates.

Republic's Reasons for the Combination

The general partners of Republic have both approved the combination and believe that the combination is fair to and in the best interests of Republic and its limited partners.

The general partners recommend that the limited partners of Republic vote "FOR" the approval of the combination.

The primary reason for the general partners' recommendation of the combination is that the combination will, among other things, create the opportunity for liquidity while preserving the economic relationship of the general partners and the Republic ORRI owners. Because of the varying tax and strategic perspectives of the Republic general partners and the Republic ORRI owners, Republic's ability to sell its properties or otherwise engage in a transaction such as the combination is generally limited. Consequently, each general partner's or Republic ORRI owner's interest is, absent the combination, a highly illiquid asset that would likely experience a discount in valuation because of the illiquidity.

The other principal reasons for the general partners' recommendations are:

- diversification of risk--lessening exposure to changing operating conditions or performance by any single producing well;

- exposure to a broader geographic distribution of undeveloped and nonproducing properties, which may offer the potential for growth and addition to reserves and cash flow;

- exposure to public market valuations for oil and gas producing entities;

- exposure to acquisition opportunities on participation terms more favorable than those generally available to individual and institutional investors;

- the benefit of the Business Opportunities Agreement, which will allow the Republic partners to participate indirectly in certain acquisition opportunities subject to the Business Opportunities Agreement;

- increased exposure to acquisition opportunities from sellers seeking non-taxable divestiture of similar assets; and

- the addition of complementary skills to management, including broader areas of expertise, industry contacts and advice from the management group.

The foregoing discussion of the factors and information considered by the general partners is not meant to be exhaustive, but the general partners believe that it includes all material factors considered by them. The general partners did not find it practical to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching its determination. Rather the general partners considered their determinations and recommendation as being based upon the totality of the information presented to and reviewed by them.

Republic will not receive a fairness opinion in connection with the combination. The general partners of Republic concluded that a fairness opinion is not necessary in order to permit Republic limited partners to make

an informed decision on the combination because each of the parties that will become Republic limited partners after the Republic reorganization is a sophisticated institutional or industry investor.

Spinnaker's Reason for the Combination

The general partner of Spinnaker has approved the combination and believes that the combination is fair to and in the best interests of Spinnaker and its limited partners.

The general partner recommends that the limited partners of Spinnaker vote "FOR" the approval of the combination.

The primary reason for the general partner's recommendation of the combination is that the combination will, among other things, create the opportunity for liquidity for the Spinnaker limited partners. Because of the varying tax and strategic perspectives of the Spinnaker partners, Spinnaker's ability to sell its properties or otherwise engage in a transaction such as the combination is generally limited. Consequently, each partner's interest is, absent the combination, a highly illiquid asset that would likely experience a discount in valuation because of the illiquidity.

The other principal reasons for the general partner's recommendations are:

- diversification of risk--lessening exposure to changing operating conditions or performance by any single producing well;
- exposure to a broader geographic distribution of undeveloped and nonproducing properties, which may offer the potential for growth and addition to reserves and cash flow;
- exposure to public market valuations for oil and gas producing entities;
- exposure to acquisition opportunities on participation terms more favorable generally available to individual and institutional investors;
- the benefit of the Business Opportunities Agreement which will allow the Spinnaker partners to participate indirectly in certain acquisition opportunities subject to the Business Opportunities Agreement;
- increased exposure to acquisition opportunities from sellers seeking non-taxable divestiture of similar assets; and
- the addition of complementary skills to management, including broader areas of expertise, industry contacts and advice from the management group.

The foregoing discussion of the factors and information considered by the general partner is not meant to be exhaustive, but the general partner believes that it includes all material factors considered by them. The general partner did not find it practical to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching its determination. Rather the general partner considered their determinations and recommendation as being based upon the totality of the information presented to and reviewed by it.

Spinnaker will not receive a fairness opinion in connection with the combination. The general partner of Spinnaker concluded that a fairness opinion is not necessary in order to permit Spinnaker limited partners to make an informed decision on the combination because each of the Spinnaker limited partners is a sophisticated institutional or industry investor.

Reasons for Structure Adopted for the Combination

The combination has been structured so as to be a non-taxable transaction. This is accomplished, in the case of Republic and Spinnaker, by a merger of those two partnerships with our partnership. Dorchester Hugoton's partnership agreement in its present form does not contemplate or permit a merger transaction. Amendment to permit a merger would require a vote of the holders of more than 80% of the depositary receipts, which the general partners believe would be difficult to achieve even if a strong majority of its holders favored such a transaction. Dorchester Hugoton's partnership agreement permits the transfer of all of its assets by action of the general partner and requires liquidation if oil and natural gas assets are no longer owned. To give its depositary receipt holders a voice in the decision to engage in the combination, the general partners have agreed not to proceed with the combination unless the holders of more than 50% of the depositary receipts approve the combination. Dissenters' rights have been afforded to comply with Nasdaq National Market System requirements.

A principal goal of our partnership is to own only properties that do not generate unrelated business taxable income so that our common units will be an appropriate investment for certain non-taxpaying entities such as pension funds and IRAs. Dorchester Hugoton's properties consist almost exclusively of working interests, which if owned by our partnership would generate large amounts of unrelated business taxable income. As a result, the combination provides that we will receive a 96.97% overriding royalty interests in those properties, because such an interest will not generate unrelated business taxable income.

Prior to the combination, Republic will reorganize as a limited partnership as described in "The Combination--Preparatory Steps--Reorganization of Republic." The principal reason for the Republic reorganization is to convert the interests of the Republic ORRI owners into limited partner interests so that the merger of Republic into our partnership can be effected as part of the combination. Another reason for the Republic reorganization is to convert a portion of the Republic general partners' general partner interests into limited partner interests such that they will collectively own a 4% general partner interest in Republic.

Prior to the combination, Spinnaker will reorganize as described in "The Combination--Preparatory Steps--Reorganization of Spinnaker." The principal reason for the Spinnaker reorganization is to convert a portion of the Spinnaker general partner's general partner interests into limited partner interests such that it will own a 4% general partner interest in Spinnaker.

THE COMBINATION

Overview of the Combination

The combination involves the following steps:

- Creation of Operating ORRIs. Dorchester Hugoton will transfer all of its oil and natural gas properties to Dorchester Minerals Operating LP, in exchange for retention of a 96.97% net profits overriding royalty interest in the properties conveyed, referred to as the Dorchester Hugoton ORRIs. On or at the closing of the combination, each of Republic and Spinnaker will convey minor working interest properties to Dorchester Minerals Operating LP, in exchange for 96.97% net profits overriding royalty interests on substantially similar terms. We refer to the Dorchester Hugoton ORRIs and the overriding royalty interests received by Republic and Spinnaker as the Operating ORRIs.
- Asset Sale and Liquidation, and Mergers. Immediately following, or simultaneously with, the creation of the Operating ORRIs described above the following will occur:
    - Dorchester Hugoton will transfer all of its remaining assets to either us or Dorchester Minerals Operating LP (an affiliate of our general partner) and then liquidate, distributing to its partners its remaining cash and our common units. The transfers will be made as follows:
        - to Dorchester Minerals Operating LP, its management and remaining operating assets, in exchange for a promissory note and the assumption of certain obligations; and

- to us, the Dorchester Hugoton ORRIs created as described above, certain other non-cash assets, including the promissory note described in the preceding bullet, and cash to fund certain obligations, all in exchange for our common units and the assumption of Dorchester Hugoton's remaining obligations.

- Republic, after completing an internal reorganization, will merge into our partnership, with the Republic limited partners receiving our common units and the Republic general partners receiving general partner interests.

- Spinnaker, after completing an internal reorganization, will merge into our partnership, with the Spinnaker limited partners receiving our common units and the Spinnaker general partner receiving general partner interests.

Prior to the consummation of the combination, in addition to the creation of the Operating ORRIs described above, the following preparatory steps must occur in order for the combination to occur:

- the reorganization of Republic;

- the reorganization of Spinnaker; and

- the distribution of excess cash by Republic and Spinnaker to their partners.

As a result of the combination, our common units will initially be held in approximately the following proportions:

- 40.51% by former limited partners of Republic;

- 39.73% by former limited partners of Dorchester; and

- 19.76% by former limited partners of Spinnaker.

Our common units will initially be held in approximately the following amounts as a result of the combination, based on 27,040,431 common units to be issued in the combination:

- 10,953,078, by the former limited partners of Republic;

- 10,744,380, by the former limited partners of Dorchester Hugoton; and

- 5,342,973, by the former limited partners of Spinnaker.

Following the combination, including the transactions described under "--Contributions to Dorchester Minerals Management LP," our general partner will own a general partner interest in us that will entitle it to:

- a 1% partnership interest and sharing percentage in each of the Operating ORRIs conveyed to us in connection with the combination, and in any similar overriding royalty interests created in the future; and

- 4% partnership interest and sharing percentage in all our other assets, properties, obligations and liabilities and all our other items of revenue, cost and expense.

Preparatory Steps

Creation of Overriding Royalty Interests

In connection with the combination, and following approval by the limited partners of the combining partnerships and the satisfaction or waiver of the other conditions to the combination, Dorchester Hugoton will transfer all of its oil and natural gas properties to Dorchester Minerals Operating LP, in exchange for retention of the Dorchester Hugoton ORRIs in the properties conveyed to Dorchester Minerals Operating LP. Dorchester Minerals Operating LP will assume all of the obligations of a working interest owner with respect to these

properties that are incurred after the date of transfer or relate to the post-transfer period or that were incurred prior to the transfer but are payable in the ordinary course of business after the transfer.

Republic and Spinnaker own unleased or otherwise participating mineral interests in a total of 49 properties located in eight states that may be deemed to be working interests and therefore may generate unrelated business taxable income. These properties, which are sometimes referred to as expense bearing interests, generated in the aggregate less than 2% of Republic and Spinnaker's combined net cash flow during 2001. On or at the closing of the combination, Republic and Spinnaker will convey these properties to Dorchester Minerals Operating LP in exchange for retention of an overriding royalty interest on substantially the same terms as the Dorchester Hugoton ORRIs. We contemplate that if working interests are acquired in the future, or, if the status of any of Republic or Spinnaker's properties change such that they are deemed to be working interests, they will also be conveyed periodically to Dorchester Minerals Operating LP in exchange for overriding royalty interests on substantially similar terms.

The terms of the Operating ORRIs in the working interest properties currently held by Dorchester Hugoton, Republic and Spinnaker will be substantially the same, and we will own 100% of the 96.97% net profits overriding royalty interests.

Under the terms of the Operating ORRIs, each month Dorchester Minerals Operating LP will determine the net proceeds actually received during that month from the properties that are subject to the Operating ORRIs, and, on the tenth day of the following month, will pay us 96.97% of those net proceeds. The net proceeds equal:

- the gross proceeds actually received by Dorchester Minerals Operating LP for the month from these properties; minus

- production costs paid during the month; and minus

- excess production costs, if any, resulting from previous net proceeds determinations, and not yet recouped, as of the end of the prior month.

Gross proceeds are the amounts received by Dorchester Minerals Operating LP as the working interest owner of the properties subject to the Operating ORRIs, generally on the cash method of accounting, from the sale or other disposition of oil, gas, other hydrocarbons and other minerals produced from the properties, and generally include amounts:

- as to which Dorchester Minerals Operating LP is an overproduced or underproduced party under any gas balancing agreement as and when paid to Dorchester Minerals Operating LP, except that amounts that may, in the judgment of Dorchester Minerals Operating LP, exceed future net proceeds and may be subject to cash balancing are excluded from gross proceeds if suspended or deposited in an interest-bearing escrow account, and interest earned on monies received from an interest bearing account will not be accounted for as gross proceeds; and

- received as bonuses for oil, gas and/or other mineral leases after the effective date of the Operating ORRIs.

Gross proceeds do not include amounts:

- subject to controversy and either deposited in an interest bearing escrow account or withheld from payment to Dorchester Minerals Operating LP or received but held in suspense by Dorchester Minerals Operating LP until both such controversy is resolved and Dorchester Minerals Operating LP is in possession of such gross proceeds, and interest earned on monies received from an interest bearing account will not be accounted for as gross proceeds;

- not actually received but which instead are withheld by others for non-consenting operations under the relevant operating agreement, unit agreement or other agreement providing for the non-consent operations;

- lost or used in the production or transportation of minerals in conformity with prudent industry practices (and not reimbursed by others);

- that offset production costs under other provisions of the Operating ORRIs;

- received from third parties as a result of cash balancing obligations relating to underproduced positions affecting the properties; and

- attributable to the interests of third parties in the properties and production payments, royalties and overriding royalties to third parties.

Production costs are generally all costs, to the extent properly attributable to the properties subject to the Operating ORRIs, incurred, paid or discharged during the month, on the cash method of accounting (except for certain specific accruals), whether capital or non-capital in nature, and generally include the following, among other things:

- maintenance, drilling, completing and operating costs for the month and all other costs for the month incurred and paid by Dorchester Minerals Operating LP as the working interest owner applicable to the properties;

- all taxes (other than income taxes) relating to the properties, the Operating ORRIs, production from the properties, equipment on the properties, or processing, gas exchange or marketing of production, attributable to both the working interest owner's share and the Operating ORRIs;

- general and administrative costs deemed necessary by Dorchester Minerals Operating LP to operate and manage the properties, using cents-per-mile and dollars-per-well-per-month methods customary in the industry;

- amounts borne by the working interest owner during the month relating to payments to third parties in connection with drilling or deferring or refraining from drilling of wells (including dry hole and bottom hole payments), rent and other consideration for the use of or damage to the surface, direct charges for lease renewals, geological and geophysical, seismic, engineering and preparation for drilling; and

- all other costs, expenses and liabilities relating to operating wells on the properties, including producing, gathering, compressing, processing, selling and marketing minerals from the properties.

Production costs exclude depletion, depreciation and other non-cash deductions.

Excess production costs are the excess of production costs over gross proceeds for the period beginning with the end of the last period in which there were net proceeds and ending as of the end of the month prior to the month for which net proceeds are being determined.

Production costs and excess production costs are reduced by amounts received by Dorchester Minerals Operating LP that are attributable to the properties subject to the Operating ORRIs and include the following, among other things:

- delay rentals, shut-in gas well royalty or payments and dry hole and bottom hole payments;

- amounts received from the sale or lease of fixtures and equipment located on the properties;

- amounts received in respect of pooling or unitization;

- advance payments and payments pursuant to take-or-pay and similar contracts; and

- to the extent not otherwise included in gross proceeds, the excess of revenues from processing minerals over the costs of processing.

Any amount not paid by Dorchester Minerals Operating LP to us when due will bear interest at the weighted average prime interest rate in effect during the period of nonpayment. If at any time Dorchester Minerals Operating LP pays us more than the amount due, we will not be obligated to return the overpayment, but the amount otherwise payable for any subsequent month will be reduced by the amount of the overpayment.

All payments made to us will be made exclusively out of amounts received from the sale or other disposition of minerals produced from the properties conveyed to Dorchester Minerals Operating LP, and in no event will payments exceed 100% of the value of production at the wellhead before the application of any processing. Should the payments due us ever exceed that amount, the resulting overage will be suspended and accrued. At such time as the payments are less than 100% of the value of the production at the wellhead before processing, the overage will be added to subsequent payments but not in an amount which would then cause payments to exceed 100% of the value of the production at the wellhead before processing.

We will not be liable or responsible in any way for payment of any production costs or any other costs or liabilities incurred by Dorchester Minerals Operating LP or other lessees.

Reorganization of Republic

The combination will not occur unless Republic completes a reorganization immediately prior to or simultaneously with the combination. In this reorganization:

- Republic will convert from a general partnership to a limited partnership; and

- the owners of the overriding royalty interests burdening Republic's properties, which we refer to as the Republic ORRIs, will contribute their Republic ORRIs to Republic in exchange for limited partnership interests in Republic.

In a private transaction, the Republic general partners are proposing to the Republic ORRI owners that they agree to the Republic reorganization and consummate the reorganization in connection with the combination. As a result of the proposed Republic reorganization, at the time of the combination:

- Republic's properties will no longer be burdened by the Republic ORRIs;

- SAM Partners, Ltd. and Vaughn Petroleum, Ltd. will remain the general partners of Republic; and

- the limited partners of Republic will be SAM Partners, Ltd. and Vaughn Petroleum, Ltd.; the Republic ORRIs owners; and a new partnership, which we refer to as the APO Partnership in this document, owned by SAM Partners, Ltd., Vaughn Petroleum, Ltd. and the former Republic ORRIs owners.

The purpose of the APO Partnership is to preserve after the combination, through the APO Partnership's ownership of our common units received in the combination, the variable interests of the Republic general partners and the Republic ORRI owners that currently exist in the Republic ORRIs documentation. See the discussion of the Republic ORRIs under "Information Concerning Republic--General" for more information about these variable interests. The APO Partnership will also indemnify us for any losses that we incur and receive any recovery obtained in connection with certain litigation matters involving Republic described under "Information Concerning Republic--Legal Proceedings."

The principal reason for the Republic reorganization is to convert the interests of the Republic ORRIs owners into limited partner interests so that the merger of Republic into our partnership can be effected as part of the combination. Another reason for the Republic reorganization is to convert a portion of SAM Partners, Ltd.'s and Vaughn Petroleum, Ltd.'s general partner interests into limited partner interests such that they will collectively own a 4% general partner interest in Republic.

All of the Republic ORRI owners must agree to the Republic reorganization in order for it to occur. In addition to this private investment decision, the parties who would become Republic limited partners as a result

of the Republic reorganization must vote on whether to approve the combination. Consequently, this document is being provided to the parties who would become Republic limited partners in the Republic reorganization.

In the Combination Agreement, each of the Republic general partners has agreed to use its reasonable best efforts to solicit from the Republic ORRI owners written agreements effecting the Republic reorganization.

Reorganization of Spinnaker

The combination will not occur unless Spinnaker completes a reorganization immediately prior to or simultaneously with the combination. In this reorganization, Spinnaker's partnership agreement will be amended so that Smith Allen Oil & Gas, Inc., its general partner, will hold a 4% interest in Spinnaker and the limited partners of Spinnaker will hold interests aggregating a 96% interest in Spinnaker. Currently, Smith Allen Oil & Gas, Inc. holds slightly greater than a 4% interest in Spinnaker. The Spinnaker reorganization is necessary to convert a portion of Smith Allen Oil & Gas, Inc.'s general partner interests into limited partner interests such that it will own a 4% general partner interest in Spinnaker.

In the Combination Agreement, Spinnaker's general partner has agreed to use its reasonable best efforts to solicit from the Spinnaker limited partners written agreements effecting the Spinnaker reorganization.

Contribution of Assets by Smith Allen Oil & Gas, Inc.

Smith Allen Oil & Gas, Inc., the general partner of Spinnaker, will contribute its management and operating assets to Dorchester Minerals Operating LP. The management and operating assets will include the following:

- leases for Smith Allen Oil & Gas, Inc.'s Dallas, Texas home office;
- all tangible personal property owned or leased by it located at or used in connection with those offices or Smith Allen Oil & Gas, Inc.'s business;
- computer equipment;
- contract rights and claims that relate to other items included in the assets being conveyed;
- licenses and permits;
- books and records; and
- intellectual property rights relating to other assets transferred.

Transfer of Assets by Dorchester Hugoton and Liquidation

Transfer of Management and Remaining Operating Assets to Dorchester Minerals Operating LP

Dorchester Hugoton will transfer its management assets and the remaining operating assets not included in the Dorchester Hugoton ORRIs to Dorchester Minerals Operating LP in exchange for a promissory note in a principal amount equal to the appraised value of such assets and the assumption of certain related obligations.

The management and remaining operating assets will include the following:

- leases for Dorchester Hugoton's Garland, Texas home office and its field office in Amarillo, Texas;
- all tangible personal property owned or leased by it located at or used in connection with those offices or Dorchester Hugoton's business;
- computer equipment;
- trucks and vehicles;

- contract rights and claims that relate to other items included in the assets being conveyed;
- items paid for but not delivered;
- bonds and deposits;
- licenses and permits;
- books and records; and
- intellectual property rights relating to other assets transferred.

The assets will also include cash to fund certain accrued expenses to the extent not paid prior to closing and ownership of certain bank accounts. Prior to closing, Dorchester Hugoton will pay, to the extent practicable, its undisputed obligations that are quantifiable as to amount.

Dorchester Minerals Operating LP will assume certain pre- and post-transfer liabilities relating to these assets and certain unpaid royalties to the extent not otherwise assumed by Dorchester Minerals Operating LP in connection with the creation of the Operating ORRIs.

An appraisal of the management and remaining operating assets transferred in exchange for the promissory note will be performed as of a date within 10 days of closing by an independent appraiser selected by Dorchester Hugoton and approved by Republic and Spinnaker. The promissory note will be unsecured, will bear interest at 6% per annum and will be payable in quarterly installments over a five year amortization schedule.

Transfer of Dorchester Hugoton ORRIs and Liquidation of Dorchester Hugoton

Dorchester Hugoton will convey to us the Dorchester Hugoton ORRIs and all its other remaining assets, including the goodwill associated with Dorchester Hugoton's business, if any, the rights to the Dorchester Hugoton trade name and service mark, the promissory note received from Dorchester Minerals Operating LP and cash in an amount sufficient to pay dissenting Dorchester Hugoton depositary receipt holders, if any, to fund its share of combination costs and other accrued expenses assumed by us, but excluding all other cash (including proceeds of sales of marketable securities) which is to be distributed to its depositary receipt holders. In exchange, we will issue to Dorchester Hugoton a number of common units that, after completion of the transactions described under "--Contributions to Dorchester Minerals Management LP," will provide the depositary receipt holders of Dorchester Hugoton in the aggregate with common units representing approximately 39.73% of the total amount outstanding immediately following the combination. We will also assume all of the obligations and liabilities of Dorchester Hugoton, including contingent liabilities, whether known and unknown, except for those assumed by Dorchester Minerals Operating LP.

Dorchester Hugoton will sell 128,000 shares of Exxon Mobil Corporation stock held by it prior to the closing and, at or prior to closing, will make all required payments under its severance plan which are estimated to be up to approximately $2.7 million. Immediately following Dorchester Hugoton's sale of its assets, the remaining assets of Dorchester Hugoton will consist of our common units and cash, and it will have no remaining obligations or liabilities. Because Dorchester Hugoton will no longer own any oil or gas properties, an event of dissolution will occur under its partnership agreement, and it will be liquidated. Dorchester Hugoton will distribute the common units and its remaining cash to its depositary receipt holders and its general partners in liquidation of the partnership interests represented by their holdings.

Under Dorchester Hugoton's partnership agreement, amounts to be distributed in liquidation are distributed in accordance with of capital accounts of the partners after all allocations and adjustments have been made. The capital accounts of the general partners are slightly less than 1% of the total of all capital accounts. As a result, the general partners will receive slightly less than 1% of the common units and cash distributed in the liquidation, and the limited partners will receive slightly more than 99%.

By formula under the Combination Agreement, the number of common units that will be delivered to the holders of Dorchester Hugoton's depositary receipts will equal the number of outstanding depositary receipts, and the numbers of common units to be delivered to the general partners will be derived from that number. The common units that will be distributable to the holders of depositary receipts of Dorchester Hugoton will represent 39.73% of the total number of common units outstanding immediately following the combination.

After the liquidation and the distribution are completed, Dorchester Hugoton will be terminated and will cease to exist.

Merger of Republic with Dorchester Minerals

Following completion of its reorganization, Republic will merge with and into our partnership, with our partnership as the surviving entity, with:

- Republic's limited partners receiving in the aggregate a number of common units that, after completion of the transactions described under "--Contributions to Dorchester Minerals Management LP," will represent 40.51% of the total amount outstanding immediately following the combination; and

- each of Republic's general partners receiving a general partnership interest in us, representing a 2% interest, or a 4% interest in the aggregate, in our capital and profits, relating solely to the assets previously owned by Republic (see " --Contributions to Dorchester Minerals Management LP" below for the subsequent treatment of this interest).

The separate existence of Republic will cease as of the effective time of the merger, and we will succeed to all of the assets, liabilities, rights and obligations of Republic.

Prior to this merger, Republic will make the required payments under the terms of the Republic ORRIs and will distribute to the partners of Republic in proportion to their respective interests all cash not needed to fund its share of combination costs and other accrued expenses for which payments by Republic may be necessary.

Merger of Spinnaker with Dorchester Minerals

Following completion of its reorganization, Spinnaker will merge with and into our partnership, with our partnership as the surviving entity, with:

- Spinnaker's limited partners receiving in the aggregate a number of common units that, after completion of the transactions described under " --Contributions to Dorchester Minerals Management, LP," will represent 19.76% of the total amount outstanding immediately following the combination; and

- Spinnaker's general partner receiving a general partnership interest in us, representing a 4% interest in our capital and profits, relating solely to the assets previously owned by Spinnaker (see "--Contributions to Dorchester Minerals Management LP" below for the subsequent treatment of this interest).

The separate existence of Spinnaker will cease as of the effective time of the merger, and we will succeed to all of the assets, liabilities, rights and obligations of Spinnaker.

Prior to this merger, Spinnaker will distribute to the partners of Spinnaker in proportion to their respective interests all cash not needed to fund its share of combination costs, payments to limited partners who dissent, if any, and other accrued expenses for which payments by Spinnaker may be necessary.

Contributions to Dorchester Minerals Management LP

Contributions to Dorchester Minerals Management LP

The general partners of each of Republic and Spinnaker will contribute the general partner interests in us they receive as a result of the mergers described above to Dorchester Minerals Management LP in exchange for limited partnership interests in Dorchester Minerals Management LP. The general partners of Dorchester Hugoton will contribute cash and the common units they receive as a result of its liquidation to Dorchester Minerals Management LP in exchange for limited partnership interests in Dorchester Minerals Management LP.

The cash amount to be contributed by the general partners of Dorchester Hugoton will be equal to the amount that would have had to have been added to their capital accounts in Dorchester Hugoton immediately prior to the closing of the combination in order for the combined balance of their capital accounts to equal 1% of the aggregate capital account balances of all partners of Dorchester Hugoton after the making of such an addition.

Conversions of Partnership Interests

Following the receipt of these contributions, Dorchester Minerals Management LP will contribute the cash received from the general partners of Dorchester Hugoton to us as an additional capital contribution, and our common units contributed to Dorchester Minerals Management LP by the Dorchester Hugoton general partners will, under the terms of our Partnership Agreement, be converted into a general partner interest in our partnership constituting a 1% interest in our capital and profits, relating solely to the assets conveyed to us by Dorchester Hugoton.

Then, under the terms of our Partnership Agreement, the general partner interests in our partnership held by Dorchester Minerals Management LP will be converted into:

- a 1% partnership interest and sharing percentage in the Operating ORRIs to be held by us in the working interest properties contributed by the combining partnerships to Dorchester Minerals Operating LP and any similar overriding royalty interests created in the future, and

- a 4% partnership interest and sharing percentage in all our other assets, properties, obligations and liabilities and all our other items of revenue, cost and expense.

Ownership Structure of Dorchester Minerals

Upon completion of the steps described above:

- Dorchester Minerals Management LP will own the general partnership interest in our partnership described in the preceding section, and

- the holders of common units will then own our units constituting the balance of our partnership interests in approximately the following proportions:

. Common units held by former depositary receipt holders of Dorchester Hugoton	39.73%
. Common units held by former limited partners of Republic....................	40.51%
. Common units held by former limited partners of Spinnaker...................	19.76%

THE COMBINATION AGREEMENT

On December 13, 2001, we entered into a Combination Agreement with the combining partnerships, Dorchester Minerals Management LP, Dorchester Minerals Management GP LLC and Dorchester Minerals Operating LP. The principal terms of the Combination Agreement that are not included in the discussion above

are summarized below. This discussion is only a summary and you should also refer to the full text of the Combination Agreement, a copy of which is attached as an exhibit to the registration statement, of which this document is a part.

Effective Time of the Combination

Unless the combining partnerships otherwise agree, the closing of the combination will occur on the day which is five business days after the date on which the last of the closing conditions set forth in the Combination Agreement have been fulfilled or waived.

Upon the closing, certificates of merger for the merger of Republic and Spinnaker into our partnership will be filed with the Secretaries of State of the States of Delaware and Texas, and the mergers will be effective at the time the certificates are so filed or at such later time as is specified in the certificates of merger.

Conditions

The obligations of the combining partnerships to effect the combination are subject to the following conditions, among others:

- the approval of the combination by the holders of more than 50% of the depositary receipts of Dorchester Hugoton, by all of the partners of Republic (including Republic ORRI owners, who will become limited partners upon Republic's reorganization) and by the limited partners owning at least 85.9883% of the sharing percentages of Spinnaker;

- none of the combining partnerships' being subject to any order, injunction or ruling of any court or other governmental entity, or any statute, rule, regulation or order of a governmental entity, which restrains, enjoins, prohibits or makes illegal the combination, and the absence of any legal proceeding by any governmental entity seeking to prevent or challenge the combination;

- the receipt of all necessary governmental approvals and third party consents;

- the effectiveness of the registration statement of which this document is a part, and the absence of any Securities Exchange Commission stop order suspending the effectiveness of the registration statement;

- the approval for listing of our common units on the Nasdaq National Market System;

- the completion of the reorganizations of Republic and Spinnaker and the conveyance of their working interests to Dorchester Minerals Operating LP;

- the satisfaction of the conditions precedent to the closing of the transactions under the agreement providing for the capitalization of Dorchester Minerals Management LP and Dorchester Minerals Management GP LLC and the simultaneous closing of the transactions covered by that agreement;

- the receipt of comfort letters of the independent auditors of our partnership and each of the combining partnerships;

- the execution by the general partners of each of the combining partnerships, the managers of Dorchester Minerals Management LP and each officer of Dorchester Minerals Operating LP of lock-up agreements with respect to our common units, with a duration of one year;

- the continued accuracy in all material respects of all representations and warranties of each of the combining partnerships and our partnership contained in the Combination Agreement and in any related agreements and documents;

- compliance in all material respects by all of the combining partnerships and our partnership with the agreements and covenants contained in the Combination Agreement;

- the absence of any material adverse change in the financial conditions of the combining partnerships and our partnership (other than changes due to changes in oil and natural gas prices or general economic conditions);

- the contemporaneous occurrence of the mergers of Republic and Spinnaker into our partnership and the transfer of the assets of Dorchester Hugoton to us;

- the determination of the amounts of dissenters' payments for each of Dorchester Hugoton and Spinnaker, and the funding of such amounts by each of them;

- the payment by Dorchester Hugoton of all amounts required under its severance plan and the receipt of releases from each participant in that severance plan;

- as a condition to the obligations of Dorchester Hugoton only, the entry by Dorchester Minerals Operating LP into employment agreements with Kathleen A. Rawlings and John L. Dannelley, employees of Dorchester Hugoton;

- as a condition to the obligations of Dorchester Hugoton only, the contribution by Smith Allen Oil & Gas, Inc. to Dorchester Minerals Operating LP of management assets relating to the management of Republic and Spinnaker; and

- as a condition to the obligations of Republic and Spinnaker only, the transfer of the working interests and management and operating assets of Dorchester Hugoton to Dorchester Minerals Operating LP.

Representations and Warranties

The Combination Agreement contains representations and warranties by the combining partnerships as to themselves concerning, among other things:

- organization, good standing and authority;

- capital structure;

- authorization to enter into the Combination Agreement and all related transactions;

- absence of conflicts or defaults caused by execution and delivery of the Combination Agreement or consummation of the combination;

- required governmental approvals;

- accuracy of financial statements;

- absence of undisclosed liabilities;

- absence of material adverse changes since the date of the most recent financial statements;

- payment of taxes and compliance with laws;

- possession of and compliance with government permits;

- absence of undisclosed litigation;

- employee benefit plan matters and labor matters;

- compliance with environmental and safety regulations;

- accuracy of information provided to consulting engineers for preparation of reports on proved reserves as of January 1, 2001 and the absence of adverse title claims;

- absence of brokers' or finders' fees;

- material agreements; and

- accuracy of information provided for the registration statement.

The representations and warranties of the parties will expire at the closing of the combination.

Certain Covenants

The Combination Agreement contains various agreements of each of the combining partnerships regarding actions to occur from the date of the agreement to the closing date, including, among other things, agreements with respect to the following:

- the conduct of their respective businesses only in the ordinary course of business consistent with past practice;

- restrictions on certain material actions;

- the payment prior to closing of trade payables and known undisputed claims and liabilities incurred or accrued through the date of closing and provision for funding unpaid amounts and dissenters' claims, and, in the case of Republic and Spinnaker, the distribution of excess cash, if any;

- the holding of partnership meetings, voting, the preparation and filing of this document, and recommendations of the general partners;

- reciprocal access to information, and the confidentiality of confidential information;

- reciprocal notification obligations of facts that would cause any representation or warranty to be untrue or inaccurate, and of any material failure to comply with any covenant, condition or agreement under the Combination Agreement;

- reciprocal notification obligations of any proposals or requests for information relating to an acquisition proposal by a third party; and

- the repayment of all outstanding indebtedness for borrowed money (other than oil and gas industry arrangements required in connection with oil and gas operations).

Republic and Spinnaker have each agreed to (i) use their reasonable best efforts to obtain approval of their respective reorganizations and (ii) convey their working interests to Dorchester Minerals Operating LP prior to the combination.

Dorchester Hugoton has agreed to (i) the purchase of continuing directors and officers liability coverage covering the general partners, officers and Advisory Committee of Dorchester Hugoton and (ii) to pay quarterly distributions of cash in accordance with, and in amounts not materially in excess of, past practice.

Acquisition Proposals

The combining partnerships have agreed that they will not, and will not permit any of their representatives to, directly or indirectly, solicit, initiate or knowingly encourage or take any other action to facilitate the making of any acquisition proposal. Restricted actions with respect to an acquisition proposal include (i) soliciting, initiating, knowingly encouraging or taking any action facilitating the making of an acquisition proposal, (ii) entering into any agreement, (iii) engaging in any discussions or negotiations or providing any nonpublic information relating to any person. Each combining partnership is required to (i) notify the other combining partnerships of any acquisition proposal or a request to initiate discussions in connection with any acquisition proposal and (ii) keep the other combining partnerships informed of any contact by a third party concerning an acquisition proposal.

However, if a combining partnership determines that an acquisition proposal is a superior acquisition proposal, then the combining partnership may (i) furnish information about itself to the party making the superior

acquisition proposal pursuant to a confidentiality agreement and (ii) participate in negotiations regarding such acquisition proposal. If a combining partnership determines it is necessary to allow the partnership to enter into an agreement with respect to a superior acquisition proposal, then it may terminate the Combination Agreement and take the actions in the preceding sentence, but only after it provides written notice to the other combining partnerships not later than (12:00) noon two business days in advance of the date it intends to enter into an agreement with respect to the superior acquisition proposal or terminate the Combination Agreement, specifying the terms of the superior acquisition proposal, identifying the person making the superior acquisition proposal and affording the other partnerships the opportunity to make a proposal that is superior to the superior acquisition proposal.

An acquisition proposal means any inquiry, proposal or offer relating to any of the following:

- an offer or proposal for a merger, consolidation or other business combination or joint venture involving a combining partnership or the acquisition of a substantial equity interest in or a substantial portion of the assets of any of the combining partnerships;
- any other proposal with respect to any recapitalization or restructuring with respect to a combining partnership; or
- a tender offer or exchange offer involving a combining partnership.

A superior proposal means a bona fide written acquisition proposal made on an unsolicited basis by a third party that the general partners of the combining partnership (and in the case of Dorchester Hugoton, its Advisory Committee) determine:

- in good faith (in the case of Dorchester Hugoton after receiving advice from financial advisors) represents a financially superior proposal to the combination from the standpoint of its limited partners; and
- in good faith, after consultation with counsel, would cause the general partners or the Advisory Committee to violate their fiduciary duties to their limited partners under applicable law if the general partners or the Advisory Committee failed to provide information or access or to engage in discussions or negotiations with such third party.

If a combining partnership terminates the Combination Agreement as described above, it must pay the other combining partnerships the termination fee that is provided for under the Combination Agreement. See "The Combination Agreement--Termination Fee" at page 65 of this document.

Termination

Prior to the consummation of the combination, the Combination Agreement may be terminated:

- by mutual consent of the parties to the Combination Agreement; or
- by any of Dorchester Minerals or the combining partnerships, if any of the following occur:
  - the combination is not closed on or before January 2, 2003;
  - there is a legal prohibition to closing the combination arising from any law or the issuance of an order, decree or ruling of a governmental body enjoining or prohibiting the combination by any combining partnership;
  - the depositary receipt holders of Dorchester Hugoton or the limited partners of Republic or Spinnaker do not approve the combination;
  - either of the general partners of Republic or Spinnaker, respectively, or the Advisory Committee of Dorchester Hugoton, withdraws, modifies or fails to reaffirm its recommendation or approval of the Combination Agreement or does not recommend that its limited partners not tender their shares in a qualifying third party tender offer or exchange offer for their partnership interests;

- either of the general partners of Republic or Spinnaker, respectively, or the Advisory Committee of Dorchester Hugoton has recommended, approved, executed or publicly announced its intention to execute a definitive agreement for a financially superior transaction from the standpoint of the limited partners of that partnership;

- either of the general partners of Republic withdraws or modifies its recommendation or approval of, or accepts or executes a definitive agreement that would be in lieu of or prevent, the Republic reorganization; or

- there has been a material breach by any other combining partnership or our partnership of any of its representations, warranties or covenants set forth in the Combination Agreement that has not been cured within 30 days after notice by the terminating partnership or any condition to closing in the terminating partnership's favor has not been satisfied or waived.

Termination Fee

If the Combination Agreement is terminated as a result of certain actions relating to an acquisition proposal with respect to a combining partnership or the reorganization of Republic, then that partnership must promptly pay the other combining partnerships a termination fee aggregating $3,000,000.

If Dorchester Hugoton is obligated to pay the termination fee, then it must pay $2,000,000 to Republic and $1,000,000 to Spinnaker. If Republic or Spinnaker is obligated to pay the termination fee, then Republic must pay Dorchester Hugoton $2,000,000 and Spinnaker must pay Dorchester Hugoton $1,000,000. Republic and Spinnaker have entered into a contribution agreement between themselves to allocate their burden according to fault.

The termination fee is payable by a combining partnership if the combining partnership terminates the Combination Agreement in the following circumstances:

- a general partner or Advisory Committee of that combining partnership has withdrawn, modified or failed to reconfirm its recommendation or approval of the Combination Agreement in a manner adverse to the terminating partnership or has failed to recommend that its limited partners not tender their shares in a qualifying third party tender offer or exchange offer for their partnership interests;

- a general partner or Advisory Committee of that combining partnership has recommended or approved a letter of intent or definitive agreement for a superior acquisition proposal;

- that combining partnership has failed to fulfill in any material respect its material obligations under the Combination Agreement in a respect that is material to the terminating partnership and within one year that partnership consummates or enters into an agreement for a transaction which would be an acquisition proposal with respect to that partnership or any person or group has acquired beneficial ownership or the right to acquire beneficial ownership of 50% or more of the limited partnership interests of that partnership; or

- in the case of Republic, because Republic or its general partners has withdrawn, modified or failed to affirm its recommendation or approval of the Republic reorganization or has recommended that the Republic ORRI owners accept or execute a definitive agreement not approved by Dorchester Hugoton or Spinnaker that would be in lieu of or would prevent the Republic reorganization.

The termination fee is not required to be paid if the prospective payee is in material breach of its obligations under the Combination Agreement and remains in material breach after having been afforded 30 days to cure the breach after notice.

Amendments

The Combination Agreement may be amended in writing by mutual agreement of all parties to the agreement at any time prior to its approval by the limited partners of any of the combining partnerships. After adoption by the partners of a partnership, the Combination Agreement may not be amended without the further approval of the partners of that partnership if the amendment would change the amount or kind of consideration to be received or if the change would adversely affect that partnership's partners. Waivers may be granted in writing by any affected party.

Issuance of Units; Fractional Units

Exchange Agent and Liquidating Agent

Prior to the consummation of the combination, we will designate EquiServe Trust Company, N.A., or another bank or trust company reasonably acceptable to the combining partnerships to issue the certificates representing our common units in the combination. EquiServe will serve as exchange agent in connection with the mergers of Republic and Spinnaker with our partnership, and it will serve as liquidating agent in connection with the distribution of our common units and cash to the depositary receipt holders of Dorchester Hugoton in connection with its liquidation.

Delivery of Certificates for Common Units to Republic and Spinnaker Partners

As soon as practicable after the consummation of the combination, we will make available to EquiServe, for the benefit of the limited partners of Republic and Spinnaker, certificates representing the number of whole common units issuable in exchange for their limited partnership interests in Republic and Spinnaker. Promptly after the effective time, we will send, or will cause EquiServe to send, to each non-dissenting limited partner of Republic or Spinnaker:

- a certificate representing that number of whole limited partnership units which that partner has a right to receive, and

- a transfer application, in such form as we, Republic and Spinnaker may reasonably agree, for use in admission of such partners as limited partners in our partnership.

Each holder of limited partnership interests of Republic or Spinnaker, upon delivery, or deemed delivery to us of a properly completed transfer of application, will be admitted into our partnership as a limited partner in accordance with our Partnership Agreement. Prior to being admitted, each party will have the rights of an assignee under our Partnership Agreement. See "Description of Units of Dorchester Mineral--Transfer of Common Units" beginning at page 178.

Delivery of Certificates for Common Units and Cash to Dorchester Hugoton Partners

On the first business day after the closing of the combination, Dorchester Hugoton will transfer to EquiServe the remaining cash of Dorchester Hugoton that is distributable to the non-dissenting depositary receipt holders of Dorchester Hugoton under its partnership agreement upon its liquidation, constituting approximately 99% of such cash, and will deliver to the general partners the cash that is distributable to them, constituting approximately 1% of such cash.

At the close of business on the closing date of the combination, we will deliver to EquiServe the portion of our common units to be transferred to the non-dissenting depositary receipt holders in the liquidation of Dorchester Hugoton. We will deliver to the general partners of Dorchester Hugoton the remainder of such common units, representing approximately 1% of those units. See "The Combination--Transfer of Assets by Dorchester Hugoton and Liquidation--Transfer of Dorchester Hugoton ORRIs and Liquidation of Dorchester Hugoton" for a description of how our common units will be allocated among the general partners and depositary receipt holders of Dorchester Hugoton. Promptly after the closing of the combination, we will cause EquiServe to

mail to each non-dissenting limited partner of Dorchester Hugoton of record at the close of business on the closing date:

- a letter of transmittal, with related instructions, to be used by the limited partner in exchanging certificates which, prior to the combination, represented depositary receipts of Dorchester Hugoton; and
- a transfer application, in such form as we and the combining partnerships may reasonably agree, for use in admission of such person as a limited partner of our partnership.

After the effective time, there will be no further registration of transfers of Dorchester Hugoton depositary receipts that were outstanding immediately prior to the effective time.

Upon the surrender of a certificate representing depositary receipts of Dorchester Hugoton to EquiServe, together with other documents as may be reasonably required by EquiServe, the Dorchester Hugoton limited partner will be entitled to receive:

- a certificate representing the number of our whole common units which that limited partner has a right to receive; and
- its share of the cash distributable to the non-dissenting partners of Dorchester Hugoton in liquidation.

Upon delivery, or deemed delivery to our partnership of a properly completed transfer application, any non-dissenting limited partner of Dorchester Hugoton who has been issued a certificate representing our common units will be admitted into our partnership as a limited partner in accordance with our Partnership Agreement. Prior to being admitted, each such person will have the rights of an assignee under our Partnership Agreement.

In the event of a transfer of ownership of Dorchester Hugoton depositary receipts that has not been registered in the transfer records of Dorchester Hugoton, a certificate representing the appropriate number of our common units may be issued to a transferee if the certificate representing the Dorchester Hugoton depositary receipts is presented to EquiServe, accompanied by all documents required to evidence and effect the transfer and to evidence that any applicable stock transfer taxes have been paid, along with a letter of transmittal duly executed by the transferee.

Until a certificate representing Dorchester Hugoton units has been surrendered to EquiServe, each Dorchester Hugoton certificate will be deemed at any time after the closing of the combination to represent only the right to receive the certificate representing the number of our common units and the cash to which the Dorchester Hugoton partner is entitled. In addition, until certificates representing Dorchester Hugoton depositary receipts and a properly executed letter of transmittal have been delivered in accordance with these procedures, the holder will not receive any distribution of assets of Dorchester Hugoton. Upon delivery of the certificates and the letter of transmittal, the former Dorchester Hugoton depositary receipt holder will receive our common units and his or her share of the cash distributable in liquidation, without interest.

Termination of Duties of Exchange and Liquidating Agent

Promptly following the six months anniversary of the combination, EquiServe will, in its capacity as exchange agent and liquidating agent, deliver to us, or to our transfer agent in accordance with our instructions, all cash, certificates and other documents and instruments in its possession relating to the combination. EquiServe's duties as exchange agent and liquidating agent will then terminate. Thereafter, each holder of a limited partnership interest in the combining partnerships will look only to us (or us through our transfer agent) for receipt of common units and their share of distributable cash.

Fractional Units

No certificates or scrip evidencing fractional common units will be issued, and no payments in respect of fractional common units will be made, to former limited partners of Republic or Spinnaker. In lieu of fractional

interests, former limited partners of Republic and Spinnaker will receive a number of common units rounded to the nearest whole unit, with half units being rounded up to the nearest whole unit. Because one common unit will be delivered for each depositary receipt of Dorchester Hugoton, no fractional common units will result.

Dissenters' Rights

The Combination Agreement provides that if either Dorchester Hugoton or Spinnaker receives approval of the combination by less than 75% of its partnership interests, the limited partners of Spinnaker or the holders of depositary receipts of Dorchester Hugoton, as applicable, will be entitled to dissenters' rights of appraisal in connection with the combination. We will be responsible for the payment of any dissenting limited partners or depositary receipt holders, but the amount payable will be funded by Dorchester Hugoton or Spinnaker or both, as applicable, and the final cash distributions to their respective depositary receipt holders or limited partners will be reduced by such amount.

In order to exercise the right to dissent, a limited partner of Spinnaker or a holder of depositary receipts of Dorchester Hugoton must deliver to the general partner of the applicable partnership, prior to the vote of the partnership to approve the combination, a written dissenter's notice advising of that limited partner's or depositary receipt holder's intention to demand a cash payment and to vote against approval of the combination. Such limited partner or depositary receipt holder must also in fact vote against the combination. A proxy or ballot voting against approval of the combination does not constitute the requisite dissenter's notice. Since a proxy returned but left blank will be voted as an approval of the combination, a limited partner or depositary receipt holder electing to exercise dissenter's rights who votes by proxy must not leave the proxy blank, but instead must vote against approval of the combination. Only the owner of record of the relevant partnership interest or depositary receipt is entitled to demand its rights as a dissenter.

In order for a dissenter's notice of a Dorchester Hugoton depositary receipt holder to be effective, the notice must include a duly executed original of an agreement of dissenter. In that agreement, the dissenting holder agrees that he or it will not be entitled to receive any of our assets or any common units, or any cash held by Dorchester Hugoton as of the closing date of the combination. The dissenting depositary receipt holder further agrees that he or it will be entitled solely to receive the amount provided in the Combination Agreement, and waives any right to any of our common units or any cash held by Dorchester Hugoton as of the closing date of the combination.

Within 10 days following the closing of the combination, we will notify any dissenting limited partners or depositary receipt holders who have properly perfected their dissenters' rights of the fact that they have perfected those rights. For a period of 30 days following the date of the dissenters' notice, either we or the dissenting limited partner or depositary receipt holder can propose and negotiate a price for the partnership interest. If agreement is not reached on a price within that 30 day period, we will choose an independent appraiser to determine the value of the dissenting limited partner's or depositary receipt holder's interest in the partnership, based on an appraisal of the applicable partnership's assets as if sold in an orderly manner in a reasonable period of time and in a manner consistent with industry practice. The independent appraiser will have 90 days to determine the value of the limited partner's or depositary receipt holder's interest in the partnership. If either Dorchester Hugoton or Spinnaker selects an independent appraiser so that the applicable partnership may make adequate provision for payments to dissenters, then we may use that appraisal for the purposes of determining the value of a depositary receipt holder's or a limited partner's interest in that partnership. The determination of the independent appraiser will be final. The amount determined by the independent appraiser will be paid by us within 15 days following the final determination, with interest from the closing date of the combination at the prime rate as published in the Wall Street Journal from time to time between the closing date of the combination and the payment date. We will pay all fees of the independent appraiser.

Each partner of Republic and the Republic ORRI owners must approve the Republic reorganization and the combination, or they will not occur. As a result, dissenters' rights are not provided for Republic.

Nasdaq Listing

We have applied to the Nasdaq National Market System for the listing of our common units to be issued in the combination under the proposed symbol "DMLP."

Interests of Certain Persons in the Combination

The general partners of the combining partnerships, and the individuals that own or manage the general partners, may have interests in the combination that differ from the interests of the limited partners of the combining partnerships. See "Conflicts of Interest" for a detailed description of these interests.

Resales of Common Units

Our common units to be issued in connection with the combination will be registered under the Securities Act. All units will be freely tradable after completion of the combination, except for common units issued to (i) any partner of a combining partnership that is an "affiliate" of a combining partnership, as applicable, for purposes of Rule 145 of the Securities Act or (ii) any partner that becomes an "affiliate" of our partnership after the combination. Persons that may be deemed to be "affiliates" of a combining partnership for such purposes generally include individuals or entities that control, are controlled by, or are under common control with the respective combining partnership and include the general partners of the combining partnerships as to both those partnerships and our partnership. The Combination Agreement requires each combining partnership to use reasonable efforts to cause each of its affiliates to execute a written agreement with us to the effect that they will not transfer any of our common units received in the combination, except pursuant to an effective registration statement under the Securities Act or in a transaction not required to be registered under the Securities Act.

Accounting Treatment

The combination will be accounted for using purchase accounting. Generally accepted accounting principles require that one of the companies in the combination be designated as the acquiror for accounting purposes. Dorchester Hugoton has been designated the acquiror because its depositary receipt holders are the ownership group that will receive the largest ownership interest in our partnership. The ownership interests held by the Republic ORRI owners are viewed individually for this purpose, notwithstanding that the Republic ORRI owners will contribute their overriding royalty interests to Republic in exchange for limited partner interests in connection with the Republic reorganization. The Republic reorganization is disregarded for this purpose because the Republic reorganization will occur immediately prior to or simultaneously with the combination. Republic and Spinnaker's properties will be recorded at fair value based on the market price of Dorchester Hugoton's depositary receipts immediately prior to the combination, subject to normal and customary adjustments.

Expenses and Fees

We estimate the costs and expenses to be incurred in connection with the combination to be approximately $2,733,110 as summarized below.

	Estimated Amount
SEC registration fee	$ 18,210
Voting Inspector	5,000
Nasdaq listing fees	100,000
Nasdaq annual fee	30,000
Legal fees	2,000,000
Accounting fees	391,000
Reserve report preparation fees	55,000
Printing costs	81,000
Solicitation expenses	20,000
Transfer agent fees	31,000
Miscellaneous other fees	1,900
Total	$2,733,110

All fees and expenses, including fees and expenses of counsel, engineers and accountants, incurred in connection with the Combination Agreement and the transactions contemplated thereby will be paid by the combining partnership incurring such fee or expense, whether or not the combination shall have occurred. However, all fees and expenses incurred after July 31, 2001, which are properly allocable to all combining partnerships as common costs will be borne in the following proportions:

Dorchester Hugoton	39%
Republic	41%
Spinnaker	20%.

To the extent any such transaction costs have not been paid by a combining partnership prior to the closing of the combination, that partnership must fund those costs at closing unless the other partnerships agree to allow the partnership to defer payment until after closing. In this case, if Republic or Spinnaker is the deferring partnership, it will retain and not distribute to its partners as excess cash amounts sufficient to fund those costs. If Dorchester Hugoton is the deferring partnership, it will transfer to us an amount sufficient to fund those costs.

We estimate that approximately $1,977,110 of the total costs and expenses listed above would be considered common costs. Other non-common costs included in the total given above that have been or will be borne separately by the combining partnerships are estimated to be as follows.

Dorchester Hugoton	$562,000
Republic	130,000
Spinnaker	64,000
Total	$756,000

If the combination is not approved, the general partners of Dorchester Hugoton and Spinnaker have agreed in response to the requirements of the Nasdaq National Market System to bear a portion of the transaction costs and expenses to be borne by their respective partnerships. In the case of each of Dorchester Hugoton and Spinnaker, the general partner(s) of each partnership has agreed that if the limited partners of that partnership vote to reject the combination in such amounts as would cause the combination not to be approved pursuant to

the terms of that partnership's governing documents and applicable law, that partnership's transaction costs shall be apportioned between the general partners and limited partners of that partnership as follows:

- the general partners of that partnership bear that partnership's transaction costs in proportion to the amount of limited partner interests of that partnership voted against the combination or abstaining from the vote; and

- the limited partners of that partnership bear that partnership's transaction costs in proportion to the amount of limited partner interests of that partnership voted for the combination.

There are currently no limited partners of Republic, and the private reorganization of Republic will not occur unless all parties who would become limited partners of Republic immediately prior to the combination approve the transactions. Accordingly, if the combination does not occur, there will be no limited partners of Republic with whom the general partners would split transaction costs. Holders of Dorchester Hugoton's depositary receipts and limited partnership interests in Spinnaker will be considered to have abstained only if they provide affirmative instruction to abstain.

Additional Agreements

Each of the combining partnerships have agreed to:

- the continued post-closing indemnification of partners, affiliates of partners, directors, officers and employees of each of the combining partnerships by our partnership;

- the post-closing indemnification of our partnership by an affiliate of Republic with respect to certain litigation; and

- terminate the employment of all employees and discharge all obligations under certain employee benefit plans and cause Dorchester Minerals Operating LP to offer continued employment to terminated employees and assume any obligations under employee plans that will continue.

FAILURE TO APPROVE THE COMBINATION

If any one of the combining partnerships fails to approve the combination, the combination will not be consummated. If the combination is not consummated, each combining partnership will continue in its business as previously conducted. The general partners of each of the combining partnerships may, if the combination is not consummated, explore other alternatives, such as a sale to a third party or another business combination, but there is no assurance that they could find a third party interested in such a transaction or that the terms and conditions of any such transaction would be as favorable as the terms offered pursuant to the proposed combination. Prior efforts by the combining partnerships in respect of strategic alternatives did not produce any proposal for a transaction consistent with its partners' objectives other than the combination.

If the combination is not approved by the requisite vote of the limited partners of each of the combining partnerships, costs and expenses incurred in connection with the proposed combination will be borne by the combining partnerships as described under "The Combination Agreement--Expenses and Fees" beginning at page 70. As described in that section, the general partners of Dorchester Hugoton and Spinnaker may in some cases bear directly some of the costs allocated to their partnership.

SPECIAL MEETINGS OF THE COMBINING PARTNERSHIPS AND CONSENT SOLICITATION MATTERS

General

Separate special meetings of the Dorchester Hugoton and Spinnaker are being called by the applicable general partner(s) for limited partners to consider and vote to approve or disapprove of the combination agreement, and the transactions contemplated by it, and to transact such other business as may be properly presented at the special meeting or any adjournments or postponements of the meeting. The general partners of Republic are furnishing this document to all parties who, upon consummation of the Republic reorganization and immediately prior to the combination, will be limited partners of Republic, in order to solicit the approval of the combination agreement and transactions contemplated by it.

Dorchester Hugoton's special meeting will be held on , at a.m. at , Dallas, Texas .

Spinnaker's special meeting will be held on , at a.m. at , Dallas, Texas .

The consent cards relating to the Republic consent solicitation should be returned as soon as possible, but no approval will become effective until at least 60 calendar days after the date this document is mailed to the applicable Republic parties.

Voting Rights

Each limited partner appearing on the records of each of Dorchester Hugoton and Spinnaker as of , 2002 and , respectively, is entitled to notice of the applicable special meeting and is entitled to vote his partnership interests at the applicable special meeting or any adjournments of such special meeting. The general partners of Republic are soliciting consent of the parties who would become limited partners of Republic in the Republic reorganization had it occurred on , 2002.

Each partnership is voting separately on the combination. Accordingly, not all of the combining partnerships may approve the combination. The combination will not occur unless all of the combining partnerships approve the combination. Limited partners in Dorchester Hugoton and Spinnaker, and the applicable Republic parties, may vote "FOR" or "AGAINST" their respective partnership participating in the combination.

Proxy Forms and Revocation of Proxies (applies to Dorchester Hugoton and Spinnaker only)

The proxy form to be used to register your vote on the combination involving your partnership is included with this document. Please use the proxy form to cast your vote on the combination.

A limited partner or depositary receipt holder of record may grant a proxy to vote for or against, or may abstain from voting on, the combination. To be effective for purposes of granting a proxy to vote on the combination, a proxy card must be properly completed, executed and delivered to EquiServe Trust Company, N.A., in person or by mail, telegraph, telex or facsimile before the special meeting of the partnership. All partnership interests represented by properly executed proxies will, unless these proxies have been previously revoked, be voted in accordance with the instructions indicated in these proxies. If no instructions are indicated, the partnership interests will be voted for approval and adoption of the combination. A properly executed proxy marked abstain is counted as present for purposes of determining the presence or absence of a quorum at the special meeting for the applicable combining partnership, but will not be voted. Accordingly, abstentions have the same effect as a vote against the combination.

Brokers, if any, who hold depositary receipts of Dorchester Hugoton in street name for customers have the authority to vote on "routine" proposals when they have not received instructions from beneficial owners. However, these brokers are precluded from exercising their voting discretion with respect to the approval and adoption of non-routine matters such as the combination and thus, absent specific instructions from the beneficial owner of the Dorchester Hugoton depositary receipts, brokers are not empowered to vote the Dorchester Hugoton depositary receipts with respect to the combination. These "broker non-votes" will have the effect of a vote against the combination.

You may revoke your proxy you have given at any time before that proxy is voted at the applicable special meeting by:

- giving written notice of revocation to the general partner(s) of the applicable combining partnership;
- signing and returning a later dated proxy; or
- voting in person at the special meeting.

Your notice of revocation will not be effective until the general partner(s) of the applicable combining partnerships receives it at or before the special meeting. Your presence at any special meeting will not automatically revoke your proxy in a proxy card. Revocation during any such special meeting will not affect votes previously taken. You may deliver your written notice of revocation in person or by mail, telegraph, telex or facsimile. Any written notice of revocation must specify your name and limited partner number as shown on your proxy card and the name of the combining partnership to which such revocation relates.

Action by Written Consent (applies to Republic only)

The partnership interests in Republic deemed to be represented by each executed consent submitted with respect to the proposal will be deemed to have approved and consented to the proposal. Approval of the proposal relating to the combination will be deemed to be obtained once consents have been received and not revoked from all parties who will become limited partners of Republic upon completion of the Republic reorganization, in connection with the combination. In no event will this be sooner than 60 days after the date on which the mailing of this document is complete. If a Republic party does not send in the consent card, it will have the same effect as a vote against the proposal relating to the transaction. Therefore, we urge all applicable Republic parties to complete, date, sign and return the enclosed consent card as soon as possible.

The Republic parties may revoke their consent at any time before the approval of the proposal by the applicable parties. To revoke a consent, file with the party designated below a written notice stating that you would like to revoke your consent. You can also revoke your consent, or any withholding of consent, by filing another form of written consent bearing a date later than the date of the consent. Revocations should be sent to SAM Partners, Ltd. at the following address: 3738 Oak Lawn, Suite 300, Dallas, Texas 75219.

Solicitation

The general partner(s) of the applicable combining partnerships are soliciting your proxy or written consent, as applicable, pursuant to this document. The aggregated estimated expenses and fees of the combination that have been allocated to each combining partnership include those in connection with the solicitation of the enclosed proxy as described below.

Dorchester Hugoton has retained D.F. King & Co., Inc. to assist in the solicitation of proxies from its depositary receipt holders. The total fees and expenses of D.F. King & Co., Inc. are estimated to be $20,000. In addition to solicitation by use of the mail, proxies may be solicited by D.F. King & Co., Inc. and by directors, officers and employees of the combining partnerships and by their respective general partners in person or by telephone, telegram, facsimile or e-mail. The directors, officers and employees will not be additionally compensated, but may be reimbursed for out-of-pocket expenses incurred in connection with the solicitation.

Arrangements may also be made with other brokerage firms, banks, custodians, nominees and fiduciaries for the forwarding of proxy solicitation materials to owners of Dorchester Hugoton limited partnership interests held of record by those persons.

Voting Requirements

Approval of the combination by Spinnaker requires the approval of the general partner of Spinnaker and approval of holders of at least 85.9883% of the sharing percentages of Spinnaker. Approval of the combination by Dorchester Hugoton requires approval of both general partners and holders of more than 50% of the depositary receipts of Dorchester Hugoton. Approval of the combination by Republic requires approval of both general partners and the approval of all limited partners, after giving effect to the Republic reorganization description on page 56. If any one combining partnership fails to receive approval of the combination, the combination will not be consummated.

Procedures for Exercise of Dissenters' Rights of Appraisal

As a condition to being quoted in the Nasdaq National Market System, Nasdaq requires that limited partners in transactions such as the combination must be provided with appraisal rights under certain conditions. Accordingly, limited partners of Dorchester Hugoton and Spinnaker are entitled to such rights. The combination requires the approval of all of the Republic limited partners. Please see the discussion at "The Combination--Dissenters' Rights" beginning on page 68 of this document.

Access to Investor List/Rights of Inspection

Under the Depositary Agreement of Dorchester Hugoton, the list of depositary receipt holders of record is open at all reasonable times for inspection by record holders of depositary receipts, but such inspection may not be for the purpose of communicating with holders in the interest of a business or object other than the business of Dorchester Hugoton or a matter relating to the Depositary Agreement or the depositary receipts. In addition, under the partnership agreement of Dorchester Hugoton, the books and records of the partnership are open to inspection, audit and copying by any partner, depositary receipt holder or designated representative, at all reasonable times during any business day, at the expense of such partner.

Under the partnership agreement of Spinnaker, limited partners of Spinnaker have the right to inspect and copy a current list of the name and last known address of each partner and the percentage interests in the partnership owned by each partner. A limited partner may exercise this right on written request stating the purpose of the inspection. The inspection must be at a reasonable time and at the limited partner's expense.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

In General

The following discussion is a general summary of the material United States federal income tax considerations that may be relevant to the depositary receipt holders and partners of Republic, Spinnaker and Dorchester Hugoton who are individual citizens and residents of the United States. In this discussion and unless otherwise noted, the term partner will be used to describe the partners and depositary receipt holders of Republic, Spinnaker and Dorchester Hugoton, and the term partnership interests will include partnership interest and units in Republic, Spinnaker and Dorchester Hugoton. Unless otherwise noted, this discussion expresses the opinions of both Locke Liddell & Sapp LLP, counsel to Dorchester Hugoton, and Thompson & Knight L.L.P., counsel to Republic, Spinnaker, and our partnership, insofar as they relate to legal conclusions with respect to the material United States federal income tax consequences to the partners of the combining partnerships as a result of the combination.

In rendering these opinions, counsel has examined such documents as counsel has deemed relevant or necessary, including, but not limited to (i) the Combination Agreement, (ii) the Partnership Agreement, (iii) the provisions of this prospectus, and (iv) such other documents, records, certificates and instruments as counsel has deemed necessary or appropriate in order to enable them to render their opinions, and counsel's opinions are conditioned upon (without any independent investigation or review thereof) the truth and accuracy, at all relevant times, of the representations and warranties, covenants and statements contained therein.

The opinion of Locke, Liddell & Sapp LLP is also subject to, and conditioned upon, the receipt by counsel of certain written tax representation letters from Dorchester Hugoton, Republic, Spinnaker and us, all dated May 15, 2002, certifying as to certain factual matters relevant to the federal income tax treatment of the matters discussed in this document. The initial and continuing truth and accuracy of the representations contained in these tax representation letters constitutes an integral basis for the opinions expressed herein and these opinions are conditioned upon the initial and continuing truth and accuracy of these representations.

This discussion focuses on individual partners who are citizens or residents of the United States and, except as otherwise provided, has only limited application to corporations, partnerships, limited liability companies, estates, trusts, nonresident aliens, or other partners subject to specialized tax treatment, including, without limitation, individual retirement and other tax-deferred accounts, banks and other financial institutions, insurance companies, tax-exempt organizations, dealers, brokers or traders in securities or currencies, persons subject to the alternative minimum tax, persons who hold their partnership interests as part of a straddle, hedging, synthetic security, conversion transaction or other integrated investment consisting of the partnership interests and one or more other investments, persons whose functional currency is other than the United States dollar, persons who received their partnership interests as compensation in connection with the performance of services or on exercise of options received as compensation in connection with the performance of services and persons eligible for tax treaty benefits.

Each partner should consult its tax advisor to determine the United States federal, state, local and foreign tax consequences of the transactions applicable to it.

The discussion does not intend to be exhaustive of all possible tax considerations. For example, the discussion does not contain a description of any state, local or foreign tax considerations (except where otherwise specifically noted in this document). In addition, the summary discussion is intended to address only those United States federal income tax considerations that are generally applicable to a United States partner who holds its partnership interest (or common units after the combination) as a capital asset, and it does not discuss all aspects of United States federal income taxation that might be relevant to a specific United States partner in light of particular investment or tax circumstances.

The information in the discussion is based on the federal income tax laws as of the date of this document, which include:

- the Internal Revenue Code;
- current, temporary and proposed Treasury regulations promulgated under the Internal Revenue Code;
- the legislative history of the Internal Revenue Code;
- current administrative interpretations and practices of the Internal Revenue Service, or IRS, (including its practices and policies as expressed in private letter rulings, which are not binding on the IRS except with respect to a taxpayer that receives such a ruling); and
- court decisions.

No ruling has been or will be requested from the IRS regarding any matter affecting the combining partnerships, our partnership or their partners. Accordingly, the opinions and statements made in this discussion

may not be sustained by a court if contested by the IRS. Furthermore, there is a risk that future legislation, Treasury regulations, administrative interpretations or court decisions will significantly change the current law or adversely affect existing interpretations of the federal income tax laws. Any change could apply retroactively to transactions preceding the date of the change.

For the reasons described below, counsel is not rendering an opinion with respect to the following specific United States federal income tax issues:

- the treatment of assignees of common units who fail to execute and deliver transfer applications (see "Consequences of Ownership of Our Common Units After the Combination--Classification of Unitholders and Assignees for Federal Income Tax Purposes");

- the validity of our partnership's monthly convention for allocating taxable income and loss between transferors and transferees of our common units (see "Consequences of Ownership of Our Common Units After the Combination--Tax Allocations by Us to Unitholders--Allocations between Transferors and Transferees");

- the validity of our partnership's method for allocating depletion deductions with respect to contributed mineral properties (see "Consequences of Ownership of Our Common Units After the Combination--Tax Allocations by Us to Unitholders--Tax Allocations with Respect to Book-Tax Difference on Contributed Properties");

- the availability and extent of percentage depletion deductions to the holders of our common units (see "Consequences of Ownership of Our Common Units After the Combination--Partnership Income, Gains/Losses and Depletion");

- the validity of our partnership's depletion, depreciation and amortization deductions relating to adjustments under Section 743(b) of the Internal Revenue Code (see "Consequences of Ownership of Our Common Units After the Combination--Section 754 Election");

- the treatment of a unitholder of our partnership whose common units are loaned to a short seller to cover a short sale of those common units (see "Consequences of Ownership of Our Common Units After the Combination--Treatment of Short Sales"); and

- the validity of our partnership's adoption of a convention that will enable you to track basis of your individual common units or unit groups (see "Consequences of Ownership of Our Common Units After the Combination--Disposition of Our Common Units").

The discussion is not intended to be, and should not be construed by the partners of the combining partnerships, and our partnership as, tax advice. Therefore, each partner is urged to consult with its tax advisor to determine the United States federal, state, local and foreign tax consequences of the transactions and the ownership of our common units, including the particular facts and circumstances that may be unique to the partner.

Consequences of Pre-Combination Transactions

Consequences of Creation of Dorchester Hugoton ORRIs by Dorchester Hugoton

Prior to the combination, Dorchester Hugoton will convey its working interest in its mineral properties to Dorchester Minerals Operating LP and retain an overriding royalty interest in the properties, referred to as the Dorchester Hugoton ORRIs. This transfer should be treated, for federal income tax purposes, as a lease of the working interest from Dorchester Hugoton to Dorchester Minerals Operating LP and should not cause the Dorchester Hugoton partners to recognize taxable gain or loss at the time of the transfer. There is no assurance that the IRS will not challenge this position. Such a challenge, if successful, could cause the Dorchester Hugoton partners to recognize more taxable income or a taxable loss as a result of the combination.

Consequences to Dorchester Hugoton Partners of Pre-Combination Stock Sale by Dorchester Hugoton

Prior to the combination, Dorchester Hugoton intends to sell 128,000 shares of Exxon Mobil stock with an average cost basis of $19.67 per share. As a result, Dorchester Hugoton will recognize long term capital gain in an amount equal to the difference between the amount realized on the sale and Dorchester Hugoton's adjusted tax basis in the stock. This gain will be allocated among Dorchester Hugoton's partners and be included in their gross income as long term capital gain for federal income tax purposes. Some unitholders received adjustments in their share of the basis of the Exxon Mobil stock under Section 743 of the Internal Revenue Code. As a result of those adjustments, those partners will be allocated more or less gain than other partners holding the same number of Dorchester Hugoton units, or may be allocated a loss, from the sale of the Exxon Mobil stock. Dorchester Hugoton will report information relating to the amount of gain or loss allocated to each partner to assist them in preparing their individual income tax returns.

Consequences to Partners and Republic ORRI Owners of Pre-Combination Reorganization of Republic

Prior to the combination, Republic will reorganize as a limited partnership. Simultaneously, the Republic ORRIs owners will contribute the Republic ORRIs to Republic in exchange for limited partnership interests in the reorganized Republic. None of Republic, the existing partners of Republic, or the Republic ORRI owners will recognize any gain or loss for federal income tax purposes as a result of either the reorganization or the exchange.

Each Republic ORRI owner who receives a limited partner interest in the reorganized Republic will have an initial tax basis in its limited partner interest equal to the adjusted tax basis in the Republic ORRIs exchanged by the limited partner. In addition, each limited partner will have a holding period in its limited partnership interest in the reorganized Republic equal to the holding period in the Republic ORRIs exchanged by the limited partner. The tax basis and the holding period of the partnership interest of each existing Republic partner will remain unchanged as a result of the reorganization.

Locke Liddell & Sapp LLP is not rendering an opinion with respect to the tax consequences to Republic, the existing partners of Republic, or the Republic ORRI owners as a result of the reorganization of Republic.

Consequences to Partners of Republic and Spinnaker of Pre-Combination Distributions of Cash by Republic and Spinnaker

Prior to the combination, Republic and Spinnaker each will distribute cash to its partners in proportion to their partnership interests. No partner of Republic or Spinnaker will recognize any gain or loss for federal income tax purposes as a result of these distributions except to the extent that the amount of cash received by the partner exceeds the partner's adjusted tax basis in its partnership interest at the time of the distribution. Cash distributions that exceed a partner's basis will be treated as long term capital gain, taxed at a maximum 20% federal tax rate if the partner is an individual, to any partner who held its partnership interest for more than one year. Otherwise, any gain will be taxed at rates applicable to ordinary income. As a result of the distribution, each partner's adjusted tax basis in its partnership interest in Republic or Spinnaker, as applicable, will be reduced (but not below zero) by the amount of cash received.

Consequences of the Combination

In General

Pursuant to the combination, Republic and Spinnaker will each merge with and into our partnership, with our partnership surviving. As a result of these mergers, the limited partner interests held by the limited partners of Republic and the non-dissenting limited partners of Spinnaker will be converted into our common units and the general partner interests held by the general partners of Republic and Spinnaker will be converted into general partner interests in our partnership. For federal income tax purposes, Republic and Spinnaker each will

be considered to terminate as a result of the mergers, and the following steps will be deemed to occur: (i) Republic and Spinnaker each will be deemed to have transferred all of its assets and liabilities to us in exchange for common units and general partner interests in our partnership; and (ii) immediately thereafter, Republic and Spinnaker each will be deemed to have distributed these common units and general partner interests to the non-dissenting limited partners and general partners of Republic and Spinnaker in liquidation of Republic and Spinnaker.

Also pursuant to the combination, and simultaneously with the mergers described above, Dorchester Hugoton will contribute to us the Dorchester Hugoton ORRIs and other assets not conveyed to Dorchester Minerals Operating LP or distributed to the partners of Dorchester Hugoton in exchange for our common units and the assumption by us of the balance of Dorchester Hugoton's obligations and liabilities. Following this contribution and assumption, after making any necessary payments to its creditors, Dorchester Hugoton will distribute its remaining cash and our common units to its non-dissenting depositary receipt holders and general partners in liquidation of Dorchester Hugoton. The liquidation of Dorchester Hugoton will not be taxable to its non-dissenting partners except to the extent that any cash distributed to a partner in the liquidation exceeds the partner's tax basis in his partnership interest. Cash distributions in excess of a partner's basis will be treated as long term capital gain, taxed at a maximum 20% federal tax rate, if the partner is an individual who held his units for more than one year. Otherwise the gain will be taxed at rates applicable to ordinary income.

The tax consequences of the combination to the dissenting partners of Spinnaker and Dorchester Hugoton are discussed separately below. See "Consequences of the Combination--Consequences to Dissenting Partners" below.

Nonrecognition of Gain or Loss by the Combining Partnerships and their Non-Dissenting Partners

None of the combining partnerships or our partnership will recognize any material amount of gain or loss for federal income tax purposes as a result of the combination. Likewise, no non-dissenting partner of the combining partnerships will recognize any gain or loss for federal income tax purposes as a result of the combination except to the extent that any such partner receives distributions of cash in excess of his adjusted tax basis in his interest in a combining partnership as described above. Even though a partner of a combining partnership may not recognize taxable gain at the time of the combination, the occurrence of subsequent events could cause the partner to recognize all or part of the gain that was deferred in the combination. See "Consequences of the Combination--Effects of Post-Combination Transactions on Consequences to Non-Dissenting Partners" below.

Tax Basis and Holding Period of Our Partnership in Our Assets and of Non-Dissenting Partners in Our Common Units

We will have an initial tax basis in the assets we receive in the combination equal to the adjusted tax basis of those assets immediately prior to the combination. Each partner will have an initial tax basis in our common units equal to the adjusted tax basis of the partner in its partnership interest in the applicable combining partnership immediately prior to the combination, adjusted as follows:

- the tax basis of each partner will be increased by the increase, if any, in its share of partnership liabilities as a result of the combination; and

- the tax basis of each partner will be decreased both by the decrease, if any, in its share of partnership liabilities as a result of the combination and by the amount of any cash distributed to the partner in the combination.

Our initial holding period in the assets we receive in the combination will include the holding periods of the applicable combining partnership, with respect to those assets at the time of the combination. The initial holding

period of each partner in our common units will include the holding period of the partner in its partnership interest in the applicable combining partnership.

Limitations with Respect to Suspended Passive Activity Losses

In general, individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities only to the extent of any income from passive activities. The passive activity loss limitations apply to losses allocated to limited partners of a partnership and are applied separately with respect to each publicly traded partnership. Because Dorchester Hugoton is a publicly traded partnership engaged in a trade or business, the passive activity loss limitation rules apply to some of the partners of Dorchester Hugoton. Consequently, any passive losses relating to a partnership interest held by a Dorchester Hugoton partner are only available to offset passive income of Dorchester Hugoton allocated to the partner and will not be available to offset income from other activities or investments (whether passive or active).

Passive losses relating to an interest in a publicly traded partnership that are not deductible may be deducted in full when the taxpayer disposes of all of its interest in the partnership in a fully taxable transaction with an unrelated party. A partner may also deduct otherwise suspended passive losses to the extent the partner receives a distribution of money in excess of its adjusted tax basis in its partnership interest. The exchange of Dorchester Hugoton depositary receipts for our common units will not constitute a taxable disposition.

We do not anticipate that we will generate any passive activity income. Instead, we anticipate that our income will consist primarily of royalty income, which does not constitute passive activity income and may not be used to offset passive activity losses. Therefore, except to the extent a Dorchester Hugoton partner receives cash in excess of the adjusted tax basis in its partnership interest upon the liquidation of Dorchester Hugoton, any suspended passive activity losses that the partner has at the time of the combination will continue to be suspended until the partner disposes of our common units in a fully taxable transaction with an unrelated third party.

It is uncertain whether the recognition by one of our partners who was a partner of Dorchester Hugoton of any Built-in Gain inherent in assets contributed to us by Dorchester Hugoton will constitute gain from a passive activity against which the partner's suspended passive activity losses may be applied. See "Consequences of Ownership of Our Common Units After the Combination--Tax Allocations by Us to Unitholders--Tax Allocations with Respect to Book-Tax Difference on Contributed Properties" below.

Effect of Closing Tax Years for the Combining Partnerships

The termination of Republic and Spinnaker for federal income tax purposes will result in a closing of each of Republic's and Spinnaker's taxable year as of the date of the combination. The dissolution and liquidation of Dorchester Hugoton also will result in a closing of Dorchester Hugoton's taxable year at the time of its liquidation. As a result, if a partner has a taxable year that ends after the date of the combination or liquidation, as applicable, but before December 31, 2002, that partner will be required to include in the same taxable year its allocable share of income, gain, loss, deduction, credits and other items of the applicable combining partnership, from both the taxable year ending December 31, 2001 and the short taxable year ending at the time of the combination (in the case of Republic and Spinnaker) or the liquidation of Dorchester Hugoton, as applicable.

Effects of Post-Combination Transactions on Consequences to Non-Dissenting Partners

Even if the partners of the combining partnerships are not required to recognize taxable gain at the time of the combination, a subsequent sale of assets could cause a former partner of a combining partnership that continues as a unitholder of our partnership to recognize part or all of such gain. If, following the combination, we sell an asset that, prior to the combination, was held by a combining partnership, the former partners of the partnership which originally contributed the property to us will be allocated, for federal income tax purposes, the

portion of the gain from the sale that is attributable to any remaining unrealized gain that existed when the asset was contributed to us. Those former partners that are specially allocated gain under these rules would report the additional gain on their own federal income tax returns, but would not be entitled to any special distributions from us in connection with a sale by us of any assets of the former partnership. Thus, the former partners may not receive cash distributions from us sufficient to pay their additional taxes if we sell properties that we acquired pursuant to the combination. For a discussion of the impact to our unitholders of unrealized gain in the absence of a sale, see "Consequences of Ownership of Our Common Units After the Combination--Tax Allocations by Us to Unitholders--Tax Allocations with Respect to Book-Tax Difference on Contributed Properties."

As a general rule, our general partner is not required to take into account the tax consequences to, or obtain the consent of, our unitholders in deciding whether to cause us to undertake specific transactions that could have adverse tax consequences to our unitholders. Our general partner has not made any commitment to the combining partnerships or any of the partners of the combining partnerships not to undertake transactions that will cause the former partners of the combining partnerships to recognize all or part of the taxable gain that was deferred through the combination.

Consequences to Dissenting Partners

A Spinnaker or Dorchester Hugoton partner who exercises its dissenters' rights with respect to the combination will not receive any of our common units, but instead will receive a certain amount of cash in exchange for its partnership interest in Spinnaker or Dorchester Hugoton, as applicable. The partner will recognize taxable gain to the extent that the amount of cash received exceeds the adjusted tax basis in its partnership interest in Spinnaker or Dorchester Hugoton, as applicable, and the partner will recognize taxable loss to the extent that the adjusted tax basis in its partnership interests in Spinnaker or Dorchester Hugoton exceeds the amount of cash received. This gain or loss generally will be capital gain or loss. Any capital gain will be taxed at a maximum federal rate of 20% if the partner is an individual and has held the partnership interest for more than one year. However, to the extent of the dissenting partner's percentage share of Dorchester Hugoton's unrealized receivables and substantially appreciated inventory items (which include depreciation, depletion and intangible drilling cost recapture), the dissenting partner will have ordinary income. Ordinary income attributable to unrealized receivables and substantially appreciated inventory items may exceed the net taxable gain realized by the dissenting partner upon the exchange of its interest and may be recognized even if there is a net taxable loss realized on the exchange of its interests. Thus, a dissenting partner may recognize both ordinary income and a capital loss upon a disposition of its interest. Net capital loss may offset no more than $3,000 of ordinary income in the case of individuals and may only be used to offset capital gain in the case of corporations.

Consequences of Ownership of Our Common Units After the Combination

Classification of Our Partnership as a Partnership for Federal Income Tax Purposes

The Treasury regulations provide that a domestic business entity not otherwise classified as a corporation with at least two members will be classified as a partnership for federal income tax purposes, unless it elects to be classified as an association taxable as a corporation. We have not made, and will not make, an election to be classified as an association. Therefore, subject to the discussion below with respect to publicly traded partnerships, we will be treated as a partnership for federal income tax purposes and will not be a taxable entity subject to federal income tax. Instead, each of our unitholders will be required to take into account its allocable share of our items of income, gain, loss, deduction and credit in computing its federal income tax liability, even if no cash distributions are made. Distributions by us to a unitholder generally will not be taxable unless the amount of cash distributed is in excess of the unitholder's adjusted tax basis in its common units.

However, Section 7704 of the Internal Revenue Code provides that a publicly traded partnership will be taxed as a corporation, unless a certain percentage of its income consists of qualifying income. A partnership constitutes a publicly traded partnership if the interests in the partnership are traded on an established securities market. Because our common units will be traded on the Nasdaq National Market System, we will be a publicly traded partnership for federal income tax purposes.

A publicly traded partnership will not be taxed as a corporation if 90% or more of the partnership's gross income for every taxable year consists of qualifying income. Qualifying income includes income and gains from the exploration, development, mining or production, processing, refining, transportation or marketing of any mineral or natural resource. Gains from the sale of an asset used in the production of this type of income also will be qualifying income. The combining partnerships anticipate that at least 90% of our income will constitute income from its various interests in oil and natural gas properties, including royalties and net profits interests. Based upon and subject to this estimate, the factual representations made by the combining partnerships and a review of the applicable legal authorities, counsel is of the opinion that more than 90% of our gross income will constitute qualifying income.

No ruling has been or will be sought from the IRS and the IRS has made no determination as to our status for federal income tax purposes. Instead, the combining partnerships will rely on the opinion of counsel that, based upon the Internal Revenue Code, applicable regulations, published revenue rulings and court decisions and the representations described below, we will be classified as a partnership and will not be taxed as a corporation for federal income tax purposes. In rendering its opinion, counsel is relying on the following factual representations made by us:

- we will not elect to be treated as an association taxable as a corporation; and

- for each taxable year, more than 90% of our gross income will constitute income that counsel has opined or will opine is qualifying income within the meaning of Section 7704(d) of the Internal Revenue Code.

If we fail to meet the qualifying income exception, other than a failure which is determined by the IRS to be inadvertent and which is cured within a reasonable time after discovery, we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the qualifying income exception, in return for stock in that corporation, and then distributed that stock to our unitholders and the general partner in liquidation of their common units and partnership interests in our partnership. This contribution and liquidation should be tax-free to our unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

If we were taxable as a corporation in any taxable year, either as a result of a failure to meet the qualifying income requirement or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to our unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution made to a unitholder would be treated as either taxable dividend income to the extent of our current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder's tax basis in our common units, or taxable capital gain, after the unitholder's tax basis in our common units is reduced to zero. Accordingly, taxation of our partnership as a corporation would result in a material reduction in a unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of our common units.

The discussion below is based on the conclusion that we will be classified as a partnership for federal income tax purposes and will not be taxed as a corporation under Section 7704 of the Internal Revenue Code.

Classification of Unitholders and Assignees for Federal Income Tax Purposes

Our unitholders generally will be treated as partners of our partnership for federal income tax purposes, including those unitholders whose common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common units.

A purchaser or other transferee of common units who does not advise us of its ownership of common units directly or through its broker may not receive some federal income tax information or reports furnished to record

unitholders unless the common units are held in a nominee or street name account with a qualified securities broker. As there is no direct authority addressing ownership by these persons, counsel's opinion does not extend to these persons.

A beneficial owner of common units whose common units have been transferred to a short seller to complete a short sale would appear to lose its status as a partner with respect to those common units for federal income tax purposes. See "--Consequences of Ownership of Our Common Units After the Combination--Treatment of Short Sales."

Income, gain, deduction or losses would not be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore be fully taxable as ordinary income. Each prospective unitholder of our partnership should consult its tax advisor with respect to its status as a partner in our partnership for federal income tax purposes.

Tax Allocations by Us to Unitholders

In General

Each unitholder of our partnership will be required to report on its income tax return its allocable share of our income, gains, losses, deductions and credits. Each unitholder of our partnership will be required to include these items on its federal income tax return even if the unitholder has not received any cash distributions from us. For each taxable year, we will be required to furnish each unitholder of our partnership with a Schedule K-1 tax statement that sets forth the unitholder's share of any of our income, gains, losses, deductions and credits. Our partnership itself will not be required to pay any federal income tax.

Allocations of Income, Gain, Loss and Deductions.

Our Partnership Agreement will generally provide that our net income and net losses will be allocated to the unitholders and our general partner in accordance with their percentage interests.

Under Section 704(b) of the Internal Revenue Code, our allocation of any item of income, gain, loss or deduction to a unitholder will be given effect for federal income tax purposes so long as it has substantial economic effect, or is otherwise in accordance with the unitholder's interest in our partnership. If an allocation of an item does not satisfy this standard, it will be reallocated among the unitholders and our general partner on the basis of their respective interests in our partnership, taking into account all facts and circumstances. Except as provided below in "--Allocations between Transferors and Transferees" and "--Tax Allocations with Respect to Book-Tax Difference on Contributed Properties," counsel is of the opinion that the allocations under our Partnership Agreement will be given effect for federal income tax purposes in determining a unitholder's allocable share of an item of income, gain, loss or deduction.

Allocations between Transferors and Transferees

In general, each of our items of income, gain, loss and deduction will, for federal income tax purposes, be determined on at least a quarterly basis and, if quarterly, one third of each quarterly amount will be allocated to those unitholders who hold common units on the last business day of each month in that quarter. However, the items for the period beginning on the date the combination is consummated, referred to as the closing date, and ending on the last day of the calendar quarter in which the closing date occurs will be apportioned equally to each month ending in that quarter after the closing date and allocated to the unitholders on the last business day of each such month; and provided, that gain or loss on a sale or other disposition of any of our assets or any other extraordinary item of income or loss realized and recognized other than in the ordinary course of business, as determined by our general partner in its sole discretion, will be allocated to our unitholders and general partner on the last business day of the month in which the gain or loss is recognized for federal income tax purposes. As

a result, a unitholder who acquires its common units in the open market may be allocated our items of income, gain, loss and deduction realized by us prior to the date of acquisition. However, in certain circumstances we may make these allocations in connection with extraordinary or nonrecurring events on a more frequent basis.

Due to the absence of specific authority on the utilization of the above method by a publicly traded limited partnership such as our partnership, counsel is unable to opine on the validity of this method of allocating our income, gain, loss and deduction between the transferors and the transferees of our common units. If this method is determined to be an unreasonable method of allocation, our income, gain, loss and deduction would be reallocated among the unitholders and our general partner. Our general partner is authorized to revise the method of allocation between transferors and transferees, as well as among unitholders whose common units otherwise vary during a taxable period, to conform to a method permitted or required by the Internal Revenue Code and applicable regulations or rulings.

A unitholder who transfers or acquires common units should consult with its tax advisor with respect to the proper reporting of its allocable share of our items of income, gain, loss and deduction during the month in which the common units are acquired or transferred.

Tax Allocations with Respect to Book-Tax Difference on Contributed Properties

Pursuant to Section 704(c) of the Internal Revenue Code, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for a partnership interest in the partnership must be allocated so that the contributing partner is charged with, or benefits from, respectively, the unrealized gain or unrealized loss associated with the property at the time of its contribution to the partnership. The amount of unrealized gain or unrealized loss is generally equal to the difference between the property's fair market value and its adjusted tax basis at the time of the initial contribution and is referred to as Built-in Gain and Built-in Loss, respectively. If property with Built-in Gain or Built-in Loss is sold by the partnership, then the gain or loss recognized by the partnership is required to be allocated to the contributing partner in an amount that takes into account the Built-in Gain or Built-in Loss.

The Treasury regulations require a partnership to make allocations under Section 704(c) of the Internal Revenue Code using any reasonable method consistent with the provisions of Section 704(c) of the Internal Revenue Code and describe three different methods for taking any Built-in Gain or Built-in Loss into account that are presumed to be reasonable for purposes of Section 704(c) of the Internal Revenue Code. The Treasury regulations also provide that other methods may be reasonable in appropriate circumstances.

Under Section 613A(c)(7)(D) of the Internal Revenue Code tax depletion on oil and natural gas property held by a partnership is computed separately by each partner outside the partnership based on the partner's share of the partnership's adjusted basis in the depletable properties. Gain or loss on the disposition of a depletable property is computed separately by each partner outside of the partnership based on its share of the partnership's amount realized and adjusted tax basis in the property. Our Partnership Agreement provides that the adjusted tax basis of the oil and natural gas properties contributed to us will be allocated to the partners of the contributing partnerships for the purposes of separately determining depletion deductions, and any gain or loss recognized by us on the disposition of contributed property will be allocated to the partners of the contributing partnerships in proportion to their percentage interests in the combining partnerships to the extent of the Built-in Gain or Built-in Loss. This method of allocating Built-in Gain and Built-in Loss is not one of the three methods set forth in the Treasury regulations. However, the combining partnerships believe that the above method should be respected as reasonable and consistent with the underlying purposes of Section 704(c) of the Internal Revenue Code.

When the IRS issued the final Treasury regulations under Section 704(c) of the Internal Revenue Code, it acknowledged that the method to be used by us was used in the oil and natural gas industry and may be reasonable in appropriate situations. However, the IRS did not include this method as a specific reasonable method in the final Treasury regulations because the method was not a generally applicable method. Despite not including it as a

specific reasonable method in the final Treasury regulations, the IRS has issued private letter rulings acknowledging that this method is reasonable under the facts of those rulings. A private letter ruling may not be relied on by any taxpayer other than the taxpayer to whom the ruling was issued. Accordingly, counsel is unable to opine on the validity of this method of allocating Built-in Gain and Built-in Loss. However, private letter rulings are indicative of the position of the IRS on the issues addressed in the rulings. Despite these prior rulings, there is no assurance that the IRS will not change its position and challenge the method to be used by us. Such a challenge, if successful, could cause one or more unitholders to recognize more taxable income or less taxable loss on an ongoing basis in respect of their common units. Each prospective unitholder is encouraged to consult with its tax advisor with respect to the proper reporting of its allocable share of Built-in Gain and Built-in Loss.

Partnership Income, Gains/Losses and Depletion

Income received by us from our oil and natural gas royalties and net profits interests will be taxable to our unitholders as ordinary income subject to depletion. Gains and losses from sales of our royalty interests and net profits interests held for more than one year, except to the extent of ordinary income recapture discussed below, will be long term capital gains and losses.

Unitholders will be entitled to deductions for the greater of either cost depletion or (if otherwise allowable) percentage depletion with respect to the oil and natural gas interests owned by us. Although the Internal Revenue Code requires each unitholder to compute its own depletion allowance and maintain records of its share of the adjusted tax basis of the underlying mineral property for depletion and other purposes, we intend to furnish each of its unitholders with information relating to this computation for federal income tax purposes.

Percentage depletion is generally available with respect to unitholders who qualify under the independent producer exemption contained in Section 613A(c) of the Internal Revenue Code. For this purpose, an independent producer is a person not directly or indirectly involved in the retail sale of oil, natural gas, or derivative products or the operation of a major refinery. Percentage depletion is calculated as an amount generally equal to 15% (and in the case of marginal production potentially a higher percentage) of the unitholder's gross income from the depletable property for the taxable year. The percentage depletion deduction in respect of any property is limited to 100% of the taxable income of the unitholder from the property for each taxable year, computed without the depletion allowance. A unitholder that qualifies as an independent producer may deduct percentage depletion only to the extent the unitholder's daily production of domestic crude oil, or the natural gas equivalent, does not exceed 1,000 barrels. This depletable amount may be allocated between crude oil and natural gas production, with 6,000 cubic feet of domestic natural gas production regarded as equivalent to one barrel of crude oil. The 1,000 barrel limitation must be allocated among the independent producer and controlled or related persons and family members in proportion to the respective production by such persons during the period in question.

In addition to the foregoing limitation, the percentage depletion deduction otherwise available is limited to 65% of the unitholders' total taxable income from all sources for the year, computed without the depletion allowance, net operating loss carrybacks or capital loss carrybacks. Any percentage depletion deduction disallowed because of the 65% limitation may be deducted in the following taxable year if the percentage depletion deduction for such year plus the deduction carryover does not exceed 65% of the taxpayer's total taxable income for that year. The carryover period resulting from the 65% net income limitation is indefinite.

Some partners of Dorchester Hugoton do not qualify for percentage depletion on properties owned by Dorchester Hugoton at the time those partners acquired their units because, at that time, the Internal Revenue Code included a provision prohibiting percentage depletion on properties transferred (directly or indirectly) between taxpayers. That Code provision has been repealed but the partners affected by it remain unable to use percentage depletion. After the combination, these partners will remain unable to use percentage depletion on their share of income from the properties formerly owned by Dorchester Hugoton. However, they will be permitted to take percentage depletion, if otherwise allowable, on all other properties owned by us.

The combination also will have the effect of reducing percentage depletion available with respect to the properties contributed to us by Dorchester Hugoton. The transfer of the working interest by Dorchester Hugoton to Dorchester Minerals Operating LP, with the reserved Dorchester Hugoton ORRIs, will have the effect of reducing the amount of gross income reported by us with respect to the properties contributed to us by Dorchester Hugoton, even though the net income will be substantially the same as if the working interest had been transferred to us. Since percentage depletion is calculated as a percentage of gross income, the reduction of our gross income from these properties will have the effect of reducing the percentage depletion deductions available to our unitholders. Whether this will decrease overall depletion for any unitholder cannot be predicted since depletion will depend in part on the costs of operation and on the individual unitholder's cost depletion deductions. As a result of these and other factors relating to the combination, the amount of depletion deductions of a partner of a combining partnership following the combination will not be the same, and may be less than, the amount of depletion deductions of the partner prior to the combination.

Unitholders that do not qualify under the independent producer exemption are generally restricted to deductions based on cost depletion. Cost depletion is calculated by (i) dividing the unitholder's share of the adjusted tax basis in the underlying mineral property by the number of mineral units (barrels of oil and thousand cubic feet, or Mcf, of gas) remaining as of the beginning of the taxable year and (ii) multiplying the result in (i) by the number of mineral units sold within the taxable year. The total amount of deductions based on cost depletion cannot exceed the unitholder's share of the total adjusted tax basis in the property.

All or a portion of any gain recognized by a unitholder as a result of either the disposition by us of some or all of our oil and natural gas interests or the disposition by the unitholder of some or all of its common units may be taxed as ordinary income to the extent of recapture of depletion deductions, except for percentage depletion deductions in excess of the basis of the property. The amount of the recapture is generally limited to the amount of gain recognized on the disposition.

The foregoing discussion of depletion deductions does not purport to be a complete analysis of the complex legislation and Treasury regulations relating to the availability and calculation of depletion deductions by the unitholders. Further, because depletion is required to be computed separately by each unitholder and not by our partnership, no assurance can be given, and counsel is unable to express any opinion, as to the availability or extent of percentage depletion deductions to the unitholders. Each prospective unitholder should consult its tax advisor to determine whether percentage depletion would be available to it.

Limitations on Deductions

Tax Basis and At-Risk Limitations

The deduction by a unitholder of any losses relating to the unitholder's common units will be limited to the tax basis in its common units. See "--Consequences of the Combination--Our Partnership's Tax Basis and Holding Period of Our Assets and of Non-Dissenting Partners in Our Common Units." In the case of an individual unitholder or a corporate unitholder of which more than 50% of the value of its stock is owned directly or indirectly by five or fewer individuals or some tax-exempt organizations, the deduction of losses will be limited to the amount for which the unitholder is considered to be "at risk" with respect to our activities, if that amount is less than the unitholder's tax basis in its common units. A unitholder must recapture losses deducted in previous years to the extent that distributions cause its at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that the unitholder's tax basis or at risk amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a common unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any suspended losses in excess of that gain are no longer utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of its common units, excluding any portion of that tax basis attributable to its share of our liabilities, reduced by any amount of money the unitholder

borrows to acquire or hold its common units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder, or can look only to the common units for repayment. A unitholder's at risk amount will increase or decrease as the tax basis of the unitholder's common units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in the unitholder's share of our liabilities.

Limitations with Respect to Passive Activities

In general, individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities only to the extent of the taxpayer's income from passive activities. We do not anticipate that any material amount of the activities we conduct will constitute passive activities since our assets will primarily generate portfolio income such as royalty income (which is not income from a passive activity). Thus, the passive activity loss limitations will not apply to our unitholders with respect to any material amount of our losses that may be allocated to them. These limitations will continue to apply to any suspended passive activity losses of our partners arising during their ownership of partnership interests in the combining partnerships. See "Consequences of the Combination--Limitations with Respect to Suspended Passive Activity Losses."

Limitations on Interest Deductions

The deductibility of a non-corporate taxpayer's investment interest expense is generally limited to the amount of that taxpayer's net investment income. Investment interest expense includes:

- interest on indebtedness properly allocable to property held for investment;

- interest properly allocable to portfolio income; and

- interest properly allocable to the purchase or carrying of an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry the unitholder's common units.

Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment. Therefore, a unitholder's share of our portfolio income will be treated as investment income.

Distributions by Us to Unitholders

Distributions of money by us to a unitholder generally will not result in taxable income or gain to the unitholder unless, and only to the extent that, the distribution exceeds the unitholder's adjusted tax basis in its common units immediately before the distribution. Any such gain generally will be capital gain, except that a portion of such gain will be separately computed and taxed as ordinary income to the extent the distribution is in exchange for all or a part of the unitholder's common units and is attributable to the unitholder's allocable share of unrealized receivables or inventory items owned by us. Unrealized receivables include the unitholder's share of potential recapture items, including depreciation and depletion deductions. Ordinary income attributable to unrealized receivables and inventory items may exceed the net taxable gain realized.

Any reduction in a unitholder's share of our nonrecourse liabilities, including upon a non-pro rata issuance of additional common units by us without a corresponding increase in our nonrecourse liabilities, will constitute a deemed distribution of money by us to the unitholder. We are not expected to incur significant nonrecourse liabilities. Therefore, it is not anticipated that any unitholder will be deemed to receive a cash distribution from a reduction in a unitholder's share of nonrecourse liabilities that would result in the recognition of a material amount of taxable gain.

Ratio of Taxable Income to Distributions

The ratio of the amount of taxable income that will be allocated to each unitholder to the amount of cash that will be distributed to the unitholder is uncertain. The amount of taxable income realized by each unitholder will be dependent upon a number of factors including: (a) the amount of taxable income recognized by us; (b) the amount of any gain recognized by us that is attributable to specific asset sales that may be wholly or partially attributable to Built-in Gain and the resulting allocation of such gain to the former partners of the applicable combining partnerships, depending on the asset being sold (see "Consequences of Ownership of Our Common Units After the Combination--Tax Allocations by Us to Unitholders--Tax Allocations with Respect to Book-Tax Difference on Contributed Properties"); and (c) the amount of basis adjustment pursuant to Section 754 of the Internal Revenue Code available to the unitholder based on the purchase price for any common units and the amount by which such price exceeded the unitholder's proportionate share of inside tax basis of our assets attributable to the common units when the common units were purchased (see "Consequences of Ownership of Our Common Units After the Combination--Section 754 Election").

Tax Basis in Our Assets

The tax basis of our mineral interests will be used for purposes of computing gain or loss on the disposition of these interests. The federal income tax burden associated with the difference between the fair market value of property contributed to us and the tax basis established for that property will be borne by the contributing partners of the applicable combining partnership to the extent of any Built-in Gains. See "Consequences of Ownership of Our Common Units After the Combination--Tax Allocations by Us to Unitholders--Tax Allocations with Respect to Book-Tax Difference on Contributed Properties."

Tax Basis in Our Common Units

Generally, each partner will have an initial tax basis in our common units equal to its adjusted tax basis in the partnership interest in the applicable combining partnership immediately prior to the combination decreased by the amount of cash received or deemed to be received by the partner in the combination. See "Consequences of the Combination--In General."

After the combination, a unitholder's adjusted tax basis in its common units generally will be increased by (a) the unitholder's allocable share of our taxable and tax exempt income, (b) any contributions by the unitholder to our capital, and (c) any increases in the unitholder's allocable share of our liabilities. Generally, a unitholder's adjusted tax basis in its common units will be decreased (but not below zero) by (1) the unitholder's allocable share of our losses and nondeductible expenditures which are not chargeable to capital, (2) the amount of any cash and the amount of the basis of any property distributed to the unitholder by us, (3) any decreases in the unitholder's allocable share of our liabilities, and (4) the amount of any depletion deductions taken by the unitholder with respect to its common units to the extent the deductions do not exceed the unitholder's proportionate share of the adjusted tax basis of the underlying producing property.

Disposition of Our Common Units

A unitholder will recognize gain or loss on a sale of its common units in an amount equal to the difference between the amount realized and the unitholder's adjusted tax basis in the common units sold. A unitholder's amount realized will be measured by the sum of any cash and the fair market value of any other property received plus the unitholder's share of our nonrecourse liabilities, if any.

Except as noted below, gain or loss recognized by a unitholder, other than a dealer in common units, on the sale or exchange of common units held by the unitholder generally will be capital gain or loss. However, this gain or loss will be taxed as ordinary income or loss to the extent attributable to the unitholder's allocable share of unrealized receivables or inventory items owned by us. Unrealized receivables include the unitholder's share of potential recapture items, including depletion deductions to the extent such deductions previously reduced a

unitholder's basis in its common units. Ordinary income attributable to unrealized receivables and inventory items may exceed the net taxable gain realized upon the sale of the common units and may be recognized even if there is a net taxable loss realized on the sale of the common units. Thus, a unitholder may recognize both ordinary income and a capital loss upon a disposition of its common units. Net capital loss may offset no more than $3,000 of ordinary income in the case of individuals and may only be used to offset capital gain in the case of corporations.

A unitholder who acquires its common units in separate transactions must maintain a single adjusted tax basis for federal income tax purposes with respect to those common units. According to an IRS ruling, upon a sale or other disposition of less than all of those common units, a portion of the combined tax basis must be allocated to the common units sold using an "equitable apportionment" method. Although the ruling is unclear as to how the holding period of these interests is determined once they are combined, recently finalized regulations allow a selling unitholder who can identify an ascertainable holding period with respect to the common units transferred to elect to use the actual holding period of the common units transferred provided that the unitholder consistently uses that method for all subsequent common unit transactions. Thus, according to the ruling, a unitholder will be unable to select high or low tax basis common units to sell as would be the case with corporate stock, but, under the recently finalized regulations, can designate specific common units for purposes of determining the holding period of the common units to be sold. Notwithstanding the position of the IRS ruling, we intend to adopt a convention that will enable unitholders to track basis of individual common units or unit groups and use the basis so determined in calculating unitholders' basis adjustments under Section 743 of the Internal Revenue Code and gain or loss on the sale of common units. Currently available tax accounting software will not permit us to follow exactly the requirements of the IRS ruling. Although our general partner believes that our method is reasonable, no assurance can be given that the IRS will not challenge our method. In light of the conflicting IRS ruling, counsel is unable to opine that our method is permissible.

A unitholder considering the purchase of additional common units or a sale of common units purchased in separate transactions should consult its tax advisor as to the possible consequences of this ruling and application of the new regulations.

For individuals, trusts and estates, net capital gain from the sale of an asset held one year or less is subject to tax at the applicable rate for ordinary income. For these taxpayers, the maximum federal rate of tax on the net capital gain from a sale or exchange of an asset held for more than one year generally is 20%.

Provisions of the Internal Revenue Code may cause a unitholder to be treated as having sold appreciated common units at their fair market value resulting in the recognition of taxable gain if the taxpayer or related persons enter(s) into:

- a short sale;
- an offsetting notional principal contract; or
- a futures or forward contract with respect to the common units or substantially identical property.

Moreover, if a unitholder has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the common units, the unitholder will be treated as having sold that position if the taxpayer or a related person then acquires the common units or substantially identical property. Further, the Secretary of Treasury is authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position. See "Consequences of Ownership of Our Common Units After the Combination--Treatment of Short Sales" below.

Treatment of Short Sales

A unitholder whose common units are loaned to a short seller to cover a short sale of common units may be considered as having disposed of ownership of those common units for federal income tax purposes. If so, the

unitholder would no longer be a partner for tax purposes with respect to those common units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

- any of our income, gain, loss or deduction with respect to those common units would not be reportable by the lending unitholder;

- any cash distributions received by the lending unitholder for those common units would be fully taxable and would appear to be treated as ordinary income.

Counsel is not rendering an opinion regarding the treatment of a unitholder whose common units are loaned to a short seller. Therefore, unitholders desiring to assure their status as partners for federal income tax purposes and avoid the risk of gain recognition should modify any applicable brokerage account agreements to prohibit their brokers from loaning their common units. See "Consequences of Ownership of Our Common Units After the Combination--Disposition of Our Common Units."

Constructive Termination

We will be considered to terminate for tax purposes if there is a sale or exchange of 50% or more of the total interests in its capital and profits within a 12-month period. A termination of our partnership will result in the closing of its taxable year for all unitholders. As a result, if a unitholder has a different taxable year than us, the unitholder may be required to include in the same taxable year its allocable share of our income, gain, loss, deduction, credits and other items from both the taxable year ending prior to the year of the termination of our partnership and the short taxable year ending at the time of the termination. In addition, we would be required to make new tax elections after a termination, including a new election under Section 754 of the Internal Revenue Code. A termination also could result in penalties if we were unable to determine that the termination occurred.

Section 754 Election

We will make the election permitted by Section 754 of the Internal Revenue Code. That election is irrevocable without the consent of the IRS. The election will generally permit us to make an adjustment, referred to as the Section 743(b) adjustment, to a unitholder's tax basis in our assets, referred to as inside basis, to reflect the unitholder's purchase price in its common units. This election does not apply to a person who purchases common units directly from us or with respect to those common units issued to partners of the combining partnerships as a part of the combination. It will apply to any purchaser of common units after the combination. The Section 743(b) adjustment belongs solely to the purchaser and not to the other unitholders. For purposes of this discussion, a unitholder's inside basis of our assets will be considered to have two components:

- the unitholder's share of our tax basis in our assets; and

- the unitholder's Section 743(b) adjustment to that tax basis.

Our general partner intends to utilize a method of calculating inside basis, including the unitholders' Section 743(b) adjustments, which will result in an aggregate basis for depletion purposes that reflects the purchase price of common units as paid by the unitholders. Although the method our general partner intends to use is not specifically authorized under the applicable Treasury regulations, we believe that it is a reasonable method of determining each unitholder's share of net income or loss (including depletion and gain or loss from the sale of property). Because there is no clear authority on this issue, counsel is unable to opine as to this method. If the IRS successfully contends that such method may not be used, our general partner may use any other reasonable depletion conventions to preserve the uniformity of the intrinsic tax characteristics of any common units that would not have a material adverse effect on the unitholders or record holders of any class or classes of units.

A Section 754 election is advantageous if the transferee's tax basis in its common units is higher than the common units' share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, as a

result of the election, the transferee would have a higher tax basis in its share of our assets for purposes of calculating, among other items, its depletion deductions and its share of any gain or loss on a sale of our assets. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in its common units is lower than those common units' share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the common units may be affected either favorably or adversely by the Section 754 election.

The calculations involved in the Section 754 election are complex and we will make them on the basis of assumptions as to the fair market value of our assets and other matters. The allocation of the Section 743(b) adjustment among our assets must be made in accordance with the Internal Revenue Code. The IRS could seek to reallocate some or all of any Section 743(b) adjustment. We cannot assure our unitholders that the determinations made by us will not be successfully challenged by the IRS or that the deductions resulting from these determinations may not be reduced or disallowed altogether. Should the IRS require a different basis adjustment, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If permission is granted, a subsequent purchaser of common units may be allocated more income that it would have been allocated had the election not been revoked.

Alternative Minimum Tax on Items of Tax Preference

The Internal Revenue Code contains alternative minimum tax rules that are applicable to corporate and noncorporate taxpayers. We will not be subject to the alternative minimum tax, but our unitholders are required to take into account on their own tax returns their respective shares of our tax preference items and adjustments in order to compute their alternative minimum taxable income.

The minimum tax rate for noncorporate taxpayers is 26% on the first $175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Although it is not expected that we will generate significant tax preference items or adjustments, since the impact of the alternative minimum tax depends on each unitholder's particular situation, each prospective unitholder should consult with its tax advisor as to the impact of an investment in common units on its alternative minimum tax liability.

Considerations for Tax-Exempt Limited Partners

Unitholders that are tax-exempt entities, including charitable corporations, pension, profit-sharing or stock bonus plans, Keogh plans, individual retirement accounts and certain other employee benefit plans are subject to federal income tax on unrelated business taxable income, referred to as UBTI. Generally, UBTI can arise from a trade or business unrelated to the exempt purposes of the tax-exempt entity that is regularly carried on by either the tax-exempt entity or a partnership in which it is a partner. However, UBTI does not apply to interest income, royalties (including overriding royalties) or net profits interests, whether the royalties or net profits are measured by production or by gross or taxable income from the property. Pursuant to the provisions of our Partnership Agreement, our general partner shall use all reasonable efforts to prevent us from realizing income that would constitute UBTI. However, there is no assurance that we will not incur UBTI.

Administrative Matters

Accounting Method and Taxable Year

We will use the year ending December 31 as our taxable year and we will adopt the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income its share of our income, gain, loss and deduction for our taxable year ending within or with the unitholder's taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of its common units following the close of our taxable year but before the close of the unitholder's taxable year

must include the unitholder's allocable share of our income, gain, loss and deduction for one year ended on the pervious December 31, as well as for the portion of our current tax year ending on the date of the disposition, in income for its taxable year, with the result that the unitholder could be required to include in income for its taxable year its share of more than one year of our income, gain, loss and deduction. See "Consequences of Ownership of Our Common Units After the Combination--Tax Allocations by Us to Unitholders--Allocations between Transferors and Transferees." Because of differences between generally accepted accounting principles, which apply to the financial statements that will be issued by Dorchester Minerals, and the tax accounting method described above, net income of Dorchester Minerals as reported on its financial statements will likely differ from the taxable income for the same period.

Information Returns and Audit Procedures

We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1 tax statement, which describes each unitholder's share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will generally not be reviewed by counsel, we will use various accounting and reporting conventions, some of which have been mentioned earlier, to determine the unitholder's share of income, gain, loss and deduction. We cannot assure unitholders that any of those conventions will yield a result that conforms to all of the technical requirements of the Internal Revenue Code, regulations or administrative interpretations of the IRS. Neither we nor our counsel can assure prospective unitholders that the IRS will not successfully contend in court that those accounting and reporting conventions are impermissible. Any challenge by the IRS could negatively affect the value of the common units. In addition, the cost of any contest will be borne directly or indirectly by the unitholders.

The IRS may audit our federal income tax information returns. The Internal Revenue Code contains partnership audit procedures governing the manner in which the IRS audit adjustments for partnership items are resolved. Adjustments resulting from any audit of this kind may require each unitholder to adjust a prior year's tax liability, and possibly may result in an audit of that unitholder's own return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns. It is our understanding that the IRS has begun "matching" a partner's partnership information as reported on that partner's individual income tax return against the electronic Schedule K-1 tax information that we are required to provide to the IRS. Thus, if the IRS continues this practice and you do not report tax information on your tax returns in a manner that is consistent with your Schedule K-1 tax statement, the IRS matching program may trigger an inquiry or possibly an audit of your individual tax return.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Internal Revenue Code provides for one partner to be designated as the "Tax Matters Partner" for these purposes. Our Partnership Agreement appoints our general partner as our Tax Matters Partner.

The Tax Matters Partner will make some elections on our behalf and on behalf of the unitholders. In addition, the Tax Matters Partner can extend the statute of limitations for assessment of tax deficiencies against the unitholders for items in our returns. The Tax Matters Partner will make a reasonable effort to keep each unitholder informed of administrative and judicial tax proceedings with respect to our items in accordance with applicable Treasury regulations. The Tax Matters Partner may bind a unitholder with less than a 1% profits interest in our partnership to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give that authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review, by which all the unitholders are bound, of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, judicial review may be sought by any unitholder having at least a 1% interest in profits or by any group of unitholders having in the aggregate at least a 5% interest in profits. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate.

Accuracy-related Penalties

An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more specified causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Internal Revenue Code. No penalty will be imposed, however, for any portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith regarding that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or $5,000 ($10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return:

- for which there is, or was, "substantial authority"; or

- as to which there is a reasonable basis and the pertinent facts of that position are disclosed on the return.

Based upon representations of our general partner that a significant purpose for our partnership is not the avoidance of federal income tax, the more stringent rules that apply to tax shelters should not apply to us. If any item of income, gain, loss or deduction included in the distributive shares of the unitholders might result in that kind of an understatement of income for which no "substantial authority" exists, we must disclose the pertinent facts on its return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns to avoid liability for this penalty. A substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 200% or more of the amount determined to be the correct amount of the valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds $5,000 ($10,000 for most corporations). If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

Nominee Reporting

Persons who hold our common units as a nominee for another person are required to furnish to us:

- the name, address and taxpayer identification number of the beneficial owner and the nominee;

- whether the beneficial owner is a person that is not a United States person, a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing, or a tax-exempt entity;

- the amount and description of common units held, acquired or transferred for the beneficial owner; and

- specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and specific information on common units they acquire, hold or transfer for their own account. A penalty of $50 per failure, up to a maximum of $100,000 per calendar year, is imposed by the Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the common units with the information furnished to us.

Registration as a Tax Shelter

The Internal Revenue Code requires that tax shelters be registered with the Secretary of the Treasury. The temporary Treasury regulations interpreting the tax shelter registration provisions of the Internal Revenue Code are extremely broad. It is arguable that we will be exempt from the registration requirement by qualifying as a

projected income investment. An investment in our common units is not expected to reduce the cumulative federal income tax liability of any unitholder with respect to any year for the first five years ending after the date on which such common units first become available. However, we will register as a tax shelter with the Secretary of Treasury in the absence of assurance that we will not be subject to tax shelter registration and in light of substantial penalties which might be imposed if registration is required and not undertaken.

ISSUANCE OF THIS REGISTRATION NUMBER DOES NOT INDICATE THAT INVESTMENT IN US OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE IRS.

We will supply our tax shelter registration number to you when one has been assigned to us. A unitholder who sells or otherwise transfers a common unit in a later transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a common unit to furnish the registration number to the transferee is $100 for each failure. The unitholders must disclose our tax shelter registration number on Form 8271 to be attached to the tax return on which any deduction, loss or other benefit we generate is claimed or on which any of our income is included. A unitholder who fails to disclose the tax shelter registration number on his return, without reasonable cause for that failure, will be subject to a $250 penalty for each failure. Any penalties discussed are not deductible for federal income tax purposes.

Entity-Level Collections

Our general partner is authorized to take any action that it determines in its discretion to be necessary or appropriate to cause us to comply with any withholding requirements established under the Internal Revenue Code or any other federal, state or local law. To the extent that we are required or elect to withhold and pay over to any taxing authority any amount resulting from the allocation or distribution of income to any unitholder, the amount withheld may, at the discretion of our general partner, be treated by us as a distribution of cash in the amount of the withholding from the unitholder.

State and Local Taxes

In addition to the federal income tax aspects described above, a unitholder should consider the potential state and local tax consequences of owning our common units. Tax returns may be required and tax liability may be imposed both in the state or local jurisdictions where a unitholder resides and in each state or local jurisdiction in which we have assets or otherwise do business. Thus, persons holding our common units either directly or through one or more partnerships or limited liability companies may be subject to state and local taxation in a number of jurisdictions in which we directly or indirectly hold oil and gas properties and would be required to file periodic tax returns in those jurisdictions. We also may be required to withhold state income tax from distributions otherwise payable to our unitholders. For example, withholding will be required with respect to properties located in Louisiana. We anticipate providing our unitholders with summary federal information, broken down by state which may be used by them in preparing their state and local returns. To the extent that a unitholder pays income tax with respect to our income to a state where it is not resident or to the extent that we are required to pay state income tax on behalf of such unitholder, the unitholder may be entitled to a deduction or credit against income tax that it otherwise would owe to its state of residence with respect to the same income.

No ruling or opinion has been requested from any state or local taxing authority with respect to the combination or any of the other transactions discussed in this document. Each prospective unitholder should consult with its tax advisor regarding the state and local income tax implications of owning our common units.

Notification Requirements

A person who purchases common units from a unitholder is required to notify us in writing of that purchase within 30 days after the purchase. We are required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. Additionally, a transferor and a transferee of common units will be required to furnish statements to the IRS, filed with their income tax returns for the taxable year in which the sale or exchange occurred, that describe the amount of the consideration received for the common unit that is allocated to our goodwill or going concern value, if any. Failure to satisfy these reporting obligations may lead to the imposition of substantial penalties. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker.

Backup Withholding

The Internal Revenue Code requires backup withholding at a rate of thirty percent (30%) with respect to all reportable payments. A reportable payment includes not only reportable interest or dividend payments but also other payments including some royalty payments. Accordingly, subject to the limitations discussed below, a unitholder may be subject to backup withholding with respect to all or a portion of its distributions from us.

Backup withholding is required with respect to any reportable payment if the payee fails to furnish its taxpayer identification number, referred to as TIN, to the payor in the required manner or to establish an exemption from the requirement or if the Secretary of the Treasury notifies the payor that the TIN furnished by the payee is incorrect. Accordingly, a unitholder may avoid backup withholding by furnishing its correct TIN to us. Any unitholder who does not provide its TIN to us should consult its tax advisor concerning the applicability of the backup withholding provisions to its distributions from us.

BUSINESS OF DORCHESTER MINERALS AFTER COMPLETION OF THE COMBINATION

General

We were formed as a Delaware limited partnership in December, 2001 in connection with the proposed combination. Our business plan is to own and hold the Operating ORRIs and the properties acquired from Republic and Spinnaker, which consist of producing and non-producing mineral, royalty, overriding royalty and leasehold interests and which we refer to as the royalty properties. We will distribute on a quarterly basis all cash that we receive from the ownership of those interests beyond that required to pay our costs and fund reasonable reserves. We do not anticipate incurring any debt other than trade debt incurred in the ordinary course of our business. One of our objectives will be to avoid unrelated business taxable income for federal income tax purposes to make it practicable for pension funds, IRAs and other tax exempt investors to invest in our common units. No specific assets have been identified for sale, financing, refinancing or purchase following the consummation of the combination.

We intend to grow by encouraging the exploration and development of the royalty properties and 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 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 ten percent (10%) of our aggregate cash distributions for the four most recent fiscal quarters.

Properties

Operating ORRIs

A principal asset of our partnership are the Operating ORRIs. Dorchester Minerals Operating LP owns the underlying properties subject to the Operating ORRIs. The information set forth below with respect to the Operating ORRIs does not include information with respect to the minor working interest properties to be conveyed by Republic and Spinnaker to Dorchester Minerals Operating LP promptly after the combination. We believe that the exclusion of excluded information will represent a less than 1% change in each item of information set forth below.

Acreage

The following table sets forth as of January 1, 2002 the pro forma combined developed and undeveloped acreage subject to the Operating ORRIs giving effect to the combination and assuming the consummation of the combination as of such date. Acreage in which an interest is limited to royalty, overriding royalty or the similar interests is excluded. Undeveloped acreage underlies the Oklahoma developed acreage.

	Developed		Undeveloped	
Location	Gross	Net	Gross	Net
Oklahoma	79,861	74,031	47,360	46,960
Kansas..	7,035	7,035	--	--
Total...	86,896	81,066	47,360	46,960

Costs Incurred and Drilling Results

The following table sets forth the pro forma information regarding the costs incurred in acquisition and development activities during the periods indicated in connection with the properties underlying the Operating ORRIs, giving effect to the combination and assuming the consummation of the combination on January 1 of each period indicated.

	Years Ended December 31,		
	2001	2000	1999
	(in thousands)		
Acquisition costs	$5,297*	$ 23	$ 16
Development costs	240	301	332
Total...........	$5,537	$324	$348

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/* Includes $5,270,000 paid for an Oklahoma production payment. See "Information Concerning Dorchester Hugoton--Management's Discussion and Analysis of Financial Condition and Results of Operation." /

Productive Well Summary

The following table sets forth as of January 1, 2002 the pro forma combined number of producing wells on the properties subject to the Operating ORRIs giving effect to the combination and assuming the consummation of the combination as of such date.

	Productive Wells	
Location	Gross	Net
Oklahoma	127	115.2
Kansas..	20	20.0
Total...	147	135.2

Royalty Properties

Another principal asset of our partnership will be the royalty properties, which will be directly owned by our partnership.

Acreage

The following table sets forth as of January 1, 2002 a pro forma 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 and development status of the acres in each category giving effect to the combination and assuming the consummation of the combination as of such date.

	Mineral					
	Leased	Unleased	Royalty	Overriding Royalty	Leasehold	Total
Number of States...........	18	25	17	18	8	27
Number of Counties/Parishes	207	424	192	131	35	564
Gross......................	603,410	1,554,444	574,415	196,131	35,678	2,958,366
Net (where applicable).....	69,218	276,795	N/A	N/A	N/A	346,013

Our net interest in production from royalty, overriding royalty and leasehold interests is based on burdens or reservations which vary from property to property. Consequently, net acreage ownership in these categories is not determinable.

The following table sets forth as of January 1, 2001 the pro forma 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 giving effect to the combination and assuming the consummation of the combination as of such date.

State	Gross	Net	State	Gross	Net
Alabama....	106,074	7,517	Missouri....	344	43
Arkansas...	45,548	15,453	Montana.....	285,232	62,850
California.	924	162	Nebraska....	3,360	256
Colorado...	22,880	1,423	New Mexico..	31,548	2,202
Florida....	88,832	24,249	New York....	23,077	18,440
Georgia....	3,676	1,024	North Dakota	296,348	37,694
Illinois...	4,480	761	Oklahoma....	211,370	15,166
Indiana....	302	113	Pennsylvania	10,016	4,841
Kansas.....	9,073	1,334	South Dakota	14,007	1,266
Kentucky...	1,995	552	Texas.......	1,515,519	135,627
Louisiana..	112,093	2,353	Utah........	5,937	200
Michigan...	54,367	2,623	Wyoming.....	28,888	1,256
Mississippi	80,070	8,607			

Activity Summary

As a royalty owner, our access to information concerning activity and operations on our properties is significantly limited. Most of our producing properties will be subject to leases and other contracts pursuant to which we are not entitled to well information. Some of our 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 our properties at any point in time is not determinable. The primary manner by which we will become aware of activity on our properties is the receipt of division orders or other correspondence from operators or purchasers.

The following table sets forth a pro forma summary of leases consummated and new wells added during 1997 through 2001 giving effect to the combination and assuming the consummation of the combination on December 31 of each year.

	2001	2000	1999	1998	1997
Consummated Leases					
Number................	17	47	26	41	58
Number of States......	5	6	6	8	8
Number of Counties....	14	25	21	32	30
Average Royalty.......	23.7%	24.8%	24.9%	24.8%	24.8%
Average Bonus, $/acre.	$ 272	$ 150	$ 192	$ 162	$ 164
Total Lease Bonus.....	$173,217	$ 436,627	$ 744,938	$1,313,355	$601,325
Other Land Revenue.......	$330,714	$2,260,342	$ 558,981	$ 828,890	$ 72,539
Total Land Revenue.......	$503,931	$2,696,969	$1,303,919	$2,142,245	$673,864
New Wells Added					
Number................	212	124	150	179	117
Number of States......	11	8	8	10	9
Number of Counties....	64	49	50	57	51

Oil and Natural Gas Reserves

The following table sets forth on a pro forma basis proved reserves, proved developed reserves, future net revenues and discounted present value of future net revenues using SEC PV-10 present value at December 31, 2001 for the Operating ORRIs and the royalty properties giving effect to the combination and assuming the consummation of the combination as of such date.

	Operating ORRIs	Royalty Properties	Total
Proved developed reserves			
Natural gas (Mcf)........................	46,838,709	30,876,400	77,715,109
Oil (Bbls)...............................	--	4,158,270	4,158,270
Proved reserves			
Natural gas (Mcf)........................	46,838,709	34,691,700	81,530,409
Oil (Bbls)...............................	--	4,374,768	4,374,768
Future net revenues ($, in thousands).......	$ 63,948.1	149,986.7	213,934.8
SEC PV-10 present value(1) ($, in thousands)	$ 43,371.2	76,917.5	120,288.7

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(1) 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.

Capitalization

The following table sets forth as of January 1, 2002 the pro forma capitalization of our partnership giving effect to the combination and assuming the consummation of the combination as of such date and no eligible limited partners elect to exercise dissenters' rights.

	January 1, 2002	
	Combined(1)	Pro forma(2)
	(amounts in 000's)	
Partners' capital		
General partners	$ 3,152	$ 3,152
Limited partners	80,325	120,854
Accumulated other comprehensive income	2,513	--
	$85,990	$124,006

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(1) Amounts represent the aggregate capital of the combining partnership before giving effect to the combination transaction.
(2) Amounts represent the aggregate capital of the combining partnerships, adjusted to give effect a revaluation of assets using purchase accounting of $153,358 less a write-down of $94,514 to the estimated amount of discounted future net cash flows from the oil and gas properties. See Pro Forma Financial Information beginning on page P-1.

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. 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 in "--General."

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 which would represent over 20 percent of the outstanding limited partnership interests immediately after giving effect to such issuance 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.

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.

Natural gas and oil 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 natural gas and oil 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 the 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 and federal authorities, specifically by the Federal Energy Regulatory Commission, also referred to as the FERC. The interstate transportation of natural gas is subject to federal governmental regulation, including regulation of tariffs and various other matters, by the FERC.

Competition

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

Operating Hazards and Uninsured Risks

Our operations will 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, 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 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 will maintain insurance against some, but not all, of the risks that our business exposes us to. While we believe that we will be 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.

Legal Proceedings

We expect to be involved from time to time in various legal and administrative proceedings and threatened legal and administrative proceedings incidental to the ordinary course of our business. As a result of the combination, we will assume any liabilities relating to the legal proceedings involving Dorchester Hugoton and Republic, including those described in "Information Concerning Dorchester Hugoton--Legal Proceedings" and "Information Concerning Republic--Legal Proceedings." Other than those legal proceedings, neither we nor any of the combining partnerships is now involved in any litigation, individually or in the aggregate, which could have a material adverse effect on our business, financial condition, results of operations, or cash flows after giving effect to the combination as if the combination has occurred.

Facilities

On a pro forma combined basis, Dorchester Minerals Operating LP will lease 13,420 square feet in Dallas and Garland, Texas for our partnership offices.

Employees

As of January 1, 2002, on a pro forma combined basis Dorchester Minerals Operating LP will have 16 full and part-time permanent employees in our Dallas and Garland, Texas offices and nine employees in field locations, including Amarillo, Texas. None of these employees is represented by a union and we believe that we will maintain good relations with our employees.

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 Operating ORRIs and the royalty properties, which generally entitle us to receive a share of the proceeds from oil and natural gas production on our 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.

We have prepared the following unaudited table, which demonstrates the effect that changes in the prices for oil and natural gas could have on cash distributions. The following table reflects hypothetical cash distributions per unit for a calendar year based on certain production volume and operating cost assumptions and a range of oil and natural gas prices. See "Information Concerning Dorchester Hugoton," "Information Concerning Republic"

and "Information Concerning Spinnaker" for a description of actual average sales prices for each combining partnership.

The table is not a projection or forecast of the actual or estimated results from an investment in our common units. The purpose of the table is to illustrate the sensitivity of cash distributions to changes in the prices of oil and natural gas assuming hypothetical amounts of production and expenses. There is no assurance that the assumptions described below will actually occur or that the prices of oil or natural gas will not change by amounts different from those in the table. Other factors can and will impact the amount of our cash distributions.

Due to fluctuating production volumes, product prices and operating expenses, the amount of quarterly cash distributions from us is expected to vary during the year. Quarter-to-quarter distributions will also vary based on the timing of development expenditures by the operators of our properties and the net profits, if any, generated by such development projects.

Price Sensitivity of Hypothetical Total Cash Distributions Per Common Unit

Net Wellhead Oil Price per Bbl	Net Wellhead Gas Price per Mcf			
	$2.00	$2.50	$3.00	$3.50
$15.00	0.72	0.90	1.08	1.26
20.00	0.78	0.96	1.14	1.32
25.00	0.84	1.02	1.20	1.38
30.00	0.89	1.08	1.26	1.44

Significant Assumptions Used to Prepare the Sensitivity of Hypothetical Total Cash Distributions

Timing of Actual Distributions. Our net income for financial statement purposes will be presented on an accrual basis in accordance with generally accepted accounting principles. Distributions, however, will be calculated on the basis of actual cash receipts and disbursements by us during the relevant reporting period. As a result, the proceeds of production will not actually enter into the calculation determining the amount, if any, of our cash distributions for a quarter until a point in time after the production giving rise to those proceeds.

Production Estimates. Oil and natural gas production volumes are assumed to be equal to actual net amounts for 2001 as set forth below:

	Net Oil (Bbls)	Net Gas (MMcf)
Dorchester Hugoton	0	6,115,000
Republic	277,653	2,717,207
Spinnaker	88,514	2,247,204

Net gas production volumes include an equivalent volume attributable to natural gas liquids and other plant products.

Differing levels of production volumes and production costs will result in cash distributions different than those set forth in this sensitivity table.

Other Income. This sensitivity table assumes no lease bonus, delay rental or other revenue is received by our partnership.

Expenses. Lease operating expenses, excluding capital expenditures, attributable to the properties underlying the Operating ORRIs are assumed to be $3,620,918, which is based on 2001 actual expenses. Severance taxes are included at 2001 percentages of gross revenues. Other operating expenses attributable to our

properties are assumed to be $101,000. Direct expenses and administrative expenses are primarily based on actual expenses. Direct expenses are assumed to be $700,000 and administrative expenses are assumed to be $1,000,000 in accordance with our Partnership Agreement.

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, following the combination. 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 to foreign currency related market risk.

INFORMATION CONCERNING DORCHESTER HUGOTON

General

Dorchester Hugoton is a publicly traded limited partnership that owns, produces, gathers and sells natural gas almost exclusively from wells in the Hugoton gas field in western Oklahoma and Kansas. Sales are currently made primarily to two customers under short-term contracts that provide for prices based on the field market price.

Dorchester Hugoton was formed on June 16, 1982 as a Texas limited partnership pursuant to a Certificate and Agreement of Limited Partnership. Depositary receipts for units of limited partnership interest were originally distributed on August 20, 1982 to holders of common stock of Dorchester Gas Corporation in the form of a taxable property dividend.

Dorchester Hugoton's principal operating assets consist of working interests and support facilities for properties that produce natural gas from the Hugoton field. Most of Dorchester Hugoton's current working interest wells were drilled and have been producing since prior to 1954. Dorchester Hugoton has operated most of its properties since July 1, 1984.

Dorchester Hugoton is limited as to the activities it may engage in by its partnership agreement and has not engaged in any recent material acquisition of additional properties or any exploration and development activities except on a very limited basis as described below.

Properties and Operations

Oklahoma

Dorchester Hugoton's Oklahoma working interests encompass 127 natural gas wells (115.2 net wells) in the Guymon-Hugoton field. Dorchester Hugoton operates and owns interests in 117 wells in Oklahoma. Of these wells, Dorchester Hugoton has a 100% working interest in 109 wells, working interests ranging from 50% to 88% in five wells and liquefiable hydrocarbons interests only in the remaining three wells. Dorchester Hugoton also has working interests ranging from 25% to 50% per well in a 10 well group operated by an unaffiliated third party. Dorchester Hugoton also has minor royalty interests in various producing natural gas wells.

Of Dorchester Hugoton's 127 gas wells, 124 deliver natural gas through a 132-mile Dorchester Hugoton owned and operated gas pipeline gathering system to its Oklahoma gas compressor station before delivery to a gas transmission pipeline owned by others. Numerous other transmission pipelines are also nearby. Dorchester Hugoton has owned and operated the 5,400 horsepower gas compression and dehydration facility in Oklahoma since 1994. The purpose of such compressors is to increase the pressure of the gas from low levels (approximately 10 psig) to higher levels needed to enter the transmission pipelines (approximately 800 psig). The dehydration facility removes water vapor to meet transmission pipeline quality standards. Major maintenance was performed in 1998 and again in 2001. Electronic measurement equipment was installed on the Oklahoma gas

gathering pipelines during 1996. Fuel consumption of natural gas at the compression and dehydration facilities is estimated to be approximately 4.6% of the compressor's inlet gas volume. Dorchester Hugoton has a continuing program of testing and reinstallation of anodes (corrosion protection devices) on the Oklahoma gas pipeline gathering system.

Wells in the Guymon-Hugoton field are drilled into a 150 feet thick geological formation commonly called the Chase Group. An average Dorchester Hugoton well will encounter the top of the Chase Group approximately 2,700 feet below the surface. This formation typically consists of non-productive shale rock layers that separate the productive zones commonly called Herington, Krider, Winfield and the deeper Fort Riley, which is sometimes referred to as Towanda. At the time of drilling Dorchester Hugoton's wells (primarily during the late 1940's), the Fort Riley zone was considered to contain salt water rather than natural gas and was not penetrated. Based on current information, the Fort Riley zone for the most part appears to be full of water.

Dorchester Hugoton believes that it is possible that some of Dorchester Hugoton's acreage contains gas productive Fort Riley zones without excessive water saturation. Dorchester Hugoton's existing wells, whose production holds the acreage leases regardless of depth, are mechanically not capable of being deepened. Consequently, to explore in the Fort Riley zone requires drilling a well and isolating the zone for testing. Considering the numerous unknown factors such as possible salt water and possible previous lateral gas migration in the Fort Riley, Dorchester Hugoton continues to follow a cautious approach in further drilling to this zone.

Thus far Dorchester Hugoton has drilled and completed three wells to test the Fort Riley zone. Each of the three wells replaced an existing gas well that was plugged and abandoned as required by Oklahoma regulations. The first of the three wells initially appeared to be favorable in both the Fort Riley zones and Winfield/Krider zones; however, subsequent testing indicated gas leaked upward through the shale rock layer separating the zones, causing Fort Riley evaluations to be inconclusive. The first of the three wells recently produced 377 Mcf per day at 41 psig, which is an improvement over the plugged well's previous 105 Mcf per day at 24 psig. The second of the three Fort Riley test wells was not as successful, producing 78 Mcf per day while pumping 30 bbls of water per day. The second well replaced a Winfield/Krider well that produced 175 Mcf per day with no water. In December 1998, the second Fort Riley well was plugged and recompleted in the Winfield/Krider zone, and in September 2001, produced 142 Mcf per day at 17 psig. During October 2001, Dorchester Hugoton reopened the previously plugged Fort Riley zone in the second well. At present, this second well is producing 202 Mcf per day at 16 psig and 38 bbls of water per day from the commingled Winfield/Krider/Fort Riley zones. The third Fort Riley test recently produced 46 Mcf per day at 15 psig while pumping 3.6 bbls of water per day. The third Fort Riley test replaced a Winfield/Krider well that produced 85 Mcf per day at 20 psig.

Dorchester Hugoton's ownership also includes the Council Grove formation, which is unrelated to the Chase Group and underlies most of its Oklahoma acreage. Dorchester Hugoton has not drilled any wells in the Council Grove formation, but it is monitoring the activity of others on nearby acreage in the formation. At present, other parties have drilled 15 wells on nearby acreage. Two of the 15 wells were recompleted in the Guymon Hugoton field and improved production over the original Guymon Hugoton wells that were plugged and abandoned per state regulations. It is not known if such monitoring will result in any plans by Dorchester Hugoton to attempt a Council Grove well; previous preliminary reviews yielded unfavorable forecasts. Recent results by others in the 13 remaining wells have varied from 3 to 354 Mcf per day. Production volumes in subsequent months have varied with most wells showing decreases. Current total production from the three Council Grove wells owned by others but located on Dorchester Hugoton's acreage is approximately 6, 8 and 20 Mcf per day. Dorchester Hugoton has a minor overriding royalty interest in the three wells.

The routine workover of wells in Oklahoma includes fracture treating, or the creation of cracks in the formation to assist gas flow toward the well bore from the producing zones. Currently, Dorchester Hugoton has fracture treated 37 wells in Oklahoma which includes 13 wells during 2000 and seven wells during 2001. Of the 20 wells, 16 increased in gas production volume and 20 increased in gas pressure. The combination of an

increase in pressure and volume resulted in an overall increase of 48% in gas reserves for the 37 wells. The results of fracture treating can vary widely from well to well and may not be successful. Dorchester Hugoton anticipates continuing additional fracture treating in Oklahoma.

Kansas

Dorchester Hugoton currently operates and owns 100% of the working interest in 20 natural gas wells producing from the Kansas Hugoton field which consists of the Chase Group similar to Oklahoma. Dorchester Hugoton does not own the Council Grove formation underlying its acreage in Kansas. The natural gas from these operated wells is currently delivered through a 26 mile gas gathering pipeline and compression and dehydration facility owned by Dorchester Hugoton and is then sold into a pipeline owned by others at an average of field market prices. Dorchester Hugoton's gas gathering pipelines also include seven rental gas compressor units in the Kansas Hugoton field which are scattered over a 10 mile area. Electronic measurement equipment was installed on the Kansas gathering system during 2000. Fuel consumption of natural gas at the Kansas compression and dehydration facilities including field rental compression is estimated to be approximately 9.6%. Dorchester Hugoton also has minor overriding royalty interests in various producing natural gas wells in Kansas.

Dorchester Hugoton's operations in Kansas have been generally limited to routine maintenance of wells and support facilities. Fracture treatment attempts during the 1990's in Kansas have not been successful, and no additional attempts are presently contemplated.

Acreage

The following table sets forth the developed and undeveloped acreage as of December 31, 2001 owned by Dorchester Hugoton. Acreage in which an interest is limited to royalty, overriding royalty and other similar interests is excluded. Council Grove acreage underlies the Oklahoma developed acreage.

	Developed		Undeveloped (Council Grove)	
Location	Gross	Net	Gross	Net
Oklahoma	79,861	74,031	47,360	46,960
Kansas..	7,035	7,035	--	--
Total...	86,896	81,066	47,360	46,960

Costs Incurred and Drilling Results

The following table sets forth information regarding the costs incurred by Dorchester Hugoton in acquisition and development activities during the periods indicated in connection with its properties.

	Years Ended December 31,		
	2001	2000	1999
	(in thousands)		
Acquisition costs	$5,297*	$ 23	$ 16
Development costs	240	301	332
Total...........	$5,537	$324	$348

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/* Includes $5,270,000 paid for an Oklahoma production payment. See "Information Concerning Dorchester Hugoton--Management's Discussion and Analysis of Financial Condition and Results of Operation." /

Dorchester Hugoton has not acquired or drilled or participated in the drilling of wells during the three years ended December 31, 2001 as a working interest owner. During December 1999 Dorchester Hugoton acquired a

1.6% royalty interest in one well operated by Dorchester Hugoton and in one non-Hugoton well operated by others. During December 2000, Dorchester Hugoton acquired a 4.5% royalty interest in another Oklahoma well operated by Dorchester Hugoton. During 2001, Dorchester Hugoton acquired royalty interests ranging from .02% to 1.2% in eight Oklahoma wells operated by Dorchester Hugoton.

Productive Well Summary

The following table sets forth the ownership of Dorchester Hugoton in productive wells at December 31, 2001.

	Productive Wells	
Location	Gross	Net
Oklahoma	127	115.2
Kansas..	20	20.0
Total...	147	135.2

Natural Gas Reserves

Proved natural gas reserves are estimated quantities which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed natural gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Dorchester Hugoton retained Calhoun, Blair & Associates, Inc., an independent petroleum engineering consulting firm, to provide annual estimates as of December 31 of each year of Dorchester Hugoton's future net recoverable natural gas reserves. Dorchester Hugoton has no known reserves of crude oil. There have been no events that have occurred since December 31, 2001 that would have a material effect on the estimated proved developed natural gas reserves.

The following table summarizes the estimates of Dorchester Hugoton's historical net proved developed producing natural gas reserves as of December 31, 2001, 2000 and 1999, and the future net cash flow present values discounted at 10% per year attributable to these reserves at such dates prepared by Dorchester Hugoton's independent petroleum consultants, Calhoun, Blair & Associates, Inc.

	Natural Gas (MMCF)		
	2001	2000	1999
Estimated quantity, beginning of year..........	54,127	58,209	64,147
Revisions in previous estimates................	743	3,012	1,478
Production.....................................	(6,568)	(7,094)	(7,416)
Estimated quantity, end of year................	48,302	54,127	58,209
SEC PV-10 present value ($, in thousands)(1)(2)	44,726	140,003	44,382

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(1) Dorchester Hugoton does not reflect a federal income tax provision since its partners include the income of their partnership in their respective federal income tax returns.
(2) The SEC PV-10 present value of future net cash flow is based on year-end natural gas sales prices. Because December 31, 2000 prices were significantly higher than other year-end prices, 2000 results appear higher.

Other Properties

Dorchester Hugoton leases its principal offices in Garland, Texas under a lease expiring in 2007. Dorchester Hugoton also owns a field office in Hooker, Oklahoma and leases part of an office in Amarillo, Texas under a month-to-month lease. Dorchester Hugoton owns 160 surface acres in Oklahoma and 160 surface acres in Kansas on which it maintains compressor stations and dehydration facilities.

Dorchester Hugoton owns a fleet of 11 vehicles which are used in its operations.

Dorchester Hugoton also owns 128,000 shares of common stock of Exxon Mobil Corporation.

Selected Financial and Operating Data

The following table sets forth a summary of selected financial and operating data for Dorchester Hugoton for the periods indicated. It should be read in conjunction with the financial statements and related notes included elsewhere in this document. All of the information presented has been derived from the audited financial statements of Dorchester Hugoton.

	Years ended December 31,				
	2001	2000	1999	1998	1997
	(in thousands, except per unit and as otherwise indicated)				
Total operating revenues	$26,779	$25,182	$15,302	$15,366	$19,159
Net earnings	$18,351	$17,962	$ 9,046	$ 9,010	$12,665
Net earnings per unit	$ 1.69	$ 1.66	$ 0.83	$ 0.83	$ 1.17
Cash distributions	$13,349	$ 9,768	$ 7,814	$ 7,814	$ 7,814
Net cash provided by operating activities	$21,029	$18,526	$11,045	$10,501	$15,482
Total assets at book value	$41,454	$38,709	$28,165	$26,444	$25,215
Cash/cash equivalents	$18,439	$15,767	$ 7,017	$ 4,167	$ 3,344
Increase in cash/cash equivalents	$ 2,672	$ 8,750	$ 2,850	$ 823	$ 3,229
Long-term debt, including current portion	$ --	$ 100	$ 100	$ 100	$ 122
Total liabilities	$ 4,118	$ 5,779	$ 3,827	$ 3,803	$ 4,374
Partners' equity	$37,336	$32,930	$24,338	$22,641	$20,841

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist in understanding Dorchester Hugoton's financial position and results of operations for the three years ended December 31, 2001. You should refer to Dorchester Hugoton's financial statements and the notes to the financial statements included elsewhere in this document in conjunction with this discussion.

Overview

Dorchester Hugoton's business operations consist of producing, gathering and selling natural gas from the long-established Hugoton gas field in Oklahoma and Kansas. Dorchester Hugoton distributes a large proportion of its net cash flow each year. It has not engaged in exploration activities and has not engaged in development activities except to a very limited extent with respect to replacement or improvement of its existing wells. Its cash flow from operations has historically been sufficient to fund its cash and capital expenditure requirements, and, while it maintains a revolving credit arrangement with a bank, borrowings since January 1, 1998 have been minimal.

Dorchester Hugoton's year to year changes in net earnings and cash flows from operating activities are principally determined by changes in natural gas sales volumes and gas prices. Dorchester Hugoton's portion of gas sales volumes (not reduced for the Oklahoma production payment) and weighted average sales prices were:

	Years ended December 31,		
	2001	2000	1999
Sales Volumes (MMcf):			
Oklahoma	5,141	5,576	5,580
Kansas	974	1,082	1,320
Total	6,115	6,658	6,900
Weighted Average Sales Prices ($/Mcf):			
Oklahoma	$ 4.42	$ 3.95	$ 2.28
Kansas	$ 4.55	$ 3.99	$ 2.36
Overall Weighted Average Sales Price	$ 4.44	$ 3.96	$ 2.30

It is expected that net operating revenues for 2002 and future years will be benefited by Dorchester Hugoton's acquisition in 2001 of a production payment, which had reduced its net operating income and cash flow in prior years. The benefit will be partially offset by increased depletion. Since future payments depend upon future gas prices, the amount of future benefit is not reasonably quantifiable. During the periods ending March 1, 1999, 2000, and 2001, the production payment to others has been approximately $646,000, $730,000, and $1,701,000, respectively. See "Information Concerning Dorchester Hugoton--Management's Discussion and Analyzing Financial Condition and Results of Operations--Liquidity and Capital Resources" below.

Year Ended December 31, 2001 Compared with the Year Ended December 31, 2000

As shown in the table above, Oklahoma 2001 gas sales volumes were 7.8% lower than 2000 primarily as a result of extensive scheduled maintenance during 2001 causing downtime on the Oklahoma central gas compression units that deliver the gas into transmission pipelines, combined with natural reservoir decline and pipeline repairs.

Kansas 2001 sales volumes were 10% lower than 2000 as a result of declining well volumes and pressures typical of other producers in that area. The percentage decline from 2000 was smaller compared to prior years' declines, which was approximately 20%. The use of field compression, which increased volume initially, helped lessen the decline on an annual basis. Existing Kansas compressors were adequate to create a vacuum at the well, although no significant increase in current gas production has occurred.

Natural gas weighted average sales prices in 2001 were 12% higher than 2000, because of higher marketplace prices during the first half of 2001.

Compared to the prior year, 2001 net operating revenues increased as a result of improved gas pricing, more than offsetting lower gas sales volumes, and as a result of the acquisition of a production payment in Oklahoma which reduced overriding royalty costs $860,000.

Operating costs during 2001 were higher than 2000 as a result of: (i) higher production taxes associated with increased gas revenues; (ii) a $530,000 increase in depletion costs resulting from the purchase of the Oklahoma production payment prior to being offset by reduced depletion due to increases in reserves; (iii) increased operating costs (repairs) of $300,000 from scheduled Oklahoma engine maintenance; (iv) higher general and administrative costs (primarily insurance) of approximately $200,000; and, (v) an increase in legal and other costs of $450,000 associated with the announced agreement to combine with Republic and Spinnaker.

As a result, the increased cost in 2001 compared to 2000 tended to offset the 2001 increased net operating revenues compared to 2000, producing essentially the same net income for the two years.

Year Ended December 31, 2000 Compared with the Year Ended December 31, 1999

As shown in the table above, Oklahoma 2000 gas sales volumes were essentially unchanged from 1999 which was largely due to volume increases resulting from fracture treating offsetting natural declines.

Kansas 2000 sales volumes were 18% lower than 1999 which was a result of declining volumes and pressures typical of other producers in that area.

2000 weighted average natural gas prices were significantly higher than 1999 because of significantly higher marketplace prices, particularly in the last half of 2000.

Excluding cost items directly influenced by the market price of natural gas, such as production taxes, overall costs increased less than 2% of net earnings from 1999 to 2000. Noteworthy changes include an increase of $150,000 in tax and regulatory costs resulting from Y2K changes in Schedule K-1 preparation and electronic filing, and decreased "other income" primarily as a result of approximately $340,000 in costs associated with the proposed combination with Republic and Spinnaker.

Net earnings increased substantially from 1999 to 2000 primarily as a result of significant increases in natural gas market prices.

Liquidity and Capital Resources

On July 19, 1994, Dorchester Hugoton entered into a $15,000,000 unsecured revolving credit facility with Bank One, Texas, NA, which will expire July 31, 2002. The current borrowing base is $6,000,000, which will be re-evaluated by the bank at least annually. If, on any evaluation date, the aggregate amount of outstanding loans and letters of credit exceed the current borrowing base, Dorchester Hugoton is required to repay the excess. This credit facility includes both cash advances and any letters of credit that Dorchester Hugoton may need, with interest being charged at the bank's base rate, which was 4.75% on December 31, 2001. All amounts borrowed under this facility become due and payable on July 31, 2002. As of December 31, 2001, no letters of credit were issued under the credit facility and the amount borrowed was $100,000. Dorchester Hugoton is required to maintain certain minimum defined financial ratios with respect to its current ratio and the ratio of net cash flow to debt service. In addition, Dorchester Hugoton's capital must be maintained above specified amounts. Dorchester Hugoton's general partners have guaranteed this note. Since July 1994 the maximum amount borrowed under this credit facility has been $5,800,000. During 1999, 2000 and 2001 the amount borrowed under this credit facility was $100,000 (the minimum borrowing necessary to maintain the credit facility). Dorchester Hugoton does not believe that changes in interest rates will have a material adverse effect on its financial condition or operating results. Pursuant to the Combination Agreement, prior to closing Dorchester Hugoton will repay its borrowings.

Cash flows from operating activities remain sufficient to meet Dorchester Hugoton's anticipated costs and expenses and debt service requirements. Dorchester Hugoton has no current outstanding material commitments for capital expenditures. Year end cash and cash equivalents totaled $7,017,000 for 1999, $15,767,000 for 2000 and $18,439,000 for 2001.

Dorchester Hugoton does not currently anticipate drilling additional wells as a working interest owner in the Fort Riley zone, the Council Grove formation or elsewhere, but successful activities by others in these formations could prompt a reevaluation by Dorchester Hugoton. Any such drilling is estimated to require $250,000 to $300,000 per well. Dorchester Hugoton anticipates continuing additional fracture treating but is unable to predict the cost until additional engineering studies are done.

Dorchester Hugoton anticipates normal gradual increases in repairs to its Oklahoma gas compression and dehydration facility and gradual increases in Oklahoma field operating costs and expenses as repairs to its 50-year-old pipelines and gas wells become more frequent and as pressures decline. Dorchester Hugoton does not

anticipate significant replacement of these items at this time. However, Dorchester Hugoton believes rental field compression units installed at various locations on its Oklahoma gas gathering pipelines may become necessary in 2003 because of lower pressures. The cost of such additional compression could require from $400,000 to $600,000 in capital and require $350,000 to $400,000 per year additional operating costs (primarily compressor rental). While it is believed that the benefits of such compression will more than exceed cost and recover capital, neither the timing of such a project nor the increased gas production are currently predictable.

In 1998, Oklahoma 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. No additional compression has been installed that affects Dorchester Hugoton's wells during 2001 by operators on adjoining acreage resulting from the relaxed production rules. Such installations by others could require expenditures by Dorchester Hugoton to stay competitive with adjoining operators.

Since its first annual payment in 1997, each May Dorchester Hugoton has paid an Oklahoma production payment (calculated through the prior February) that is based upon the difference between market gas prices compared to a table of rising prices and based upon a table of declining volumes. In May 2001 Dorchester Hugoton paid approximately $1,701,000 in production payments for the year ended February 28, 2001. In August 2001, Dorchester Hugoton paid $5,270,000 to acquire, effective March 1, 2001, the Oklahoma production payment and will not be required to make such production payments to others in the future.

Critical Accounting Policies

Dorchester Hugoton uses the full cost method of accounting for its gas properties. Under the full cost method of accounting, all costs of acquisition, exploration and development of gas properties are capitalized in a "full cost pool" as such costs are incurred. Gas properties in the pool, plus estimated future development and abandonment costs are depleted and charged to operations using the unit of production method. The full cost method subjects companies to a quarterly calculation of a "ceiling test" or limitation on the amount that may be capitalized on the balance sheet attributable to gas properties. To the extent capitalized costs (net of depreciation, depletion and amortization) exceed the calculated ceiling, the excess must be permanently written off to expense.

Dorchester Hugoton's discounted present value of its proved natural 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. Dorchester Hugoton's 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 a full cost writedown. 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 natural gas reserves that are included in the discounted present value of the reserves are objectively determined. The ceiling calculation requires prices and costs in effect as of the last day of the accounting period 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. Natural gas prices have historically been volatile and the prevailing prices at any given time may not reflect Dorchester Hugoton's or the industry's forecast of future prices.

Changes in and Disagreements with Accountants

Dorchester Hugoton has not, during its two most recent fiscal years, experienced any changes in accountants or disagreements with Grant Thornton LLP, the independent accountants engaged as the principal accountants to audit Dorchester Hugoton's financial statements.

Regulation

The transportation of natural gas after sale by Dorchester Hugoton is subject to regulation by federal authorities, specifically by the FERC. Various state agencies and authorities regulate the production of natural gas. Dorchester Hugoton's operations are also affected by various statutory controls or obligations and, in varying degrees, by political developments and federal and state laws and regulations. Natural gas production is affected by changing federal and state tax and other laws which are specifically applicable to the oil and natural gas industry, by constantly changing federal and state administrative regulations as well as possible interruption or termination by government authorities due to ecological and other considerations. Allowable gas production rates have been, and are, to varying degrees, subject to conservation and environmental laws and regulations.

Both Kansas and Oklahoma regulate the amount of natural gas that can be produced by assigning to each well or proration unit a monthly allowable rate of production. Kansas and Oklahoma also specifically regulate the drilling of new or replacement oil and natural gas wells, the spacing of wells, the prevention of waste of natural gas resources, environmental protection and various other matters.

During 1986, the Kansas Corporation Commission issued an order authorizing infill drilling on 320 acre spacing. Previously, each gas well required 640 acres. Dorchester Hugoton drilled and completed on its operated properties eight producing wells through 1990 and one each in 1995, 1996 and 1997. One infill well was plugged in 1992 and another in 1993 for economic reasons.

At present, the Oklahoma Guymon-Hugoton field is restricted by state conservation regulations to a maximum of one well for each 640 acres, subject to minor variances. Including Dorchester Hugoton's 127 wells, there are about 1,350 currently producing gas wells in the Guymon-Hugoton field owned by both independent producers and major oil and natural gas companies. Previously, a few producers and numerous other interested parties in the area were actively seeking either regulatory or legislative changes to enable "increased density drilling" similar to Kansas infill drilling on 320 acre spacing. At present, several producers in the field have actively opposed such infill drilling. The difference in beliefs appears to rest in whether such infill drilling results in increased reserves. In 1989 the Oklahoma Corporation Commission concluded hearings on infill drilling and determined the present density of one well per 640 acres was adequate to drain the 640 acres. Numerous studies of the Kansas infill drilling results concluded that infill drilling developed no new reserves. This conclusion is consistent with Dorchester Hugoton's experience in Kansas.

A change in the Guymon-Hugoton field rules allowing infill drilling could result in a large number of wells being drilled that are not needed to produce the same gas that is being produced by the existing wells. Dorchester Hugoton believes it is not usually economically justifiable to drill a second well on 640 acres in Oklahoma just to produce the same gas as the original well, only faster. The outcome and cost of infill drilling is unpredictable. In late February 1997, Oklahoma did not pass legislation that would have allowed "infill drilling." Similar proposed legislation may arise in the future. On June 21, 1999 Oklahoma enacted legislation that clarifies who must receive notices of any application for Guymon-Hugoton infill drilling. Currently no such applications have been filed and such filings are expected to be controversial and require lengthy regulatory proceedings.

On February 4, 1998 the Oklahoma Corporation Commission adopted rules that essentially removed production volume limits from nearly all wells in the Guymon-Hugoton field effective July 1, 1998 and specifically provided that the rule changes have no bearing on the question of infill drilling which must be decided separately. Thus far only one company on adjoining acreage has installed gas compression to try to benefit from Oklahoma's removal of production limits. Dorchester Hugoton elected to install similar rental compression to stay competitive. Since 2000, seven of Dorchester Hugoton's wells have been assisted by such field compressors compared to five during 1999. The increase in production has more than offset costs of compression. Further activities by others resulting from the field rule changes and related costs or benefits to Dorchester Hugoton are unpredictable.

During 2000, Kansas adopted new regulatory rules, agreed upon by most producers, to enable the use of field compressors to operate Hugoton field wells at a vacuum and provide that no well will be restricted to less

than 100 Mcf per day. Possible effects of state allowed production in excess of 100 Mcf per day are not predictable. Dorchester Hugoton has received approval to operate all its wells at a vacuum.

The FERC allows regulated transmission pipelines to transfer or sell portions of their system classified or reclassified by the FERC as gas gathering pipelines to non-regulated entities or affiliates. Most of Dorchester Hugoton's Oklahoma gas was not affected by any such sale or transfer, and the effect on Dorchester Hugoton in Kansas has been minimal since only one of the two transmission pipelines to which Dorchester Hugoton delivered gas became a non-regulated gathering pipeline in 1996. Since then, Dorchester Hugoton's gas from the 20 Kansas wells has been delivered directly to a transmission pipeline or sold to Duke Energy Field Services, Inc., at the outlet of Dorchester Hugoton's compression and dehydration facility. Both Kansas and Oklahoma have adopted state regulation of gas gathering pipeline systems available for hire, which excludes Dorchester Hugoton's facilities. Additionally, current court decisions in both Kansas and Oklahoma sharply restrict the practice of requiring royalty owners to bear their share of gas gathering and compression costs. Dorchester Hugoton has never charged royalty owners for such costs.

Customers and Pricing

The pricing of all Dorchester Hugoton's gas sales, both in Kansas and Oklahoma, is primarily determined by supply and demand in the marketplace. This price can fluctuate considerably. During 2001 the highest monthly average price was $10.02/MMBTU in January and the lowest monthly average was $1.85/MMBTU in October. Dorchester Hugoton anticipates continued fluctuations in marketplace pricing.

Effective May 1, 2002, all of Dorchester Hugoton's Kansas gas was committed for sale to Anadarko Energy Services Company for a period of one year and year to year thereafter. Anadarko pays Dorchester Hugoton based on an average of the market price in the field. Pursuant to notice given November 1, 2001, the previous gas sales agreement with Duke Energy Field Services, Inc. expired May 1, 2002. Dorchester Hugoton believes the impact of the change in gas purchasers will be immaterial to its income and cash flow.

Effective July 1, 2000, most of Dorchester Hugoton's Oklahoma gas was committed for sale to Williams Energy Marketing and Trading Company for a one-year period at a premium over the market price index. Since July 1, 2001, such sales have been on a month-to-month basis at varying market price indexes. During 1996, Dorchester Hugoton's Oklahoma gas began a five-year commitment to Williams Field Services Company for delivery to the ultimate purchaser or purchasers through a processing facility, which also removes the contaminant nitrogen. During 2001, the commitment was extended another five years. Effective February 28, 2002 Williams Field Services Company sold the processing facility to Duke Energy Field Services, L.P., which has shifted the processing to its facility near Liberal, Kansas. Minimal impact is expected. The quantity sold to Williams Energy Marketing is determined by nominations at the processing facility outlet. Imbalances with actual deliveries to Duke Energy Field Services, L.P., formerly Williams Field Services Company are corrected in each subsequent month. At December 31, 2001, the imbalance was approximately 3,000 MMBTU owed Dorchester Hugoton compared to 7,000 MMBTU owed Dorchester Hugoton at December 31, 2000.

On May 1, 2000 Dorchester Hugoton extended year to year a previously four-year gas sales agreement with WFS Gas Resources Company (part of Williams Companies, Inc.) providing for gathering, compression, and sale of gas at market prices. This agreement covers only three wells in which Dorchester Hugoton has minimal interest that are not connected to Dorchester Hugoton's Oklahoma gas gathering pipeline and compression facilities. This sales agreement replaced the previously regulated gathering and compression services provided by Williams Natural Gas Company.

Dorchester Hugoton believes that the loss of any single customer would not have a material adverse effect on the results of its operations because the transmission and other pipelines connected to Dorchester Hugoton's facilities are required by the FERC or state regulations to provide continued equal access for shipment of natural gas. Additionally, there are numerous gas purchasers available on each pipeline.

Competition

The energy industry in which Dorchester Hugoton competes is subject to intense competition among a large number of companies, both larger and smaller than Dorchester Hugoton, many of which have financial and other resources greater than Dorchester Hugoton.

Environmental Laws and Regulations

The costs associated with Dorchester Hugoton's compliance with environmental laws and regulations have not had, and are not anticipated to have, a material effect on its capital expenditures, earnings or competitive position. Dorchester Hugoton's gas production contains minimal contaminants other than nitrogen, which is inert and non-toxic. Dorchester Hugoton's quarterly air emission tests at its Oklahoma compression facility continue to comply with the Oklahoma Department of Environmental Quality's air quality regulations. The Kansas Department of Health and Environment has issued Dorchester Hugoton an air emissions operating permit for its Kansas compression facility. At present, no permits are necessary for the seven rental field compressors installed in Kansas during 1997 or the two rental field compressors installed in Oklahoma during 1999.

Tax Returns

Dorchester Hugoton's expenditures for regulatory reporting, primarily consisting of Schedule K-1 tax statement preparation and federal electronic filing fees were approximately $170,000 in 1999 and $320,000 in 2000 and 2001, as reflected in general and administrative costs. Dorchester Hugoton recently secured a two-year agreement for Schedule K-1 tax statement preparation and electronic filing for its 4,000 to 5,000 depositary receipt holders at a level slightly higher than 2001. This agreement will not apply to us in the event Dorchester Hugoton combines with Republic and Spinnaker pursuant to the Combination Agreement.

Legal Proceedings

Through 1998 Dorchester Hugoton recorded $450,000 (which included related interest) towards a request from Panhandle Eastern Pipe Line Company, referred to as PEPL, for refund of Kansas tax reimbursements received by Dorchester Hugoton during the years 1983 to 1987. These charges resulted from a ruling by the United States Court of Appeals for the District of Columbia, which overruled a previous order by the FERC. During March 1998, $151,757 was paid to PEPL and an additional $366,633 was placed into an escrow account. During March 1999, $2,840 was released from escrow to PEPL. During June 2001, Dorchester Hugoton, along with numerous other natural gas producers, agreed with PEPL to settle all issues. The FERC approved the settlement during October 2001. Dorchester Hugoton adjusted its accrued liability from approximately $419,000 to approximately $320,000 during the third quarter of 2001. Pursuant to the settlement, during October 2001, Dorchester Hugoton returned all funds collected from royalty owners, which were approximately $35,000, who had paid their refund obligation to Dorchester Hugoton. Also, in connection with the Settlement, on November 20, 2001 Dorchester Hugoton paid from the escrow account approximately $285,000 to PEPL and approximately $135,000 to itself, subsequently closing the escrow account.

In January 2002, an association called Rural Residents for Natural Gas Rights, referred to as RRNGR, sued Dorchester Hugoton, Anadarko Petroleum Corporation, Conoco, Inc., XTO Energy Inc., ExxonMobil Corporation, Phillips Petroleum Company, Incorporated and Texaco Exploration and Production, Inc. RRNGR consists primarily of Texas County, Oklahoma residents who use natural gas at their own risk free of cost from gas wells in residences located on leases. 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 lease agreements with defendants in the 1930's to the 1950's. Plaintiffs also assert defendants conspired to restrain trade by warning of dangers of natural gas use and using such warnings to induce some plaintiffs to release their domestic gas rights. Plaintiffs also seek certification of class action against defendants. Dorchester Hugoton believes plaintiffs' claims are completely without merit as to Dorchester Hugoton and has filed an answer,

including a motion for summary judgment against plaintiff. Further, based upon past measurements of such gas usage and current natural gas prices, Dorchester Hugoton believes the damages sought by plaintiffs to be minimal.

Security Ownership

Depositary Receipts

Immediately subsequent to its formation, all of Dorchester Hugoton's units of limited partnership interest were deposited with an authorized depositary, to be held in accordance with a depositary agreement. Effective September 8, 1998, the depositary became BankBoston, N.A., which is now EquiServe Trust Company, N.A., P.O. Box 43010, Providence, RI, 02940-3010. The depositary maintains an account with respect to the units deposited for which it has issued depositary receipts. Holders of depositary receipts, also referred to as unitholders, may transfer, combine or subdivide them at any office of the depositary designated for such purpose. Unitholders may also surrender them to the depositary and, upon submission of such documents as Dorchester Hugoton's general partners may require, reclaim deposited units. However, the units will not be readily transferable and any redeposit of units against newly issued depositary receipts will require 60 days' advance written notice and is subject to certain other conditions.

The units and the depositary receipts are fully paid and non-assessable. Each record holder of a depositary receipt evidencing the ownership of one or more units will, for purposes of the Texas Revised Limited Partnership Act, be an assignee with respect to the interests in Dorchester Hugoton represented by such units. Each such assignee may become a substituted limited partner upon (i) the execution and delivery of a request and agreement to become a substituted limited partner, which includes a power of attorney to the general partners, (ii) the approval of the general partners to such admission as a substituted limited partner, and (iii) the filing of an amended Certificate of Limited Partnership evidencing the admission of such person as a substituted limited partner. If such action is not taken, unitholders will remain assignees of the interests of Dorchester Hugoton represented by the units. Under certain circumstances, a unitholder may not become a substituted limited partner if such holder is not an eligible citizen.

Hugoton Nominee, Inc., a Texas nominee corporation referred to as Nominee, was formed in August 1982 on behalf of Dorchester Hugoton and has agreed to act as limited partner of record for those unitholders of record who do not become substituted limited partners. Dorchester Hugoton is required to reimburse Nominee for all expenses incurred in its capacity and shall indemnify Nominee against certain liabilities. Nominee may at any time resign or be removed by Dorchester Hugoton and a successor appointed.

The agreement with the current depositary, Equiserve Trust Company, N.A. became effective September 1, 2001 and will continue for three years and year to year thereafter. The agreement is fully assignable.

Cash Distributions

Each unitholder (whether an assignee or limited partner) as of the last day of each month is allocated a pro rata share of Dorchester Hugoton's profits and losses for the month then ended, regardless of whether such holder receives any cash distributions from Dorchester Hugoton. Each unitholder of record (whether an assignee or limited partner) as of the applicable record date is entitled to receive an allocable share of any cash distributions made by Dorchester Hugoton. The timing and amount of such distributions is determined by the general partners. In addition, Dorchester Hugoton's credit agreement with Bank One, Texas, NA requires that Dorchester Hugoton's capital remain above certain specified amounts.

Market Prices of Dorchester Hugoton Depositary Receipts

The depositary receipts have been traded on the Nasdaq Stock Market under the symbol "DHULZ" since August 26, 1982. The quoted market prices and reported trading volumes for 2001, 2000 and 1999 were as follows:

	2001			2000			1999		
	Low	High	Volume	Low	High	Volume	Low	High	Volume
First Qtr.	$12.25	$ 15.875	1,005,000	$ 8.875	$10.0625	687,000	$ 9.375	$10.50	867,000
Second Qtr	11.25	14.5555	1,183,000	9.9375	14.125	1,055,000	9.00	11.50	388,000
Third Qtr.	12.50	14.80	610,000	13.375	15.625	966,000	10.125	13.25	481,000
Fourth Qtr	10.23	14.8571	409,000	13.00	16.25	1,251,000	9.00	13.25	476,000

As of January 1, 2002, there were approximately 4,900 Unitholders.

Principal Holders

The following table sets forth certain information regarding the beneficial ownership of units by the general partners of Dorchester Hugoton, their officers, and Dorchester Hugoton's officer effective as of January 1, 2002 and other persons, excluding depositaries, of record on January 1, 2002 who held 5% or more of the units.

	Number of Units Beneficially Owned	Percent of Class(1)(3)
P.A. Peak, Inc., general partner.......................................	--	--
Preston A. Peak, President of P.A. Peak, Inc...........................	1,577,412(2)	14.68%
James E. Raley, Inc., general partner..................................	--	--
James E. Raley, President of James E. Raley, Inc.......................	14,706	00.14%
All general partners and their executive officers as a Group (4 persons)	1,592,118	14.82%

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(1) Based on 10,744,380 units.

(2) Includes 1,576,412 units owned by various entities for the benefit of Mr. Peak and his family, and 1,000 units owned by Hugoton Nominee, Inc., of which he is the President and sole director.

(3) The units owned by the Advisory Committee members and the non-general partner officer of Dorchester Hugoton are less than 1% of the total units outstanding at January 1, 2002.

Other Information

Dorchester Hugoton, Ltd. has its principal place of business at 1919 S. Shiloh Road, Suite 600-LB 48, Garland, Texas 75042, telephone (972) 864-8610. Dorchester Hugoton employed 14 full time permanent employees (not including its general partners) as of January 1, 2002.

INFORMATION CONCERNING REPUBLIC

General

Republic was formed in 1993 as a Texas general partnership to acquire oil and natural gas properties from multiple sellers. Prior to the combination, Republic will reorganize and be converted into a Texas limited partnership. See "The Combination--Preparatory Steps--Reorganization of Republic" beginning at page 56 for a more complete discussion of the Republic reorganization. Except where otherwise indicated, the following discussion of Republic assumes that the Republic reorganization has not occurred. SAM Partners, Ltd. and Vaughn Petroleum, Ltd. are the general partners of Republic and own equal 50% partnership interests. SAM Partners, Ltd. manages and administers Republic's properties and business.

Republic's properties consist primarily of producing and non-producing mineral, royalty, overriding royalty and leasehold interests located in 392 counties and parishes in 23 states. See "--Description of the Republic Properties" below for a more detailed discussion of the Republic properties. Republic funded the acquisitions of its properties with the proceeds of the sale of overriding royalty interests which burden all of Republic's properties, referred to as the Republic ORRIs, in varying undivided portions to five institutional investors and one limited partnership, referred to as the Republic ORRI owners. The Republic ORRIs, a real property interest, are commonly referred to in the oil and natural gas industry as a net profits interest. Republic's primary business is the management and administration of its properties. Republic has not acquired any properties since its formation in 1993.

The terms of the transaction resulting in the sale of the Republic ORRIs are summarized below:

- The Republic ORRI owners paid 95.9% of Republic's actual cost to acquire the properties.

- The Republic ORRI owners are entitled to 95.9% of net proceeds (as defined below) attributable to the properties until Payout No. 1 (as described below) is achieved, 86.31% thereafter until Payout No. 2 (as described below) is achieved and 77.679% thereafter for the life of the properties.

- Net proceeds equal cash receipts, less cash disbursements attributable to Republic's properties. Net proceeds are adjusted for an overhead reimbursement amount equal to 4% of cash flow. Actual general and administrative costs are not included in the determination of net proceeds.

- Payout No. 1 occurs when the Republic ORRI owners have recovered 100% of their initial investment from Republic ORRIs payments; Payout No. 2 occurs when the Republic ORRI owners have received a 14% internal rate of return on their initial investment.

- Payout No. 1 was achieved in August 2000.

Republic receives payment for oil and natural gas production revenue, lease bonus and all other sources of income and pays all expenses, including severance, property and ad valorem taxes. Republic determines the payment under the Republic ORRIs and pays that amount to the Republic ORRI owners monthly. Distributions to the general partners reflect actual cash receipts less actual cash disbursements, including the payments to the Republic ORRI owners and actual general and administrative expenses. The general partners bear their respective share of actual general and administrative expenses to the extent these expenses exceed the overhead reimbursement.

There is no established public trading market for Republic's partnership interests. As a result of the Republic reorganization, two general partners and a total of 11 limited partners will hold Republic's partnership interests. The general partners are not aware of any purchases or sales of partnership interests or the Republic ORRIs since formation, except for isolated transactions not involving brokers or other market participants. Three of the five Republic ORRI owners that are institutional investors have conveyed all or a portion of their Republic ORRIs to successor entities in corporate transactions. The result is that seven institutional investors, referred to as the Unaffiliated ORRI Owners, and one limited partnership, referred to as the Affiliated Partnership, now own the

Republic ORRIs. In accordance with generally accepted accounting principles, financial statements are presented separately for Republic and the Affiliated Partnership, and for the Unaffiliated ORRI Owners.

All capital raised by Republic has been invested as planned. As a result of these investments, Republic has achieved its investment objective of purchasing and owning oil and natural gas properties.

Description of the Republic Properties

Republic owns producing and nonproducing mineral, royalty, overriding royalty and leasehold interests. See "Glossary of Certain Oil and Natural Gas Terms" for descriptions of these terms.

Acquisition History

Republic acquired all of its interests from SASI Minerals Company, referred to as SASI, Vaughn Petroleum, Inc., referred to as VPI, and Vaughn Petroleum 1989 Joint Venture, referred to as Vaughn JV, in one transaction in September 1993. We refer to the interests acquired from SASI as the SASI properties, while the interests acquired from VPI are referred to as the VPI properties and the interests acquired from Vaughn JV are referred to as the Vaughn JV properties.

The SASI properties consisted of substantially all, but not all, of SASI's producing and nonproducing mineral, royalty, overriding royalty, leasehold and surface fee interests located in 352 counties and parishes in 22 states. SASI acquired these interests in 15 transactions from 1987 through 1992 from multiple sellers and include properties formerly owned by Newmont Oil Company, Felmont Oil Corporation, Case Pomeroy Oil Corporation, Essex Royalty Corporation, Montoya Oil Corporation, Alder Oil Company, Mayfair Minerals and others. SASI acquired these properties and others pursuant to a Management and Consulting Agreement among SASI and Smith Allen Oil & Gas, Inc. pursuant to which Messrs. McManemin and Allen, as officers and directors of Smith Allen Oil & Gas, were individually responsible for their acquisition and subsequent administration. The SASI properties represented approximately 93% of Republic's oil and natural gas reserves upon its formation.

The VPI properties consisted of VPI's producing and nonproducing mineral, royalty, overriding royalty and leasehold interests located in 125 counties and parishes in 16 states. VPI acquired these properties in multiple transactions from 1930 through 1992 from multiple sellers. The VPI properties represented approximately 7% of Republic's oil and natural gas reserves upon its formation. The Vaughn JV properties consisted of leasehold interests in five exploratory drilling prospects located in the Smackover Trend of East Texas. Five wells were drilled on these properties; as of December 31, 2001 none of these wells were producing and all of the leases acquired from Vaughn JV have expired.

Acreage Summary

The following table sets forth a summary of Republic's gross and net (where applicable) acres of mineral, royalty, overriding royalty and/or leasehold interests, and a compilation of the number of counties and parishes and states and development status of the acres in each category as of January 1, 2002.

	Mineral			Overriding		
	Leased	Unleased	Royalty	Royalty	Leasehold	Total
Number of States...........	17	23	14	11	6	23
Number of Counties/Parishes	165	300	130	51	31	392
Gross......................	464,926	984,954	373,465	95,552	29,698	1,948,594
Net (where applicable).....	55,761	167,175	N/A	N/A	N/A	222,956

Our net interest in production from royalty, overriding royalty and leasehold interests is based on burdens or reservations which vary from property to property. Consequently, net acreage ownership in these categories is not determinable.

Properties located in Texas represent 83% of Republic's total production revenues received during 2001, while properties located in Louisiana represented 7.5% and properties located in New Mexico represented 3%.

Republic owns 2,499 acres of surface fee interest located in Wood County, Texas commonly referred to as the SASI Ranch. Republic leases these lands for cattle grazing and owns approximately a 1/3 undivided mineral interest in these lands. Republic also owns small amounts of surface acreage in numerous states which are individually insignificant and not material in the aggregate.

The following table sets forth a summary of Republic's 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 as of January 1, 2002.

State	Gross	Net	State	Gross	Net
Alabama....	73,675	4,220	Montana.....	16,506	2,388
Arkansas...	24,090	5,599	Nebraska....	1,120	239
Colorado...	9,231	1,015	New Mexico..	27,552	2,074
Florida....	88,832	24,249	New York....	3,755	1,653
Georgia....	3,676	1,024	North Dakota	246,710	36,098
Illinois...	3,908	724	Oklahoma....	20,919	2,213
Indiana....	303	113	Pennsylvania	7,973	2,879
Kansas.....	5,114	924	South Dakota	12,257	1,222
Kentucky...	1,995	553	Texas.......	1,219,748	124,070
Louisiana..	72,456	2,113	Utah........	1,280	40
Michigan...	55,367	2,623	Wyoming.....	11,814	821
Mississippi	41,317	6,105			

Activity Summary

As a royalty owner Republic's access to information concerning activity and operations on its properties is significantly limited. Most of Republic's producing properties are subject to leases and other contracts pursuant to which it is not entitled to well information. Most leases consummated by Republic since its formation in 1993 provide for access to technical data and other information. Republic 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 Republic's properties at any point in time is not determinable. The primary manner by which Republic becomes aware of activity on its properties is the receipt of division orders or other correspondence from operators or purchasers.

The following table sets forth a summary of leases consummated and new wells added by Republic during 1997 through 2001.

	Years Ended December 31,				
	2001	2000	1999	1998	1997
Consummated Leases					
Number................	10	19	22	26	42
Number of States......	3	6	5	5	7
Number of Counties....	7	16	18	23	22
Average Royalty.......	26.3%	24.3%	25.1%	24.8%	24.7%
Average Bonus, $/acre.	$ 427	$ 178	$ 201	$ 162	$ 194
Total Lease Bonus.....	$140,171	$ 275,327	$ 742,678	$1,201,474	$583,965
Other Land Revenue.......	$316,427	$2,212,988	$ 468,237	$ 407,710	$ 50,058
Total Land Revenue.......	$456,598	$2,488,315	$1,211,915	$1,609,184	$634,023
New Wells Added					
Number................	77	80	79	87	57
Number of States......	9	7	7	9	6
Number of Counties....	39	32	34	33	30

Oil and Natural Gas Reserves

Huddleston & Co., Inc. has estimated Republic's proved reserves and SEC PV-10 present value attributable thereto as of December 31, 2001 and at year-end annually since 1993.

Huddleston has segregated Republic's properties into three Property Groups. The properties included in these Groups include only those properties evaluated by Huddleston and represent (to the best of Republic's knowledge) all of Republic's producing properties as of December 31, 2001, based on information available to Republic. Set forth below is a description of the properties in each Group.

The Group I properties are located in 20 counties in west Texas, New Mexico and Colorado and may be characterized as long lived oil and natural gas fields operated by major oil companies and large independents. Approximately 80% of Group I's total proved oil reserves and 18% of Group I's total proved natural gas reserves are attributable to Republic's interest in the Means, Robertson, Seminole and Wasson fields in Andrews, Gaines and Yoakum counties of west Texas, each of which fields were discovered in the 1930s. These fields are located in the Permian Basin and generally produce oil and associated gas from depths ranging from 4,500 to 7,500 feet. Enhanced recovery operations are underway in each property.

The Group II properties are located in six counties and parishes along the Gulf Coast of south Texas and south Louisiana and may be characterized as long lived natural gas and condensate fields operated by major oil companies and large independents. Approximately 92% of Group II's total proved oil reserves and 99% of Group II's total proved natural gas reserves are attributable to Republic's interest in the Bob West, Jeffress, McAllen Ranch and Port Hudson fields. These fields generally produce natural gas and condensate from depths ranging from 8,000 to 17,000 feet.

The Group III properties consist of the balance of Republic's producing properties and are located in 206 counties and parishes in 15 states. The Group III properties produce hydrocarbons from a variety of depths and types of reservoirs. Due to the limited nature of information available to Republic as a royalty owner, and the varying methodologies by which data concerning oil and natural gas operations is reported to the agencies having jurisdiction in the various states, the number of producing oil and natural gas wells included in Group III is not determinable. During 2001, Republic received payment from 454 purchasers for its share of production from 5,273 properties included in Group III. Although Group III represents the largest property group, any specific

property included in Group III may be characterized as individually
insignificant in the context of Republic's total proved reserves.

The following table sets forth a summary of certain financial and reserve information for each Property Group for the period December 31, 1999 through December 31, 2001, and includes amounts attributable to the Republic ORRIs.

	Years Ended December 31,							
	Group I			Group II			Group III	
	2001	2000	1999	2001	2000	1999	2001	2000
Proved Developed								
Net Oil (Bbls).....................	1,954,689	1,984,370	1,973,620	102,802	129,923	212,674	1,169,587	1,198,290
Net Gas (Mcf)......................	4,873,500	4,450,200	3,984,100	3,760,000	4,460,100	6,623,700	9,945,700	8,636,200
Total Proved								
Net Oil (Bbls).....................	1,954,689	1,984,370	1,973,620	103,340	130,475	236,333	1,343,059	1,376,187
Net Gas (Mcf)......................	4,873,500	4,450,200	3,984,100	3,926,000	4,632,200	8,681,300	11,354,800	9,883,500
Annual Production								
Net Oil (Bbls).....................	106,267	108,950	115,044	28,872	35,425	29,362	147,514	149,750
Net Gas (Mcf)......................	340,694	375,740	324,884	1,139,503	2,192,767	931,184	1,237,010	1,172,949
Average Prices								
Oil ($/Bbl)........................	$26.31	$22.21	$15.83	$24.63	$27.72	$16.73	$24.79	$27.34
Gas ($/Mcf)........................	$ 4.32	$ 3.23	$ 2.05	$ 4.67	$ 3.79	$ 2.43	$ 4.35	$ 3.18
Total Proved Future Net Revenue ($)(1)								
Undiscounted.......................	42,279,575	84,243,341	50,672,021	10,700,503	44,760,654	23,064,211	48,308,598	118,418,185
SEC PV-10 present value (2)........	17,053,996	34,815,799	20,161,643	6,850,744	29,413,496	15,050,342	26,185,887	64,831,827

		Total - All Property Groups		
	1999	2001	2000	1999
Proved Developed				
Net Oil (Bbls).....................	1,373,700	3,227,078	3,312,583	3,559,994
Net Gas (Mcf)......................	9,199,700	18,579,200	17,546,500	19,807,500
Total Proved				
Net Oil (Bbls).....................	1,577,635	3,401,088	3,491,032	3,787,588
Net Gas (Mcf)......................	10,492,500	20,154,300	18,965,900	23,157,900
Annual Production				
Net Oil (Bbls).....................	162,349	277,653	294,125	306,755
Net Gas (Mcf)......................	1,140,420	2,717,207	3,741,456	2,396,488
Average Prices				
Oil ($/Bbl)........................	$15.52	$25.36	$25.49	$15.76
Gas ($/Mcf)........................	$ 2.02	$ 4.49	$ 3.55	$ 2.19
Total Proved Future Net Revenue ($)(1)				
Undiscounted.......................	54,524,973	101,288,676	247,422,180	128,261,205
SEC PV-10 present value (2)........	29,772,220	50,090,627	129,061,122	64,984,2059

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(1) Amounts shown in this table with respect to total proved future net revenue are based on year-end oil and natural gas prices and not on average prices for the entire year.

(2) Republic does not reflect a federal income tax provisions since its partners include the income of their partnership in their respective federal income tax returns.

Contribution and Distribution Information

The following table sets forth information concerning capital contributions by and distributions to Republic's partnership interests and the Republic ORRIs. The capital contributions attributable to the Republic ORRIs reflect the actual cash consideration received by Republic upon the conveyance of the Republic ORRIs to the Republic ORRI owners. The capital contributions attributable to the general partners reflect the fair value of the properties contributed to Republic by its general partners, which amount was deemed to be $6,061,000 on the date of the contribution in accordance with generally accepted accounting principles.

	Total Initial Capital Contribution	Cumulative Cash Distributions through December 31, 2001(1)
General Partners.....	$ 6,061,000	$ 8,822,572
Republic ORRIs Owners	$61,288,810	$82,255,803
Totals...........	$67,349,810	$91,078,375

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(1) 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, 100% of such distributions may be deemed to be a return of capital.

Selected Historical Combined Financial and Operating Information

The following table presents a summary of selected unaudited combined financial information and operating data for Republic for the periods indicated, and assumes that the Republic reorganization has occurred. The combined financial information reflects the combined operating results and financial condition of Republic and the Republic ORRIs. Intercompany amounts have been eliminated. It should be read in conjunction with the Republic and Republic ORRI audited financial statements and related notes included in this document.

	Years ended December 31,				
	2001	2000	1999	1998	1997
	(in thousands)				
Total operating revenues....................	$18,256	$25,134	$12,632	$ 8,962	$11,738
Net earnings................................	$11,905	$18,268	$ 7,175	$ 3,659	$ 5,915
Cash distributions (1)......................	$18,588	$20,398	$ 8,828	$ 8,653	$ 9,869
Net cash provided by operating activities...	$17,261	$21,228	$ 9,524	$ 8,058	$11,061
Total assets at book value..................	$35,071	$41,525	$43,636	$45,441	$50,247
Cash/cash equivalents.......................	$ 578	$ 1,906	$ 1,076	$ 381	$ 887
Increase (decrease) in cash/cash equivalents	$ 1,328	$ 829	$ 695	$ (505)	$ 24
Total liabilities...........................	$ 272	$ 43	$ 24	$ 176	$ 79
Partners' equity............................	$34,798	$41,482	$43,612	$45,265	$50,168

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(1) 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, 100% of such distributions may be deemed to be a return of capital.

Management's Discussion and Analysis of Combined Financial Condition and Results of Operations

The following discussion is intended to assist the reader in understanding Republic's combined financial position and results of operations for the three years ended December 31, 2001. This discussion assumes that the Republic Reorganization has occurred. See "The Combination--Preparatory Steps--Reorganization of Republic" beginning on page   for a discussion of the Republic reorganization. You should also refer to Republic's financial statements and the notes the financial statements included elsewhere in this document in conjunction with this discussion.

Overview

Republic's business activities consist of the ownership and administration of producing and nonproducing mineral, royalty, overriding royalty and leasehold interests located in 392 counties and parishes in 23 states. Republic owns and produces oil and natural gas reserves almost exclusively in the capacity of a royalty owner. As a royalty owner, Republic's involvement in the operation of producing properties in which it owns an interest is extremely limited and as such, Republic is a passive participant in these activities. In the instances in which Republic owns the executive rights in nonproducing properties, it is generally able to negotiate certain terms and conditions governing the conduct of its lessees when leasing its interest to third parties who may develop such properties. However, in the event production is established on those properties, Republic's involvement in the operation of such properties is similarly limited and as such Republic becomes a passive participant in such operations. Republic does not engage in oil and gas exploration, development and producing activities as an operator or working interest owner, and except in limited instances, does not bear any cost associated with activity on properties in which it owns an interest. Republic distributes substantially all of its cash flow each year.

Republic's year-to-year changes in net income and net cash flow from operations are principally determined by changes in oil and natural gas sales volumes and oil and natural gas prices. As a royalty owner, Republic essentially has no control over the volumes of oil and natural gas produced and sold from properties in which it owns an interest. Republic's net share of oil and natural gas sales volumes and the corresponding weighted average sales prices were:

	Years ended December 31		
	2001	2000	1999
Sales Volumes			
Oil (Bbls).........	277,653	294,125	306,755
Gas (MMcf).........	2,717.2	3,741.5	2,396.5
Weighted Average Price			
Oil ($/Bbl)........	25.36	25.49	15.76
Gas ($Mcf).........	4.49	3.55	2.19

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

As shown in the table above oil and natural gas sales volumes during 2001 were 5.6% and 27.4% lower, respectively, than during 2000. The decrease in oil sales volume was primarily due to natural reservoir declines. The decrease in natural gas sales volume was primarily due to production declines in the Jeffress Field area of Hidalgo County, Texas and to natural reservoir declines. The significant production decline in the Jeffress Field is attributable to reduced drilling activity and to the high rate of decline customarily observed from wells drilled in the area. Most production in the Jeffress Field area is derived from abnormally pressured Vicksburg sandstone reservoirs that require massive hydraulic fracture stimulation. Production from these reservoirs generally exhibits a hyberbolic decline curve, with significant decline rates in the first years of production, gradually leveling off to lesser rates of declines after two or three years of production. The production and pressure declines exhibited by wells in which Republic owns interests in the Jeffress field are typical of other producers in the field.

Weighted average oil sales prices were essentially unchanged from 2000 to 2001 due to average marketplace prices and the effects of fixed price oil sales contracts attributable to production from several properties in which Republic owns an interest, the terms of which include portions of both years. Weighted average natural gas sales prices were 26.5% higher in 2001 than 2000 due to higher marketplace prices and higher production volumes from the Jeffress Field area during the first half of 2001. Weighted average prices reflect the quotient of gross production revenue divided by net sales volumes, each attributable to a specific product during the year.

Lease bonus and delay rental income was 53% lower in 2001 than 2000 due to reduced leasing activity and receipt of fewer payments of delay rentals. Other income was 84.7% lower in 2001 than 2000 due to extraordinary amounts received during 2000 attributable to litigation settlement proceeds and reduced interest earned on accumulated balances.

Oil and gas production taxes were 18.4% higher in 2001 than in 2000 due to the expiration of certain state severance tax moratoriums and higher property taxes attributable to higher rendered values.

General and administrative expenses were 17.4% higher during 2001 than 2000 due primarily to increased rent and to salaries and benefits of employees of the general partners and their affiliates, which costs are reimbursed in accordance with Republic's partnership agreement.

Depletion expense was 28.0% lower in 2001 than 2000 due to lower production volumes and reduced depletable cost bases in Republic's properties.

Operating costs were 115.7% higher in 2001 than 2000 due to (a) increased legal expenses associated with the prosecution of the Garza litigation, (b) increased legal expenses associated with the defense of the Salinas litigation, and (c) increased legal and professional expenses attributable to the proposed combination with Dorchester Hugoton and Spinnaker. See "--Legal Proceedings" in this section for a discussion of the Garza and Salinas litigation.

As a result, although total expenses during 2001 were 8.9% lower than 2000, net income during 2001 was 34.8% lower than 2000, due primarily to lower oil and natural as production volumes and lower income from other sources.

Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

As shown in the table above oil and natural gas sales volumes during 2000 were 4.1% lower and 56.1% higher, respectively, than during 1999. The decrease in oil sales volume was primarily due to natural reservoir declines. The increase in natural gas sales volume was primarily due to production from new wells drilled in 1999 and 2000 in the Jeffress Field area of Hidalgo County, Texas and the Bob West Field area of Starr County, Texas. The drilling activity in Jeffress Field commenced soon after the settlement of litigation between Republic and the operator and other lessees of Republic's interests in that field.

Weighted average oil sales prices were 61.7% higher in 2000 than in 1999 due to average marketplace prices and the effects of fixed price oil sales contracts attributable to production from several properties in which Republic owns an interest, the terms of which includes portions of both years. Weighted average natural gas sales prices were 62.1% higher in 2000 than 1999 due to higher marketplace prices. Weighted average prices reflect the quotient of gross production revenue divided by net sales volumes, each attributable to a specific product during the year.

Lease bonus and delay rental income was 56.9% lower in 2000 than 1999 due to reduced leasing activity and receipt of fewer payments of delay rentals. Other income was 634.9% higher in 2000 than 1999 due to extraordinary amounts received during 2000 attributable to litigation settlement proceeds.

Oil and gas production taxes were 3.7% higher in 2000 than in 1999.

General and administrative expenses were 8.4% higher during 2000 than 1999 due primarily to increased rent and to salaries and benefits of employees of the general partners and their affiliates, which costs are reimbursed in accordance with Republic's partnership agreement.

Depletion expense was 31.5% higher in 2000 than in 1999 due to higher production volumes.

Operating costs were 91.9% higher in 2000 than 1999 due to increased legal expenses associated with the prosecution of the Garza litigation and increased legal expenses associated with the defense of the Salinas litigation. See "--Legal Proceedings" in this section for a discussion of the Garza and Salinas litigation.

As a result, although total expenses during 2000 were 29.8% higher than 1999, net income during 2000 was 154.6% higher than 1999, due primarily to higher oil and natural gas prices and higher natural gas production volumes.

Liquidity and Capital Resources

Republic's only cash requirements are the distributions pursuant to the Republic ORRIs and the payment of (a) oil and gas production and property taxes not otherwise deducted from gross production revenues, (b) operating expenses associated with the minor working interest properties not otherwise deducted from gross production revenues and (c) general and administrative expenses incurred in its behalf and properly allocated in accordance with its partnership agreement. These cash requirements are funded with oil and natural gas production revenues, lease bonus and delay rental income and nonrecurring income generated from other sources. Since the amounts distributable pursuant to the Republic ORRIs are, by definition, determined after the payment of all expenses actually paid by the partnership, these payments do not represent obligations for which sufficient liquidity is at all times available. As a result, the only cash requirements that may create liquidity concerns for Republic are the payments of taxes and expenses as detailed above. These expenses ranged between 11.5% and 18.9% of total revenues during 1999, 2000 and 2001. Since most of these expenses are dependent upon oil and natural gas prices and sales volumes, sufficient funds are anticipated to be available at all times for payment thereof.

Republic is not liable for the payment of any exploration, development or production costs, with certain limited exceptions, which are both individually and in the aggregate insignificant. Republic does not have any transactions, arrangements or other relationships that could materially affect the partnership's liquidity or the availability of capital resources. Republic had no obligations and commitments to make future contractual payments as of December 31, 2001, other than the December distribution payable to the Republic ORRI Owners in January 2002, as reflected in the financial statements. Republic has not guaranteed the debt of any other party, nor does it have any other arrangements or relationships with other entities that could potentially result in unconsolidated debt.

Critical Accounting Policies

Republic uses the full cost method of accounting for its oil and gas properties. Under the full cost method of accounting, all costs of acquisition, exploration and development of oil and gas properties are capitalized in a "full cost pool" as such costs are incurred. Oil and gas properties in the pool, plus estimated future development and abandonment costs are depleted and charged to operations using the unit of production method. The full cost method subjects companies to a quarterly calculation of a "ceiling test" or limitation on the amount that may be capitalized on the balance sheet attributable to oil and gas properties. To the extent capitalized costs (net of depreciation, depletion and amortization) exceed the calculated ceiling, the excess must be permanently written off to expense.

Republic's discounted present value of its proved oil and natural 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 oil and natural gas reserves based on the same information. Republic's 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 a full cost writedown. 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 natural gas reserves that are included in the discounted present value of the reserves are objectively determined. The ceiling calculation requires prices and costs in effect as of the last day of the accounting period 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 natural gas prices have historically been volatile and the prevailing prices at any given time may not reflect Republic's or the industry's forecast of future prices.

Since Republic generally has not acquired, explored for or developed oil and natural gas properties since its initial formation, capital expenditures and therefore additions to its full cost pool have been and are anticipated to be minimal.

Changes in and Disagreements with Accountants

Republic has not, during its two most recent fiscal years, experienced any changes in or disagreements with KPMG, LLP, the independent accountants engaged as the principal accountants to audit Republic's financial statements.

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.

Natural gas and oil 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 natural gas and oil 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 the oil and natural gas that the operators of Republic's 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 the Republic properties is sometimes subject to regulation by federal authorities, specifically by FERC. The interstate transportation of natural gas is subject to federal governmental regulation, including regulation of tariffs and various other matters, by the FERC.

Competition

The energy industry in which Republic competes is subject to intense competition among a large number of companies, both larger and smaller than Republic, many of which have financial and other resources greater than Republic.

Environmental Laws and Regulations

Activities on Republic's properties are subject to existing federal, state and local laws (including case law), rules and regulations governing health, safety, environmental quality and pollution control. It is anticipated that, absent the occurrence of an extraordinary event, compliance with existing federal, state and local laws, rules and regulations regulating health, safety, the release of materials into the environment or otherwise relating to the protection of the environment have not had, and are not anticipated to have, a material adverse effect upon Republic or its limited partners. Republic cannot predict what effect additional regulations or legislation or their enforcement policies and claims for damages to property, employees, other persons or the environment from operations on Republic's properties could have on Republic or its limited partners. Even if Republic were not directly liable for costs and expenses related to these matters, increased costs of compliance could result in wells being plugged and abandoned earlier in their productive lives, with a resulting loss of reserves and revenue to Republic.

Legal Proceedings

Republic is currently involved in pending litigation in two separate matters arising out of the same or similar facts. Republic obtained a judgment in connection with its successful defense of litigation and is currently pursuing the recovery of legal fees in connection with that judgment in an adversary bankruptcy proceeding. The litigation in which Republic obtained its judgment, along with the related bankruptcy proceeding, are referred to as the Garza litigation. The original Garza litigation involves claims of trespass to try title and adverse possession to a portion of a 180 acre tract of land, among other things. Republic was awarded summary judgment awarding it record title to the minerals underlying the disputed tract of land which was upheld in a final, nonappealable judgment by the Texas Supreme Court. Subsequent to the Texas Supreme Court judgment, Republic received a judgment entitling it to attorneys' fees and expenses incurred in defense of this matter. One of the plaintiffs filed a suggestion of bankruptcy causing the legal fees claim to be removed to federal bankruptcy court. On March 29, 2002, Republic was awarded attorneys' fees and expenses in the bankruptcy proceeding and is currently pursuing collection. Republic's risk of loss in this matter is minimal.

Republic is a defendant in a proceeding which is currently pending in Texas state court in Hidalgo County, Texas, referred to as the Salinas litigation. The Salinas litigation involves claims of trespass to try title and adverse possession claim to a portion of a 180 acre tract of land, among other things, in which substantial mineral interests exist and with respect to which all royalties from the tract have been deposited into an escrow account pursuant to an agreement among the parties to the litigation. The chain of title being asserted by the plaintiffs in the Salinas litigation is essentially identical to the chain of title unsuccessfully asserted in the Garza litigation described above. Republic is asserting the identical chain of title that it asserted successfully in the Garza litigation. Therefore, Republic believes that the risk of loss in this matter is minimal. The Salinas litigation is currently set for trial in August 2002. Republic and its co-defendants have recently reached an agreement with the plaintiffs to settle this matter. Final disposition is expected to occur by June 30, 2002.

We will be indemnified from any loss in connection with the Garza or Salinas litigation and any recovery received by us from these matters relating to periods prior to the combination will be assigned by us to the APO Partnership as described in "The Combination--Preparatory Steps--Reorganization of Republic."

Republic is, and expects to be, involved from time to time in various other legal and administrative proceedings and threatened legal and administrative proceedings incidental to the ordinary course of its business.

Security Ownership

The following table sets forth information regarding the record and beneficial ownership of Republic's partnership interests, represented as sharing percentages, as of January 1, 2002 as if the combination and the Republic reorganization had taken place on January 1, 2002, by each general partner, each of the executive officers and managers, as applicable, of the general partners, the general partners and all executive officers and managers, as applicable, of the general partners as a group, and all those known by Republic to be beneficial owners of more than five percent of Republic's partnership interests.

Beneficial Owner	Sharing Percentage
General Partners and Named Executive Officers/ Managers:	
SAM Partners, Ltd. (1) (10) (11)	7.52%
Vaughn Petroleum, Ltd. (2) (10) (11)	7.52%
Frederick M. Smith II (3) (11)	7.52%
William Casey McManemin (4) (11)	7.52%
H.C. Allen, Jr. (5) (11)	7.52%
Benny D. Duncan (6) (11)	7.52%
Jack C. Vaughn, Jr. (7) (11)	7.52%
Robert C. Vaughn (8) (11)	7.52%
David C. Vaughn (9) (11)	7.52%
All executive officers/managers and general partners as a group (8 persons)	14.31%
Holders of 5% or More Not Named Above:	
Lucent Technologies Master Pension Trust (12) (13)	37.17%
AT&T Long Term Investment Trust (12) (13)	26.63%
Delta Airlines Master Trust (12) (13)	18.07%
Boeing Master Plans Retirement Trust (12) (13)	16.54%
Bell Atlantic Master Trust (12) (13)	16.54%
Kodak Retirement Income Plan (12) (13)	14.17%
Eastman Retirement Assistance Plan (12) (13)	9.68%
RRC APO, L.P. (13)	8.85%

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(1) The business address of SAM Partners, Ltd. and each of its named officers is 3738 Oak Lawn Ave., Suite 300, Dallas, Texas 75219. Includes sharing percentages owned as both a general partner and as a limited partner.

(2) The business address of Vaughn Petroleum, Ltd. and each of its named managers is 3738 Oak Lawn, Suite 101, Dallas, Texas 75219. Includes sharing percentages owned as both a general partner and as a limited partner.

(3) Mr. Smith disclaims the sharing percentage owned by SAM Partners, Ltd. In his capacity as President of SAM Partners Management, Inc., the general partner of SAM Partners, Ltd., Mr. Smith may be deemed to beneficially own this sharing percentage based on shared voting or dispositive power.

(4) Mr. Allen disclaims the sharing percentage owned by SAM Partners, Ltd. In his capacity as Vice President of SAM Partners Management, Inc., the general partner of SAM Partners, Ltd., Mr. Allen may be deemed to beneficially own this sharing percentage based on shared voting or dispositive power.

(5) Mr. McManemin disclaims the sharing percentage owned by SAM Partners, Ltd. In his capacity as Secretary of SAM Partners Management, Inc., the general partner of SAM Partners, Ltd., Mr. McManemin may be deemed to beneficially own this sharing percentage based on shared voting or dispositive power.

(6) Mr. Duncan disclaims the sharing percentage owned by Vaughn Petroleum, Ltd. In his capacity as Manager of VPL (GP) LLC, the general partner of Vaughn Petroleum, Ltd., Mr. Duncan may be deemed to beneficially own this sharing percentage based on shared voting or dispositive power.
(7) Mr. Vaughn disclaims the sharing percentage owned by Vaughn Petroleum, Ltd. In his capacity as Manager of VPL (GP) LLC, the general partner of Vaughn Petroleum, Ltd., Mr. Vaughn may be deemed to beneficially own this sharing percentage based on shared voting or dispositive power.
(8) Mr. Vaughn disclaims the sharing percentage owned by Vaughn Petroleum, Ltd. In his capacity as Manager of VPL (GP) LLC, the general partner of Vaughn Petroleum, Ltd., Mr. Vaughn may be deemed to beneficially own this sharing percentage based on shared voting or dispositive power.
(9) Mr. Vaughn disclaims the sharing percentage owned by Vaughn Petroleum, Ltd. In his capacity as Manager of VPL (GP) LLC, the general partner of Vaughn Petroleum, Ltd., Mr. Vaughn may be deemed to beneficially own this sharing percentage based on shared voting or dispositive power.
(10) Includes sharing percentages indirectly owned through RRC NPI Holdings, LP.
(11) Does not include sharing percentages owned by RRC APO, L.P. which the named person does not beneficially own, but in which the named person may have a contingent economic interest.
(12) Includes sharing percentages indirectly owned through RRC APO, L.P.
(13) The business address of each party is c/o Republic Royalty Company, 3738 Oak Lawn, Suite 300, Dallas, Texas 75219.

INFORMATION CONCERNING SPINNAKER

General

Spinnaker was formed in 1996 as a Texas general partnership. Smith Allen Oil & Gas, Inc. was the managing general partner of Spinnaker. Spinnaker was reorganized as a Texas limited partnership in August 1997 in connection with the acquisition of properties from SASI Minerals Company, referred to as SASI. Smith Allen Oil & Gas, Inc. is the sole general partner and a limited partner of Spinnaker. There is no established public trading market for Spinnaker's partnership interests. As of January 1, 2002, one general partner and a total of 14 limited partners hold Spinnaker's partnership interests. The general partner is not aware of any purchases or sales of general partner or limited partner interests since Spinnaker's formation, except for isolated transactions not involving brokers or other market participants.

Spinnaker was originally formed to purchase oil and natural gas properties from Triton Oil and Natural Gas Corp, referred to as Triton. Proceeds from a private offering were used to capitalize Spinnaker, fund the acquisition from Triton and for general partnership business purposes. The reorganization of Spinnaker in 1997 reflected the non-taxable contribution and exchange of oil and natural gas properties, which we call the contributed properties, to Spinnaker by SASI in exchange for limited partnership interests and Spinnaker's reorganization from a general partnership to a limited partnership. SASI acquired the contributed properties in multiple transactions between 1988 and 1997.

Spinnaker's properties consist primarily of producing and non-producing royalty and mineral interests located in 353 counties and parishes in 21 states. See "--Description of the Spinnaker Properties" below for a more detailed description of the Spinnaker properties.

All capital raised by Spinnaker has been invested as planned. As a result of these investments, Spinnaker has achieved its investment objectives of purchasing and owning oil and natural gas properties, including the contributed properties.

Each month Spinnaker distributes all of its cash funds that Smith Allen Oil & Gas, Inc., its general partner, determines are not needed for the payment of existing or foreseeable obligations and expenditures. Distributions are made to partners in accordance with the partners' respective sharing percentages. Smith Allen Oil & Gas, Inc. is reimbursed for its actual and allocable general and administrative expense attributable to Spinnaker's properties and business, subject to a limitation equal to 5% of Spinnaker's net cash flow from operations and excluding any salary for its executive officers and directors.

Spinnaker's partnership agreement as currently in effect provides for the limited partners to receive sharing percentages equal to 94% of their respective capital contributions. The only capital contributed to Spinnaker is that which was contributed upon its formation. Prior to the consummation of the combination, Spinnaker's partnership agreement will be amended so Smith Allen Oil & Gas, Inc. will hold a 4% interest in Spinnaker and the limited partners of Spinnaker, including Smith Allen Oil & Gas, Inc., will hold interests aggregating a 96% interest in Spinnaker. See "The Combination--Preparatory Steps--Reorganization of Spinnaker" for a description of the Spinnaker reorganization.

Description of the Spinnaker Properties

Spinnaker owns producing and nonproducing mineral, royalty, overriding royalty and leasehold interests. See "Glossary of Certain Oil and Natural Gas Terms" for descriptions of these terms.

Acquisition History

Spinnaker acquired all of its interests from Triton in March 1996 and from SASI in two transactions in August 1997. The interests acquired from Triton are referred to as the Triton properties and the interests acquired from SASI are referred to as the contributed properties. See "--General" above for a discussion of the transactions pursuant to which Spinnaker acquired the Triton properties and the contributed properties.

The Triton properties consisted of all of Triton's producing and nonproducing mineral, royalty, overriding royalty, leasehold and surface interests located in 331 counties and parishes in 20 states. Triton acquired these interests in 14 transactions from 1968 through 1988 from multiple sellers and include properties formerly owned by Bradley Producing Company, Magna Oil, Century Production, WECO Development, Landa Oil, Harp Royalty Limited and others.

The contributed properties consisted of all of SASI's producing and nonproducing mineral, royalty, and overriding royalty interests located in 53 counties and parishes in seven states. SASI acquired these properties in multiple transactions from 1988 through 1997 from multiple sellers including Mayfair Minerals, Tecovas Partners, Crestone Energy and others.

Acreage Summary

The following table sets forth a summary of Spinnaker's gross and net (where applicable) acres of mineral, royalty, overriding royalty and/or leasehold interests, and a compilation of the number of counties and parishes and states and development status of the acres in each category as of January 1, 2002.

	Mineral					
	Leased	Unleased	Royalty	Overriding Royalty	Leasehold	Total
Number of States...........	14	15	12	12	4	20
Number of Counties/Parishes	96	213	98	91	7	353
Gross......................	146,068	569,489	200,951	100,578	5,981	1,023,067
Net (where applicable).....	13,456	109,597	N/A	N/A	N/A	123,053

Our net interest in production from royalty, overriding royalty and leasehold interests is based on burdens or reservations which vary from property to property. Consequently, net acreage ownership in these categories is not determinable.

Properties located in Texas represented 49% of Spinnaker's total production revenue received during 2001, while properties located in Oklahoma represented 21% and properties located in Louisiana represented 20%.

The following table sets forth a summary of Spinnaker's 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....	32,398	3,297	Nebraska....	2,240	18
Arkansas...	23,463	9,854	New Mexico..	3,996	128
California.	924	162	New York....	19,322	16,787
Colorado...	13,649	409	North Dakota	49,638	1,596
Illinois...	572	37	Oklahoma....	190,972	12,953
Kansas.....	3,960	410	Pennsylvania	2,043	1,961
Louisiana..	39,638	240	South Dakota	2,151	44
Mississippi	39,865	2,502	Texas.......	307,436	11,557
Missouri...	344	43	Utah........	4,675	160
Montana....	268,725	60,462	Wyoming.....	17,074	485

Activity Summary

As a royalty owner Spinnaker's access to information concerning activity and operations on its properties is significantly limited. Most of Spinnaker's producing properties are subject to leases and other contracts pursuant to which it is not entitled to well information. Most leases consummated by Spinnaker since its formation in 1993 provide for access to technical data and other information. Spinnaker 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 Spinnaker's properties at any point in time is not determinable. The primary manner by which Spinnaker becomes aware of activity on its properties is the receipt of division orders or other correspondence from operators or purchasers.

The following table sets forth a summary of leases consummated and new wells added received by Spinnaker during 1997 through 2001.

	2001	2000	1999	1998	1997
Consummated Leases					
Number................	7	28	4	15	16
Number of States......	3	3	4	5	5
Number of Counties....	5	12	4	12	10
Average Royalty.......	20.9%	25.4%	20.7%	24.8%	25.4%
Average Bonus, $/acre.	$ 107	$ 117	$ 12	$ 160	$ 27
Total Lease Bonus.....	$33,046	$161,299	$ 2,260	$111,875	$17,356
Other Land Revenue.......	$14,287	$ 47,355	$89,744	$421,180	$22,731
Total Land Revenue.......	$47,333	$208,654	$92,004	$533,055	$40,087
New Wells Added					
Number................	135	44	71	92	60
Number of States......	7	6	5	7	6
Number of Counties....	29	19	23	29	23

Oil and Natural Gas Reserves

Huddleston & Co., Inc. has estimated Spinnaker's proved reserves and SEC PV-10 present value attributable thereto as of December 31, 2001 and at year-end annually since 1996.

Huddleston has segregated Spinnaker's properties into three Property Groups. The properties included in these Groups include only those properties evaluated by Huddleston and represent (to the best of Spinnaker's

knowledge) all of Spinnaker's producing properties as of December 31, 2001, based on information available to Spinnaker. Set forth below is a description of the properties in each Group.

The Group I properties consist of four units located in the Wasson Field in Gaines and Yoakum Counties in west Texas and may be characterized as long lived oil and natural gas fields operated by major oil companies and large independents. The Wasson field is located in the Permian Basin and produces oil and associated gas from depths ranging from 4,500 to 7,500 feet. Enhanced recovery operations are underway in each of the four units included in Group I.

The Group II properties consist of various units, leases and wells located in the Bob West, Jeffress and Port Hudson fields. These fields are located in six counties and parishes in south Texas and south Louisiana and may be characterized as long lived gas and condensate fields operated by major oil companies and large independents. These fields generally produce natural gas and condensate from depths ranging from 8,000 to 17,000 feet.

The Group III properties consist of the balance of Spinnaker's producing properties and are located in 102 counties and parishes in 17 states. The Group III properties produce hydrocarbons from a variety of depths and types of reservoirs. Due to the limited nature of information available to Spinnaker as a royalty owner, and the varying methodologies by which data concerning oil and natural gas operations is reported to the agencies having jurisdiction in the various states, the number of producing oil and natural gas wells included in Group III is not determinable. During 2001, Spinnaker received payment from 359 purchasers for its share of production from 3,216 properties included in Group III. Any specific property included in Group III may be characterized as individually insignificant in the context of Spinnaker's total proved reserves.

The following table sets forth a summary of certain financial and reserve information for each Property Group for the years ended December 31, 1999 through December 31, 2001.

	Years Ended December 31,								
	Group I			Group II			Group III		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
Proved Developed									
Net Oil (Bbls).......	494,694	515,667	514,945	197,184	222,169	346,930	239,314	228,041	253,091
Net Gas (Mcf)........	566,000	648,500	836,500	5,825,600	5,309,300	5,779,900	5,905,600	6,711,200	7,411,700
Total Proved									
Net Oil (Bbls).......	494,694	515,667	514,945	198,687	224,075	351,168	280,299	262,468	286,820
Net Gas (Mcf)........	566,000	648,500	836,500	7,092,300	6,710,300	7,589,900	6,879,100	7,641,600	8,318,700
Annual Production									
Net Oil (Bbls).......	26,144	24,303	24,815	27,763	39,789	52,261	34,607	32,340	37,876
Net Gas (Mcf)........	21,713	16,402	3,993	1,174,381	1,527,812	1,905,405	1,051,110	1,053,617	1,093,119
Average Prices									
Oil ($/Bbl)..........	$26.38	$19.49	$15.75	$25.80	$27.61	$16.65	$20.67	$25.71	$15.24
Gas ($/Mcf)..........	$ 4.32	$ 3.70	$ 2.53	$ 4.63	$ 3.65	$ 2.19	$ 4.24	$ 2.82	$ 2.03
Total Proved Future Net Revenue ($) (1)									
Undiscounted.........	9,317,382	17,491,875	12,418,426	19,864,743	67,139,459	23,447,266	19,515,944	72,467,263	22,655,934
SEC PV-10 present value (2)..	3,621,980	6,821,011	4,709,777	12,672,830	44,044,111	17,328,584	10,532,101	41,550,459	13,064,142

	Total - All Property Groups		
	2001	2000	1999
Proved Developed			
Net Oil (Bbls).......	931,192	965,877	1,114,966
Net Gas (Mcf)........	12,297,200	12,669,000	14,028,100
Total Proved			
Net Oil (Bbls).......	973,680	1,002,210	1,152,933
Net Gas (Mcf)........	14,537,400	15,000,400	16,745,100
Annual Production			
Net Oil (Bbls).......	88,514	96,432	114,952
Net Gas (Mcf)........	2,247,204	2,597,831	3,002,517
Average Prices			
Oil ($/Bbl)..........	$24.06	$25.71	$16.00
Gas ($/Mcf)..........	$ 4.42	$ 3.26	$ 2.12
Total Proved Future Net Revenue ($) (1)			
Undiscounted.........	48,698,069	157,098,597	58,521,626
SEC PV-10 present value (2)..	26,826,911	92,415,581	35,102,503

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(1) Amounts shown in this table with respect to total proved future net revenue are based on year-end oil and natural gas prices and not on average prices for the entire year.

(2) Spinnaker does not reflect a federal income tax provision since its partners include the income of their partnership in their respective federal income tax returns.

Contribution and Distribution Information

The following table sets forth information concerning capital contributions by and distributions to Spinnaker's partners. For the purposes of this table, the interests of Spinnaker's partners upon its initial formation, referred to as the original Spinnaker partners, are presented separately from the interests attributable to the partnership interest issued in exchange for the contributed properties. The capital contributions and distributions attributable to the original Spinnaker partners reflect their initial contributions and cumulative distributions to date. The capital contributions and distributions set forth in the following table as being attributable to the partnership interests received upon contribution of the contributed properties reflect the fair value of those assets upon their contribution and distributions attributable to the partnership interest issued upon the contribution since the date of their contribution. The fair value of the contributed properties was deemed to be $8,892,500 on the date of the contribution. For financial statement purposes, the contributing partner's capital contribution to Spinnaker was recorded in an amount equal to the net book value ($4,653,217) of such partner's interest in the contributed properties on the date of the contribution, in accordance with generally accepted accounting principles.

	Total Initial Capital Contribution	Cumulative Cash Distributions through December 31, 2001(1)
General Partner............	$ 2,403	$ 2,526,820
Original Spinnaker Partners	$23,576,000	$37,704,679
Contributed Properties.....	$ 8,892,500	$11,752,503
Totals..................	$32,470,903	$51,984,002

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(1) 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, 100% of such distributions may be deemed to be a return of capital.

Selected Historical Financial and Operating Information

The following table presents a summary of selected financial information and operating data for Spinnaker for the periods indicated. It should be read in conjunction with Spinnaker's financial statements and related notes included in this document. The information shown for 2001, 2000 and 1999 is derived from the audited financial statements. The information shown for 1998 and 1997 is unaudited as presented.

	Years ended December 31,				
	2001	2000	1999	1998	1997
	(in thousands)				
Total operating revenues....................	$10,944	$12,212	$ 8,652	$10,051	$ 9,323
Net earnings................................	$ 8,062	$ 9,156	$ 5,365	$ 6,767	$ 5,122
Cash distributions (1)......................	$11,529	$ 9,977	$ 7,367	$10,016	$ 8,151
Net cash provided by operating activities...	$10,851	$10,239	$ 7,575	$ 9,595	$ 8,164
Total assets at book value..................	$14,005	$17,425	$18,201	$20,239	$23,593
Cash/cash equivalents.......................	$ 371	$ 1,049	$ 787	$ 579	$ 1,000
Increase (decrease) in cash/cash equivalents	$ (678)	$ 262	$ 208	$ (421)	$ 268
Long-term debt, including current portion...	$ 0	$ 0	$ 0	$ 0	$ 0
Total liabilities...........................	$ 150	$ 103	$ 58	$ 95	$ 199
Partners' equity............................	$13,855	$17,322	$18,143	$20,145	$23,394

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(1) 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, 100% of such distributions may be deemed to be a return of capital.
(2) The increase in cash in 1997 is computed based upon the change in balances from October 1, 1996 to December 31, 1997. The actual cash balance on December 31, 1996 is currently unavailable.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist the reader in understanding Spinnaker's financial position and results of operations for the three years ended December 31, 2001. You should refer to Spinnaker's financial statements and the notes the financial statements included elsewhere in this document in conjunction with this discussion.

Overview

Spinnaker's business activities consist of the ownership and administration of producing and nonproducing mineral, royalty, overriding royalty and leasehold interests located in 353 counties and parishes in 21 states. Spinnaker owns and produces oil and natural gas reserves almost exclusively in the capacity of a royalty owner. As a royalty owner, Spinnaker's involvement in the operation of producing properties in which it owns an interest is extremely limited and as such, Spinnaker is a passive participant in these activities. In the instances in which Spinnaker owns the executive rights in nonproducing properties, it is generally able to negotiate certain terms and conditions governing the conduct of its lessees when leasing its interest to third parties may develop such properties. However, in the event production is established on those properties, Spinnaker's involvement in the operation of such properties is similarly limited and as such Spinnaker becomes a passive participant in such operations. Spinnaker does not engage in oil and gas exploration, development and producing activities as an operator or working interest owner, and except in limited instances, does not bear any cost associated with activity on properties in which it owns an interest. Spinnaker distributes substantially all of its cash flow each year.

Spinnaker's year-to-year changes in net income, net cash flow from operations and distributions to partners are principally determined by changes in oil and natural gas sales volumes and oil and natural gas prices. As a royalty owner, Spinnaker essentially has no control over the volumes of oil and natural gas produced and sold from properties in which it owns an interest. Spinnaker's net share of oil and natural gas sales volumes and the corresponding weighted average sales prices were:

	Years ended December 31		
	2001	2000	1999
Sales Volumes			
Oil (Bbls).........	88,514	96,432	114,952
Gas (MMcf).........	2,247,204	2,597,831	3,002,517
Weighted Average Price			
Oil ($/Bbl)........	24.06	25.71	16.00
Gas ($Mcf).........	4.42	3.26	2.12

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

As shown in the table above oil and natural gas sales volumes during 2001 were 8.2% and 13.5% lower, respectively, than during 2000. The decreases in oil and natural gas sales volumes were due to natural reservoir declines.

Weighted average oil sales prices during 2001 were 6.4% lower than 2000 due to average marketplace prices and the effects of a fixed price oil sales contract attributable to production from several properties in which Spinnaker owns an interest, the term of which includes portions of both years. Weighted average natural gas sales prices were 35.6% higher in 2001 than 2000 due to higher marketplace prices and higher production volumes from the Jeffress Field area during the first half of 2001. Weighted average prices reflect the quotient of gross production revenue divided by net sales volumes, each attributable to a specific product during the year.

Lease bonus and delay rental income was 79.5% lower in 2001 than 2000 due to reduced leasing activity and receipt of fewer payments of delay rentals. Other income was 53.0% lower in 2001 than 2000 due to

extraordinary amounts received during 2000 attributable to litigation settlement proceeds and reduced interest earned on accumulated balances.

Oil and gas production taxes were 24.7% higher in 2001 than in 2000 due to the expiration of certain state severance tax moratoriums and higher property taxes attributable to higher rendered values.

Management expense was 14.6% higher during 2001 than 2000 due primarily to increased rent and to salaries and benefits of employees of the general partner and its affiliates. Management expense reflects general and administrative costs that are reimbursed to the general partner in accordance with Spinnaker's partnership agreement.

Depletion expense was lower 28.8% in 2001 than 2000 due to lower production volumes and reduced depletable cost bases in Spinnaker's properties.

Other operating costs were 204% higher in 2001 than 2000 due to increased legal and professional expenses attributable to the proposed combination with Dorchester Hugoton and Republic.

As a result, although total expenses during 2001 were 5.7% lower than 2000, net income during 2001 was 11.9% lower than 2000, due primarily to lower oil and natural as production volumes and lower income from other sources.

Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

As shown in the table above oil and natural gas sales volumes during 2000 were 16.1% lower and 13.5% lower, respectively, than during 1999. The decreases in oil and natural gas sales volumes were due to natural reservoir declines.

Weighted average oil sales prices were 60.7% higher in 2000 than in 1999 due to average marketplace prices and the effects of a fixed price oil sales contracts attributable to production from several properties in which Spinnaker owns an interest, the terms of which includes portions of both years. Weighted average natural gas sales prices were 53.8% higher in 2000 than 1999 due to higher marketplace prices. Weighted average prices reflect the quotient of gross production revenue divided by net sales volumes, each attributable to a specific product during the year.

Lease bonus and delay rental income was 820% higher in 2000 than 1999 due to increased leasing activity. Other income was 93% higher in 2000 than 1999 due to extraordinary amounts received during 2000 attributable to litigation settlement proceeds.

Oil and gas production taxes were 19.7% higher in 2000 than in 1999 due to higher oil and natural gas prices and corresponding production revenue.

Management expenses were 11.7% higher during 2000 than 1999 due primarily to increased rent and to salaries and benefits of employees of the general partner and its affiliates. Management expense reflects general and administrative costs that are reimbursed to the general partner in accordance with Spinnaker's partnership agreement.

Depletion expense was 14.8% lower in 2000 than in 1999 due to higher production volumes and reduced depletable cost bases in Spinnaker's properties.

Other operating costs were 14.4% lower in 2000 than 1999 due to decreased professional fees.

As a result, although total expenses during 2000 were only 7% lower than 1999, net income during 2000 was 70.7% higher than 1999, due to higher oil and natural gas prices, increased lease bonus income and income from other sources.

Liquidity and Capital Resources

Spinnaker's only cash requirements are the limited partner distributions pursuant to its partnership agreement and the payment of (a) oil and gas production and property taxes not otherwise deducted from gross production revenues, (b) operating expenses associated with the minor working interest properties not otherwise deducted from gross production revenues and (c) general and administrative expenses incurred in its behalf and properly allocated in accordance with its partnership agreement. These cash requirements are funded with oil and natural gas production revenues, lease bonus and delay rental income and nonrecurring income generated from other sources. Since the limited partner distributions are, by definition, determined after the payment of all expenses actually paid by the partnership, these payments do not represent obligations for which sufficient liquidity is at all times available. As a result, the only cash requirements that may create liquidity concerns for Spinnaker are the payments of taxes and expenses as detailed above. These expenses ranged between 8.4% and 13.2% of total revenues during 1999, 2000 and 2001. Since most of these expenses are dependent upon oil and natural gas prices and sales volumes, sufficient funds are anticipated to be available at all times for payment thereof.

Spinnaker is not liable for the payment of any exploration, development or production costs, with certain limited exceptions, which are both individually and in the aggregate insignificant. Spinnaker does not have any transactions, arrangements or other relationships that could materially affect the partnership's liquidity or the availability of capital resources. Spinnaker had no obligations and commitments to make future contractual payments as of December 31, 2001, other than the December distribution payable to the Spinnaker partners in January 2002, as reflected in the financial statements. Spinnaker has not guaranteed the debt of any other party, nor does it have any other arrangements or relationships with other entities that could potentially result in unconsolidated debt.

Critical Accounting Policies

Spinnaker uses the full cost method of accounting for its oil and gas properties. Under the full cost method of accounting, all costs of acquisition, exploration and development of oil and gas properties are capitalized in a "full cost pool" as such costs are incurred. Oil and gas properties in the pool, plus estimated future development and abandonment costs are depleted and charged to operations using the unit of production method. The full cost method subjects companies to a quarterly calculation of a "ceiling test" or limitation on the amount that may be capitalized on the balance sheet attributable to oil and gas properties. To the extent capitalized costs (net of depreciation, depletion and amortization) exceed the calculated ceiling, the excess must be permanently written off to expense.

Spinnaker's discounted present value of its proved oil and natural 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 oil and natural gas reserves based on the same information. Spinnaker's 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 a full cost writedown. 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 natural gas reserves that are included in the discounted present value of the reserves are objectively determined. The ceiling calculation requires prices and costs in effect as of the last day of the accounting period 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 natural gas prices have historically been volatile and the prevailing prices at any given time may not reflect Spinnaker's or the industry's forecast of future prices.

Since Spinnaker generally has not acquired, explored for or developed oil and natural gas properties since its initial formation, capital expenditures and therefore additions to its full cost pool have been and are anticipated to be minimal.

Changes in and Disagreements with Accountants

Spinnaker has not, during its two most recent fiscal years, experienced any changes in or disagreements with KPMG, LLP, the independent accountants engaged as the principal accountants to audit Spinnaker's financial statements.

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; and
- 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.

Natural gas and oil 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 natural gas and oil 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 the oil and natural gas that the operators of Spinnaker's 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 the Spinnaker properties is sometimes subject to regulation by federal authorities, specifically the FERC. The interstate transportation of natural gas is subject to federal governmental regulation, including regulation of tariffs and various other matters, by the FERC.

Competition

The energy industry in which Spinnaker competes is subject to intense competition among a large number of companies, both larger and smaller than Spinnaker, many of which have financial and other resources greater than Spinnaker.

Environmental Laws and Regulations

Activities on Spinnaker's properties are subject to existing federal, state and local laws (including case law), rules and regulations governing health, safety, environmental quality and pollution control. It is anticipated that,

absent the occurrence of an extraordinary event, compliance with existing federal, state and local laws, rules and regulations regulating health, safety, the release of materials into the environment or otherwise relating to the protection of the environment have not had, and are not anticipated to have, a material adverse effect upon Spinnaker or its limited partners. Spinnaker cannot predict what effect additional regulations or legislation or their enforcement policies and claims for damages to property, employees, other persons or the environment from operations on Spinnaker's properties could have on Spinnaker or its limited partners. Even if Spinnaker were not directly liable for costs and expenses related to these matters, increased costs of compliance could result in wells being plugged and abandoned earlier in their productive lives, with a resulting loss of reserves and revenue to Spinnaker. Spinnaker has received a written communication from the Environmental Protection Agency regarding alleged violations under the Clean Water Act based on Spinnaker's purported ownership of an operating interest in the property that is the subject of the communication. Spinnaker does not own an operating interest as purported by the EPA. Spinnaker has received no further communication from the EPA regarding this matter and does not believe that this matter will have a material adverse effect on its business, financial condition, results of operations or cash flows.

Security Ownership

The following table sets forth information regarding the record and beneficial ownership of Spinnaker's partnership interests, represented as sharing percentages, as of January 1, 2002 by the general partner, each of the executive officers of the general partner, the general partner and all executive officers of the general partner as a group, and all those known by Spinnaker to be beneficial owners of more than five percent of Spinnaker's partnership interests.

Beneficial Owner	Sharing Percentage
General Partner and Named Executive Officers (1):	
Smith Allen Oil & Gas, Inc., General Partner	4.96%
Frederick M. Smith, II, President (2)	4.96%
William Casey McManemin, Vice President (3)	75.31%
H.C. Allen, Jr., Secretary (4)	5.09%
All executive officers and general partner (as a group) (4 persons) (8 persons)	75.44%
Holders of 5% of More Not Named Above:	
Red Wolf Partners c/o William Casey McManemin 3738 Oak Lawn Ave., Suite 300 Dallas, Texas 75219	67.95%
New Triton Royalty Ltd. 1221 McKinney, Suite 3700 Houston, Texas 77010	13.70%

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(1) The business address of the general partner and each named executive officer is 3738 Oak Lawn Ave., Suite 300, Dallas, Texas 75219.

(2) Mr. Smith disclaims the sharing percentage owned by Smith Allen Oil & Gas, Inc. Mr. Smith in his capacity as President of Smith Allen Oil & Gas, Inc. may be deemed to beneficially own this sharing percentage based on shared voting or dispositive power.

(3) Includes 70.35% sharing percentage owned by various entities of which Mr. McManemin is an officer, manager or general partner, including Red Wolf Partners, or for the benefit of Mr. McManemin and his family, although Mr. McManemin does not have an economic interest in all of these units. Mr. McManemin disclaims the sharing percentage owned by Smith Allen Oil & Gas, Inc. Mr. McManemin in his capacity as Vice-President of Smith Allen Oil & Gas, Inc. may be deemed to beneficially own this sharing percentage based on shared voting or dispositive power.

(4) Mr. Allen disclaims the sharing percentage owned by Smith Allen Oil & Gas, Inc. Mr. Allen in his capacity as Secretary of Smith Allen Oil & Gas, Inc. may be deemed to beneficially own this sharing percentage based on shared voting or dispositive power.

MANAGEMENT

For a diagram that shows the ownership relationships among us, our general partner, its owners and its subsidiaries, see "Summary--Structure and Management of Dorchester Minerals After the Combination."

The General Partner

Our general partner is Dorchester Minerals Management LP, a Delaware limited partnership. The management of Dorchester Minerals Management LP is conducted by its general partner, Dorchester Minerals Management GP LLC, a Delaware limited liability company, which owns a 0.1% general partnership interest in Dorchester Minerals Management LP. The business and affairs of Dorchester Minerals Management GP LLC are managed by its Board of Managers. By virtue of this ownership structure, the Board of Managers of Dorchester Minerals Management GP LLC will exercise the effective control of the management of our partnership.

Dorchester Minerals Management LP's sole business will be to act as our general partner, to own and to act as a partner of Dorchester Minerals Operating LP, and to own and to act as managing member of Dorchester Minerals Operating GP LLC.

Three members of the Board of Managers of Dorchester Minerals Management GP LLC will serve on an advisory committee to review specific matters which the Board of Managers believes may involve conflicts of interest between Dorchester Minerals Management LP or any of its affiliates and us, our limited partners or any assignees of our limited partners. The advisory committee will determine if the resolution of a conflict of interest is fair and reasonable to us. The members of our advisory committee will be the independent managers of Dorchester Minerals Management GP LLC as described below in " --Management of the General Partner." Any matters approved by the advisory committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners and not a breach by our general partner of any duties it may owe us or our unitholders. In addition, the members of the advisory committee will also serve as an audit committee for us to the extent required by Nasdaq rules and will review our external financial reporting, recommends engagement of our independent auditors and reviews procedures for internal auditing and the adequacy of our internal accounting controls.

See "The Combination--Ownership Structure of Dorchester Minerals" for a description of the general partner interest that Dorchester Minerals Management LP owns in us.

Absence of Management Fees; Reimbursement of General Partner

General

We will not compensate Dorchester Minerals Management LP for services provided as our general partner. However, we will reimburse it and Dorchester Minerals Operating LP on a monthly basis for all expenses incurred or payments made on our behalf, and all other necessary or appropriate expenses allocable to us. Such expenses will include both direct expenses and management expenses. Under our Partnership Agreement, direct expenses include:

- professional fees and expenses, such as audit, tax, legal engineering costs;
- regulatory fees and expenses;
- ad valorem taxes;
- severance taxes;

- the fees and expenses of independent managers or directors of our general partner and its general partner; and

- premiums for officers' and managers' liability insurance.

Management expenses are expenses of the general partner and its affiliates incurred on our behalf and include:

- wages, salaries, incentive compensation and the cost of employee benefit plans passed or provided to employees and officers that are properly allocable to us, and

- all other necessary or appropriate expenses allocable to us,

but do not include items classified as direct expenses or production costs.

As a result of the combination, the working interests currently held by Dorchester Hugoton, as well as certain minor working interests currently held by Republic and Spinnaker will be owned by Dorchester Minerals Operating LP, and we will own the Operating ORRIs in those properties. Under the terms of the Operating ORRIs, the production costs associated with those properties will be deducted in determining the amount of the overriding royalties paid to us. See "The Combination--Preparatory Steps--Creation of Overriding Royalty Interests" for a detailed description of production costs that will be deducted in determining the amount of Operating ORRIs.

Limits upon Management Expenses

Our reimbursements to Dorchester Minerals Management LP, our general partner, of management expenses (excluding overhead expenses included in production costs that are deducted in determining overriding royalties) during any fiscal year will be limited to an amount not greater than five percent (5%) of the sum of our distributions to our partners for that fiscal year, adjusted for changes in cash reserves, plus expenses paid by us for that year for production costs which are capital in nature and charged against the Operating ORRIs, and increases in taxes and regulatory compliance costs.

To the extent that actual reimbursement for management expenses in any fiscal year is less than five percent (5%) of this sum, our reimbursement to Dorchester Minerals Management LP may exceed the five percent limitation by the amount of that difference at any time during the succeeding three fiscal years. If reimbursement to Dorchester Minerals Management LP was limited by the 5% limitation during the preceding three fiscal years, the amount by which the management expenses are less that the 5% limitation in the current year may be used to permit Dorchester Minerals Management LP to recoup the deficit from the preceding years.

Ownership Structure of the General Partner and its General Partner

SAM Partners, Ltd. and Vaughn Petroleum, Ltd. are currently the general partners of Republic. Smith Allen Oil & Gas, Inc. is currently the general partner of Spinnaker. P.A. Peak Holdings LP, will be the successor to P. A. Peak, Inc., and James E. Raley General Partnership will be the successor to James E. Raley, Inc. P. A. Peak, Inc. and James E. Raley, Inc. are currently the general partners of Dorchester Hugoton. These entities will own our general partner and its general partner.

Dorchester Minerals Management LP

Dorchester Minerals Management GP LLC owns a 0.1% general partnership interest in Dorchester Minerals Management LP. The limited partners of Dorchester Minerals Management LP, who will also be the members of its general partner, Dorchester Minerals Management GP LLC, and their respective limited partnership interests are as follows:

Name	Capital Interest	Profits Interest
Vaughn Petroleum, Ltd.............	28.98%	20.48%
SAM Partners, Ltd.................	28.98%	20.48%
Smith Allen Oil & Gas, Inc........	28.26%	19.98%
P.A. Peak Holdings LP.............	6.89%	19.48%
James E. Raley General Partnership	6.89%	19.48%

Provisions are included in the partnership agreement of Dorchester Mineral Management LP so that upon its liquidation allocations will be made to cause the partners' capital accounts to equal their sharing percentages.

Dorchester Minerals Management GP LLC

The members of Dorchester Minerals Management GP LLC and their ownership interests are as follows:

Name	Ownership Interest
Vaughn Petroleum, Ltd.............	20.5%
SAM Partners, Ltd.................	20.5%
Smith Allen Oil & Gas, Inc........	20.0%
P.A. Peak Holdings LP.............	19.5%
James E. Raley General Partnership	19.5%

Management of the General Partner

General

The business and affairs of Dorchester Minerals Management LP are managed by its general partner, Dorchester Minerals Management GP LLC. Dorchester Minerals Management GP LLC is governed by a Board of Managers, which consists of:

- five managers appointed by its members, and

- three independent managers, or such greater number of independent managers as may be required by Nasdaq rules. Each independent manager must not be a security holder, officer, manager, director, or employee of Dorchester Minerals Management GP LLC, or a security holder, officer, manager, director or employee of any affiliate of Dorchester Minerals Management GP LLC. The independent managers, as a group, must also meet the requirements of the Nasdaq rules for members of an audit committee. Independent managers may be holders of our common units.

Each member of Dorchester Minerals Management GP LLC has the power to appoint one manager. The initial appointed managers will be:

- H.C. Allen, Jr., appointed by SAM Partners, Ltd.;

- William Casey McManemin, appointed by Smith Allen Oil & Gas, Inc.;

- Preston A. Peak, appointed by P.A. Peak Holdings LP;

- James E. Raley, appointed by James E. Raley General Partnership; and

- Robert C. Vaughn, appointed by Vaughn Petroleum, Ltd.

Each appointed manager will hold office until the earlier of his 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 as described below in "- --Effects of Change in Control."

The Amended and Restated Limited Liability Company Agreement of Dorchester Minerals Management GP LLC authorizes the creation of the following committees:

- Advisory Committee. The members of the Advisory Committee will be designated by the Board of Managers by resolution adopted by a majority of the Board of Managers, which must include at least four appointed managers. All matters decided upon by the Advisory Committee require the approval of the majority of the committee's members. In addition to serving as the advisory committee for purposes of our Partnership Agreement as described above in "--The General Partner," the Advisory Committee has the following functions:

  - to review transactions between Dorchester Minerals Management GP LLC and any of its members or affiliates; and

  - to review any compensation or benefits paid by us, our general partner, Dorchester Minerals Management GP LLC, Dorchester Minerals Operating LP or Dorchester Minerals Operating GP LLC to any executive officers.

- Operating Committee. The Board of Managers will designate the scope of authority delegated to the Operating Committee by resolution adopted by a majority of the Board of Managers. The Board of Managers has not yet adopted a resolution delegating authority to the Operating Committee, but it is anticipated that the Operating Committee will oversee day-to-day operations of our business. The Operating Committee shall consist of the appointed managers. All matters decided upon by the Operating Committee require the approval of the majority of the committee's members.

- Other Committees. The Board of Managers, by resolution adopted by a majority of the Board of Managers, including at least four appointed managers, may designate other committees. Each committee will have the authority of the Board of Managers to the extent provided in the resolution creating that committee.

Independent Managers

The members of Dorchester Minerals Management GP LLC will appoint independent managers as follows:

- One independent manager appointed collectively by P.A. Peak Holdings LP and James E. Raley General Partnership;

- One independent manager appointed by Vaughn Petroleum, Ltd.; and

- One independent manager appointed collectively by SAM Partners, Ltd. and Smith Allen Oil & Gas, Inc.

Each independent manager will hold office until the next annual meeting of the members, unless he or she has earlier been removed or has resigned. Any vacancy on the Board of Managers left by an independent manager will be filled by the member or members who holds or hold the right to appoint the independent manager whose death, resignation or removal has created the vacancy. Any independent manager may resign at

any time by giving notice to Dorchester Minerals Management GP LLC. An independent manager may be removed only by the member or members who appointed that manager.

The initial independent managers of Dorchester Minerals Management GP LLC will be appointed following the consummation of the combination.

Information Regarding Executive Officers and Appointed Managers of the General Partner of our General Partner

The following information sets forth the age, position and business experience of each executive officer and manager of Dorchester Minerals Management GP LLC. Each executive officer began serving in that capacity on December 12, 2001 and will serve until his successor is appointed by the Board of Managers or until his death, resignation or removal. Each manager will begin serving in that capacity upon the consummation of the combination.

Name	Age	Position
William Casey McManemin	41	Chief Executive Officer and Manager
H.C. Allen, Jr.........	63	Chief Financial Officer and Manager
James E. Raley.........	62	Chief Operating Officer and Manager
Preston A. Peak........	80	Manager
Robert C. Vaughn.......	46	Manager

William Casey McManemin currently serves as Vice-President of the general partner of SAM Partners, Ltd., a general partner of Republic, and of Smith Allen Oil & Gas, Inc., the general partner of Spinnaker. Mr. McManemin has served in those capacities since 1993 and 1996, respectively. He co-founded SASI Minerals Company, Republic Royalty Company, Spinnaker Royalty Company LP and CERES Resource Partners, LP with Mr. Allen in 1988, 1993, 1996 and 1998, respectively. He was previously associated with the firm of Huddleston & Co., Inc., a petroleum engineering firm, from 1984 to 1988. He received his Bachelor of Science degree in Petroleum Engineering from Texas A&M University in 1984 and has been a Registered Professional Engineer in Texas since 1988. Mr. McManemin currently serves on the board of directors of Dale Gas Partners, LP and WAH Royalty Company.

H.C. Allen, Jr. currently serves as Secretary of the general partner of SAM Partners, Ltd., a general partner of Republic, and of Smith Allen Oil & Gas, Inc., the general partner of Spinnaker. Mr. Allen has served in those capacities since 1993 and 1996, respectively. He co-founded SASI Minerals Company, Republic Royalty Company, Spinnaker Royalty Company LP 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. Mr. Allen has been active in oil and gas investments, real estate development and agribusiness operations since 1969. Mr. Allen was previously associated with a predecessor firm to KPMG Peat Marwick from 1964 to 1968.

James E. Raley is the sole shareholder of James E. Raley, Inc., which has served as a general partner of Dorchester Hugoton since 1990. Mr. Raley previously served as an independent consulting engineer and as a principal in Barnes & Click, Inc., consulting engineers, since 1984. Prior to 1984, Mr. Raley was President of Dorchester Gas Producing Company and Senior Vice President of Dorchester Gas Corporation. After receiving a Bachelor of Science degree in Mechanical Engineering from Texas Tech University in 1962, Mr. Raley was employed by Skelly Oil Company in various engineering positions. Mr. Raley has been a Registered Professional Engineer in Texas since 1969.

Preston A. Peak, a co-founder of Dorchester Hugoton, Ltd., has served as 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 has served in various capacities with Vaughn Petroleum, Inc., 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 Vaughn Brothers Oil Company in 1981, CM/Vaughn Joint Venture in 1986, Vaughn Petroleum 1989 Joint Venture in 1989, Republic Royalty Company in 1993 and Vaughn Petroleum Royalty Partners, Ltd. in 1994. Vaughn Petroleum, Inc. is the successor to entities formed by Grady H. Vaughn in the early 1900's and is the general Partner of Vaughn Petroleum, Ltd., a general partner of Republic Royalty Company and the general partner of Vaughn Petroleum Royalty Partners, Ltd. He attended the Petroleum Land Management program at 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.

Effects of Change in Control

In the event that a member of Dorchester Minerals Management GP LLC experiences a change in control, that member's right to appoint an appointed manager will immediately expire unless the other members unanimously agree to a continuation of the appointment right. If the appointment right expires, that position on the Board of Managers will then be elected by the vote of a majority of the other members of Dorchester Minerals Management GP LLC.

A member that has experienced a change in control will also lose its right to appoint an independent manager unless the other members unanimously agree to a continuation of the appointment right. If the member who experiences a change in control shares its appointment right with another member, then if the appointment right is lost, that other member will have the sole right to appoint the independent manager. If each member who shares an appointment right, or if a member with the sole right to appoint an independent manager, lose their appointment rights, that independent manager will be elected by the vote of a majority of the other members. If any additional independent managers are required by Nasdaq rules, those independent managers will be appointed by a vote of the majority of the members. Any independent manager appointed by a vote of the members may be removed at any time with or without cause by the vote of two-thirds of the members.

The Operating Subsidiary

General

Our general partner owns, directly and indirectly through Dorchester Minerals Operating GP LLC, all of the partnership interests in Dorchester Minerals Operating LP, and indirectly controls its management through Dorchester Minerals Operating GP LLC. After the consummation of the combination, Dorchester Minerals Operating LP will hold the working interests and most of the other operational assets now owned by Dorchester Hugoton, the minor working interests owned by Republic and Spinnaker and most of the operational assets now owned by Smith Allen Oil & Gas, Inc., the general partner of Spinnaker. Dorchester Minerals Operating LP will also provide day-to-day operational support and services to us and to our general partner, such as accounting, land and tax services. Actual and reasonable costs incurred by Dorchester Minerals Operating LP in performing the services will be reimbursed by us.

Ownership and Management of Dorchester Minerals Operating LP

Dorchester Minerals Operating LP is a limited partnership whose general partner is Dorchester Minerals Operating GP LLC. Dorchester Minerals Management LP is the limited partner of Dorchester Minerals Operating LP, owning a 99.9% limited partnership interest. Dorchester Minerals Management LP is also the sole member of Dorchester Minerals Operating GP LLC.

Dorchester Minerals Operating LP is managed by its general partner, Dorchester Minerals Operating GP LLC, which has the authority to designate one or more officers to perform day-to-day management functions. Dorchester Minerals Operating GP LLC is managed by its sole member, Dorchester Minerals Management LP, and by officers designated by Dorchester Minerals Management LP.

Officers of Dorchester Minerals Operating GP LLC

The following information sets forth, where applicable, the age, business experience during the past five years, position and office of each executive officer of Dorchester Minerals Operating GP LLC. Each executive officer began serving in that capacity on December 12, 2001 and will serve until his successor is appointed by Dorchester Minerals Management GP LLC or until his death, resignation or removal.

Name	Position
William Casey McManemin	Chief Executive Officer
James E. Raley.........	Chief Operating Officer
H.C. Allen, Jr.........	Chief Financial Officer
Kathleen A. Rawlings...	Controller

The ages and biographies of Messrs. McManemin, Raley and Allen are set forth on page 143.

Kathleen A. Rawlings, 45, has been the Controller and Principal Accounting officer of Dorchester Hugoton, Ltd. since 1991, and has been employed by Dorchester Hugoton since 1984. Prior to 1984, Mrs. Rawlings was employed by Dorchester Refining Company, a subsidiary of Dorchester Gas Corporation. Mrs. Rawlings has a Bachelor of Science degree in Business Management from LeTourneau University.

Conflicts of Interest

For a description of the conflicts of interests which may exist following the combination and how those conflicts will be resolved, see "Conflicts of Interests and Fiduciary Duties" and "Business Opportunities Agreement" in this document.

Officers of Dorchester Minerals

Our partnership will also have persons designated as officers for convenience in executing agreements and making regulatory filings. However, as discussed above, effective management control of our partnership will be exercised by the Board of Managers of Dorchester Minerals Management GP LLC which is the general partner of our general partner. Our officers will be subject to appointment and removal by our general partner.

The following information sets forth the office of each of our executive officers. Each executive officer will begin serving in that capacity upon the consummation of the combination and will serve until his successor is appointed by our general partner or until his death, resignation, retirement, disqualification or removal.

Name	Position
William Casey McManemin	Chief Executive Officer
James E. Raley.........	Chief Operating Officer
H.C. Allen, Jr.........	Chief Financial Officer

The ages and biographies of Messrs. McManemin, Raley and Allen are set forth on page 143.

Executive Compensation

All decisions regarding compensation or benefits paid by us, Dorchester Minerals Management LP, Dorchester Minerals Management GP LLC, Dorchester Minerals Operating LP or Dorchester Minerals Operating

GP LLC to any executive officers will be reviewed by the Advisory Committee of Dorchester Minerals Management GP LLC. Actions by the Advisory Committee require the approval of the majority of the committee's members.

Our officers will not be paid any compensation for their services as officers of our partnership. Our officers will, generally, serve in the same capacities for Dorchester Minerals Management GP LLC, our general partner, and for Dorchester Minerals Operating LP and may be compensated by Dorchester Minerals Operating LP for their service in those capacities. The level of compensation for these services has not yet been determined and will be determined after the consummation of the combination by the Advisory Committee of Dorchester Minerals Management GP LLC. Such compensation will be borne indirectly by us as a result of our obligation to reimburse Dorchester Minerals Management LP and Dorchester Minerals Operating LP for management expenses, subject to the limitation on reimbursement.

We do not anticipate implementing any option or other incentive compensation plans for the benefit of our employees and officers and those of our affiliates. We do intend to offer life, health, dental and other insurance plans and other benefits such as retirement, vacation and other off-time benefits comparable to those currently available to the employees of the combining partnerships.

Two employees of Dorchester Hugoton will be offered employment contracts by Dorchester Minerals Operating LP with terms of at least two years and at an annual salary equal to at least the annual salary paid to the employee by Dorchester Hugoton as of the date of the Combination Agreement.

CONFLICTS OF INTEREST AND FIDUCIARY DUTIES

General

Conflicts of interest exist and may arise in the future as a result of the relationships between Dorchester Minerals Management LP, our general partner, and its affiliates, on the one hand, and our partnership and our limited partners, on the other hand. The officers and members of the general partner of our general partner, Dorchester Minerals Management GP LLC, have fiduciary duties to manage Dorchester Minerals Management GP LLC in a manner beneficial to its owners. At the same time, those officers and members have a duty to cause Dorchester Minerals Management GP LLC to manage Dorchester Minerals Management LP and our partnership in a manner beneficial to us and our limited partners.

Whenever any potential conflict of interest exists or arises between Dorchester Minerals Management LP or any of its affiliates and us or any of our partners, Dorchester Minerals Management LP will resolve that conflict. Our Partnership Agreement authorizes Dorchester Minerals Management LP to seek approval of a majority of the members of the Advisory Committee of Dorchester Minerals Management GP LLC as to a proposed resolution of the conflict, and, if the Advisory Committee approves it, it will conclusively be deemed to be fair and reasonable to us. Dorchester Minerals Management LP is not required to obtain Advisory Committee approval.

Alternatively, any resolution of a conflict of interest shall also be conclusively deemed fair and reasonable to us if such resolution is:

- on terms no less favorable to us than those generally being provided to or available from unrelated third parties, or

- fair to us, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to us).

Dorchester Minerals Management LP, or its general partner's Advisory Committee if its approval is sought, is authorized, in connection with its determination of what is fair and reasonable to us, and in connection with its resolution of any conflict of interest, to consider:

- the relative interests of any party to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interest,
- any customary or accepted industry practices and any customary or historical dealings with a particular person,
- any applicable generally accepted accounting practices or principles, and
- such additional factors as Dorchester Minerals Management LP, or its general partner's Advisory Committee, determines in its sole discretion to be relevant, reasonable or appropriate under the circumstances.

Whenever our Partnership Agreement requires that a particular transaction, arrangement or resolution of a conflict of interest be fair and reasonable, the fair and reasonable nature of that transaction, arrangement, or resolution shall be considered in the context of all similar or related transactions.

Conflicts of interest may arise in the situations described below, among others:

Our general partner's affiliates may compete with us.

Our general partner--Dorchester Minerals Management LP, its general partner--Dorchester Minerals Management LLC, and its subsidiaries--Dorchester Minerals Operating LP and Dorchester Minerals Operating GP LLC will not engage in the acquisition, management, operation or sale of oil and natural gas properties except:

- in connection with the management and operation of our business, and
- except for the ownership of working interests in properties in which we will hold the Operating ORRIs.

However, subject to the requirements of the Business Opportunities Agreement, our Partnership Agreement will permit:

- the general partner of our general partner--Dorchester Minerals Management GP LLC,
- persons who are our officers,
- persons who are officers, managers or partners of our general partner--Dorchester Minerals Management LP,
- persons who are officers of the subsidiaries of our general partner--Dorchester Minerals Operating LP and Dorchester Minerals Operating GP LLC, and
- affiliates of these persons,

to engage in the acquisition, management, operation and sale of oil and natural gas properties or other activities that may create a potential conflict of interest with us. Subject to compliance with the Business Opportunities Agreement, our Partnership Agreement provides that:

- these persons will have the right to engage in businesses and activities of every type including businesses and activities in competition with us,
- engaging in these businesses and activities will not constitute a breach of our Partnership Agreement or any express or implied duty of these persons to any partner or assignee,

- engaging in such activities by these persons is approved by us and all our partners, and is not deemed to be a breach of fiduciary duty or other obligations by our general partner and these persons have no obligations to present business opportunities to us.

However, our executive officers--William Casey McManemin, James E. Raley and H.C. Allen, Jr.--are parties to the Business Opportunities Agreement and are required by it to present to us certain business opportunities that become available to them. It is anticipated that persons who will hold executive offices with us and with Dorchester Minerals Operating LP or Dorchester Minerals Operating GP LLC in the future will also be required to join in the Business Opportunities Agreement and be similarly bound by its terms. See "Business Opportunities Agreement" for a description of the terms of the Business Opportunities Agreement.

Individuals that control the general partners of the combining partnerships will effectively control the management of our partnership.

The general partners of Republic, Spinnaker and Dorchester Hugoton or their successors will own all of the equity ownership of Dorchester Minerals Management LP, the general partner of our partnership, and will as a result also indirectly own all of the equity ownership of Dorchester Minerals Operating LP. However, neither any single general partner of Republic, Spinnaker or Dorchester Hugoton, nor the general partners of any one of Republic, Spinnaker or Dorchester Hugoton, will hold a large enough interest to control Dorchester Minerals Management LP or Dorchester Minerals Management GP LLC without the support of other general partners.

Individuals that control the general partners of the combining partnerships will receive partnership distributions and other benefits associated with their interests in our general partner and its affiliates.

See " --Interests of Certain Persons" below for a detailed description of the distributions and other benefits that these individuals may receive.

We will reimburse the general partner and its affiliates for expenses.

We will reimburse Dorchester Minerals Management LP and its affiliates for expenses it incurs or pays on our behalf, or which are allocable to us, subject to limits in our Partnership Agreement. See "Management-- Limits on Management Expenses."

We do not have any employees (other than our officers) and rely solely on the officers and employees of our general partner and its affiliates.

Affiliates of Dorchester Minerals Management LP may conduct businesses and activities other than ours, in which we may not have an economic interest. As a result, there could be material competition for the time and effort of the officers who provide services to Dorchester Minerals Management LP.

Fiduciary Duties Owed to Our Unitholders

Our general partner is accountable to us and our unitholders as a fiduciary. The Delaware Act provides that Delaware limited partnerships may, in their partnership agreements, restrict or expand the fiduciary duties owed by the general partner to limited partners and the partnership.

Our Partnership Agreement contains various provisions restricting the fiduciary duties that might otherwise be owed by the general partner. The following is a summary of the material restrictions of the fiduciary duties owed by our general partner to the limited partners:

State-law fiduciary duty Standards	Fiduciary duties are generally considered to include an obligation to act with due care and loyalty. The duty of care, in the absence of a provision in a partnership agreement providing otherwise, would generally require a general partner to act for the partnership in the same manner as a prudent person would act on his own behalf. The duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction where a conflict of interest is present. The Delaware Act generally provides that a limited partner may institute legal action on behalf of the partnership to recover damages from a third party where a general partner has refused to institute the action or where an effort to cause a general partner to do so is not likely to succeed. In addition, the statutory or case law of some jurisdictions may permit a limited partner to institute legal action on behalf of himself and all other similarly situated limited partners to recover damages from a general partner for violations of its fiduciary duties to the limited partners.
Partnership Agreement modified Standards	Our Partnership Agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues as to compliance with fiduciary duties or applicable law. For example, our Partnership Agreement permits our general partner to make a number of decisions in its "sole discretion." This entitles the general partner to consider only the interests and factors that it desires and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Other provisions of the Partnership Agreement provide that the general partner's actions must be made in its reasonable discretion. These standards reduce the obligations to which the general partner would otherwise be held. Our Partnership Agreement generally provides that affiliated transactions and resolutions of conflicts of interest not involving a required vote of unitholders must be "fair and reasonable" to us under the factors described above in "--General." In determining whether a transaction or resolution is "fair and reasonable" our general partner may consider interests of all parties involved, including its own. Unless our general partner has acted in bad faith, the action taken by our general partner shall not constitute a breach of its fiduciary duty. These standards reduce the obligations to which our general partner would otherwise be held. In addition to the other more specific provisions limiting the obligations of our general partner, our Partnership Agreement further

provides that our general partner and its officers and directors will not be liable for monetary damages to us, the limited partners or assignees for errors of judgment or for any acts or omissions if the general partner and those other persons acted in good faith.

In order to become one of our limited partners, a common unitholder is required to agree to be bound by the provisions in our Partnership Agreement, including the provisions discussed above. This is in accordance with the policy of the Delaware Act favoring the principle of freedom of contract and the enforceability of partnership agreements. The failure of a limited partner or assignee to sign a partnership agreement does not render the Partnership Agreement unenforceable against that person.

We must indemnify our general partner and its officers, directors, employees, affiliates, partners, members, agents and trustees, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by the general partner or these other persons. We must provide this indemnification if our general partner or these persons acted in good faith and in a manner they reasonably believed to be in, or (in the case of a person other than the general partner) not opposed to, our best interests. We also must provide this indemnification for criminal proceedings if our general partner or these other persons had no reasonable cause to believe their conduct was unlawful. Thus, our general partner could be indemnified for its negligent acts if it met these requirements concerning good faith and our best interests. See "The Partnership Agreement--Indemnification."

Interest of Certain Persons in the Combination

The general partners of the combining partnerships will have continuing relationships with and engage in transactions with us on an ongoing basis following the closing of the combination. As a result of these relationships and transactions, the general partners of the combining partnerships may be considered to have a financial interest in the combination which may be different from the financial interests of their respective partnerships and the limited partners in our partnership following the combination.

In addition, the individuals who are the owners of the general partners of the combining partnerships or who are involved in their management will have ownership interests in, or hold management positions with, our partnership, Dorchester Minerals Management LP and Dorchester Minerals Operating LP. As a result, those individuals may be considered to have a financial interest in the combination and in our partnership on an ongoing basis which may be different from the interests of the limited partners of their respective partnerships and from the limited partners of our partnership.

These relationships are summarized below.

Ownership of and Positions with our Partnership and certain Affiliates. The general partners of the combining partnerships and certain individuals that serve as officers or managers of these general partners will own interests in and hold positions with us, Dorchester Minerals Management LP and its affiliates. See "Management" and "Security Ownership of Certain Beneficial Owners and Management."

Working Interests Held by Dorchester Minerals Operating LP and Calculation of Overriding Royalty Interest. The transfer to Dorchester Minerals Operating LP of working interests held by the combining partnerships will be made subject to the reservation of the Operating ORRIs, which will be held by us following the combination. The amount of the Operating ORRIs was established by the general partners of the combining partnerships so that the total of the 3.03% interest in the net operating revenues attributable to the working interests burdened by the Operating ORRIs, which will be owned by Dorchester Minerals Operating LP, and the general partner's 1% share of the Operating ORRIs held by us would equal a 4% economic interest owned by the general partner after the combination in the properties burdened by the Operating ORRIs. This 4% economic interest will be similar in amount to the economic interest held by Dorchester Minerals Management LP in the properties formerly held by Republic and Spinnaker, and is generally the same as the compensation historically

paid to Dorchester Hugoton's general partners. A comparison of actual compensation received by the general partners to the pro forma compensation of our general partner assuming the combination begins on page 152 of this document. The 3.03% interest in the properties burdened by the Operating ORRIs, in the opinion of the general partners of the combining partnerships and Dorchester Hugoton's Advisory Committee, also approximated the amount of overriding royalty interest an independent third party would be willing to agree to in order to accept a conveyance of a working interest encumbered by such an overriding royalty interest and assume the risks associated with ownership of the properties covered by it. These risks would include the risk that the cash flow from the properties might not cover the short term costs of operation of such properties, including such matters as third party claims, casualty losses or environmental issues and the risk that a catastrophic loss or claim for which a working interest owner would be liable might exceed the total value of the properties. The parties did not engage an appraiser to assist in the determination of the amount of the overriding royalty interest or attempt to find an independent third party who would acquire the working interests subject to an overriding royalty interest, and the amount of the overriding royalty interest may not reflect the amount that would be established by an arm's-length transaction.

However, under the partnership agreement of Dorchester Hugoton, because the transaction may be deemed to be with an affiliate of the general partners of Dorchester Hugoton, and they may be deemed to have an interest in the transaction, the conveyance of Dorchester Hugoton's working interests and creation of the overriding royalty interest in them was considered and approved by the Advisory Committee of Dorchester Hugoton as to its fairness to the depositary receipt holders of Dorchester Hugoton. The Advisory Committee of Dorchester Hugoton is charged with reviewing such transactions from the standpoint of their fairness to the depositary receipt holders of Dorchester Hugoton. Its approval does not represent any review or judgment on its part as to the fairness of the transaction to the limited partners of Republic or Spinnaker or as to the fairness to any of the limited partners or depositary receipt holders of the conveyances of the minor working interests conveyed by Republic and Spinnaker to Dorchester Minerals Operating LP on similar terms.

The Operating ORRIs also include provisions for a reimbursement of overhead expenses in connection with working interest operations. Such overhead reimbursement will be determined by using cents-per-mile and dollars-per-well-per-month methods customary in the industry. It will be included in production costs and not in management expenses and, therefore, will not be subject to the limit on management expense reimbursements. In no event will the combination of overhead and management expense reimbursements exceed actual costs incurred. See "The Combination--Preparatory Steps--Creation of Overriding Royalty Interests" beginning on page 53 of this document for a description of the terms of the Operating ORRIs.

Transfer of Certain Management and Operating Assets. Dorchester Hugoton will convey its management and remaining operating assets to Dorchester Minerals Operating LP in exchange for a promissory note and the assumption by Dorchester Minerals Operating LP of certain obligations. The terms of this transfer and the promissory note and the appraisal which will determine the amount of the promissory note are discussed under the caption "The Combination--Transfer of Assets by Dorchester Hugoton and Liquidation" at page 57 of this document. In addition, the terms of this transfer, the promissory note and the use of an appraisal (but not the actual appraisal amount) were reviewed and approved as to fairness by the Advisory Committee of Dorchester Hugoton on the same basis as their review and approval as to fairness of the creation of the overriding royalty interest and subject to the same limitations and qualifications discussed above.

Indemnification and Insurance. We will indemnify the partners, affiliates of the partners, directors, officers and employees of the combining partnerships following the consummation of the combination for matters occurring prior to the combination to the extent the applicable combining partnership would have been required to do so under its partnership agreement. See "The Combination Agreement--Additional Agreements." Further, Dorchester Hugoton has agreed to purchase continuing directors and officers liability coverage covering the general partners, officers and Advisory Committee of Dorchester Hugoton. See "The Combination Agreement--Certain Covenants." The terms of these indemnification and insurance obligations were reviewed and approved as to fairness by the Advisory Committee of Dorchester Hugoton on the same basis as their review

and approval as to fairness of the creation of the overriding royalty interest and subject to the same limitations and qualifications discussed above.

Financial Interests. As a result of their beneficial ownership of interests in Dorchester Minerals Management LP and its affiliates, the general partners of the combining partnerships will have a financial interest in us in the form of an interest in the cash distributions that will be made to Dorchester Minerals Management LP with respect to its general partnership interest in us. The following table presents the actual management fees, cash distributions and expense reimbursements actually paid or payable by each of the combining partnerships to their general partners during the last three fiscal years and compares those payments to the amounts, as listed in the pro forma column, that would have been paid to them for each of those categories. Amounts shown in the pro forma columns of the table do not include compensation which may be paid to William Casey McManemin, H.C. Allen, Jr. or James E. Raley for service as executive officers of Dorchester Minerals Operating LP. These amounts are paid by Dorchester Minerals Management LP and could be reimbursed by us to the extent total reimbursements for general and administrative expenses are less than the limitation of reimbursement. See "Management--Absence of Management Fees; Reimbursement of General Partner--Limits upon Management Expenses." Please note that the following table assumes that pro forma cash distributions will be made as provided by our Partnership Agreement, which differs from the distribution policy set forth in Dorchester Hugoton's partnership agreement. See "The Partnership Agreement--Distributions of Available Cash."

		Years Ended					
		December 31, 2001		December 31, 2000		December 31, 1999	
		Actual	Pro Forma	Actual	Pro Forma	Actual	Pro Forma
P.A. Peak, Inc./ P.A.Peak Holdings, Inc.	Management Fee (1)	$ 145,896	$ 0	$ 137,905	$ 0	$ 88,509	$ 0
	Cash Distributions (2)	$ 66,745	$ 345,649	$ 48,837	$ 388,463	$ 39,070	$ 217,924
	Expense Reimbursement (3) (4)	$ 9,714	$ 9,714	$ 8,441	$ 8,441	$ 7,185	$ 7,185
	Total	$ 222,355	$ 355,363	$ 195,183	$ 396,904	$ 134,764	$ 225,109
James E. Raley, Inc./ James E. Raley General Partnership	Management Fee (1)	$ 458,896	$ 0	$ 450,905	$ 0	$ 401,509	$ 0
	Cash Distributions (2)	$ 66,745	$ 345,649	$ 48,837	$ 388,463	$ 39,070	$ 217,924
	Expense Reimbursement (3)	$ 41,703	$ 41,703	$ 32,294	$ 32,294	$ 33,026	$ 33,026
	Total	$ 567,344	$ 387,352	$ 532,036	$ 420,757	$ 473,605	$ 250,950
Subtotal--General Partners Of Dorchester Hugoton	Management Fee	$ 604,792	$ 0	$ 588,810	$ 0	$ 490,018	$ 0
	Cash Distributions	$ 133,490	$ 691,298	$ 97,674	$ 776,926	$ 78,140	$ 435,848
	Expense Reimbursement	$ 51,417	$ 51,417	$ 40,735	$ 40,735	$ 40,211	$ 40,211
	Total	$ 789,699	$ 742,715	$ 727,219	$ 817,661	$ 608,369	$ 476,059
SAM Partners, Ltd.	Management Fee (5)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Cash Distributions (6)	$ 341,490	$ 363,375	$ 421,008	$ 408,385	$ 190,651	$ 229,100
	Expense Reimbursement (7)	$ 267,540	$ 267,540	$ 227,957	$ 227,957	$ 210,346	$ 210,346
	Total	$ 609,030	$ 630,915	$ 648,965	$ 636,342	$ 400,997	$ 439,446
Vaughn Petroleum, Ltd.	Management Fee (5)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Cash Distributions (6)	$ 341,490	$ 363,375	$ 421,008	$ 408,385	$ 190,651	$ 229,100
	Expense Reimbursement (7)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Total	$ 341,490	$ 363,375	$ 421,008	$ 408,385	$ 190,651	$ 229,100
Subtotal--General Partners Of Republic	Management Fee	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Cash Distributions	$ 682,980	$ 726,750	$ 842,016	$ 816,770	$ 381,302	$ 458,200
	Expense Reimbursement	$ 267,540	$ 267,540	$ 227,957	$ 227,957	$ 210,346	$ 210,346
	Total	$ 950,520	$ 994,290	$1,069,973	$1,044,727	$ 591,648	$ 668,546
Smith Allen Oil & Gas, Inc.	Management Fee (8)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Cash Distributions (9)	$ 435,052	$ 354,512	$ 408,624	$ 398,424	$ 320,916	$ 223,512
	Expense Reimbursement (10)	$ 306,000	$ 306,000	$ 267,002	$ 267,002	$ 239,000	$ 239,000
	Total	$ 741,052	$ 660,512	$ 675,626	$ 665,426	$ 559,916	$ 462,512
Total--Owners of Our General Partner	Management Fee	$ 604,792	$ 0	$ 588,810	$ 0	$ 490,018	$ 0
	Cash Distributions	$1,251,522	$1,772,560	$1,348,314	$1,992,120	$ 780,358	$1,117,560
	Expense Reimbursement	$ 624,957	$ 624,957	$ 535,694	$ 535,694	$ 489,557	$ 489,557
	Total	$2,481,271	$2,397,517	$2,472,818	$2,527,814	$1,759,933	$1,607,117

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(1) The general partners of Dorchester Hugoton are entitled to a management fee each year equal to $350,000 plus 1% of the gross income of Dorchester Hugoton for services rendered in operating and managing Dorchester Hugoton. The 1% component of the fee is paid 50% to P.A. Peak, Inc. and 50% to James E. Raley, Inc. The allocation of the $350,000 component of the fee among the two general partners varies from year to year based on agreement of the general partners. In each of the years 1999 through 2001 the fee was reduced to $337,000, of which $325,000 was paid to James E. Raley, Inc. and $12,000 was paid to P.A. Peak, Inc.

(2) The general partners of Dorchester Hugoton each hold a 0.5% general partner interest in Dorchester Hugoton. The general partners of Dorchester Hugoton will each hold a 19.48% interest in profits and a 6.98% interest in capital in the general partner of our partnership, which will (i) be entitled to receive a 1% interest in cash flow attributable to the Operating ORRIs and a 4% interest in cash flow attributable to the properties formerly held by Republic and Spinnaker and (ii) own all of Dorchester Minerals Operating LP. Dorchester Minerals Operating LP will own 100% of the working interests in the properties formerly owned by the combining partnerships that will be burdened by the Operating ORRIs owned by our partnership. See "The Combination--Preparatory Steps--Creation of Overriding Royalty Interests." The amounts shown in the pro forma columns of the table represent the distributions that would have been received (i) by Dorchester Minerals Management LP multiplied by the 19.48% beneficial ownership interest (based on profits) of each of the general partners of Dorchester Hugoton in Dorchester Minerals Management LP and (ii) by Dorchester Minerals Operating LP, after the deduction of the Operating ORRIs, multiplied by the 19.48% beneficial ownership interest (based on profits) of each of the general partners of Dorchester Hugoton in Dorchester Minerals Management LP. The amounts shown in the actual and pro forma columns do not include cash distributions with respect to limited partner interests held by affiliates of a general partner. Distributions to Dorchester Hugoton general partners are based in part on the amount of cash distributions to its limited partners pursuant to the general partners' policy of building some cash reserves rather than distributing all available cash.

(3) The general partners of Dorchester Hugoton are also reimbursed for all out-of-pocket costs and general and administrative expenses incurred by them on behalf of Dorchester Hugoton. General and administrative costs include the costs incurred for employee benefits on behalf of the general partners. The amounts shown in the actual columns of the table include all general partner reimbursements. General and administrative expenses incurred in connection with Dorchester Hugoton's operations are incurred for the most part directly by Dorchester Hugoton and paid directly by it instead of being incurred by its general partners and then reimbursed. The general partners of Republic and Spinnaker, however, incur directly all general and administrative and other overhead expenses and are reimbursed for these expenses by the partnerships in accordance with their respective partnership agreements. Dorchester Minerals will have no employees (other than officers), offices or other activities that directly generate general and administrative expenses. Instead those expenses will be incurred by its general partner and Dorchester Minerals Operating LP and then reimbursed by Dorchester Minerals to the general partner or Dorchester Minerals Operating LP. Accordingly, a comparison of actual and pro forma expenses reimbursed would result in an inconsistent presentation. In the table, as presented, actual expense reimbursements reflect actual amounts paid by the general partners of the combining partnerships and to which they are entitled to reimbursement in accordance with the partnership agreement of their respective combining partnership. Pro forma expense reimbursements reflect actual amounts that would have been paid by the partners of our general partner and reimbursement of those amounts in accordance with our general partner's partnership agreement. The actual amount of expense reimbursements differs from the percentage allocation of cash distributions (and production costs included in the determination of Operating ORRIs) because reimbursements are made to our general partner's partners in accordance with actual costs paid and without regard to the partners' interest in capital and profits.

(4) Includes general and administrative expense reimbursement of $484 for 1999, $507 for 2000 and $601 for 2001 for expenses of Hugoton Nominee, Inc., which is wholly-owned by P.A. Peak, Inc.

(5) The general partners of Republic are not entitled to receive a management fee.

(6) The general partners of Republic each hold a 2% general partner interest in Republic assuming the Republic reorganization has occurred. The general partners of Republic will each hold a 20.48% interest in profits and a 28.98% interest in capital in the general partner of our partnership, which will (i) be entitled to receive a 1% interest in cash flow attributable to the Operating ORRIs and a 4% interest in cash flow attributable to the properties formerly held by Republic and Spinnaker and (ii) own all of Dorchester Minerals Operating LP. Dorchester Minerals Operating LP will own 100% of the working interests in the properties formerly owned by the combining partnerships that will be burdened by the Operating ORRIs owned by our partnership. See "The Combination--Preparatory Steps--Creation of Overriding Royalty Interests." The amounts shown in the pro forma columns of the table represent the distributions that would have been received (i) by Dorchester Minerals Management LP multiplied by the 20.48% beneficial ownership interest (based on profits) of each of the general partners of Republic in Dorchester Minerals Management LP and (ii) by Dorchester Minerals Operating LP, after the deduction of the Operating ORRIs, multiplied by the 20.48% beneficial ownership interest (based on profits) of each of the general partners of Republic in Dorchester Minerals Management LP. The amounts shown in the actual columns of the table include all general partner compensation other than expense reimbursements. The

amounts shown in the actual and pro forma columns do not include cash distributions with respect to limited partner interests held by a general partner.

(7) The general partners of Republic are also reimbursed for all actual general and administrative expenses incurred by them on behalf of Republic, subject to an overhead reimbursement limit of 4% of Republic's cash flow. General and administrative expenses incurred in connection with Dorchester Hugoton's operations are incurred for the most part directly by Dorchester Hugoton and paid directly by it instead of being incurred by its general partners and then reimbursed. The general partners of Republic and Spinnaker, however, incur directly all general and administrative and other overhead expenses and are reimbursed for these expenses by the partnerships in accordance with their respective partnership agreements. Dorchester Minerals will have no employees (other than officers), offices or other activities that directly generate general and administrative expenses. Instead those expenses will be incurred by its general partner and Dorchester Minerals Operating LP and then reimbursed by Dorchester Minerals to the general partner or Dorchester Minerals Operating LP. Accordingly, a comparison of actual and pro forma expenses reimbursed would result in an inconsistent presentation. In

the table, as presented, actual expense reimbursements reflect actual amounts paid by the general partners of the combining partnerships and to which they are entitled to reimbursement in accordance with the partnership agreement of their respective combining partnership. Pro forma expense reimbursements reflect actual amounts that would have been paid by the partners of our general partner and reimbursement of those amounts in accordance with our general partner's partnership agreement. The actual amount of expense reimbursements differs from the percentage allocation of cash distributions (and production costs included in the determination of Operating ORRIs) because reimbursements are made to our general partner's partners in accordance with actual costs paid and without regard to the partners' interest in capital and profits.

(8) The general partner of Spinnaker is not entitled to receive a management fee.

(9) The general partner of Spinnaker holds a 4% general partner interest in Spinnaker assuming the Spinnaker reorganization has occurred. The general partner of Spinnaker will hold a 19.98% interest in profits and a 28.26% interest in capital in the general partner of our partnership, which will (i) be entitled to receive a 1% interest in cash flow attributable to the Operating ORRIs and a 4% interest in cash flow attributable to the properties formerly held by Republic and Spinnaker and (ii) own all of Dorchester Minerals Operating LP. Dorchester Minerals Operating LP will own 100% of the working interests in the properties formerly owned by the combining partnerships that will be burdened by the Operating ORRIs owned by our partnership. See "The Combination--Preparatory Steps--Creation of Overriding Royalty Interests." The amounts shown in the pro forma columns of the table represent the distributions that would have been received (i) by Dorchester Minerals Management LP multiplied by the 19.98% beneficial ownership interest (based on profits) of the general partner of Spinnaker in Dorchester Minerals Management LP and (ii) by Dorchester Minerals Operating LP, after the deduction of the Operating ORRIs, multiplied by the 19.98% beneficial ownership interest (based on profits) of the general partner of Spinnaker in Dorchester Minerals Management LP. The amounts shown in the actual columns of the table include all general partner compensation other than expense reimbursements. The amounts shown in the actual and pro forma columns do not include cash distributions with respect to limited partner interests held by a general partner.

(10) The general partner of Spinnaker is also reimbursed for its actual and allocable general and administrative expenses attributable to Spinnaker's properties and business, subject to a limit of 5% of Spinnaker's cash flow excluding any salary for its executive officers and directors. General and administrative expenses incurred in connection with Dorchester Hugoton's operations are incurred for the most part directly by Dorchester Hugoton and paid directly by it instead of being incurred by its general partners and then reimbursed. The general partners of Republic and Spinnaker, however, incur directly all general and administrative and other overhead expenses and are reimbursed for these expenses by the partnerships in accordance with their respective partnership agreements. Dorchester Minerals will have no employees (other than officers), offices or other activities that directly generate general and administrative expenses. Instead those expenses will be incurred by its general partner and Dorchester Minerals Operating LP and then reimbursed by Dorchester Minerals to the general partner or Dorchester Minerals Operating LP. Accordingly, a comparison of actual and pro forma expenses reimbursed would result in an inconsistent presentation. In the table, as presented, actual expense reimbursements reflect actual amounts paid by the general partners of the combining partnerships and to which they are entitled to reimbursement in accordance with the partnership agreement of their respective combining partnership. Pro forma expense reimbursements reflect actual amounts that would have been paid by the partners of our general partner and reimbursement of those amounts in accordance with our general partner's partnership agreement. The actual amount of expense reimbursements differs from the percentage allocation of cash distributions (and production costs included in the determination of Operating ORRIs) because reimbursements are made to our general partner's partners in accordance with actual costs paid and without regard to the partners' interest in capital and profits.

THE BUSINESS OPPORTUNITIES AGREEMENT

Renunciation of Business Opportunities

In a Business Opportunities Agreement among:

- our partnership;
- Dorchester Minerals Management LP;
- Dorchester Minerals Management GP LLC;
- the general partners of the combining partnerships, referred to in this section as the GP Parties; and
- in their individual capacities as officers of Dorchester Minerals Management GP LLC, William Casey McManemin, James E. Raley and H.C. Allen, Jr.

effective as of and conditioned upon the closing of the combination, we have agreed that following consummation of the combination, except with the consent of Dorchester Minerals Management LP, which it may withhold in its sole discretion, we will not engage in any business not permitted by the partnership agreement as in effect immediately upon the closing of the combination, and we will have no interest or expectancy in any business opportunity that does not consist exclusively of the Oil and Gas Business, as defined in the Business Opportunities Agreement, within a designated area that includes portions of Texas County, Oklahoma and Stevens County, Kansas. All opportunities which are outside the designated area or are not Oil and Gas Business activities are called renounced opportunities. For purposes of the agreement, "Oil and Gas Business" means the acquisition, management, ownership and sale of oil and natural gas assets or properties, including but not limited to mineral fee interests, net profits interests and royalty and overriding interests, but excluding working interests.

We also have agreed in the Business Opportunities Agreement that affiliates of Dorchester Minerals Management LP, the GP Parties and their affiliates and the persons designated by the GP Parties as managers of Dorchester Minerals Management GP LLC, whom we refer to in this section as the management committee designees, shall not be restricted by the relationship between us and Dorchester Minerals Management LP and/or Dorchester Minerals Operating LP or Dorchester Minerals Operating GP LLC from engaging in any business even though it is in competition with our business or activities, so long as their actions do not conflict with specified standards of conduct, which are summarized below, or is a renounced opportunity.

The parties also have agreed in the Business Opportunities Agreement that, as long as the activities of Dorchester Minerals Management LP, the GP Parties and their affiliates or management committee designees are conducted in accordance with the specified standards, which are summarized in the next paragraph, or are renounced opportunities:

- Dorchester Minerals Management LP, the GP Parties and their affiliates or the management committee designees will not be prohibited from engaging in the Oil and Gas Business or any other business, even if such activity is in direct or indirect competition with our business activities;
- affiliates of Dorchester Minerals Management LP, the GP Parties and their affiliates and the management committee designees will not have to offer us any business opportunity;
- we will have no interest or expectancy in any business opportunity pursued by affiliates of Dorchester Minerals Management LP, the GP Parties or their affiliates and the management committee designees; and
- we waive any claim that any business opportunity pursued by Dorchester Minerals Management LP, the GP Parties or their affiliates and the management committee designees constitutes a corporate opportunity of Dorchester Minerals that should have been presented to us.

The standards specified in the Business Opportunities Agreement generally provide that the GP Parties and their affiliates and management committee designees must conduct their business through the use of their own personnel and assets and not with the use of any personnel or assets of us, Dorchester Minerals Management LP or Dorchester Minerals Operating LP. The Business Opportunities Agreement will not allow a management committee designee of Dorchester Minerals Management GP LLC or personnel of a company in which any affiliate of Dorchester Minerals Management LP or any GP Party or their affiliates has an interest or in which a management committee designee is an owner, director, manager, partner or employee (except for Dorchester Minerals Management GP LLC, Dorchester Minerals Management LP and their subsidiaries) to usurp a business opportunity solely for his or her personal benefit, as opposed to pursuing, for the benefit of the separate party an opportunity in accordance with the specified standards.

Contractual Obligations of Certain Affiliates

In addition to the renunciation of business opportunities and related matters described immediately above, the Business Opportunities Agreement contains two kinds of contractual undertakings by the GP Parties and by Messrs. McManemin, Raley and Allen: an obligation for the affiliate to offer us the opportunity to consummate specified types of transactions under binding agreement with the affiliate; and an obligation for the affiliate to offer us the opportunity to purchase from the affiliate specified types of properties in the designated area described above under " --Renunciation of Business Opportunities." These obligations do not alter our ability, under our Partnership Agreement, to take certain actions. In other words, in some situations the contractual undertakings in the business opportunities might give us an opportunity that we are prohibited from pursuing because of restrictions in our Partnership Agreement.

Offer of Right to Negotiate

The Business Opportunities Agreement provides that if a GP Party, an officer of Dorchester Minerals Management GP LLC or any of their subsidiaries signs a binding agreement to purchase oil and natural gas interests, excluding oil and natural gas working interests, and the purchase price for the oil and natural gas interests exceeds 10% of our market capitalization on the date of the purchase agreement, then the purchasing party must notify us prior to the consummation of the transactions so that we may determine whether to pursue the purchase of the oil and natural gas interests directly from the seller. If the purchase price to be paid is other than cash, our Advisory Committee will determine the value of the purchase price. If we elect to pursue the purchase of the oil and natural gas interests directly from the seller and seller notifies the purchasing party that seller desires to sell the oil and natural gas interests to us instead of the purchasing party, the purchasing party must take reasonable action to effect the termination of the purchase agreement between it and the seller, although the termination will be conditioned upon our entering into a binding purchase agreement with seller. The Advisory Committee will make any determination regarding whether we elect to pursue such an opportunity. If we do not pursue the purchase of the oil and natural gas interests or fail to respond to the purchasing party's notice within the provided time, the opportunity will also be considered a renounced opportunity.

Offer of Owned Properties

The agreement also provides that if any GP Party or one of their subsidiaries acquires an oil and natural gas interest, including oil and natural gas working interests, in the designated area, it will offer to sell these interests to us within one month of completing the acquisition. This obligation also applies to any package of oil and natural gas interests, including oil and natural gas working interests, if at least 20% of the net acreage of the package is within the designated area, but this obligation does not apply to interests purchased in a transaction in which the procedures described immediately above under "--Offer of Right to Negotiate" applied and were followed by the applicable affiliate. The interests required to be offered to us are referred to as restricted assets.

If we elect not to purchase any offered restricted assets, our Advisory Committee must approve that election. If we elect to purchase the restricted assets, the purchase price that we pay will be equal to the purchase

price paid by the offering party for the interests. If the purchase price paid by the offering party was other than cash and we and the offering party cannot agree on the value of the purchase price, we and the offering party must appoint a mutually-agreed-upon appraiser to determine the value of the purchase price. We and the offering party must each pay one-half of the appraiser's fees and expenses. We may revoke our election to purchase the restricted assets within five days of receiving the appraisal, although we must pay all of the appraiser's fees and expenses in the event we revoke our election.

General

Contractual obligations in the Business Opportunities Agreement do not apply to (i) the ownership of our common units or (ii) securities of any class registered under the Securities Exchange Act of 1934 if, in the case of (ii), following the purchase the party owns less than 5% of such class of securities.

With respect to business opportunities that are presented to or become known to any person restricted by the Business Opportunities Agreement after the general partner is no longer our general partner, the restrictions imposed by the Business Opportunities Agreement on such any person terminate at the time that the general partner no longer serves as the general partner. The restrictions imposed by the Business Opportunities Agreement on any person terminate six months after the general partner no longer serves as our general partner with respect to all other matters.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common units as of January 1, 2002 and the pro forma ownership of our common units after completion of the combination based on the estimated combination exchange ratios and assuming (a) 27,040,431 common units are issued in the combination, (b) no limited partners elect to exercise dissenters' rights, and (c) the consummation of the combination on that date. This information is set forth for (i) each nominee appointed manager of Dorchester Minerals Management GP LLC, (ii) each of the named executive officers of Dorchester Minerals Management GP LLC, (iii) all executive officers and nominee appointed managers of Dorchester Minerals Management GP LLC as a group, and (iv) all those known by us to be beneficial owners of more than five percent of our common units. Please note that the percentage of common units to be owned after the combination by a given holder does not entitle that holder to a like sharing percentage of our profits nor are the partnership interests attributable to the general partner interests included in the pro forma column of this table. See "The Combination--Ownership Structure of Dorchester Minerals" beginning on page 60 for a more detailed discussed of these matters.

Name of Beneficial Owner	Current Beneficial Ownership	Pro Forma Estimated Beneficial Ownership(1)	
	Percentage Of Total	Number of Units	Percentage of Total(2)
Dorchester Minerals Management, L.P.	1%	N/A	N/A
Dorchester Minerals Management GP LLC	99%	--	--
Named Executive Officers and Nominee Managers(5):			
William Casey McManemin(4)(10)	N/A	5,542,465	20.50%
James E. Raley	N/A	14,706	0.05%
H.C. Allen, Jr.(5)(10)	N/A	1,634,714	6.05%
Preston A. Peak(6)(10)	N/A	1,577,412	5.83%
Robert C. Vaughn(7)(10)	N/A	1,695,992	6.27%
All executive officers and nominee managers as a group (5 persons)	N/A	9,940,501	36.76%
Holders of 5% or More Not Named Above			
Lucent Technologies Master Pension Trust(8)(9)	N/A	4,241,293	15.69%
Red Wolf Partners(9)	N/A	3,781,934	13.99%
AT&T Long Term Investment Trust(8)(9)	N/A	3,038,820	11.24%
Delta Airlines Master Trust(8)(9)	N/A	2,061,951	7.63%
Boeing Master Retirement Plans Trust(8)(9)	N/A	1,886,609	6.98%
Bell Atlantic Master Trust(8)(9)	N/A	1,886,609	6.98%
Kodak Retirement Income Plan(8)(9)	N/A	1,616,574	5.98%

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(1) Based on estimated combination exchange ratios and assuming no limited partners elect to exercise dissenters' rights.

(2) Based on 27,040,431 common units.

(3) The business address of each manager and executive officer of Dorchester Minerals Management GP LLC is c/o Dorchester Minerals Management GP LLC, 3738 Oak Lawn Ave., Suite 300, Dallas, Texas 75219.

(4) Includes 5,542,465 common units owned by various entities of which Mr. McManemin is an officer, manager or general partner or for the benefit of Mr. McManemin and his family, although Mr. McManemin does not have an economic interest in all of these units. Mr. McManemin disclaims beneficial ownership of 599,726 common units to be owned upon consummation of the combination by SAM Partners, Ltd. and Smith Allen Oil & Gas, Inc. Mr. McManemin is Vice-President of Smith Allen Oil & Gas, Inc. and SAM Partners Management, Inc., the general partner of SAM Partners, Ltd. Mr. McManemin in this capacity may be deemed to beneficially own these units based on shared voting and dispositive power. Does not include 1,009,897 units that Mr. McManemin does not beneficially own, but in which may have an economic interest through the APO Partnership.

(5) Mr. Allen disclaims beneficial ownership of 599,726 common units to be owned upon consummation of the combination by SAM Partners, Ltd. and Smith Allen Oil & Gas, Inc. Mr. Allen is Secretary of Smith Allen Oil & Gas, Inc. and SAM Partners Management, Inc., the general partner of SAM Partners, Ltd. Mr. Allen in this capacity may be deemed to beneficially own these units based on shared voting and dispositive power. Does not include 1,009,897 units that Mr. Allen does not beneficially own, but in which he may have an economic interest in through the APO Partnership.

(6) Includes 1,577,412 common units owned by various entities for the benefit of Mr. Peak and his family.

(7) Includes 674,903 units owned by various entities of which Mr. Vaughn is an officer, manager or general partner. Does not include 1,009,897 units that Mr. Vaughn does not beneficially own, but in which he may have an economic interest in through the APO Partnership.

(8) Includes 1,009,897 common units to be owned upon the consummation of the combination by the APO Partnership, which the holder may be deemed to beneficially own based on shared voting or dispositive power.

(9) The business address of each party is c/o Republic Royalty Company, 3738 Oak Lawn, Suite 300, Dallas, Texas 75219.

(10) Includes 83,057 common units to be owned upon the consummation by RRC NPI Holdings, LP, whose co-general partners following the combination will be SAM Partners, Ltd. and Vaughn Petroleum, Ltd.

THE PARTNERSHIP AGREEMENT

The following is a summary of the material provisions of our Amended and Restated Agreement of Limited Partnership, referred to throughout this document as our Partnership Agreement or the Partnership Agreement. Our Partnership Agreement is included as an exhibit to the registration statement of which this document constitutes a part. We will provide you with a copy of this agreement upon request. For information on how this document may be obtained, see "Where You Can Find More Information" on the inside front cover page of this document.

We summarize the following provisions of the Partnership Agreement elsewhere in this prospectus:

- with regard to the transfer of common units, see "Description of Units of Dorchester Minerals--Transfer of Common Units;" and

- with regard to allocations of taxable income and taxable loss, see "Material United States Federal Income Tax Consequences--Consequences of Ownership of our Units After the Combination."

Organization

We were organized on December 12, 2001 and will have a perpetual existence.

Purpose

Our purpose under the Partnership Agreement is to acquire, manage, operate, and sell the assets now owned or hereafter acquired and to distribute all "available cash" to unitholders or partners according to their respective interests and to engage in business activities approved by the general partner. See "--Distributions of Available Cash" below for the definition of available cash.

Power of Attorney

Each limited partner, and each person who acquires a unit from a unitholder and executes and delivers a transfer application or is deemed to have done so, grants to the general partner and, if appointed, a liquidator, a power of attorney to, among other things, execute and file documents required for our qualification, continuance or dissolution. The power of attorney also grants the general partner the authority to amend, and to make consents and waivers under, the Partnership Agreement.

Capital Contributions

Unitholders are not obligated to make additional capital contributions, except as described below under "--Limited Liability."

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and that he otherwise acts in conformity with the provisions of the Partnership Agreement, his liability under the Delaware Act will be limited, subject to possible exceptions to the amount of capital he is obligated to contribute for his common units plus his share of any undistributed profits and assets. If it were determined, however, that the right, or exercise of the right, by the limited partners as a group:

- to remove or replace the general partner;

- to approve some amendments to the Partnership Agreement; or

- to take other action under the Partnership Agreement;

constituted "participation in the control" of our business for the purposes of the Delaware Act, then the limited partners could be held personally liable for our obligations under the laws of Delaware, to the same extent as the general partner. This liability would extend to persons who transact business with us who reasonably believe that the limited partner is a general partner. Neither the Partnership Agreement nor the Delaware Act specifically provides for legal recourse against the general partner if a limited partner were to lose limited liability through the fault of the general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of claim in Delaware case law.

Under the Delaware Act, a limited partnership may not make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to the specific property of the partnership, would exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. The Delaware Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act shall be liable to the limited partnership for the amount of the distribution for three years Under the Delaware Act, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of his assignor to make contributions to the partnership, except the assignee is not obligated for liabilities unknown to him at the time he became a limited partner and that could not be ascertained from the Partnership Agreement.

Issuance of Additional Securities

The Partnership Agreement authorizes us to issue an unlimited number of additional limited partner interests and other equity securities for the consideration and on the terms and conditions established by the general partner in its sole discretion without the approval of any limited partners. However, without the approval of the holders of a majority of the common units, we may not issue in a single transaction or series of related transactions any partnership securities representing limited partner interests if, after giving effect to such issuance, such newly issued partnership securities would represent over 20% of the outstanding limited partner interests.

It is possible that we will fund acquisitions through the issuance of additional common units or other equity securities. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional partnership interests may dilute the value of the interests of the then-existing holders of common units in our net assets.

In accordance with Delaware law and the provisions of our Partnership Agreement, we may also issue additional partnership securities interests that, in the sole discretion of the general partner, have special voting rights to which the common units are not entitled.

The general partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units or other equity securities whenever, and on the same terms that, we issue those securities to persons other than the general partner and its affiliates, to the extent necessary to maintain its percentage interest that existed immediately prior to each issuance. The holders of common units will not have preemptive rights to acquire additional common units or other partnership interests.

Distributions of Available Cash

We will distribute to our general partner and limited partners according to their respective interests, within 45 days of the end of each fiscal quarter, an amount equal to all "available cash" with respect to that quarter. Available cash means all cash and cash equivalents on hand at the end of that quarter, less any amount of cash reserves that our general partners determines is necessary or appropriate to provide for the conduct of our business or to comply with applicable law or agreements or obligations to which we are subject. Delaware law generally prohibits any distribution to partners if, after giving effect to the distribution, all liabilities of the partnership exceed the fair value of the assets of the partnership. In the event of a liquidation or dissolution of our partnership, available cash will be deemed to be zero in the quarter in which the events giving rise to the liquidation or dissolution occur and in subsequent quarters. Our general partner may treat taxes that we pay on behalf of, or amounts withheld with respect to, our general partner or limited partners as a distribution of available cash to those partners.

Amendment of the Partnership Agreement

General

Amendments to the Partnership Agreement may be proposed only by or with the consent of the general partner, which consent may be given or withheld in its sole discretion. In order to adopt a proposed amendment, other than the amendments discussed below, the general partner must seek written approval of the holders of the number of common units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment. Except as we describe below, an amendment must be approved by a majority of the common units, unless a greater or different percentage is required.

Prohibited Amendments

No amendment may be made that would:

- enlarge the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class of limited partner interests so affected;

- enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to the general partner or any of its affiliates without the consent of the general partner, which may be given or withheld in its sole discretion;

- change the term of our partnership;

- provide that our partnership is not dissolved upon an election to dissolve our partnership by the general partner that is approved by the holders of a majority of the outstanding common units; or

- give any person the right to dissolve our partnership other than the general partner's right to dissolve our partnership with the approval of the holders of a majority of the outstanding common units.

The provision of the Partnership Agreement preventing the amendments having the effects described in the bullet points above can be amended upon the approval of the holders of at least 90% of the outstanding common units.

No Unitholder Approval

The general partner may generally make amendments to the Partnership Agreement without the approval of any limited partner or assignee to reflect:

- a change in our name, the location of our principal place of business, our registered agent or our registered office;

- the admission, substitution, withdrawal or removal of partners in accordance with the Partnership Agreement;

- a change that, in the sole discretion of the general partner, is necessary or advisable for us to qualify or to continue our qualification as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that the partnership will not be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

- an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner or its directors, officers, agents or trustees, from in any manner being subjected to the provisions of the Investment Company Act of 1940, the Investment Advisors Act of 1940, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, whether or not substantially similar to plan asset regulations currently applied or proposed;

- subject to the limitations on the issuance of additional common units or other limited or general partner interests described above, an amendment that in the discretion of the general partner is necessary or advisable for the authorization of additional limited or general partner interests;

- any amendment expressly permitted in the Partnership Agreement to be made by the general partner acting alone;

- an amendment effected, necessitated or contemplated by a merger agreement that has been approved under the terms of the Partnership Agreement;

- any amendment that, in the discretion of the general partner, is necessary or advisable for the formation by us of, or our investment in, any corporation, partnership or other entity, as otherwise permitted by the Partnership Agreement;

- a change in our fiscal year or taxable year and related changes; and

- any other amendments substantially similar to any of the matters described in the immediately preceding bullet points above.

In addition, the general partner may make amendments to the Partnership Agreement without the approval of any limited partner or assignee if those amendments, in the discretion of the general partner:

(1) do not adversely affect the limited partners in any material respect;

(2) are necessary or advisable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;

(3) are necessary or advisable to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the limited partner interests are or will be listed for trading, compliance with any of which the general partner deems to be in our best interest and the best interest of limited partners; or

(4) are required to effect the intent expressed in this prospectus or the intent of the provisions of the Partnership Agreement or are otherwise contemplated by the Partnership Agreement.

Unitholder Approval

Any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of at least a unit majority. Any amendment that reduces the voting percentage required to take action must be approved by the affirmative vote of limited partners constituting not less than the voting requirement sought to be reduced.

Merger, Sale or Disposition of Assets

The Partnership Agreement generally prohibits the general partner, without the prior approval of the holders of common units representing a unit majority, from causing us to, among other things, sell, exchange or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions, including by way of merger, consolidation or other combination, or approving on our behalf the sale, exchange or other disposition of all or substantially all of the assets of our subsidiaries. If conditions specified in the Partnership Agreement are satisfied, the general partner may merge us or any of our subsidiaries into, or convey some or all of our assets to, a newly formed entity if the sole purpose of that merger or conveyance is to change our legal form into another limited liability entity. The unitholders are not entitled to dissenters' rights of appraisal under the Partnership Agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event.

Termination and Dissolution

We will continue as a limited partnership until terminated under the Partnership Agreement. We will dissolve upon:

- the approval by the holders of common units representing a unit majority;

- the sale of all or substantially all of our assets and properties;

- the entry of a decree of judicial dissolution of us; or

- the withdrawal or removal of our general partner or any other event that results in its ceasing to be the general partner other than by reason of a transfer of its general partner interest in accordance with the Partnership Agreement or withdrawal or removal following approval and admission of a successor.

Upon a dissolution as described in the last bullet point above, the holders of common units representing a unit majority may also elect, within specific time limitations, to reconstitute us and continue our business on the same terms and conditions described in the Partnership Agreement by forming a new limited partnership on terms identical to those in the Partnership Agreement and having as general partner an entity approved by the holders of a majority of the outstanding common units, subject to our receipt of an opinion of counsel to the effect that (i) the action would not result in the loss of limited liability of any limited partner, and (ii) neither us or the reconstituted limited partnership would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of that right to continue.

Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are reconstituted and continued as a new limited partnership, the liquidator authorized to wind up our affairs will, acting with all of the powers of the general partner that the liquidator deems necessary or desirable in its judgment, liquidate our assets. The liquidator will pay off or make provision for the discharge of our debts and liabilities. Liabilities to creditors will be paid off before liabilities to partners. After the discharge of all liabilities, the liquidator will distribute to our partners the excess property and cash, if

any, in accordance with and to the extent of their respective capital accounts, as determined after taking into account all capital account adjustments. In addition, the liquidator may dispose of our assets by public or private sale or by distribution in kind. The liquidator may defer liquidation of our assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to the partners.

Withdrawal or Removal of the General Partner

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to December 31, 2010 without obtaining the approval of the holders of at least a majority of the outstanding common units, excluding common units held by the general partner and its affiliates, and furnishing an opinion of counsel regarding limited liability and tax matters. On or after December 31, 2010 our general partner may withdraw as general partner without first obtaining approval of any unitholder by giving 90 days' written notice, and that withdrawal will not constitute a violation of the Partnership Agreement. Notwithstanding the information above, our general partner may withdraw without unitholder approval upon 90 days' notice to the limited partners if at least 50% of the outstanding common units are held or controlled by one person and its affiliates other than the general partner and its affiliates. In addition, the Partnership Agreement permits our general partner in some instances to sell or otherwise transfer all of its general partner interest in us without the approval of the unitholders. See "--Transfer of General Partner Interest" below. Upon the withdrawal of the general partner under any circumstances, other than as a result of a transfer by the general partner of all or a part of its general partner interest in us, the holders of a majority of the outstanding common units may select a successor to that withdrawing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved, wound up and liquidated, unless within 180 days after that withdrawal, the holders of a majority of the outstanding common units agree in writing to continue our business and to appoint a successor general partner. See"--Termination and Dissolution" below. The general partner may not be removed unless that removal is approved by the vote of the holders of a majority of the unitholders, including units held by the general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of the general partner is also subject to the approval of a successor general partner by the vote of the holders of a majority of the outstanding common units. The ownership of more than 50% of the outstanding common units by the general partner and its affiliates would give it the practical ability to prevent its removal. At the closing of this offering, affiliates of the general partner will own 29.2% of the outstanding common units.

The Partnership Agreement also provides that if the general partner is removed as our general partner where cause does not exist and common units held by the general partner and its affiliates are not voted in favor of that removal, the general partner will have the right to require its successor to purchase its general partner interest and either (i) purchase all of the equity interests of Dorchester Minerals Operating LP or (ii) purchase all of the assets of the Dorchester Minerals Operating LP and assume all of its liabilities in exchange for an amount equal to the fair market value of those interests.

In the event of removal of a general partner under circumstances where cause exists or withdrawal of a general partner where that withdrawal violates the Partnership Agreement, a successor general partner will have the option to purchase the general partner interest and either (i) all of the equity interests of Dorchester Minerals Operating LP or (ii) all of the assets of Dorchester Minerals Operating LP and assume all of its liabilities of the departing general partner for a payment equal to the fair market value of those interests.

In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. Or, if the departing general partner and the successor general partner cannot agree upon an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner's general partner interests will automatically convert into common units equal to the fair market value of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph. In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Transfer of General Partner Interest

Except for transfer by our general partner of all, but not less than all, of its general partner interest in us to:

- an affiliate of the general partner, or

- another person as part of the merger or consolidation of the general partner with or into another person or the transfer by the general partner of all or substantially all of its assets to another person,

our general partner may not transfer all or any part of its general partner interest in us to another person prior to December 31, 2010 without the approval of the holders of at least a majority of the outstanding common units, excluding common units held by the general partner and its affiliates. As a condition of this transfer, the transferee must assume the rights and duties of the general partner to whose interest that transferee has succeeded, agree to be bound by the provisions of the Partnership Agreement, furnish an opinion of counsel regarding limited liability and tax matters, agree to purchase all or the appropriate portion thereof, if applicable, of the partnership interest of the general partner as the general partner of our partnership and the general partner sells to the transferee either (i) all of the equity interests in Dorchester Minerals Operating LP or (ii) all of the assets of Dorchester Minerals Operating LP, such price for the equity interests and/or the assets of Dorchester Minerals Operating LP shall be the fair market value. The general partner and its affiliates may at any time, however, transfer common units to one or more persons, without unitholder approval. At any time, the members of the general partner may sell or transfer all or part of their membership interests in the general partner to an affiliate without the approval of the unitholders.

Change of Management Provisions

The Partnership Agreement contains specific provisions that are intended to discourage a person or group from attempting to remove our general partner or otherwise change management. Without approval of a majority of the unitholders, the partnership shall not issue in a single transaction or series of related transactions partnership securities representing limited partner interests, if, immediately after giving effect to such issuance, such newly issued partnership securities would represent over of 20% of the outstanding limited partner interests. If any person or group other than the general partner and its affiliates acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply to any person or group that acquires the units from our general partner or its affiliates and any transferees of that person or group approved by our general partner.

Members; Voting

Except as described below regarding a person or group owning 20% or more of any class of units then outstanding, unitholders or assignees who are record holders of units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited. Common units that are owned by an assignee who is a record holder, but who has not yet been admitted as a limited partner, will be voted by the general partner at the written direction of the record holder. Absent direction of this kind, the common units will not be voted, except that, in the case of common units held by the general partner on behalf of non-citizen assignees, the general partner will distribute the votes on those common units in the same ratios as the votes of limited partners on other units are cast.

The general partner does not anticipate that any meeting of unitholders will be called in the foreseeable future. Any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or without a meeting if consents in writing describing the action so taken are signed by holders of the number of units as would be necessary to authorize or take that action at a meeting. Meetings of the unitholders may be called by the general partner or by unitholders owning at least 50% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called, represented in person or by proxy, but not including partnership interests deemed held by the general partner on behalf of assignees for which written instructions have not been received by the general partner, will constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum will be the greater percentage.

Each record holder of a unit has a vote according to his percentage interest in us, although additional limited partner interests having special voting rights could be issued. See "--Issuance of Additional Securities" above. However, if at any time any person or group, other than the general partner and its affiliates, or a direct or subsequently approved transferee of the general partner or its affiliates, acquires, in the aggregate, beneficial ownership of 20% or more of any class of units then outstanding, that person or group will lose voting rights on all of its units and the units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, determining the presence of a quorum or for other similar purposes. Common units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise.

Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of common units under the Partnership Agreement will be delivered to the record holder by us or by the transfer agent.

Status of Limited Partner or Assignee

Except as described above under "--Limited Liability," the common units will be fully paid, and unitholders will not be required to make additional contributions. An assignee of a common unit, after executing and delivering a transfer application, or being deemed to have done so, but pending its admission as a substituted limited partner, is entitled to an interest equivalent to that of a limited partner for the right to share in allocations and distributions from us, including liquidating distributions. The general partner will vote and exercise other powers attributable to common units owned by an assignee or deemed assignee that has not become a substitute limited partner at the written direction of the assignee. See "--Members; Voting" above. Transferees that do not execute and deliver a transfer application, or who are not otherwise deemed to have done so, will be treated neither as assignees nor as record holders of common units, and will not receive cash distributions, federal income tax allocations or reports furnished to holders of common units. See "Description of the Common Units--Transfer of Common Units."

Non-Citizen Assignees; Redemption

If we are or become subject to federal, state or local laws or regulations that, in the reasonable determination of the general partner, create a substantial risk of cancellation or forfeiture of any property that we have an interest in because of the nationality, citizenship or other related status of any limited partner or assignee, we may redeem the common units held by the limited partner or assignee at their current market price. In order to avoid any cancellation or forfeiture, the general partner may require each limited partner or assignee to furnish information about his nationality, citizenship or related status. If a limited partner or assignee fails to furnish information about this nationality, citizenship or other related status within 30 days after a request for the information or the general partner determines after receipt of the information that the limited partner or assignee

is not an eligible citizen, the limited partner or assignee may be treated as a non-citizen assignee. In addition to other limitations on the rights of an assignee that is not a substituted limited partner, a non-citizen assignee does not have the right to direct the voting of his common units and may not receive distributions in kind upon our liquidation.

Indemnification

Under the Partnership Agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

- the general partner;
- any departing general partner;
- any person who is or was an affiliate of a general partner or any departing general partner;
- any person who is or was a member, partner, officer, director, employee, agent or trustee of the general partner or any departing general partner or any affiliate of a general partner or any departing general partner; or
- any person who is or was serving at the request of a general partner or any departing general partner or any affiliate of a general partner or any departing general partner as an officer, director, employee, member, partner, agent or trustee of another person.

Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees in its sole discretion, the general partner will not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable us to effectuate, indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under the Partnership Agreement.

Books and Reports

The general partner is required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. For tax and financial reporting purposes, our fiscal year is the calendar year. We will furnish or make available to record holders of common units, within 120 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent public accountants. Except for our fourth quarter, we will also furnish or make available summary financial information within 90 days after the close of each quarter. We will furnish each record holder of a unit with information reasonably required for federal tax reporting purposes within 90 days after the close of each calendar year.

Right to Inspect Books and Records

The Partnership Agreement provides that a limited partner can, for a purpose reasonably related to his interest as a limited partner, upon reasonable demand and at his own expense, have furnished to him:

- a current list of the name and last known address of each partner;
- a copy of our tax returns;
- information as to the amount of cash, and a description and statement of the agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each became a partner;
- copies of the Partnership Agreement, the certificate of limited partnership of the partnership, related amendments and powers of attorney under which they have been executed;

- information regarding the status of our business and financial condition; and

- any other information regarding our affairs as is just and reasonable.

The general partner may, and intends to, keep confidential from the limited partners trade secrets or other information the disclosure of which the general partner believes in good faith is not in our best interests or which we are required by law or by agreements with third parties to keep confidential.

Registration Rights

Under our Partnership Agreement, the general partner and its affiliates have the right to cause us to register under the Securities Act of 1933 and state laws the offer and sale of any units that they hold if an exemption from the registration rights is not otherwise available. See "The Combination Agreement--Resales of Common Units."

Subject to the terms and conditions of our Partnership Agreement, these registration rights allow the general partner and its affiliates or their assignees holding any common units to require registration of any of these units and to include any of these units in a registration by us of other units, including units offered by us or by any unitholder. The general partner will continue to have these registration rights for two years following its withdrawal or removal as our general partner. In connection with any registration of this kind, we will indemnify each unitholder participating in the registration and its officers, directors and controlling persons from and against any liabilities under the Securities Act of 1933 or any state securities laws arising from the registration statement or prospectus. We will bear all costs and expenses incidental to any registration, excluding any underwriting discounts and commissions. Except as described below, the general partner and its affiliates may sell their units in private transactions at any time, subject to compliance with applicable laws.

Each of the general partners of the combining partnerships, each manager of Dorchester Minerals Management LP and each officer of Dorchester Minerals Operating LP and their affiliates have agreed not to sell any common units they beneficially own for a period of one year from the date of closing of the combination.

COMPARISON OF RIGHTS OF PARTNERS

The rights of our limited partners will be governed by the Delaware Revised Uniform Limited Partnership Act, which is referred to as the Delaware Act, and our Partnership Agreement. The rights of the limited partners of Dorchester Hugoton and Spinnaker are each currently governed by the Texas Revised Limited Partnership Act, which is referred to as the Texas Act, and the respective partnership agreement of each of Dorchester Hugoton and Spinnaker. The rights of the partners of Republic are currently governed by the Texas Revised Partnership Act and the partnership agreement of Republic, although it is expected that, prior to the consummation of the combination, Republic will reorganize as a Texas limited partnership, making it subject to the Texas Act and a new agreement of limited partnership. Accordingly, on completion of the combination, the rights of our limited partners, and of the limited partners of the combining partnerships who become limited partners of our partnership in the combination, will be governed by the Delaware Act and our Partnership Agreement. The following is a summary of the material differences between the rights of our limited partners the rights of the limited partners of Dorchester Hugoton and Spinnaker. However, we have not included information with respect to Republic in this section because the Republic ORRI owners that become limited partners of Republic as a result of the Republic reorganization will only have rights as limited partners for a brief period of time and then only if the combination is approved and consummated.

The following summary of the material differences between the Delaware Act, our Partnership Agreement, the Texas Act and the partnership agreements of each of Dorchester Hugoton and Spinnaker may not contain all the information that is important to you. To review all provisions of and differences among these partnership agreements in full detail, please read the full text of these documents, the Delaware Act and the Texas Act.

Copies of the our certificate of limited partnership and Partnership Agreement, and the partnership agreement for each combining partnership in which you own an interest will be sent to you upon request. For information on how these documents may be obtained, see "Where You Can Find More Information" on the inside front cover page of this document.

COMBINING PARTNERSHIPS	DORCHESTER MINERALS
Distributions	
The Dorchester Hugoton partnership agreement provides that distributions will be determined by the general partners at least as of the end of each calendar quarter and more frequently if the general partners deem it appropriate. The Spinnaker partnership agreement provides that cash distributions will be determined by the general partner monthly. The general partner may also distribute certain oil and natural gas interests if deemed desirable.	Our Partnership Agreement provides that cash and cash equivalent distributions will be determined by the general partner at the end of each quarter.
The frequency of distributions will be the same as those made by Dorchester Hugoton, but less frequent than those made by Spinnaker. The amount of distributions payable with respect to the partnership interests of the combining partnerships depends upon the performance of the partnerships, which will continue to be the case for our partnership.	
Dissolution and Liquidation Rights	
In the event of winding up, dissolution and liquidation, the partnership agreements provide for the appointment of a liquidator, who generally will be the general partner. The liquidator will pay off or make provision for the discharge of the debts and liabilities of the partnerships. Liabilities to creditors will be paid off before liabilities to partners. After the discharge of all liabilities, the excess property and cash, if any, will be distributed to the partners in accordance with and to the extent of the positive balances in their respective capital accounts, as determined after taking into account all capital account adjustments. All distributions must be made by either the end of the current taxable year or within 90 days of the date of the liquidation.	The provisions of our Partnership Agreement with respect to winding up, dissolution and liquidation are substantially similar to the partnership agreements of the combining partnerships. In addition, the liquidator has discretion to dispose of assets by public or private sale or by distribution in kind. The liquidator may also defer liquidation or distribution for a reasonable period of time it if determines that an immediate sale or distribution of all or some of the assets would be impractical or cause undue loss to the partners.
The liquidation rights of the limited partners in our partnership will be substantially the same as the liquidation rights of the limited partners of the combining partnerships.	

Voting Rights

The Dorchester Hugoton partnership agreement provides that the holders of 50% of the depositary receipts must be present to constitute a quorum at a meeting. The favorable vote of more than 80% of the holders of the depositary receipts is required for the dissolution of the partnership, removal of the general partner and the approval or rejection of the sale of all or substantially all of the partnership's real property. However, if the general partners approve or recommend the sale, the limited partners no longer have this voting right. The partnership agreement does not permit the merger of Dorchester Hugoton. The favorable vote of the holders of more than 50% of the depositary receipts is required to (i) disapprove the selection of a successor general partner by the remaining general partner(s) after the withdrawal of a general partner, (ii) approve certain transactions with the general partners or their affiliates, including unwritten transactions, sale or leases of property and loans, (iii) expand the partnership's business outside the Hugoton area, (iv) approve the expansion of liability of limited partners, or (v) approve transactions that provide a creditor of the partnership an interest other than as a secured creditor. The Spinnaker partnership agreement provides that the favorable vote of the holders of at least 85.9883% of the sharing percentages of the limited partners is required to (i) make certain borrowings, mortgages, pledges, assignments and guarantees, (ii) sell certain oil and natural gas interests, (iii) make advance payments to the general partner, (iv) bind or obligate the partnership with respect to matters outside its scope of business, (v) merge or consolidate or exchange interests subject to limited partner approval, or (vi) make expenditures or settle controversies in excess of $50,000, in addition to certain other restrictions.	Our Partnership Agreement generally provides that the holders of a majority of the common units be present to constitute a quorum at a meeting. However, if any action by the limited partners requires approval by holders of a greater percentage, the quorum must be that greater percentage. Our Partnership Agreement provides that the favorable vote of the holders of at least a majority of the common units is required to approve (i) the dissolution of the partnership, (ii) the sale, exchange or disposition of all or substantially all of the partnership's assets, (iii) the election of a successor general partner, (iv) the acquisition of certain oil and gas interests or (v) the issuance of limited partnership interests, if after giving effect to such issuance, those newly issued limited partnership interests would represent over 20% of the outstanding limited partnership interests.

The partnership actions requiring approval by the limited partners are similar to the partnership actions requiring approval by the limited partners of the combining partnerships. However, the percentage of votes of approval required by our partnership agreement is substantially less than the percentage of votes of approval required by the combining partnerships' agreements. Further, because the former limited partners of the combining partnerships will hold a smaller percentage interest in our partnership than they did in their respective partnerships, the former limited partners will experience a corresponding decrease in their relative voting power once they become common unitholders in our partnership.

Amendments to Partnership Agreements

Combining Partnerships	Dorchester Minerals, L.P.
The Dorchester Hugoton partnership agreement allows amendments to be proposed by holders of more than 50% of the depositary receipts. The Dorchester Hugoton partnership agreement provides that amendments must be approved by the holders of more than 80% of the depositary receipts. The Spinnaker partnership agreement provides that amendments must be approved by at least 85.9883% of the sharing percentages. The general partners of either partnership may make amendments without the approval of the limited partners at any time, if those amendments do not adversely affect the rights of the limited partners in any material respect. The written agreement of all partners is necessary to approve amendments with respect to allocations and distributions under both partnership agreements. However, if such an amendment treats all partners the same, the Spinnaker partnership agreement only requires approval of at least 85.9883% of the sharing percentages.	Our Partnership Agreement allows the general partner to make amendments without the approval of the limited partners at any time, if those amendments do not adversely affect the rights of the limited partners in any material respect. All other amendments may be proposed only by or with the consent of the general partner, which consent may be given or withheld in its sole discretion. Except in certain circumstances, amendments must be approved by the holders of a majority of the common units.

With the exception of our general partner's ability to disallow proposal of amendments and the reduced approval percentage for amendments, the ability of the limited partners to amend the partnership agreement will be similar to the ability of the limited partners to amend the partnership agreements of the combining partnerships.

Withdrawal or Removal of General Partner

Combining Partnerships	Dorchester Minerals, L.P.
The Dorchester Hugoton partnership agreement provides that the general partner may withdraw at any time and may be removed by the favorable vote of more than 80% of the holders of depositary receipts at any time. Such withdrawal will cause the dissolution of the partnership unless the remaining general partners elect to continue the partnership and elect a successor general partner(s). The limited partners must ratify the election of the successor general partner to continue the partnership. If the holders of more than 50% of the depositary receipts disapprove of the successor general partner(s), the remaining general partner may select one or more successors, subject to the limited partners' ratification right. The Spinnaker partnership agreement provides that the general partner may withdraw at any time or be	With limited exceptions, our Partnership Agreement provides that the general partner will not withdraw voluntarily on or before December 31, 2010. Similar provisions restrict certain transfers of all of the general partner's interest prior to December 31, 2010. After December 31, 2010, the general partner may withdraw only upon 90 days notice to the limited partners. The general partner may not be removed except upon approval and selection of a successor general partner by holders of a majority of the common units (including common units owned by the general partner and its affiliates), subject to the satisfaction of certain conditions. Upon withdrawal in accordance with our Partnership Agreement or removal without cause, the general partner will have the option to require the successor to purchase

removed and its successor may be elected by the favorable vote of the limited partners holding greater than 50% of the sharing percentages. The removal is effective only if and when a successor is elected and agrees in writing to accept the responsibilities under the partnership agreement. Upon withdrawal, all of the limited partners may. appoint a successor general partner and reconstitute the partnership. Upon removal, the removed general partner will continue as a limited partner and no winding up of the partnership will occur as a result of the removal and replacement.	its general partner interest and purchase Dorchester Minerals Operating LP or all its assets with an assumption of liabilities for fair market value. If the general partner withdraws in violation of the partnership agreement or is removed for cause, then the successor general partner shall have the option to purchase the general partnership interest and the interest in Dorchester Minerals Operating LP for fair market value. If the general partnership interest of the withdrawing or removed general partner is not purchased, then it will be converted into a limited partnership interest having the same value as determined by an independent expert.

Our general partner has a limited ability to withdraw from our partnership prior to December 21, 2010. Our limited partners may remove our general partner with the same percentage of limited partner approval as required by the Spinnaker partnership agreement, although the percentage approval required is lower than that required to remove a Dorchester Hugoton general partner under its partnership agreement. In addition, our general partner may have or be subject to certain repurchase rights following withdrawal or removal that do not apply to the general partners of the combining partnerships.

Continuity of Existence

The Dorchester Hugoton partnership agreement provides for the dissolution of the partnership upon the earliest to occur of (i) the failure of the partnership to own any oil and natural gas properties, (ii) the withdrawal of the general partner (subject to potential reconstitution), (iii) the agreement of the holders of more than 80% of the depositary receipts or (iv) the agreement of all general partners or December 31, 2050. The Spinnaker partnership agreement provides for the dissolution of the partnership upon the earliest to occur of (i) the sale or disposition of all or substantially all of its assets, (ii) the withdrawal of the general partner (subject to potential reconstitution), (iii) the consent of the general partner and limited partners holding greater than 50% of the sharing percentages, (iv) the occurrence of an event which causes the dissolution of a limited	Our Partnership Agreement provides for the dissolution of the partnership upon the earliest to occur of (i) the sale of all or substantially all of the assets and properties of the partnership, (ii) an event of withdrawal of the general partner, unless a successor is elected and other conditions satisfied, (iii) the agreement of the holders of a majority of the common units or (iv) the entry of a decree of judicial dissolution of the partnership pursuant to the provisions of the Delaware Act.

partnership under the
Texas Act or (v) March
31, 2046.

Since our partnership has a perpetual term of existence, holders of the common units have more of an opportunity to share in any future growth of our partnership beyond the dates on which the respective partnerships would have terminated.

Limited Liability of Limited Partners

The Dorchester Hugoton and Spinnaker partnership agreements provide that limited partners will have no liability under the partnership agreement except to the extent that a limited partner is also a general partner or participates in the control of the partnership. The partnership agreements provide that no limited partner shall have any right, power or authority to take part in the management or control of the business or bind the partnership. In addition, the Spinnaker partnership agreement provides that limited partners will not be liable to the partnership or other partners for any act or omission that does not constitute gross negligence or willful misconduct. The Dorchester Hugoton and Spinnaker partnership agreements also provide for indemnification of the limited partners to the extent permitted under the Texas Act.	Our Partnership Agreement provides that the limited partners will have no liability under the partnership agreement except to the extent that a limited partner is also a general partner or participates in the control of our partnership. Our Partnership Agreement contains provisions substantially similar to the provisions to the Dorchester Hugoton and Spinnaker partnership agreements regarding the inability of the limited partners to participate in the control of our partnership.

The limitation on personal liability of the limited partners of our partnership will be substantially similar to the limitations provided for in Dorchester Hugoton's partnership agreement, but will include fewer limitations than are applicable to limited partners of Spinnaker.

Fiduciary Duties

The fiduciary duties the general partners of Dorchester Hugoton and Spinnaker owe the limited partners include loyalty, care and good faith. The Spinnaker partnership agreement limits the general partner's duty of loyalty by providing that the scope of Spinnaker's business operations is limited to the oil and natural gas properties acquired in connection with the partnership's formation and those that may be acquired in accordance with the partnership agreement. The general partner of Spinnaker has no obligation to present business opportunities to the partnership.	The fiduciary duties the general partner owes the limited partners include loyalty, care and good faith. It shall not be deemed a breach of any fiduciary duty for the general partner to engage in certain business interests and activities in preference to or to the exclusion of the partnership. The general partner has no obligation to present business opportunities to the partnership, provided that the general partner does not engage in business activities in preference to or to the exclusion of the partnership with respect to the business opportunities. However, the general partners of the combining partnerships, who will be the members of Dorchester Minerals GP LLC, and Messrs. McManemin, Allen and Raley are contractually obligated to present certain business opportunities to us pursuant to the Business Opportunities Agreement. The general

partner can resolve in
conflict of interest that
may arise and such
resolution will not
constitute a breach of
the partnership agreement
or any fiduciary duty if
the resolution is fair
and reasonable to the
partnership.

The fiduciary duties owed to the limited partners by the general partner of our partnership are similar to the fiduciary duties owed to the limited partners of Spinnaker, but are less stringent than the fiduciary duties owed to the limited partners of Dorchester Hugoton.

Anti-Takeover Provisions	
The Dorchester Hugoton and Spinnaker partnership agreements contain no anti-takeover provisions. However, a super majority vote would be required to remove a Dorchester Hugoton general partner or to amend the Dorchester Hugoton or Spinnaker partnership agreements. See "--Withdrawal or Removal of General Partner" and "--Amendments to Partnership Agreements" in this table. Either of these provisions could have a similar effect to an anti-takeover provision.	Our Partnership Agreement provides that for any person or group beneficially owning more than 20% of any class of securities then outstanding, all partnership securities owned by that person or group will not be eligible to be voted on any matter and will not be considered to be outstanding. This anti-takeover measure will not apply to any person or group acquiring such securities from (i) the general partner or its affiliates or (ii) any person or group acquiring such securities from a person or group described in (i), or (iii) any person or group acquiring such securities in a transaction approved by the unitholders, provided that the general partner notifies the person or group in writing that the limitation will not apply.

The unitholders of our partnership are subject to anti-takeover provisions in the Partnership Agreement, which the limited partners were not subject to in the combining partnerships. These anti-takeover provisions could work to delay or frustrate the assumption of control of our partnership.

United States Income Tax	
Dorchester Hugoton and Spinnaker are not subject to federal or state income taxes. Each of their partners is allocated a pro rata share of their respective partnerships' taxable income, gains, losses, and deductions, regardless of whether they receive cash distributions. The taxable income, gains, losses and deductions allocated to these partners must be included on their individual federal and state income tax returns.	Dorchester Minerals will not be subject to federal or state income taxes. Each unitholder will be allocated a pro rata share of the partnership's taxable income, gains, losses, and deductions, regardless of whether they receive cash distributions. However, certain Built-in Gain and Built-in Loss of properties transferred to Dorchester Minerals will be specially allocated to the former partners of the partnerships that contributed such properties. In particular, the adjusted tax basis of oil and natural gas properties contributed to Dorchester Minerals by the combining partnerships will be allocated to the partners of the contributing partnerships for the purpose of separately determining depletion deductions, and any gain or loss recognized by Dorchester Minerals on the disposition of the contributed property will be allocated to the partners of the contributing partnerships to the extent of the

Built-in Gain and
Built-in Loss.

The federal income tax consequences of a unitholder of Dorchester Minerals will be similar to the tax consequences to the limited partners of Spinnaker and Dorchester Hugoton. However, each partner will share in the income, gains, losses and deductions of a larger pool of assets and special allocations may be made to contributing partners to allocate existing gains and losses in the contributed property to the contributing partner.

Operating Strategy

The purpose of Dorchester Hugoton is to own, hold, explore, develop and operate the properties acquired pursuant to the partnership agreement and to do all things necessary, appropriate or incidental to this end, although its ability to acquire additional properties is limited. The purpose of Spinnaker is to invest in, acquire, own, develop, lease, sublease, farm out, operate, manage, exchange or otherwise dispose of its oil and natural gas properties and to do all things necessary, appropriate or incidental to this end.	The purpose of our partnership is to acquire, manage, operate, and sell the assets conveyed to it in the combination (and any similar assets or properties acquired by it) and to distribute all available cash to the partners according to their respective percentage interests and engage in any other business activities the general partner approves. Our partnership is subject to some restrictions on the methods of financing our activities. Without the approval of the holders of a majority of our common units, we may not issue additional partnership securities if such newly issued securities would represent over 20% of our outstanding limited partner interests immediately after giving effect to such issuance.

The basic operating strategy of our partnership will be substantially similar to the operating strategies of the partnerships, although acquisitions of additional properties are permitted and contemplated by our partnership agreement. However, our partnership's oil and natural gas interests will be substantially larger and more diversified than either of the combining partnership's oil and natural gas interests.

Management

The partnership agreements of Dorchester Hugoton and Spinnaker provide that, except in certain circumstances, the general partners have all management power over the partnerships' business and affairs, subject to certain voting rights of Spinnaker's limited partners described in "Voting Rights".	Our Partnership Agreement is similar to the partnership agreements of the combining partnerships, but requires limited partner approval of fewer actions than the Spinnaker partnership agreement.

The limited partners of the combining partnerships have similar rights with respect to the management of the partnership as the limited partners of our partnership, except that limited partners of Spinnaker will have the right to approve fewer actions by our general partner.

Compensation and Expense Reimbursement

The Dorchester Hugoton and Spinnaker partnership agreements provide that the general partners will be reimbursed for all costs and expenses incurred on behalf of the partnerships. The Dorchester Hugoton partnership agreement provides that the general	Our Partnership Agreement provides that the general partner will be reimbursed for all costs and expenses incurred on behalf of the partnership, however, the general partner will not be compensated for its services to the partnership, with certain exceptions. With certain

partners are entitled to receive reasonable compensation from the partnership in an annual aggregate amount equal to $350,000 plus one percent (1%) of annual gross income, or a lesser amount as the general partners may from time to time determine appropriate. The

exceptions, the reimbursement for these expenses during any fiscal year shall not exceed 5% of the partnership's adjusted distribution amount. Our Partnership Agreement also provides that no officer of the partnership will be compensated for serving as an officer or employee of the partnership, but such

compensation payable to the general partners is to be divided among the general partners equally or as they may otherwise mutually agree.

The Spinnaker general partnership agreement provides that the general partner's reimbursement of expenses shall not exceed 5% of the net operating cash flow for the fiscal year. The general partner may be reimbursed for all expenses incurred by it for activities outside the scope of its normal activities as general partner if approved by the limited partners holding at least 85.9883% of the sharing percentages. The general partner will not receive any management fee or other compensation for its services unless approved by the limited partners holding at least 85.9883% of the sharing percentages.

persons may hold positions with the general partner or its affiliates and may be compensated for that position and that compensation may be reimbursed by the partnership.

The compensation of our general partner will be substantially similar to the compensation of the general partner of Spinnaker, but will differ from the compensation of the general partners of Dorchester Hugoton because we will not pay a management fee in addition to the reimbursement of expenses.

Financial Reporting

Dorchester Hugoton is subject to the reporting requirements of the Securities Exchange Act and files periodic reports with the SEC, copies of which are available to holders of its depositary receipts.

The limited partners of Spinnaker are entitled to receive quarterly and annual financial statements and an annual engineering report with respect to Spinnaker's oil and gas reserves.

Our partnership will be subject to the reporting requirements of the Securities Exchange Act and will be required to file periodic reports with the SEC, copies of which will be made available to holders of our common units.

Holders of our common units will receive substantially the same information in periodic financial reports than they currently receive as limited partners of Dorchester Hugoton or Spinnaker.

Limitations on Liability of Management

The Dorchester Hugoton and Spinnaker partnership agreements provide that the general partner will not be liable to the partnership for acts or omissions that do not constitute gross negligence or willful misconduct. Both partnership agreements provide for indemnification of the general partner.

Our Partnership Agreement is substantially similar to the Dorchester Hugoton and Spinnaker partnership agreements.

The limitation on liability of management of our partnership will be substantially the same as the limitation on liability of management of Dorchester Hugoton and Spinnaker.

Liquidity, Marketability and Restrictions on Transfer

Dorchester Hugoton's depository receipts are traded on the Nasdaq National Market System under the symbol "DHULZ". The depository receipts are freely transferable. Record holders of depository receipts may become a substituted limited partner upon the satisfaction of certain conditions. A limited partner's interest may be transferred, however, such transfer may not confer the right to become a substituted limited partner. Certain conditions must be satisfied prior to such transferee becoming a limited partner. The general partner's interest may only be transferred with the consent of the other general partners, except in certain circumstances.

There is no established trading market for the Spinnaker limited partnership interests. Spinnaker's partnership agreement does not allow transfer of limited partner interests without the consent by the limited partners holding greater than 50% of the sharing percentages. However, if such transfer is permitted, the transferee automatically becomes a limited partner. Spinnaker's general partner may not transfer any part of its general partner interest without approval of at least 85.9883% of the sharing percentages.

Our common units will be traded on the Nasdaq National Market System under the symbol "DMLP" and will generally be freely tradable. However, to become a substitute limited partner of our partnership, a transferee of common units must execute a transfer application and be admitted as a substitute limited partner by our general partner. Our general partner may not transfer any part of its general partner interest in our partnership prior to December 31, 2010 without approval of the holders of a majority of our common units (including common units held by the general partner and its affiliates.)

Because our common units will traded on the Nasdaq National Market System, our limited partners will have substantially more liquidity than the limited partners of Spinnaker. Because our common units will also be traded on the Nasdaq National Market System, the liquidity of our common units should be similar to the liquidity of Dorchester Hugoton's depositary receipts.

Inspection of Books and Records

The Dorchester Hugoton and Spinnaker partnership agreements require the books and records to be maintained at the principal place of business for inspection and copying at the expense of the limited partner. The Dorchester Hugoton Depositary Agreement requires that the list of depositary receipt holders of record be open for inspection as long as such inspection is not for the purpose of communicating with holders in the interest

Our Partnership Agreement is similar to the Dorchester Hugoton and Spinnaker partnership agreements.

of a business other than
the partnership business.

The rights of the unitholders of our partnership to inspect the books and records of the partnership will be substantially the same as the rights of the limited partners of the combining partnerships to inspect the books and records of those partnerships.

DESCRIPTION OF COMMON UNITS OF DORCHESTER MINERALS

General

The common units represent limited partner interests in us. The holders of the units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. For a description of the relative rights and preferences of holders of common units in and to partnership distributions, see "The Partnership Agreement--Distributions of Available Cash". For a description of the other rights and privileges of limited partners under our partnership agreement, including voting rights, see "The Partnership Agreement." For a description of the initial issuance of our common units, see "The Combination Agreement--Issuance of Units; Fractional Units."

Transfer Agent and Registrar

Duties

EquiServe Trust Company, N.A. will serve as registrar and transfer agent for the common units. We pay all fees charged by the transfer agent for transfers of common units except the following that must be paid by unitholders:

- surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;

- special charges for services requested by the holder of a common unit; and

- other similar fees or charges.

There is no charge to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

Termination

The transfer agent may terminate the agreement under which it serves as transfer agent upon material breach which is not cured within 30 days of notice of the breach or bankruptcy by us or upon 60 days notice prior to September 1, 2004 or any year thereafter. We may terminate upon material breach by the transfer agent which is not cured within 30 days of notice of the breach or upon 60 days notice prior to September 1, 2004 or any year thereafter. If no successor has been appointed and accepted the appointment, the general partner may act as the transfer agent and registrar until a successor is appointed.

Transfer of Common Units

A transfer of a common unit will not be recorded by the transfer agent or recognized by us unless the transferee executes and delivers a transfer application, or is deemed to have done so. By executing and delivering a transfer application, the transferee, or deemed transferee of common units:

- becomes the record holder of the common units and is an assignee until admitted into our partnership as a substituted limited partner;

- automatically requests admission as a substituted limited partner in our partnership;

- agrees to be bound by the terms and conditions of, and executed, our partnership agreement;

- represents that the transferee has the capacity, power and authority to enter into the partnership agreement;

- grants powers of attorney to officers of our general partner and any liquidator of us as specified in the partnership agreement; and

- makes the consents and waivers contained in the partnership agreement.

An assignee will become a substituted limited partner of our partnership for the transferred common units upon the consent of our general partner and the recording of the name of the assignee on our books and records. The general partner may withhold its consent in its sole discretion.

A transferee's broker, agent or nominee may complete, execute and deliver a transfer application. We are entitled to treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder's rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing the transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a substituted limited partner in our partnership for the transferred common units. A purchaser or transferee of common units that does not execute and deliver a transfer application, or is not deemed to have done so, obtains only:

- the right to assign the common unit to a purchaser or other transferee; and

- the right to transfer the right to seek admission as a substituted limited partner in our partnership for the transferred common units.

Thus, a purchaser or transferee of common units who does not execute and deliver a transfer application, or is not deemed to have done so:

- will not receive cash distributions or federal income tax allocations, unless the common units are held in a nominee or "street name" account and the nominee or broker has executed and delivered a transfer application; and

- may not receive some federal income tax information or reports furnished to record holders of common units.

The transferor of common units has a duty to provide the transferee with all information that may be necessary to transfer the common units. The transferor does not have a duty to insure the execution of the transfer application by the transferee and has no liability or responsibility if the transferee neglects or chooses not to execute and forward the transfer application to the transfer agent.

Until a common unit has been transferred on our books, we and the transfer agent, may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

LEGAL MATTERS

Thompson & Knight L.L.P., Dallas, Texas, as counsel to our partnership, will pass upon the validity of our common units to be issued in the combination. Locke Liddell & Sapp LLP, counsel to Dorchester Hugoton, and Thompson & Knight L.L.P., counsel to Republic and Spinnaker, will pass upon the material federal income tax consequences related to the combination.

EXPERTS

The financial statements of Dorchester Hugoton, Ltd. as of December 31, 2001 and 2000, and for each of the three years ended December 31, 2001, have been included in this document and in the registration statement in reliance upon the report of Grant Thornton LLP, independent certified public accountants, appearing elsewhere in this document, and upon the authority of such firm as experts in accounting and auditing.

The financial statements of Republic Royalty Company and Affiliated Partnership, Republic Unaffiliated ORRI Owners, and Spinnaker Royalty Company, L.P. as of December 31, 2001 and 2000, and for each of the three years in the three-year period ended December 31, 2001, have been included in this document and in the registration statement in reliance upon the reports of KPMG, LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

Calhoun, Blair & Associates, independent petroleum consultants, estimated Dorchester Hugoton's reserves as of December 31, 2001 and 2000 and the present value of the estimated future net reserves from those estimated reserves included in this document and are included in reliance upon their reports given upon their authority as experts on the matters covered by the summary reserve report.

Huddleston & Co., Inc., independent petroleum consultants, estimated each of Republic's and Spinnaker's reserves as of December 31, 2001 and 2000 and the present value of the estimated future net reserves from those estimated reserves included in this document and are included in reliance upon their reports given upon their authority as experts on the matters covered by the summary reserve report.

Certain owners and officers of Huddleston & Co., Inc. are owners and officers of Peter Paul Petroleum Company, the general partner of New Triton Royalty, Ltd., which is a limited partner of Spinnaker that owns a 13.7% sharing percentage in Spinnaker.

FORWARD LOOKING STATEMENTS

This document includes "forward looking statements" as defined by the Securities and Exchange Commission. These statements concern Dorchester Minerals' and each combining partnership's plans, expectations and objectives for future operations. All statements, other than statements of historical facts, included in this document that address activities, events or developments that Dorchester Minerals and each combining partnership expect, believe or anticipate will or may occur in the future are forward looking statements and include the following:

- completion of the combination;
- reserve estimates;
- future production of oil and natural gas; and
- future financial performance and cash distributions by our partnership.

These forward looking statements are based on assumptions, which Dorchester Minerals and each combining partnership believe are reasonable, but which are open to a wide range of uncertainties and business risks. Factors that could cause actual results to differ materially from those anticipated are discussed in (i) "Risk Factors" beginning on page 14 of this document, (ii) periodic filings with the Securities and Exchange Commission, including Annual Reports on Form 10-K for the year ended December 31, 2001 for Dorchester Hugoton and (iii) "Management's Discussion and Analysis of Combined Financial Condition and Results of Operations" for the year ended December 31, 2001 beginning on page 121 of this document for Republic and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2001 beginning on page 134 of this document for Spinnaker.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this document regarding each combining partnership's or our partnership's business which are not historical facts are "forward looking statements" that involve risks and uncertainties. For a discussion of these risks and uncertainties, which could cause actual results to differ from those contained in the forward looking statements, see "Risk Factors" beginning on page 14 of this document.

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.

"BOE" means a barrel-of-oil-equivalent and is a customary convention used in the United States to express oil and natural gas volumes on a comparable basis. It is determined on the basis of the estimated relative energy content of natural gas to oil, being approximately six Mcf (or MMBTU) of natural gas per Bbl of oil.

"BTU" means British thermal unit.

"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 waterflooding and carbon dioxide (CO_2) 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, sometime referred to as the strata, which has characteristics (such as permeability, porosity and hydrocarbon saturations) which distinguish it from surrounding intervals.

"Gross acre" means an acre 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.

"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.

"MBbl" means one thousand Bbls.

"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.

"MMBTU" means one million BTUs.

"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" (also referred to as a "net overriding royalty interest") means a non-operating interest that creates a share in gross production from an operating or working interest in oil and natural gas properties. The share is measured by net profits from the sale of production.

"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 "carved" out of a working or operating interest. Its term extends for the same term as the working interest from which it is carved.

"Proved developed reserves" means proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

"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 power 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.

(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.

"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 present value" 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 present value 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.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma combined financial information gives effect to the combination of Dorchester Hugoton, Republic, the Republic ORRIs, and Spinnaker ("the Combining Entities"), to be accounted for using the purchase method of accounting. The pro forma balance sheet has been prepared as if the combination occurred on December 31, 2001. The pro forma statement of operations has been prepared as if the combination occurred on January 1, 2001.

The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of what the combined financial position or results of operations would actually have been if the combination had, in fact, occurred on those dates, or what the financial position or results of operations may be for any future date or period. This pro forma financial information is based upon the respective historical financial statements of the Combining Entities and related notes included in this prospectus and should be read in conjunction with those statements and notes.

UNAUDITED PRO FORMA COMBINED BALANCE SHEET
DECEMBER 31, 2001
(IN THOUSANDS)

	Dorchester Hugoton	Republic	Republic ORRIs	Spinnaker	Pro forma adjustments		Pro forma combined
Current Assets:							
Cash and cash equivalents	18,439	579	--	371	(19,389)	b	--
Investments--available for sale	5,030				(5,030)	b	--
Accounts receivable, net	1,472	2,286	2,254	978	(2,487)	a	
					(497)	b	4,006
Prepaid expenses and other current assets	453				(453)	b	--
Total current assets	25,394	2,865	2,254	1,349	(27,856)		4,006
Property and equipment	34,996	6,254	64,961	30,501	96,738	c	233,450
Less depreciation, depletion and amortization	(18,936)	(3,408)	(35,367)	(17,845)	56,620	c	
					(94,514)	d	(113,450)
Net property and equipment	16,060	2,846	29,594	12,656	58,844		120,000
Total assets	41,454	5,711	31,848	14,005	30,988		124,006
Current liabilities:							
Accounts payable and other current liabilities	648	273	233	150	(233)	a	
					(1,071)	b	--
Production and property taxes payable	230				(230)	b	--
Nonaffiliated ORRI owner payable		2,254			(2,254)	a	--
Royalties payable	309				(309)	b	--
Distributions payable	2,931				(2,931)	b	--
Total current liabilities	4,118	2,527	233	150	(7,028)		
Partnership capital							
General partners	271	3,184	--	(303)	1,293	e	4,445
Limited partners	34,552	--	31,615	14,158	(18,315)	b	
					153,358	c	
					(94,514)	d	
					(1,293)	e	119,561
Accumulated other comprehensive income	2,513	--	--	--	(2,513)	b	--
Total partnership capital	37,336	3,184	31,615	13,855	38,016		124,006
Total liabilities and partnership capital	41,454	5,711	31,848	14,005	30,988		124,006

See notes to pro forma combined financial information.

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2001
(IN THOUSANDS, EXCEPT PER UNIT DATA)

	Dorchester Hugoton	+Republic	Republic ORRIs	Spinnaker	Pro forma adjustments		Pro forma combined
Net operating revenues:							
Net profits interest					20,524	b	20,524
Natural gas sales	27,153				(27,153)	b	--
Royalties		2,549	15,218	10,871			28,638
Lease bonus		22	128	34			184
Facilitation amount		604			(604)	a	--
Other	192	49	291	39	(192)	b	379
Production payment	(566)				566	b	--
Total net operating revenues	26,779	3,224	15,637	10,944	(6,859)		49,725
Cost and expenses							
Operating	3,160				(3,160)	b	--
Production taxes	1,721	231	1,520	827	(1,721)	b	2,578
Depreciation, depletion and amortization	2,105	298	3,102	1,442	14,466	c	21,413
General and administrative:	1,764	425	776	613	(461)	b	
					(1,178)	e	1,939
Facilitation amount			604		(604)	a	--
Management fees	605			--	(605)	b	--
Impairment of assets					73,101	d	73,101
Operating expenses	9,355	954	6,002	2,882	79,838		99,031
Operating income (loss)	17,424	2,270	9,635	8,062	(86,697)		(49,306)
Other							
Investment income	(897)				897	b	--
Interest expense	36				(36)	b	--
Other expense (income)	(66)	--		--	22	b	(44)
Total other (income) expenses	(927)	--			883		(44)
Net earnings (loss)	18,351	2,270	9,635	8,062	(87,580)		(49,262)
Allocation of net earnings (loss)							
General Partners							(2,523)
Limited Partners							(46,739)
Net earnings (loss) per unit							(1.73)
Weighted average common units outstanding							27,040

See notes to pro forma combined financial information.

UNAUDITED PRO FORMA STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001
(IN THOUSANDS)

	Dorchester Hugoton	Republic	Republic ORRIs	Spinnaker	Pro forma adjustments		Pro forma combined
Cash flows from operating activities:							
Net earnings (loss)	18,351	2,270	9,635	8,062	(87,580)	a	(49,262)
Adjustments to reconcile net earnings to net cash provided by operating activities:							
Depreciation, depletion and amortization	2,105	298	3,102	1,442	14,466	d	21,413
Asset impairment	--	--	--	--	73,101	d	73,101
Gain on sale of property and equipment	(22)	--	--		22	a	--
Other	(62)	--	--		62	a	--
Changes in operating assets and liabilities:							
Restricted cash	409	--	--		(409)	a	--
Accounts receivable	2,620	1,522	2,560	1,300	(2,993)	a	5,009
Prepaid expenses and other current assets	(169)	--	--		169	a	--
Accounts payable, taxes and royalties payable	(2,203)	(2,329)	203	47	4,282	a	--
Net cash provided by operating activities	21,029	1,761	15,500	10,851	1,120		50,261
Cash flows from investing activities:							
Capital expenditures	(5,587)	--	--	--	272	a	(5,315)
Cash received on sale of property and equipment	37	--	--	--	(37)	a	--
Net cash used by investing activities	(5,550)	--	--	--	235		(5,315)
Cash flows from financing activities:							
Distributions paid	(12,807)	(3,089)	(15,500)	(11,529)	3,777	c	(39,148)
Increase (decrease) in cash and cash equivalents	2,672	(1,328)	--	(678)	5,132		5,798
Cash and cash equivalents at beginning of year	15,767	1,907	--	1,049	(18,723)	b	--
Cash and cash equivalents at end of year	18,439	579	--	371	(13,591)		5,798

See notes to pro forma combined financial information.

Notes to Pro Forma Combined Financial Information
(in thousands)

1. Basis of Presentation

The pro forma financial information presents the combination using the purchase method of accounting. Dorchester Hugoton is deemed to be the acquiror because its depository receipt holders are the ownership group that will receive the largest ownership interest in Dorchester Minerals, L.P. Accordingly, the assets of Republic, the Republic ORRIs and Spinnaker are adjusted to fair value in the pro forma balance sheet.

For accounting purposes, the fair value (new basis) of the assets of Republic ($19,341), the Republic ORRIs ($114,048) and Spinnaker ($65,064) is based on the market price of Dorchester Hugoton units on May 3, 2001, and the share of the total units of Dorchester Minerals, L.P. that the partners of Republic, the Republic ORRIs and Spinnaker will receive.

However, the resulting new basis of the oil and gas properties of Dorchester Minerals exceeds the full cost ceiling by approximately $95,000. Accordingly, the properties have been written down by that amount.

2. Pro Forma Adjustments

Balance sheet adjustments:

(a) Eliminate intercompany receivables and payables.

(b) Eliminate assets and liabilities that will not be transferred to Dorchester Minerals, L.P.

(c) Adjust historical book values of property and equipment of Republic, the Republic ORRIs, and Spinnaker to fair value, as follows:

Purchase accounting fair value		$198,454
Historical cost:		
Republic	$ 2,846	
Republic ORRIs	29,594	
Spinnaker	12,656	45,096
		$153,358
Allocation:		
Property and equipment		$ 96,738
Accumulated depreciation, depletion and amortization		56,620
		$153,358

(d) Write down oil and gas properties to estimated discounted future net cash flows, as follows:

New basis	$ 214,514
Estimated discounted future net cash flows	(120,000)
Write-down	$ 94,514

(e) Adjust equity accounts to reflect capital structure of Dorchester Minerals, L.P.

Statement of operations adjustments

(a) Eliminate intercompany transactions

(b) Reflect the income and expenses of Dorchester Hugoton as a 96.97% net profits interest.

(c) Adjust depreciation, depletion, and amortization based on the new basis of oil and gas properties.

(d) Write down oil and gas properties, based on estimated discounted future net cash flows at December 31, 2001 as follows:

New basis for properties at January 1, 2001	$ 214,514
Less depreciation, depletion and amortization expense for the year	(21,413)
	193,101
Estimated discounted future net cash flows at December 31, 2001	(120,000)
Write-down	$ 73,101

(e) Eliminate nonrecurring transaction costs.

Statement of cash flows adjustments

(a) Reflect the net adjustments to the pro forma statement of operations for assets excluded from the acquisition, liabilities not assumed or intercompany eliminations affecting the reconciliation of net earnings (loss) to net cash provided by (used in) operating and investing activities.

(b) Eliminate historical cash balances not transferred in the acquisition.

(c) Adjust distributions paid to pro forma amounts.

(d) Adjustment for non-cash items affected by pro forma adjustments to statement of operations.

3. Pro Forma Information on Oil and Gas Operations

The pro forma reserve information set forth below assumes the combination transactions were completed on January 1, 2001. There are many uncertainties inherent in estimating reserve quantities, and in projecting future production rates and the timing of future development expenditures. Accordingly, estimates are subject to change as additional information becomes available. Revisions of estimates can have a significant impact on the results.

Proved oil and natural gas reserves are the estimated quantities of crude oil, condensate, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. Proved developed oil and gas reserves are those reserves expected to be recovered through existing equipment and operating methods.

All reserves are located in the United States.

SUMMARY OF CHANGES IN PRO FORMA COMBINED PROVED RESERVES

Oil (MBbls)	Dorchester Hugoton	Republic	Republic ORRIs	Spinnaker	Pro forma adjustments	Pro forma combined
Proved reserves						
Estimated quantity, beginning of year.......	--	698	2,793	1,002	--	4,493
Revisions of previous estimates............	--	37	151	60	--	248
Production.................................	--	(55)	(223)	(88)	--	(366)
Estimated quantity, end of year............	--	680	2,721	974	--	4,375
Proved developed reserves						
Beginning of year...........................	--	662	2,650	966	--	4,278
End of year.................................	--	645	2,582	931	--	4,158

Gas (MMcf)	Dorchester Hugoton	Republic	Republic ORRIs	Spinnaker	Pro forma adjustments	Pro forma combined
Proved reserves						
Estimated quantity, beginning of year.......	54,127	3,793	15,173	15,000	(1,640)a	86,453
Revisions of previous estimates............	743	757	3,148	1,784	(23)a	6,409
Production.................................	(6,568)	(519)	(2,198)	(2,247)	200 a	(11,332)
Estimated quantity, end of year............	48,302	4,031	16,123	14,537	(1,463)	81,530
Proved developed reserves						
Beginning of year...........................	54,127	3,509	14,038	12,669	(1,640)a	82,703
End of year.................................	48,302	3,716	14,863	12,297	(1,463)a	77,715

a) to adjust Dorchester Hugoton amounts to 96.97% of historical amounts.

PRO FORMA COMBINED STANDARDIZED MEASURE
OF DISCOUNTED FUTURE NET CASH FLOWS
(IN THOUSANDS)

	Dorchester Hugoton	Republic	Republic ORRIs	Spinnaker	Pro forma adjustments		Pro forma combined
Future estimated gross revenues	117,029	109,736	87,789	52,935	(87,789)	a	
					(3,546)	b	276,154
Net proceeds interest to unaffiliated ORRI owner	--	(87,789)	--	--	87,789	a	--
Less future estimated production taxes		(1,689)	(6,758)	(4,237)	--		(12,684)
Future estimated production and development costs	(51,083)	--	--	--	1,548	b	(49,535)
Future estimated net revenues	65,946	20,258	81,031	48,698	(1,998)		213,935
10% annual discount for estimated timing of cash flows	(21,220)	(10,240)	(40,958)	(21,871)	643	b	(93,646)
Standardized measure of discounted future estimated net revenues	44,726	10,018	40,073	26,827	(1,355)		120,289
Beginning of year	140,003	25,812	103,249	92,416	(4,242)	b	357,238
Sales of natural gas produced, net of production costs	(21,899)	(2,318)	(13,698)	(10,044)	664	b	(47,295)
Net changes in prices and production costs	(89,233)	(14,913)	(59,651)	(60,964)	2,704	b	(222,057)
Revisions of previous quantity estimates	3,488	1,277	5,107	2,290	(106)	b	12,056
Accretion of discount	12,471	2,581	10,325	9,242	(378)	b	34,241
Other	(104)	(2,421)	(5,259)	(6,113)	3	b	(13,894)
Net change in standardized measure of discounted future estimated net revenues	(95,277)	(15,794)	(63,176)	(65,589)	2,887		(236,949)
End of year	44,726	10,018	40,073	26,827	(1,355)		120,289

a) to eliminate intercompany amounts
b) to adjust Dorchester Hugoton amounts to 96.97% of historical amounts.

DORCHESTER MINERALS, L.P.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the General Partners and Unitholders of Dorchester Hugoton, Ltd.:

We have audited the financial statements of Dorchester Hugoton, Ltd. listed under Financial Information above. 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 auditing standards generally accepted in the United States of America. 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 Hugoton, Ltd. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

GRANT THORNTON LLP

Dallas, Texas
February 8, 2002

BALANCE SHEETS
December 31, 2001 and 2000
(Dollars in Thousands)

ASSETS

	2001	2000
Current assets:		
Cash and cash equivalents	$18,439	$15,767
Restricted cash (Note 4)	--	409
Investments--available for sale	5,030	5,564
Accounts receivable	1,472	4,092
Prepaid expenses and other current assets	453	284
Total current assets	25,394	26,116
Property and equipment--at cost:		
Natural gas properties (full cost method)	34,008	28,467
Other	988	1,122
Total	34,996	29,589
Less accumulated depreciation, depletion and amortization:		
Full cost depletion	18,561	16,534
Other	375	462
Total	18,936	16,996
Net property and equipment	16,060	12,593
Total assets	$41,454	$38,709

LIABILITIES AND PARTNERSHIP CAPITAL

	2001	2000
Current liabilities:		
Accounts payable	$ 648	$ 443
Production and property taxes payable	230	996
Royalties payable	309	1,851
Distributions payable to Unitholders	2,931	2,389
Total current liabilities	4,118	5,679
Notes payable--long-term	--	100
Total liabilities	4,118	5,779
Commitments and contingencies (Note 4)		
Partnership capital:		
General partners	271	222
Unitholders	34,552	29,661
Accumulated other comprehensive income	2,513	3,047
Total partnership capital	37,336	32,930
Total liabilities and partnership capital	$41,454	$38,709

See Notes to Financial Statements

STATEMENTS OF EARNINGS
For the Years Ended December 31, 2001, 2000 and 1999
(Dollars in Thousands)

	Year Ended December 31		
	2001	2000	1999
Net operating revenues:			
Natural gas sales	$27,153	$26,368	$15,849
Other	192	221	198
Production payment (ORRI)	(566)	(1,407)	(745)
Total net operating revenues	26,779	25,182	15,302
Costs and expenses:			
Operating	3,160	2,840	2,678
Production taxes	1,721	1,529	910
Depreciation, depletion and amortization	2,105	1,783	1,903
General and administrative:			
Tax and regulatory reporting	323	320	176
Depositary and transfer agent fees	22	22	24
Other	634	448	363
Management fees	605	589	490
Merger costs	785	339	--
Investment income	(897)	(664)	(318)
Interest expense	36	39	37
Other income, net	(66)	(25)	(7)
Total costs and expenses	8,428	7,220	6,256
Net earnings	$18,351	$17,962	$ 9,046
Net earnings per Unit	$ 1.69	$ 1.66	$ 0.83

STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2001, 2000 and 1999
(Dollars in Thousands)

	Year Ended December 31		
	2001	2000	1999
Net earnings	$18,351	$17,962	$ 9,046
Unrealized holding gain (loss) on available for sale securities	(534)	408	476
Comprehensive income	$17,817	$18,370	$ 9,522

See Notes to Financial Statements

STATEMENTS OF CHANGES IN PARTNERSHIP CAPITAL
For the Years Ended December 31, 1999, 2000 and 2001
(Dollars in Thousands)

Year	General Partners	Unitholders	Accumulated Other Comprehensive Income	Total
1999				
Balance at January 1, 1999	$ 128	$ 20,350	$2,163	$ 22,641
Net earnings	90	8,956	--	9,046
Net unrealized holding gain on investments available for sale	--	--	476	476
Distributions ($0.72 per Unit)	(78)	(7,736)	--	(7,814)
Other	--	(11)	--	(11)
Balance at December 31, 1999	140	21,559	2,639	24,338
2000				
Net earnings	180	17,782	--	17,962
Net unrealized holding gain on investments available for sale	--	--	408	408
Distributions ($0.90 per Unit)	(98)	(9,670)	--	(9,768)
Other	--	(10)	--	(10)
Balance at December 31, 2000	222	29,661	3,047	32,930
2001				
Net earnings	183	18,168	--	18,351
Net unrealized holding loss on investments available for sale	--	--	(534)	(534)
Distributions ($1.23 per Unit)	(133)	(13,216)	--	(13,349)
Other	(1)	(61)	--	(62)
Balance at December 31, 2001	$ 271	$ 34,552	$2,513	$ 37,336

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001, 2000, and 1999
(Dollars in Thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net earnings	$ 18,351	$17,962	$ 9,046
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, depletion and amortization	2,105	1,783	1,903
Gain on sale of property and equipment	(22)	(29)	(8)
Other	(62)	(10)	(11)
Changes in operating assets and liabilities:			
Restricted cash	409	(19)	(11)
Accounts receivable	2,620	(2,537)	90
Prepaid expenses and other current assets	(169)	(143)	11
Accounts payable, taxes and royalties payable	(2,203)	1,519	25
Net cash provided by operating activities	21,029	18,526	11,045
Cash flows from investing activities:			
Capital expenditures	(5,587)	(496)	(391)
Cash received on sale of property and equipment	37	54	12
Net cash used by investing activities	(5,550)	(442)	(379)
Cash flows from financing activities:			
Distributions paid to Unitholders	(12,807)	(9,334)	(7,816)
Increase in cash and cash equivalents	2,672	8,750	2,850
Cash and cash equivalents at beginning of year	15,767	7,017	4,167
Cash and cash equivalents at end of year	$ 18,439	$15,767	$ 7,017
Supplemental cash flow and other information:			
Interest paid (no interest was capitalized)	$ 28	$ 39	$ 37
Distributions declared but not paid	$ 2,931	$ 2,389	$ 1,956

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999

1. General and Summary of Significant Accounting Policies

Nature of Operations--The Partnership's operations consist principally of the operation of natural gas properties located in Kansas and Oklahoma.

Basis of Presentation--Per-Unit information is calculated by dividing the 99% interest owned by Unitholders by the 10,744,380 Units outstanding.

Reclassification--Certain amounts in the 1999 and 2000 financial statements have been reclassified to conform to the 2001 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. Actual results could differ from those estimates.

Cash and Cash Equivalents--The Partnership's principal banking and short-term investing activities are with major financial institutions. 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. Cash balances in these accounts may, at times, exceed federally insured limits. The Partnership has not experienced any losses in such cash accounts or investments and does not believe it is exposed to any significant risk on cash and cash equivalents.

Concentration of Credit Risks--The Partnership sells its natural gas to major corporate gas purchasers in the United States and either requires major corporate guarantees, good credit history with the Partnership, letters of credit, or performs on-going credit evaluations or review of financial statements on a regular basis. The Partnership has incurred minimal credit losses.

Investments--The Partnership's investments consist of 128,000 shares of Exxon Mobil Corporation (previously Exxon Corporation) common stock and are classified as available for sale. At December 31, 2001 and 2000, the carrying value of this stock, based on the quoted market price, was $5,030,400 and $5,564,000, respectively, and the cost was $2,517,455 for both years.

Property and Equipment--The Partnership follows the full cost method of accounting prescribed by the United States Securities and Exchange Commission under which all costs relating to the acquisition, exploration and development of natural gas properties (both productive and nonproductive) are capitalized (not to exceed estimated discounted future net cash flows) by the country (United States) in which the costs are incurred. Natural gas properties are being depleted on the unit-of-production method using estimates of proved gas reserves. Other assets are being depreciated or amortized using straight-line methods for financial reporting purposes over estimated useful lives of 3 to 40 years.

Gains or losses are recognized upon the disposition of natural gas properties involving a significant portion of the Partnership's reserves. Proceeds from other dispositions of natural gas properties are credited to the full cost account.

General Partners--The Partnership's General Partners have the overall responsibility for the management, operation and future development of the properties. Each General Partner is entitled to receive reasonable compensation in the form of a management fee, to be divided among the General Partners in an annual aggregate amount of $350,000 plus 1% of the gross income from the Partnership properties for services rendered in

operating and managing the Partnership. The General Partners are also reimbursed for all general and administrative expenses incurred by them on behalf of the Partnership.

Operating Agreement--The Partnership operates substantially all of its natural gas properties. Efforts are made to balance each working interest owner's share of production to gas marketed by increasing or decreasing the volumes of gas allocated to each working interest owner in subsequent months so that each such working interest owner shall be able to share in the actual cumulative production in proportion to its interest in the properties. The Partnership receives in-kind the Partnership's share of gas produced from 11 wells in Oklahoma (10 operated by others and one operated by the Partnership). At December 31, 2001, the net balance owed the Partnership is approximately 14,000 MCF compared to approximately 300 MCF at December 31, 2000.

Other Agreements--Effective May 1, 1997, the Partnership's Kansas gas was committed for sale and processing to PanEnergy Field Services, Inc. (now Duke Energy Field Services, Inc.) for a period of three years and year to year thereafter. Duke Energy will pay based on an index of the market price in the field plus a premium. Similarly, effective July 1, 2000 the Partnership's Oklahoma gas was committed for sale to Williams Energy Marketing and Trading Company ("WEM & TC") for a one-year period at a premium over the market price index. Since July 1, 2001, such sales have been on a month-to-month basis at varying market price indexes. During 1996, the Partnership's Oklahoma gas began a five-year commitment to Williams Field Services Company for delivery through a processing facility. During 2001, the commitment was extended another five years. Effective February 28, 2002 Williams Field Services will sell the processing facility to Duke Energy Field Services L.P. who intends to shift the processing to its facility near Liberal, Kansas. The quantity sold to WEM & TC is determined by nominations at the processing facility outlet. Imbalances with actual deliveries to Williams Field Services Company are corrected in each subsequent month. At December 31, 2001, the imbalance was approximately 3,000 MMBTU owed the Partnership compared to 7,000 MMBTU owed the Partnership at December 31, 2000.

Operating Revenue--Natural gas revenues are recognized as production and sales take place (the "sales method"). The Partnership's purchasers (including their affiliates) who accounted for more than 10% of natural gas revenues for each of the years ended December 31, 2001, 2000, and 1999 are as follows:

Year	Purchaser "A"	Purchaser "B"
2001	83%	16%
2000	83%	16%
1999	80%	19%

The Partnership believes that the loss of any single customer would not have a material adverse effect on the results of its operations because the transmission (and gathering) pipelines connected to the Partnership's facilities are required by the Federal Energy Regulatory Commission or state regulations to provide continued equal access for shipment of natural gas. Additionally, there are numerous buyers available on each pipeline.

Income Taxes--The Partnership is treated as a partnership for income tax purposes and, as a result, income or loss of the Partnership is includible in the tax returns of the individual Unitholders. Accordingly, no recognition has been given to income taxes in the financial statements.

An investment in the Partnership by certain tax-exempt entities (such as IRA's, pension plans, etc.) may produce Unrelated Business Taxable Income ("UBTI"). Many tax-exempt entities are subject to tax on UBTI. Tax-exempt entities subject to the tax on UBTI must file with the IRS for each tax year that the entity has gross income of $1,000 or more from an unrelated trade or business. Additionally, the Partnership reports Unitholders' share of depreciation adjustments for alternative minimum tax ("AMT") purposes. The AMT adjustment must be taken into account when figuring Unitholder passive activity gains and losses for AMT purposes. UBTI and

AMT are specialized areas of the tax law--Unitholders should consult tax advisors concerning their own tax situation. Finally, 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 $150,980, $136,065, and $135,125 were made to eligible employees' accounts for 2001, 2000, and 1999, respectively under the Partnership's simplified employee pension plan. Employees become eligible in their third calendar year of employment. The Partnership does not have any other post-retirement benefit plans.

Operating Leases--The Partnership rents administrative office space under leases expiring at various dates through 2007. The Partnership also rents nine skid-mounted field gas compressor units on a month-to-month basis. The Partnership also has various prepaid site leases in Kansas and Oklahoma. Total rental expense was $311,000, $337,000, and $333,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

2. Loans And Long-Term Debt

On July 19, 1994, the Partnership entered into a $15,000,000 unsecured revolving credit facility (the "Credit Agreement") with Bank One, Texas, NA (the "Bank") which will expire July 31, 2002. The current borrowing base is $6,000,000, which will be re-evaluated by the Bank at least annually. If, on any such date, the aggregate amount of outstanding loans and letters of credit exceed the current borrowing base, the Partnership is required to repay the excess. This credit facility includes both cash advances and any letters of credit that the Partnership may need, with interest being charged at the Bank's base rate, which was 4.75% on December 31, 2001. All amounts borrowed under this facility become due and payable on July 31, 2002. As of December 31, 2001, no letters of credit were issued under the credit facility. The Partnership is required to maintain certain minimum defined financial ratios with respect to its current ratio and the ratio of net cash flow to debt service. In addition, Partnership capital must be maintained above specified amounts. This note has been guaranteed by the General Partners. Since July 1994 the maximum amount borrowed under the Credit Agreement has been $5,800,000. During 2001 and 2000 the amount borrowed under the Credit Agreement was $100,000 (the minimum borrowing necessary to maintain the credit facility).

3. Agreement To Combine Businesses And Properties.

As disclosed on a Form 8-K filed on December 14, 2001, the Partnership has signed definitive agreements to combine the businesses and/or properties of the Partnership, Republic Royalty Company, and Spinnaker Royalty Company, L.P., in a non-taxable transaction, into a new publicly traded limited partnership. During 2001, approximately $785,000 was expensed related to the combination compared to $339,000 in 2000. The combination is subject to a number of conditions including (1) approval by a majority of Dorchester Hugoton Unitholders, (2) approvals by the owners of Spinnaker Royalty and Republic Royalty and affiliated partnerships and interest holders, and (3) filings with and/or clearances by various securities and governmental authorities.

4. Commitments And Contingencies

Since its first annual payment in 1997, each May the Partnership paid an Oklahoma production payment (calculated through the prior February) that is based upon the difference between market gas prices compared to a table of rising prices and based upon a table of declining volumes. On August 9, 2001, the Partnership paid $5,270,000 to acquire, effective March 1, 2001, the Oklahoma production payment.

Through 1998 the Partnership recorded $450,000 (which included related interest) towards a request from Panhandle Eastern Pipe Line Company ("PEPL") for refund of Kansas tax reimbursements received by the Partnership during the years 1983 to 1987. These charges resulted from a ruling by the United States Court of

Appeals for the District of Columbia, which overruled a previous order by the Federal Energy Regulatory Commission ("FERC"). On March 9, 1998, $151,757 was paid to PEPL. An additional $366,633, which was still awaiting possible settlement/regulatory/judicial/ legislative action, was placed into an escrow account. On March 2, 1999, $2,840 was released from escrow to PEPL. On June 22, 2001, the Partnership, along with others, reached a Settlement Agreement with PEPL which became final October 15, 2001 upon approval by the FERC. The Partnership reduced its accrued liability from approximately $419,000 to approximately $320,000 during the third quarter of 2001. Pursuant to that Settlement, during October 2001, the Partnership returned all funds collected from royalty owners (approximately $35,000) who had paid their refund obligation to the Partnership. Also, in connection with the Settlement, on November 20, 2001 the Partnership paid from the escrow account approximately $285,000 to PEPL and approximately $135,000 to the Partnership, subsequently closing the escrow account.

The Partnership is involved in a few other legal and/or administrative proceedings arising in the ordinary course of its gas business, none of which have predictable outcomes and none of which are believed to have any significant effect on financial position or operating results.

The Partnership adopted a severance policy during the first quarter of 1998. Benefits are generally payable to employees and General Partner(s) in the event the Partnership incurs reduction in force or the elimination of a position or group of positions. The policy provides for up to approximately $2.8 million of severance payments if such obligations occur. Pursuant to the Combination Agreement referred to in Note 3 such severance payments, estimated to be $2.7 million, will be paid by the Partnership prior to closing of the transaction.

5. Unaudited Natural Gas Reserve Information

Proved natural gas reserves are estimated quantities which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed natural gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. The Partnership retained Calhoun, Blair & Associates, Inc., an independent petroleum engineering consulting firm, to provide annual estimates as of December 31 of each year of the Partnership's future net recoverable natural gas reserves. The Partnership has no known reserves of crude oil. There have been no events that have occurred since December 31, 2001 that would have a material effect on the estimated proved developed natural gas 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 Partnership's gas reserves, all of which are proved, developed and located in the United States.

The SEC has adopted SFAS No. 69 disclosure guidelines for oil and gas producers. These rules require the Partnership to include 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 is an independent petroleum engineer's reserve study 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 the Partnership's 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.

Summary of Changes in Proved Developed Reserves

	Natural Gas (MMCF)		
	2001	2000	1999
Estimated quantity, beginning of year	54,127	58,209	64,147
Revisions in previous estimates	743	3,012	1,478
Production	(6,568)	(7,094)	(7,416)
Estimated quantity, end of year	48,302	54,127	58,209
Depletion of natural gas properties (per MCF)	$ 0.31	$ 0.24	$ 0.24
Development costs incurred (in thousands of dollars)	$ 240	$ 301	$ 332
Leasehold acquisitions (in thousands of dollars)	$ 5,297	$ 23	$ 16

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

	2001	2000	1999
Future estimated gross revenues	$117,029	$313,890	$118,516
Future estimated gross production payment (ORRI)*	--	(18,613)	(5,353)
Future estimated production and development costs	(51,083)	(71,661)	(45,930)
Future estimated net revenues	65,946	223,616	67,233
10% annual discount for estimated timing of cash flows	(21,220)	(83,613)	(22,851)
Standardized measure of discounted future estimated net revenues	$ 44,726	$140,003	$ 44,382
Sales of natural gas produced, net of production costs	$(21,899)	$(20,812)	$(11,525)
Net changes in prices and production costs	(89,233)	108,425	8,717
Revisions of previous quantity estimates	3,488	3,964	2,509
Accretion of discount	12,471	3,932	3,627
Other	(104)	112	445
Net change in standardized measure of discounted future estimated net revenues	$(95,277)	$ 95,621	$ 3,773

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* The ORRI was acquired during 2001 for $5,270,000. See Note 4 to the Financial Statements.

6. Unaudited Quarterly Financial Data

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

	2001 Quarter Ended				2000 Quarter Ended			
	March 31	June 30	September 30	December 31	March 31	June 30	September 30	December 31
Net operating revenues	$11,378	$7,014	$4,729	$3,658	$4,161	$5,572	$7,037	$8,412
Net earnings	9,224	4,830	3,045	1,252	2,638	3,403	5,239	6,682
Net earnings per Unit	$ 0.85	$ 0.44	$ 0.28	$ 0.12	$ 0.24	$ 0.32	$ 0.48	$ 0.62

INDEPENDENT AUDITORS' REPORT

The Owners
Republic Royalty Company
and Affiliated Partners of
RRC NPI Holdings, L.P.:

We have audited the accompanying combined balance sheets of Republic Royalty Company (Republic) and RRC NPI Holdings, L.P. (Affiliated Partnership) as of December 31, 2001 and 2000, and the related combined statements of operations, owners' capital, and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of Republic's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Republic Royalty Company and Affiliated Partnership as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG, LLP

KPMG, LLP

Dallas, Texas
February 8, 2002

REPUBLIC ROYALTY COMPANY
AND AFFILIATED PARTNERSHIP

COMBINED BALANCE SHEETS
December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 578,854	1,906,903
Accounts receivable	2,286,414	3,808,622
Total current assets	2,865,268	5,715,525
Oil and gas properties, at cost (full-cost method of accounting):		
Proved producing royalty interests	6,254,278	6,254,278
Less accumulated depletion	(3,408,158)	(3,109,822)
Net oil and gas properties	2,846,120	3,144,456
Total assets	$ 5,711,388	8,859,981
Liabilities and Owners' Capital		
Current liabilities:		
Accounts payable	$ 272,829	43,000
Nonaffiliated ORRI Owner payable	2,254,184	4,813,974
Total current liabilities	2,527,013	4,856,974
Owners' capital	3,184,375	4,003,007
Contingencies (note 7)		
Total liabilities and owners' capital	$ 5,711,388	8,859,981

See accompanying notes to combined financial statements.

REPUBLIC ROYALTY COMPANY
AND AFFILIATED PARTNERSHIP

COMBINED STATEMENTS OF OPERATIONS
Years ended December 31, 2001, 2000, and 1999

	2001	2000	1999
Revenues:			
Royalty income	$2,548,775	2,245,534	569,445
Lease bonus income	21,626	27,678	37,134
Facilitation amount (note 5)	604,328	767,313	424,078
Other income	49,390	191,989	15,118
Total revenues	3,224,119	3,232,514	1,045,775
Expenses:			
Oil and gas production tax	231,123	122,769	58,204
Depletion expense	298,336	414,634	315,382
General and administrative expense (note 4)	267,540	227,957	210,346
Other operating expenses	156,817	42,148	14,461
Total expenses	953,816	807,508	598,393
Net income	$2,270,303	2,425,006	447,382

See accompanying notes to combined financial statements.

REPUBLIC ROYALTY COMPANY
AND AFFILIATED PARTNERSHIP

COMBINED STATEMENTS OF OWNERS' CAPITAL
Years ended December 31, 2001, 2000, and 1999

	Total
Balance at December 31, 1998	$ 3,931,011
Distributions to owners.....	(637,167)
Net income..................	447,382
Balance at December 31, 1999	3,741,226
Distributions to owners.....	(2,163,225)
Net income..................	2,425,006
Balance at December 31, 2000	4,003,007
Distributions to owners.....	(3,088,935)
Net income..................	2,270,303
Balance at December 31, 2001	$ 3,184,375

See accompanying notes to combined financial statements.

REPUBLIC ROYALTY COMPANY
AND AFFILIATED PARTNERSHIP

COMBINED STATEMENTS OF CASH FLOWS
Years ended December 31, 2001, 2000, and 1999

	2001	2000	1999
Assets			
Cash flow from operating activities:			
Net income	$ 2,270,303	2,425,006	447,382
Adjustments to reconcile net income to net cash provided by operating activities:			
Depletion expense	298,336	414,634	315,382
(Increase) decrease in accounts receivable	1,522,208	(1,791,251)	(950,143)
Increase (decrease) in accounts and royalty owners payable	(2,329,961)	1,944,783	1,520,175
Net cash provided by operating activities	1,760,886	2,993,172	1,332,796
Cash flows from financing activities--distribution to owners	(3,088,935)	(2,163,225)	(637,167)
Net increase (decrease) in cash and cash equivalents	(1,328,049)	829,947	695,629
Cash and cash equivalents at beginning of year	1,906,903	1,076,956	381,327
Cash and cash equivalents at end of year	$ 578,854	1,906,903	1,076,956

See accompanying notes to combined financial statements.

REPUBLIC ROYALTY COMPANY
AND AFFILIATED PARTNERSHIP

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2001, 2000, and 1999

(1) Organization and Nature of Business

Republic Royalty Company (RRC or the Partnership) is a general partnership formed in September 1993 for the exclusive purpose of acquiring producing and nonproducing mineral and royalty interests and working interests in five exploratory prospects (Properties) from multiple parties. SAM Partners, Ltd. (50% interest) (SAM) and Vaughn Petroleum, Inc. (50% interest) (VPI) are the sole partners of RRC.

Initial capitalization of RRC was comprised of certain contract and management rights of the partners and properties contributed by VPI. Total cash consideration of $61.9 million was paid to the sellers of the Properties, which amount was funded with proceeds derived from the simultaneous sale of Overriding Royalty Interest (ORRI) to certain investors (Nonaffiliated ORRI Owners) and to RRC NPI Holdings, L.P. (Affiliated Partnership or Affiliated ORRI Owner), a limited partnership. RRC is the general partner to the Affiliated Partnership, and various affiliates of SAM and VPI own 100% of the Affiliated Partnership interests. In accordance with the applicable agreements governing these sales (ORRI Conveyance Agreements), RRC receives all revenues and pays all expenses attributable to the Properties and pays amounts to the owners of the ORRI. The ORRI Conveyance Agreements state that the Nonaffiliated ORRI Owners (and/or their successors) and the Affiliated ORRI Owner are entitled to payment of amounts equal to 95.0% and 0.9%, respectively, of Net Proceeds as defined in the ORRI Conveyance Agreements until the aggregate of all payments equals their investment (Payout No. 1), at which time their percentages are reduced to 85.5% and 0.81%. The percentages of Net Proceeds payable to the Affiliated ORRI Owner and the Nonaffiliated ORRI Owners will reduce to 76.95% and 0.73%, respectively, when the aggregate of all payments equals a 14% annual return on their investment (Payout No. 2) as set forth in the ORRI Conveyance Agreements ($83,659,226 at December 31, 2001). Payout No. 1 was reached in August 2000. The percentages remained at 85.5% during 2001.

For the period September 27, 1993 through December 31, 2001, net proceeds distributed to the Nonaffiliated ORRI Owners for purposes of determining payout totaled $82,255,803.

RRC recorded its interest in the Properties at fair values based on the amounts paid by the Nonaffiliated ORRI Owners and the Affiliated Partnership for the ORRI.

(2) Basis of Presentation

The accompanying combined financial statements include the Partnership's share and the Affiliated Partnership's share of revenues, expenses, and distributions for 2001, 2000, and 1999. The revenues, expenses, and amounts payable by and/or due to these parties varied during this time in accordance with the ORRI Conveyance Agreements. Significant interaffiliate balances and transactions have been eliminated in combination. Revenues, expenses, and distributions attributable to the Nonaffiliated ORRI Owners are excluded from the accompanying combined financial statements.

(3) Summary of Significant Accounting Policies

A summary of the significant accounting policies followed by RRC and the Affiliated Partnership is as follows:

(a) Use of 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 periods. Oil and gas reserve estimates are used in the calculation of depletion expense and the full-cost ceiling limitation for oil and gas properties and are inherently imprecise. Actual results could differ from those estimates.

(b) Capitalization Policy for Oil and Gas Activities

RRC and the Affiliated Partnership utilize the full-cost method of accounting for its oil and gas properties. Under the full cost method, all productive and nonproductive costs incurred in connection with the acquisition, exploration, and development of oil and gas reserves are capitalized and amortized on the units-of-production method based upon total proved reserves of the underlying properties. Conveyances of properties, including gains or losses on abandonments of properties, are treated as adjustments to the cost of oil and gas properties, with no gain or loss recognized.

Under the full cost method, the net book value of oil and gas properties may not exceed the estimated future net revenues from proved oil and gas properties, discounted at 10% per year (the ceiling limitation). In arriving at estimated future net revenues, estimated lease operating expenses, development costs, abandonment costs, and certain production-related and ad valorem taxes are deducted. In calculating future net revenues, prices and costs in effect at the time of the calculation are held constant indefinitely, except for changes which are fixed and determinable by existing contracts. The net book value is compared to the ceiling limitation on an annual basis. The excess, if any, of the net book value above the ceiling limitation is required to be written off as a noncash expense. RRC and the Affiliated Partnership did not incur ceiling limitation writedowns during 2001, 2000, or 1999. There can be no assurance that there will not be writedowns in future periods under the full cost method of accounting as a result of sustained decreases in oil and gas prices or other factors.

(c) Depletion

RRC and the Affiliated ORRI Owner provide for depletion of proved producing oil and gas properties on a unit-of-production method, based upon studies by independent engineers for proved oil and gas reserves.

(d) Cash Equivalents

At December 31, 2001 and 2000, cash equivalents consist of money market accounts ($262,367 and $1,831,934, respectively). RRC and the Affiliated Partnership consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

(e) Concentration of Credit Risk

Accounts receivable balances represent revenue accruals from companies which operate primarily in the oil and gas industry. RRC and the Affiliated Partnership do not require collateral for their receivable balances. RRC and the Affiliated Partnership, as well as the companies they do business with, are subject to fluctuations and trends in the oil and gas industry. Customers that accounted for more than 10% of revenues for the year ended December 31 follow:

Years	Customer A	Customer B
2001	18.7%	12.3%
2000	32.5%	9.1%
1999	13.3%	14.8%

(f) Revenue Recognition

RRC and the Affiliated Partnership use the sales method of accounting for oil and gas revenues. Under the sales method, revenues are recognized based on actual volumes of oil and gas sold to purchasers.

(g) Income Taxes

RRC and the Affiliated Partnership are not subject to federal income taxes because the tax effect of their activities accrues to the partners and owners. Taxable income or loss of RRC and the Affiliated Partnership is allocated to each partner and owner in accordance with the applicable Partnership and ORRI Conveyance Agreements, respectively. Accordingly, there is no provision for federal income taxes reflected in the accompanying combined financial statements.

(h) Derivative Instruments

Effective January 1, 2001, RRC and Affiliated Partnership adopted the provisions of statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133). Statement 133, as amended, standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to report all derivative instruments in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair value, cash flows, or foreign currencies. RRC and Affiliated Partnerships held no fair value hedge or foreign currency hedge derivative instruments at December 31, 2001, 2000, or 1999.

(4) Transactions With General Partner

RRC and the Affiliated Partnership incurred general and administrative expense of $267,540, $227,957, and $210,346 for the years ended December 31, 2001, 2000, and 1999, respectively. These amounts are an allocation of SAM's general, administrative, and overhead expenses in accordance with the Partnership agreement.

(5) Facilitation Amount

The Facilitation amount, as described in the ORRI Conveyance Agreements, is a fee for managing the properties and royalty arrangements and is equal to an agreed-upon percentage (4%) of the total annual gross proceeds less certain defined production costs and is deducted from distributions to royalty owners. For 2001, 2000, and 1999, the total Facilitation amounts were $706,816, $839,879, and $446,398 respectively. Payments to the ORRI owners are adjusted for the Facilitation amount as set forth in the ORRI Conveyance Agreements; accordingly, RRC and the Affiliated ORRI Owner's share of the amounts for 2001, 2000, and 1999 were $604,328, $767,313, and $424,078, respectively. Pursuant to the full cost method of accounting, these fees are recognized as income provided the aggregate development expenditures related to production of existing proved reserves on managed properties does not exceed 10% of the partnership's recorded cost of such managed properties. Aggregate development expenditures during 2001, 2000, and 1999 did not exceed the 10% threshold. Accordingly, the Facilitation amount is recorded as income in the combined statement of operations for fiscal years 2001, 2000, and 1999.

(6) Owners' Capital

Revenues and expenses are allocated to the partners and owners in accordance with their respective sharing percentages.

On a monthly basis, all cash funds of RRC which the general partner reasonably determines are not needed for the payment of existing or foreseeable (within 60 days) Partnership obligations and expenditures are distributed to the partners in accordance with their respective sharing percentages.

As provided in the Partnership agreement, upon liquidation, gains or losses from the sale of Partnership properties will be allocated to the partners utilizing their respective sharing percentages.

(7) Litigation Settlements

RRC is or was a party to litigation concerning various contracts and other claims. RRC and the Affiliated Partnership's share of proceeds from litigation settlements and awards (included in other income) during the years ended 2001, 2000, and 1999 was $5,737, $178,825, and $9,321, respectively.

(8) Commitments and Contingencies

In the normal course of business, RRC and the Affiliated Partnership are involved in various lawsuits and claims related to their royalty properties. In the opinion of RRC's management, the ultimate resolution of such matters will not have a material adverse effect on the combined financial position or results of operations of RRC and Affiliated Partnership.

(9) Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method, and Statement 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. RRC and the Affiliated Partnership believe there is no impact of adopting this standard on their financial statements.

In June 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations, which establishes requirements for the accounting of removal-type costs associated with asset retirements. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. RRC and the Affiliated Partnership are currently assessing the impact on their financial statements.

In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which establishes requirements for the accounting for the impairment or disposal of long-lived assets. The standard is effective for fiscal years beginning after December 15, 2001. RRC and Affiliated Partnership believe there will be no impact on their financial statements from adopting this standard.

(10) Supplemental Oil and Gas Data--Unaudited

Proved crude oil and natural gas reserves are estimated quantities, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing

economic and operating conditions. The Partnership retained an independent petroleum engineering consulting firm to provide annual estimates as of December 31 of each year of RRC and the Affiliated Partnership's future net recoverable crude oil and natural gas reserves for the underlying properties burdened by the ORRI.

The following table presents RRC and the Affiliated Partnership's estimate of their proved oil and gas reserves, all of which are located in the United States. RRC and the Affiliated Partnership emphasize that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, the estimates are expected to change as future information becomes available. The estimates have been prepared by RRC and the Affiliated Partnership's independent petroleum reservoir engineers.

Estimates of reserves attributable to RRC and Affiliated Partnership are shown below using the regulations issued by the Securities and Exchange Commission; however, there is no precise method of allocating estimates of physical quantities of reserves between RRC and Affiliated Partnership and the Unaffiliated ORRI Owner, since the royalty received by the ORRI owners is a net proceeds ORRI interest, and the ORRI owners do not own, and are not entitled to receive, any specific volume of reserves. Net reserves attributable to the net royalties were estimated by allocating to RRC and the Affiliated Partnership a 20% portion of the estimated combined net reserves of the subject royalties based on an expected Payout No. 2 being reached in 2002 (see note 1). The quantities of reserves indicated will be affected by future changes in various economic factors utilized in estimating future gross revenues and net income from the subject royalties. Therefore, the estimates of reserves set forth below are to a large extent hypothetical and are not comparable to estimates of reserves attributable to a working interest.

	Gross underlying royalties		Net royalties	
	Oil MBbls	Gas MMcf	Oil MBbls	Gas MMcf
Estimated balance, December 31, 1998	3,895	21,901	778	4,380
Revisions in previous estimates.....	200	3,653	41	698
Production..........................	(307)	(2,396)	(61)	(446)
Estimated balance, December 31, 1999	3,788	23,158	758	4,632
Revisions in previous estimates.....	(3)	(450)	(1)	(140)
Production..........................	(294)	(3,742)	(59)	(699)
Estimated balance, December 31, 2000	3,491	18,966	698	3,793
Revisions in previous estimates.....	188	3,905	37	757
Production..........................	(278)	(2,717)	(55)	(519)
Estimated balance, December 31, 2001	3,401	20,154	680	4,031

Oil reserves, which include condensate, are stated in thousands of barrels and gas reserves, which include natural gas products, are stated in millions of cubic feet.

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves--Unaudited

The following table, which presents a standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves, is presented pursuant to SFAS No. 69, Disclosure About Oil and

Gas Producing Activities. In computing this data, assumptions other than those required by this accounting standard could produce different results. Accordingly, the data should not be construed as representative of the fair value of RRC and the Affiliated Partnership's proved oil and gas reserves.

Future cash inflows were computed by applying year end prices of oil and gas to the estimated year end quantities of proved reserves. Future price changes were considered only to the extent provided by contractual arrangements in existence at year end. Future production costs were computed by estimating the expenditures to be incurred in producing the proved oil and gas reserves at the end of the year, based on year-end costs. The standardized measure of discounted future cash flows represents the present value of estimated future net cash flows using a 10% annual discount rate (in thousands).

	December 31,		
	2001	2000	1999
Future estimated gross revenues	$109,736	269,689	140,830
Net proceeds interest to unaffiliated ORRI owner	(87,789)	(215,859)	(112,776)
Future estimated production taxes	(1,689)	(4,346)	(2,402)
Future estimated net revenues	20,258	49,484	25,652
Discount at 10% per annum	(10,240)	(23,672)	(12,655)
Standardized measure of discounted future estimated net revenues	$ 10,018	25,812	12,997
Beginning of year:	$ 25,812	12,997	7,220
Sales of oil and gas, net of production costs	(2,318)	(2,123)	(511)
Net changes in prices and production costs	(14,913)	18,847	5,750
Revisions of previous quantity estimates	1,277	(447)	1,354
Accretion of discount	2,581	1,299	722
Other	(2,421)	(4,761)	(1,538)
End of year	$ 10,018	25,812	12,997

Depletion expense per barrel of oil equivalent was $2.11, $1.88, and $2.33 for the years ended December 31, 2001, 2000, and 1999, respectively.

INDEPENDENT AUDITORS' REPORT

Republic Unaffiliated ORRI Owners:

We have audited the accompanying balance sheets of Republic Unaffiliated ORRI Owners (Royalty Owners) as of December 31, 2001 and 2000, and the related statements of operations, ORRI owner' equity, and cash flows for each of the years in the three-year period ended December 31, 2001. The financial statements are the responsibility of Royalty Owners' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 statement referred to above present fairly, in all material respects, the financial position of Republic Unaffiliated ORRI Owners as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG, LLP

KPMG, LLP

Dallas, Texas
February 8, 2002

REPUBLIC UNAFFILIATED ORRI OWNERS

BALANCE SHEETS
December 31, 2001 and 2000

	2001	2000
Assets		
Current assets--accounts receivable	$ 2,254,184	4,813,974
Oil and gas properties, at cost (full-cost method of accounting):		
Proved producing royalty interests	64,961,084	64,961,084
Less accumulated depletion	(35,367,520)	(32,265,460)
Net oil and gas properties	29,593,564	32,695,624
Total assets	$ 31,847,748	37,509,598
Liabilities and ORRI Owners' Equity		
Current liabilities--accounts payable	$ 233,269	30,147
ORRI owner' equity	31,614,479	37,479,451
Contingencies (note 7)		
Total liabilities and ORRI owner' equity	$ 31,847,748	37,509,598

See accompanying notes to financial statements.

REPUBLIC UNAFFILIATED ORRI OWNERS

STATEMENTS OF OPERATIONS
Years ended December 31, 2001, 2000, and 1999

	2001	2000	1999
Revenues:			
Royalty income	$15,218,396	20,346,216	11,017,583
Lease bonus income	127,519	292,669	705,544
Other income	291,228	2,030,107	287,255
Total revenues	15,637,143	22,668,992	12,010,382
Expenses:			
Oil and gas production tax	1,520,081	1,356,557	1,367,959
Facilitation amount (note 4)	604,328	767,313	424,078
Depletion	3,102,060	4,311,307	3,279,299
Other operating expenses	775,975	390,247	210,807
Total expenses	6,002,444	6,825,424	5,282,143
Net income	$ 9,634,699	15,843,568	6,728,239

See accompanying notes to financial statements.

REPUBLIC UNAFFILIATED ORRI OWNERS

STATEMENTS OF ORRI OWNERS' EQUITY
Years ended December 31, 2001, 2000, and 1999

Balance at December 31, 1998	$ 41,334,130
Distributions to ORRI owners	(8,191,540)
Net income	6,728,239
Balance at December 31, 1999	39,870,829
Distributions to ORRI owners	(18,234,946)
Net income	15,843,568
Balance at December 31, 2000	37,479,451
Distributions to ORRI owners	(15,499,671)
Net income	9,634,699
Balance at December 31, 2001	$ 31,614,479

See accompanying notes to financial statements.

REPUBLIC UNAFFILIATED ORRI OWNERS

STATEMENTS OF CASH FLOWS
Years ended December 31, 2001, 2000, and 1999

	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 9,634,699	15,843,568	6,728,239
Adjustments to reconcile net income to net cash provided by operating activities:			
Depletion	3,102,060	4,311,307	3,279,299
(Increase) decrease in accounts receivable	2,559,790	(1,926,550)	(1,671,879)
Increase (decrease) in accounts payable and accrued expenses	203,122	6,621	(144,119)
Net cash provided by operating activities	15,499,671	18,234,946	8,191,540
Cash flows from financing activities--distributions to ORRI owners	(15,499,671)	(18,234,946)	(8,191,540)
Net increase (decrease) in cash	--	--	--
Cash at beginning of year	--	--	--
Cash at end of year	$ --	--	--

See accompanying notes to financial statements.

REPUBLIC UNAFFILIATED ORRI OWNERS

NOTES TO FINANCIAL STATEMENT

December 31, 2001, 2000, and 1999

(1) Organization and Nature of Business

Effective September 27, 1993, certain investors (Republic Unaffiliated ORRI Owners) represented by UBS Asset Management (New York) Inc. acquired a net proceeds overriding royalty interest (ORRI) in certain oil and gas minerals owned by Republic Royalty Company (RRC) pursuant to an ORRI Conveyance Agreement (Agreement).

(2) Basis of Presentation

The accompanying financial statements include the Republic Unaffiliated ORRI Owners' share of the acquired overriding royalty interests and related revenues and expenses.

The Agreement provides for the establishment of a net proceeds account for the purpose of providing a means of computing the amount of the net proceeds overriding royalty interest payments due to the Republic Unaffiliated ORRI Owners from RRC in connection with the Agreement. Generally, the net proceeds account is increased for all cash generated from the subject minerals, as defined in the Agreement (gross proceeds) and decreased for direct operating costs and certain additional costs (production costs).

Cash is distributed as received by the Republic Unaffiliated ORRI Owners to its group members; accordingly, there is no cash balance maintained.

(3) Summary of Significant Accounting Policies

A summary of the significant accounting policies followed by Republic Unaffiliated ORRI Owners are as follows:

(a) Use of 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 periods. Oil and gas reserve estimates are used in the calculation of depletion expense and the full-cost ceiling limitation for oil and gas properties and are inherently imprecise. Actual results could differ from those estimates.

(b) Capitalization Policy for Oil and Gas Activities

Republic Unaffiliated ORRI Owners utilize the full cost method of accounting for its ORRI. Under the full cost method, all productive and nonproductive costs incurred in connection with the acquisition, exploration, and development of crude oil and natural gas reserves are capitalized and amortized on the units-of-production method based upon total proved reserves of the underlying properties. Conveyances of properties, including gains or losses on abandonments of properties, are treated as adjustments to the cost of crude oil and natural gas properties, with no gain or loss recognized.

Under the full cost method, the net book value of the ORRI, may not exceed the estimated future net revenues from proved oil and natural gas properties, discounted at 10% per year (the ceiling limitation). In arriving at estimated future net revenues, estimated lease operating expenses, development costs, abandonment

costs, and certain production related and ad-valorem taxes are deducted. In calculating future net revenues, prices and costs in effect at the time of the calculation are held constant indefinitely, except for changes which are fixed and determinable by existing contracts. The net book value is compared to the ceiling limitation on an annual basis. The excess, if any, of the net book value above the ceiling limitation is required to be written off as a noncash expense. Republic Unaffiliated ORRI Owners did not incur ceiling limitation writedowns during 2001, 2000, or 1999. There can be no assurance that there will not be writedowns in future periods under the full cost method of accounting as a result of sustained decrease in oil and natural gas prices or other factors.

(c) Depletion

Republic Unaffiliated ORRI Owners provide for depletion of the proved producing royalty interest on a unit-of-production method, based upon studies by independent engineers of the proved oil and gas reserves burdened by the net proceeds ORRI.

(d) Concentration of Credit Risk

Accounts receivable balances represent revenue accruals from companies (flow through from RRC) which operate primarily in the oil and gas industry. Republic Unaffiliated ORRI Owners do not require collateral for its receivable balances. Republic Unaffiliated ORRI Owners as well as the companies it does business with are subject to fluctuations and trends in the oil and gas industry. Customers that accounted for more than 10% of revenues for the year ended December 31, follows:

Year	Customer A	Customer B
2001	18.7%	12.3%
2000	32.5%	9.1%
1999	13.3%	14.8%

(e) Revenue Recognition

Republic Unaffiliated ORRI Owners use the sales method of accounting for oil and gas revenues. Under the sales method, revenues are recognized based on actual volumes of oil and gas sold to purchasers.

(f) Income Taxes

Republic Unaffiliated ORRI Owners are not subject to federal income taxes because the tax effect of its activities accrues to the individual owners. Taxable income or loss of Republic Unaffiliated ORRI Owners is allocated to each ORRI owner in accordance with their respective ownership percentages. Accordingly, there is no provision for income taxes reflected in the accompanying financial statements.

(g) Derivative Instruments

Effective January 1, 2001, Republic Unaffiliated ORRI Owners adopted the provisions of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133). Statement 133, as amended, standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to report all derivative instruments in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as

a part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair value, cash flows, or foreign currencies. Republic Unaffiliated ORRI Owners held no fair value hedge or foreign currency hedge derivative instruments at December 31, 2001, 2000, or 1999.

(4) Facilitation Amount

The Facilitation amount, as described in the Agreement, is a fee paid for managing the properties and royalty arrangements and is equal to an agreed-upon percentage (4%) of the total annual gross proceeds less certain defined production costs and is deducted from distributions to Republic Unaffiliated ORRI Owners. For 2001, 2000, and 1999 the total Facilitation amounts were $706,816, $839,879, and $446,398, respectively, and Republic Unaffiliated ORRI Owners' portion was $604,328, $767,313, and $424,078, respectively.

(5) Distributions and Payout

RRC is required to distribute to the Republic Unaffiliated ORRI Owners within ten days of each month end an amount equal to the Republic Unaffiliated ORRI Owners percentage share. The proceeds percentage is 95% until payout no. 1 is reached, 85.5% after payout no. 1 is reached but before payout no. 2 is reached and 76.95% after payout no. 2 is reached.

Payout no. 1 was reached when the Republic Unaffiliated ORRI Owners were repaid their invested capital at the time of the acquisition, which occurred in August of 2000. Payout no. 2 is reached when the aggregate payments to the Republic Unaffiliated ORRI Owners are equal to their invested capital plus an internal rate of return of 14% ($83,659,226 at December 31, 2001). The percentage remained at 85.5% during 2001.

The initial capital investment paid by the Republic Unaffiliated ORRI Owners totaled $61,288,810. For the period September 27, 1993 (inception) through December 31, 2001, net proceeds distributed to the Republic Unaffiliated ORRI Owners for purposes of determining payout totaled $82,255,803.

(6) Litigation Settlements

RRC is or was a party to litigation concerning various contracts and other claims. The Republic Unaffiliated ORRI Owners' share of proceeds from litigation settlements and awards (included in other income) during 2001, 2000, and 1999 are $6,349, $1,890,909, and $186,590, respectively.

(7) Commitments and Contingencies

In the normal course of business, RRC is involved in various lawsuits and claims, related to its Royalty properties. In the opinion of RRC's management, the ultimate resolution of such matters will not have a material adverse effect on the financial position or results of operations of RRC or the ORRI interests.

(8) Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method, and Statement 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. Republic Unaffiliated ORRI Owners believe there is no current impact on their financial statements.

In June 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations, which establishes requirements for the accounting of removal-type costs associated with asset retirements. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. Republic Unaffiliated ORRI Owners are currently assessing the impact on their financial statements.

In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which establishes requirements for the accounting for the impairment or disposal of long-lived assets. The standard is effective for fiscal years beginning after December 15, 2001. Republic Unaffiliated ORRI Owners believe there will be no impact on their financial statements from adopting this standard.

(9) Supplemental Oil and Gas Data--Unaudited

Proved oil and gas reserves are estimated quantities, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Republic Unaffiliated ORRI Owners retained an independent petroleum engineering consulting firm to provide annual estimates as of December 31 of each year of Republic Unaffiliated ORRI Owner's future net recoverable oil and gas reserves for the underlying properties burdened by the ORRI.

The following table presents Republic Unaffiliated ORRI Owners' estimate of its proved oil and gas reserves underlying its ORRI, all of which are located in the United States. Republic Unaffiliated ORRI Owners emphasize that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, the estimates are expected to change as future information becomes available. The estimates have been prepared by Republic Royalty Company's independent petroleum reservoir engineers.

Estimates of reserves attributable to Republic Unaffiliated ORRI Owner are shown below using the regulations issued by the Securities and Exchange Commission; however, there is no precise method of allocating estimates of physical quantities of reserves between RRC and Republic Unaffiliated ORRI Owner, since the royalty received by Republic Unaffiliated ORRI Owners is a net proceeds ORRI, and Republic Unaffiliated ORRI Owners does not own, and is not entitled to receive, any specific volume of reserves. Net reserves attributable to the net royalties were estimated by allocating Republic Unaffiliated ORRI Owners an 80% portion of the estimated combined net reserves of the subject royalties based on an expected Payout No. 2 being reached in 2002 (see note 5). The quantities of reserves indicated will be affected by future changes in various economic factors utilized in estimating future gross revenues and net income from the subject royalties. Therefore, the estimates of reserves set forth below attributable to the ORRI are to a large extent hypothetical and are not comparable to estimates of reserves attributable to a working interest.

	Gross underlying royalties		Net royalties	
	Oil MBbls	Gas MMcf	Oil MBbls	Gas MMcf
Balance December 31, 1998......	3,895	21,901	3,117	17,521
Revisions in previous estimates	200	3,653	159	2,955
Production.....................	(307)	(2,396)	(246)	(1,950)
Balance December 31, 1999......	3,788	23,158	3,030	18,526
Revisions in previous estimates	(3)	(450)	(2)	(310)
Production.....................	(294)	(3,742)	(235)	(3,043)
Balance December 31, 2000......	3,491	18,966	2,793	15,173
Revisions in previous estimates	188	3,905	151	3,148
Production.....................	(278)	(2,717)	(223)	(2,198)
Balance December 31, 2001......	3,401	20,154	2,721	16,123

Oil reserves, which include condensate, are stated in thousands of barrels and gas reserves, which include natural gas liquids, are stated in millions of cubic feet.

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves--Unaudited

The following table, which presents a standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves, is presented pursuant to SFAS No. 69, Disclosures About Oil and Gas Producing Activities. In computing this data, assumptions other than those required by this accounting standard could produce different results. Accordingly, the data should not be construed as representative of the fair value of Republic Unaffiliated ORRI Owners' proved oil and gas reserves.

Future cash inflows were computed by applying year-end prices of oil and gas to the estimated year end quantities of proved reserves. Future price changes were considered only to the extent provided by contractual arrangements in existence at year end. Future production costs were computed by estimating the expenditures to be incurred in producing the proved oil and gas reserves at the end of the year, based on year end costs. The standardized measure of discounted future cash flows represents the present value of estimated future net cash flows using a 10% annual discount rate (in thousands). The Facilitation amount is not considered in the calculation of future net revenues.

REPUBLIC UNAFFILIATED ORRI OWNERS

NOTES TO FINANCIAL STATEMENT

December 31, 2001, 2000, and 1999

	2001	2000	1999
Future estimated gross revenues	$ 87,789	215,321	112,215
Future estimated production taxes	(6,758)	(17,383)	(9,606)
Future estimated net revenues	81,031	197,938	102,609
Discount at 10% per annum	(40,958)	(94,689)	(50,622)
Standardized measure of future estimated net revenues	$ 40,073	103,249	51,987
Beginning of year	$103,249	51,987	28,880
Sales of oil and gas, net of production costs	(13,698)	(18,990)	(9,650)
Net changes in prices and production costs	(59,651)	59,388	23,000
Revisions of previous quantity estimates	5,107	(1,786)	5,414
Accretion of discount	10,325	5,199	2,888
Other	(5,259)	7,451	1,455
End of year	$ 40,073	103,249	51,987

Depletion expense per barrel of oil equivalent was $5.27, $5.81, and $5.74 for the years ended December 31, 2001, 2000, and 1999, respectively.

INDEPENDENT AUDITORS' REPORT

The Partners
Spinnaker Royalty Company, L.P.:

We have audited the accompanying balance sheets of Spinnaker Royalty Company, L.P. (the Partnership) as of December 31, 2001 and 2000, and the related statements of operations, partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2001. 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 auditing standards generally accepted in the United States of America. 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 Spinnaker Royalty Company, L.P. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG, LLP

KPMG, LLP

Dallas, Texas
February 8, 2002

SPINNAKER ROYALTY COMPANY, L.P.

BALANCE SHEETS
December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 371,000	1,049,000
Accounts receivable	978,000	2,278,000
Total current assets	1,349,000	3,327,000
Oil and gas properties, at cost (full-cost method of accounting):		
Proved and producing royalty interests	30,263,000	30,263,000
Unproved royalty interests	238,000	238,000
	30,501,000	30,501,000
Less accumulated depletion	(17,845,000)	(16,403,000)
Net oil and gas properties	12,656,000	14,098,000
Total assets	$ 14,005,000	17,425,000
Liabilities and Partners' Capital		
Current liabilities--accounts payable and accrued expenses	$ 150,000	103,000
Partners' capital:		
General partner	(303,000)	(132,000)
Limited partner	14,158,000	17,454,000
Total partners' capital	13,855,000	17,322,000
Contingencies (note 6)		
Total liabilities and partners' capital	$ 14,005,000	17,425,000

See accompanying notes to financial statements.

SPINNAKER ROYALTY COMPANY, L.P.

STATEMENTS OF OPERATIONS
Years ended December 31, 2001, 2000, and 1999

	2001	2000	1999
Revenues:			
Royalty income	$10,871,000	11,963,000	8,607,000
Lease bonus income	34,000	166,000	2,000
Interest and other income	39,000	83,000	43,000
Total revenues	10,944,000	12,212,000	8,652,000
Expenses:			
Oil and gas production taxes	827,000	663,000	554,000
Depletion	1,442,000	2,025,000	2,376,000
Management expense (note 3)	306,000	267,000	239,000
Other operating expenses	307,000	101,000	118,000
Total expenses	2,882,000	3,056,000	3,287,000
Net income	$ 8,062,000	9,156,000	5,365,000

See accompanying notes to financial statements.

SPINNAKER ROYALTY COMPANY, L.P.

STATEMENTS OF PARTNERS' CAPITAL
Years ended December 31, 2001, 2000, and 1999

	Limited partners	General partner	Total
Balance at December 31, 1998	$ 20,138,000	7,000	20,145,000
Distribution to partners....	(7,002,000)	(365,000)	(7,367,000)
Net income..................	5,099,000	266,000	5,365,000
Balance at December 31, 1999	18,235,000	(92,000)	18,143,000
Distribution to partners....	(9,483,000)	(494,000)	(9,977,000)
Net income..................	8,702,000	454,000	9,156,000
Balance at December 31, 2000	17,454,000	(132,000)	17,322,000
Distribution to partners....	(10,958,000)	(571,000)	(11,529,000)
Net income..................	7,662,000	400,000	8,062,000
Balance at December 31, 2001	$ 14,158,000	(303,000)	13,855,000

See accompanying notes to financial statements.

SPINNAKER ROYALTY COMPANY, L.P.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2001, 2000, and 1999

	2001	2000	1999
Assets			
Cash flow from operating activities:			
Net income	$ 8,062,000	9,156,000	5,365,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depletion expense	1,442,000	2,025,000	2,376,000
(Increase) decrease in accounts receivable	1,300,000	(987,000)	(130,000)
Increase (decrease) in accounts payable and accrued expenses	47,000	45,000	(36,000)
Net cash provided by operating activities	10,851,000	10,239,000	7,575,000
Cash flows from financing activities--distributions to partners	(11,529,000)	(9,977,000)	(7,367,000)
Net increase (decrease) in cash and cash equivalents	(678,000)	262,000	208,000
Cash and cash equivalents at beginning of year	1,049,000	787,000	579,000
Cash and cash equivalents at end of year	$ 371,000	1,049,000	787,000

See accompanying notes to financial statements.

SPINNAKER ROYALTY COMPANY, L.P.

NOTES TO FINANCIAL STATEMENT
December 31, 2001, 2000, and 1999

(1) Organization and Nature of Business

On September 4, 1997, Spinnaker Royalty Company and others formed Spinnaker Royalty Company, L.P. (the Partnership) by contributing certain oil and gas mineral and royalty interests to the Partnership. Smith Allen Oil & Gas, Inc., is the Partnership's general partner. The primary business of the Partnership is to acquire, own, and manage oil and gas properties.

(2) Summary of Significant Accounting Policies

A summary of the significant accounting policies followed by the Partnership is as follows:

(a) Capitalization Policy for Oil and Gas Activities

The Partnership utilizes the full cost method of accounting for its oil and gas properties. Under the full cost method, all productive and nonproductive costs incurred in connection with the acquisition, exploration, and development of oil and gas reserves are capitalized and amortized on the units-of-production method based upon total proved reserves. Conveyances of properties, including gains or losses on abandonments of properties, are treated as adjustments to the cost of oil and gas properties, with no gain or loss recognized.

Under the full cost method, the net book value of oil and gas properties may not exceed the estimated future net revenues from proved oil and gas properties, discounted at 10% per year (the ceiling limitation). In arriving at estimated future net revenues, estimated lease operating expenses, development costs, abandonment costs, and certain production-related and ad-valorem taxes are deducted. In calculating future net revenues, prices and costs in effect at the time of the calculation are held constant indefinitely, except for changes which are fixed and determinable by existing contracts. The net book value is compared to the ceiling limitation on an annual basis. The excess, if any, of the net book value above the ceiling limitation is required to be written off as a noncash expense. The Partnership did not incur ceiling limitation writedowns during 2001, 2000 and 1999. There can be no assurance that there will not be writedowns in future periods under the full cost method of accounting as a result of sustained decreases in oil and gas prices or other factors.

(b) Depletion

The Partnership provides for depletion of proved and producing oil and gas properties on a unit-of-production method, based upon studies by independent engineers for proved oil and gas reserves.

(c) Cash Equivalents

At December 31, 2001 and 2000, cash equivalents consist of money market accounts ($233,000 and $998,000, respectively). The Partnership considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

(d) Revenue Recognition

The Partnership uses the sales method of accounting for oil and gas revenues. Under the sales method, revenues are recognized based on actual volumes of oil and gas sold to purchasers.

(e) Concentration of Credit Risk

Accounts receivable balances represent revenue accruals from companies which operate primarily in the oil and gas industry. The Partnership does not require collateral for its receivable balances. The Partnership as well as the companies it does business with are subject to fluctuations and trends in the oil and gas industry. Customers that accounted for more than 10% of revenues for the periods are presented as follows:

Year	Customer A	Customer B	Customer C
2001	18%	11%	23%
2000	23%	38%	--
1999	24%	33%	--

(f) Income Taxes

The Partnership is not subject to federal income taxes because the tax effect of its activities accrues to the partners. Taxable income or loss of the Partnership is allocated to each partner in accordance with the Partnership agreement. Accordingly, there is no provision for income taxes reflected in the accompanying financial statements.

(g) Use of 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 periods. Oil and gas reserve estimates are used in the calculation of depletion expense and the full-cost ceiling limitation for oil and gas properties and are inherently imprecise. Actual results could differ from those estimates.

(h) Derivative Instruments

Effective January 1, 2001, the Partnership adopted the provisions of statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133). Statement 133, as amended, standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to report all derivative instruments in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair value, cash flows, or foreign currencies. The Partnership held no fair value hedge or foreign currency hedge derivative instruments at December 31, 2001, 2000, or 1999.

(3) Transactions With General Partner

Management expense represents reimbursement to the general partner for allocated general, administrative, and overhead expenses in accordance with the Partnership agreement.

(4) Partners' Capital

As provided in the Partnership agreement, revenues and expenses are allocated to the partners in accordance with their respective sharing percentages. The General Partner has a 4.96% ownership interest in the Partnership.

On a monthly basis, all cash funds of the Partnership which the general partner reasonably determines are not needed for the payment of existing or foreseeable (within 60 days) Partnership obligations and expenditures are distributed to the partners in accordance with their respective sharing percentages.

As provided in the Partnership agreement, upon liquidation, gains or losses from the sale of Partnership property will be allocated to the partners utilizing their respective sharing percentages.

(5) Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method, and Statement 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The Partnership is not currently impacted by these statements.

In June 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations, which establishes requirement for the accounting of removal-type costs associated with asset retirements. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Partnership is currently assessing the impact of its financial statements.

In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which establishes requirements for the accounting for the impairment or disposal of long-lived assets. The standard is effective for fiscal years beginning after December 15, 2001. The Partnership believes there will be no impact on their financial statements from adopting this standard.

(6) Commitments and Contingencies

In the normal course of business, the Partnership is involved in various lawsuits and claims related to its royalty properties. In the opinion of the Partnership's management, the ultimate resolution of such matters will not have a material adverse effect on the financial position or results of operations of the Partnership.

(7) Supplemental Oil and Gas Data - Unaudited

Proved oil and gas reserves are estimated quantities, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The Partnership retained an independent petroleum engineering consulting firm to provide annual estimates as of December 31 of each year of the Partnership's future net recoverable oil and gas reserves.

The following table presents the Partnership's estimate of its proved oil and gas reserves, all of which are located in the United States. The Partnership emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, the estimates are expected to change as future information becomes available. The estimates have been prepared by the Partnership's independent petroleum reservoir engineers.

	Oil MBbls	Gas MMcf
Balance December 31, 1998.........	1,326	15,720
Revisions of previous estimates...	(58)	4,028
Production........................	(115)	(3,003)
Balance December 31, 1999.........	1,153	16,745
Revisions of previous estimates...	(54)	853
Production........................	(97)	(2,598)
Balance December 31, 200..........	1,002	15,000
Revisions of previous estimates...	60	1,784
Production........................	(88)	(2,247)
Balance December 31, 2001.........	974	14,537

Oil reserves, which include condensate, are stated in thousands of barrels and gas reserves, which include natural gas liquids, are stated in millions of cubic feet.

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves--Unaudited

The following table, which presents a standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves, is presented pursuant to SFAS No. 69, Disclosure About Oil and Gas Producing Activities. In computing this data, assumptions other than those required by this accounting standard could produce different results. Accordingly, the data should not be construed as representative of the fair value of the Partnership's proved oil and gas reserves.

Future cash inflows were computed by applying year-end prices of oil and gas to the estimated year-end quantities of proved reserves. Future price changes were considered only to the extent provided by contractual arrangements in existence at year end. Future production costs were computed by estimating the expenditures to be incurred in producing the proved oil and gas reserves at the end of the year, based on year-end costs. The standardized measure of discounted future cash flows represents the present value of estimated future net cash flows using a 10% annual discount rate (in thousands).

	Years ended December 31,		
	2001	2000	1999
Future estimated gross revenues	$ 52,935	172,224	64,436
Future estimated production taxes	(4,237)	(15,126)	(5,914)
Future estimated net revenues	48,698	157,099	58,522
Discount at 10% per annum	(21,871)	(64,683)	(23,419)
Standardized measure of future estimated net revenues	$ 26,827	92,416	35,103
Beginning of year	$ 92,416	35,103	24,024
Sales of oil and gas, net of production costs	(10,044)	(11,300)	(8,053)
Net changes in prices and production costs	(60,964)	63,231	10,858
Revisions of previous quantity estimates	2,290	1,653	5,461
Accretion of discount	9,242	3,510	2,402
Other	(6,113)	219	411
End of year	$ 26,827	92,416	35,103

Depletion expense per barrel of oil equivalent was $3.11, $3.82, and $3.86 for the years ended December 31, 2001, 2000, and 1999, respectively.

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APPENDIX A-1
TO
PROXY STATEMENT/PROSPECTUS

FAIRNESS OPINION
OF
BRUCE E. LAZIER, P.E.

BRUCE E. LAZIER, P.E.
PETROLEUM INVESTMENTS

ISPYOIL, LLC.
Off: 214-368-9414 Fax: 214-368-9094
Cell: 214-534-7539 email: ispyoil@yahoo.com

July 30, 2001

Dorchester Hugoton, Ltd.
1919 South Shiloh Road, Suite 600, LB 48
Garland, Texas 75042-8234

Attention: James E. Raley
President
James E. Raley, Inc.

Dear Sirs:

Dorchester Hugoton, Ltd. (the "Company") has engaged Bruce E. Lazier ("Lazier") to act as financial adviser to the Company and issue an opinion (the "Opinion") as to the fairness, from a financial point of view, to the Company and its Unitholders (the "Unitholders") of a transaction (the "Transaction") between and among the Company and the limited partnerships, Republic Royalty Company and Spinnaker Royalty Company, L. P. (collectively the "Partnerships") and including certain interests held by other persons outside the Partnerships in the properties held by the one or more of the Partnerships (the "Interests"). Through the Transaction, the Company and the Partnerships and the Interests would be consolidated into a new entity which would be a publicly-traded limited partnership (the "New Partnership"). The Transaction is described more fully in a draft letter of intent which has been supplied to Lazier.

Credentials of Lazier

Lazier has a degree in petroleum engineering and a Master in Business Administration from Stanford University and has worked in his career both as a petroleum engineer and investment banker. In the course of his 40 year career, Lazier has been frequently engaged in the valuation of oil and gas companies, their properties and securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes.

Scope of Review

Lazier has conducted such analyses, investigations, research and testing of assumptions as were considered by him to be appropriate in the circumstances. Lazier was granted access to the Company's management and was not, to his knowledge, denied any type of information which he requested and which might be considered to be material to this Opinion.

6440 N. Central Expressway Turley Law Center, Suite 503 . Dallas, Texas 75206

Fairness Considerations

In arriving at his opinion, Lazier has among other things, considered:

(i) the current state of the domestic and international oil and gas industry.;

(ii) the relative value of the net assets, reserves, future production and anticipated future cash flow of the Company and the Partnerships;

(iii) sensitivities of gas prices, reserves, the Company's assets and discount rates to the value of the New Partnership;

(iv) "Estimates of Gas Reserves," dated January 17, 2001 and prepared by Calhoun, Blair & Associates;

(v) "Republic Royalty Company and Spinnaker Royalty Company, L.P. Estimated Reserves and Future Net Revenue, as of January 1, 2001" both prepared by Huddleston & Co., Inc.

(vi) 2000 Net Cash Flow Comparison--Revised 02/21/01;

(vii) Annual Report of Dorchester Hugoton, Ltd. on Form 10-K for the year ended December 31,2000 Quarterly Report of Dorchester Hugoton, Ltd. on Form 10-Q for the quarter ended March 31, 2001, and other publicly available information concerning Dorchester Hugoton, Ltd.;

(vii) Summary of Reserves of the Partnerships from the Company, dated July 5, 2001.

(viii) Opening calculations prepared by Republic and Spinnaker. Based on 1/1/00 SEC type reserve studies and projected year 2000 income.

(ix) Republic & Spinnaker 7/1/2000 Reserve Study @ agreed upon escalated prices.

(x) Dorchester Hugoton 7/1/2000 Reserve Study @ agreed upon escalated prices.

Various reserve studies and analysis prepared by the Company

(xi) Rework of 5/17/00 calculation by Dorchester Hugoton using 7/1/2000 Reserve Studies including probable and possible reserves.

Rework of 5/17/00 calculation by Dorchester Hugoton using 7/1/2000 Reserve Studies proved producing only.

Two reworks Oct. & Nov. 2000 calculations by Dorchester Hugoton.

Adjustment of Oct. 2000 calculations by Dorchester Hugoton for the value of already being publicly traded.

(xii) draft letter of intent.

(xiii) Various transactions involving acquisitions of oil and gas properties through merger and/or purchase and the trading history of public companies subsequent to such acquisitions.

Key Assumptions and Limitations

Lazier has relied upon, and has assumed the completeness, accuracy and fair presentation of all financial and other information, data, advice, opinions, and representations obtained by him from public sources or otherwise pursuant to his engagement, and this Opinion is conditional upon such completeness, accuracy, and fair presentation. Subject to the exercise of professional judgment and except as expressly described herein, Lazier has not attempted to independently verify the accuracy or completeness of any such information, data,

6440 N. Central Expressway Turley Law Center, Suite 503 . Dallas, Texas 75206

advise, opinions and representations. Management has represented to Lazier as of the date hereof, among other things, that the information, data, opinions and other materials (the "Information") provided to him on behalf of the Company are complete and correct in all material respects at the date the Information was provided to him and that since the date of the Information, there has been no material change, financially otherwise, in the position of the Company, or in its assets, liabilities (contingent or otherwise), business or operations and there has been no change of any material fact which is of a nature as to render the Information untrue or misleading in any material respect.

This Opinion is rendered on the basis of securities market, economic and general business and financial conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of the Company as reflected in the information and documents reviewed by Lazier and as they were represented to it in its discussions with management of the Company. In his analysis and in connection with the preparation of this Opinion, Lazier has made a number of assumptions with respect to industry performance, general business, market and economic conditions and other matters, which assumptions Lazier believes are reasonable to make in the context of the Transaction.

This Opinion is also limited to the fairness, from a financial point of view, of the Transaction to the Company and the Company's Unitholders, and Lazier expresses no opinion, as to the merits of the underlying decision by the Company to engage in the Transaction. This opinion necessarily is based upon market, economic and other conditions as they exist and can be evaluated on the date hereof, and Lazier assumes no responsibility to update or revise my Opinion based upon circumstances or events occurring after the date hereof.

Lazier has acted as financial advisor to the Company in connection with the Transaction and will receive a fee for his services, including for rendering the Opinion. In addition, the Company has agreed to indemnify Lazier for certain potential liabilities arising out of the engagement. Lazier has no other financial advisory or other relationships with the Company, its General Partners and affiliates or with any of the other parties to the Transaction or their affiliates.

This Opinion is given solely for the benefit of and delivered exclusively to the Company, its General Partners, its Unitholders and its Advisory Committee.

Conclusion

Based upon and subject to the foregoing, it is Lazier's opinion that, as of the date hereof, the Transaction is fair to the Company and its Unitholders from a financial viewpoint.

Very truly yours,

/s/ BRUCE E. LAZIER, P.E./M.B.A.

Bruce E. Lazier, P.E./M.B.A.

6440 N. Central Expressway Turley Law Center, Suite 503 . Dallas, Texas 75206

APPENDIX A-2
TO
PROXY STATEMENT/PROSPECTUS

FAIRNESS OPINION
OF
BRUCE E. LAZIER, P.E.

BRUCE E. LAZIER, P.E.
PETROLEUM INVESTMENTS

ISPYOIL, LLC.
Off: 214-368-9414 Fax: 214-368-9094
Cell: 214-534-7539 email: ispyoil@yahoo.com

December 13, 2001

Dorchester Hugoton, Ltd.

1919 South Shiloh Road, Suite 600-LB 48
Garland, Texas 75042-8234

Attention: James E. Raley
President
James E. Raley, Inc.

Dear Sirs:

By letter agreement, dated May 11, 2001, Dorchester Hugoton, Ltd. (the "Company") engaged Bruce E. Lazier ("Lazier") to act as financial adviser to the Company and issue an opinion (the "Opinion") as to the fairness to the Company and its Unitholders (the "Unitholders") of a transaction (the "Transaction") between and among the Company and the limited partnerships, Republic Royalty Company and Spinnaker Royalty Company, L. P. (collectively the "Partnerships") and including certain interests held by other persons outside the Partnerships in the properties held by the one or more of the of Partnerships (the "Interests").

Through the Transaction, the Company and the Partnerships and the Interests are to be consolidated into a new entity which will be a publicly-traded limited partnership (the "New Partnership"). The Transaction is described more fully in the draft agreements referenced below at (vii) through (xvii).

On July 30, 2001, Lazier delivered the Opinion to the Company in which he concluded that the Transaction was fair to the Company and its Unitholders from a financial viewpoint. The purpose of this letter (the "Second Opinion") is to update and supplement the Opinion, and terms and definitions in the Opinion shall have the same meaning herein unless otherwise indicated.

Scope of Review

Lazier has reviewed the Opinion and the bases on which it was given and, in addition, has conducted such analyses, investigations, research and testing of assumptions as were considered by him to be appropriate to reviewing and updating the Opinion. Lazier was granted access to the Company's management and was not, to his knowledge, denied any type of information which he requested and which might be considered to be material to this Second Opinion, including information regarding the acquisition by the Company on August 9, 2001 of an Oklahoma production payment described more fully in the Company's "Quarterly Report" on Form 10-Q for the quarter ended June 30, 2001.

Fairness Considerations

In arriving at this opinion, Lazier considered in addition to those items reviewed in conjunction with issuance of the Opinion:

(i) the current state of the domestic and international oil and gas industry:

(ii) the present relative value of the net assets, reserves, future production and anticipated future cash flow of the Company and the Partnerships;

(iii) revised sensitivities of gas prices, reserves, the Company's assets and discount rates to the value of the New Partnership;

(iv) balance sheets and income statements, dated June 30, 2001 and September 30, 2001, of the Partnerships;

(v) the Company's "Quarterly Report" on Form 10-Q for the quarters ended June 30, 2001 and September 30, 2001;

(vi) revised reserve study by Calhoun, Blair and Associates, dated August 14, 2001, accounting for the acquisition of the production payment by the Company;

(vii) draft "Partnership Agreement" of the New Partnership

(viii) draft "Combination Agreement" pursuant to which the Company and the Partnerships will combine; and

(ix) draft "Contribution Agreement" pursuant to which the general partners of the Company and the Partnerships will contribute certain limited and/or general Partner interests received in the combination transaction to the general partner of the New Partnership;

(x) draft Exhibit 3.1(a)(i), the "Assignment, Conveyance and Assumption Agreement" from the Company to the New Partnership;

(xi) draft Exhibit 3.1(b), the "Assignment, Conveyance, Bill of Sale and Assumption Agreement" from the Company to the New Partnership;

(xii) draft Exhibit 3.3(c)(i), the "Assignment and Conveyance" Agreement from the Company to the New Partnership;

(xiii) draft Exhibit 3.3(c)(ii), the "Assignment, Conveyance and Assumption Agreement" from the Company to the New Partnership;

(xiv) draft "Amended and Restated Limited Partnership Agreement" of the General Partner of the New Partnership (the "General Partner");

(xv) draft "Amended and Restated Limited Liability Company Agreement" of the general partner of the General Partner;

(xvi) draft "Transfer Restriction Agreement" of the General Partner and its general partner which governs the transfer of interests;

(xvii) draft "Business Opportunities Agreement" that sets forth the rights and responsibilities of the General Partner and related parties and the New Partnership with respect to business opportunities.

Key Assumptions and Limitations

As with the Opinion, Lazier has relied upon and has assumed the completeness, accuracy and fair presentation of all financial and other information, data, advice, opinions, and representations obtained by him from public sources or otherwise pursuant to his engagement, and this Second Opinion is conditional upon such completeness, accuracy, and fair presentation. Subject to the exercise of professional judgment and except as

expressly described herein, Lazier has not attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions and representations. Management has represented to Lazier, among other things, that the information, data, opinions and other materials (the "Information") provided to him on behalf of the Company are complete and correct in all material respects at the date the Information was provided to him and that since the date of the Information, there has been no material change, financially or otherwise, in the position of the Company, the Partnerships or in their collective assets, liabilities (contingent or otherwise), business or operations and there has been no change of any material fact which is of a nature as to render the Information untrue or misleading in any material respect.

Also, as with the Opinion, this Second Opinion is rendered on the basis of securities market, economic and general business and financial conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of the Company as reflected in the Information and as it represented to him in discussions with management of the Company. In his analysis and in connection with the preparation of this Opinion, Lazier has made a number of assumptions with respect to industry performance, general business, market and economic conditions and other matters, which assumptions Lazier believes are reasonable to make in the context of the Transaction.

This Second Opinion is further limited to the fairness, from a financial point of view, of the Transaction to the Company and the Company's Unitholders, and Lazier expresses no opinion as to the merits of the underlying decision by the Company to engage in the Transaction. This Second Opinion necessarily is based upon market, economic and other conditions as they exist and can be evaluated on the date hereof, and Lazier assumes no responsibility to update or revise either the Opinion or this Second Opinion based upon circumstances or events occurring after the date hereof.

Lazier has acted as financial advisor to the Company in connection with the Transaction and will receive a fee for his services, including the rendering of this Second Opinion. In addition, the Company has agreed to indemnify Lazier for certain potential liabilities arising out of his engagement.

This Second Opinion is given solely for the benefit of and delivered exclusively to the Company, its General Partners, its Unitholders and its Advisory Committee.

Conclusion

Based upon and subject to the foregoing, it is Lazier's opinion that, as of the date hereof, the Transaction remains fair to the Company and its Unitholders from a financial viewpoint.

Very truly yours,

/s/ BRUCE E. LAZIER, P.E./M.B.A.

Bruce E. Lazier, P.E./M.B.A.

APPENDIX B
TO
PROXY STATEMENT/PROSPECTUS

SUMMARY RESERVE REPORT OF CALHOUN, BLAIR & ASSOCIATES FOR DORCHESTER HUGOTON, LTD.

As of December 31, 2001, 2000 and 1999

Calhoun, Blair & Associates
Petroleum Consultants
4429 North Central Expressway
Dallas, Texas 75205
Facsimile (214) 526-4764

April 29, 2002

P.A. Peak, Inc., James E. Raley, Inc.
General Partners
Dorchester Hugoton, Ltd.
1919 S. Shiloh Road, Suite 600
Garland, Texas 75042-8234

Gentlemen:

In accordance with your instructions we have previously prepared estimates of gas reserves from certain leasehold and royalty interests owned by Dorchester Hugoton, Ltd., located in the Hugoton Field of Kansas and Oklahoma. We have projected our estimates of future gas production annually, as of December 31, 2001, 2000 and 1999, for these properties.

Information necessary for the preparation of these estimates was obtained from records furnished by Dorchester Hugoton, Ltd., from records on file with the state regulatory bodies, and from our own files. No special tests were obtained to assist in the preparation of this report. For the purpose of this report, the individual well tests and production information as reported in the records on file with the state regulatory bodies were accepted as represented, together with all other factual data provided by Dorchester Hugoton, Ltd., including the extent and character of the interest appraised.

All estimated reserves in this report are considered as proved developed producing. Proved developed producing reserves are those proved to a high degree of certainty by reason of actual completion or successful testing. Estimates of proved reserves were made using standard geological and engineering methods accepted by the petroleum industry. The method, or combination of methods, utilized was tempered by experience in the area, state of development, quality and extent of the basic data and production history.

When the information was available and the method was applicable, natural gas reserves in this report were estimated by the extrapolation of historical trends of pressure decline as a function of cumulative production, gas production decline as a function of time and gas production decline as a function of cumulative gas production. For certain wells having a limited production history, reserves were estimated by analogy with nearby similar wells in the same formation. All gas volumes are raw wellhead gas volumes expressed at 60 degrees Fahrenheit and at a standard pressure base of 14.65 pounds per square inch absolute.

Reserves in this report are expressed as gross and net gas production. Net gas production represents those reserves net to the appraised interest after deducting all leasehold and royalty interests owned by others. Values of reserves are expressed in terms of net operating revenues, cash flow before taxes, and present worth. Net operating revenue is revenue, which would accrue to the appraised interests from the production and sale of the estimated net reserves. Cash flow before taxes is obtained by deducting severance and ad valorem taxes, net operating expenses and capital costs from net operating revenue. Net operating expenses include an allocation of supervisory costs chargeable to the leases but do not include general and administrative overhead. An allowance for a retained production payment (overriding royalty) related to the 20 percent interest acquired in the Guymon Hugoton Field in 1986 is included in the 1999 and 2000 Oklahoma net operating expenses. Gas prices, net operating expenses and future capital costs were furnished by Dorchester Hugoton, Ltd. Present worth is defined as the future cash flow before taxes discounted at the rate of ten (10.00) percent per year compounded annually. For the purpose of this report no estimate was made of salvage value for the existing lease and well equipment, or costs involved in abandonment of the wells.

The reserves included in this report are estimates only and should not be construed as being exact quantities. The revenues from such reserves and the actual costs related thereto could be more or less than the estimated amounts. The scope of this investigation did not include an environmental study of these properties, nor was an on-site field inspection conducted. For the purpose of this report, it was necessary to assume that these properties are in compliance with existing government regulations. Because of governmental policies and uncertainties of supply and demand, the prices actually received for the reserves included in this report, and the costs incurred in recovering such reserves, may vary from price and cost assumptions in this report. In any case, estimates of reserves may increase or decrease as a result of future operation and as more production history becomes available.

Calhoun, Blair & Associates have not examined the title to these properties, nor has the actual degree or type of interest owned been independently confirmed. We are independent petroleum engineers; we do not own an interest in these properties and are not employed on a contingent basis. Basic field performance data together with our engineering work sheets are maintained on file in our office and are available for review.

Included in this report are summaries of gross and net gas reserves in Kansas and Oklahoma. Also included are projections of estimated cash flow before taxes and present worth for all properties appraised as of December 31, 2001, 2000 and 1999. Present worth of future cash flow is not meant to represent the Fair Market Value of these properties or of Dorchester Hugoton, Ltd.

This report is a summary of our previous reports dated January 17, 2002, January 17, 2001, and January 31, 2000. It was a pleasure to prepare this report for you and we hope that it serves the purpose for which it was prepared. If we can be of any further service to you in this connection, please advise us.

Yours very truly,

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

Calhoun, Blair & Associates

Total Proved Producing Reserves
Dorchester Hugoton, Ltd.
Kansas and Oklahoma

Estimated Reserves and Revenues

Calhoun, Blair and Associates
Dallas, Texas

Year Ended December 31	Gross Production Total		Net Production Total		Future Net Revenues M$	
	MBBL	MMCF	MBBL	MMCF	Undiscounted	Discounted at 10% Per Year
2001....	0	59,809.000	0	48,302.268	$ 65,946.232	$ 44,726.409
2000....	0	66,974.000	0	54,126.957	$223,616.122	$140,003.001
1999....	0	71,679.000	0	58,209.114	$ 67,233.266	$ 44,381.884

APPENDIX C
TO
PROXY STATEMENT/PROSPECTUS

SUMMARY RESERVE REPORT OF HUDDLESTON & CO, INC. FOR REPUBLIC ROYALTY COMPANY
As of January 1, 2002, 2001 and 2000

Huddleston & Co., Inc.
Petroleum and Geological Engineers
1 Houston Center
1221 McKinney, Suite 3700
Houston, Texas 77010

PHONE (713) 209-1100 . FAX (713) 752-0828
May 2, 2002

Republic Royalty Company
Attention: Mr. William Casey McManemin
3738 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219-4379

Re: Estimated Reserves and Future Net Revenue
As of January 1, 2000, 2001, and 2002
SEC Pricing Case

Gentlemen:

Pursuant to your request, we have summarized the estimated oil, condensate, natural gas, and plant product reserves and projected revenues net to the interests owned by Republic Royalty Company (RRC) as of January 1, 2000, 2001, and 2002. These estimates were derived from reports prepared for RRC by Huddleston & Co., Inc., under separate cover and are subject to the qualifications stated therein.

A summary of our conclusions follows:

	Net to Republic Royalty Company*		
SEC Product Prices	Proved Developed Producing	Proved Undeveloped	Total Proved
As of January 1, 2002			
Estimated Future Net Oil/Cond., bbl.	3,227,074	174,008	3,401,083
Estimated Future Net Gas, MMcf......	17,433.0	1,575.0	19,008.0
Estimated Net Plant Products, MMcf..	1,146.2	0.0	1,146.2
Estimated FNR, Discounted at 10%, $.	46,828,738	3,261,889	50,090,626
As of January 1, 2001			
Estimated Future Net Oil/Cond., bbl.	3,312,583	178,449	3,491,032
Estimated Future Net Gas, MMcf......	16,088.0	1,419.4	17,507.4
Estimated Net Plant Products, MMcf..	1,458.5	0.0	1,458.5
Estimated FNR, Discounted at 10%, $.	120,632,026	8,429,096	129,061,122
As of January 1, 2000			
Estimated Future Net Oil/Cond., bbl.	3,559,994	227,594	3,787,588
Estimated Future Net Gas, MMcf......	18,290.5	3,350.4	21,640.9
Estimated Net Plant Products, MMcf..	1,517.0	0.0	1,517.0
Estimated FNR, Discounted at 10%, $.	58,607,621	6,376,584	64,984,205

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*Numbers subject to computer rounding.

Report Preparation

Source of Reserve Projections--The reserves and revenues shown herein have been based on a combination of reserve estimates and projected future production and revenue schedules prepared by our firm and Harlan Consulting for RRC and is a summary of our previous reports dated March 11, 2002, June 12, 2001, and July 18, 2001.

Reporting Requirements--Securities and Exchange Commission (SEC) Regulation S-K, Item 102, and Regulation S-X, Rule 4-10, and Financial Accounting Standards Board (FASB) Statement No. 69 require oil and gas reserve information to be reported by publicly held companies as supplemental financial data. These regulations and standards provide for estimates of Proved reserves and revenues discounted at 10% based on product prices in effect on the "as of" date of the report.

Standards of Practice--The Society of Petroleum Engineers (SPE) requires Proved reserves to be economically recoverable with prices and costs in effect on the "as of" date of the report. In addition, the SPE has issued Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information which sets requirements for qualifications and independence of reserve estimators and auditors and accepted methods to be used for estimating future reserves.

The estimated reserves contained herein were prepared in accordance with our understanding of all the applicable SEC, FASB, and SPE regulation requirements and definitions. We note that we have necessarily included composite projections of net oil and gas reserves given the limited information available to a royalty interest owner and the relatively small net reserves attributable to any specific property within the composite group. SEC Regulation S-X, Rule 4-10, allows large numbers of royalty interests that are not individually significant to be aggregated for purposes of accounting. The SPE does not address the utilization of composite projections.

Reserve Estimates

Reserves for the producing properties were based on extrapolation of production history where there was sufficient data to suggest a decline trend and where this methodology was applicable for the subject reservoirs. The reserves for the remaining producing and nonproducing properties were projected utilizing analogy to offset wells producing from similar formations or by volumetric analysis. The composite production histories of the net oil and gas volumes generally have not exhibited a discernible decline over the past several years as they have been affected by new wells and other development activity such as secondary recovery projects. Therefore, for the composite projections we have projected the current net oil and gas production rates to decline at a rate of 10% per year to arrive at our Proved Developed Producing projections. The incremental reserves, necessary to change the total composite decline to 5% per annum for a period of five years and 10% thereafter, were calculated and classified as Proved Undeveloped. We have also reviewed drilling records, drilling permits, and new division orders in RRC's files which indicate that current development activity on these properties should be sufficient to change the normal decline tendencies of the composite production by this magnitude.

Operating Expenses

Operating expenses attributable to RRC's participating (or unleased) mineral interests in certain properties were deducted over the life of the properties from the projections of future gross revenue.

All of the remaining properties, except for the participating mineral interests mentioned above, consist of only royalty interests that are not burdened by operating costs. We have deducted the proper production taxes for those properties that were projected individually. For the composite projections we have deducted average tax rates derived from RRC's accounting records on a group basis. A 3% ad valorem tax was also deducted from all production in Texas.

Other Considerations

Additional Potential Values--Values were not assigned to nonproducing acreage or to acreage held by production, if any, or to the salvage of surface and subsurface equipment. We have not accounted for any future lease bonus and rental income.

Additional Costs--Costs were not deducted for general and administrative expenses, depletion, depreciation, and amortization, or potential federal income tax.

Data Sources--Data including basic well information, accounting data, product prices, operating costs, ownership, and initial test rates and/or current producing rates of certain recently completed wells were supplied by RRC. We have accepted this information as correct.

Production statistics were obtained from public sources for the individual properties and from RRC accounting records for the composite property groups.

Context--We specifically advise that any particular reserve estimate for a specific property should not be used out of context with the entire report.

The revenues and present worth of future net revenues are not represented to be market values for individual properties or on a total property basis.

Respectfully submitted,

/s/ GREGORY S. FLOYD

Gregory S. Floyd, P.E.

GSF:klh

APPENDIX D
TO
PROXY STATEMENT/PROSPECTUS

SUMMARY RESERVE REPORT OF HUDDLESTON & CO., INC. FOR SPINNAKER ROYALTY COMPANY, L.P.

As of January 1, 2002, 2001 and 2000

Huddleston & Co., Inc.
Petroleum and Geological Engineers
1 Houston Center
1221 McKinney, Suite 3700
Houston, Texas 77010

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

May 2, 2002

Spinnaker Royalty Company, L.P.
Attention: Mr. William Casey McManemin
3738 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219-4379

Re: Estimated Reserves and Future Net Revenue
As of January 1, 2000, 2001, and 2002
SEC Pricing Case

Gentlemen:

Pursuant to your request, we have summarized the estimated oil, condensate, natural gas, and plant product reserves and projected revenues net to the interests owned by Spinnaker Royalty Company, L.P. (SRC) as of January 1, 2000, 2001, and 2002. These estimates were derived from reports prepared for SRC by Huddleston & Co., Inc., under separate cover and are subject to the qualifications stated therein.

A summary of our conclusions follows:

SEC Product Prices	Net to Spinnaker Royalty Company, L.P.*		
	Proved Developed Producing	Proved Undeveloped	Total Proved
As of January 1, 2002			
Estimated Future Net Oil/Cond., bbl......	931,191	42,487	973,678
Estimated Future Net Gas, MMcf...........	11,891.0	2,240.1	14,131.1
Estimated Net Plant Products, MMcf.......	406.2	0.0	406.2
Estimated FNR, Discounted at 10%.........	$23,367,568	3,459,342	26,826,910
As of January 1, 2001			
Estimated Future Net Oil/Cond., bbl......	965,877	36,333	1,002,210
Estimated Future Net Gas, MMcf...........	11,925.6	2,331.4	14,257.0
Estimated Net Plant Products, MMcf.......	743.4	0.0	743.4
Estimated FNR, Discounted at 10%.........	$79,235,161	13,180,420	92,415,581
As of January 1, 2000			
Estimated Future Net Oil/Cond., bbl......	1,114,966	37,967	1,152,933
Estimated Future Net Gas, MMcf...........	13,097.2	2,717.0	15,814.2
Estimated Net Plant Products, MMcf.......	930.9	0.0	930.9
Estimated FNR, Discounted at 10%.........	$31,324,384	3,778,119	35,102,503

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* Numbers subject to computer rounding.

Report Preparation

Source of Reserve Projections--The reserves and revenues shown herein have been based on a combination of reserve estimates and projected future production and revenue schedules prepared by our firm and Harlan Consulting for SRC and is a summary of our previous reports dated March 11, 2002, June 12, 2001, and July 18, 2001.

Reporting Requirements--Securities and Exchange Commission (SEC) Regulation S-K, Item 102, and Regulation S-X, Rule 4-10, and Financial Accounting Standards Board (FASB) Statement No. 69 require oil and gas reserve information to be reported by publicly held companies as supplemental financial data. These regulations and standards provide for estimates of Proved reserves and revenues discounted at 10% based on product prices in effect on the "as of" date of the report.

Standards of Practice--The Society of Petroleum Engineers (SPE) requires Proved reserves to be economically recoverable with prices and costs in effect on the "as of" date of the report. In addition, the SPE has issued Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information which sets requirements for qualifications and independence of reserve estimators and auditors and accepted methods to be used for estimating future reserves.

The estimated reserves contained herein were prepared in accordance with our understanding of all the applicable SEC, FASB, and SPE regulation requirements and definitions. We note that we have necessarily included composite projections of net oil and gas reserves given the limited information available to a royalty interest owner and the relatively small net reserves attributable to any specific property within the composite group. SEC Regulation S-X, Rule 4-10, allows large numbers of royalty interests that are not individually significant to be aggregated for purposes of accounting. The SPE does not address the utilization of composite projections.

Reserve Estimates

Reserves for the producing properties were based on extrapolation of production history where there was sufficient data to suggest a decline trend and where this methodology was applicable for the subject reservoirs. The reserves for the remaining producing and nonproducing properties were projected utilizing analogy to offset wells producing from similar formations or by volumetric analysis. The composite production histories of the net oil and gas volumes generally have not exhibited a discernible decline over the past several years as they have been affected by new wells and other development activity such as secondary recovery projects. Therefore, for the composite projections we have projected the current net oil and gas production rates to decline at a rate of 10% per year to arrive at our Proved Developed Producing projections. The incremental reserves, necessary to change the total composite decline to 5% per annum for a period of five years and 10% thereafter, were calculated and classified as Proved Undeveloped. We have also reviewed drilling records, drilling permits, and new division orders in SRC's files which indicate that current development activity on these properties should be sufficient to change the normal decline tendencies of the composite production by this magnitude.

Operating Expenses

All of the properties consist of only royalty interests that are not burdened by operating costs. We have deducted the proper production taxes for those properties that were projected individually. For the composite projections we have deducted average tax rates derived from SRC's accounting records on a group basis. A 3% ad valorem tax was also deducted from all production in Texas.

Other Considerations

Additional Potential Values--Values were not assigned to nonproducing acreage or to acreage held by production, if any, or to the salvage of surface and subsurface equipment. We have not accounted for any future lease bonus and rental income.

Additional Costs--Costs were not deducted for general and administrative expenses, depletion, depreciation, and amortization, or potential federal income tax.

Data Sources--Data including basic well information, accounting data, product prices, operating costs, ownership, and initial test rates and/or current producing rates of certain recently completed wells were supplied by SRC. We have accepted this information as correct.

Production statistics were obtained from public sources for the individual properties and from SRC accounting records for the composite property groups.

Context--We specifically advise that any particular reserve estimate for a specific property should not be used out of context with the entire report.

The revenues and present worth of future net revenues are not represented to be market values for individual properties or on a total property basis.

Respectfully submitted,

/s/ Gregory S. Floyd

Gregory S. Floyd, P.E.

APPENDIX E
FORM OF PROXY
FOR DORCHESTER HUGOTON AND SPINNAKER

THIS PROXY IS SOLICITED ON BEHALF OF THE GENERAL PARTNER

The undersigned limited partner of the partnership named below ("Partnership"), does hereby constitute and appoint and , duly authorized officers of the managing general partner(s) of the Partnership, as proxies, with full power of substitution and hereby authorizes the proxies or any of them to represent the undersigned and to vote the partnership interests listed below as indicated hereon at the special meeting of the Partnership to be held on , 2002, and any adjournments thereof.

Vote on Plan of Combination

1. The approval and adoption of the Plan of Combination as described in the Dorchester Minerals, L.P. Prospectus/Proxy Statement dated , 2002 ("Prospectus").

[_] "FOR" [_] "AGAINST" [_] "ABSTAIN"

2. In their discretion, the proxies are authorized to vote upon such other matters as may properly come before the meeting or any adjournments or postponements thereof.

THE PROXY HOLDERS CANNOT VOTE YOUR PARTNERSHIP INTERESTS UNLESS YOU SIGN AND RETURN THIS CARD. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN ACCORDANCE WITH THE DIRECTIONS STATED. IF NO DIRECTION IS STATED, IT WILL BE VOTED "FOR" THE PLAN OF COMBINATION.

Dissenters' Rights of Appraisal

In order to exercise dissenters' rights of appraisal, limited partners must not vote "FOR" the Plan of Combination and must provide notice of demand for dissenters rights of appraisal to the general partner in accordance with the procedures described in the Prospectus.

Receipt of the Notice of Special Meeting of Limited Partners and the Prospectus/Proxy Statement dated , 2002 is acknowledged.

PLEASE SIGN EXACTLY AS NAME APPEARS BELOW AND RETURN IN THE ENCLOSED, POSTAGE-PAID, PRE-ADDRESSED ENVELOPE BY , 2002.

(Signature) (Date)

(Name-please print)

(Signature of Joint Tenant, if applicable)

- ---------------------------------------
(Name of Joint Tenant--Please Print)

IF LIMITED PARTNERSHIP INTERESTS ARE HELD JOINTLY, ALL JOINT TENANTS MUST SIGN. WHEN SIGNING AS ATTORNEY, EXECUTOR, ADMINISTRATOR, TRUSTEE OR GUARDIAN, PLEASE GIVE FULL TITLE AS SUCH. IF A CORPORATION, PLEASE SIGN IN FULL CORPORATE NAME BY PRESIDENT OR OTHER AUTHORIZED OFFICER. IF A PARTNERSHIP, PLEASE SIGN IN PARTNERSHIP NAME BY AUTHORIZED PERSON.

APPENDIX F
FORM OF WRITTEN CONSENT FOR REPUBLIC

The undersigned limited partner of Republic Royalty Company (the "Partnership"), does hereby waive any and all requirements for calling, giving notice of and holding a meeting of the Limited Partners of the Partnership and in lieu of such meeting and pursuant to Section   of the Partnership Agreement, does hereby consent to the adoption of the following resolution to the same extent and to have the same force and effect as if adopted at a formal meeting of the Limited Partners duly called and held in accordance with the Partnership Agreement of the Partnership for the purpose of acting upon proposals to adopt such resolutions.

Relating to the Plan of Combination

The Plan of Combination as described in the Dorchester Minerals, L.P. Prospectus/Proxy Statement dated   , 2002 ("Prospectus") and such other matters as may properly be required in connection therewith are hereby approved and the General Partner is authorized and empowered to take all actions necessary to carry out the terms and intentions of the Plan of Combination.

Receipt of the Prospectus/Proxy Statement dated   , 2002 is acknowledged.

PLEASE SIGN EXACTLY AS NAME APPEARS BELOW AND RETURN IN THE ENCLOSED, POSTAGE-PAID, PRE-ADDRESSED ENVELOPE BY   , 2002.

(Signature)   (Date)

(Name-please print)

(Signature of Joint Tenant, if applicable)

- --
(Name of Joint Tenant--Please Print)

IF LIMITED PARTNERSHIP INTERESTS ARE HELD JOINTLY, ALL JOINT TENANTS MUST SIGN. WHEN SIGNING AS ATTORNEY, EXECUTOR, ADMINISTRATOR, TRUSTEE OR GUARDIAN, PLEASE GIVE FULL TITLE AS SUCH. IF A CORPORATION, PLEASE SIGN IN FULL CORPORATE NAME BY PRESIDENT OR OTHER AUTHORIZED OFFICER. IF A PARTNERSHIP, PLEASE SIGN IN PARTNERSHIP NAME BY AUTHORIZED PERSON.

OUTSIDE BACK COVER PAGE OF PROSPECTUS

DORCHESTER HUGOTON, LTD.

SUPPLEMENT TO

PROXY STATEMENT/PROSPECTUS
FOR
DORCHESTER MINERALS, L.P.

DATED , 2002

GENERAL

This supplement is being furnished to you, as a Dorchester Hugoton, Ltd. depositary receipt holder for the purpose of enabling you to evaluate the proposed combination involving Dorchester Hugoton, Republic Royalty Company and Spinnaker Royalty Company. In the proposed combination, the business and properties of Dorchester Hugoton, Republic and Spinnaker will be combined into Dorchester Minerals. Dorchester Hugoton, Republic and Spinnaker are referred to as the combining partnerships in this supplement. References to limited partners of the combining partnerships include the depositary receipt holders of Dorchester Hugoton.

The accompanying document describes the combination in detail. However, the effects of the combination may be different for limited partners in the various combining partnerships. Accordingly, a supplement has been prepared for each of the combining partnerships eligible to participate in the combination. This Supplement provides information regarding the effects of the combination on the depositary receipt holders of Dorchester Hugoton. The general partner of Dorchester Minerals will promptly mail a copy of any supplement relating to other combining partnerships, without charge, upon request by any limited partner or his representative who has been so designated in writing, addressed to: Dorchester Minerals c/o Dorchester Minerals Management GP LLC, 3738 Oak Lawn, Suite 300, Dallas, Texas 75219.

This supplement is designed to summarize only the risks, effects, fairness and other considerations of the proposed combination that are unique to you and the other depositary receipt holders of Dorchester Hugoton. This supplement does not purport to provide an overall summary of the proposed combination and should be read in conjunction with the accompanying document. Accordingly, the discussions in this supplement are qualified by the more expanded treatment of these matters appearing in the accompanying document.

OVERVIEW

Pursuant to the accompanying document and this supplement, you are being asked to approve the combination which involves, among other things:

- the transfer by Dorchester Hugoton of its working interests in its oil and natural gas properties to Dorchester Minerals Operating LP in exchange for 96.97% overriding royalty interests in those properties, referred to as the Dorchester Hugoton ORRIs;

- the transfer by Dorchester Hugoton of its management and remaining operating assets to Dorchester Minerals Operating LP in exchange for a promissory note and the assumption of certain obligations;

- the transfer by Dorchester Hugoton of the Dorchester Hugoton ORRIs, certain other non-cash assets, including the promissory note referenced above, and cash to fund certain obligations, if necessary, to Dorchester Minerals in exchange for common units of Dorchester Minerals and the assumption of your partnership's remaining obligations; and

- the subsequent liquidation of Dorchester Hugoton and the distribution to its partners of the common units of limited partnership interest in Dorchester Minerals and its remaining cash.

In summary, if the combination is approved and closes, you will receive one common unit of Dorchester Minerals for each depositary receipt of Dorchester Hugoton you hold and you will also receive your share of Dorchester Hugoton's remaining cash as a liquidating distribution. The receipt of this cash distribution will not be taxable except to the extent it exceeds your basis in your partnership interest. See "Summary--The Combination" in the accompanying document and "Required Vote" in this supplement.

The general partners of Dorchester Hugoton seek your approval of the combination. The combination will only occur if the limited partners of each of the combining partnerships possessing the required percentage of the limited partnership interests approve the combination.

In the combination, Dorchester Minerals will issue common units to be distributed to the limited partners of the combining partnerships. At the completion of the combination, the limited partners of the combining partnerships will become holders of common units of Dorchester Minerals and will no longer be limited partners in their respective combining partnerships. The general partners of the combining partnerships will become the owners of the general partner of Dorchester Minerals. As a condition to the combination, Dorchester Minerals' common units will be listed for trading on the Nasdaq National Market System.

QUESTIONS AND ANSWERS ABOUT THE COMBINATION

Q: What is Dorchester Minerals?

A: Dorchester Minerals is a Delaware limited partnership based in Dallas, Texas. The depositary receipt holders of Dorchester Hugoton and the limited partners of Republic and Spinnaker will be the holders of its common units. The general partner of Dorchester Minerals is a limited partnership owned by the general partners of the combining partnerships. Dorchester Minerals may be considered to be an affiliate of the general partners of your limited partnership and the general partners of Spinnaker and Republic.

Q: Why was Dorchester Minerals formed?

A: Dorchester Minerals was formed to:

- own a 96.97% overriding royalty interest in the working interest properties currently held by the combining partnerships, referred to as the Operating ORRIs, and oil and natural gas properties consisting of producing and non-producing mineral, royalty, overriding royalty, net profits and leasehold interests;
- to receive revenues from them; and
- to distribute available cash after expenses and reserves to its unitholders on a quarterly basis.

Dorchester Minerals will seek to hold only properties that do not generate unrelated business taxable income except in minimal amounts so that investment in Dorchester Minerals will be practicable for pension funds, IRAs and other tax exempt investors. Under limited circumstances, Dorchester Minerals may acquire additional properties.

Q: What is Dorchester Minerals Operating LP?

A: Dorchester Minerals Operating LP is a Delaware limited partnership that will be owned by the general partner of Dorchester Minerals. The general partners of your partnership and the general partners of Republic and Spinnaker will in turn own that general partner. Dorchester Minerals Operating LP may also be considered to be an affiliate of your general partners and the general partners of Republic and Spinnaker. Dorchester Minerals Operating LP was formed to own and hold working interest properties currently held

by the combining partnerships, in which Dorchester Minerals will hold the Operating ORRIs. The ownership of working interests would generate unrelated business taxable income, but the ownership of the Operating ORRIs will not. If Dorchester Minerals held properties that generated appreciable amounts of unrelated business taxable income, it would not be a suitable investment for certain types of investors such as pension funds and IRAs, which are expected to be major investors in Dorchester Minerals.

Q: How many common units of Dorchester Minerals will I receive if the combination occurs?

A: If the combination is consummated you will receive one common unit of Dorchester Minerals for each depositary receipt of Dorchester Hugoton you hold, unless you exercise dissenters' rights. The number of Dorchester Minerals common units to be received by Dorchester Hugoton was determined by arm's-length negotiations between representatives of the combining partnerships based in part upon the respective reserves of each combining partnership and other factors. The distribution of the common units to the holders of depositary receipts and to the general partners of your partnership will be made in accordance with the terms of your partnership agreement, which will be approximately 99% to the depositary receipt holders and 1% to your general partners. The total number of common units to be issued in the combination to Dorchester Hugoton depositary receipt holders will be approximately 39.73% of all units issued. The method of determining the amount of common units is discussed under the " Method of Determining Combination Exchange Ratios" at page 6 of this supplement and under "Background and Reasons for the Combination-- Combination Exchange Ratios and Consideration Allocated to General Partner Interests" at page 42 of the accompanying document.

Q: Where will common units of Dorchester Minerals be traded?

A: Following the combination, the common units of Dorchester Minerals will be listed for trading on the Nasdaq National Market System. We have applied to the Nasdaq National Market System for the listing of our common units to be issued in the combination under the proposed symbol "DMLP." We do not know the price at which these units will trade upon listing.

Q: What material risks and considerations should I consider in determining whether to vote "FOR" or "AGAINST" the combination?

A: There are a number of material risks and factors that you should consider including the risk factors summarized under "Risk Factors" on page 6 of this supplement and discussed in more detail in the accompanying document at page 14 under "Risk Factors" and the matters discussed under "Comparison of Rights of Partners" at page 168 of the accompanying document.

Q: What is the vote required to approve the combination?

A: The general partners have the authority under the partnership agreement of Dorchester Hugoton to authorize the combination without unitholder approval. However, the general partners have agreed that they will not consummate the combination unless it is approved by the holders of more than fifty percent of the outstanding depositary receipts. Approval of the combination by the general partners following approval by holders of more than fifty percent of Dorchester Hugoton's depositary receipts will be binding on you even if you vote against the combination.

Q: What happens if my partnership approves the combination but the other partnerships do not?

A: If any combining partnership does not approve the combination, the combination will not occur. If the combination does not occur, Dorchester Hugoton will continue to pursue its business objectives, in addition to continuing to evaluate other possible strategic alternatives that may become available.

Q: Did Dorchester Hugoton's Advisory Committee approve the combination?

A: Yes. Under Dorchester Hugoton's partnership agreement, an Advisory Committee, consisting of members independent of Dorchester Hugoton's general partners and management, reviewed and approved the terms of the combination, including those elements of the transaction which may be deemed to be with affiliates of the general partners or in which the general partners may be deemed to have an interest. The Advisory Committee made a finding that the combination was fair to the interests of Dorchester Hugoton's unitholders and in the best interests of the unitholders and Dorchester Hugoton.

Q: Did you receive a fairness opinion in connection with the combination?

A: Yes. Bruce E. Lazier, P.E. rendered an opinion dated December 13, 2001, updating an earlier opinion dated July 30, 2001, stating that the combination consideration to be received by the holders of depositary receipts in connection with the combination was fair, from a financial point of view, to those holders. Mr. Lazier's fairness opinion is summarized under "Fairness of the Combination" on page 8 of the supplement and discussed in the accompanying document on page 47 under "Background and Reasons for the Combination--Reasons for the Combination--Opinion of Dorchester Hugoton's Financial Advisor." Copies of Mr. Lazier's fairness opinions are included in the accompanying document as Appendices A-1 and A-2.

Q: Do you, as the general partners of Dorchester Hugoton, recommend that I vote in favor of the proposed combination?

A: Yes. Your general partners recommend that you vote "FOR" the proposed combination. Your general partners believe that the combination is the best means to maximize the value of your investment in Dorchester Hugoton, as opposed to continuing unchanged the investment in Dorchester Hugoton or other strategic alternatives. Your general partners believe that the consideration to be received by investors in Dorchester Hugoton pursuant to the combination will prove to have greater value than retaining the existing depositary receipts of Dorchester Hugoton or any other form of consideration that is likely to be received in a sale to a third party.

Q: What are the principal reasons for your recommendation?

A: The combination, compared to continuing as a holder of Dorchester Hugoton as it presently conducts business, provides:

- opportunities for growth--both from the large amount of unleased undeveloped property and acquisition of minerals and royalties using partnership units;
- the diversification of risk--lessening exposure to changes by a single state or in a single field;
- the ability of pension funds, IRAs and other tax exempt investors to invest while avoiding exposure to unrelated business taxable income;
- maintenance of current tax advantages of being a partnership;
- the proposed combination can be accomplished without triggering a taxable event;
- potential gains in efficiency in such areas as Schedule K-1 preparation and in preparation costs for public company filings; and
- addition of complementary skills to management, including broader areas of expertise and advice from the management group.

Q: How do I vote?

A: Indicate on the enclosed form of proxy how you want to vote, and sign and mail it in the enclosed postage-paid return envelope as soon as possible, so that at the special meeting of limited partners, your limited partnership interests may be voted "FOR" or "AGAINST" the combination. If you sign and send in your proxy form and do not indicate how you want to vote, your proxy will be counted as a vote "FOR" the combination. If you do not vote or you abstain from voting, it will have the effect of a vote "AGAINST" the combination. If you hold your units through a broker or nominee, you may also receive separate instructions for voting by telephone.

Q: What do partners who vote against the combination receive?

A: If the combination is approved by each combining partnership and is consummated, depositary receipt holders who vote against the combination without exercising dissenters' rights will receive common units of Dorchester Minerals and the liquidating cash distribution of Dorchester Hugoton in exchange for their depositary receipts.

Q: How can I exercise dissenters' rights?

A: If Dorchester Hugoton receives approval of the combination by less than 75% of its partnership interests, you will be entitled to dissenters' rights of appraisal in connection with the combination. In order to exercise the right to dissent, you must deliver to your general partners, prior to the vote to approve the combination, a written dissenter's notice advising of your intention to demand a cash payment and to vote against approval of the combination and you must actually vote against the combination. A proxy or ballot voting against approval of the combination does not in itself constitute the requisite dissenter's notice. In order for your dissenter's notice to be effective, the notice must include a duly executed original of an Agreement of Dissenter. A copy of the form of Agreement of Dissenter is attached to this Supplement as Appendix A. Dorchester Minerals will be responsible for the payment of any dissenting limited partners of Dorchester Hugoton, but Dorchester Hugoton will fund any such payment by transferring cash to Dorchester Minerals at the closing of the combination. This description of your dissenters' rights of appraisal is qualified in its entirety by the more detailed discussion in the section entitled "The Combination Agreement-- Dissenters' Rights" contained in the accompanying document beginning on page 68.

Q: What are the tax consequences of the combination to me?

A: The contribution of the assets of Dorchester Hugoton to Dorchester Minerals in exchange for common units, followed by the distribution of those common units to you in connection with the liquidation of Dorchester Hugoton, should be tax free to you. The distribution of cash to you in connection with the liquidation of Dorchester Hugoton may be taxable to you to the extent the distribution exceeds your basis in your partnership interest. Your general partners urge you to consult with your tax advisor to evaluate the taxes that will be incurred by you as a result of your participation in the combination. To review the tax consequences to the limited partners of Dorchester Hugoton in greater detail, see "Material United States Federal Income Tax Consequences" on pages 74 through 94 of the accompanying document and "United States Income Tax Considerations" in this supplement.

RISK FACTORS

As a result of the combination, you will assume the risks associated with the businesses of Republic and Spinnaker and risks associated with the structure and business of Dorchester Minerals in addition to remaining subject to risks already applicable to Dorchester Hugoton. The following list summarizes the potential disadvantages, adverse consequences and risks of the combination that are specific to you as a depositary receipt holder.

- The fairness opinion to Dorchester Hugoton was issued before the most recent reserve reports became available for the combining partnerships.

- The federal income tax treatment of Dorchester Hugoton's conveyance of its working interest in mineral properties may not be respected by the IRS.

- You may recognize gain or loss as a result of a pre-combination sale of Exxon Mobil stock by Dorchester Hugoton.

- You will recognize taxable gain to the extent the amount of cash distributed to you by Dorchester Hugoton exceeds your tax basis in your units in Dorchester Hugoton.

- You may not be able to use your Dorchester Hugoton passive activity losses which remain after the liquidation of Dorchester Hugoton until you sell your common units in Dorchester Minerals.

- You may not be entitled to deductions for percentage depletion with respect to your share of income from oil and natural gas interests contributed by Dorchester Hugoton to Dorchester Minerals in the combination.

- You may be required to recognize taxable gain upon the sale by Dorchester Minerals of the Dorchester Hugoton ORRIs to the extent of your share of built-in-gain in these interests, but would not be entitled to receive any special distributions from Dorchester Minerals.

These risks and possible adverse consequences of the combination to the limited partners are discussed in greater detail in the accompanying document. This description is qualified in its entirety by the more detailed discussion in the Section entitled "Risk Factors" contained in the accompanying document beginning on page   .

METHODS OF DETERMINING COMBINATION EXCHANGE RATIOS

The general partners of the combining partnerships have agreed in the Combination Agreement to the manner in which interests in Dorchester Minerals will be allocated to the partners of the combining partnerships. These agreements were reached as the result of arm's-length negotiations.

During such negotiations, the parties did not assign a value to each combining partnership or to categories of their assets, but considered multiple factors, which are described in the accompanying document under "Background and Reasons for the Combination--Background of the Combination." As described in more detail in "Background and Reasons for the Combination--Combination Exchange Ratios and Consideration Allocated to General Partner Interests" on page   of the accompanying document, our common units will initially be held in approximately the following proportions as a result of the combination:

- 40.51% by former limited partners of Republic;

- 39.73% by former limited partners of Dorchester Hugoton; and

- 19.76% by former limited partners of Spinnaker.

REQUIRED VOTE

Required Depositary Receipt Holder Approval

For the combination to be approved by Dorchester Hugoton, the holders of more than 50% of the outstanding depositary receipts representing limited partnership interests in Dorchester Hugoton must vote in favor of the combination. While your general partners have authority under the Dorchester Hugoton partnership agreement to approve the combination without a vote of the holders of depositary receipts, they have agreed that they will not do so without receiving the approval described above. Approval of the combination by the general partners following approval by the holders of more than 50% of the depositary receipts will be binding on you even if you vote against the combination.

Operations if Partnership Votes No

If holders of depositary receipts representing greater than fifty percent of the outstanding limited partnership interests do not vote "FOR" the combination, the combination will not be consummated. In that event, the general partners plan to continue to operate Dorchester Hugoton as a going concern and will evaluate other strategic alternatives that may become available. For more information in this regard, see "Failure to Approve the Combination" on page 71 of the accompanying document.

Special Meeting to Discuss the Combination

We have scheduled a special meeting of the depositary receipt holders and general partners of Dorchester Hugoton to discuss with you the solicitation materials, which include the accompanying document, this supplement and the other materials distributed to you, and the terms of the combination. At the conclusion of these discussions we will vote on the combination. The special meeting will be held   , 2002, at   a.m. at   . We and members of Dorchester Minerals' management intend to actively solicit your support for the combination and would like to use the special meeting to answer questions about the combination and the solicitation materials (as defined below) and to explain in person our reasons for recommending that you vote "FOR" the combination.

During the period of time prior to the special meeting, representatives of D.F. King & Company, Inc. may be contacting you to request you to vote by proxy, especially if you do not plan to attend. It is important that you vote. Failure to vote counts the same as voting "AGAINST" regardless of what you intend.

VOTING PROCEDURE

The proxy statement, this supplement, the accompanying transmittal letter and the form of proxy constitute the solicitation materials which are being distributed to you and the other holders of depositary receipts to obtain your votes "FOR" or "AGAINST" the combination.

If you are not planning on attending the special meeting of the depositary receipt holders and general partners and voting in person, you should complete and return the form of proxy before the meeting. If you fail to return a signed proxy by the time of the special meeting, your depositary receipts will have the effect of a vote "AGAINST" the combination. If you return a signed proxy but fail to indicate whether you are voting "FOR" or "AGAINST" the combination, you will be deemed to have voted "FOR" such matter.

FAIRNESS OF THE COMBINATION

Your general partners believe that the terms of the Combination Agreement, including the consideration to be received by the holders of depositary receipts in connection with the combination, are fair to and in the best interests of the holders of depositary receipts. Accordingly, your general partners have approved the Combination Agreement and recommend that the holders of depositary receipts vote for approval of the Combination Agreement.

Your general partners' determination to recommend the combination was based upon the transaction as a whole. Based upon your general partners' analysis of the combination and the other information summarized below, your general partners believe that:

- the terms of the combination, when considered as a whole, are fair to the depositary receipt holders of Dorchester Hugoton;

- the Dorchester Minerals common units and the cash that will be distributed in liquidation constitute fair consideration for the depositary receipts; and

- after comparing the potential benefits and detriments of the combination with those of several alternatives, the combination is more attractive to the holders of depositary receipts than such alternatives.

The general partners' recommendation is also based in part on the approval of the combination by the Advisory Committee of your partnership, the fairness opinion rendered by Mr. Bruce E. Lazier, P.E., and reserve reports both before and after the fairness opinion developed by Calhoun, Blair & Associates, Inc. for your partnership and by Huddleston & Co., Inc. for Republic and Spinnaker.

Advisory Committee Approval. The Advisory Committee of Dorchester Hugoton, consisting of members who are independent of the general partners and management of your partnership, has reviewed and approved the terms of the combination. In accordance with the requirements of the Dorchester Hugoton partnership agreement and Nasdaq rules, that review and approval included specifically those elements of the transaction which may be deemed to be with affiliates of the general partners or in which the general partners may be deemed to have an interest. The Advisory Committee unanimously approved the combination and those elements of it that are with affiliates of the general partners or in which the general partners may be deemed to have an interest and found the combination fair to the interests of Dorchester Hugoton's depositary receipt holders and in the best interests of the depositary receipt holders and Dorchester Hugoton.

Fairness Opinion. Your general partners, on behalf of the partnership, retained Bruce E. Lazier, P.E. to render an opinion as to whether the consideration to be received by the depositary receipt holders in connection with the combination was fair, from a financial point of view, to the depositary receipt holders. Your general partners encourage you to read Mr. Lazier's fairness opinions in their entirety. Your general partners retained Bruce E. Lazier, P.E. to render the fairness opinions based upon his experience in the valuation of businesses and their securities in connection with mergers and acquisitions, especially with respect to the oil and natural gas industry. Bruce E. Lazier, P.E. delivered his written opinion, dated December 13, 2001, updating an earlier opinion dated July 30, 2001, to the general partners and the members of the Advisory Committee, to the effect that, as of the date of his opinion, based on his review and subject to the limitations described in the proxy statement, the consideration to be received by the depositary receipt holders in connection with the combination is fair, from a financial point of view, to the depositary receipt holders. The fairness opinion does not constitute a recommendation to any depositary receipt holder as to how he or she should vote on the combination. A copy of the fairness opinions are attached to the accompanying document as Appendix A-1 and A-2.

Factors Considered by your General Partners. The reasons stated above are the principal reasons the general partners are recommending the combination, but your general partners considered a number of factors

associated with the combination in arriving at their decision to recommend it to the depositary receipt holders for approval. These factors are discussed under "Background And Reasons For The Combination - Reasons for the Combination" beginning on page of the accompanying document. The general partners did not find it practical to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching their determination. Rather the general partners considered their determinations and recommendation as being based upon the totality of the information presented to and reviewed by them.

CONFLICTS OF INTEREST

Your general partners have an independent obligation to assess whether the terms of the combination are fair and equitable to the holders of depositary receipts of Dorchester Hugoton, without regard to whether the combination is fair and equitable to any of the other participants in the combination (including the limited partners in the other partnerships) and without regard to their own interest in the combination. Your general partners will be receiving ownership interests in the general partner of Dorchester Minerals and its general partner in exchange for the units of Dorchester Minerals distributed to them with respect to their general partnership interests in connection with the liquidation of your partnership. The general partner of Dorchester Minerals will hold a general partner interest generally entitling it to a 1% interest in the Operating ORRIs and a 4% interest in all other properties. It will also indirectly own an interest in the properties transferred by Dorchester Hugoton to Dorchester Minerals Operating LP subject to a 96.97% overriding royalty interest. It will not receive a management fee but will be reimbursed for its expenses incurred on behalf of Dorchester Minerals, subject to a limitation. The general partner will own directly and indirectly all of the partnership interests in Dorchester Minerals Operating LP. In connection with your partnership's participation in the combination it will transfer all of its natural gas working interest properties to Dorchester Minerals Operating LP in exchange for the creation of the 96.97% overriding royalty interest in those properties. In addition, your partnership will transfer all of its management and remaining operating assets to Dorchester Minerals Operating LP in exchange for a promissory note and the assumption of certain obligations. Your partnership will then transfer the 96.97% overriding royalty interest, the promissory note, certain other non cash assets and cash to fund certain obligations to Dorchester Minerals in exchange for units of limited partnership interests of Dorchester Minerals and the assumption of all of your partnership's remaining obligations.

Dorchester Minerals, its general partner and Dorchester Minerals Operating LP, may each be deemed to be an affiliate of your general partners because of their ownership interests in them and because of their participation in their management. Your general partners may therefore be deemed to have a conflict of interest arising out of the combination.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of some United States federal income tax considerations that may be relevant to you with respect to the combination and related transactions. These considerations are discussed in greater detail in the accompanying document.

This discussion is qualified in its entirety by the more detailed discussion in the section entitled "Material United States Federal Income Tax Consequences" contained in the accompanying document beginning on page 74.

Consequences of Creation of Dorchester Hugoton ORRIs by Dorchester Hugoton

Prior to the combination, Dorchester Hugoton will convey its working interest in its mineral properties to Dorchester Minerals Operating LP and retain overriding royalty interests in the properties, referred to as the Dorchester Hugoton ORRIs. This transfer should be treated as a non-taxable transaction for federal income tax

purposes. However, there is no assurance that the Internal Revenue Service will not challenge this position. Such a challenge, if successful, could cause you to recognize more taxable income or taxable loss as a result of the combination.

Consequences of Pre-Combination Stock Sale by Dorchester Hugoton

Prior to the combination, Dorchester Hugoton intends to sell its Exxon Mobil stock. As a result, Dorchester Hugoton will recognize long term capital gain in an amount equal to the difference between the amount realized on the sale and Dorchester Hugoton's adjusted tax basis in the stock. Some of this gain will be allocated to you and will be included in your gross income as long term capital gain for federal income tax purposes. However, you may have received an adjustment in your share of the basis of this stock under Section 743 of the Internal Revenue Code. As a result of this adjustment, you may be allocated more or less gain than other partners holding the same number of units in Dorchester Hugoton, or may be allocated a loss, from this sale.

Consequences of the Combination

Pursuant to the combination, Dorchester Hugoton will contribute the Dorchester Hugoton ORRIs to Dorchester Minerals in exchange for common units in Dorchester Minerals. Dorchester Hugoton will then distribute its remaining cash and the common units to its non-dissenting unitholders and general partners in liquidation of Dorchester Hugoton. If you do not exercise dissenters' rights with respect to the combination, the liquidation of Dorchester Hugoton will not be taxable to you except to the extent that any cash distributed in the liquidation exceeds your tax basis in your Dorchester Hugoton units. Cash distributions in excess of your adjusted tax basis will be treated as long term capital gain, taxed at a maximum 20% federal tax rate, if you are an individual who has held your units for more than one year. Otherwise the gain will be taxed at rates applicable to ordinary income.

You will have an initial tax basis in your Dorchester Minerals common units equal to your tax basis of your Dorchester Hugoton units immediately prior to the combination, adjusted by any change in your share of partnership liabilities and decreased by the amount of any cash distributed to you in the combination.

Your initial holding period in your Dorchester Minerals common units will include your holding period in your Dorchester Hugoton units.

If you exercise dissenters' rights, you will receive cash instead of common units in Dorchester Minerals. You will recognize taxable gain to the extent that the amount of cash you receive exceeds your adjusted tax basis in your units, and you will recognize taxable loss to the extent that your the adjusted tax basis exceeds the amount of cash you receive.

Limitations with Respect to Suspended Passive Activity Losses

If you have any suspended passive activity losses relating to your units in Dorchester Hugoton, these losses may continue to be suspended until you dispose of all your common units in Dorchester Minerals in a taxable transaction with an unrelated third party. However, you will be able to use your suspended passive activity losses to the extent of any gain recognized as a result of the cash distribution described above.

Closing of Tax Year of Dorchester Hugoton

The liquidation of Dorchester Hugoton will result in a closing of Dorchester Hugoton's taxable year. As a result, if you have a taxable year that ends after the date of the liquidation, but before December 31, 2002, you will be required to include in that taxable year your share of the taxable income of Dorchester Hugoton from both the taxable year ending December 31, 2001 and the short taxable year ending at the time of the liquidation.

Effects of Post-Combination Transactions

Even if you are not required to recognize taxable gain at the time of the combination, a subsequent sale of assets by Dorchester Minerals could cause you to recognize part or all of such gain. If Dorchester Minerals sells an asset that was held by Dorchester Hugoton prior to the combination, you may be allocated a portion of the gain from the sale that is attributable to any remaining unrealized gain that existed when the asset was contributed to Dorchester Minerals. However, you will not be entitled to any special distributions from Dorchester Minerals in connection with the sale. Thus, you may not receive cash distributions from Dorchester Minerals sufficient to pay your additional taxes if Dorchester Minerals sells properties that were acquired from Dorchester Hugoton pursuant to the combination.

Partnership Income, Gains/Losses and Depletion

You will be allocated your share of income accrued by Dorchester Minerals from its oil and natural gas royalties and net profits interests. This income will be taxable to you as ordinary income subject to depletion. Gains and losses from sales by Dorchester Minerals of royalty interests and net profits interests held for more than one year, except to the extent of ordinary income recapture, will be long term capital gains and losses.

You will be entitled to deductions for the greater of either cost depletion or (if otherwise allowable) percentage depletion with respect to the oil and natural gas interests owned by Dorchester Minerals.

Percentage depletion is generally available to you if you are a person not directly or indirectly involved in the retail sale of oil, natural gas, or derivative products or the operation of a major refinery. However, you may not qualify for percentage depletion on properties owned by Dorchester Hugoton because, at the time you acquired your units in Dorchester Hugoton, the Internal Revenue Code included a provision prohibiting percentage depletion on properties transferred (directly or indirectly) between taxpayers. If this provision applies to you, after the combination you will remain unable to use percentage depletion on your share of income from the properties formerly owned by Dorchester Hugoton. However, you will be permitted to take percentage depletion, if otherwise allowable, on all other properties owned by Dorchester Minerals. The amount of your depletion deductions following the combination will be different, and may be less, than the amount of your depletion deductions prior to the combination.

Disposition of Common Units in Dorchester Minerals

You will recognize gain or loss on a disposition of your common units in Dorchester Minerals equal to the difference between your amount realized in the disposition and your adjusted tax basis in the common units sold. This gain or loss will generally be capital gain or loss except to the extent of ordinary income recapture. For individuals, trusts and estates, capital gain from the sale of common units held one year or less is subject to tax at the rate applicable to ordinary income. For these taxpayers, the maximum federal rate of tax on capital gain from the sale of common units held for more than one year generally is 20%.

Tax matters are very complicated, and the tax consequences of the combination to you will depend on the facts of your own situation. We urge you to consult with your tax advisor for a full understanding of the tax consequences to you of the combination.

MISCELLANEOUS

Financial Information

For additional information, see the following sections of the accompanying document:

- "Information Concerning Dorchester Hugoton--Selected Historical Financial and Operating Data" beginning on page 106; and

- "Unaudited Financial Pro Forma Information" beginning on page P-1.

List of Investors

Under the partnership agreement of Dorchester Hugoton and Texas law, a limited partner may obtain a list of the names, addresses and number of partnership interests of record owned by the other limited partners entitled to vote on the combination. This list may be obtained by making written request to your general partners, c/o James E. Raley, Dorchester Hugoton, Ltd., 1919 S. Shiloh Road, Suite 600-LB 48, Garland, Texas 75042. At the time of making the request, the requesting limited partner must submit $350 in payment for the costs of copying and mailing the list and, if the partnership interests are held through a nominee, provide the partnership with a statement from the nominee or other independent third party confirming the limited partner's beneficial ownership. A limited partner is only entitled to the foregoing information with respect to the partnership in which the limited partner holds partnership interests.

COMPENSATION AND DISTRIBUTION INFORMATION

Set forth below are the following tables:

- Table A--The amount of actual compensation, fees and distributions paid by your partnership to your general partners during the last three fiscal years and compared with those payments, as listed in the pro forma column, that would have been paid assuming the combination had occurred on January 1, 1999.

- Table B--The amount of depositary receipt holders' cash distributions for the five most recent fiscal years.

Table A
Dorchester Hugoton, Ltd.

Summary of Compensation Fees and Cash Distributions
Paid to the General Partners

		Years Ended					
		December 31, 2001		December 31, 2000		December 31, 1999	
		Actual	Pro Forma	Actual	Pro Forma	Actual	Pro Forma
P.A. Peak, Inc./	Management Fee(1)	$145,896	$ -0-	$137,905	$ -0-	$ 88,509	$ -0-
P.A. Peak Holdings, Inc.	Cash Distributions(2)	$ 66,745	$345,649	$ 48,837	388,463	$ 39,070	$217,924
	Expense Reimbursement(3)(4)	$ 9,714	$ 9,714	$ 8,441	$ 8,441	$ 7,185	$ 7,185
	Total	$222,355	$355,363	$195,183	$396,904	$134,764	$225,109
James E. Raley, Inc./	Management Fee(1)	$458,896	$ -0-	$450,905	$ -0-	$401,509	$ -0-
James E. Raley General	Cash Distributions(2)	$ 66,745	$345,649	$ 48,837	$388,463	$ 39,070	$217,924
Partnership	Expense Reimbursement(3)	$ 41,703	$ 41,703	$ 32,294	$ 32,294	$ 33,026	$ 33,026
	Total	$567,344	$387,352	$532,036	$420,757	$473,605	$250,950
Total--General Partners	Management Fee	$604,792	$ -0-	$588,810	$ -0-	$490,018	$ -0-
Of Dorchester Hugoton	Cash Distributions	$133,490	$691,298	$ 97,674	$776,926	$ 78,140	$435,848
	Expense Reimbursement	$ 51,417	$ 51,417	$ 40,735	$ 40,735	$ 40,211	$ 40,211
	Total	$789,699	$742,715	$727,219	$817,661	$608,369	$476,059

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(1) The general partners of Dorchester Hugoton are entitled to a management fee each year equal to $350,000 plus 1% of the gross income of Dorchester Hugoton for services rendered in operating and managing Dorchester Hugoton. The 1% component of the fee is paid 50% to P.A. Peak, Inc. and 50% to James E. Raley, Inc. The allocation of the $350,000 component of the fee among the two general partners varies from year to year based on agreement of the general partners. In each of the years 1999 through 2001 the fee was reduced to $337,000, of which $325,000 was paid to James E. Raley, Inc. and $12,000 was paid to P.A. Peak, Inc.

(2) The general partners of Dorchester Hugoton each hold a 0.5% general partner interest in Dorchester Hugoton. The general partners of Dorchester Hugoton will each hold a 19.48% interest in profits and a 6.98% interest in capital in the general partner of our partnership, which will (i) be entitled to receive a 1% interest in cash flow attributable to the Operating ORRIs and a 4% interest in cash flow attributable to the properties formerly held by Republic and Spinnaker and (ii) own all of Dorchester Minerals Operating LP. Dorchester Minerals Operating LP will own 100% of the working interests in the properties formerly owned by the combining partnerships that will be burdened by the Operating ORRIs owned by our partnership. See "The Combination--Preparatory Steps--Creation of Overriding Royalty Interests." The amounts shown in the pro forma columns of the table represent the distributions that would have been received (i) by Dorchester Minerals Management LP multiplied by the 19.48% beneficial ownership interest (based on profits) of each of the general partners of Dorchester Hugoton in Dorchester Minerals Management LP and (ii) by Dorchester Minerals Operating LP, after the deduction of the Operating ORRIs, multiplied by the 19.48% beneficial ownership interest (based on profits) of each of the general partners of Dorchester Hugoton in Dorchester Minerals Management LP. The amounts shown in the actual and pro forma columns do not include cash distributions with respect to limited partner interests held by affiliates of a general partner. Distributions to Dorchester Hugoton general partners are based in part on the amount of cash distributions to its limited partners pursuant to the general partners' policy of building some cash reserves rather than distributing all available cash.

(3) The general partners of Dorchester Hugoton are also reimbursed for all out-of-pocket costs and general and administrative expenses incurred by them on behalf of Dorchester Hugoton. General and administrative costs include the costs incurred for employee benefits on behalf of the general partners. The amounts shown in the actual columns of the table include all general partner reimbursements. General and administrative expenses incurred in connection with Dorchester Hugoton's operations are incurred for the most part directly by Dorchester Hugoton and paid directly by it instead of being incurred by its general partners and

then reimbursed. The general partners of Republic and Spinnaker, however, incur directly all general and administrative and other overhead expenses and are reimbursed for these expenses by the partnerships in accordance with their respective partnership agreements. Dorchester Minerals will have no employees (other than officers), offices or other activities that directly generate general and administrative expenses. Instead those expenses will be incurred by its general partner and Dorchester Minerals Operating LP and then reimbursed by Dorchester Minerals to the general partner or Dorchester Minerals Operating LP. Accordingly, a comparison of actual and pro forma expenses reimbursed would result in an inconsistent presentation. In the table, as presented, actual expense reimbursements reflect actual amounts paid by the general partners of the combining partnerships and to which they are entitled to reimbursement in accordance with the partnership agreement of their respective combining partnership. Pro forma expense reimbursements reflect actual amounts that would have been paid by the partners of our general partner and reimbursement of those amounts in accordance with our general partner's partnership agreement. The actual amount of expense reimbursements differs from the percentage allocation of cash distributions (and production costs included in the determination of Operating ORRIs) because reimbursements are made to our general partner's partners in accordance with actual costs paid and without regard to the partners' interest in capital and profits.

(4) Includes general and administrative expense reimbursement of $484 for 1999, $507 for 2000 and $601 for 2001 for expenses of Hugoton Nominee, Inc., which is wholly-owned by P.A. Peak, Inc.

Table B
Dorchester Hugoton, Ltd.

Summary of Cash Distributions
Paid to Depositary Receipt Holders

	Years Ended December 31,				
	2001	2000	1999	1998	1997
Cash Distributions to Depositary Receipt Holders(1)	$13,215,587	$9,669,942	$7,735,954	$7,735,954	$7,735,954

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(1) Because of depletion (which is usually higher in earlier years of production), a portion of every distribution from revenues from properties represents a return of capital. Until a depositary receipt holder receives cash distributions equal to his original investment, 100% of such distributions may be deemed to be a return of capital.

Appendix A

AGREEMENT OF DISSENTER

, 2002

Dorchester Hugoton, Ltd.
1919 S. Shiloh Rd.
Suite 600--LB 48
Garland, Texas 75042

In addition to voting against the transactions contemplated by that certain Combination Agreement (the "Agreement") dated as of December 13, 2001, by and among Republic Royalty Company, a Texas general partnership, Spinnaker Royalty Company, L.P., a Texas limited partnership, Dorchester Hugoton, Ltd., a Texas limited partnership ("DHL"), Dorchester Minerals, L.P., a Delaware limited partnership, Dorchester Minerals Management LP, a Delaware limited partnership, Dorchester Minerals Management GP LLC, a Delaware limited liability company, and Dorchester Minerals Operating LP, a Delaware limited partnership, the undersigned DHL limited partner demands cash payment for DHL limited partnership units pursuant to this Agreement of Dissenter. Capitalized terms used and not otherwise defined herein have the meaning ascribed to them in the Agreement.

The undersigned DHL limited partner, for the benefit of DHL, DHL's general partners and the Partnership, (i) agrees, subject to consummation of the Asset Conveyance, and for the benefit of DHL, its general partners and Dorchester Minerals, L.P. that notwithstanding anything to the contrary in the DHL Partnership Agreement, the Depositary Agreement or the Nominee Agreement, such limited partner shall not be entitled to receive any assets of the Partnership or any portion of the LP Units or Excess Cash Amount upon winding up of DHL after dissolution, but instead shall solely be entitled to receive the amount provided in Article IV of the Agreement, and (ii) irrevocably waives, relinquishes and releases any such right or entitlement to LP Units or Excess Cash Amount.

Very truly yours,

By: _______________________________
Name: _____________________________
Title: ____________________________

REPUBLIC ROYALTY COMPANY
("Republic")

SUPPLEMENT TO

PROXY STATEMENT/PROSPECTUS
FOR
DORCHESTER MINERALS, L.P.

Dated , 2002

GENERAL

This Supplement relates to the proposed combination involving Dorchester Minerals, L.P., which we refer to as the Partnership or Dorchester Minerals. In the proposed combination, the business and properties of Dorchester Hugoton, Republic and Spinnaker will be combined into Dorchester Minerals. In this Supplement, we have assumed that the reorganization of Republic described on page 56 of the accompanying document has occurred, unless the context otherwise requires.

We refer to Dorchester Hugoton, Republic and Spinnaker as the combining partnerships. If the combination is completed, limited partners of the combining partnership will receive common units of partnership interest of Dorchester Minerals. The former limited partners of Dorchester Hugoton will receive approximately 39.73% of the common units, while the former limited partners of Republic will receive approximately 40.51% and the former limited partners of Spinnaker will receive approximately 19.76%, in each case with respect to their limited partnership interests.

The accompanying document describes the combination in detail. However, the effects of the combination may be different for limited partners in the various combining partnerships. Accordingly, a supplement has been prepared for each of the combining partnerships eligible to participate in the combination. This Supplement provides information regarding the effects of the combination on the limited partners of Republic. The general partner of Dorchester Minerals will promptly mail a copy of any supplement relating to other combining partnerships, without charge, upon request by any limited partner or his representative who has been so designated in writing, addressed to: Dorchester Minerals c/o Dorchester Minerals Management GP LLC, 3738 Oak Lawn, Suite 300, Dallas, Texas 75219.

Before voting on the combination, limited partners should carefully consider the following factors in addition to the other information included in the accompanying document.

RISK FACTORS

There are numerous risks associated with the combination. For a more complete description of these risk factors, see:

- "Risk Factors" beginning on page 14 of the accompanying document.

- "Comparison of Rights of Partners" beginning on page 168 of the accompanying document.

The following summarizes the potential disadvantages, adverse consequences and risks that are specific to you as a limited partner of Republic:

- Our assets will be more geographically concentrated than those of Republic or Spinnaker.

- Some common management and ownership exists between one of the Republic general partners and the general partners of Spinnaker.

These risks and possible adverse consequences of the combination to the limited partners are discussed in greater detail in the accompanying document. This description is qualified in its entirety by the more detailed discussion in the Section entitled "Risk Factors" contained in the accompanying document beginning on page 14.

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a general summary of some United States federal income tax considerations that may be relevant to you with respect to the combination and related transactions. These considerations are discussed in greater detail in the accompanying document.

This discussion is qualified in its entirety by the more detailed discussion in the section entitled "Material United States Federal Income Tax Consequences" contained in the accompanying document beginning on page 74.

Consequences of Pre-Combination Reorganization

The contribution of the Republic ORRIs to Republic by the Republic ORRI owners prior to the combination in exchange for limited partnership interests in the reorganized Republic will not cause Republic, or the Republic ORRI owners, to recognize gain or loss for federal income tax purposes. Each Republic ORRI owner will have an initial tax basis and holding period in its Republic limited partnership interest equal to its adjusted tax basis and holding period in the Republic ORRIs exchanged by the limited partner. The tax basis and existing holding period of the partnership interest of each existing Republic partner will remain unchanged as a result of the reorganization of Republic as a Delaware limited partnership.

Consequences of Pre-Combination Distributions of Cash

Prior to the combination, Republic will distribute cash to its partners in proportion to their partnership interests. No partner will recognize any gain or loss for federal income tax purposes as a result of the distribution except to the extent that the amount of cash received by a partner exceeds the partner's adjusted tax basis in its partnership interest at the time of distribution. Any such gain will be capital gain except to the extent of the limited partner's share of certain ordinary income assets of Republic including recapture of depletion, depreciation and intangible drilling cost deductions previously allocated to that limited partner.

Closing of Tax Year of Republic

Republic's tax year will close at the time of the combination. If a partner's tax year ends after the date of the liquidation, but prior to December 31, 2002, the partner must include Republic's income, gains, losses and deductions in its taxable income for the year ending December 31, 2001 and the short year ending on the date of liquidation.

Consequences of the Combination

Neither Republic nor its partners will recognize gain or loss for federal income tax purposes upon the merger of Republic into Dorchester Minerals with Dorchester Minerals surviving. The limited partnership interests of Republic's limited partners will be converted into common units in Dorchester Minerals as a result of the merger and the general partnership interests of Republic's general partners will convert into general partnership interests in Dorchester Minerals.

Each partner of Republic will have a tax basis in its common units of Dorchester Minerals equal to the partner's adjusted tax basis in its Republic partnership interest on the date of the combination.

The initial holding period of the common units received by each partner of Republic will include the holding period of the partner in its partnership interest in Republic.

Effects of Post-Combination Transactions

Even if the partners are not required to recognize taxable gain at the time of the combination, a subsequent sale of assets by Dorchester Minerals could cause the partners to recognize part or all of such gain. If Dorchester

Minerals sells an asset that was held by Republic prior to the combination, the former Republic partners may be allocated a portion of the gain from the sale that is attributable to any remaining unrealized gain that existed when the asset was contributed to Dorchester Minerals. However, the partners to whom such gain is allocated will not be entitled to any special distributions from Dorchester Minerals in connection with the sale. Thus, the partners may not receive cash distributions from Dorchester Minerals sufficient to pay their additional taxes if Dorchester Minerals sells properties that were acquired from Republic pursuant to the combination.

Partnership Income, Gains/Losses and Depletion

Each unitholder of Dorchester Minerals will be allocated its share of income accrued by Dorchester Minerals from its oil and natural gas royalties and net profits interests. This income will be taxable to the unitholders as ordinary income subject to depletion. Gains and losses from sales by Dorchester Minerals of royalty interests and net profits interests held for more than one year, except to the extent of ordinary income recapture, will be long term capital gains and losses.

Unitholders will be entitled to deductions for the greater of either cost depletion or (if otherwise allowable) percentage depletion with respect to the oil and natural gas interests owned by Dorchester Minerals. Percentage depletion is generally available to persons who are not directly or indirectly involved in the retail sale of oil, natural gas, or derivative products or the operation of a major refinery.

Disposition of Common Units in Dorchester Minerals

Each unitholder will recognize gain or loss on a disposition of its common units in Dorchester Minerals equal to the difference between the amount realized in the disposition and the unitholder's adjusted tax basis in the common units sold. This gain or loss will generally be capital gain or loss except to the extent of ordinary income recapture. For individuals, trusts and estates, capital gain from the sale of common units held one year or less is subject to tax at the rate applicable to ordinary income. For these taxpayers, the maximum federal rate of tax on capital gain from the sale of common units held for more than one year generally is 20%.

Tax matters are very complicated, and the tax consequences of the combination to you will depend on the facts of your own situation. We urge you to consult your tax advisor for a full understanding of the tax consequences to you of the combination.

FAIRNESS OF THE COMBINATION

Dorchester Minerals and the general partners of the combining partnerships believe that the proposed combination is fair to the limited partners of the combining partnerships receiving Dorchester Minerals common units and are fair to the combining partnerships as a whole.

See "Background and Reasons for the Combination--Reasons for the Combination" beginning on page 44 of the accompanying for a detailed discussion of the reasons for the general partners' opinions. The following summarizes the principal reasons for the Republic general partners' opinions.

The primary reason for the general partners' recommendation of the combination is that the combination will, among other things, create the opportunity for liquidity for the Republic limited partners. Because of the varying tax and strategic perspectives of the Republic partners, Republic's ability to sell its properties or otherwise engage in a transaction such as the combination is generally limited. Consequently, each partner's interest is, absent the combination, a highly illiquid asset that would likely experience a discount in valuation because of the illiquidity.

The other principal reasons for the general partners' recommendations are:

- diversification of risk--lessening exposure to changing operating conditions or performance by any single property, operator or purchaser;

- exposure to a broader geographic distribution of undeveloped and nonproducing properties, which may offer the potential for growth and addition to reserves and cash flow;

- exposure to public market valuations for oil and gas producing entities;

- exposure to acquisition opportunities on participation terms more favorable generally available to individual and institutional investors;

- the benefit of the Business Opportunities Agreement which will allow the Republic partners to participate indirectly in certain acquisition opportunities subject to the Business Opportunities Agreement;

- increased exposure to acquisition opportunities from sellers seeking non-taxable divestiture of similar assets; and

- the addition of complementary skills to management, including broader areas of expertise, industry contacts and advice from the management group.

The foregoing discussion of the factors and information considered by the general partner is not meant to be exhaustive, but the general partners believe that it includes all material factors considered by them. The general partners did not find it practical to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching its determination. Rather the general partners considered their determinations and recommendation as being based upon the totality of the information presented to and reviewed by them.

Republic will not receive a fairness opinion in connection with the combination. The general partners of Republic concluded that a fairness opinion is not necessary in order to permit Republic limited partners to make an informed decision on the combination because each of the parties that will become limited partners of Republic after the Republic reorganization are sophisticated institutional or industry investors.

METHODS OF DETERMINING COMBINATION EXCHANGE RATIOS

The following is a summary of the method of determining the combination exchange ratios. For a more detailed information concerning the subject, see the following sections of the accompanying document:

- "Summary--Methods of Determining of Combination Exchange Ratios" on page 10.

- "Background and Reasons for the Combination--Combination Exchange Ratios and Consideration Allocated to General Partner Interests" beginning on page 42.

The general partners of the combining partnerships have agreed in the Combination Agreement to the manner in which interests in Dorchester Minerals will be allocated to the partners of the combining partnerships. These agreements were reached as the result of arm's-length negotiations.

During such negotiations, the parties did not assign a value to each combining partnership or to categories of their assets, but considered multiple factors, which are described in the accompanying document under "Background and Reasons for the Combination--Background of the Combination." As described in more detail in "Background and Reasons for the Combination--Combination Exchange Ratios and Consideration Allocated to General Partner Interests" beginning on page 42 of the accompanying document, our common units will initially be held in approximately the following proportions as a result of the combination:

- 40.51% by former limited partners of Republic;

- 39.73% by former limited partners of Dorchester Hugoton; and

- 19.76% by former limited partners of Spinnaker.

COMPENSATION AND DISTRIBUTION INFORMATION

Set forth below are the following tables:

- Table A--The amount of actual compensation, fees and distributions paid by your partnership to your general partners during the last three fiscal years and compared with those payments, as listed in the pro forma column, that would have been paid assuming the combination had occurred on January 1, 1999.

- Table B--The amount of limited partners' cash distributions for the five most recent fiscal years.

For additional information, see the following sections of the accompanying document:

- "Information Concerning Republic--Selected Historical Combined Financial Condition and Results of Operations" beginning on page 121; and

- "Unaudited Financial Pro Forma Information" beginning on page P-1.

Table A
Republic Royalty Company

Summary of Compensation Fees and Cash Distributions
Paid to the General Partners

		Years Ended					
		December 31, 2001		December 31, 2000		December 31, 1999	
		Actual	Pro Forma	Actual	Pro Forma	Actual	Pro Forma
SAM Partners, Ltd.	Management Fee (1).......	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
	Cash Distributions (2)...	$341,490	$363,375	$ 421,008	$ 408,385	$190,651	$229,100
	Expense Reimbursement (3)	$267,540	$267,540	$ 227,957	$ 227,957	$210,346	$210,346
	Total................	$609,030	$630,915	$ 648,965	$ 636,342	$400,997	$439,446
Vaughn Petroleum, Ltd.	Management Fee (1).......	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
	Cash Distributions (2)...	$341,490	$363,375	$ 421,008	$ 408,385	$190,651	$229,100
	Expense Reimbursement (3)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
	Total................	$341,490	$363,375	$ 421,008	$ 408,385	$190,651	$229,100
Total--General Partners Of Republic	Management Fee...........	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
	Cash Distributions.......	$682,980	$726,750	$ 842,016	$ 816,770	$381,302	$458,200
	Expense Reimbursement....	$267,540	$267,540	$ 227,957	$ 227,957	$210,346	$210,346
	Total................	$950,520	$994,290	$1,069,973	$1,044,727	$591,648	$668,546

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(1) The general partners of Republic are not entitled to receive a management fee.

(2) The general partners of Republic each hold a 2% general partner interest in Republic assuming the Republic reorganization has occurred. The general partners of Republic will each hold a 20.48% interest in profits and a 28.98% interest in capital in the general partner of our partnership, which will (i) be entitled to receive a 1% interest in cash flow attributable to the Operating ORRIs and a 4% interest in cash flow attributable to the properties formerly held by Republic and Spinnaker and (ii) own all of Dorchester Minerals Operating LP. Dorchester Minerals Operating LP will own 100% of the working interests in the properties formerly owned by the combining partnerships that will be burdened by the Operating ORRIs owned by our partnership. See "The Combination - Preparatory Steps - Creation of Overriding Royalty Interests." The amounts shown in the pro forma columns of the table represent the distributions that would have been received (i) by Dorchester Minerals Management LP multiplied by the 20.48% beneficial ownership interest (based on profits) of each of the general partners of Republic in Dorchester Minerals Management LP and (ii) by Dorchester Minerals Operating LP, after the deduction of the Operating ORRIs, multiplied by the 20.48% beneficial ownership interest (based on profits) of each of the general partners of Republic in Dorchester Minerals Management LP. The amounts shown in the actual columns of the table include all general partner compensation other than expense reimbursements. The amounts shown in the actual and pro forma columns do not include cash distributions with respect to limited partner interests held by a general partner.

(3) The general partners of Republic are also reimbursed for all actual general and administrative expenses incurred by them on behalf of Republic, subject to an overhead reimbursement limit of 4% of Republic's cash flow. General and administrative expenses incurred in connection with Dorchester Hugoton's operations are incurred for the most part directly by Dorchester Hugoton and paid directly by it instead of being incurred by its general partners and then reimbursed. The general partners of Republic and Spinnaker, however, incur directly all general and administrative and other overhead expenses and are reimbursed for these expenses by the partnerships in accordance with their respective partnership agreements. Dorchester Minerals will have no employees (other than officers), offices or other activities that directly generate general and administrative expenses. Instead those expenses will be incurred by its general partner and Dorchester Minerals Operating LP and then reimbursed by Dorchester Minerals to the general partner or Dorchester Minerals Operating LP. Accordingly, a comparison of actual and pro forma expenses reimbursed would result in an inconsistent presentation. In the table, as presented, actual expense reimbursements

reflect actual amounts paid by the general partners of the combining partnerships and to which they are entitled to reimbursement in accordance with the partnership agreement of their respective combining partnership. Pro forma expense reimbursements reflect actual amounts that would have been paid by the partners of our general partner and reimbursement of those amounts in accordance with our general partner's partnership agreement. The actual amount of expense reimbursements differs from the percentage allocation of cash distributions (and production costs included in the determination of Operating ORRIs) because reimbursements are made to our general partner's partners in accordance with actual costs paid and without regard to the partners' interest in capital and profits.

Table B
Republic Royalty Company

Summary of Cash Distributions
Paid to Limited Partners

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Cash distribution paid to limited partners (1)(2)................	$14,367,767	$19,009,933	$8,907,462	$7,544,119	$10,333,405

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(1) 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, 100% of such distributions may be deemed to be a return of capital.

(2) Includes only those amounts paid to former Republic ORRI owners as ORRI distributions, assuming the completion of the Republic reorganization. Does not include amounts distributed to the general partners attributable to their limited partnership interest.

SPINNAKER ROYALTY COMPANY, L.P.
("Spinnaker")

SUPPLEMENT TO

PROXY STATEMENT/PROSPECTUS FOR
DORCHESTER MINERALS, L.P.

Dated , 2002

GENERAL

This Supplement relates to the proposed combination involving Dorchester Minerals, L.P., which we refer to as the Partnership or Dorchester Minerals. In the proposed combination, the business and properties of Dorchester Hugoton, Republic and Spinnaker will be combined into Dorchester Minerals. In this Supplement, we have assumed that the reorganization of Republic described on page 56 of the accompanying document has occurred, unless the context otherwise requires.

We refer to Dorchester Hugoton, Republic and Spinnaker as the combining partnerships. If the combination is completed, limited partners of the combining partnership will receive common units of partnership interest of Dorchester Minerals. The former limited partners of Dorchester Hugoton will receive approximately 39.73% of the common units, while the former limited partners of Republic will receive approximately 40.51% and the former limited partners of Spinnaker will receive approximately 19.76%, in each case with respect to their limited partnership interests.

The accompanying document describes the combination in detail. However, the effects of the combination may be different for limited partners in the various combining partnerships. Accordingly, a supplement has been prepared for each of the combining partnerships eligible to participate in the combination. This Supplement provides information regarding the effects of the combination on the limited partners of Spinnaker. The general partner of Dorchester Minerals will promptly mail a copy of any supplement relating to other combining partnerships, without charge, upon request by any limited partner or his representative who has been so designated in writing, addressed to: Dorchester Minerals c/o Dorchester Minerals Management GP LLC, 3738 Oak Lawn, Suite 300, Dallas, Texas 75219.

Before voting on the combination, limited partners should carefully consider the following factors in addition to the other information included in the accompanying document.

RISK FACTORS

There are numerous risks associated with the combination. For a more complete description of these risk factors, see:

"Risk Factors" beginning on page 14 of the accompanying document.

- "Comparison of Rights of Partners" beginning on page 168 of the accompanying document.

The following summarizes the potential disadvantages, adverse consequences and risks that are specific to you as a limited partner of Spinnaker:

- Our assets will be more geographically concentrated than those of Republic or Spinnaker.

- Some common management and ownership exists between one of the Republic general partners and the general partners of Spinnaker.

- Limited partners of Spinnaker could be bound by the Combination Agreement even if they do not vote in favor of the combination and will have limited dissenters' rights of appraisal.

These risks and possible adverse consequences of the combination to the limited partners are discussed in greater detail in the accompanying document. This description is qualified in its entirety by the more detailed discussion in the Section entitled "Risk Factors" contained in the accompanying document beginning on page 14.

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a general summary of some United States federal income tax considerations that may be relevant to you with respect to the combination and related transactions. These considerations are discussed in greater detail in the accompanying document.

This discussion is qualified in its entirety by the more detailed discussion in the section entitled "Material United States Federal Income Tax Consequences" contained in the accompanying document beginning on page 74.

Consequences of Pre-Combination Distributions of Cash

Prior to the combination, Spinnaker will distribute cash to its partners in proportion to their partnership interests. No partner will recognize any gain or loss for federal income tax purposes as a result of the distribution except to the extent that the amount of cash received by a partner exceeds the partner's adjusted tax basis in its partnership interest at the time of distribution. Any such gain will be capital gain except to the extent of the partner's share of certain ordinary income assets of Dorchester Hugoton including recapture of depletion, depreciation and intangible drilling cost deductions previously allocated to that partner.

Consequences of the Exercise of Dissenters' Rights

A Spinnaker partner who exercises its dissenter's rights with respect to the combination will not receive common units in Dorchester Minerals, but instead will receive cash in exchange for its partnership interest in Spinnaker. The partner will recognize gain to the extent the amount of cash received exceeds the partner's adjusted tax basis in its partnership interest in Spinnaker. Such gain should be capital gain except to the extent of the limited partner's share of certain ordinary income assets of Spinnaker including recapture of depletion, depreciation and intangible drilling cost deductions previously allocated to that limited partner.

Closing of Tax Year of Spinnaker

Spinnaker's tax year will close at the time of the combination. If a partner's tax year ends after the date of the liquidation, but prior to December 31, 2002, the partner will have to include in its taxable income Spinnaker's income, gains, losses and deductions for the year ending December 31, 2001 and the short year ending on the date of liquidation.

Consequences of the Combination

Neither Spinnaker nor its partners will recognize gain or loss for federal income tax purposes upon the merger of Spinnaker into Dorchester Minerals with Dorchester Minerals surviving. The limited partnership interests of Spinnaker's limited partners will be converted into common units in Dorchester Minerals as a result of the merger and the general partnership interests of Spinnaker's general partners will convert into general partnership interests in Dorchester Minerals.

The partners of Spinnaker will have a tax basis in its common units of Dorchester Minerals equal to its adjusted tax basis in its Spinnaker partnership interest on the date of the combination.

The initial holding period in the common units of Dorchester Minerals received by each partner of Spinnaker will include the holding period of the partner in its partnership interest in Spinnaker.

Effects of Post-Combination Transactions

Even if the partners are not required to recognize taxable gain at the time of the combination, a subsequent sale of assets by Dorchester Minerals could cause the partners to recognize part or all of such gain. If Dorchester Minerals sells an asset that was held by Spinnaker prior to the combination, the former Spinnaker partners may be allocated a portion of the gain from the sale that is attributable to any remaining unrealized gain that existed when the asset was contributed to Dorchester Minerals. However, the partners to whom such gain is allocated will not be entitled to any special distributions from Dorchester Minerals in connection with the sale. Thus, the partners may not receive cash distributions from Dorchester Minerals sufficient to pay their additional taxes if Dorchester Minerals sells properties that were acquired from Spinnaker pursuant to the combination.

Partnership Income, Gains/Losses and Depletion

Each unitholder of Dorchester Minerals will be allocated its share of income accrued by Dorchester Minerals from its oil and natural gas royalties and net profits interests. This income will be taxable to the unitholders as ordinary income subject to depletion. Gains and losses from sales by Dorchester Minerals of royalty interests and net profits interests held for more than one year, except to the extent of ordinary income recapture, will be long term capital gains and losses.

Unitholders will be entitled to deductions for the greater of either cost depletion or (if otherwise allowable) percentage depletion with respect to the oil and natural gas interests owned by Dorchester Minerals. Percentage depletion is generally available to persons who are not directly or indirectly involved in the retail sale of oil, natural gas, or derivative products or the operation of a major refinery.

Disposition of Common Units in Dorchester Minerals

Each unitholder will recognize gain or loss on a disposition of its common units in Dorchester Minerals equal to the difference between the amount realized in the disposition and the unitholder's adjusted tax basis in the common units sold. This gain or loss will generally be capital gain or loss except to the extent of ordinary income recapture. For individuals, trusts and estates, capital gain from the sale of common units held one year or less is subject to tax at the rate applicable to ordinary income. For these taxpayers, the maximum federal rate of tax on capital gain from the sale of common units held for more than one year generally is 20%.

Tax matters are very complicated, and the tax consequences of the combination to you will depend on the facts of your own situation. We urge you to consult your tax advisor for a full understanding of the tax consequences to you of the combination.

FAIRNESS OF THE COMBINATION

Dorchester Minerals and the general partners of the combining partnerships believe that the proposed combination is fair to the limited partners of the combining partnerships receiving Dorchester Minerals common units and are fair to the combining partnerships as a whole.

See "Background and Reasons for the Combination--Reasons for the Combination" beginning on page 44 of the accompanying document for a detailed discussion of the reasons for the Republic general partners' opinions. The following summarizes the principal reasons for the general partner's opinions.

The primary reason for the Spinnaker general partner's recommendation of the combination is that the combination will, among other things, create the opportunity for liquidity for the Spinnaker limited partners. Because of the varying tax and strategic perspectives of the Spinnaker partners, Spinnaker's ability to sell its properties or otherwise engage in a transaction such as the combination is generally limited. Consequently, each partner's interest is, absent the combination, a highly illiquid asset that would likely experience a discount in valuation because of the illiquidity.

The other principal reasons for the general partners' recommendations are:

- diversification of risk--lessening exposure to changing operating conditions or performance by any single property, operator or purchaser;
- exposure to a broader geographic distribution of undeveloped and nonproducing properties, which may offer the potential for growth and addition to reserves and cash flow;
- exposure to public market valuations for oil and gas producing entities;
- exposure to acquisition opportunities on participation terms more favorable than those generally available to individual and institutional investors;
- the benefit of the Business Opportunities Agreement which will allow the Spinnaker partners to participate indirectly in certain acquisition opportunities subject to the Business Opportunities Agreement;
- increased exposure to acquisition opportunities from sellers seeking non-taxable divestiture of similar assets; and
- the addition of complementary skills to management, including broader areas of expertise, industry contacts and advice from the management group.

The foregoing discussion of the factors and information considered by the general partners is not meant to be exhaustive, but the general partners believe that it includes all material factors considered by them. The general partners did not find it practical to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching its determination. Rather the general partners considered their determinations and recommendation as being based upon the totality of the information presented to and reviewed by them.

Spinnaker will not receive a fairness opinion in connection with the combination. The general partner of Spinnaker concluded that a fairness opinion is not necessary in order to permit Spinnaker limited partners to make an informed decision on the combination because each of the Spinnaker limited partners are sophisticated institutional or industry investors.

METHODS OF DETERMINING COMBINATION EXCHANGE RATIOS

The following is a summary of the method of determining the combination exchange ratios. For a more detailed information concerning the subject, see the following sections of the accompanying document:

- "Summary--Methods of Determining of Combination Exchange Ratios" on page 10.
- "Background and Reasons for the Combination--Combination Exchange Ratios and Consideration Allocated to General Partner Interests" beginning on page 42.

The general partners of the combining partnerships have agreed in the Combination Agreement to the manner in which interests in Dorchester Minerals will be allocated to the partners of the combining partnerships. These agreements were reached as the result of arm's-length negotiations.

During such negotiations, the parties did not assign a value to each combining partnership or to categories of their assets, but considered multiple factors, which are described in the accompanying document under "Background and Reasons for the Combination--Background of the Combination." As described in more detail in "Background and Reasons for the Combination--Combination Exchange Ratios and Consideration Allocated to General Partner Interests" beginning on page 42 of the accompanying document, our common units will initially be held in approximately the following proportions as a result of the combination:

- 40.51% by former limited partners of Republic;
- 39.73% by former limited partners of Dorchester Hugoton; and
- 19.76% by former limited partners of Spinnaker.

COMPENSATION AND DISTRIBUTION INFORMATION

Set forth below are the following tables:

- Table A--The amount of actual compensation, fees and distributions paid by your partnership to your general partner during the last three fiscal years and compared with those payments, as listed in the pro forma column, that would have been paid assuming the combination had occurred on January 1, 1999.
- Table B--The amount of limited partners' cash distributions for the four most recent fiscal years.

For additional information, see the following sections of the accompanying document:

- "Information Concerning Spinnaker--Selected Historical Financial Condition and Results of Operations" beginning on page 133; and
- "Unaudited Financial Pro Forma Information" beginning on page P-1.

Table A
Spinnaker Royalty Company

Summary of Compensation Fees and Cash Distributions
Paid to the General Partner

		Years Ended					
		December 31, 2001		December 31, 2000		December 31, 1999	
		Actual	Pro Forma	Actual	Pro Forma	Actual	Pro Forma
Smith Allen Oil & Gas, Inc.	Management Fee(1)...........	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
	Cash Distributions(2)........	$435,052	$354,512	$408,624	$398,424	$320,916	$223,512
	Expense Reimbursement(3).....	$306,000	$306,000	$267,002	$267,002	$239,000	$239,000
	Total...................	$741,052	$660,512	$675,626	$665,426	$559,916	$462,512

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(1) The general partner of Spinnaker is not entitled to receive a management fee.

(2) The general partner of Spinnaker holds a 4% general partner interest in Spinnaker assuming the Spinnaker reorganization has occurred. The general partner of Spinnaker will hold a 19.98% interest in profits and a 28.26% interest in capital in the general partner of our partnership, which will (i) be entitled to receive a 1% interest in cash flow attributable to the Operating ORRIs and a 4% interest in cash flow attributable to the properties formerly held by Republic and Spinnaker and (ii) own all of Dorchester Minerals Operating LP. Dorchester Minerals Operating LP will own 100% of the working interests in the properties formerly owned by the combining partnerships that will be burdened by the Operating ORRIs owned by our partnership. See "The Combination--Preparatory Steps--Creation of Overriding Royalty Interests." The amounts shown in the pro forma columns of the table represent the distributions that would have been received (i) by Dorchester Minerals Management LP multiplied by the 19.98% beneficial ownership interest (based on profits) of the general partner of Spinnaker in Dorchester Minerals Management LP and (ii) by Dorchester Minerals Operating LP, after the deduction of the Operating ORRIs, multiplied by the 19.98% beneficial ownership interest (based on profits) of the general partner of Spinnaker in Dorchester Minerals Management LP. The amounts shown in the actual columns of the table include all general partner compensation other than expense reimbursements. The amounts shown in the actual and pro forma columns do not include cash distributions with respect to limited partner interests held by a general partner.

(3) The general partner of Spinnaker is also reimbursed for its actual and allocable general and administrative expenses attributable to Spinnaker's properties and business, subject to a limit of 5% of Spinnaker's cash flow excluding any salary for its executive officers and directors. General and administrative expenses incurred in connection with Dorchester Hugoton's operations are incurred for the most part directly by Dorchester Hugoton and paid directly by it instead of being incurred by its general partners and then reimbursed. The general partners of Republic and Spinnaker, however, incur directly all general and administrative and other overhead expenses and are reimbursed for these expenses by the partnerships in accordance with their respective partnership agreements. Dorchester Minerals will have no employees (other than officers), offices or other activities that directly generate general and administrative expenses. Instead those expenses will be incurred by its general partner and Dorchester Minerals Operating LP and then reimbursed by Dorchester Minerals to the general partner or Dorchester Minerals Operating LP. Accordingly, a comparison of actual and pro forma expenses reimbursed would result in an inconsistent presentation. In the table, as presented, actual expense reimbursements reflect actual amounts paid by the general partners of the combining partnerships and to which they are entitled to reimbursement in accordance with the partnership agreement of their respective combining partnership. Pro forma expense reimbursements reflect actual amounts that would have been paid by the partners of our general partner and reimbursement of those amounts in accordance with our general partner's partnership agreement. The actual amount of expense reimbursements differs from the percentage allocation of cash distributions (and production costs included in the determination of Operating ORRIs) because reimbursements are made to our general partner's partners in accordance with actual costs paid and without regard to the partners' interest in capital and profits.

Table B
Spinnaker Royalty Company

Summary of Cash Distributions
Paid to Limited Partners (1)

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Cash distribution paid to Original Spinnaker Partners(2)...	$7,273,403	$6,831,568	$5,064,292	$6,415,880	$7,145,609
Cash distributions paid to Contributed Properties(2).......	$3,064,561	$2,878,399	$2,133,778	$2,703,253	$ 972,512

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(1) Prior to its reorganization as a limited partnership in 1997, Spinnaker was a general partnership and therefore did not have limited partners. See "Information Concerning Spinnaker--General" beginning on page 128 of the accompanying document for a more detailed discussion of the Spinnaker reorganization. For the purposes of this table, the interests of Spinnaker's partners upon its initial formation, referred to as the original Spinnaker partners, are presented separately from the interests attributable to the partnership interest issued in exchange for the contributed properties. The distributions attributable to the original Spinnaker partners reflect their cumulative distributions to date. The distributions attributable to the partnership interests received upon contribution of the contributed properties reflect the distributions attributable to the partnership interest issued upon the contribution since the date of their contribution. It is assumed for the purposes of this table that the Spinnaker reorganization has occurred.

(2) 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, 100% of such distributions may be deemed to be a return of capital.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers.

The Registrant's partnership agreement provides that the Registrant:

- will indemnify (1) its general partner, (2) any departing partner, (3) any person who is or was an affiliate of our general partner or any departing partner, (4) any person who is or was a member, partner, officer, or director of any group member, of the general partner or any departing partner and (5) any person who is or was serving at the request of the general partner or any departing partner or any affiliate of the general partner or any departing partner as an officer, director, member or partner of another person (each, an "Indemnitee"), to the fullest extent permitted by law from and against any and all losses, claims, damages, liabilities, joint or several, expenses, judgment, fines, penalties, interest, settlements or other amount arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as an Indemnitee.

- may indemnify (1) any person who was or is an employee, agent or trustee of any group member, of the general partner or of any departing partner, and (2) any person who is or was serving at the request of the general partner or departing partner as an employee, agent, fiduciary or trustee of another person (each, an "Employee") to the same extent as permitted for Indemnitees.

- may pay or reimburse expenses incurred by an Indemnitee or Employee in connection with his appearance as a witness or other participation in a claim, demand, action, suit or proceeding at a time when he is not named defendant or respondent in such claim, demand, action, suit or proceeding.

Indemnification will be conditioned on the determination that, in each case, the Indemnitee or Employee acted in good faith, in a manner which such Indemnitee or Employee believed to be in, or not opposed to, our best interests and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful.

The above indemnification may result in indemnification of Indemnitees and Employees for negligent acts, and may include indemnification for liabilities under the Securities Act. The Registrant has been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. Any indemnification under these provisions will be only out of our assets. The Registrant is authorized to purchase (or to reimburse our general partner or its affiliates for the cost of) insurance against liabilities asserted against and expenses incurred by such persons in connection with our activities, whether or mot we would have the power to indemnify such person against such liabilities under the provisions described above.

Subject to any terms, conditions or restrictions set forth in the Partnership Agreement, Section 17-108 of the Delaware Revised Limited Partnership Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other person from and against all claims whatsoever. In addition, subject to any terms, conditions or restrictions set forth in its limited liability company agreement, Section 18-108 of the Delaware Limited Liability Company Act empowers a Delaware limited liability company to indemnify and hold harmless any member or manger from and against all claims whatsoever.

Under Section 145 of the Delaware General Corporation Law (the "DGCL"), a corporation has the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of any corporation, partnership, joint venture, trust or other enterprise, against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement and reasonably incurred in connection with such action, suit or proceeding. The power to

indemnify applies only if the person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful.

In the case of an action by or in the right of the corporation, no indemnification may be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine that despite the adjudication of liability such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper. Section 145 of the DGCL further provides that to the extent a director or officer of a corporation has been successful in the defense of any action, suit or proceeding referred to above or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorney's fees) actually and reasonably incurred by him in connection therewith.

After the combination, the Registrant will indemnify the partners, affiliates of the partners, directors, officers and employees of Dorchester Hugoton, Ltd., Republic Royalty Company and Spinnaker Royalty Company, L.P. for matters occurring prior to the combination to the extent that Dorchester Hugoton, Ltd., Republic Royalty Company and Spinnaker Royalty Company, L.P. would have been required to do so under their applicable partnership agreements.

The Dorchester Hugoton partnership agreement provides that each general partner will be indemnified by the partnership in any threatened, pending or completed action, suit or proceeding to which a general partner was or is a party, or is threatened to be made a party, by reason of the fact that it is or was a general partner of the partnership (other than an action by or in the right of the partnership), involving an alleged cause of action arising out of, or in any way connected with, the manner in which this general partner conducted the partnership's business. The partnership will indemnify the general partner in this event against all expenses, including attorneys' fees, judgments and amounts paid in settlement, actually and reasonably incurred by the general partner in connection with the action, suit or proceeding if, in the transaction giving rise to the action, suit or proceeding, the general partner acted in good faith and in a manner that this general partner reasonably believed to be in, or not opposed to, the best interests of the partnership and if the general partner's conduct in the transaction did not constitute gross negligence, willful or wanton misconduct or willful breach of the general partner's fiduciary obligations to the limited partners. The termination of any action, suit or proceeding by judgment, order or settlement will not, of itself, create a presumption that a general partner did not act in good faith and in a manner which the general partner reasonably believed to be in, or not opposed to, the best interests of the partnership. For purposes of the Dorchester Hugoton partnership agreement, indemnification of a general partner includes indemnification of its stockholders, directors, officers, employees and agents.

The indemnification provisions contained in the Dorchester Hugoton partnership agreement also provide that expenses incurred by a general partner in defending any action, suit or proceeding subject to the provisions described above will be advanced by the partnership prior to the final disposition of the action, suit or proceeding upon receipt of an undertaking by or on behalf of the general partner to repay the amount unless it shall be determined ultimately that the general partner is entitled to be indemnified pursuant to the provisions described above.

The Spinnaker partnership agreement provides that the general partner, the limited partners and their affiliates, and their respective partners, shareholders, directors, officers, employees and agents will not be liable for any acts or omissions that do not constitute gross negligence or willful misconduct and will be indemnified to the full extent of the Texas Revised Limited Partnership Act (the "Texas LP Act") from all liabilities for which indemnification is permitted under the Texas LP Act.

Section 11.02 of the Texas LP Act provides that, if provided in a partnership agreement, a limited partnership may indemnify a person who was, is, or is threatened to be, made a named defendant or respondent in a proceeding because the person is or was a general partner only if it is determined in accordance with the Texas LP Act that the person: (i) acted in good faith, (ii) reasonably believed, in the case of conduct in the person's official capacity as a general partner of the limited partnership, that the person's conduct was in the limited

partnership's best interests and, in all other cases, that the person's conduct was at least not opposed to the limited partnership's best interests, and (iii) in the case of a criminal proceeding, had no reasonable cause to believe that the person's conduct was unlawful.

Section 11.03 of the Texas LP Act provides that, with some exceptions, a general partner may not be indemnified under the Texas LP Act with respect to a proceeding in which (i) the person is found liable on the basis that the person improperly received personal benefit, whether or not the benefit resulted from an action taken in the person's official capacity, or (ii) the person is found liable to the limited partnership or the limited partners.

Section 11.11 of the Texas LP Act provides that a limited partnership may pay or reimburse, in advance of the final disposition of the proceeding, reasonable expenses incurred by a general partner who was, is, or is threatened to be made a named defendant or respondent in a proceeding, without determination that indemnification is permissible specified by the Texas LP Act and without authorization of indemnification and determination of a reasonableness of expenses specified by the Texas LP Act, upon receipt of a written affirmation by the general partner of the general partner's good faith belief that the general partner has met the standard of conduct necessary for indemnification under the Texas LP Act, and a written undertaking by or on behalf of the general partner to repay the amount paid or reimbursed if it is ultimately determined that the general partner has not met that standard or it is ultimately determined that indemnification of the general partner against expenses incurred by such general partner in connection with that proceeding is prohibited by the Texas LP Act.

Section 11.17 of the Texas LP Act provides that a limited partnership may indemnify and advance expenses to a limited partner, employee, agent, or certain other persons who are not a general partner, to the extent, consistent with law, provided by its partnership agreement, by general or specific action of its general partner, by contract, or as permitted or required by common law. The partnership agreement of a limited partnership may restrict the circumstances under which the limited partnership is required or permitted to indemnify a person.

The Republic Royalty Company partnership agreement provides that the partners and their affiliates and their respective directors, officers, employees and agents shall not be liable to the partnership or the partners for any acts or omissions that do not constitute gross negligence or willful misconduct and the shall be indemnified to the full extent of the Texas Revised Partnership Act (the "Texas GP Act"). The partnership will save and hold harmless the partners and their affiliates and their respective directors, officers, employees and agents from all liabilities for which indemnification is permitted under the Texas GP Act, including liabilities arising as a result of the actual or alleged negligence of the partner, affiliate, or respective director, officer, employee or agent.

Section 3.01 of the Texas GP Act provides that a partnership has the same powers as an individual or corporation to do all things necessary or convenient to carry out its business and affairs, including the power to indemnify a person who is, or is threatened to be, made a defendant in a proceeding and purchase and maintain liability insurance for the person.

Article 2.02-1 of the Texas Business Corporation Act (the "TBCA") provides that a corporation may indemnify a person who was, is, or is threatened to be made a named defendant or respondent in a proceeding because the person is or was a director only if it is determined in accordance with certain provisions of the TBCA that the person: (i) conducted himself in good faith; (ii) reasonably believed, in the case of conduct in his official capacity as a director of the corporation, that his conduct was in the corporation's best interests; and in all other cases, that his conduct was at least not opposed to the corporation's best interests, and (iii) in the case of any criminal proceeding, had no reasonable cause to believe his conduct was unlawful.

The TBCA provides that, with some exceptions, a director may not be indemnified under the TBCA with respect to a proceeding in which (i) the person is found liable on the basis that the person improperly received personal benefit, whether or not the benefit resulted from an action taken in the person's official capacity, or (ii) the person is found liable to the corporation.

The TBCA provides that a corporation may pay or reimburse, in advance of the final disposition of the proceeding, reasonable expenses incurred by a director who was, is, or is threatened to be made a named defendant or respondent in a proceeding, without determination as specified by the TBCA that indemnification is permissible and without authorization of indemnification and determination of a reasonableness of expenses as specified by the TBCA, upon receipt of a written affirmation by the director of his good faith belief that he has met the standard of conduct necessary for indemnification under the TBCA and a written undertaking by or on behalf of the director to repay the amount paid or reimbursed if it is ultimately determined that he has not met that standard or if it is ultimately determined that indemnification of the director against expenses incurred by him in connection with that proceeding is prohibited by the TBCA.

The TBCA also provides that an officer of the corporation shall be indemnified as, and to the same extent, provided by certain sections of the TBCA and that a corporation may indemnify and advance expenses to an officer, employee, or agent of the corporation to the same extent that it may indemnify and advance expenses to directors under the TBCA.

Item 21. Exhibits and Financial Statement Schedules.

The following exhibits are filed as part of this Registration Statement:

Number	Description
2.1	Combination Agreement dated as of December 13, 2001 by and between Republic, Spinnaker, Dorchester, the Registrant and certain other parties.
2.2	Contribution Agreement dated as of December 13, 2001 by and between SAM Partners, Ltd., Vaughn Petroleum, Ltd., Smith Allen Oil & Gas, Inc., P.A. Peak, Inc., James E. Raley, Inc., Dorchester Minerals Management GP LLC, Dorchester Minerals Management LP
3.1	Certificate of Limited Partnership of Dorchester Minerals, L.P.
3.2	Agreement of Limited Partnership of Dorchester Minerals, L.P.
3.3	Form of Amended and Restated Agreement of Limited Partnership of Dorchester Minerals, L.P. (included as an exhibit to Exhibit 2.1 hereto)
3.4	Certificate of Limited Partnership of Dorchester Minerals Management, L.P.
3.5	Agreement of Limited Partnership of Dorchester Minerals Management, L.P.
3.6	Form of Amended and Restated Agreement of Limited Partnership of Dorchester Minerals Management, L.P. (included as an exhibit to Exhibit 2.2 hereto)
3.7	Certificate of Formation of Dorchester Minerals Management GP LLC
3.8	Limited Liability Company Agreement of Dorchester Minerals Management GP LLC
3.9	Form of Amended and Restated Limited Liability Company Agreement of Dorchester Minerals Management GP LLC (included as an exhibit to Exhibit 2.2 hereto)
3.10	Certificate of Formation of Dorchester Minerals Operating GP LLC
3.11	Limited Liability Company Agreement of Dorchester Minerals Operating GP LLC
3.12	Certificate of Limited Partnership of Dorchester Minerals Operating LP
3.13	Agreement of Limited Partnership of Dorchester Minerals Operating LP
5.1*	Opinion of Thompson & Knight L.L.P.
8.1	Opinion of Thompson & Knight L.L.P
8.2	Opinion of Locke Liddell & Sapp LLP
10.1	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.

Number	Description
10.2	Form of Indemnity Agreement (included as an exhibit to Exhibit 2.1 hereto)
10.3	Form of Transfer Restriction Agreement (included as an exhibit to Exhibit 2.2 hereto)
23.1	Consent of KPMG LLP
23.2	Consent of KPMG LLP
23.3	Consent of KPMG LLP
23.4*	Consent of Thompson & Knight L.L.P.
23.5	Consent of Thompson & Knight L.L.P. (included as part of Exhibit 8.1 hereto)
23.6	Consent of Locke Liddell & Sapp LLP (included as part of Exhibit 8.2 hereto)
23.7	Consent of Grant Thornton LLP
23.8	Consent of Calhoun, Blair and Associates
23.9	Consent of Huddleston & Co., Inc.
23.10	Consent of Harlan Consulting
24.1	Powers of Attorney (included on the signature page hereto)
99.1	Fairness Opinion by Bruce E. Lazier, P.E. dated July 30, 2001 (included as Appendix A-1 hereto)
99.2	Fairness Opinion by Bruce E. Lazier, P.E. dated December 13, 2001 (included as Appendix A-2 hereto)
99.3	Consent of William Casey McManemin
99.4	Consent of H.C. Allen
99.5	Consent of James E. Raley
99.6	Consent of Robert C. Vaughn
99.7	Consent of Preston A. Peak
99.8	Form of Proxy for Dorchester Hugoton and Spinnaker (included as Appendix E hereto)
99.9	Form of Consent for Republic (included as Appendix F hereto)

- --------
* To be filed by amendment

Item 22. Undertakings.

(g) Registration on Form S-4 of Securities Offered for Resale.

(1) The undersigned Registrant hereby undertakes as follows: That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is part of this Registration Statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(2) The Registrant undertakes that every prospectus (i) that is filed pursuant to paragraph (g)(1) immediately preceding, or (ii) that purports to meet the requirements of Section10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the Registration Statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bonafide offering thereof.

(h) Acceleration of effectiveness.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Requests for information incorporated by reference; post-effective amendments.

The undersigned Registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of Form S-4, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request.

The undersigned Registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the Registration Statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas, on the 15th day of May, 2002.

DORCHESTER MINERALS, L.P.

By: Dorchester Minerals Management, L.P.

By: Dorchester Minerals Management GP LLC

By: /s/ WILLIAM CASEY MCMANEMIN

William Casey McManemin
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated. Each person whose signature appears below constitutes and appoints William Casey McManemin and James E. Raley, and each of them (with full power to each of them to act alone), his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign on his behalf individually and in each capacity stated below any amendment, including post-effective amendments, to this Registration Statement, and to file the same, with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents and either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ WILLIAM CASEY MCMANEMIN ----------------------------- William Casey McManemin	Chief Executive Officer (Principal Executive Officer) and Manager Nominee	May 15, 2002
/s/ H.C. ALLEN, JR. ----------------------------- H.C. Allen, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer) and Manager Nominee	May 15, 2002
/s/ JAMES E. RALEY ----------------------------- James E. Raley	Chief Operating Officer and Manager Nominee	May 15, 2002
/s/ ROBERT C. VAUGHN ----------------------------- Robert C. Vaughn	Manager Nominee	May 15, 2002
/s/ PRESTON A. PEAK ----------------------------- Preston A. Peak	Manager Nominee	May 15, 2002

EXHIBIT 2.1

COMBINATION AGREEMENT

AMONG

REPUBLIC ROYALTY COMPANY,

SPINNAKER ROYALTY COMPANY, L.P.,

DORCHESTER HUGOTON, LTD.

AND

CERTAIN OTHER PARTIES

AND

DORCHESTER MINERALS, L.P.

DECEMBER 13, 2001

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COMBINATION AGREEMENT

COMBINATION AGREEMENT ("Agreement") dated as of December 13, 2001, among Republic Royalty Company, a Texas general partnership ("RRC"), Spinnaker Royalty Company, L.P., a Texas limited partnership ("SRC"), Dorchester Hugoton, Ltd., a Texas limited partnership ("DHL" and, together with RRC and SRC, the "Subject Partnerships"), Dorchester Minerals, L.P., a Delaware limited partnership (the "Partnership"), Dorchester Minerals Management LP, a Delaware limited partnership ("General Partner"), Dorchester Minerals Management LLC, a Delaware limited liability company (the "Organizational Limited Partner"), and Dorchester Minerals Operating LP, a Delaware limited partnership ("Operating Sub").

WITNESSETH:

WHEREAS, the respective general partners of the Subject Partnerships have approved the combination of the businesses of the Subject Partnerships upon the terms and subject to the conditions set forth herein;

WHEREAS, the Partnership, General Partner and Operating Sub have been formed in connection with the proposed combination; and

WHEREAS, the combination will be effected by (1) the merger of RRC with and into the Partnership, (2) the merger of SRC with and into the Partnership and (3) (a) the conveyance by DHL of its working interests and related assets to Operating Sub in exchange for retention of a 96.97% net profits interest, (b) after the conveyance described in the preceding clause (a), the sale by DHL of certain management assets to the Operating Sub and the conveyance by DHL of substantially all of its remaining assets to the Partnership, and (c) the subsequent liquidation of DHL;

WHEREAS, as contemplated by Section 10.3 of the Agreement, prior to or simultaneously with the merger of RRC into the Partnership, RRC will be converted into a Delaware limited partnership;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, there parties hereto hereby agree as follows:

ARTICLE I

CLOSING; AMENDMENT AND RESTATEMENT OF PARTNERSHIP AGREEMENT

1.1 Closing. The closing of the transactions (the "Combination") contemplated by Article II and Article III (the "Closing") shall take place (i) at the offices of Thompson & Knight L.L.P., 1700 Pacific Avenue, Suite 3300, Dallas, Texas 75201, at 9:00 a.m., local time, on the day

which is five (5) consecutive Business Days after the day on which the last of the conditions to the obligations of the parties set forth in Article XII is fulfilled or waived (subject to Applicable Law) or is capable of being fulfilled at the Closing, or (ii) at such other time or place or on such other date as the parties hereto shall agree. The date on which the Closing is required to take place is herein referred to as the "Closing Date." The parties may by mutual agreement, in the closing documents contemplated by this Agreement, cause one or more transactions contemplated to take place at the Closing to be effective at one or more specific future effective times that are on the Closing Date.

1.2 Amendment and Restatement of the Partnership Agreement. At the Closing, and on the terms and subject to the conditions set forth in this Agreement, the General Partner and the Organizational Limited Partner shall execute an Amended and Restated Agreement of Limited Partnership of the Partnership (the "Partnership Agreement"), in the form attached hereto as Exhibit 1.2 or in substantially similar form with such changes as each Subject Partnership shall also approve (provided that any changes from such form shall be subject to the provisions of Section 14.3).

ARTICLE II

THE MERGERS

2.1 The Mergers. At the Effective Time, and on the terms and subject to the conditions set forth in this Agreement, RRC shall be merged with and into the Partnership and SRC shall be merged with and into the Partnership (the "Mergers"), the Partnership shall continue its existence under the laws of the State of Delaware as the surviving entity in the Mergers (the "Surviving Partnership"), and the separate existence of each of RRC and SRC shall cease.

2.2 Effective Time of the Mergers. At the Closing, following the actions contemplated by Sections 10.4 and 10.5, RRC and the Partnership shall file certificates of merger with the Secretaries of State of Delaware and Texas; SRC and the Partnership shall file certificates of merger with the Secretaries of State of Delaware and Texas; and SRC, RRC and the Partnership shall make other filings or recordings required by State Law in connection with the Mergers. The Mergers shall become effective at such time as the certificates of merger are simultaneously and duly filed with the Secretary of State of Delaware or at such later time as is specified in the certificates of merger pursuant to the mutual agreement of SRC, RRC, the Partnership and DHL (the "Effective Time").

2.3 Effects of the Merger. The Mergers shall have the effects specified in the Delaware Revised Uniform Limited Partnership Act and the Texas Revised Limited Partnership Act, each as amended. This Agreement shall constitute a plan of merger with respect to each of the Mergers.

2.4 Surviving Partnership. The Certificate of Limited Partnership of the Partnership, as in effect immediately prior to the Effective Time, shall be the Certificate of Limited Partnership of the Surviving Partnership, until thereafter amended in accordance with its terms and as provided by State Law. The General Partner shall be the general partner of the Surviving Partnership. The Partnership Agreement shall be the partnership agreement of the Surviving Partnership, until thereafter amended in accordance with its terms and as provided by State Law.

2.5 Merger Consideration and Conversion of Securities. At the Effective Time, by virtue of the Mergers and without any action on the part of RRC, SRC, the Partnership or any holder of any of the following interests:

(a) The limited partnership interests in RRC shall be converted into and become an aggregate number of LP Units of the Surviving Partnership equal to the Initial RRC Number. Each limited partner of RRC at the Effective Time shall receive a proportionate share of such Initial RRC Number of LP Units, in the same respective percentages as the Limited Partner Sharing Percentage of such limited partner bears to the aggregate Limited Partner Sharing Percentages of all the limited partners of RRC. For purposes of the preceding sentence, "Limited Partner Sharing Percentage" shall have the meaning assigned to such term in RRC's agreement of limited partnership in effect immediately prior to the Effective Time, and shall be determined as of immediately prior to the Effective Time.

(b) The limited partnership interests in SRC shall be converted into and become an aggregate number of LP Units of the Surviving Partnership equal to the Initial SRC Number. Each limited partner of SRC at the Effective Time shall receive a proportionate share of such Initial SRC Number of LP Units, in the same respective percentages as the amount of the Limited Partner Sharing Percentage of such limited partner bears to the aggregate Limited Partner Sharing Percentages of all the limited partners of SRC. For purposes of the preceding sentence, (i) "Limited Partner Sharing Percentage" shall have the meaning assigned to such term in SRC's agreement of limited partnership in effect immediately prior to the Effective Time, and shall be determined as of immediately prior to the Effective Time and (ii) any Dissenting Partnership Interests (as defined in Section 2.6) shall be excluded from the calculation.

(c) The general partnership interests in RRC shall be converted into and become a general partnership interest in the Partnership representing in the aggregate a 4% general partnership interest in the capital and profits of the Partnership relating solely to the assets previously owned by RRC. Each general partner of RRC at the Effective Time shall receive an equal share of such general partnership interest.

(d) The general partnership interests in SRC shall be converted into and become a general partnership interest in the Partnership representing in the aggregate a 4% general partnership interest in the capital and profits of the Partnership relating solely to the assets previously owned by SRC.

(e) All partnership interests of the General Partner and the Organizational Limited Partner in the Partnership which are outstanding at the Effective Time shall continue to be outstanding subsequent to the Effective Time; provided that the parties acknowledge that such partnership interests shall, pursuant to Article V of the Partnership Agreement and simultaneously with or immediately subsequent to the Effective Time, be affected as provided in such Article V.

The consideration to which the limited partners of RRC and SRC are entitled as provided in Section 2.5(a) and (b) is referred to herein as the "Merger Consideration".

2.6 Dissenting Partners. Notwithstanding anything in this Agreement to the contrary, each partnership interest in SRC immediately prior to the Effective Time and held by a partner who has not voted in favor of the Merger and who has demanded appraisal of such partnership interests in accordance with Article IV ("Dissenting Partnership Interests"), shall not be converted into a right to receive the Merger Consideration, but, instead, such holder shall be entitled to appraisal rights for his Dissenting Partnership Interests in accordance with the provisions of Article IV and such partnership interests shall be converted into the right to receive the amount determined in accordance with Article IV; provided, however, that if such holder fails to perfect or effectively withdraws or loses his right to appraisal of his Dissenting Partnership Interests under Article IV at any time prior to the consummation of the Combination, such Dissenting Partnership Interests shall be treated as if they had been converted as of the Effective Time into a right to receive the applicable Merger Consideration.

2.7 Exchange Agent; Payment.

(a) Prior to the Closing Date, the Partnership shall designate a bank or trust company reasonably acceptable to RRC, SRC and DHL (the "Exchange Agent") for the purpose of payment of the Merger Consideration.

(b) As soon as practicable after the Effective Time, the Partnership will make available to the Exchange Agent, for the benefit of the partners of RRC and SRC, for exchange in accordance with Section 2.5, certificates representing the number of whole LP Units issuable pursuant to Section 2.5 in exchange for the partnership interests of RRC and SRC. Promptly after the Effective Time, the Partnership will send, or will cause the Exchange Agent to send, to each partner of RRC or SRC at the Effective Time (i) a certificate representing that number of whole LP Units that such partner has a right to receive pursuant to the provisions of this Article II and (ii) a Transfer Application, in such form as the Partnership, RRC and SRC may reasonably agree, for use in admission of such partners as limited partners in the Partnership.

(c) Each holder of limited partnership interests of RRC or SRC that have been converted into the Merger Consideration, upon delivery to the Partnership of a properly completed Transfer Application, will be admitted into the Partnership as a limited partner in accordance with the Partnership Agreement. Prior to such time, each such party shall have the rights of an "Assignee" under the Partnership Agreement.

(d) All LP Units issued as Merger Consideration in accordance with the terms hereof shall be deemed to have been issued in full satisfaction of all rights pertaining to such exchanged partnership interests.

(e) None of the Partnership, RRC, SRC, their general partners or their transfer agents shall be liable to a limited partner of RRC or SRC for any amount paid in good faith to a public official pursuant to applicable property, escheat or similar laws.

(f) No certificates or scrip evidencing fractional LP Units shall be issued upon the Mergers, and such fractional interests shall not entitle the owner thereof to any rights of a limited partner of the Partnership. In lieu of fractional interests, each limited partner of RRC or SRC shall receive a number of LP Units rounded to the nearest whole LP Unit, with half LP Units being rounded up to the nearest whole LP Unit.

(g) Promptly following the date which is six months after the Effective Time, the Exchange Agent shall deliver to the Surviving Partnership all cash, certificates and other documents and instruments in its possession relating to the transactions described in this Agreement, and the Exchange Agent's duties shall terminate. Thereafter, each holder of a limited partnership interest in RRC or SRC shall (subject to applicable abandoned property, escheat, and similar laws) look only to the Surviving Partnership for payment of the applicable Merger Consideration, but such holder shall have no greater rights against the Surviving Partnership than may be accorded to general creditors of the Surviving Partnership under Applicable Law.

2.8 Tax Consequences. Pursuant to Treasury Regulation Section 1.708-1(c)(3), for United States federal income tax purposes, the Mergers shall be treated as the transfer of all of the assets of RRC and SRC to the Partnership under Section 721 of the Code in exchange for the consideration described in Sections 2.5(a), (b), (c) and (d) of this Agreement, followed by the complete liquidation and termination of RRC and SRC and the distribution of such consideration to the partners of RRC and SRC under Section 731 of the Code.

ARTICLE III

ASSET CONVEYANCE AND LIQUIDATION

3.1 Assets to be Transferred. At the Closing, and on the terms and subject to the conditions set forth in this Agreement, DHL shall assign, transfer, deliver and convey (collectively, "transfer"), or cause to be transferred, to the party specified below, and the specified party shall acquire, all assets and properties of DHL, as follows:

(a) WI Assets. DHL shall transfer to the Operating Sub the assets and properties of DHL identified as "Subject Properties" (i) in the form of Assignment, Conveyance and Assumption Agreement attached hereto as Exhibit 3.1(a)(i) (the "WI Assets Conveyance") and (ii) the real property of DHL identified on Schedule 3.1(a) (such assets and properties are collectively referred to herein as the "WI Assets").

(b) Management Assets. DHL shall transfer and sell to Operating Sub all the assets and properties of DHL identified as "Subject Properties" (the "Management Assets")

in the form of Assignment, Conveyance, Bill of Sale and Assumption Agreement attached hereto as Exhibit 3.1(b) (the "Management Assets Conveyance").

(c) Residual Assets. DHL shall transfer to the Partnership all assets and properties, other than the Excluded Assets (as defined in Section 3.2), of every kind, character, and description, whether tangible, intangible, real, personal, or mixed, and wherever located, which are owned by DHL or in which DHL has any right, title, or interest, and which are used or held for use by DHL in the conduct of DHL's business (the "Business") as the same shall exist on the Closing Date following the consummation of transfer of the WI Assets, including, without limitation, those identified in the form of Assignment and Conveyance attached hereto as Exhibit 3.3(c)(i) or in the form of Assignment, Conveyance and Assumption Agreement attached hereto as Exhibit 3.3(c)(ii).

All the assets and properties being transferred to the Partnership pursuant to this Agreement are collectively referred to herein as the "NPI and Residual Assets".

The transactions contemplated by this Article III (other than 3.7) are referred to herein as the "Asset Conveyance".

3.2 Excluded Assets from Conveyance to the Partnership. Notwithstanding any provision contained in this Agreement to the contrary, the following assets and properties of DHL (the "Excluded Assets") shall be excluded from the NPI and Residual Assets to be transferred to the Partnership hereunder:

(a) the Management Assets being conveyed to the Operating Sub pursuant to Section 3.1(b); and

(b) an amount of cash equal to the Excess Cash Amount, as determined pursuant to Section 10.5.

The parties also acknowledge that (i) as a result of the consummation of the action contemplated by Section 3.1(a), the WI Assets will be conveyed to the Operating Sub immediately prior to the transactions contemplated by Section 3.1(c), and (ii) certain assets may be sold or otherwise disposed of by DHL prior to the transactions contemplated by Section 3.1(c) in accordance with the provisions of this Agreement.

3.3 Instruments of Conveyance. In order to effectuate the transfers of assets and properties contemplated by Section 3.1, at the Closing, DHL shall execute and deliver, or cause to be executed and delivered:

(a) to the Operating Sub, dated the Closing Date, the WI Assets Conveyance and such warranty deeds (in recordable and locally customary form and describing the real property included in the WI Assets) and other bills of sale, certificates of title and other documents or instruments of assignment, transfer, or conveyance as the Operating Sub shall

reasonably deem necessary or appropriate to vest in or confirm to such party good and marketable title to the WI Assets, which shall be transferred subject to all Encumbrances burdening the WI Assets as of Closing;

(b) to the Operating Sub, dated the Closing Date, the Management Assets Conveyance and such other bills of sale, certificates of title and other documents or instruments of assignment, transfer, or conveyance as the Operating Sub shall reasonably deem necessary or appropriate to vest in or confirm to such party good and marketable title to the Management Assets, which shall be transferred subject to all Encumbrances burdening the Management Assets as of Closing; and

(c) to the Partnership, dated the Closing Date, an Assignment and Conveyance in the form attached hereto as Exhibit 3.3(c)(i); an Assignment, Conveyance and Assumption Agreement in the form attached hereto as Exhibit 3.3(c)(ii), and such other bills of sale, certificates of title and other documents or instruments of assignment, transfer, or conveyance as the Partnership shall reasonably deem necessary or appropriate to vest in or confirm to such party good and marketable title to the NPI and Residual Assets, which shall be transferred subject to all Encumbrances burdening the NPI and Residual Assets as of Closing.

3.4 Consideration for Assets.

(a) The consideration for the transfer by DHL to the Operating Sub of the WI Assets shall be the reservation of the Overriding Royalty Interest created in the WI Assets Conveyance and the assumption of liabilities by the Operating Sub as set forth in the WI Assets Conveyance.

(b) In consideration of the transfer by DHL to the Operating Sub of the Management Assets, the Operating Sub shall pay to DHL at the Closing an aggregate purchase price equal to the fair market value of the Management Assets as of a date within 10 days prior to closing, less the amount of obligations assumed by the Operating Sub pursuant to clause (2) of Part IV of the Management Assets Conveyance. Such fair market value shall be determined by independent appraisal by an appraiser or appraisers selected and paid for by DHL; provided such appraiser or appraisers must be approved by RRC and SRC, such approval not to be unreasonably withheld. The Operating Sub shall deliver to DHL at the Closing a promissory note (the "Note") of the Operating Sub, dated the Closing Date, payable to the order of DHL in a principal amount equal to such purchase price for the Management Assets. The unpaid principal of the Note shall bear interest at the rate of 6 percent per annum, and the principal of the Note and interest accruing thereon shall be payable in quarterly installments according to a five-year amortization schedule. The Note shall contain no prepayment penalty. The Note shall represent an unsecured, general obligation of the Operating Sub.

(c) In consideration of the transfer by DHL to the Partnership of the NPI and Residual Assets, the Partnership shall, upon the liquidation of DHL and instructions from the Liquidating Trustee, issue to the general and limited partners (other than dissenting partners) of DHL at the Dissolution Record Date (as defined below) a number of LP Units equal to the Initial DHL Number, as more fully set forth in Section 3.7.

3.5 Liabilities Assumed.

(a) As further consideration for the transfer of the WI Assets to the Operating Sub, the Operating Sub agrees, upon the terms and subject to the conditions set forth herein, to assume, at the Closing, and thereafter to pay, perform, and discharge, all of the liabilities and obligations of DHL identified as "Assumed Liabilities" in the WI Assets Conveyance.

(b) As further consideration for the transfer of the Management Assets to the Operating Sub, the Operating Sub agrees, upon the terms and subject to the conditions set forth herein, to assume, at the Closing, and thereafter to pay, perform, and discharge, all of the liabilities and obligations of DHL identified as "Assumed Liabilities" in the Management Assets Conveyance.

(c) As further consideration for the transfer of the NPI and Residual Assets to the Partnership, the Partnership agrees, upon the terms and subject to the conditions set forth herein, to assume, at the Closing, and thereafter to pay, perform, and discharge, all of the liabilities and obligations of DHL, direct or indirect, known or unknown, absolute or contingent, but excluding the Excluded Liabilities (as defined in Section 3.6).

3.6 Liabilities Not Assumed by the Partnership. The Partnership shall not assume or take title to the NPI and Residual Assets subject to, or in any way be liable or responsible for the following liabilities, contracts, commitments and other obligations of DHL (the "Excluded Liabilities"): the liabilities or obligations assumed by the Operating Sub pursuant to Section 3.5(a) or 3.5(b). For purposes of this Section, references to DHL shall include its predecessors in title.

3.7 Liquidation and Distribution.

(a) The parties acknowledge that upon consummation of the Asset Conveyance, an event of dissolution of DHL shall have occurred pursuant to Section 10.01 of the Amended and Restated Certificate and Agreement of Limited Partnership of DHL, as amended (the "DHL Partnership Agreement), and that, accordingly, upon such dissolution DHL shall be wound up and liquidated in accordance with the Partnership Agreement.

(b) Prior to the Closing Date, DHL shall designate a bank or trust company reasonably acceptable to the Partnership, RRC and SRC (the "Liquidating Agent") for the purpose of effecting the liquidating distribution by DHL to its limited partners pursuant to the DHL Partnership Agreement and this Section 3.7. The Liquidating Agent may be the Depository and Transfer Agent of DHL, and the Partnership, RRC and SRC hereby consent

to such designation if made by DHL. The Liquidating Agent may also be the Exchange Agent if the same bank or trust company is designated to act in both capacities.

(c) Pursuant to an agreement of even date herewith (the "Liquidation Agreement") by and between the Partnership and the general partners of DHL (the "DHL General Partners"), (i) such DHL General Partners will, in their capacity as Liquidating Trustee, wind up DHL on the Closing Date immediately following the consummation of the Combination, (ii) the Partnership will act as agent for the Liquidating Trustee in connection with the mechanics of liquidation set forth below, (iii) the DHL General Partners will provide the Partnership on the Closing Date with the instructions contemplated by Section 3.4(c) and to cause DHL to transfer on the first Business Day following the Closing Date (A) to the Liquidating Agent those other assets of DHL remaining after the Asset Conveyance that are distributable to the limited partners of DHL in liquidation (which shall be cash equal to 99% of the Excess Cash Amount) and (B) to the DHL General Partners those other assets of DHL remaining after the Asset Conveyance that are distributable to the general partners of DHL in liquidation (which shall be cash equal to 1% of the Excess Cash Amount), and (iv) the DHL General Partners will file a certificate of cancellation of the Partnership promptly after such winding up.

(d) Unless otherwise provided in the Depositary Agreement as then in effect, DHL will cause the Depositary to mail, at least 30 days prior to Closing, notice to the record owners of Depositary Receipts, which notice will state that the Depositary Agreement shall terminate upon the dissolution of DHL resulting from Closing. DHL shall require that the Depositary at Closing deliver to the Partnership (or, at the request of the Partnership, to the Liquidating Agent), all books, records, certificates, Depositary Receipts and other documents respecting the subject matter of the Depositary Agreement, and DHL shall cause its Depositary and Transfer Agent and its Nominee to take such actions, in conjunction with the Liquidating Agent, as shall be necessary to provide for the distribution in liquidation of the LP Units and the cash amounts distributable to the non-dissenting limited partners of DHL to be made to the holders of the Depositary Receipts of DHL with respect to which the Depositary is acting as the holder of the limited partnership units issued by DHL represented by such Depositary Receipts and with respect to which limited partnership interests the Nominee acts as limited partner of record.

(e) At the effective time of DHL's dissolution, DHL shall cause the transfer records of DHL maintained by its Depositary and Transfer Agent to be closed and no transfers of Depository Receipts representing units of limited partnership of DHL shall thereafter be made nor shall DHL allow any other transfer of Depository Receipts or units of limited partnership interest in DHL to be recorded or recognized on the books and records of DHL or any person to become a substituted limited partnership pursuant to the DHL Partnership Agreement.

(f) Subject to consummation of the Asset Conveyance, the Partnership, as agent for the Liquidating Trustee, shall cause the Liquidating Agent to make liquidating

distributions to the limited partners of DHL in accordance with the procedures set forth in this Section 3.7. Each limited partner, upon compliance with the procedures set forth in this Section 3.7, shall be entitled to receive as a liquidating distribution, (A) its share, in accordance with the DHL Partnership Agreement, of the Excess Cash Amount that is distributable to non-dissenting limited partners of DHL pursuant to this Agreement and the DHL Partnership Agreement and (B) a certificate representing that number of whole LP Units that such non-dissenting limited partner has a right to receive pursuant to this Agreement and the DHL Partnership Agreement. Upon the receipt of the instructions contemplated by Section 3.4(c), the Partnership will (x) make available to the Liquidating Agent, for the benefit of the non-dissenting limited partners of DHL, for distribution in accordance with the DHL Partnership Agreement, certificates representing the number of whole LP Units equal to the DHL LP Number that are issuable pursuant to this Agreement and deliverable pursuant to the liquidation provisions of the DHL Partnership Agreement to non- dissenting limited partners of DHL and (y) (in order to consummate the transactions contemplated by the GP Contribution Agreement on the Closing Date) issue and deliver to the DHL General Partners certificates representing the number of LP Units issuable pursuant to this Agreement and deliverable pursuant to the liquidation provisions of the DHL Partnership Agreement in respect of their general partner interests in DHL. Promptly after the Closing, the Partnership will send, or will cause the Liquidating Agent to send, to each non-dissenting limited partner of DHL at the close of business on the Closing Date (the "Dissolution Record Date") (i) a form of letter of transmittal and instructions for use in effecting the surrender of the certificates representing Depositary Receipts in connection with the liquidation of DHL and the liquidating distribution to be made to the limited partners of DHL, and (ii) a Transfer Application, in such form as the Partnership, DHL, RRC and SRC may reasonably agree, for use in admission of such partners as limited partners in the Partnership.

(g) Each non-dissenting limited partner of DHL, upon delivery to the Liquidating Agent of a properly completed letter of transmittal accompanied by Depositary Receipts representing the limited partnership interests with respect to which such letter of transmittal has been completed will be entitled to receive (i) its share, in accordance with the DHL partnership Agreement, of the Excess Cash Amount that is distributable to such partners and (ii) a certificate representing that number of whole LP Units that such partners has a right to receive, pursuant to the provisions of this Article III and the DHL Partnership Agreement, with respect to the limited partnership interests represented by the Depositary Receipts so delivered. Each non-dissenting limited partner of DHL, upon delivery to the Liquidating Agent (who shall promptly forward such to the Partnership) of a properly completed Transfer Application, will be admitted into the Partnership as a limited partner in accordance with the Partnership Agreement with respect to the LP Units so delivered to him. Prior to such time, each such party shall have the rights of an "Assignee" under the Partnership Agreement; provided, however, that no distributions with respect to LP Units deliverable to partners of DHL or holders of Depositary Receipts shall be paid to any such Person with respect to any LP Units for which a properly executed letter of transmittal, accompanied by Depositary Receipts covered thereby, has not been delivered in accordance with the procedures set forth

in this Section 3.7 until such Depositary Receipts and letter of transmittal are so delivered. Subject to the effect of applicable laws, following such delivery, there shall be paid, without interest, to the record holder of the LP Units issued in exchange therefor (i) at the time of such surrender, all distributions payable in respect of such LP Units with a record date after the Effective Time and a payment date on or prior to the date of such surrender and not previously paid and (ii) at the appropriate payment date, the distributions payable with respect to such LP Units with a record date after the Effective Time but with a payment date subsequent to such surrender. The Liquidating Agent shall be authorized to deliver the share of the Excess Cash Amount and the LP Units with respect to any Depositary Receipt which has been lost or destroyed, upon receipt of evidence satisfactory to the Partnership and the Liquidating Agent of ownership of the limited partnership interest represented thereby and of appropriate indemnification. The Liquidating Agent shall be authorized to establish appropriate procedures and conditions, to be reflected in the letter of transmittal, for delivery to a person other than the requested holder of a Depositary Receipt who is the transferee of such Depositary Receipt, of the share of the Excess Cash Amount and the LP Units deliverable with respect thereto.

(h) The LP Units and share of the Excess Cash Amount distributed to the non- dissenting partners of DHL in accordance with the terms hereof and the DHL Partnership Agreement shall be deemed to have been issued in full satisfaction of all rights pertaining to the DHL partnership interests and/or Depositary Receipts held by such Person.

(i) None of the Partnership, DHL, its general partners, the Liquidating Agent or the Depositary and Transfer Agent shall be liable to a limited partner of DHL for any amount paid in good faith to a public official pursuant to applicable property, escheat or similar laws.

(j) Promptly following the date which is six months after the Effective Time, the Liquidating Agent shall deliver to the Partnership all cash, certificates and other documents and instruments in its possession relating to the transactions described in this Agreement, and the Liquidating Agent's duties shall terminate. Thereafter, each holder of a limited partnership interest in, or Depositary Receipt of, DHL shall (subject to applicable abandoned property, escheat, and similar laws) look only to the Partnership for payment of the applicable liquidating distribution and any amounts to which such holder is entitled pursuant to Section 3.7(g), but such holder shall have no greater rights against the Partnership than may be accorded to general creditors of the Partnership under Applicable Law.

3.8 Tax Consequences. For United States federal income tax purposes, the transfer of the NPI and Residual Assets to the Partnership shall be treated as a contribution to the capital of the Partnership by DHL under Section 721 of the Code in exchange for the consideration described in Section 3.4 of this Agreement, followed by the complete liquidation and termination of DHL and the distribution of such consideration to the partners of DHL under Section 731 of the Code.

ARTICLE IV

DISSENTING PARTNERS

4.1 Demand for Dissenter's Rights of Appraisal.

(a) If SRC or DHL receives approval of this Agreement and the transactions contemplated hereby by holders of less than seventy-five percent (75%) (based on the percentage interests in profits at the time of the applicable Partnership Vote) of the limited partnership interests, including the limited partnership interests held by such Subject Partnership's general partner(s), the limited partners in such Subject Partnership not receiving such approval will be entitled to exercise dissenter's rights of appraisal as set forth in this Article IV.

(b) In order to exercise the right to dissent, a limited partner of a Subject Partnership must (i) deliver to the general partner of such Subject Partnership, at the address of such general partner set forth in Section 16.1, prior to the applicable Partnership Vote, a written notice of intention to demand a cash payment (a "Dissenter's Notice") that is made by or on behalf of the person who is the limited partner of record of the limited partnership interests for which such dissenters' rights are demanded and (ii) vote AGAINST approval of this Agreement. A proxy or ballot simply voting against approval of this Agreement does not constitute a Dissenter's Notice. A limited partner intending to exercise dissenters' rights must do so by a separate written Dissenter's Notice that reasonably informs the applicable general partner of the identity of the limited partner of record and of such limited partner's intention to demand cash for his limited partnership interests. Because a proxy left blank will be voted for approval of this Agreement, a limited partner electing to exercise dissenters' rights who votes by proxy must not leave the proxy blank but must vote against approval of this Agreement.

(c) For a Dissenter's Notice of a DHL limited partner to be effective, such Dissenter's Notice must include a duly executed original of an Agreement of Dissenter in the form attached hereto as Exhibit 4.1(c), pursuant to which such limited partner (i) agrees, subject to consummation of Asset Conveyance and for the benefit of DHL, DHL's general partners and the Partnership, that notwithstanding anything to the contrary in the DHL Partnership Agreement, the Depositary Agreement or the Nominee Agreement such limited partner shall not be entitled to receive any assets of the Partnership or any portion of the LP Units or Excess Cash Amount upon winding up of DHL after dissolution but instead shall solely be entitled to receive the amount provided in this Article IV and (ii) irrevocably waives, relinquishes and releases any such right or entitlement to LP Units or Excess Cash Amount.

(d) Only the limited partner of record of limited partnership interests is entitled to demand dissenters' rights for the limited partnership interests registered in that limited partner's name. The Dissenter's Notice must be executed by or for the limited partner of record, fully and correctly, as the limited partner's name appears on the proxy mailed to the limited partner. If the limited partnership interests are owned of record in a fiduciary capacity, such as by a trustee, guardian, or custodian, the Dissenter's Notice should be executed in that capacity. If the limited

partnership interests are owned of record by more than one person, as in a joint tenancy or tenancy in common, the Dissenter's Notice should be executed by or for all owners. An authorized agent, including one of two or more joint owners, may execute the Dissenter's Notice for a limited partner of record; however, the agent must identify the owner or owners of record and expressly disclose the fact that, in executing the Dissenter's Notice, the agent is acting as agent for the owner or owners of record.

(e) Unless otherwise agreed to in writing by each Subject Partnership in its discretion, no withdrawal of an election to dissent with respect such Subject Partnership will be effective unless the general partner of the applicable Subject Partnership has received, prior to 3 p.m. Dallas, Texas time on the date of the Partnership Vote, a written notice of withdrawal, which notice shall be subject to the requirements set forth in Sections 4.1(b) and (d) above and which (in the case of a DHL limited partner) shall, to the reasonable satisfaction of the Partnership, effectively revoke the agreement referred to in Section 4.1(c).

4.2 Payment of Cash to Dissenting Limited Partners. A dissenting limited partner that has met the requirements of Section 4.1 will be entitled to receive a cash payment for such limited partner's limited partnership interests in such Subject Partnership, determined as provided in this Section 4.2. Within ten (10) days after the Closing, the Partnership will notify any dissenting limited partners who have properly perfected their dissenter's rights of appraisal of this fact (the "Dissenting Partners"). For a period of thirty (30) days after the date of the notice, either the Partnership or any Dissenting Partner can propose and thereafter negotiate a price that will be paid for the Dissenting Partner's interest in the applicable Subject Partnership. Any Subject Partnership for which the Partnership and all Dissenting Partners of such Subject Partnership are unable to reach an agreement within such thirty (30) day period is referred to herein as a "Disputed Partnership". For any Disputed Partnership, an independent appraiser selected by the Partnership (the "Appraiser") will determine the value of a Dissenting Partner's interest in such Disputed Partnership based on appraisal of such Disputed Partnership assets which will value such Disputed Partnership's assets as they existed prior to transactions at Closing as if sold in an orderly manner in a reasonable period of time and in a manner consistent with appropriate industry practice. The Appraiser shall have ninety (90) days to determine the value of the Dissenting Partners' limited partnership interests. The determination of the Appraiser shall be final. The Partnership shall pay the Dissenting Partners the amount determined by the Appraiser within fifteen (15) days of such determination, with interest from the Closing Date to the payment date at the "prime rate" as published in the Wall Street Journal from time to time between the Closing Date and the payment date. All fees of the Appraiser shall be borne by the Partnership. Notwithstanding the foregoing, for any Disputed Partnership, if the Partnership so elects, the value of a Dissenting Partner's interest in such Disputed Partnership shall be the value of such interest as determined by any appraisal conducted pursuant to Section 10.5(d), if such appraisal was based on the value of such Disputed Partnership's assets as they existed on a date that is not more than 30 days prior to the Closing Date.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF RRC

RRC represents and warrants to the other parties hereto that:

5.1 Organization. As of the date of this Agreement, RRC is a partnership duly organized, validly existing and in good standing under the laws of the State of Texas and has all requisite partnership power and partnership authority to own, lease and operate its properties and to carry on its business as now being conducted. On the Closing Date, RRC shall be a limited partnership duly organized, validly existing and in good standing under the laws of the State of Texas and shall have all requisite partnership power and partnership authority to own, lease and operate its properties and to carry on its business as then being conducted. No actions or proceedings to dissolve RRC are pending.

5.2 Qualification. RRC is duly qualified or licensed to do business as a foreign partnership and in good standing in each of the jurisdictions set forth on Schedule 5.2; provided, however that on the Closing Date no action relating to RRC's conversion to a limited partnership shall be reflected in such jurisdictions. The failure of RRC to be so qualified or licensed in other jurisdictions does not and will not affect the enforceability of any of its material contracts (including this Agreement), and RRC is able to obtain such qualification or license in each such other jurisdiction without significant expense or loss.

5.3 Governing Documents. Prior to the date of this Agreement, RRC has made available to each other Subject Partnership accurate and complete copies of the partnership agreement of RRC as currently in effect. On the Closing Date, RRC shall have made available to each other Subject Partnership accurate and complete copies of the certificate of limited partnership and partnership agreement of RRC as in effect upon consummation of the RRC Reorganization.

5.4 Capitalization of RRC. Except as set forth in Schedule 5.4, as of the date of this Agreement there are no outstanding subscriptions, options, warrants, calls, contracts, demands, commitments, convertible securities or other agreements or arrangements of any character or nature whatsoever under which RRC may become obligated to issue, assign, transfer or repurchase any partnership interests of RRC. On the Closing Date and immediately after giving effect to the RRC Reorganization, there shall be no outstanding subscriptions, options, warrants, calls, contracts, demands, commitments, convertible securities or other agreements or arrangements of any character or nature whatsoever under which RRC may become obligated to issue, assign, transfer or repurchase any partnership interests of RRC.

5.5 Authority Relative to This Agreement. RRC has full partnership power and authority to execute and deliver this Agreement and, subject to the adoption of this Agreement by the partners of RRC in accordance with Applicable Law and RRC's partnership agreement ("RRC Partner Approval"), to consummate the transactions contemplated hereby. The execution, delivery and performance by RRC of this Agreement, and the consummation by it of the transactions

contemplated hereby, have been duly authorized by the general partners of RRC, and no other partnership proceedings (other than RRC Partner Approval) on the part of RRC are necessary to authorize the execution, delivery and performance by RRC of this Agreement and the consummation by it of the transactions contemplated hereby. This Agreement has been duly executed and delivered by RRC and constitutes, and each other agreement, instrument or document executed or to be executed by RRC in connection with the transactions contemplated hereby has been, or when executed will be, duly executed and delivered by RRC and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of RRC enforceable against RRC in accordance with their respective terms, except that such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally and (ii) equitable principles which may limit the availability of certain equitable remedies (such as specific performance) in certain instances. On or prior to the date of this Agreement, the general partners of RRC have determined to recommend approval of the RRC Merger to those persons who shall be limited partners of RRC upon the RRC Reorganization, and such determination is in effect.

5.6 Noncontravention. Except as otherwise indicated on Schedule 5.6, the execution, delivery and performance by RRC of this Agreement and the consummation by it of the transactions contemplated hereby, including without limitation the RRC Reorganization, do not and will not (i) conflict with or result in a violation of any provision of the partnership agreement or (at closing) the certificate of limited partnership of RRC, (ii) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation or acceleration under, any bond, debenture, note, mortgage, indenture, lease, contract, agreement or other instrument or obligation to which RRC is a party or by which RRC or any of its properties or (to the knowledge of RRC) the Unaffiliated ORRI may be bound, (iii) result in the creation or imposition of any Encumbrance upon the properties of RRC or (to the knowledge of RRC) the Unaffiliated ORRI or (iv) assuming compliance with the matters referred to in Section 5.7, violate any Applicable Law binding upon RRC or (to the knowledge of RRC) the Unaffiliated ORRI, except, in the case of clauses (ii), (iii) and (iv) above, for any such conflicts, violations, defaults, terminations, cancellations, accelerations or Encumbrances which would not, individually or in the aggregate, have a Material Adverse Effect on RRC and the Unaffiliated ORRI considered as a whole.

5.7 Governmental Approvals. To the knowledge of RRC, no consent, approval, order or authorization of, or declaration, filing or registration with, any Governmental Entity is required to be obtained or made by RRC in connection with the execution, delivery or performance by RRC of this Agreement or the consummation by it of the transactions contemplated hereby, other than (i) the filings with the Secretary of State of Texas required to effectuate the RRC Reorganization, (ii) the filing by RRC of a certificate of merger in accordance with State Law, (iii) compliance with any applicable requirements of the HSR Act, (iv) compliance with any applicable state securities or takeover laws, (v) as set forth on Schedule 5.7, (vi) filings with Governmental Entities to occur in the ordinary course following the consummation of the transactions contemplated hereby, (vii) filings with or approvals of Governmental Entities which may be necessary due to the status of the

Partnership, SRC or DHL or any affiliate thereof and (viii) such consents, approvals, orders or authorizations which, if not obtained, and such declarations, filings or registrations which, if not made, would not, individually or in the aggregate, have a Material Adverse Effect on RRC.

5.8 No Subsidiaries. RRC has no subsidiaries. In addition, RRC does not own, directly or indirectly, any capital stock or other securities of any corporation or have any direct or indirect equity or ownership interest in any other person.

5.9 Financial Statements.

(a) RRC has delivered to each other Subject Partnership accurate and complete copies of (i) RRC's unaudited consolidated balance sheet as of September 30, 2001 (the "RRC Latest Balance Sheet"), and the related unaudited consolidated statements of income, stockholders' equity and cash flows for the nine-month period then ended (the "RRC Unaudited Financial Statements"), and (ii) RRC's audited consolidated balance sheet as of December 31, 2000, and the related audited consolidated statements of income, stockholders' equity and cash flows for the year then ended, and the notes and schedules thereto, together with the report thereon of KPMG LP, independent certified public accountants (the "RRC Audited Financial Statements") (collectively, the "RRC Financial Statements"). The RRC Financial Statements (A) have been prepared from the books and records of RRC in conformity with generally accepted accounting principles applied on a basis consistent with preceding years throughout the periods involved, except that the RRC Unaudited Financial Statements are not accompanied by notes or other textual disclosures required by generally accepted accounting principles, and (B) accurately and fairly present RRC's consolidated financial position as of the respective dates thereof and its consolidated results of operations and cash flows for the periods then ended, except that the RRC Unaudited Financial Statements are subject to audit adjustments, which in RRC's reasonable judgment should not be material in the aggregate.

(b) RRC has delivered to each other Subject Partnership accurate and complete copies of (i) the unaudited consolidated balance sheet as of September 30, 2001 of the Unaffiliated ORRI, and the related unaudited consolidated statements of income, stockholders' equity and cash flows for the nine- month period then ended (the "Unaffiliated ORRI Unaudited Financial Statements"), and (ii) the audited consolidated balance sheet as of December 31, 2000 for the Unaffiliated ORRI, and the related audited consolidated statements of income, stockholders' equity and cash flows for the year then ended, and the notes and schedules thereto, together with the report thereon of KPMG LP, independent certified public accountants (the "Unaffiliated ORRI Audited Financial Statements") (collectively, the "Unaffiliated ORRI Financial Statements"). The Unaffiliated ORRI Financial Statements (A) have been prepared from the books and records of RRC in conformity with generally accepted accounting principles applied on a basis consistent with preceding years throughout the periods involved, except that the Unaffiliated ORRI Unaudited Financial Statements are not accompanied by notes or other textual disclosures required by generally accepted accounting principles, and (B) accurately and fairly present the Unaffiliated ORRI's consolidated financial position as of the respective dates thereof and its consolidated results of operations and cash flows for the periods then ended, except that the Unaffiliated ORRI Unaudited Financial Statements are

subject to audit adjustments, which in RRC's reasonable judgment should not be material in the aggregate.

5.10 Absence of Undisclosed Liabilities. To the best knowledge of RRC, as of the date of this Agreement, RRC does not have any liability or obligation (whether accrued, absolute, contingent, unliquidated or otherwise) and (to the knowledge of RRC) the Unaffiliated ORRI is not subject to any such liability or obligation, except (i) liabilities reflected on the RRC Latest Balance Sheet or the Unaffiliated ORRI Latest Balance Sheet, (ii) liabilities described in the notes accompanying the RRC Audited Financial Statements or the Unaffiliated ORRI Audited Financial Statements, (iii) liabilities which have arisen since the date of the RRC Latest Balance Sheet or the Unaffiliated ORRI Latest Balance Sheet in the ordinary course of business (none of which is a material liability for breach of contract, tort or infringement), (iv) liabilities arising under executory provisions of contracts entered into in the ordinary course of business (none of which is a material liability for breach of contract), (v) liabilities disclosed on Schedule 5.10 and (vi) other liabilities which, in the aggregate, are not material to RRC and the Unaffiliated ORRI considered as a whole.

5.11 Absence of Certain Changes. As of the date of this Agreement, except as disclosed on Schedule 5.11, since the date of the RRC Unaudited Financial Statements, (i) there has not been any material adverse change in, or any event or condition that might reasonably be expected to result in any material adverse change in, the assets or financial condition of RRC, (ii) to the knowledge of RRC, there has not been any material adverse change in, or any event or condition that might reasonably be expected to result in any material adverse change in, the assets or financial condition of RRC and the Unaffiliated ORRI considered as a whole, (iii) the businesses of RRC (including the business conducted with respect to the Unaffiliated ORRI) have been conducted only in the ordinary course consistent with past practice, (iv) RRC has not incurred any material liability, engaged in any material transaction or entered into any material agreement outside the ordinary course of business consistent with past practice (including in each case with respect to the Unaffiliated ORRI), (v) RRC has not suffered any material loss, damage, destruction or other casualty to any of its assets (whether or not covered by insurance), and (to the knowledge of RRC) no material loss has occurred with respect to the Unaffiliated ORRI, and (vi) RRC has not taken any of the actions set forth in Section 10.2 except as permitted thereunder or permitted any such action (except as permitted thereunder) to be taken with respect to the Unaffiliated ORRI.

5.12 Tax Matters. RRC has duly filed or caused to be filed all federal, state and local Tax Returns required to be filed by or with respect to it with the IRS or other applicable taxing authority, except in such cases where the failure to file would not have a Material Adverse Effect on RRC. Except as disclosed on Schedule 5.12, RRC has paid, or adequately reserved against in its financial statements, all Taxes due or claimed by any taxing authority to be due from RRC except Taxes that are being contested in good faith by appropriate proceedings and for which adequate reserves have been set aside, and there are no liens for Taxes (other than for taxes not yet due and payable) upon any of the assets of RRC. To the best knowledge of RRC, there has been no issue raised or adjustment proposed (and to the knowledge of RRC, none is pending) by the IRS or any other taxing authority in connection with any of the Tax Returns, nor has RRC received any written notice from the IRS or any such other taxing authority that any Tax Return is being audited or may be audited

or examined. Except as disclosed on Schedule 5.12, RRC has not agreed to the extension of any statute of limitations on the assessment or collection of any Tax or with respect to any Tax Return.

5.13 Compliance With Laws. Except as disclosed on Schedule 5.13, to the best knowledge of RRC, RRC has complied and (to the knowledge of RRC) the Unaffiliated ORRI is in compliance in all material respects with all Applicable Laws, except for noncompliance with such Applicable Laws which, individually or in the aggregate, does not and will not have a Material Adverse Effect on RRC and the Unaffiliated ORRI considered as a whole. Except as disclosed on Schedule 5.13, RRC has not received any written notice from any Governmental Entity, which has not been dismissed or otherwise disposed of, that RRC or the Unaffiliated ORRI has not so complied. RRC is not charged or, to the best knowledge of RRC, threatened with, or under investigation with respect to, any violation of any Applicable Law relating to any aspect of the business of RRC or the Unaffiliated ORRI, other than violations which, individually or in the aggregate, do not and in the reasonable judgment of RRC will not have a Material Adverse Effect on RRC and the Unaffiliated ORRI considered as a whole.

5.14 Legal Proceedings. Except as disclosed on Schedule 5.14, there are no Proceedings pending or, to the best knowledge of RRC, threatened against or involving RRC (or any of its general partners or their respective directors or officers in connection with the business or affairs of RRC) or any properties or rights of RRC or the Unaffiliated ORRI. Except as disclosed on Schedule 5.14, any and all potential liability of RRC or (to the knowledge of RRC) the Unaffiliated ORRI under such Proceedings is adequately covered (except for standard deductible amounts) by the existing insurance maintained by RRC or the holders of the Unaffiliated ORRI. Neither RRC nor (to the knowledge of RRC) the Unaffiliated ORRI is subject to any judgment, order, writ, injunction, or decree of any Governmental Entity which has had or is reasonably likely to have a Material Adverse Effect on RRC and the Unaffiliated ORRI considered as a whole. There are no Proceedings pending or, to the best knowledge of RRC, threatened seeking to restrain, prohibit, or obtain damages or other relief in connection with this Agreement or the transactions contemplated hereby.

5.15 Permits. To the best knowledge of RRC, RRC holds all Permits necessary or required for the conduct of its business (including the business conducted with respect to the Unaffiliated ORRI) as currently conducted, except for Permits the absence of which do not and will not have a Material Adverse Effect on RRC. To the best knowledge of RRC, each of such Permits is in full force and effect and each of RRC and the Unaffiliated ORRI is in compliance with each such Permit, except in such respects as would not reasonably be expected to have a Material Adverse Effect on RRC and the Unaffiliated ORRI considered as a whole. Except as disclosed on Schedule 5.15, RRC has not received any written notice from any Governmental Entity and no Proceeding is pending or, to the best knowledge of RRC, threatened with respect to any alleged failure by RRC or (to the knowledge of RRC) the Unaffiliated ORRI to have any Permit the absence of which would have a Material Adverse Effect on RRC and the ORRI considered as a whole. For purposes of satisfying the condition in Sections 12.3(a), 12.4(a) and 12.5(a) relating to accuracy at the Closing Date, the condition shall be satisfied if the representations and warranties in this Section 5.15 are true and correct in all material respects as of the Closing Date, without giving effect to the RRC Reorganization; provided that the RRC Reorganization has not resulted in any forfeiture of assets

or rights by RRC or (except as contemplated by the RRC Reorganization as described herein) affecting the Unaffiliated ORRI as of the Closing Date.

5.16 Employee Benefit Plans.

(a) Set forth on Schedule 5.16 is a list identifying each "employee benefit plan", as defined in Section 3(3) of ERISA, (i) which is subject to any provision of ERISA, (ii) which is maintained, administered, or contributed to by RRC or any affiliate of RRC, and (iii) which covers any employee or former employee of RRC or any affiliate of RRC or under which RRC or any affiliate of RRC has any liability. RRC has delivered to each of the other Subject Partnerships accurate and complete copies of such plans (and, if applicable, the related trust agreements) and all amendments thereto and written interpretations thereof, together with, if applicable, the three most recent annual reports (Form 5500) filed in connection with any such plan. Such plans are referred to in this Section as the "RRC Employee Plans". For purposes of this Section only, an "affiliate" of any person means any other person which, together with such person, would be treated as a single employer under Section 414 of the Code. The only RRC Employee Plans which individually or collectively would constitute an "employee pension benefit plan" as defined in Section 3(2) of ERISA are identified as such on Schedule 5.16.

(b) Except as otherwise identified on Schedule 5.16, (i) no RRC Employee Plan constitutes a "multiemployer plan" as defined in Section 3(37) of ERISA (a "Multiemployer Plan"), (ii) no RRC Employee Plan is maintained in connection with any trust described in Section 501(c)(9) of the Code, (iii) no RRC Employee Plan is subject to Title IV of ERISA or to the minimum funding standards of ERISA and the Code, and (iv) during the past five years, neither RRC nor any of its affiliates have made or been required to make contributions to any Multiemployer Plan. There are no accumulated funding deficiencies as defined in Section 412 of the Code (whether or not waived) with respect to any RRC Employee Plan. Neither RRC nor any affiliate of RRC has incurred any material liability under Title IV of ERISA arising in connection with the termination of, or complete or partial withdrawal from, any plan covered or previously covered by Title IV of ERISA. RRC and all of the affiliates of RRC have paid and discharged promptly when due all liabilities and obligations arising under ERISA or the Code of a character which if unpaid or unperformed might result in the imposition of a lien against any of the assets of RRC or any affiliate of RRC. Nothing done or omitted to be done and no transaction or holding of any asset under or in connection with any RRC Employee Plan has or will make RRC or any affiliate of RRC or any director or officer of RRC or any affiliate of RRC subject to any liability under Title I of ERISA or liable for any Tax pursuant to Section 4975 of the Code that could have a Material Adverse Effect. There are no threatened or pending claims by or on behalf of the RRC Employee Plans, or by any participant therein, alleging a breach or breaches of fiduciary duties or violations of Applicable Laws which could result in liability on the part of RRC, its officers or directors, or such RRC Employee Plans, under ERISA or any other Applicable Law and there is no basis for any such claim.

(c) No RRC Employee Plan is intended to be qualified under Section 401(a) of the Code. Each RRC Employee Plan has been maintained in all material respects in compliance with its terms

and with the requirements prescribed by all Applicable Laws, including but not limited to ERISA and the Code, which are applicable to such Plans.

(d) Neither RRC nor any affiliate of RRC provides employee post-retirement medical or health coverage or contributes to or maintains any employee welfare benefit plan that provides for health benefit coverage following termination of employment except as is required by Section 4980B of the Code, nor has RRC or any affiliate of RRC made any representations, agreements, covenants or commitments to provide any such coverage.

(e) To the extent not listed on Schedule 5.16 pursuant to subsection (a) above, there is separately set forth on Schedule 5.16 a list of each employment or severance agreement or other similar contract, arrangement or policy, and each plan or arrangement (written or oral) providing for insured or self-insured death benefits, workers' compensation benefits, disability benefits, severance benefits, supplemental unemployment benefits, vacation benefits, retirement benefits, deferred compensation, profit- sharing, bonuses, stock options, stock appreciation rights, or other forms of incentive compensation or post-retirement insurance, compensation or benefits which (i) is not an RRC Employee Plan, (ii) has been entered into, maintained or contributed to, as the case may be, by RRC or any affiliate of RRC, and (iii) covers any employee or former employee of RRC or any affiliate of RRC or under which RRC or any affiliate of RRC has any liability. The agreements, contracts, arrangements, policies and plans described in the preceding sentence are referred to for purposes of this Section as the "RRC Benefit Arrangements". RRC has delivered to each of the other Subject Partnerships accurate and complete copies of the RRC Benefit Arrangements and all amendments thereto and written interpretations thereof, together with any valuation or liability reports or other documentation relating to or prepared in connection with any of the RRC Arrangements. Each RRC Benefit Arrangement has been maintained in all material respects compliance with its terms and with the requirements prescribed by Applicable Laws.

(f) Neither RRC nor any affiliate of RRC has performed any act or failed to perform any act, and there is no contract, agreement, plan, or arrangement covering any employee or former employee of RRC or any affiliate of RRC, that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to the terms of Section 162(a)(1), 162(m) or 280G of the Code, or could give rise to any penalty or excise Tax pursuant to Section 4980B or 4999 of the Code.

(g) Except as disclosed on Schedule 5.16, there has been no amendment, written interpretation, or announcement (whether or not written) by RRC or any affiliate of RRC of or relating to, or change in employee participation or coverage under, any RRC Employee Plan or RRC Benefit Arrangement which would increase materially the expense of maintaining such RRC Employee Plan or RRC Benefit Arrangement above the level of the expense incurred in respect thereof for the fiscal year ended December 31, 2000.

(h) Each RRC Employee Plan and each RRC Benefit Arrangement can be terminated by RRC or an affiliate of RRC at any time upon notice thereof not exceeding 30 days, and neither such termination nor the consummation of the transactions contemplated by this Agreement will (i) entitle

any employee, officer or director of RRC or any affiliate of RRC to severance pay or an election to terminate and receive severance pay, (ii) accelerate the time of payment or vesting or trigger any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or trigger any other material obligation pursuant to, any RRC Employee Plan or RRC Benefit Arrangement, or (iii) result in any breach or violation of, or a default under, any RRC Employee Plan or RRC Benefit Arrangement.

5.17 Labor Relations.

(a) Except as disclosed on Schedule 5.17, (i) there are no collective bargaining agreements or other labor union contracts applicable to any employees to or by which RRC is a party or is bound, no such agreement or contract has been requested by an employee or group of employees of RRC, and no discussions have occurred with respect thereto by management of RRC with any such employees; (ii) no employees of RRC are represented by any labor organization, collective bargaining representative, or group of employees; (iii) no labor organization, collective bargaining representative, or group of employees claims to represent a majority of the employees of RRC in an appropriate unit of RRC; (iv) RRC is not aware of or involved with any representational campaign or other organizing activities by any union or other organization or group seeking to become the collective bargaining representative of any of its employees; (v) RRC is not obligated to bargain collectively with respect to wages, hours, and other terms and conditions of employment with any recognized or certified labor organization, collective bargaining representative, or group of employees; and (vi) RRC is not aware of any strikes, work stoppages, work slowdowns or lockouts or any threats thereof by or with respect to any of its employees, and since January 1, 1998, there have been no labor disputes, strikes, work stoppages, work slowdowns, lockouts or similar matters involving any such employees.

(b) RRC is in compliance in all material respects with all Applicable Laws pertaining to employment and employment practices and wages, hours and other terms and conditions of employment in respect of its employees, and has no accrued liability for any arrears of wages or any Taxes or penalties for failure to comply with any thereof. RRC is not engaged in any unfair labor practices or unlawful employment practices. There is no pending or, to the best knowledge of RRC, threatened Proceeding against or involving RRC by or before, and RRC is not subject to any judgment, order, writ, injunction, or decree of or inquiry from, the National Labor Relations Board, the Equal Employment Opportunity Commission, the Department of Labor, or any other Governmental Entity in connection with any current, former or prospective employee of RRC.

(c) RRC believes that relations with the employees of RRC are satisfactory.

5.18 Environmental Matters. Except as disclosed on Schedule 5.18, RRC has not received any written notice of any investigation or inquiry from any Governmental Entity under any Applicable Law pertaining to the environment, Hazardous Substances or Hazardous Wastes ("Applicable Environmental Laws"), including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by, inter alia, the Superfund Amendments and Reauthorization Act of 1986 ("CERCLA"), and the Resource

Conservation and Recovery Act of 1976, as amended by, inter alia, the Used Oil Recycling Act of 1980, the Solid Waste Disposal Act Amendments of 1980, and the Hazardous and Solid Waste Amendments of 1984 ("RCRA"). To the best knowledge of RRC, as of the date hereof, RRC has not used any property owned or leased by RRC or subject to the Unaffiliated ORRI for Disposal of any Hazardous Substance and no condition otherwise exists on any such property, such that RRC or the holders of the Unaffiliated ORRI or such property would be subject to any material remedial obligations under any Applicable Environmental Laws which obligations would have a Material Adverse Effect on RRC. The term "Hazardous Substance" as used herein shall have the meaning specified in CERCLA, and the terms "Hazardous Waste" and "Disposal" shall have the meanings specified in RCRA.

5.19 Reserve Information; Title Claims.

(a) The underlying factual information provided to Huddleston & Co., Inc. ("Huddleston"), to the extent that it was relied upon by Huddleston in the preparation of its report on the proved reserves of RRC and the Unaffiliated ORRI as of January 1, 2001, was, at the time of delivery, true and correct in all material respects, except for such errors as, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect on RRC and the Unaffiliated ORRI taken as a whole. RRC has no present knowledge of any material errors in such underlying factual information supplied to Huddleston for purposes of preparing such report and the conclusions in such report are not in any material way unreasonable when compared with RRC's own evaluation of the properties included in such report as of January 1, 2001 taken as a whole.

(b) RRC has not received any written notice of any adverse claim against RRC's title to the assets and properties reflected in the RRC Financial Statements or of any adverse claim against the title to the Unaffiliated ORRI of the holders thereof, except as set forth on Schedule 5.19 and except for such claims which would not, individually or in the aggregate, have a Material Adverse Effect on RRC.

5.20 Brokerage Fees. RRC has not retained any financial advisor, broker, agent or finder or paid or agreed to pay any financial advisor, broker, agent or finder on account of this Agreement or any transaction contemplated hereby.

5.21 Material Agreements. RRC has heretofore made available to each other Subject Partnership accurate and complete copies of RRC's material agreements, including any material agreements known to RRC that affect the Unaffiliated ORRI or to which it is subject. Each of such agreements is a valid and binding agreement of RRC and (to the best knowledge of RRC) the other party or parties thereto, enforceable against RRC and (to the best knowledge of RRC) such other party or parties in accordance with its terms. RRC is not in breach of or in default under, nor has any event occurred which (with or without the giving of notice or the passage of time or both) would constitute a default by RRC under, any material provision of any of such agreements, and RRC has not received any notice from, or given any notice to, any other party indicating that RRC is in breach of or in default under any of such agreements, except in all such cases for such that would not, individually or in the aggregate, have a Material Adverse Effect on RRC. To the best knowledge of

RRC, no other party to any of such agreements is in breach of or in default under any material provision of such agreements, nor has any assertion been made by RRC of any such breach or default.

5.22 Registration Statement and Proxy Statement/Prospectus Information. Subject to each other applicable parties' fulfillment of their obligations with respect thereto, the Registration Statement and Proxy Statement/ Prospectus will contain (or will be amended in a timely manner so as to contain) all information about RRC and (to the knowledge of RRC) the Unaffiliated ORRI which is required to be included therein in accordance with the Securities Act or Exchange Act and the rules and regulations thereunder and any other Applicable Law and will conform in all material respects with the requirements of the Securities Act or Exchange Act and any other applicable Law; and the Proxy Statement/Prospectus (or any amendment or supplement thereto) will not, at the respective times they are filed with the SEC or published, sent or given to the Subject Partnerships' partners, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading or, in the case of the Proxy Statement/Prospectus, will, at the time of the Partnership Votes, omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies or consents for a Partnership Vote which shall have become false or misleading in any material respect.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF SRC

SRC represents and warrants to the other parties hereto that:

6.1 Organization. SRC is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Texas and has all requisite partnership power and partnership authority to own, lease and operate its properties and to carry on its business as now being conducted. No actions or proceedings to dissolve SRC are pending.

6.2 Qualification. SRC is duly qualified or licensed to do business as a foreign partnership and in good standing in each of the jurisdictions set forth on Schedule 6.2. The failure of SRC to be so qualified or licensed in other jurisdictions does not and will not affect the enforceability of any of its material contracts (including this Agreement), and SRC is able to obtain such qualification or license in each such other jurisdiction without significant expense or loss.

6.3 Governing Documents. Prior to the date of this Agreement, SRC has made available to each other Subject Partnership accurate and complete copies of the partnership agreement of SRC as currently in effect. On the Closing Date, SRC shall have made available to each other Subject Partnership accurate and complete copies of the partnership agreement of SRC as in effect upon consummation of the SRC Reorganization.

6.4 Capitalization of SRC. Except as set forth in Schedule 6.4, there are no outstanding subscriptions, options, warrants, calls, contracts, demands, commitments, convertible securities or other agreements or arrangements of any character or nature whatsoever under which SRC may become obligated to issue, assign, transfer or repurchase any partnership interests of SRC.

6.5 Authority Relative to This Agreement. SRC has full partnership power and authority to execute and deliver this Agreement and, subject to the adoption of this Agreement by the partners of SRC in accordance with Applicable Law and SRC's partnership agreement ("SRC Partner Approval"), to consummate the transactions contemplated hereby. The execution, delivery and performance by SRC of this Agreement, and the consummation by it of the transactions contemplated hereby, have been duly authorized by the general partners of SRC, and no other partnership proceedings (other than SRC Partner Approval) on the part of SRC are necessary to authorize the execution, delivery and performance by SRC of this Agreement and the consummation by it of the transactions contemplated hereby. This Agreement has been duly executed and delivered by SRC and constitutes, and each other agreement, instrument or document executed or to be executed by SRC in connection with the transactions contemplated hereby has been, or when executed will be, duly executed and delivered by SRC and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of SRC enforceable against SRC in accordance with their respective terms, except that such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally and (ii) equitable principles which may limit the availability of certain equitable remedies (such as specific performance) in certain instances. On or prior to the date of this Agreement, the general partners of SRC have determined to recommend approval of the SRC Merger to the limited partners of SRC, and such determination is in effect.

6.6 Noncontravention. Except as otherwise indicated on Schedule 6.6, the execution, delivery and performance by SRC of this Agreement and the consummation by it of the transactions contemplated hereby, including without limitation the SRC Reorganization, do not and will not (i) conflict with or result in a violation of any provision of the partnership agreement or the certificate of limited partnership of SRC, (ii) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation or acceleration under, any bond, debenture, note, mortgage, indenture, lease, contract, agreement or other instrument or obligation to which SRC is a party or by which SRC or any of its properties may be bound, (iii) result in the creation or imposition of any Encumbrance upon the properties of SRC or (iv) assuming compliance with the matters referred to in Section 6.7, violate any Applicable Law binding upon SRC, except, in the case of clauses (ii), (iii) and (iv) above, for any such conflicts, violations, defaults, terminations, cancellations, accelerations or Encumbrances which would not, individually or in the aggregate, have a Material Adverse Effect on SRC.

6.7 Governmental Approvals. To the knowledge of SRC, no consent, approval, order or authorization of, or declaration, filing or registration with, any Governmental Entity is required to be obtained or made by SRC in connection with the execution, delivery or performance by SRC of

this Agreement or the consummation by it of the transactions contemplated hereby, other than (i) the filing by SRC of a certificate of merger in accordance with State Law, (ii) compliance with any applicable requirements of the HSR Act, (iii) compliance with any applicable state securities or takeover laws, (iv) as set forth on Schedule 6.7, (v) filings with Governmental Entities to occur in the ordinary course following the consummation of the transactions contemplated hereby, (vi) filings with or approvals of Governmental Entities which may be necessary due to the status of the Partnership, RRC or DHL or any affiliate thereof and (vii) such consents, approvals, orders or authorizations which, if not obtained, and such declarations, filings or registrations which, if not made, would not, individually or in the aggregate, have a Material Adverse Effect on SRC.

6.8 No Subsidiaries. SRC has no subsidiaries. In addition, SRC does not own, directly or indirectly, any capital stock or other securities of any corporation or have any direct or indirect equity or ownership interest in any other person.

6.9 Financial Statements. SRC has delivered to each other Subject Partnership accurate and complete copies of (i) SRC's unaudited consolidated balance sheet as of September 30, 2001 (the "SRC Latest Balance Sheet"), and the related unaudited consolidated statements of income, partners' equity and cash flows for the nine-month period then ended (the "SRC Unaudited Financial Statements"), and (ii) SRC's audited consolidated balance sheet as of December 31, 2000, and the related audited consolidated statements of income, stockholders' equity and cash flows for the year then ended, and the notes and schedules thereto, together with the report thereon of KPMG LP, independent certified public accountants (the "SRC Audited Financial Statements") (collectively, the "SRC Financial Statements"). The SRC Financial Statements (A) have been prepared from the books and records of SRC in conformity with generally accepted accounting principles applied on a basis consistent with preceding years throughout the periods involved, except that the SRC Unaudited Financial Statements are not accompanied by notes or other textual disclosures required by generally accepted accounting principles, and (B) accurately and fairly present SRC's consolidated financial position as of the respective dates thereof and its consolidated results of operations and cash flows for the periods then ended, except that the SRC Unaudited Financial Statements are subject to audit adjustments, which in SRC's reasonable judgment should not be material in the aggregate.

6.10 Absence of Undisclosed Liabilities. To the best knowledge of SRC, as of the date of this Agreement, SRC does not have any liability or obligation (whether accrued, absolute, contingent, unliquidated or otherwise), except (i) liabilities reflected on the SRC Latest Balance Sheet, (ii) liabilities described in the notes accompanying the SRC Audited Financial Statements, (iii) liabilities which have arisen since the date of the SRC Latest Balance Sheet in the ordinary course of business (none of which is a material liability for breach of contract, tort or infringement), (iv) liabilities arising under executory provisions of contracts entered into in the ordinary course of business (none of which is a material liability for breach of contract), (v) liabilities disclosed on Schedule 6.10 and (vi) other liabilities which, in the aggregate, are not material to SRC.

6.11 Absence of Certain Changes. As of the date of this Agreement, except as disclosed on Schedule 6.11, since the date of the SRC Unaudited Financial Statements, (i) there has not been

any material adverse change in, or any event or condition that might reasonably be expected to result in any material adverse change in, the assets or financial condition of SRC, (ii) the businesses of SRC have been conducted only in the ordinary course consistent with past practice, (iii) SRC has not incurred any material liability, engaged in any material transaction or entered into any material agreement outside the ordinary course of business consistent with past practice, (iv) SRC has not suffered any material loss, damage, destruction or other casualty to any of its assets (whether or not covered by insurance) and (v) SRC has not taken any of the actions set forth in Section 10.2 except as permitted thereunder.

6.12 Tax Matters. SRC has duly filed or caused to be filed all federal, state and local Tax Returns required to be filed by or with respect to it with the IRS or other applicable taxing authority, except in such cases where the failure to file would not have a Material Adverse Effect on SRC. Except as disclosed on Schedule 6.12, SRC has paid, or adequately reserved against in its financial statements, all Taxes due or claimed by any taxing authority to be due from SRC except Taxes that are being contested in good faith by appropriate proceedings and for which adequate reserves have been set aside, and there are no liens for Taxes (other than for taxes not yet due and payable) upon any of the assets of SRC. To the best knowledge of SRC, there has been no issue raised or adjustment proposed (and to the knowledge of SRC, none is pending) by the IRS or any other taxing authority in connection with any of the Tax Returns, nor has SRC received any written notice from the IRS or any such other taxing authority that any Tax Return is being audited or may be audited or examined. Except as disclosed on Schedule 6.12, SRC has not agreed to the extension of any statute of limitations on the assessment or collection of any Tax or with respect to any Tax Return.

6.13 Compliance With Laws. Except as disclosed on Schedule 6.13, to the best knowledge of SRC, SRC has complied in all material respects with all Applicable Laws, except for noncompliance with such Applicable Laws which, individually or in the aggregate, does not and will not have a Material Adverse Effect on SRC. Except as disclosed on Schedule 6.13, SRC has not received any written notice from any Governmental Entity, which has not been dismissed or otherwise disposed of, that SRC has not so complied. SRC is not charged or, to the best knowledge of SRC, threatened with, or under investigation with respect to, any violation of any Applicable Law relating to any aspect of the business of SRC, other than violations which, individually or in the aggregate, do not and in the reasonable judgment of SRC will not have a Material Adverse Effect on SRC.

6.14 Legal Proceedings. Except as disclosed on Schedule 6.14, there are no Proceedings pending or, to the best knowledge of SRC, threatened against or involving SRC (or any of its general partners or their respective directors or officers in connection with the business or affairs of SRC) or any properties or rights of SRC. Except as disclosed on Schedule 6.14, any and all potential liability of SRC under such Proceedings is adequately covered (except for standard deductible amounts) by the existing insurance maintained by SRC. SRC is not subject to any judgment, order, writ, injunction, or decree of any Governmental Entity which has had or is reasonably likely to have a Material Adverse Effect on SRC. There are no Proceedings pending or, to the best knowledge of SRC, threatened seeking to restrain, prohibit, or obtain damages or other relief in connection with this Agreement or the transactions contemplated hereby.

6.15 Permits. To the best knowledge of SRC, SRC holds all Permits necessary or required for the conduct of its business as currently conducted, except for Permits the absence of which do not and will not have a Material Adverse Effect on SRC. To the best knowledge of SRC, each of such Permits is in full force and effect and SRC is in compliance with each such Permit, except in such respects as would not reasonably be expected to have a Material Adverse Effect on SRC. Except as disclosed on Schedule 6.15, SRC has not received any written notice from any Governmental Entity and no Proceeding is pending or, to the best knowledge of SRC, threatened with respect to any alleged failure by SRC to have any Permit the absence of which would have a Material Adverse Effect on SRC.

6.16 Employee Benefit Plans.

(a) Set forth on Schedule 6.16 is a list identifying each "employee benefit plan", as defined in Section 3(3) of ERISA, (i) which is subject to any provision of ERISA, (ii) which is maintained, administered, or contributed to by SRC or any affiliate of SRC, and (iii) which covers any employee or former employee of SRC or any affiliate of SRC or under which SRC or any affiliate of SRC has any liability. SRC has delivered to each of the other Subject Partnerships accurate and complete copies of such plans (and, if applicable, the related trust agreements) and all amendments thereto and written interpretations thereof, together with, if applicable, the three most recent annual reports (Form 5500) filed in connection with any such plan and (ii) the most recent actuarial valuation report prepared in connection with any such plan. Such plans are referred to in this Section as the "SRC Employee Plans". For purposes of this Section only, an "affiliate" of any person means any other person which, together with such person, would be treated as a single employer under Section 414 of the Code. The only SRC Employee Plans which individually or collectively would constitute an "employee pension benefit plan" as defined in Section 3(2) of ERISA are identified as such on Schedule 6.16.

(b) Except as otherwise identified on Schedule 6.16, (i) no SRC Employee Plan constitutes a Multiemployer Plan, (ii) no SRC Employee Plan is maintained in connection with any trust described in Section 501(c)(9) of the Code, (iii) no SRC Employee Plan is subject to Title IV of ERISA or to the minimum funding standards of ERISA and the Code, and (iv) during the past five years, neither SRC nor any of its affiliates have made or been required to make contributions to any Multiemployer Plan. There are no accumulated funding deficiencies as defined in Section 412 of the Code (whether or not waived) with respect to any SRC Employee Plan. Neither SRC nor any affiliate of SRC has incurred any material liability under Title IV of ERISA arising in connection with the termination of, or complete or partial withdrawal from, any plan covered or previously covered by Title IV of ERISA. SRC and all of the affiliates of SRC have paid and discharged promptly when due all liabilities and obligations arising under ERISA or the Code of a character which if unpaid or unperformed might result in the imposition of a lien against any of the assets of SRC or any affiliate of SRC. Nothing done or omitted to be done and no transaction or holding of any asset under or in connection with any SRC Employee Plan has or will make SRC or any affiliate of SRC or any director or officer of SRC or any affiliate of SRC subject to any liability under Title I of ERISA or liable for any Tax pursuant to Section 4975 of the Code that could have a Material Adverse Effect. There are no threatened or pending claims by or on behalf of the SRC Employee

Plans, or by any participant therein, alleging a breach or breaches of fiduciary duties or violations of Applicable Laws which could result in liability on the part of SRC, its officers or directors, or such SRC Employee Plans, under ERISA or any other Applicable Law and there is no basis for any such claim.

(c) No SRC Employee Plan is intended to be qualified under Section 401(a) of the Code. Each SRC Employee Plan has been maintained in all material respects in compliance with its terms and with the requirements prescribed by all Applicable Laws, including but not limited to ERISA and the Code, which are applicable to such Plans.

(d) Neither SRC nor any affiliate of SRC provides employee post-retirement medical or health coverage or contributes to or maintains any employee welfare benefit plan that provides for health benefit coverage following termination of employment except as is required by Section 4980B of the Code, nor has SRC or any affiliate of SRC made any representations, agreements, covenants or commitments to provide any such coverage.

(e) To the extent not listed on Schedule 6.16 pursuant to subsection (a) above, there is separately set forth on Schedule 6.16 a list of each employment or severance agreement or other similar contract, arrangement or policy, and each plan or arrangement (written or oral) providing for insured or self-insured death benefits, workers' compensation benefits, disability benefits, severance benefits, supplemental unemployment benefits, vacation benefits, retirement benefits, deferred compensation, profit- sharing, bonuses, stock options, stock appreciation rights, or other forms of incentive compensation or post-retirement insurance, compensation or benefits which (i) is not an SRC Employee Plan, (ii) has been entered into, maintained or contributed to, as the case may be, by SRC or any affiliate of SRC, and (iii) covers any employee or former employee of SRC or any affiliate of SRC or under which SRC or any affiliate of SRC has any liability. The agreements, contracts, arrangements, policies and plans described in the preceding sentence are referred to for purposes of this Section as the "SRC Benefit Arrangements". SRC has delivered to each of the other Subject Partnerships accurate and complete copies of the SRC Benefit Arrangements and all amendments thereto and written interpretations thereof, together with any valuation or liability reports or other documentation relating to or prepared in connection with any of the SRC Arrangements. Each SRC Benefit Arrangement has been maintained in all material respects compliance with its terms and with the requirements prescribed by Applicable Laws.

(f) Neither SRC nor any affiliate of SRC has performed any act or failed to perform any act, and there is no contract, agreement, plan, or arrangement covering any employee or former employee of SRC or any affiliate of SRC, that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to the terms of Section 162(a)(1), 162(m) or 280G of the Code, or could give rise to any penalty or excise Tax pursuant to Section 4980B or 4999 of the Code.

(g) Except as disclosed on Schedule 6.16, there has been no amendment, written interpretation, or announcement (whether or not written) by SRC or any affiliate of SRC of or relating to, or change in employee participation or coverage under, any SRC Employee Plan or SRC

Benefit Arrangement which would increase materially the expense of maintaining such SRC Employee Plan or SRC Benefit Arrangement above the level of the expense incurred in respect thereof for the fiscal year ended December 31, 2000.

(h) Each SRC Employee Plan and each SRC Benefit Arrangement can be terminated by SRC or an affiliate of SRC at any time upon notice thereof not exceeding 30 days, and neither such termination nor the consummation of the transactions contemplated by this Agreement will (i) entitle any employee, officer or director, of SRC or any affiliate of SRC to severance pay or an election to terminate and receive severance pay, (ii) accelerate the time of payment or vesting or trigger any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or trigger any other material obligation pursuant to, any SRC Employee Plan or SRC Benefit Arrangement, or (iii) result in any breach or violation of, or a default under, any SRC Employee Plan or SRC Benefit Arrangement.

6.17 Labor Relations.

(a) Except as disclosed on Schedule 6.17, (i) there are no collective bargaining agreements or other labor union contracts applicable to any employees to or by which SRC is a party or is bound, no such agreement or contract has been requested by an employee or group of employees of SRC, and no discussions have occurred with respect thereto by management of SRC with any such employees; (ii) no employees of SRC are represented by any labor organization, collective bargaining representative, or group of employees; (iii) no labor organization, collective bargaining representative, or group of employees claims to represent a majority of the employees of SRC in an appropriate unit of SRC; (iv) SRC is not aware of or involved with any representational campaign or other organizing activities by any union or other organization or group seeking to become the collective bargaining representative of any of its employees; (v) SRC is not obligated to bargain collectively with respect to wages, hours, and other terms and conditions of employment with any recognized or certified labor organization, collective bargaining representative, or group of employees; and (vi) SRC is not aware of any strikes, work stoppages, work slowdowns or lockouts or any threats thereof by or with respect to any of its employees, and since January 1, 1998, there have been no labor disputes, strikes, work stoppages, work slowdowns, lockouts or similar matters involving any such employees.

(b) SRC is in compliance in all material respects with all Applicable Laws pertaining to employment and employment practices and wages, hours and other terms and conditions of employment in respect of its employees, and has no accrued liability for any arrears of wages or any Taxes or penalties for failure to comply with any thereof. SRC is not engaged in any unfair labor practices or unlawful employment practices. There is no pending or, to the best knowledge of SRC, threatened Proceeding against or involving SRC by or before, and SRC is not subject to any judgment, order, writ, injunction, or decree of or inquiry from, the National Labor Relations Board, the Equal Employment Opportunity Commission, the Department of Labor, or any other Governmental Entity in connection with any current, former or prospective employee of SRC.

(c) SRC believes that relations with the employees of SRC are satisfactory.

6.18 Environmental Matters. Except as disclosed on Schedule 6.18, SRC has not received any written notice of any investigation or inquiry from any Governmental Entity under any Applicable Environmental Laws, including, without limitation, CERCLA and RCRA. To the best knowledge of SRC, as of the date hereof, SRC has not used any property owned or leased by SRC for Disposal of any Hazardous Substance and no condition otherwise exists on any such property, such that SRC or such property would be subject to any material remedial obligations under any Applicable Environmental Laws which obligations would have a Material Adverse Effect on SRC. The term "Hazardous Substance" as used herein shall have the meaning specified in CERCLA, and the terms "Hazardous Waste" and "Disposal" shall have the meanings specified in RCRA.

6.19 Reserve Information; Title Claims.

(a) The underlying factual information provided to Huddleston, to the extent that it was relied upon by Huddleston in the preparation of its report on SRC's proved reserves as of January 1, 2001, was, at the time of delivery, true and correct in all material respects, except for such errors as, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect on SRC. SRC has no present knowledge of any material errors in such underlying factual information supplied to Huddleston for purposes of preparing such report and the conclusions in such report are not in any material way unreasonable when compared with SRC's own evaluation of the properties included in such report as of January 1, 2001 taken as a whole.

(b) SRC has not received any written notice of any adverse claim against SRC's title to the assets and properties reflected in the SRC Financial Statements, except for such claims which would not, individually or in the aggregate, have a Material Adverse Effect on SRC.

6.20 Brokerage Fees. SRC has not retained any financial advisor, broker, agent or finder or paid or agreed to pay any financial advisor, broker, agent or finder on account of this Agreement or any transaction contemplated hereby.

6.21 Material Agreements. SRC has heretofore made available to each other Subject Partnership accurate and complete copies of SRC's material agreements. Each of such agreements is a valid and binding agreement of SRC and (to the best knowledge of SRC) the other party or parties thereto, enforceable against SRC and (to the best knowledge of SRC) such other party or parties in accordance with its terms. SRC is not in breach of or in default under, nor has any event occurred which (with or without the giving of notice or the passage of time or both) would constitute a default by SRC under, any material provision of any of such agreements, and SRC has not received any notice from, or given any notice to, any other party indicating that SRC is in breach of or in default under any of such agreements, except in all such cases for such that would not, individually or in the aggregate, have a Material Adverse Effect on SRC. To the best knowledge of SRC, no other party to any of such agreements is in breach of or in default under any material provision of such agreements, nor has any assertion been made by SRC of any such breach or default.

6.22 Registration Statement and Proxy Statement/Prospectus Information. Subject to each other applicable parties' fulfillment of their obligations with respect thereto, the Registration

Statement and Proxy Statement/ Prospectus will contain (or will be amended in a timely manner so as to contain) all information about SRC which is required to be included therein in accordance with the Securities Act or Exchange Act and the rules and regulations thereunder and any other Applicable Law and will conform in all material respects with the requirements of the Securities Act or Exchange Act and any other applicable Law; and the Proxy Statement/Prospectus (or any amendment or supplement thereto) will not, at the respective times they are filed with the SEC or published, sent or given to the Subject Partnerships' partners, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading or, in the case of the Proxy Statement/Prospectus, will, at the time of the Partnership Votes, omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies or consents for a Partnership Vote which shall have become false or misleading in any material respect.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES OF DHL

DHL represents and warrants to the other parties hereto that:

7.1 Organization. DHL is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Texas and has all requisite partnership power and partnership authority to own, lease and operate its properties and to carry on its business as now being conducted. No actions or proceedings to dissolve DHL are pending.

7.2 Qualification. DHL is duly qualified or licensed to do business as a foreign partnership and in good standing in each of the jurisdictions set forth on Schedule 7.2. The failure of DHL to be so qualified or licensed in other jurisdictions does not and will not affect the enforceability of any of its material contracts (including this Agreement), and DHL is able to obtain such qualification or license in each such other jurisdiction without significant expense or loss.

7.3 Governing Documents. DHL has made available to each other Subject Partnership accurate and complete copies of the partnership agreement of DHL as currently in effect.

7.4 Capitalization of DHL. Except as set forth in Schedule 7.4, there are no outstanding subscriptions, options, warrants, calls, contracts, demands, commitments, convertible securities or other agreements or arrangements of any character or nature whatsoever under which DHL may become obligated to issue, assign, transfer or repurchase any partnership interests of DHL.

7.5 Authority Relative to This Agreement. DHL has full partnership power and authority to execute and deliver this Agreement and, subject to the adoption of this Agreement by the partners of DHL in accordance with Applicable Law and DHL's partnership agreement ("DHL Partner Approval"), to consummate the transactions contemplated hereby. The execution, delivery and

performance by DHL of this Agreement, and the consummation by it of the transactions contemplated hereby, have been duly authorized by the general partners of DHL, and no other partnership proceedings (other than DHL Partner Approval) on the part of DHL are necessary to authorize the execution, delivery and performance by DHL of this Agreement and the consummation by it of the transactions contemplated hereby. This Agreement has been duly executed and delivered by DHL and constitutes, and each other agreement, instrument or document executed or to be executed by DHL in connection with the transactions contemplated hereby has been, or when executed will be, duly executed and delivered by DHL and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of DHL enforceable against DHL in accordance with their respective terms, except that such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally and (ii) equitable principles which may limit the availability of certain equitable remedies (such as specific performance) in certain instances. On or prior to the date of this Agreement, the general partners of DHL have determined to recommend approval of the DHL Merger to the limited partners of DHL, and such determination is in effect.

7.6 Noncontravention. Except as otherwise indicated on Schedule 7.6, the execution, delivery and performance by DHL of this Agreement and the consummation by it of the transactions contemplated hereby and the consummation of the transactions contemplated by Section 3.7 do not and will not (i) conflict with or result in a violation of any provision of the partnership agreement or the certificate of limited partnership of DHL, (ii) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation or acceleration under, any bond, debenture, note, mortgage, indenture, lease, contract, agreement or other instrument or obligation to which DHL is a party or by which DHL or any of its properties may be bound, (iii) result in the creation or imposition of any Encumbrance upon the properties of DHL or (iv) assuming compliance with the matters referred to in Section 7.7, violate any Applicable Law binding upon DHL, except, in the case of clauses (ii), (iii) and (iv) above, for any such conflicts, violations, defaults, terminations, cancellations, accelerations or Encumbrances which would not, individually or in the aggregate, have a Material Adverse Effect on DHL.

7.7 Governmental Approvals. To the knowledge of DHL, no consent, approval, order or authorization of, or declaration, filing or registration with, any Governmental Entity is required to be obtained or made by DHL in connection with the execution, delivery or performance by DHL of this Agreement or the consummation by it of the transactions contemplated hereby, other than (i) the filing by DHL or its general partners of a certificate of cancellation in accordance with State Law, (ii) compliance with any applicable requirements of the HSR Act, (iii) compliance with any applicable state securities or takeover laws, (iv) as set forth on Schedule 7.7, (v) filings with Governmental Entities to occur in the ordinary course following the consummation of the transactions contemplated hereby, (vi) filings with or approvals of Governmental Entities which may be necessary due to the status of the Partnership, SRC or RRC or any affiliate thereof and (vii) such consents, approvals, orders or authorizations which, if not obtained, and such declarations, filings

or registrations which, if not made, would not, individually or in the aggregate, have a Material Adverse Effect on DHL.

7.8 No Subsidiaries. DHL has no subsidiaries. In addition, except as set forth on Schedule 7.8, DHL does not own, directly or indirectly, any capital stock or other securities of any corporation or have any direct or indirect equity or ownership interest in any other person.

7.9 Financial Statements. DHL has delivered to each other Subject Partnership accurate and complete copies of (i) DHL's unaudited consolidated balance sheet as of September 30, 2001 (the "DHL Latest Balance Sheet"), and the related unaudited consolidated statements of income, stockholders' equity and cash flows for the nine-month period then ended (the "DHL Unaudited Financial Statements"), and (ii) DHL's audited consolidated balance sheet as of December 31, 2000, and the related audited consolidated statements of income, stockholders' equity and cash flows for the year then ended, and the notes and schedules thereto, together with the report thereon of Grant Thornton LLP, independent certified public accountants (the "DHL Audited Financial Statements") (collectively, the "DHL Financial Statements"). The DHL Financial Statements (A) have been prepared from the books and records of DHL in conformity with generally accepted accounting principles applied on a basis consistent with preceding years throughout the periods involved, except that the DHL Unaudited Financial Statements are not accompanied by notes or other textual disclosures required by generally accepted accounting principles, and (B) accurately and fairly present DHL's consolidated financial position as of the respective dates thereof and its consolidated results of operations and cash flows for the periods then ended, except that the DHL Unaudited Financial Statements are subject to audit adjustments, which in DHL's reasonable judgment should not be material in the aggregate.

7.10 Absence of Undisclosed Liabilities. To the best knowledge of DHL, as of the date of this Agreement, DHL does not have any liability or obligation (whether accrued, absolute, contingent, unliquidated or otherwise), except (i) liabilities reflected on the DHL Latest Balance Sheet, (ii) liabilities described in the notes accompanying the DHL Audited Financial Statements, (iii) liabilities which have arisen since the date of the DHL Latest Balance Sheet in the ordinary course of business (none of which is a material liability for breach of contract, tort or infringement), (iv) liabilities arising under executory provisions of contracts entered into in the ordinary course of business (none of which is a material liability for breach of contract), (v) liabilities disclosed on Schedule 7.10 and (vi) other liabilities which, in the aggregate, are not material to DHL.

7.11 Absence of Certain Changes. As of the date of this Agreement, except as disclosed on Schedule 7.11, since the date of the DHL Unaudited Financial Statements, (i) there has not been any material adverse change in, or any event or condition that might reasonably be expected to result in any material adverse change in, the assets or financial condition of DHL, (ii) the businesses of DHL have been conducted only in the ordinary course consistent with past practice, (iii) DHL has not incurred any material liability, engaged in any material transaction or entered into any material agreement outside the ordinary course of business consistent with past practice, (iv) DHL has not suffered any material loss, damage, destruction or other casualty to any of its assets (whether or not

covered by insurance) and (v) DHL has not taken any of the actions set forth in Section 10.2 except as permitted thereunder.

7.12 Tax Matters. DHL has duly filed or caused to be filed all federal, state and local Tax Returns required to be filed by or with respect to it with the IRS or other applicable taxing authority, except in such cases where the failure to file would not have a Material Adverse Effect on DHL. Except as disclosed on Schedule 7.12, DHL has paid, or adequately reserved against in its financial statements, all Taxes due or claimed by any taxing authority to be due from DHL except Taxes that are being contested in good faith by appropriate proceedings and for which adequate reserves have been set aside, and there are no liens for Taxes (other than for taxes not yet due and payable) upon any of the assets of DHL. To the best knowledge of DHL, there has been no issue raised or adjustment proposed (and to the knowledge of DHL, none is pending) by the IRS or any other taxing authority in connection with any of the Tax Returns, nor has DHL received any written notice from the IRS or any such other taxing authority that any Tax Return is being audited or may be audited or examined. Except as disclosed on Schedule 7.12, DHL has not agreed to the extension of any statute of limitations on the assessment or collection of any Tax or with respect to any Tax Return.

7.13 Compliance With Laws. Except as disclosed on Schedule 7.13, to the best knowledge of DHL, DHL has complied in all material respects with all Applicable Laws, except for noncompliance with such Applicable Laws which, individually or in the aggregate, does not and will not have a Material Adverse Effect on DHL. Except as disclosed on Schedule 7.13, DHL has not received any written notice from any Governmental Entity, which has not been dismissed or otherwise disposed of, that DHL has not so complied. DHL is not charged or, to the best knowledge of DHL, threatened with, or under investigation with respect to, any violation of any Applicable Law relating to any aspect of the business of DHL, other than violations which, individually or in the aggregate, do not and in the reasonable judgment of DHL will not have a Material Adverse Effect on DHL.

7.14 Legal Proceedings. Except as disclosed on Schedule 7.14, there are no Proceedings pending or, to the best knowledge of DHL, threatened against or involving DHL (or any of its general partners or their respective directors or officers in connection with the business or affairs of DHL) or any properties or rights of DHL. Except as disclosed on Schedule 7.14, any and all potential liability of DHL under such Proceedings is adequately covered (except for standard deductible amounts) by the existing insurance maintained by DHL. DHL is not subject to any judgment, order, writ, injunction, or decree of any Governmental Entity which has had or is reasonably likely to have a Material Adverse Effect on DHL. There are no Proceedings pending or, to the best knowledge of DHL, threatened seeking to restrain, prohibit, or obtain damages or other relief in connection with this Agreement or the transactions contemplated hereby.

7.15 Permits. To the best knowledge of DHL, DHL holds all Permits necessary or required for the conduct of its business as currently conducted, except for Permits the absence of which do not and will not have a Material Adverse Effect on DHL. To the best knowledge of DHL, each of such Permits is in full force and effect and DHL is in compliance with each such Permit, except in such respects as would not reasonably be expected to have a Material Adverse Effect on DHL.

Except as disclosed on Schedule 7.15, DHL has not received any written notice from any Governmental Entity and no Proceeding is pending or, to the best knowledge of DHL, threatened with respect to any alleged failure by DHL to have any Permit the absence of which would have a Material Adverse Effect on DHL.

7.16 Employee Benefit Plans.

(a) Set forth on Schedule 7.16 is a list identifying each "employee benefit plan", as defined in Section 3(3) of ERISA, (i) which is subject to any provision of ERISA, (ii) which is maintained, administered, or contributed to by DHL or any affiliate of DHL, and (iii) which covers any employee or former employee of DHL or any affiliate of DHL or under which DHL or any affiliate of DHL has any liability. DHL has delivered to each of the other Subject Partnerships accurate and complete copies of such plans (and, if applicable, the related trust agreements) and all amendments thereto and written interpretations thereof, together with, if applicable, the three most recent annual reports (Form 5500) filed in connection with any such plan and (ii) the most recent actuarial valuation report prepared in connection with any such plan. Such plans are referred to in this Section as the "DHL Employee Plans". For purposes of this Section only, an "affiliate" of any person means any other person which, together with such person, would be treated as a single employer under Section 414 of the Code. The only DHL Employee Plans which individually or collectively would constitute an "employee pension benefit plan" as defined in Section 3(2) of ERISA are identified as such on Schedule 7.16.

(b) Except as otherwise identified on Schedule 7.16, (i) no DHL Employee Plan constitutes a Multiemployer Plan, (ii) no DHL Employee Plan is maintained in connection with any trust described in Section 501(c)(9) of the Code, (iii) no DHL Employee Plan is subject to Title IV of ERISA or to the minimum funding standards of ERISA and the Code, and (iv) during the past five years, neither DHL nor any of its affiliates have made or been required to make contributions to any Multiemployer Plan. There are no accumulated funding deficiencies as defined in Section 412 of the Code (whether or not waived) with respect to any DHL Employee Plan. Neither DHL nor any affiliate of DHL has incurred any material liability under Title IV of ERISA arising in connection with the termination of, or complete or partial withdrawal from, any plan covered or previously covered by Title IV of ERISA. DHL and all of the affiliates of DHL have paid and discharged promptly when due all liabilities and obligations arising under ERISA or the Code of a character which if unpaid or unperformed might result in the imposition of a lien against any of the assets of DHL or any affiliate of DHL. Nothing done or omitted to be done and no transaction or holding of any asset under or in connection with any DHL Employee Plan has or will make DHL or any affiliate of DHL or any director or officer of DHL or any affiliate of DHL subject to any liability under Title I of ERISA or liable for any Tax pursuant to Section 4975 of the Code that could have a Material Adverse Effect. There are no threatened or pending claims by or on behalf of the DHL Employee Plans, or by any participant therein, alleging a breach or breaches of fiduciary duties or violations of Applicable Laws which could result in liability on the part of DHL, its officers or directors, or such DHL Employee Plans, under ERISA or any other Applicable Law and there is no basis for any such claim.

(c) No DHL Employee Plan is intended to be qualified under Section 401(a) of the Code. Each DHL Employee Plan has been maintained in all material respects in compliance with its terms and with the requirements prescribed by all Applicable Laws, including but not limited to ERISA and the Code, which are applicable to such Plans.

(d) Neither DHL nor any affiliate of DHL provides employee post-retirement medical or health coverage or contributes to or maintains any employee welfare benefit plan that provides for health benefit coverage following termination of employment except as is required by Section 4980B of the Code, nor has DHL or any affiliate of DHL made any representations, agreements, covenants or commitments to provide any such coverage.

(e) To the extent not listed on Schedule 7.16 pursuant to subsection (a) above, there is separately set forth on Schedule 7.16 a list of each employment or severance agreement or other similar contract, arrangement or policy, and each plan or arrangement (written or oral) providing for insured or self-insured death benefits, workers' compensation benefits, disability benefits, severance benefits, supplemental unemployment benefits, vacation benefits, retirement benefits, deferred compensation, profit- sharing, bonuses, stock options, stock appreciation rights, or other forms of incentive compensation or post-retirement insurance, compensation or benefits which (i) is not an DHL Employee Plan, (ii) has been entered into, maintained or contributed to, as the case may be, by DHL or any affiliate of DHL, and (iii) covers any employee or former employee of DHL or any affiliate of DHL or under which DHL or any affiliate of DHL has any liability. The agreements, contracts, arrangements, policies and plans described in the preceding sentence are referred to for purposes of this Section as the "DHL Benefit Arrangements". DHL has delivered to each of the other Subject Partnerships accurate and complete copies of the DHL Benefit Arrangements and all amendments thereto and written interpretations thereof, together with any valuation or liability reports or other documentation relating to or prepared in connection with any of the DHL Arrangements. Each DHL Benefit Arrangement has been maintained in all material respects compliance with its terms and with the requirements prescribed by Applicable Laws.

(f) Neither DHL nor any affiliate of DHL has performed any act or failed to perform any act, and there is no contract, agreement, plan, or arrangement covering any employee or former employee of DHL or any affiliate of DHL, that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to the terms of Section 162(a)(1), 162(m) or 280G of the Code, or could give rise to any penalty or excise Tax pursuant to Section 4980B or 4999 of the Code.

(g) Except as disclosed on Schedule 7.16, there has been no amendment, written interpretation, or announcement (whether or not written) by DHL or any affiliate of DHL of or relating to, or change in employee participation or coverage under, any DHL Employee Plan or DHL Benefit Arrangement which would increase materially the expense of maintaining such DHL Employee Plan or DHL Benefit Arrangement above the level of the expense incurred in respect thereof for the fiscal year ended December 31, 2000.

(h) Except as disclosed on Schedule 7.16, each DHL Employee Plan and each DHL Benefit Arrangement can be terminated by DHL or an affiliate of DHL at any time upon notice thereof not exceeding 30 days, and neither such termination nor the consummation of the transactions contemplated by this Agreement will (i) entitle any employee, officer or director, of DHL or any affiliate of DHL to severance pay or an election to terminate and receive severance pay, (ii) accelerate the time of payment or vesting or trigger any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or trigger any other material obligation pursuant to, any DHL Employee Plan or DHL Benefit Arrangement, or (iii) result in any breach or violation of, or a default under, any DHL Employee Plan or DHL Benefit Arrangement.

7.17 Labor Relations.

(a) Except as disclosed on Schedule 7.17, (i) there are no collective bargaining agreements or other labor union contracts applicable to any employees to or by which DHL is a party or is bound, no such agreement or contract has been requested by an employee or group of employees of DHL, and no discussions have occurred with respect thereto by management of DHL with any such employees; (ii) no employees of DHL are represented by any labor organization, collective bargaining representative, or group of employees; (iii) no labor organization, collective bargaining representative, or group of employees claims to represent a majority of the employees of DHL in an appropriate unit of DHL; (iv) DHL is not aware of or involved with any representational campaign or other organizing activities by any union or other organization or group seeking to become the collective bargaining representative of any of its employees; (v) DHL is not obligated to bargain collectively with respect to wages, hours, and other terms and conditions of employment with any recognized or certified labor organization, collective bargaining representative, or group of employees; and (vi) DHL is not aware of any strikes, work stoppages, work slowdowns or lockouts or any threats thereof by or with respect to any of its employees, and since January 1, 1998, there have been no labor disputes, strikes, work stoppages, work slowdowns, lockouts or similar matters involving any such employees.

(b) DHL is in compliance in all material respects with all Applicable Laws pertaining to employment and employment practices and wages, hours and other terms and conditions of employment in respect of its employees, and has no accrued liability for any arrears of wages or any Taxes or penalties for failure to comply with any thereof. DHL is not engaged in any unfair labor practices or unlawful employment practices. There is no pending or, to the best knowledge of DHL, threatened Proceeding against or involving DHL by or before, and DHL is not subject to any judgment, order, writ, injunction, or decree of or inquiry from, the National Labor Relations Board, the Equal Employment Opportunity Commission, the Department of Labor, or any other Governmental Entity in connection with any current, former or prospective employee of DHL.

(c) DHL believes that relations with the employees of DHL are satisfactory.

7.18 Environmental Matters. Except as disclosed on Schedule 7.18, DHL has not received any written notice of any investigation or inquiry from any Governmental Entity under any

Applicable Environmental Laws, including, without limitation, CERCLA and RCRA. To the best knowledge of DHL, as of the date hereof, DHL has not used any property owned or leased by DHL for Disposal of any Hazardous Substance and no condition otherwise exists on any such property, such that DHL or such property would be subject to any material remedial obligations under any Applicable Environmental Laws which obligations would have a Material Adverse Effect on DHL. The term "Hazardous Substance" as used herein shall have the meaning specified in CERCLA, and the terms "Hazardous Waste" and "Disposal" shall have the meanings specified in RCRA.

7.19 Reserve Information; Title Claims.

(a) The underlying factual information provided to Calhoun, Blair & Associates ("Blair"), to the extent that it was relied upon by Blair in the preparation of its report on DHL's proved reserves as of January 1, 2001, was, at the time of delivery, true and correct in all material respects, except for such errors as, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect on DHL. DHL has no present knowledge of any material errors in such underlying factual information supplied to Blair for purposes of preparing such report and the conclusions in such report are not in any material way unreasonable when compared with DHL's own evaluation of the properties included in such report as of January 1, 2001 taken as a whole.

(b) DHL has not received any written notice of any adverse claim against DHL's title to the assets and properties reflected in the DHL Financial Statements, except for such claims which would not, individually or in the aggregate, have a Material Adverse Effect on DHL.

7.20 Brokerage Fees. DHL has not retained any financial advisor, broker, agent or finder or paid or agreed to pay any financial advisor, broker, agent or finder on account of this Agreement or any transaction contemplated hereby; except that DHL has engaged Bruce E. Lazier to render a fairness opinion in connection with the transaction contemplated hereby.

7.21 Material Agreements. DHL has heretofore made available to each other Subject Partnership accurate and complete copies of DHL's material agreements. Each of such agreements is a valid and binding agreement of DHL and (to the best knowledge of DHL) the other party or parties thereto, enforceable against DHL and (to the best knowledge of DHL) such other party or parties in accordance with its terms. DHL is not in breach of or in default under, nor has any event occurred which (with or without the giving of notice or the passage of time or both) would constitute a default by DHL under, any material provision of any of such agreements, and DHL has not received any notice from, or given any notice to, any other party indicating that DHL is in breach of or in default under any of such agreements, except in all such cases for such that would not, individually or in the aggregate, have a Material Adverse Effect on DHL. To the best knowledge of DHL, no other party to any of such agreements is in breach of or in default under any material provision of such agreements, nor has any assertion been made by DHL of any such breach or default.

7.22 Registration Statement and Proxy Statement/Prospectus Information. Subject to each other applicable parties' fulfillment of their obligations with respect thereto, the Registration

Statement and Proxy Statement/ Prospectus will contain (or will be amended in a timely manner so as to contain) all information about DHL which is required to be included therein in accordance with the Securities Act or Exchange Act and the rules and regulations thereunder and any other Applicable Law and will conform in all material respects with the requirements of the Securities Act or Exchange Act and any other applicable Law; and the Proxy Statement/Prospectus (or any amendment or supplement thereto) will not, at the respective times they are filed with the SEC or published, sent or given to the Subject Partnerships' partners, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading or, in the case of the Proxy Statement/Prospectus, will, at the time of the Partnership Votes, omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies or consents for a Partnership Vote which shall have become false or misleading in any material respect.

7.23 SEC Filings. DHL has filed with the Securities and Exchange Commission all forms, reports, schedules, statements, and other documents required to be filed by it since January 1, 1998 under the Securities Act, the Exchange Act, and all other federal securities laws. All forms, reports, schedules, statements, and other documents (including all amendments thereto) filed by DHL with the Securities and Exchange Commission since such date are herein collectively referred to as the "SEC Filings". DHL has delivered or made available to RRC and SRC accurate and complete copies of all the SEC Filings in the form filed by DHL with the Securities and Exchange Commission. The SEC Filings, at the time filed, complied in all material respects with all applicable requirements of federal securities laws. To the knowledge of DHL, none of the SEC Filings, including, without limitation, any financial statements or schedules included therein, at the time filed, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading. All material contracts of DHL have been included in the SEC Filings, except for those contracts not required to be filed pursuant to the rules and regulations of the Securities and Exchange Commission. DHL shall deliver to RRC and SRC as soon as they become available accurate and complete copies of all forms, reports, and other documents furnished by it to its limited partners generally or filed by it with the Securities and Exchange Commission subsequent to the date hereof and prior to the Effective Time. For purposes of satisfying the conditions in Sections 12.2(a), 12.3(a) and 12.5(a) relating to accuracy at the Closing Date, qualifications regarding "to the knowledge" in this Section 7.23 shall be disregarded.

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES OF THE PARTNERSHIP

The Partnership represents and warrants to the other parties hereto that:

8.1 Organization. The Partnership is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite partnership power and partnership authority to own, lease and operate its properties and to carry on

its business as now being conducted. No actions or proceedings to dissolve the Partnership are pending.

8.2 Capitalization of the Partnership. Except as set forth in this Agreement, there are no outstanding subscriptions, options, warrants, calls, contracts, demands, commitments, convertible securities or other agreements or arrangements of any character or nature whatsoever under which the Partnership may become obligated to issue, assign, transfer or repurchase any partnership interests of the Partnership.

8.3 Authority Relative to This Agreement. The Partnership has full partnership power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by the Partnership of this Agreement, and the consummation by it of the transactions contemplated hereby, have been duly authorized by the partners of the Partnership, and no other partnership proceedings on the part of the Partnership are necessary to authorize the execution, delivery and performance by the Partnership of this Agreement and the consummation by it of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Partnership and constitutes, and each other agreement, instrument or document executed or to be executed by the Partnership in connection with the transactions contemplated hereby has been, or when executed will be, duly executed and delivered by the Partnership and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of the Partnership enforceable against the Partnership in accordance with their respective terms, except that such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally and (ii) equitable principles which may limit the availability of certain equitable remedies (such as specific performance) in certain instances.

8.4 Noncontravention. The execution, delivery and performance by the Partnership of this Agreement and the consummation by it of the transactions contemplated hereby do not and will not (i) conflict with or result in a violation of any provision of the partnership agreement or the certificate of limited partnership of the Partnership, (ii) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation or acceleration under, any bond, debenture, note, mortgage, indenture, lease, contract, agreement or other instrument or obligation to which the Partnership is a party or by which the Partnership or any of its properties may be bound, (iii) result in the creation or imposition of any Encumbrance upon the properties of the Partnership or (iv) assuming compliance with the matters referred to in Section 8.5, violate any Applicable Law binding upon the Partnership, except, in the case of clauses (ii), (iii) and (iv) above, for any such conflicts, violations, defaults, terminations, cancellations, accelerations or Encumbrances which would not, individually or in the aggregate, have a Material Adverse Effect on the Partnership.

8.5 Governmental Approvals. To the knowledge of the Partnership, no consent, approval, order or authorization of, or declaration, filing or registration with, any Governmental Entity is required to be obtained or made by the Partnership in connection with the execution, delivery or

performance by the Partnership of this Agreement or the consummation by it of the transactions contemplated hereby, other than (i) the filing by the Partnership of certificates of merger in accordance with State Law, (ii) compliance with any applicable requirements of the HSR Act, (iii) compliance with any applicable state securities or takeover laws, (iv) filings with Governmental Entities to occur in the ordinary course following the consummation of the transactions contemplated hereby, (v) filings with or approvals of Governmental Entities which may be necessary due to the status of any Subject Partnership or any affiliate thereof and (vi) such consents, approvals, orders or authorizations which, if not obtained, and such declarations, filings or registrations which, if not made, would not, individually or in the aggregate, have a Material Adverse Effect on the Partnership.

8.6 Registration Statement and Proxy Statement/Prospectus Information. Subject to each other applicable parties' fulfillment of their obligations with respect thereto, the Registration Statement and Proxy Statement/ Prospectus will contain (or will be amended in a timely manner so as to contain) all information about the Partnership which is required to be included therein in accordance with the Securities Act or Exchange Act and the rules and regulations thereunder and any other Applicable Law and will conform in all material respects with the requirements of the Securities Act or Exchange Act and any other applicable Law; and the Proxy Statement/Prospectus (or any amendment or supplement thereto) will not, at the respective times they are filed with the SEC or published, sent or given to the Subject Partnerships' partners, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading or, in the case of the Proxy Statement/Prospectus, will, at the time of the Partnership Votes, omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies or consents for a Partnership Vote which shall have become false or misleading in any material respect.

ARTICLE IX

REPRESENTATIONS AND WARRANTIES OF OPERATING SUB GENERAL PARTNER AND ORGANIZATIONAL LIMITED PARTNER

Each of Operating Sub, the General Partner and the Organizational Limited Partner represents and warrants to the other parties hereto that:

9.1 Organization. Such party is a limited partnership or limited liability company, as applicable, duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite partnership or limited liability company power and partnership or limited liability company authority to own, lease and operate its properties and to carry on its business as now being conducted. No actions or proceedings to dissolve such party are pending.

9.2 Authority Relative to This Agreement. Such party has full partnership or limited liability company power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by such party of this Agreement, and the consummation by it of the transactions contemplated hereby, have been duly

authorized by the partners or members of such party, and no other partnership or limited liability company proceedings on the part of such party are necessary to authorize the execution, delivery and performance by such party of this Agreement and the consummation by it of the transactions contemplated hereby. This Agreement has been duly executed and delivered by such and constitutes, and each other agreement, instrument or document executed or to be executed by such in connection with the transactions contemplated hereby has been, or when executed will be, duly executed and delivered by such party and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of such party enforceable against such party in accordance with their respective terms, except that such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally and (ii) equitable principles which may limit the availability of certain equitable remedies (such as specific performance) in certain instances.

9.3 Noncontravention. The execution, delivery and performance by such party of this Agreement and the consummation by it of the transactions contemplated hereby do not and will not (i) conflict with or result in a violation of any provision of the partnership agreement or the certificate of limited partnership or similar governing documents of such party, (ii) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation or acceleration under, any bond, debenture, note, mortgage, indenture, lease, contract, agreement or other instrument or obligation to which such party is a party or by which such party or any of its properties may be bound, (iii) result in the creation or imposition of any Encumbrance upon the properties such party or (iv) assuming compliance with the matters referred to in Section 9.4, violate any Applicable Law binding upon such party, except, in the case of clauses (ii), (iii) and (iv) above, for any such conflicts, violations, defaults, terminations, cancellations, accelerations or Encumbrances which would not, individually or in the aggregate, have a Material Adverse Effect on such party.

9.4 Governmental Approvals. To the knowledge of such party, no consent, approval, order or authorization of, or declaration, filing or registration with, any Governmental Entity is required to be obtained or made by such party in connection with the execution, delivery or performance by such party of this Agreement or the consummation by it of the transactions contemplated hereby, other than (i) compliance with any applicable requirements of the HSR Act, (ii) compliance with any applicable state securities or takeover laws, (iii) filings with Governmental Entities to occur in the ordinary course following the consummation of the transactions contemplated hereby, (iv) filings with or approvals of Governmental Entities which may be necessary due to the status of any Subject Partnership or any affiliate thereof and (v) such consents, approvals, orders or authorizations which, if not obtained, and such declarations, filings or registrations which, if not made, would not, individually or in the aggregate, have a Material Adverse Effect on such party.

ARTICLE X

CONDUCT OF THE SUBJECT PARTNERSHIPS PENDING CLOSING;
CERTAIN ACTIONS RELATING TO CLOSING

10.1 Conduct and Preservation of Business. Each of RRC, SRC and DHL hereby covenants and agrees with the other parties hereto that, except as contemplated by this Agreement (including without limitation Sections 10.3, 10.4, 10.5 and 10.7), during the period from the date hereof to the Effective Time, such Subject Partnership (i) shall conduct its operations (including, in the case of RRC, those conducted with respect to the Unaffiliated ORRI) according to the ordinary course of business consistent with past practice and in material compliance with all Applicable Laws, (ii) shall use its reasonable best efforts to preserve, maintain and protect its properties (including, in the case of RRC, those subject to the Unaffiliated ORRI) and (iii) shall use its reasonable best efforts to preserve intact its business organization, to keep available the services of its officers and employees and to maintain existing relationships with licensors, licensees, suppliers, contractors, distributors, customers and others having business relationships with them; provided, however, that such Subject Partnership shall not be required to make any payments or enter into or amend any contractual agreements, arrangements or understandings to satisfy any of the foregoing obligations.

10.2 Restrictions on Certain Actions. Except as otherwise expressly provided in this Agreement (including without limitation Sections 10.3, 10.4, 10.5 and 10.7), prior to the Effective Time, such Subject Partnership (including, in the case of RRC, and to the extent applicable, with respect to or affecting the Unaffiliated ORRI) shall not, without the prior written consent of the other two Subject Partnerships, which consent shall not be unreasonably withheld:

(a) amend its certificate of partnership, partnership agreement or similar governing documents;

(b) (i) create, incur, guarantee or assume any indebtedness for borrowed money or otherwise become liable or responsible for the obligations of any other person in an aggregate amount in excess of $100,000, (ii) make any loans, advances or capital contributions to, or investments in, any other person, or (iii) mortgage or pledge any of its material assets, tangible or intangible, or create any material lien thereupon (except for statutory liens (including materialmen's, mechanic's, repairmen's, landlord's and other similar liens) arising in connection with the ordinary course of business securing payments not yet due and payable or, if due and payable, the validity of which is being contested in good faith by appropriate legal proceedings and for which adequate reserves have been set aside);

(c) (i) enter into, adopt or (except as may be required by law) amend or terminate any bonus, profit sharing, compensation, severance, termination, stock appreciation right, restricted stock, performance unit, stock equivalent, stock purchase, pension, retirement, deferred compensation, employment, severance or other employee benefit agreement, trust, plan, fund or other arrangement for the benefit or welfare of any director, officer or

employee, (ii) except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to such Subject Partnership, increase in any manner the compensation or fringe benefits of any director, officer or employee of such Subject Partnership or (iii) pay to any director, officer or employee of such Subject Partnership any benefit not required by any employee benefit agreement, trust, plan, fund or other arrangement as in effect on the date hereof;

(d) acquire, sell, lease, transfer or otherwise dispose of, directly or indirectly, any assets other than those which are (x) in the ordinary course of business consistent with past practice and (y) in any individual transaction (or series of related transactions) are less than $100,000;

(e) acquire (by merger, consolidation or acquisition of stock or assets or otherwise) any corporation, partnership or other business organization or division thereof;

(f) make any capital expenditure or expenditures which, individually, is in excess of $100,000;

(g) pay, discharge or satisfy any claims, liabilities or obligations (whether accrued, absolute, contingent, unliquidated or otherwise, and whether asserted or unasserted), other than the payment, discharge or satisfaction in the ordinary course of business consistent with past practice, or in accordance with their terms, of liabilities reflected or reserved against in the Financial Statements of such Subject Partnership, or incurred since the date of the Latest Balance Sheet of such Subject Partnership in the ordinary course of business consistent with past practice;

(h) enter into any material lease, contract, agreement, commitment, arrangement or transaction outside the ordinary course of business consistent with past practice;

(i) amend, modify, or change in any material respect any existing lease, contract, or agreement, other than in the ordinary course of business consistent with past practice;

(j) change any of the accounting principles or practices used by it, except for any change required by reason of a concurrent change in GAAP and notice of which is given in writing by such Subject Partnership to the other two Subject Partnerships;

(k) waive, release, grant, or transfer any rights of value, other than in the ordinary course of business consistent with past practice;

(l) take any action that would, or that reasonably could be expected to, result in any of the representations and warranties of such Subject Partnership set forth in this Agreement becoming untrue or any material breach of this Agreement;

(m) enter into any hedging, swap, fixed price sale or purchase (having a term of more than 90 days) or other derivative contract;

(n) accelerate collection of any notes or accounts receivable generated by the Subject Partnership or its business by using collections efforts beyond what would have been used in the ordinary course of business;

(o) delay payment of any account payable or other liability of such Subject Partnership relating to its business beyond its due date or the date when such liability would have been paid in the ordinary course of the Subject Partnership's business consistent with past practice; or

(p) authorize or propose, or agree in writing or otherwise to take, any of the actions described in this Section 10.2.

10.3 RRC and SRC Reorganizations.

(a) RRC shall use its reasonable best efforts to cause its partners and the undivided interest owners of net profits interests burdening RRC's properties (the "NPI Owners") to agree in writing that, immediately prior to or simultaneously with the Mergers, (a) RRC will reorganize as a limited partnership and (b) the NPI owners will contribute such net profits interests to RRC in exchange for limited partnership interests in RRC (the "RRC Reorganization") and in connection therewith RRC and each of the general partners of RRC shall recommend the RRC Reorganization to the NPI Owners. Each of the general partners of RRC shall use its reasonable best efforts to solicit from the NPI Owners written agreements effecting such RRC Reorganization. RRC shall not assist in or promote any transaction or action with the purpose of frustrating the consummation of the RRC Reorganization, or with knowledge that such transaction or action will have the effect of preventing the RRC Reorganization.

(b) SRC shall use its reasonable best efforts to cause its partners to agree that, immediately prior to or simultaneously with the Mergers, (a) SRC's partnership agreement will be amended so that its general partner will hold a 4% interest in SRC and its limited partners will hold interests aggregating a 96% interest in SRC (the "SRC Reorganization"). The general partner of SRC shall (i) unanimously recommend to the limited partners of SRC that they consent to the SRC Reorganization and (ii) use its reasonable best efforts to solicit from the limited partners of SRC written consents or agreements effecting the SRC Reorganization.

10.4 Conveyance of Working Interests prior to Mergers.

(a) RRC and the Operating Sub shall enter into an assignment, conveyance and assumption agreement with respect to working interests owned by RRC, in substantially the form of the WI Assets Conveyance, prior to the Effective Time.

(b) SRC and the Operating Sub shall enter into an assignment, conveyance and assumption agreement with respect to working interests owned by SRC, in substantially the form of the WI Assets Conveyance, prior to the Effective Time.

10.5 Pre-Closing Payments and Cash Treatment.

(a) Each Subject Partnership shall use its reasonable best efforts to determine the amount of its trade payables and all other claims or liabilities (of which such Subject Partnership has actual notice and which are not disputed by such Subject Partnership in good faith) incurred through Closing, including without limitation Combination Costs (as defined in Section 11.15). Except as provided in Section 10.5(c), each Subject Partnership shall fully pay or otherwise satisfy, on or prior to the Mergers and the Asset Conveyance on the Closing Date, all such undisputed claims or liabilities incurred or accrued through the Closing that are identified and are due and payable by the Subject Partnership in the ordinary course of its business, plus any other claims or liabilities incurred and accrued through the Closing that are identifiable and relate to revenues attributable to such claims or liabilities which have been received by such Subject Partnership ("Accrued Expenses"); provided that Combination Costs incurred through Closing, and all costs of DHL's financial advisor referred to in Section 7.20, shall in all cases be Accrued Expenses; and provided further that the amount necessary to prepare and file final Tax Returns of such Subject Partnership shall be an Accrued Expense.

(b) Immediately prior to consummation of the Mergers, and subsequent to the payments referred to in Section 10.5(a), each of RRC and SRC shall distribute all cash of such Subject Partnership to its partners, except as provided in Section 10.5(c) or 10.5(d). Except as provided in Section 10.5(c) or 10.5(d), all cash of DHL as of the close of business on the Closing Date shall be deemed to constitute the "Excess Cash Amount" for purposes of Section 3.2.

(c) If agreed to by the other Subject Partnerships, a Subject Partnership may elect to defer payment of Accrued Expenses until after Closing and shall in such case retain (in the case of RRC and SRC) or transfer as part of the Asset Conveyance (in the case of DHL) an amount of cash equal to the greater of (x) zero and (y) the amount or estimated amount of such Accrued Expenses less the amount of any Pre-Closing Appraiser Costs (as defined below in subsection (d)) paid by such Subject Partnership prior to Closing. If DHL elects to transfer any such cash, (i) such amounts for unpaid Accrued Expenses relating to liabilities and obligations assumed by the Operating Sub shall be transferred to the Operating Sub pursuant to the Management Assets Conveyance and deducted from the "Excess Cash Amount" and (ii) such amounts for unpaid Accrued Expenses relating to liabilities and obligations assumed by the Partnership shall be deducted from the "Excess Cash Amount" (and therefore transferred to the Partnership pursuant to Section 3.1(c)). There shall be credited against the amount of cash delivered by DHL to the Partnership pursuant to this Section 10.5(c), the amount of any accounts receivable conveyed to the Partnership as part of the NPI and Residual Assets pursuant to the form of conveyance attached hereto as Exhibit 3.3(c)(ii).

(d) If any limited partners of SRC or DHL perfect their dissenters' rights in accordance with Article IV, then any Subject Partnership with such dissenters shall retain (in the case of SRC)

or transfer as part of the NPI and Residual Assets (in the case of DHL) an amount of cash equal to the aggregate estimated amount that will be required to be paid to such Subject Partnership's dissenting partners pursuant to Article IV. For purposes of the preceding sentence, the estimated amount shall be determined by agreement of all three Subject Partnerships prior to Closing (any such agreement to be in the sole discretion of each Subject Partnership); provided, however, if no such agreement can be reached, then (i) such Subject Partnership shall cause an independent appraiser selected by such Subject Partnership (and reasonably acceptable to the other Subject Partnerships) to determine the value of a dissenting partner's interest in such Subject Partnership based on appraisal of such Subject Partnership's assets which will value such Subject Partnership's assets as they existed at the latest practicable date as if sold in an orderly manner in a reasonable period of time and in a manner consistent with appropriate industry practice and (ii) the aggregate estimated amount shall be calculated using such appraisal. If DHL must transfer any such cash, such amount shall be deducted from the "Excess Cash Amount." All fees of any such appraiser "Pre- Closing Appraiser Costs") shall be borne by the Subject Partnership for which the appraisal is being conducted.

10.6 Post-Closing Collections and Invoices. In the event DHL or the Partnership receives any payment after Closing resulting from a WI Asset or a Management Asset, each of DHL and the Partnership agrees immediately to transmit (or cause to be transmitted) such payment to the Operating Sub, and the Operating Sub is hereby authorized to endorse the check, in the name of DHL if necessary, and to deposit the check to the Operating Sub's account. In the event DHL or the Partnership receives any invoice, billing or charges after Closing which relates to an obligation or liability assumed by the Operating Sub in accordance with Section 3.5, each of DHL and the Partnership agrees immediately to forward such item to the Operating Sub.

10.7 Certain DHL Matters. Notwithstanding anything to the contrary in this Agreement, nothing in this Agreement shall prohibit DHL from taking actions in connection with the following:

(a) Purchase of a directors' and officers' insurance and fiduciary liability insurance, for the benefit of those persons who are covered by the Company's directors' and officers' liability insurance and fiduciary liability insurance at the date of this Agreement, providing coverage with respect to matters occurring prior to Closing; provided the cost of any such insurance shall be treated as an Accrued Expense for purposes of Section 10.5.

(b) The sale by DHL of securities of any other issuer of any class registered under Section 12 of the Securities Exchange Act of 1934.

(c) DHL may make distributions of cash to its partners in accordance with, and in amounts not materially in excess of, its past practice.

ARTICLE XI

ADDITIONAL AGREEMENTS

11.1 Access to Information; Confidentiality. Subject to Applicable Law, between the date hereof and the Closing (or termination of this Agreement) each Subject Partnership (i) shall give each other Subject Partnership and its authorized representatives reasonable access at the Subject Partnership's principal office during normal business hours to all employees, plants, offices and other facilities, and all books and records of the Subject Partnership, (ii) shall permit each other Subject Partnership and its authorized representatives to make such inspections as such other Subject Partnership may reasonably require and (iii) shall cause the Subject Partnership's general partner and their respective officers to furnish each other Subject Partnership and its authorized representatives with such financial and operating data and other information with respect to the Subject Partnership as such other Subject Partnership may from time to time reasonably request; provided, that the Subject Partnership shall have the right to have a representative present at all times. Each Subject Partnership shall hold in confidence all such information on the terms and subject to the conditions contained in the Confidentiality Agreement among DHL, SRC and RRC dated March 19, 2000 and the Confidentiality Agreement among SRC, RRC and DHL dated April 6, 2000.

11.2 Notification of Certain Matters. Each Subject Partnership shall give prompt notice to each other Subject Partnership of (i) the discovery of any fact or circumstance which would be likely to cause any representation or warranty of such Subject Partnership contained in this Agreement to be untrue or inaccurate in any material respect and (ii) any material failure of such Subject Partnership to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder. The delivery of any notice pursuant to this Section 11.2 shall not be deemed to (i) modify the representations or warranties hereunder of the party delivering such notice, (ii) modify the conditions set forth in Article XII or (iii) limit or otherwise affect the remedies available hereunder to the party receiving such notice.

11.3 Acquisition Proposals.

(a) Each Subject Partnership will notify the other Subject Partnerships immediately and in any event within twenty-four (24) hours of receipt of any proposals by, request for any information from, or initiation of or attempt or request to initiate any negotiations or discussions with, such Subject Partnership or its general partner or their respective officers, directors, members of Advisory Committee, employees, investment bankers, attorneys, accountants or other agents (collectively, "Representatives"), in each case in connection with (i) any Acquisition Proposal (as defined below) or the consideration of making of an Acquisition Proposal ("Acquisition Proposal Interest") indicating, in connection with such notice, the terms and conditions of any Acquisition Proposals or offers or (ii) in the case of RRC, any proposal to acquire all or a substantial portion of the Unaffiliated ORRI (other than in connection with the RRC Reorganization). Each Subject Partnership agrees that as of the date hereof it shall cease and cause to be terminated any activities, discussions or negotiations with any parties conducted heretofore with respect to any Acquisition Proposal Interest. Each Subject Partnership agrees that it shall keep each other Subject Partnership

informed, on a reasonably current basis, of the status and terms of (i) any Acquisition Proposal Interest or (ii) in the case of RRC, proposal to acquire all or a substantial portion of the Unaffiliated ORRI. The term "Acquisition Proposal," as used herein, means any tender or exchange offer involving such Subject Partnership or any offer or proposal for a merger, consolidation or other business combination or joint venture involving such Subject Partnership or the acquisition of any substantial equity interest in, or a substantial portion of the assets of, such Subject Partnership or any offer or proposal with respect to any recapitalization or restructuring with respect to such Subject Partnership, other than the transactions contemplated by this Agreement.

(b) Except as provided in Section 11.3(c) or 11.3(d), from the date hereof until this Agreement is terminated in accordance with its terms, no Subject Partnership shall, and each Subject Partnership shall use its reasonable best efforts to ensure that its general partner(s) and its and their respective Representatives shall not, directly or indirectly (i) solicit, initiate or knowingly encourage, or take any action to facilitate the making of, any Acquisition Proposal, (ii) enter into any agreement with respect to any Acquisition Proposal or (iii) engage in discussions or negotiations with, or provide any non-public information relating to such Subject Partnership to, any person relating to an Acquisition Proposal; provided, however, that nothing contained in this Section 11.3 shall prohibit such Subject Partnership or its general partner from taking and disclosing to such Subject Partnership's partners its position with respect to a tender or exchange offer by a third party pursuant to Rules 14d-9 and 14e-2 under the Exchange Act to the extent required by Applicable Law or from making any disclosure to the Subject Partnership's partners if in the good faith judgment of the general partner(s) (or in the case of DHL, the members of its Advisory Committee) after consultation with counsel, failure to do so would be a breach of its fiduciary duties to the Subject Partnership's limited partners under applicable law; provided, however, that neither such Subject partnership nor its general partners (nor in the case of DHL, the members of its Advisory Committee) shall, except as permitted by Section 11.3(d), withdraw or modify, or propose to withdraw or modify, its position with respect to the Agreement, the Combination and the transactions contemplated by this Agreement or approve or recommend, or propose to approve or recommend, an Acquisition Proposal.

(c) Notwithstanding the foregoing, each Subject Partnership may furnish information concerning its business, properties or assets to any person pursuant to a confidentiality agreement no less favorable to such Subject Partnership than those contained in the Confidentially Agreements referenced in Section 11.1 and may negotiate and participate in discussions and negotiations with such person concerning an Acquisition Proposal if (x) such entity or group has on an unsolicited basis submitted a bona fide written proposal to such Subject Partnership relating to any such transaction which such Subject Partnership's general partner(s) (and members of Advisory Committee, in the case of DHL) determines in good faith (in the case of DHL, after receiving advice from its financial advisor), represents a financially superior transaction to the Combination from the standpoint of the limited partners of such Subject Partnership and (y) such Subject Partnership's general partner(s) (and members of Advisory Committee, in the case of DHL) determines in good faith, after consultation with counsel, that the failure to provide such information or access or to engage in such discussions or negotiations would cause such general partner(s) (and members of Advisory Committee, in the case of DHL) to violate its fiduciary duties to such Subject Partnership's

limited partners under Applicable Law (an Acquisition Proposal which satisfies clauses (x) and (y) being referred to herein as a "Superior Proposal").

(d) Except as set forth herein, no general partner of a Subject Partnership, nor any Advisory Committee of any Subject Partnership shall (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to the other Subject Partnerships, the approval or recommendation by such general partner or group of this Agreement or the Combination or the other transactions contemplated by this Agreement, (ii) approve or recommend or propose to approve or recommend, any Acquisition Proposal or (iii) enter into, or cause its Subject Partnership to enter into, any letter of intent, agreement in principle, agreement or fee arrangement with respect to any Acquisition Proposal. Notwithstanding the foregoing, a Subject Partnership's general partner or Advisory Committee may (subject to the terms of this sentence) terminate this Agreement in accordance with Section 14.1(c)(iii) and enter into an agreement with respect to a Superior Proposal, in which event such Subject Partnership may take any of the actions set forth in clauses (i) through (iii) of the immediately preceding sentence; provided, however, that such Subject Partnership shall not enter into an agreement with respect to a Superior Proposal or terminate this Agreement pursuant to Section 14.1(c)(iii) unless such Subject Partnership shall have furnished each other Subject Partnership with written notice not later than 12:00 noon two (2) Business Days in advance of any date that it intends to enter into such agreement (or terminate this Agreement pursuant to Section 14.1(c)(iii)) specifying the terms and material conditions of the Superior Proposal and identifying the Person making such Superior Proposal and shall have afforded the other Subject Partnerships an opportunity to make a proposal that is superior to such Superior Proposal.

11.4 HSR Act; Consents. If required, each of the parties hereto shall (i) file or cause to be filed, as promptly as practicable but in no event later than twenty (20) consecutive Business Days after the execution and delivery of this Agreement, with the Federal Trade Commission and the United States Department of Justice, all reports and other documents required to be filed by such party under the HSR Act concerning the transactions contemplated hereby and (ii) promptly comply with or cause to be complied with any requests by the Federal Trade Commission or the United States Department of Justice for additional information concerning such transactions, in each case so that the waiting period applicable to this Agreement and the transactions contemplated hereby under the HSR Act shall expire as soon as practicable after the execution and delivery of this Agreement. Each party hereto agrees to request, and to cooperate with the other party or parties in requesting, early termination of any applicable waiting period under the HSR Act. Each of the parties also shall use its reasonable best efforts to obtain all other consents, approvals, orders, authorizations and waivers of, and to effect all declarations, filings and registrations with, all third parties (including Governmental Entities) that are necessary, required or deemed to be desirable to enable the parties to effect the transactions contemplated by this Agreement and to otherwise consummate the transactions contemplated hereby.

11.5 Special Meeting; Proxy/Consent Solicitation Statement.

(a) Each Subject Partnership shall take all action necessary in accordance with Applicable Law and its governing documents to duly call, give notice of, convene and hold a special

meeting of its partners (each, a "Special Meeting"), or to solicit written consents in lieu thereof, as promptly as practicable after the date hereof to consider and vote upon the adoption and approval of this Agreement, the Combination and the matters required by any national securities exchange or interdealer quotation system. The partner vote required for the adoption and approval of this Agreement and the Combination by any Subject Partnership shall be the vote required by State Law and the applicable Subject Partnership's governing documents; provided, however, that RRC's required vote shall include the approval of all NPI Owners (as defined in Section 10.3) as part of the RRC Reorganization. Subject to Section 11.3(d) and the proviso to Section 11.3(b), the general partner(s) (and member of Advisory Committee, in the case of DHL) of each Subject Partnership shall (i) unanimously recommend to the limited partners of such Subject Partnership that they vote in favor of the adoption and approval of this Agreement, the Combination and the matters contemplated thereby, (ii) use its reasonable best efforts to solicit from the limited partners of such Subject Partnership proxies or written consents, as applicable, in favor of such adoption and approval and (iii) take all other action reasonably necessary to secure a vote of the limited partners of such Subject Partnership in favor of such adoption and approval. For purposes of this Agreement, a "Partnership Vote" shall occur on the date of a Special Meeting or the "due date" for any written consents (as stated in any consent solicitation statement), and shall include the approval of this Agreement by the NPI Owners as part of the RRC Reorganization.

(b) As soon as practicable following the date of this Agreement, RRC, SRC, DHL and the Partnership shall cooperate to prepare on the Partnership's behalf a registration statement (the "Registration Statement") to be filed by the Partnership on Form S-4 with the Commission under the Securities Act with respect to the offering, sale and delivery of the LP Units to be issued pursuant to the Combination, which will include proxy or consent solicitation materials for Partnership Votes of RRC, SRC and DHL, which will also constitute the Prospectus to be included in the Registration Statement (as amended or supplemented, the "Proxy Statement/Prospectus"). To the extent practicable, the parties will utilize one document for transmittal to their respective partners to meet applicable legal requirements. The Subject Partnerships and the Partnership shall cooperate to use reasonable best efforts to have the Proxy Statement/Prospectus cleared by the Commission as promptly as practicable. The parties shall cooperate with each other in the preparation of the Proxy Statement/Prospectus and shall furnish such data and information relating to RRC, SRC, DHL or the Partnership as may reasonably be required for the purpose of including the data and information in the Proxy Statement/Prospectus. The parties shall give each other and their counsel the opportunity to review any preliminary proxy materials and the Proxy Statement/Prospectus prior to their being filed with the Commission and shall give each other and their counsel the opportunity to review all amendments and supplements thereto and all responses to requests for additional information and replies to comments prior to their being filed with, or sent to, the Commission. No party shall file the Proxy Statement/Prospectus or any amendment thereto without each other party's prior consent. Each party will provide promptly to the other parties copies of all correspondence between such party or any of its representatives and the Commission. Each party agrees promptly to correct any information provided by it for use in the Proxy Statement/Prospectus if and to the extent that such information shall have become false or misleading in any material respect.

(c) Each party will use its reasonable best efforts to cause the Registration Statement to become effective as soon as practicable after filing. The Registration Statement will comply as to form in all material respects with the requirements of the Securities Act and the Exchange Act and the respective rules and regulations adopted thereunder. None of the information supplied by any Subject Partnership for inclusion in the Registration statement will contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary to make the statements made therein not misleading. Each party will notify the other parties in writing if prior to the Effective Time it shall obtain knowledge of any fact that would, in its opinion, make it necessary to amend or supplement the Registration Statement in order to make the statements therein not misleading or to comply with applicable law.

(d) Except as provided in Section 11.3(d), the Proxy Statement/Prospectus shall contain the unanimous recommendation of the general partner(s) (and members of Advisory Committee, in the case of DHL) of the Subject Partnerships that limited partners thereof vote in favor of the adoption and approval of this Agreement and the Combination. No Subject Partnership shall mail or otherwise distribute the Proxy Statement/Prospectus to its limited partners without consultation with the each other Subject Partnership and its counsel.

(e) The Partnership shall engage an independent third party to receive and tabulate all votes and dissents in connection with the Combination, and such tabulation shall be available to the partners of a Subject Partnership upon request at any time during and after voting occurs. To the extent such independent party requires payment prior to the consummation of the Combination, such expenses shall be treated as Common Costs under Section 11.15.

11.6 Reasonable Best Efforts. Each party hereto agrees that it will not voluntarily undertake any course of action inconsistent with the provisions or intent of this Agreement and will use its reasonable best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things reasonably necessary, proper or advisable under Applicable Laws to consummate the transactions contemplated by this Agreement, including, without limitation, (i) cooperation in determining whether any other consents, approvals, orders, authorizations, waivers, declarations, filings or registrations of or with any Governmental Entity or third party are required in connection with the consummation of the transactions contemplated hereby, (ii) using its reasonable best efforts to obtain any such consents, approvals, orders, authorizations and waivers and to effect any such declarations, filings and registrations, (iii) using its reasonable best efforts to cause to be lifted or rescinded any injunction or restraining order or other order adversely affecting the ability of the parties to consummate the transactions contemplated hereby, (iv) using its reasonable best efforts to defend, and to cooperate in defending, all lawsuits or other legal proceedings challenging this Agreement or the consummation of the transactions contemplated hereby and (v) the execution of any additional instruments necessary to consummate the transactions contemplated hereby.

11.7 Employees and Employee Benefit Plans of DHL.

(a) DHL shall terminate the employment of all of its employees effective as of the Closing Date. The Operating Sub shall offer employment to such terminated employees upon such terms and conditions as the Operating Sub shall in its sole discretion determine.

(b) Prior to Closing, DHL shall take all action necessary to terminate and discharge all of its obligations and liabilities under its Simplified Employee Pension-Individual Retirement Accounts Contribution Agreement and under its Severance Plan for Employees of Dorchester Hugoton, Ltd., and shall provide RRC and SRC with documentation evidencing such action.

(c) Effective as of the Closing Date, the Operating Sub shall assume and become the plan sponsor of the employee welfare plans of DHL as set forth on Schedule 7.16, except for the Severance Pay Plan for Employees of Dorchester Hugoton, Ltd., for the benefit of the former DHL employees covered by such plans as of the Closing Date who become employees of the Operating Sub, and DHL and the Operating Sub shall take all action necessary to effect such assumption and substitution of plan sponsorship. The Operating Sub shall have the right in its sole discretion to amend or terminate said employee welfare plans at any time after the Closing Date.

11.8 Employees and Employee Benefit Plans of SRC and RRC.

(a) SRC and RRC will use their reasonable best efforts to have Smith Allen, a Texas general partnership ("Smith Allen"), terminate the employment of all of its employees effective as of the Closing Date. The Operating Sub shall offer employment to such terminated employees upon such terms and conditions as the Operating Sub shall in its sole discretion determine.

(b) Effective as of the Closing Date, the Operating Sub shall assume and become the plan sponsor of the employee welfare plans of Smith Allen as set forth on Schedule 5.16 and Schedule 6.16 for the benefit of the former Smith Allen employees covered by such plans as of the Closing Date who become employees of the Operating Sub, and the Operating Sub will take, and RRC and SRC will use their best efforts to cause Smith Allen to take, all action necessary to effect such assumption and substitution of plan sponsorship. The Operating Sub shall have the right in its sole discretion to amend or terminate said employee welfare plans at any time after the Closing Date.

11.9 Listing of LP Units. Each of the Subject Partnerships and the Partnership shall use its reasonable efforts to cause the LP Units be approved for listing on a national securities exchange or designated as a national market system security on an interdealer quotation system by the NASD prior to the Effective Time, subject in either case to official notice of issuance.

11.10 Affiliate Agreements. Each Subject Partnership shall identify in a letter to the Partnership all persons who are, on the date hereof, "affiliates" of such Subject Partnership, as such term is used in Rule 145 under the Securities Act. Each Subject Partnership shall use its reasonable efforts to cause such persons to deliver to the Partnership not later than ten (10) days prior to the date of such Subject Partnership's Partnership Vote, a written agreement substantially in the form

attached hereto as Exhibit 11.10 and shall use its reasonable efforts to cause persons who become "affiliates" after the date hereof but prior to the Closing Date to execute and deliver agreements at least five (5) days prior to the Closing Date.

11.11 Comfort Letters. Each Subject Partnership shall use its reasonable best efforts to cause to be delivered to each of the Subject Partnership and the Partnership a "comfort" letter from such Subject Partnership's independent accountants, dated the effective date of the Proxy Statement/Prospectus and addressed to the Subject Partnerships and the Partnership, of the kind contemplated by the Statement on Auditing Standards with respect to Letters to Underwriters promulgated by the American Institute of Certified Public Accountants (the "AICPA Statement"), in form reasonably acceptable to such other Subject Partnerships, in connection with the procedures undertaken by such Subject Partnership's independent accountants with respect to the financial statements of such Subject Partnership included in the Registration Statement and the other matters with respect to such Subject Partnership contemplated by the AICPA Statement and customarily included in comfort letters relating to transactions similar to the Combination.

11.12 Public Announcements. Except as may be required by Applicable Law or by obligations pursuant to any listing agreement with any national securities exchange or interdealer quotation system, no Subject Partnership shall issue any press release or otherwise make any public statement with respect to this Agreement or the transactions contemplated hereby without the prior written consent of the other Subject Partnerships. Any such press release or public statement required by Applicable Law or any such listing agreement shall only be made after reasonable notice to the other Subject Partnerships.

11.13 Indemnification Arrangements.

(a) From and after the Effective Time, the Partnership shall indemnify, defend and hold harmless each person who is at the Effective Time, or who has been at any time prior to the Effective Time, a partner of a Subject Partnership or an affiliate of such partner, or a partner, shareholder, director, officer, employee or agent of a Subject Partnership or such affiliate (each, an "Indemnified Party") with respect to matters occurring prior to the Effective Time, to the extent the applicable Subject Partnership would have been required to do so under its governing documents in effect at the Effective Time and shall provide such persons with the other related rights provided by such governing documents.

(b) The provisions of this Section are intended to be for the benefit of, and shall be enforceable by, the parties hereto and each Indemnified Party, his heirs and his representatives. The rights provided the Indemnified Parties under this Section shall be in addition to, and not in lieu of, any rights to indemnity that such persons may have under the Certificate of Limited Partnership and Partnership Agreement of the Partnership or any other agreements.

11.14 Amendment of Schedules. Each party hereto agrees that, with respect to the representations and warranties of such party contained in this Agreement, such party shall have the continuing obligation until the Closing to supplement or amend the Schedules hereto with respect

to any matter hereafter discovered which, if known at the date of this Agreement, would have been required to be set forth or described in the Schedules. For all purposes of this Agreement, including without limitation for purposes of determining whether the conditions set forth in Sections 12.2(a), 12.3(a), 12.4(a) and 12.5(a) have been fulfilled, the Schedules hereto shall be deemed to include only that information contained therein on the date of this Agreement and shall be deemed to exclude all information contained in any supplement or amendment thereto.

11.15 Fees and Expenses. Except as otherwise expressly provided in this Agreement, all fees and expenses, including fees and expenses of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby ("Combination Costs") shall be paid by the party incurring such fee or expense, whether or not the Closing shall have occurred. The provisions of Section 10.5 shall apply to such Combination Costs. The parties agree that Combination Costs incurred after July 31, 2001 which are properly allocable to all three Subject Partnerships (e.g. printing, pro forma accounting and filing fees; and including fees and expenses of legal counsel incurred in connection with this Agreement and the transactions contemplated hereby to the extent not relating solely to the internal matters of a general partner of a Subject Partnership) ("Common Costs") shall be borne in the following proportions:

Dorchester Hugoton, Ltd.	39%
Republic Royalty Company	41%
Spinnaker Royalty Company, L.P.	20%

11.16 Future Royalty/NPI Agreement. The Partnership and Operating Sub shall enter into an agreement (the "Royalty/NPI Agreement") at (and subject to the occurrence of) the Closing. The Royalty/NPI Agreement shall be in substantially the form set forth as Exhibit 11.17.

11.17 DHL Credit Agreements. Prior to Closing, each Subject Partnership shall pay in full and terminate each and every indenture, note, loan or credit agreement, or other agreement (other than oil and gas industry arrangements required in connection with oil and gas operations) relating to the borrowing of money by such Subject Partnership or to the direct or indirect guarantee or assumption by of any obligation of others, including any agreement that has the economic effect although not the legal form of any of the foregoing.

11.18 Indemnity Agreement. The Partnership and an entity which is a limited partner of RRC immediately prior to the Effective Time shall enter into an indemnification agreement (the "Indemnity Agreement") at (and subject to the occurrence of) the Closing. The Indemnity Agreement shall be in substantially the form set forth as Exhibit 11.18.

ARTICLE XII

CONDITIONS

12.1 Conditions to Obligations of the Parties. The obligations of the parties to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment on or prior to the Closing Date of each of the following conditions:

(a) Partnership Approvals. This Agreement shall have been duly and validly adopted and approved by the partners of each of the Subject Partnerships in accordance with the partnership agreement of such Subject Partnership, Nasdaq National Market rules (if applicable) and Applicable Law; and by all NPI Owners.

(b) HSR Act. All waiting periods (and any extensions thereof) applicable to this Agreement and the transactions contemplated hereby under the HSR Act shall have expired or been terminated.

(c) Legal Proceedings. No preliminary or permanent injunction or other order, decree, or ruling issued by a Governmental Entity, and no statute, rule, regulation, or executive order promulgated or enacted by a Governmental Entity, shall be in effect which restrains, enjoins, prohibits, or otherwise makes illegal the consummation of the transactions contemplated hereby; and no Proceeding by a Governmental Entity shall have been commenced or threatened (and be pending or threatened on the Closing Date) against Buyer, Seller, or any of their respective affiliates, associates, directors, or officers seeking to prevent or challenging the transactions contemplated hereby.

(d) Consents. All consents, approvals, orders, authorizations and waivers of, and all declarations, filings and registrations with, third parties (including Governmental Entities) required to be obtained or made by or on the part of the parties hereto, or otherwise reasonably necessary for the consummation of the transactions contemplated hereby, shall have been obtained or made, and all thereof shall be in full force and effect at the time of Closing, unless the failure to obtain or make any such consent, approval, order, authorization, waiver, declaration, filing or registration would not have a Material Adverse Effect on the Partnership.

(e) Registration Statement. The Registration Statement shall have been declared effective under the Securities Act, and no stop order in respect of the Registration Statement or proceeding in contemplation thereof shall be pending or threatened. The Partnership shall have obtained all necessary "blue sky" or state securities laws authorizations required for the issuance of the LP Units in connection with the Combination, and such authorizations shall not have been suspended or revoked.

(f) Listing of Company Common Stock. The LP Units shall have been approved for listing on a national securities exchange or designated as a national market system security

on an interdealer quotation system by the NASD, subject, in either case, to official notice of issuance.

(g) RRC and SRC Reorganizations. Each of the RRC Reorganization and the SRC Reorganization shall have occurred, or be occurring simultaneously with Closing.

(h) Conveyances of Working Interests prior to Asset Conveyance. The transactions contemplated by Section 10.4 shall have occurred, or be occurring simultaneously with Closing.

(i) Closing under the GP Contribution Agreement. All conditions precedent to the closing of the transactions contemplated by that certain Contribution Agreement dated of even date herewith by and among the General Partner, its general partner and the general partner(s) of each Subject Partnership (the "GP Contribution Agreement") as in effect on the date of this Agreement and without giving effect to any amendment or waiver of, under or pursuant to the terms of the GP Contribution Agreement hereafter made or effected unless approved by each Subject Partnership and the Partnership (other than conditions with respect to the consummation, simultaneously with such closing, of the transactions contemplated hereby) shall have been satisfied at or prior to the Closing, and such closing shall be occurring simultaneously with the Closing.

(j) Accounting Matters. The Partnership and the Subject Partnerships shall have received the "comfort" letters described in Section 11.11.

(k) Lock Up Agreements. Each of the general partners of the Subject Partnerships, each manager of the General Partner and each officer of Operating Sub shall have entered into a lock-up agreement relating to the LP Units, which agreement shall be for a term of one year from the Closing Date and shall otherwise be in form and substance reasonably acceptable to each Subject Partnership.

12.2 Conditions to Obligation of RRC. The obligation of RRC to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment on or prior to the Closing Date of each of the following conditions:

(a) Representations and Warranties. All the representations and warranties of each party to this Agreement (other than RRC) contained in this Agreement and in any agreement, instrument or document delivered pursuant hereto or in connection herewith on or prior to the Closing Date, shall be true and correct in all material respects on and as of the Closing Date as if made on and as of such date, except as affected by transactions permitted by this Agreement and except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct in all material respects as of such specified date.

(b) Covenants and Agreements. Each party to this Agreement (other than RRC) shall have performed and complied with in all material respects all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date.

(c) No Material Adverse Change. Since the date of this Agreement, there shall not have occurred any Material Adverse Effect with respect to SRC or DHL, and RRC shall have received a certificate signed by an officer of the general partner of SRC and a certificate signed by an officer of a general partner of DHL, in each case to his knowledge, to such effect.

(d) SRC and DHL Transactions. The closings of the Merger relating to SRC and the Asset Conveyance shall have occurred, or be occurring simultaneously with Closing.

(e) Indemnity Agreement. The Partnership shall have entered into the Indemnity Agreement.

(f) Dissenters Payments. The aggregate estimated amount that will be required to be paid to dissenting partners shall have been determined for each other applicable Subject Partnership pursuant to Section 10.5, and each such other Subject Partnership shall have enough cash on hand to satisfy all of its obligations under Section 10.5.

(g) Initial DHL GP Number. The Initial DHL GP Number shall not be greater than an amount equal to one percent (1%) of an amount equal to the Initial DHL LP Number divided by 0.99.

(h) DHL Severance Matters. DHL shall have paid all amounts payable under its Severance Plan for Employees of Dorchester Hugoton, Ltd. in connection with Closing, and each participant in such plan shall have executed and delivered to DHL a release in form and substance reasonably acceptable to RRC and SRC.

12.3 Conditions to Obligation of SRC. The obligation of SRC to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment on or prior to the Closing Date of each of the following conditions:

(a) Representations and Warranties. All the representations and warranties of each party to this Agreement (other than SRC) contained in this Agreement and in any agreement, instrument or document delivered pursuant hereto or in connection herewith on or prior to the Closing Date, shall be true and correct in all material respects on and as of the Closing Date as if made on and as of such date, except as affected by transactions permitted by this Agreement and except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct in all material respects as of such specified date.

(b) Covenants and Agreements. Each party to this Agreement (other than SRC) shall have performed and complied with in all material respects all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date.

(c) No Material Adverse Change. Since the date of this Agreement, there shall not have occurred any Material Adverse Effect with respect to RRC and the Unaffiliated ORRI considered as a whole or to DHL, and SRC shall have received a certificate signed by an officer of a general partner (or its general partner) of RRC and a certificate signed by an officer of a general partner of DHL, in each case to his knowledge, to such effect.

(d) RRC and DHL Transactions. The closings of the Merger relating to RRC and the Asset Conveyance shall have occurred, or be occurring simultaneously with Closing.

(e) Indemnity Agreement. The Partnership and an entity which is a limited partner of RRC immediately prior to the Effective Time shall have entered into the Indemnity Agreement.

(f) Dissenters Payments. The aggregate estimated amount that will be required to be paid to dissenting partners shall have been determined for each other applicable Subject Partnership pursuant to Section 10.5, and each such other Subject Partnership shall have enough cash on hand to satisfy all of its obligations under Section 10.5.

(g) Initial DHL GP Number. The Initial DHL GP Number shall not be greater than an amount equal to one percent (1%) of an amount equal to the Initial DHL LP Number divided by 0.99.

(h) DHL Severance Matters. DHL shall have paid all amounts payable under its Severance Plan for Employees of Dorchester Hugoton, Ltd. in connection with Closing, and each participant in such plan shall have executed and delivered to DHL a release in form and substance reasonably acceptable to RRC and SRC.

12.4 Conditions to Obligation of DHL. The obligation of DHL to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment on or prior to the Closing Date of each of the following conditions:

(a) Representations and Warranties. All the representations and warranties of each party to this Agreement (other than DHL) contained in this Agreement and in any agreement, instrument or document delivered pursuant hereto or in connection herewith on or prior to the Closing Date, shall be true and correct in all material respects on and as of the Closing Date as if made on and as of such date, except as affected by transactions permitted by this Agreement and except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct in all material respects as of such specified date.

(b) Covenants and Agreements. Each party to this Agreement (other than DHL) shall have performed and complied with in all material respects all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date.

(c) No Material Adverse Change. Since the date of this Agreement, there shall not have occurred any Material Adverse Effect with respect to RRC and the Unaffiliated ORRI considered as a whole or to SRC, and DHL shall have received a certificate signed by an officer of a general partner (or its general partner) of RRC and a certificate signed by an officer of the general partner of SRC, in each case to his knowledge, to such effect.

(d) RRC and SRC Transactions. The closings of the Mergers shall have occurred, or be occurring simultaneously with Closing.

(e) RRC and SRC Reorganization. The terms and conditions (other than those specifically described herein or otherwise agreed to by each of RRC, SRC, DHL and the Partnership) of the RRC Reorganization and the SRC Reorganization shall not have imposed or created any material obligation or liability, contingent or otherwise, on the Partnership or the General Partner that will materially adversely affect the economic benefits or risks of an investment in the Partnership by the partners of DHL.

(f) Indemnity Agreement. The Partnership and an entity which is a limited partner of RRC immediately prior to the Effective Time shall have entered into the Indemnity Agreement.

(g) Dissenters Payments. The aggregate estimated amount that will be required to be paid to dissenting partners shall have been determined for each other applicable Subject Partnership pursuant to Section 10.5, and each such other Subject Partnership shall have enough cash on hand to satisfy all of its obligations under Section 10.5.

(h) Employment Agreements. The Operating Sub shall have offered employment contracts to Kathleen A. Rawlings and John L. Dannelley, with a term (subject to standard termination provisions) of not less than two years and an annual salary of not less than the annual salary paid by DHL to such employee as of the date of this Agreement.

(i) Conveyance of RRC and SRC Management Assets. Smith Allen Oil & Gas, Inc. ("SAOG") shall have acquired the assets that are both of the types described in the Management Assets Conveyance and are necessary for the management and administration of the business of RRC and SRC as being conducted on the Closing Date (which assets are not currently owned by RRC or SRC), and shall have contributed such assets to the Operating Sub; and the Operating Sub shall have assumed the related liabilities (or such actions shall be occurring simultaneously with the Closing). The forms of the conveyance and assumption agreement used to effect such transaction shall be satisfactory to DHL in its reasonable discretion.

12.5 Conditions to Obligation of the Partnership. The obligation of the Partnership to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment on or prior to the Closing Date of each of the following conditions:

(a) Representations and Warranties. All the representations and warranties of each party to this Agreement (other than the Partnership) contained in this Agreement and in any agreement, instrument or document delivered pursuant hereto or in connection herewith on or prior to the Closing Date, shall be true and correct in all material respects on and as of the Closing Date as if made on and as of such date, except as affected by transactions permitted by this Agreement and except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct in all material respects as of such specified date.

(b) Covenants and Agreements. Each party to this Agreement (other than the Partnership) shall have performed and complied with in all material respects all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date.

(c) No Material Adverse Change. Since the date of this Agreement, there shall not have occurred any Material Adverse Effect with respect to RRC and the Unaffiliated ORRI considered as a whole or to SRC or DHL, and the Partnership shall have received a certificate signed by an officer of a general partner (or its general partner) of RRC, a certificate signed by an officer of the general partner of SRC, and a certificate signed by an officer of a general partner of DHL, in each case to his knowledge, to such effect.

(d) Indemnity Agreement. An entity which is a limited partner of RRC immediately prior to the Effective Time shall have entered into the Indemnity Agreement.

(e) Dissenters Payments. The aggregate estimated amount that will be required to be paid to dissenting partners shall have been determined for each applicable Subject Partnership pursuant to Section 10.5, and each such Subject Partnership shall have enough cash on hand to satisfy all of its obligations under Section 10.5.

(f) Conveyance of RRC and SRC Management Assets. SAOG shall have acquired the assets that are both of the types described in the Management Assets Conveyance and are necessary for the management and administration of the business of RRC and SRC as being conducted on the Closing Date (which assets are not currently owned by RRC or SRC), and shall have contributed such assets to the Operating Sub; and the Operating Sub shall have assumed the related liabilities (or such actions shall be occurring simultaneously with the Closing). The forms of the conveyance and assumption agreement used to effect such transaction shall be satisfactory to DHL in its reasonable discretion.

ARTICLE XIII

TAX MATTERS

Each party hereto shall (i) pay all Taxes due or claimed by any taxing authority to be due from such party with respect to all periods prior to the Closing, except those Taxes that are contested in good faith by appropriate proceedings and for which adequate reserves have been set aside, (ii) prevent any liens for Taxes (other than for Taxes not yet due and payable) from being imposed upon any of its assets prior to the Closing, and (iii) not agree to the extension of any statute of limitations on the assessment or collection of any Tax or with respect to any Tax Return prior to the Closing. If, prior to the Closing, an issue is raised or adjustment proposed by the IRS or any other taxing authority in connection with any party's Tax Returns, or any party receives any written notice from the IRS or any such taxing authority that any Tax Return of such party is being audited or may be audited or examined, such party shall, no later than ten days after such event, provide written notice thereof to the other parties hereto pursuant to Section 16.1

ARTICLE XIV

TERMINATION, AMENDMENT AND WAIVER

14.1 Termination. This Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing in the following manner:

(a) By mutual written consent of the parties hereto;

(b) By RRC, SRC, DHL or the Partnership, if:

(i) The Closing shall not have occurred on or before January 2, 2003, unless such failure to close shall be due to a material breach of this Agreement by the party seeking to terminate this Agreement pursuant to this clause (i);

(ii) There shall be any Applicable Law that makes consummation of the transactions contemplated hereby illegal or otherwise prohibited or a Governmental Entity shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby, and such order, decree, ruling or other action shall have become final and nonappealable;

(iii) (a) The general partner (or Advisory Committee, in the case of DHL) of any Subject Partnership (other than the terminating Subject Partnership) shall withdraw, modify or change its recommendation or approval in respect of this Agreement in a manner adverse to the terminating party or, in the case of RRC or its general partners, withdraw, modify or change its or their recommendation in respect

of the RRC Reorganization in a matter adverse to the terminating party, (b) the general partner (or Advisory Committee, in the case of DHL) of any Subject Partnership (other than the terminating party,) fails to reaffirm its recommendation and approval of this Agreement and the Combination within three (3) days after a written request by a party to this Agreement to do so, (c) the general partner (or Advisory Committee, in the case of DHL) of any Subject Partnership (other than the terminating party) has recommended, approved or authorized such Subject Partnership's acceptance or execution of a definitive agreement providing for a Superior Proposal, (d) any Subject Partnership (other than the terminating party) shall execute, or publicly announce its intention to execute, a letter of intent or definitive agreement for a Superior Proposal or in the case of RRC or any of its general partners, such person has recommended the NPI Owners' acceptance or execution of a definitive agreement providing for a transaction, not approved by the other Subject Partnerships, that would be in lieu of or that would prevent or inhibit the RRC Reorganization, or (e) a tender offer or exchange offer for outstanding partnership interests of any Subject Partnership (other than the terminating Subject Partnership) then representing 30% or more of the limited partnership interests of such Subject Partnership is commenced, and the general partner (or Advisory Committee, in the case of DHL) of such Subject Partnership does not recommend that partners not tender their partnership interests into such tender or exchange offer; or

(iv) The approval of the partners of any Subject Partnership contemplated by this Agreement shall not have been obtained by reason of the failure to obtain the required vote specified in Section 11.5 at the time of the applicable Partnership Vote, unless the party seeking to terminate this Agreement pursuant to this clause (iv) shall be in material breach of this Agreement.

(c) By any Subject Partnership, if (i) any of the representations and warranties of the Partnership or any other Subject Partnership contained in this Agreement shall not be true and correct such that the condition set forth in Section 12.2(a), 12.3(a) or 12.4(a), as applicable, would not be satisfied , (ii) the Partnership or any other Subject Partnership shall have failed to fulfill in any material respect any of its material obligations under this Agreement, which failure is material to the obligations of such party under this Agreement, and, in the case of each of clauses (i) and (ii), such misrepresentation, breach of warranty or failure (provided it can be cured) has not been cured within 30 days of notice thereof by the terminating Subject Partnership, or (iii) such termination is necessary to allow such Subject Partnership to enter into an agreement in accordance with Section 11.3 hereof with respect to a Superior Proposal which such Subject Partnership's general partner or Advisory Committee has determined is more favorable to the limited partners of such Subject Partnership than the transactions contemplated hereby; or

(d) By the Partnership, if (i) any of the representations and warranties of the any Subject Partnership contained in this Agreement shall not be true and correct such that the condition set forth in Section 12.5(a) would not be satisfied or (ii) any Subject Partnership

shall have failed to fulfill in any material respect any of its material obligations under this Agreement, which failure is material to the obligations of such party under this Agreement, and, in the case of each of clauses (i) and (ii), such misrepresentation, breach of warranty or failure (provided it can be cured) has not been cured within 30 days of notice thereof by the Partnership.

14.2 Effect of Termination.

(a) In the event of the termination of this Agreement pursuant to Section 14.1 by any party, written notice thereof shall forthwith be given to the other parties specifying the provision hereof pursuant to which such termination is made, and this Agreement shall become void and have no effect, and there shall be no liability hereunder on the part of any party hereto or any general partner of a Subject Partnership, or any of their respective directors, officers, employees, stockholders or representatives, except that the agreements contained in this Section 14.2 and in Sections 11.1, 11.12, 11.15 and in Article XVI shall survive the termination hereof. Nothing contained in this Section 14.2 shall otherwise relieve any party from liability for damages actually incurred as a result of any breach of this Agreement. No termination of this Agreement shall affect the obligations of the parties pursuant to the Confidentiality Agreements referred to in Section 11.1.

(b) (i) For purposes of this Section 14.2(b), a "Defecting Partnership" is the Subject Partnership whose actions, or whose general partner's or Advisory Committee's actions, have given the terminating Subject Partnership its rights of termination under Section 14.1(b)(iii) in connection with a termination of this Agreement pursuant to such Section 14.1(b)(iii); the Subject Partnership which terminates this Agreement pursuant to Section 14.1(c)(iii); or the Subject Partnership whose failure to fulfill its obligations has given the terminating party its rights of termination under Section 14.1(c)(ii) or Section 14.1(d)(ii).

(ii) If (w) any Subject Partnership shall have terminated this Agreement pursuant to Section 14.1(b)(iii), (x) any party shall have terminated this Agreement pursuant to Section 14.1(c)(iii), (y) any party shall have terminated this Agreement pursuant to Section 14.1(c)(ii) or Section 14.1(d)(ii) as a result of RRC's breach of its obligations in the last sentence of Section 10.3(a), or (z) the Agreement is terminated by a party pursuant to Section 14.1(c)(ii) or Section 14.1(d)(ii) and (with respect to the foregoing clause (z) only) within one year after such termination (A) a transaction is consummated, which transaction, if offered or proposed during the term of this Agreement, would constitute an Acquisition Proposal with respect to the Defecting Partnership, (B) an agreement for such a transaction is entered into or (C) any person shall have acquired beneficial ownership or the right to acquire beneficial ownership of, or any "group" (as such term is defined under Section 13(d) of the Exchange Act and the rules and regulations promulgated hereunder) shall have been formed that beneficially owns, or has the right to acquire beneficial ownership of, 50% or more of the limited partnership interests of the Defecting Partnership, then in any such case a termination fee of $3,000,000 shall be paid in immediately available funds simultaneously

with such termination if pursuant to Section 14.1(c)(iii) and promptly, but in no event later than two (2) business days after the date of such termination if pursuant to Section 14.1(b)(iii), and promptly after the occurrence of the event specified in clause (iii) above in the case of such an event, as follows:

(A) if the Defecting Partnership is DHL, then DHL shall pay $2,000,000 to RRC and $1,000,000 to SRC; and

(B) if the Defecting Partnership is either RRC or SRC, then RRC shall pay DHL $2,000,000 and SRC shall pay DHL $1,000,000.

Any such fee shall be payable by wire transfer to such account as the payee may designate in writing to the payor. No fee (or portion thereof) shall be paid pursuant to this Section 14.2(b) if the party to receive the fee (or portion thereof) shall be in material breach of its obligations hereunder, after the paying party has afforded such payee a 30 day period after notice in which to cure such breach.

14.3 Amendment. Any provision of this Agreement (including the Exhibits hereto) may be amended, to the extent permitted by law, prior to the Effective Time if, and only if, such amendment is in writing and signed, in the case of an amendment, by the parties hereto; provided that after the adoption of this Agreement by the partners of any Subject Partnership, no such amendment shall, without the further approval of such partners, alter or change (i) the amount or kind of consideration to be received in exchange for such partners' limited partnership interests or (ii) any of the other terms or conditions of this Agreement if such alteration or change would adversely affect such partners.

14.4 Waiver. Each of the parties to this Agreement may (i) waive any inaccuracies in the representations and warranties of the other contained herein or in any document, certificate or writing delivered pursuant hereto or (ii) waive compliance by the other with any of the other's agreements or fulfillment of any conditions to its own obligations contained herein. Any agreement on the part of a party hereto to any such waiver shall be valid only if set forth in an instrument in writing signed by or on behalf of such party. No failure or delay by a party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

ARTICLE XV

SURVIVAL MATTERS

15.1 Nonsurvival of Representations and Warranties. Each and every representation and warranty contained in his Agreement shall expire with, and be terminated and extinguished by, the Closing, and thereafter no party hereto or any shareholder, director, officer, employee or affiliate of such party shall have any liability whatsoever (whether pursuant to this Agreement or otherwise) with respect to any such representation or warranty. This Section 15.1 shall have no effect upon any other obligations of the parties hereto under this Agreement, whether to be performed before, at or after the Closing.

ARTICLE XVI

MISCELLANEOUS

16.1 Notices. All notices, requests, demands and other communications required or permitted to be given or made hereunder by any party hereto shall be in writing and shall be deemed to have been duly given or made if (i) delivered personally, (ii) transmitted by first class registered or certified mail, postage prepaid, return receipt requested, (iii) sent by prepaid overnight courier service or (iv) sent by telecopy or facsimile transmission, answer back requested, to the parties at the following addresses (or at such other addresses as shall be specified by the parties by like notice):

(a) If to RRC:

c/o SAM Partners, Inc.
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: William Casey McManemin
Telefax: (214) 559-0301

and

c/o VPL(GP), LLC
3738 Oak Lawn Ave., Suite 101
Dallas, Texas 75219
Attention: Benny D. Duncan
Telefax: (214) 522-7433

with a copy to:

Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Attention: Joe Dannenmaier
Telefax: (214) 969-1751

(b) If to SRC:

c/o Smith Allen Oil & Gas, Inc.
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: H.C. Allen, Jr.
Telefax: (214) 559-0301

with a copy to:

Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Attention: Joe Dannenmaier
Telefax: (214) 969-1751

(c) If to DHL:

1919 S. Shiloh Rd.
Suite 600 - LB 48
Garland, Texas 75042
Attention: James E. Raley
Telefax: (972) 864-9095

with a copy to:

Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201-6776
Attention: Bryan E. Bishop
Telefax: (214) 740-8800

(d) If to the Partnership, the General Partner or the Organizational Limited Partner:

c/o Dorchester Minerals Management LLC
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: Chief Executive Officer
Telefax: (214) 559-0301

with a copy to each of the persons listed above in (b) and (c) under "with a copy to"

(e) If to the Operating Sub:

c/o Dorchester Minerals Operating GP LLC
1919 S. Shiloh Rd.
Suite 600 - LB 48
Garland, Texas 75042
Attention: Chief Operating Officer
Telefax: (972) 864-9095

with a copy to each of the persons listed above in
(b) and (c) under "with a copy to"

Such notices, requests, demands and other communications shall be effective (i) if delivered personally or sent by courier service, upon actual receipt by the intended recipient, (ii) if mailed, upon the earlier of five days after deposit in the mail or the date of delivery as shown by the return receipt therefor or (iii) if sent by telecopy or facsimile transmission, when the answer back is received.

16.2 Entire Agreement. This Agreement, together with the Schedules, Exhibits and other writings referred to herein or delivered pursuant hereto, including the Confidentiality Agreements referenced in Section 11.1, constitute the entire agreement between the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

16.3 Binding Effect; Assignment; Third Party Benefit. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided, however, that neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (by operation of law or otherwise) without the prior written consent of the other parties. Except as provided in Section 11.13, nothing in this Agreement, express or implied, is intended to or shall confer upon any person other than the parties hereto any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

16.4 Severability. If any provision of this Agreement is held to be unenforceable, this Agreement shall be considered divisible and such provision shall be deemed inoperative to the extent it is deemed unenforceable, and in all other respects this Agreement shall remain in full force and effect; provided, however, that if any such provision may be made enforceable by limitation thereof, then such provision shall be deemed to be so limited and shall be enforceable to the maximum extent permitted by Applicable Law.

16.5 Governing Law; Consent to Jurisdiction. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Texas except to the extent that the laws of the State of Delaware shall apply to the Mergers. Each of the parties submits to the jurisdiction of any state or federal court sitting in the State of Texas, County of Dallas, or, if it has or can acquire jurisdiction, in the United States District Court for the Northern District of Texas, in

any action or proceeding arising out of or relating to this Agreement, agrees that all claims in respect of the action or proceeding shall be heard and determined only in any such court, and agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court. Each of the parties waives any defense of inconvenient forum to maintenance of any action or proceeding so brought.

16.6 DTPA Waiver. To the extent applicable to the transaction contemplated hereby, each of the parties hereto waives the provisions of the Texas Deceptive Trade Practices Act, Chapter 17, Subchapter E, Sections 17.41 through 17.63, inclusive, Texas Bus. & Com. Code.

16.7 Descriptive Headings. The descriptive headings herein are inserted for convenience of reference only, do not constitute a part of this Agreement and shall not affect in any manner the meaning or interpretation of this Agreement.

16.8 Disclosure. Each of the Schedules to this Agreement shall be deemed to include and incorporate all disclosures made on the other Schedules to this Agreement. Certain information set forth in the Schedules is included solely for informational purposes and may not be required to be disclosed pursuant to this Agreement. It is understood and agreed that the specification of any dollar amount in the representations and warranties contained in this Agreement or the inclusion of any specific item in the Schedules is not intended to imply that such amounts or higher or lower amounts, or the items so included or other items, are or are not material, and no party shall use the fact of the setting of such amounts or the fact of the inclusion of any such item in the Schedules in any dispute or controversy between the parties as to whether any obligation, item or matter not described herein or included in a Schedule is or is not material for purposes of this Agreement.

16.9 Gender. Pronouns in masculine, feminine and neuter genders shall be construed to include any other gender, and words in the singular form shall be construed to include the plural and vice versa, unless the context otherwise requires.

16.10 References. All references in this Agreement to Articles, Sections and other subdivisions refer to the Articles, Sections and other subdivisions of this Agreement unless expressly provided otherwise. The words "this Agreement", "herein", "hereof", "hereby", "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. Whenever the words "include", "includes" and "including" are used in this Agreement, such words shall be deemed to be followed by the words "without limitation". Each reference herein to a Schedule or Exhibit refers to the item identified separately in writing by the parties hereto as the described Schedule or Exhibit to this Agreement. All Schedules and Exhibits are hereby incorporated in and made a part of this Agreement as if set forth in full herein.

16.11 Counterparts. This Agreement may be executed by the parties hereto in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all, the parties hereto.

16.12 Injunctive Relief. The parties hereto acknowledge and agree that irreparable damage would occur in the event any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement, and shall be entitled to enforce specifically the provisions of this Agreement, in any court of the United States or any state thereof having jurisdiction, in addition to any other remedy to which the parties may be entitled under this Agreement or at law or in equity.

ARTICLE XVII

DEFINITIONS

17.1 Certain Defined Terms. As used in this Agreement, each of the following terms has the meaning given it below:

"affiliate" shall mean, with respect to any person, any other person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, such person.

"Applicable Law" shall mean any statute, law, rule or regulation or any judgment, order, writ, injunction or decree of any Governmental Entity to which a specified person or property is subject.

"Business Day" shall mean a day on which banks are open for the transaction of business in Dallas, Texas.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Depositary Agreement" shall mean that certain Depositary Agreement, dated August 19, 1982, between and among Dorchester Gas Corporation, a Delaware corporation, Dorchester Hugoton, Ltd., a Texas limited partnership, Mercantile National Bank of Dallas, a national banking association, John R. Barnes and the limited partners of DHL, as amended.

"Depositary Receipt" or "Receipts" shall mean the depositary receipts or receipts issued by the Depositary pursuant to the Depositary Agreement.

"Encumbrances" shall mean liens, charges, pledges, options, mortgages, deeds of trust, security interests, claims, restrictions (whether on voting, sale, transfer, disposition or otherwise), easements and other encumbrances of every type and description, whether imposed by law, agreement, understanding or otherwise.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Financial Statements" of a Subject Partnership shall mean the RRC Financial Statements, the SRC Financial Statements or the DHL Financial Statements, as applicable.

"Governmental Entity" shall mean any court or tribunal in any jurisdiction (domestic or foreign) or any public, governmental, or regulatory body, agency, department, commission, board, bureau or other authority or instrumentality (domestic or foreign).

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Initial Aggregate Post-Closing Number of LP Units" shall mean the Initial DHL LP Number divided by .397345 (so that the Initial DHL LP Number shall represent 39.7345% of the Initial Aggregate Post-Closing Number of LP Units). (A number of LP Units equal to the Initial DHL GP Number will be converted to general partner interests in the Partnership upon closing of the Contribution Agreement and therefore will not thereafter be outstanding.)

"Initial DHL GP Number" shall mean an amount of LP Units that would be necessary upon final liquidation of DHL to satisfy its liquidating distribution obligations with respect to the general partner interests of the DHL General Partners, assuming that (i) the only assets of DHL at the time of such final liquidation are such amount of LP Units plus a number of LP Units equal to the Initial DHL LP Number and (ii) a number of LP Units equal to the Initial DHL LP Number will be distributed to the limited partners of DHL in such final liquidation.

"Initial DHL LP Number" shall mean an amount equal to the number of Units of DHL outstanding on the Closing Date, less the number of Units of DHL with respect to which the dissenters' rights provided for in Article IV have been perfected and not validly withdrawn in accordance with the procedures set forth in Article IV.

"Initial DHL Number" shall mean an amount equal to the Initial DHL GP Number plus the Initial DHL LP Number.

"Initial RRC Number" shall mean the Initial Aggregate Post-Closing Number of LP Units multiplied by 0.405063 (so that the Initial RRC Number shall represent 40.5063% of the Initial Post-Closing Aggregate Number of LP Units).

"Initial SRC Number" shall mean the Initial Aggregate Post-Closing Number of LP Units multiplied by 0.197592 (so that the Initial SRC Number shall represent 19.7592% of the Initial Aggregate Post- Closing Number of LP Units).

"IRS" shall mean the Internal Revenue Service.

"Latest Balance Sheet" of a Subject Partnership shall mean the RRC Latest Balance Sheet, the SRC Latest Balance Sheet or the DHL Latest Balance Sheet, as applicable.

"Liquidating Trustee" shall mean the "Liquidating Trustee" under the DHL Partnership Agreement.

"LP Units" shall mean "Common Units" of the Partnership.

"Material Adverse Effect" shall mean with respect to any person any adverse change or adverse condition in or relating to the financial condition of such person and its subsidiaries that is material to such person and its subsidiaries taken as a whole; provided, however, that any prospective change or changes in the conditions listed above or relating to or resulting from (i) the transactions contemplated by this Agreement (or the announcement of such transactions), (ii) any change or changes in the prices of oil, gas, natural gas liquids or other hydrocarbon products or (iii) general economic conditions or local, regional, national or international industry conditions, shall not be deemed to constitute a Material Adverse Effect.

"Nominee" shall mean Hugoton Nominee, Inc., a Texas corporation, which acts as substitute limited partner under the DHL Partnership Agreement pursuant to the Nominee Agreement by and among Dorchester Gas Corporation, Dorchester Hugoton, Ltd. and Hugoton Nominee, Inc. effective as of August 19, 1982.

"Permits" shall mean licenses, permits, franchises, consents, approvals and other authorizations of or from Governmental Entities.

"Permitted Encumbrances" means (i) Encumbrances created by the applicable Subject Partnership, (ii) liens for Taxes not yet due and payable, (iii) statutory liens (including materialmen's, mechanic's, repairmen's landlord's, and other similar liens) arising in connection with the ordinary course of business securing payments not yet due and payable and (iv) such defects, imperfections or irregularities of title, if any, as are not substantial in character, amount or extent and do not materially impair the conduct of normal operations of the applicable Subject Partnership.

"person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, enterprise, unincorporated organization or Governmental Entity.

"Proceedings" shall mean all proceedings, actions, claims, suits, investigations and inquiries by or before any arbitrator or Governmental Entity.

"reasonable best efforts" shall mean a party's best efforts in accordance with reasonable commercial practice and without the incurrence of unreasonable expense.

"Redemption Agreement" shall mean that certain Redemption Agreement dated of even date herewith by and between the Partnership and the Organizational Limited Partner.

"State Law" shall mean the laws of the State of Delaware or of the State of Texas, or both, as applicable.

"Subsidiary" shall mean, with respect to the any person, any corporation more than fifty percent (50%) of whose outstanding voting securities, or any partnership, limited liability company, joint venture or other entity more than fifty percent (50%) of whose total equity interests, is owned, directly or indirectly by such person.

"Tax" shall mean any income taxes or similar assessments or any sales, excise, occupation, use, ad valorem, property, production, severance, transportation, employment, payroll, franchise or other tax imposed by any United States federal, state or local (or any foreign or provincial) taxing authority, including any interest, penalties or additions attributable thereto.

"Tax Return" shall mean any return or report, including any related or supporting information, with respect to Taxes.

"To the best knowledge" of a party (or similar references to a party's knowledge) shall mean the actual knowledge by any of such party's key executive officers (or those of its general partner).

"Transfer Application" shall have the meaning assigned to such term in the Partnership Agreement.

"Unaffiliated ORRI" means the net proceeds overriding royalty interest of the Republic Unaffiliated ORRI Owners (as defined in the Unaffiliated ORRI Audited Financial Statements).

17.2 Certain Additional Defined Terms. In addition to such terms as are defined in the opening paragraph of and the recitals to this Agreement and in Section 17.1, the following terms are used in this Agreement as defined in the Sections set forth opposite such terms:

Defined Term	Section Reference
Accrued Expenses	10.5(a)
Acquisition Proposal Interest	11.3(a)
Acquisition Proposal	11.3(a)
affiliate	5.16(a) (for purposes of Section 5.16 only), 6.16(a) (for purposes of Section 6.16 only), 7.16(a) (for purposes of Section 7.16 only)
Agreement	Introduction
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Applicable Environmental Laws	5.18
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DHL Financial Statements	7.9
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Huddleston	5.19
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Liquidation Agreement	3.7(c)
Management Assets	3.1(b)
Merger Consideration	2.5(e)
Mergers	2.1
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Note	3.4(b)
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NPI Owners	10.3
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Partnership	Introduction

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Partnership Vote	11.5(a)
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Registration Statement	11.5(b)
Royalty/NPI Agreement	11.16
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RRC Audited Financial Statements	5.9
RRC Benefit Arrangements	5.16(e)
RRC Latest Balance Sheet	5.9
RRC Reorganization	10.3(a)
RRC Partner Approval	5.5
RRC Unaudited Financial Statements	5.9
SAOG	12.4(i)
SEC Filings	7.23
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SRC	Introduction
SRC Audited Financial Statements	6.9
SRC Benefit Arrangements	6.16(e)
SRC Employee Plans	6.16(a)
SRC Financial Statements	6.9
SRC Latest Balance Sheet	6.9
SRC Partner Approval	6.5
SRC Reorganization	10.3(b)
SRC Unaudited Financial Statements	6.9
Subject Partnerships	Introduction
Subject Properties	3.1(a)
Superior Proposal	11.3(c)
this Agreement	16.10
Transfer	3.1
Unaffiliated ORRI Audited Financial Statements	5.9(b)
Unaffiliated ORRI Financial Statements	5.9(b)
Unaffiliated ORRI Unaudited Financial Statements	5.9(b)1
WI Assets Conveyance	3.1(a)

17.3 Limited Partners of DHL. Whenever the term "limited partner" is used in this Agreement to refer to the holders of limited partnership interests in DHL, it shall be deemed to refer

to the holders of Depositary Receipts representing interests in units of limited partnership interests in DHL that are held for the benefit of holders of Depositary Receipts by the Depositary, unless the context requires that it mean, in addition or exclusively, as applicable, the Nominee as substitute limited partner of DHL.

Whenever the terms "limited partnership interests" or "limited partnership units" or similar terms are used in this Agreement to refer to such interests in DHL, they shall be deemed to refer to the Depositary Receipts of DHL issued by the Depositary representing interests in units of limited partnership interest in DHL that are held for the benefit of the holders of Depositary Receipts by the Depositary, unless the context requires that it mean, in addition or exclusively, as applicable, the units of limited partnership of DHL held by the Depositary.

[remainder of page intentionally blank]

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its representative thereunto duly authorized, all as of the date first above written.

DORCHESTER HUGOTON, LTD.

By: P.A. Peak, Inc., General Partner

By: /s/ PRESTON A. PEAK

Preston A. Peak, President

By: James E. Raley, Inc., General Partner

By: /s/ JAMES E. RALEY

James E. Raley, President

REPUBLIC ROYALTY COMPANY

By: SAM Partners, Ltd., General Partner

By: SAM Partners, Inc., General Partner

By: /s/ H.C. ALLEN, JR.

H.C. Allen, Jr., Secretary

By: Vaughn Petroleum, Ltd., General Partner

By: VPL(GP), LLC, General Partner

By: /s/ ROBERT C. VAUGHN

Robert C. Vaughn, CEO & Manager

SPINNAKER ROYALTY COMPANY, L.P.

By: Smith Allen Oil & Gas, Inc., General Partner

By: /s/ WM. CASEY MCMANEMIN

Wm. Casey McManemin, Vice President

DORCHESTER MINERALS, L.P.

By: Dorchester Minerals Management LP, General Partner

By: Dorchester Minerals Management GP LLC, General Partner

By: /s/ JAMES E. RALEY

James E. Raley, COO

DORCHESTER MINERALS MANAGEMENT LP

By: Dorchester Minerals Management GP LLC, General Partner

By: /s/ JAMES E. RALEY

James E. Raley, COO

DORCHESTER MINERALS MANAGEMENT GP LLC

By: /s/ JAMES E. RALEY

James E. Raley, COO

EXHIBIT 1.2
TO EXHIBIT 2.1

- --

Amended and Restated

Agreement of Limited Partnership

of

Dorchester Minerals, L.P.

____________ ___, 2002

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AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP
OF
DORCHESTER MINERALS, L.P.

THIS AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF DORCHESTER MINERALS, L.P., dated as of ____________, 2002, is entered into by and among Dorchester Minerals Management LP, a Delaware limited partnership, as the General Partner, and Dorchester Minerals Management GP LLC, a Delaware limited liability company, as the Organizational Limited Partner, together with any other Persons who become Partners in the Partnership or parties hereto as provided herein. In consideration of the covenants, conditions, and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE I.

DEFINITIONS

SECTION 1.1. Definitions.

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

"Additional Limited Partner" means a Person admitted to the Partnership as a Limited Partner pursuant to Section 10.4 and who is shown as such on the books and records of the Partnership.

"Adjusted Capital Account" means the Capital Account maintained for each Partner as of the end of each fiscal year of the Partnership, (a) increased by (i) the amount of any unpaid Capital Contributions agreed to be contributed by such Partner, if any, and (ii) any amounts that each Partner is obligated to contribute under the standards set by Treasury Regulation Section 1.704-1(b)(2)(ii)(c) (or is deemed obligated to restore under Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5)) and (b) reduced by (i) the amount of depletion deductions with respect to oil and gas properties expected to be allocated to such Partner in subsequent years and charged to such Partner's Capital Account under Treasury Regulation Section 1.704-1(b)(2)(iv)(k); (ii) the amount of all deductions that, as of the end of such fiscal year, are reasonably expected to be allocated to such Partner in subsequent years under Sections 704(e)(2) and 706(d) of the Code and Treasury Regulation Section 1.751-1(b)(2)(ii), and (iii) the amount of all distributions that, as of the end of such fiscal year, are reasonably expected to be made to such Partner in subsequent years in accordance with the terms of this Agreement or otherwise to the extent they exceed offsetting increases to such Partner's Capital Account that are reasonably expected to occur during (or prior to) the year in which such distributions are reasonably expected to be made (other than increases as a result of a minimum gain chargeback pursuant to Section 6.1(d)(i) or 6.1(d)(ii)). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"Adjusted Distribution Amount" for any fiscal year of the Partnership means

(a) (i) the aggregate distributions made pursuant to Section 6.3(a) with respect to the four Quarters of such fiscal year, plus (ii) an amount (which may be a negative number) equal to (x)

the amount of cash reserves of the type described in clause (b) of the definition of Available Cash included in the calculation of Available Cash with respect to the last Quarter of such fiscal year, minus (y) the amount of cash reserves of the type described in clause (b) of the definition of Available Cash included in the calculation of Available Cash with respect to the last Quarter of the fiscal year preceding such fiscal year; plus

(b) the sum of (i) the Direct Expenses for such fiscal year, (ii) the Management Expenses actually reimbursed for such fiscal year (after application of the Management Expense Limitation, if any, imposed in Section 7.4(c)), (iii) any Production Costs for such fiscal year to the extent such Production Costs are (as determined by the General Partner in its reasonable discretion) in the nature of capital expenditures, (iv) new or additional taxes (other than income, gift or estate taxes but including amounts withheld by the Partnership and paid to any taxing authority which are attributable to Partners' shares of local, state or federal income taxes) paid during such fiscal year that were not in effect at the Closing Date or that were increased (as to rate or other method of calculation) after the Closing Date, and (v) new or additional costs of compliance paid during such fiscal year that were required as a result of changes in federal, state or local laws, regulations or ordinances that were not in effect at the Closing Date or that were changed after the Closing Date.

"Adjusted Property" means any property the Carrying Value of that has been adjusted pursuant to Section 5.5(d)(i) or 5.5(d)(ii).

"Advisory Committee" means a committee of the managers or directors of the General Partner (or its general partner) composed entirely of three or more persons who are not otherwise security holders, officers, managers, directors nor employees of the General Partner (or its general partner) nor otherwise security holders, officers, managers, directors or employees of any Affiliate of the General Partner; provided that they may be holders of Limited Partner Interests.

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question. As used herein, the term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"Agreed Allocation" means any allocation, other than a Required Allocation, of an item of income, gain, loss or deduction pursuant to the provisions of Section 6.1, including, without limitation, a Curative Allocation (if appropriate to the context in which the term "Agreed Allocation" is used).

"Agreed Value" of any Contributed Property means the fair market value of such property or other consideration at the time of contribution as determined by the General Partner using such reasonable method of valuation as it may adopt. The General Partner shall, in its discretion, use such method as it deems reasonable and appropriate to allocate the aggregate Agreed Value of Contributed Properties contributed to the Partnership in a single or integrated transaction among each separate property on a basis proportional to the fair market value of each Contributed Property.

"Agreement" means this Amended and Restated Agreement of Limited Partnership of Dorchester Minerals, L.P., as it may be amended, supplemented or restated from time to time.

"Assets" means the assets being conveyed to the Partnership either directly or by operation of law, including within the meaning of the Code or regulations promulgated thereunder, on the Closing Date pursuant to Article II or Article III of the Combination Agreement.

"Assignee" means a Non-citizen Assignee or a Person to whom one or more Limited Partner Interests have been transferred in a manner permitted under this Agreement and who has executed and delivered a Transfer Application as required by this Agreement, but who has not been admitted as a Substituted Limited Partner.

"Associate" means, when used to indicate a relationship with any Person, (a) any corporation or organization of which such Person is a director, officer or partner or is, directly or indirectly, the owner of 20% or more of any class of voting stock or other voting interest; (b) any trust or other estate in which such Person has at least a 20% beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity; and (c) any relative or spouse of such Person, or any relative of such spouse, who has the same principal residence as such Person.

"Available Cash" means, with respect to any Quarter ending prior to the Liquidation Date,

(a) all cash and cash equivalents of the Partnership on hand at the end of such Quarter, less

(b) the amount of any cash reserves that is necessary or appropriate in the reasonable discretion of the General Partner to (i) provide for the proper conduct of the business of the Partnership (including reserves for acquisitions permitted under Section 7.3(c)(i) or other future capital expenditures and for anticipated future credit needs of the Partnership) subsequent to such Quarter and (ii) comply with applicable law or any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation.

Notwithstanding the foregoing, "Available Cash" with respect to the Quarter in which the Liquidation Date occurs and any subsequent Quarter shall equal zero.

"Book-Tax Disparity" means with respect to any item of Contributed Property or Adjusted Property, as of the date of any determination, the difference between the Carrying Value of such Contributed Property or Adjusted Property and the adjusted basis thereof for federal income tax purposes as of such date. A Partner's share of the Partnership's Book-Tax Disparities in all of its Contributed Property and Adjusted Property will be reflected by the difference between such Partner's Capital Account balance as maintained pursuant to Section 5.5 and the hypothetical balance of such Partner's Capital Account computed as if it had been maintained strictly in accordance with federal income tax accounting principles.

"Business Day" means Monday through Friday of each week, except that a legal holiday recognized as such by the government of the United States of America or the State of Texas or a date upon which any National Securities Exchange on which the Common Units or other Partnership Securities are listed for trading is closed shall not be regarded as a Business Day.

"Business Opportunities Agreement" means that certain Business Opportunities Agreement, dated as of the Closing Date, among Dorchester Minerals, L.P., Dorchester Minerals Management LP, Vaughn Petroleum, Ltd., SAM Partners, Inc., Smith Allen Oil & Gas, Inc., James E. Raley, Inc., and P.A. Peak, Inc.

"Capital Account" means the capital account maintained for a Partner pursuant to Section 5.5.

"Capital Contribution" means any cash, cash equivalents or the Net Agreed Value of Contributed Property that a Partner contributes to the Partnership pursuant to this Agreement.

"Carrying Value" means (a) with respect to a Contributed Property, the Agreed Value of such property reduced (but not below zero) by all depletion, depreciation, amortization, and cost recovery deductions charged to the Partners' and Assignees' Capital Accounts in respect of such Contributed Property, and (b) with respect to any other Partnership property, the adjusted basis of such property for federal income tax purposes, all as of the time of determination. The Carrying Value of any property shall be adjusted from time to time in accordance with Sections 5.5(d)(i) and 5.5(d)(ii) and to reflect changes, additions or other adjustments to the Carrying Value for dispositions and acquisitions of Partnership properties, as deemed appropriate by the General Partner.

"Cause" means a court of competent jurisdiction has entered a final, non-appealable judgment finding the General Partner liable for actual fraud, gross negligence or willful or wanton misconduct in its capacity as general partner of the Partnership.

"Certificate" means a certificate (i) substantially in the form of Exhibit A to this Agreement, (ii) issued in global form in accordance with the rules and regulations of the Depositary or (iii) in such other form as may be adopted by the General Partner in its discretion, issued by the Partnership evidencing ownership of one or more Common Units or a certificate, in such form as may be adopted by the General Partner in its discretion, issued by the Partnership evidencing ownership of one or more other Partnership Securities.

"Certificate of Limited Partnership" means the Certificate of Limited Partnership of the Partnership filed with the Secretary of State of the State of Delaware as referenced in Section 2.1, as such Certificate of Limited Partnership may be amended, supplemented or restated from time to time.

"Citizenship Certification" means a properly completed certificate in such form as may be specified by the General Partner by which an Assignee or a Limited Partner certifies that he (and if he is a nominee holding for the account of another Person, that to the best of his knowledge such other Person) is an Eligible Citizen.

"Claim" has the meaning assigned to such term in Section 7.12(c).

"Closing Date" means the date on which the Combination is consummated.

"Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of successor law.

"Combination" means the consummation of the transactions contemplated by Articles II and III of the Combination Agreement, as described in the Registration Statement.

"Combination Agreement" means that certain Combination Agreement, dated as of December ___, 2001, among Republic Royalty Company, Spinnaker Royalty Company, L.P., Dorchester Hugoton, Ltd, Dorchester Minerals, L.P. and certain other parties.

"Combined Interest" has the meaning assigned to such term in Section 11.3(a).

"Commission" means the United States Securities and Exchange Commission.

"Common Unit" means a Partnership Security representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and of the General Partner (exclusive of its interest as a holder of the General Partner Interest) and having the rights and obligations specified with respect to Common Units in this Agreement.

"Contributed Property" means each property or other asset, in such form as may be permitted by the Delaware Act, but excluding cash, contributed to the Partnership, including the Assets other than cash. Once the Carrying Value of a Contributed Property is adjusted pursuant to Section 5.5(d), such property shall no longer constitute a Contributed Property, but shall be deemed an Adjusted Property.

"Contribution Agreement" means that certain Contribution Agreement, dated as of December ____, 2001, among SAM Partners, Ltd., Vaughn Petroleum, Ltd., Smith Allen Oil & Gas, Inc., P.A. Peak, Inc., James E. Raley, Inc., Dorchester Minerals Management LLC and Dorchester Minerals Management LP.

"Curative Allocation" means any allocation of an item of income, gain, deduction, loss or credit pursuant to the provisions of Section 6.1(c)(ix).

"Current Market Price" as of any date of any class of Limited Partner Interests listed or admitted to trading on any National Securities Exchange means the average of the daily Closing Prices (as hereinafter defined) per limited partner interest of such class for the 20 consecutive Trading Days (as hereinafter defined) immediately prior to such date. For purposes of this definition, (i) "Closing Price" for any day means the last sale price on such day, regular way, or in case no such sale takes place on such day, the average of the closing bid and asked prices on such day, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted for trading on the principal National Securities Exchange on which such Limited Partner Interests of such class are listed or admitted to trading or, if such Limited Partner Interests of such class are not listed or admitted to trading on any National Securities Exchange, the last quoted price on such day or, if not so quoted, the average of the high bid and low asked prices on such day in the over-the-counter market, as reported by the Nasdaq Stock Market or any other system then in use, or, if on any such day such Limited Partner Interests of such class are not quoted by any such organization, the average of the closing bid and asked prices on such day as furnished by a professional market maker making a market in such Limited Partner Interests of such class selected by the General Partner, or if on any such day no market maker is making a market in such Limited Partner Interests of such class, the fair value of such Limited Partner Interests on such day as determined reasonably and in good faith by the General Partner; and (ii) "Trading Day" means a day on which the principal National Securities Exchange on which such Limited Partner Interests of any class are listed or admitted to trading is open for the transaction of business or, if Limited Partner Interests of a class are not listed or admitted to trading on any National Securities Exchange, a day on which banking institutions in Dallas, Texas generally are open.

"Delaware Act" means the Delaware Revised Uniform Limited Partnership Act, 6 Del C. sec. 17-101, et seq., as amended, supplemented or restated from time to time, and any successor to such statute.

"Departing Partner" means a former General Partner from and after the effective date of any withdrawal or removal of such former General Partner pursuant to Section 11.1 or Section 11.2.

"Depositary" means, with respect to any Units issued in global form, The Depository Trust Company and its successors and permitted assigns.

"DHL" means Dorchester Hugoton, Ltd., a Texas limited partnership.

"Direct Expenses" means expenses that are properly paid directly from the Partnership (even if paid on behalf of the Partnership by the General Partner or an Affiliate thereof and reimbursed by the Partnership), including, without limitation, professional (e.g. audit, tax, legal, engineering) and regulatory fees and expenses, ad valorem taxes, severance taxes, the fees of independent managers or directors of the General Partner (or its general partner), and premiums for officers' and managers' liability insurance.

"Economic Risk of Loss" has the meaning set forth in Treasury Regulation Section 1.752-2(a).

"Eligible Citizen" means a Person qualified to own interests in real property in jurisdictions in which any Group Member owns real property or does business or proposes to do business from time to time, and whose status as a Limited Partner or Assignee does not or would not subject such Group Member to a significant risk of cancellation or forfeiture of any of its properties or any interest therein.

"Employee" means (a) any Person who is or was an employee, agent or trustee of any Group Member, of the General Partner or of any Departing Partner, and (b) any Person who is or was serving at the request of the General Partner or any Departing Partner or any Affiliate of the General Partner or any Departing Partner as an employee, agent, fiduciary or trustee of another Person. For purposes of the preceding sentence, "General Partner" and "Departing Partner" shall be deemed to include any general partner or Subsidiary thereof.

"Event of Withdrawal" has the meaning assigned to such term in Section 11.1(a).

"General Partner" means Dorchester Minerals Management LP and its successors and permitted assigns as general partner of the Partnership.

"General Partner Interest" means the ownership interest of the General Partner in the Partnership (in its capacity as a general partner without reference to any Limited Partner Interest held by it), which may be evidenced by Partnership Securities, and includes any and all benefits to which the General Partner is entitled as provided in this Agreement, together with all obligations of the General Partner to comply with the terms and provisions of this Agreement.

"Group" means a Person that with or through any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent given to such Person in response to a proxy or consent solicitation made to 10 or more Persons) or disposing of any Partnership Securities with any other Person that beneficially owns or whose Affiliates or Associates beneficially own, directly or indirectly, Partnership Securities.

"Group Member" means a member of the Partnership Group.

"Holder" as used in Section 7.12, has the meaning assigned to such term in Section 7.12(a).

"Indemnified Persons" has the meaning assigned to such term in Section 7.12(c).

"Indemnitee" means (a) the General Partner, (b) any Departing Partner, (c) any Person who is or was an Affiliate of the General Partner or any Departing Partner, (d) any Person who is or was a member, partner, officer or director of any Group Member, of the General Partner or of any Departing Partner, and (e) any Person who is or was serving at the request of the General Partner or any Departing Partner or any Affiliate of the General Partner or any Departing Partner as an officer, director, member or partner of another Person; provided, that a Person shall not be an Indemnitee by reason of providing, on a fee-for-services basis, trustee, fiduciary or custodial services. For purposes of the preceding sentence, "General Partner" and "Departing Partner" shall be deemed to include any general partner or Subsidiary thereof.

"Initial Limited Partners" means the parties admitted to the Partnership in accordance with Section 10.1.

"Issue Price" means the price at which a Unit is purchased from the Partnership, after taking into account any sales commission or underwriting discount charged to the Partnership.

"Limited Partner" means, unless the context otherwise requires, (a) the Organizational Limited Partner prior to its withdrawal from the Partnership, each Initial Limited Partner, each Substituted Limited Partner, each Additional Limited Partner and any Partner upon the change of its status from General Partner to Limited Partner pursuant to Section 11.3 or (b) solely for purposes of Articles V, VI, VII, IX and XII, each Assignee.

"Limited Partner Interest" means the ownership interest of a Limited Partner or Assignee in the Partnership, which may be evidenced by Common Units or other Partnership Securities or a combination thereof or interest therein, and includes any and all benefits to which such Limited Partner or Assignee is entitled as provided in this Agreement, together with all obligations of such Limited Partner or Assignee to comply with the terms and provisions of this Agreement.

"Limited Partner Amendment" means an amendment to this Agreement that has not been approved by the General Partner.

"Liquidation Date" means (a) in the case of an event giving rise to the dissolution of the Partnership of the type described in clauses (a) and (b) of the first sentence of Section 12.2, the date on which the applicable time period during which the holders of Outstanding Units have the right to elect to reconstitute the Partnership and continue its business has expired without such an election being made, and (b) in the case of any other event giving rise to the dissolution of the Partnership, the date on which such event occurs.

"Liquidator" means one or more Persons selected by the General Partner to perform the functions described in Section 12.3 as liquidating trustee of the Partnership within the meaning of the Delaware Act.

"Management Expenses" shall mean the expenses of the General Partner or its Affiliates incurred on behalf of the Partnership, including wages, salaries, incentive compensation, and the

cost of employee benefit plans paid or provided to employees and officers that are properly allocated to the Partnership and all other necessary or appropriate expenses allocable to the Partnership, provided, however, that Management Expenses shall not include Direct Expenses or Production Costs.

"Merger Agreement" has the meaning assigned to such term in Section 14.1.

"National Securities Exchange" means an exchange registered with the Commission under Section 6(a) of the Securities Exchange Act of 1934, as amended, supplemented or restated from time to time, and any successor to such statute, or the Nasdaq National Market or any successor thereto.

"Net Agreed Value" means, (a) in the case of any Contributed Property, the Agreed Value of such property reduced by any liabilities either assumed by the Partnership upon such contribution or to which such property is subject when contributed, and (b) in the case of any property distributed to a Partner or Assignee by the Partnership, the Partnership's Carrying Value of such property (as adjusted pursuant to Section 5.5(d)(ii)) at the time such property is distributed, reduced by any indebtedness either assumed by such Partner or Assignee upon such distribution or to which such property is subject at the time of distribution, in either case, as determined under Section 752 of the Code.

"Net Income" means, for any taxable year, the excess, if any, of the Partnership's items of income and gain for such taxable year over the Partnership's items of loss and deduction for such taxable year. The items included in the calculation of Net Income shall be determined in accordance with Section 5.5(b) and shall not include any items specially allocated under Section 6.1(c).

"Net Loss" means, for any taxable year, the excess, if any, of the Partnership's items of loss and deduction for such taxable year over the Partnership's items of income and gain for such taxable year. The items included in the calculation of Net Loss shall be determined in accordance with Section 5.5(b) and shall not include any items specially allocated under Section 6.1(c).

"Non-citizen Assignee" means a Person whom the General Partner has determined in its discretion does not constitute an Eligible Citizen and as to whose Partnership Interest the General Partner has become the Substituted Limited Partner, pursuant to Section 4.9.

"Nonrecourse Deductions" means any and all items of loss, deduction or expenditures (including, without limitation, any expenditures described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(b), are attributable to a Nonrecourse Liability.

"Nonrecourse Liability" has the meaning set forth in Treasury Regulation Section 1.752-1(a)(2).

"Operating Subsidiary" means Dorchester Minerals Operating LP.

"Opinion of Counsel" means a written opinion of counsel (who may be regular counsel to the Partnership or the General Partner or any of its Affiliates) acceptable to the General Partner in its reasonable discretion.

"Organizational Limited Partner" means Dorchester Minerals Management LLC in its capacity as the organizational limited partner of the Partnership pursuant to this Agreement.

"ORRI" means the payments received with respect to (i) the overriding royalty interest in the properties conveyed by DHL to the Operating Subsidiary reserved by DHL pursuant to that certain Assignment, Conveyance and Assumption Agreement of even date herewith from DHL to the Operating Subsidiary, (ii) the overriding royalty interest in the properties conveyed by Republic Royalty Company, L.P. to the Operating Subsidiary reserved by Republic Royalty Company, L.P. pursuant to that certain Assignment, Conveyance and Assumption Agreement of even date herewith from Republic Royalty Company, L.P. to the Operating Subsidiary, (iii) the overriding royalty interest in the properties conveyed by Spinnaker Royalty Company, L.P. to the Operating Subsidiary reserved by Spinnaker Royalty Company, L.P. pursuant to that certain Assignment and Conveyance of even date herewith from Spinnaker Royalty Company, L.P. to the Operating Subsidiary, and (iv) any overriding royalty interest in any properties conveyed by the Partnership to the Operating Subsidiary reserved by the Partnership pursuant to that certain Royalty/NPI Agreement dated of even date herewith between the Partnership and the Operating Subsidiary.

"Outstanding" means, with respect to Partnership Securities, all Partnership Securities that are issued by the Partnership and reflected as outstanding on the Partnership's books and records as of the date of determination; provided, however, that if at any time any Person or Group (other than the General Partner or its Affiliates) beneficially owns 20% or more of any outstanding Partnership Securities of any class then outstanding, all Partnership Securities owned by such Person or Group shall not be voted on any matter and shall not be considered to be "Outstanding" when sending notices of a meeting of Limited Partners to vote on any matter (unless otherwise required by law), calculating required votes, determining the presence of a quorum, or for other similar purposes under this Agreement (which similar purposes expressly shall not include the determination of Percentage Interests), except that Common Units so owned shall be considered to be "Outstanding" for purposes of Section 11.1(b)(iv) (such Common Units shall not, however, be treated as a separate class of Partnership Securities for purposes of this Agreement); provided, further, that the foregoing limitation shall not apply (i) to any Person or Group who acquired 20% or more of any outstanding Partnership Securities of any class then outstanding directly from the General Partner or its Affiliates, (ii) to any Person or Group who acquired 20% or more of any outstanding Partnership Securities of any class then outstanding directly or indirectly from a Person or Group described in clause (i) provided that the General Partner shall have notified such Person or Group in writing that such limitation shall not apply, or (iii) to any Person or Group who acquired 20% or more of any outstanding Partnership Securities of any class then outstanding directly from the Partnership in a transaction approved by the Unitholders pursuant to Section 5.7(a) provided that the General Partner shall have notified such Person or Group in writing that such limitation shall not apply.

"Partner Nonrecourse Debt" has the meaning set forth in Treasury Regulation Section 1.704-2(b)(4).

"Partner Nonrecourse Debt Minimum Gain" has the meaning set forth in Treasury Regulation Section 1.704-2(i)(2).

"Partner Nonrecourse Deductions" has the meaning set forth in Treasury Regulation Section 1.704-2(i)(2).

"Partners" means the General Partner and the Limited Partners.

"Partnership" means Dorchester Minerals, L.P., a Delaware limited partnership, and any successors thereto.

"Partnership Group" means the Partnership and any Subsidiary of the Partnership, treated as a single consolidated entity.

"Partnership Interest" means an interest in the Partnership, which shall include the General Partner Interest and Limited Partner Interests.

"Partnership Minimum Gain" means that amount determined in accordance with the principles of Treasury Regulation Section 1.704-2(d).

"Partnership Security" means any class or series of equity interest in the Partnership (but excluding any options, rights, warrants, and appreciation rights relating to an equity interest in the Partnership), including without limitation, Common Units and the General Partner Interest.

"Percentage Interest" means as of any date of determination (a) as to the General Partner (with respect to its General Partner Interest), a 1% partnership interest and sharing percentage in each ORRI and a 4% partnership interest and sharing percentage in every other asset, property, obligation and liability of the Partnership and every other item of revenue, cost and expense (including any reserves established for the payment of future costs and expenses) of the Partnership, excluding only each ORRI, adjusted to the extent necessary and appropriate to reflect the interests of holders of additional Partnership Securities covered by clause (c) below, (b) as to any Unitholder or Assignee (i) a partnership interest and sharing percentage in each ORRI equal to the product obtained by multiplying (A) 99% by (B) the quotient obtained by dividing the number of Common Units held by such Unitholder or Assignee by the total number of all Outstanding Units and (ii) a partnership interest and sharing percentage in every other asset, property, obligation and liability of the Partnership and every other item of revenue, cost and expense (including any reserves established for the payment of future costs and expenses) of the Partnership, excluding only the ORRI, equal to the product obtained by multiplying (A) 96% by (B) the quotient obtained by dividing the number of Common Units held by such Unitholder or Assignee by the total number of all Outstanding Units, and in the case of (b)(i) and (ii) adjusted to the extent necessary and appropriate to reflect the interests of holders of additional Partnership Securities covered by clause (c) below, and (c) as to the holders of additional Partnership Securities (other than Common Units) issued by the Partnership in accordance with Section 5.6, the percentage established as a part of such issuance.

"Person" means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association, government agency or political subdivision thereof or other entity.

"Prime Rate" means the prime rate reported in the Money Rates section of The Wall Street Journal. In the event that The Wall Street Journal should cease or temporarily interrupt publication, the term "Prime Rate" shall mean the daily average prime rate published in another business newspaper, or business section of a newspaper, of national standing and general circulation chosen by the Partnership. In the event that a prime rate is no longer generally published or is limited, regulated or administered by a governmental or quasi-governmental body, then the Partnership shall select a comparable interest rate index which is readily available and verifiable to a Limited Partner or Assignee but is beyond the Partnership's control.

"Production Costs" means "Production Costs" as defined in that certain Assignment, Conveyance and Assumption Agreement of even date herewith from DHL to the Operating Subsidiary and "Production Costs" (or its substantial equivalent) in any other net profits interest agreement in place between the Partnership and the Operating Subsidiary (or the successor to its assets).

"Pro Rata" means (a) when modifying Units or any class thereof, apportioned equally among all designated Units in accordance with their relative Percentage Interests and (b) when modifying Partners and Assignees, apportioned among all Partners and Assignees in accordance with their relative Percentage Interests.

"Quarter" means, unless the context requires otherwise, a fiscal quarter, or with respect to the first fiscal quarter after the Closing Date the portion of such fiscal quarter after the Closing Date, of the Partnership.

"Recapture Income" means any gain recognized by the Partnership (computed without regard to any adjustment required by Section 734 or Section 743 of the Code) upon the disposition of any property or asset of the Partnership, which gain is characterized as ordinary income because it represents the recapture of deductions previously taken with respect to such property or asset.

"Record Date" means the date established by the General Partner for determining (a) the identity of the Record Holders entitled to notice of, or to vote at, any meeting of Limited Partners or entitled to vote by ballot or give approval of Partnership action in writing without a meeting or entitled to exercise rights in respect of any lawful action of Limited Partners or (b) the identity of Record Holders entitled to receive any report or distribution or to participate in any offer.

"Record Holder" means the Person in whose name a Common Unit is registered on the books of the Transfer Agent as of the opening of business on a particular Business Day, or with respect to other Partnership Securities, the Person in whose name any such other Partnership Security is registered on the books which the General Partner has caused to be kept as of the opening of business on such Business Day.

"Redeemable Interests" means any Partnership Interests for which a redemption notice has been given, and has not been withdrawn, pursuant to Section 4.9.

"Registration Statement" means the Registration Statement on Form S-4 (Registration No. xxx-xxxxx) as it has been or as it may be amended or supplemented from time to time, filed by the Partnership with the Commission under the Securities Act.

"Republic" means Republic Royalty Company, a Texas partnership.

"Required Allocations" means (a) any limitation imposed on any allocation of Net Losses under Section 6.1(b) and (b) any allocation of an item of income, gain, loss or deduction pursuant to Section 6.1(c)(i), 6.1(c)(ii), 6.1(c)(iii), 6.1(c)(vi) or 6.1(c)(viii).

"Residual Gain" or "Residual Loss" means any item of gain or loss; as the case may be, of the Partnership recognized for federal income tax purposes resulting from a sale, exchange or other disposition of a Contributed Property or Adjusted Property, to the extent such item of gain or loss

is not allocated pursuant to Section 6.2(d)(i)(A) or 6.2(d)(ii)(A), respectively, to eliminate Book-Tax Disparities.

"Securities Act" means the Securities Act of 1933, as amended, supplemented or restated from time to time and any successor to such statute.

"Separate Person" means (a) any Limited Partner, (b) any Departing Partner, (c) any Person who is or was an Affiliate of the General Partner or any Departing Partner, (d) any Person who is or was a member, partner, manager, officer, director, employee, agent or trustee of any Group Member, of the General Partner or any Affiliate thereof or of any Departing Partner or any Affiliate thereof, (e) any Person who owns, directly or indirectly, in excess of 5% of the equity ownership of any Affiliate of the General Partner or any Departing Partner, and (f) any Person who is or was serving at the request of the General Partner or any Departing Partner or any Affiliate of the General Partner or any Departing Partner as an officer, director, employee, member, partner, agent, fiduciary or trustee of another Person; provided, that the General Partner, the Operating Subsidiary and the general partner of the Operating Subsidiary shall not be a Separate Person.

"Special Approval" means approval by a majority of the members of the Advisory Committee.

"Spinnaker" means Spinnaker Royalty Company, L.P., a Texas limited partnership.

"Subsidiary" means, with respect to any Person, (a) a corporation of which more than 50% of the voting power of shares entitled (without regard to the occurrence of any contingency) to vote in the election of directors or other governing body of such corporation is owned, directly or indirectly, at the date of determination, by such Person, by one or more Subsidiaries of such Person or a combination thereof, (b) a partnership (whether general or limited) in which such Person or a Subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if more than 50% of the partnership interests of such partnership (considering all of the partnership interests of the partnership as a single class) is owned, directly or indirectly, at the date of determination, by such Person, by one or more Subsidiaries of such Person, or a combination thereof, or (c) any other Person (other than a corporation or a partnership) in which such Person, one or more Subsidiaries of such Person, or a combination thereof, directly or indirectly, at the date of determination, has (i) at least a majority ownership interest or (ii) the power to elect or direct the election of a majority of the directors or other governing body of such Person.

"Substituted Limited Partner" means a Person who is admitted as a Limited Partner to the Partnership pursuant to Section 10.2 in place of and with all the rights of a Limited Partner and who is shown as a Limited Partner on the books and records of the Partnership.

"Surviving Business Entity" has the meaning assigned to such term in Section 14.2(b).

"Trading Day" has the meaning assigned to such term in Section 15.1(a).

"Transfer" has the meaning assigned to such term in Section 4.4(a).

"Transfer Agent" means such bank, trust company or other Person (including the General Partner or one of its Affiliates) as shall be appointed from time to time by the Partnership to act as

registrar and transfer agent for the Common Units; provided that if no Transfer Agent is specifically designated for any other Partnership Securities, the General Partner shall act in such capacity.

"Transfer Application" means an application and agreement for transfer of Units in the form set forth on the back of a Certificate or in a form substantially to the same effect in a separate instrument.

"Unit" means a Common Unit, and any other Partnership Security that is issued pursuant to Section 5.6 and is designated as a "Unit," but shall not include a General Partner Interest.

"Unitholders" means the holders of Common Units (including, unless specifically excluded with respect to any particular vote or consent, Common Units held by the General Partner or its Affiliates).

"Unit Majority" means at least a majority of the Outstanding Common Units.

"Unrealized Gain" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the fair market value of such property as of such date (as determined under Section 5.5(d)) over (b) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 5.5(d) as of such date).

"Unrealized Loss" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 5.5(d) as of such date) over (b) the fair market value of such property as of such date (as determined under Section 5.5(d)).

"US GAAP" means United States Generally Accepted Accounting Principles consistently applied.

"Withdrawal Opinion of Counsel" has the meaning assigned to such term in Section 11.1(b).

"Working Capital Borrowings" means borrowings exclusively for working capital purposes made pursuant to a credit facility or other arrangement requiring all such borrowings thereunder to be reduced to a relatively small amount each year (or for the year in which the Combination is consummated, the 12-month period beginning on the Closing Date) for an economically meaningful period of time.

SECTION 1.2. Construction.

Unless the context requires otherwise: (a) any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa; (b) references to Articles and Sections refer to Articles and Sections of this Agreement; and (c) the term "include" or "includes" means includes, without limitation, and "including" means including, without limitation.

ARTICLE II.

ORGANIZATION

SECTION 2.1. Formation.

The General Partner and the Organizational Limited Partner have previously formed the Partnership as a limited partnership pursuant to the provisions of the Delaware Act and hereby amend and restate the original Agreement of Limited Partnership of Dorchester Minerals, L.P. in its entirety. This amendment and restatement shall become effective on the date of this Agreement. Except as expressly provided to the contrary in this Agreement, the rights, duties (including fiduciary duties), liabilities, and obligations of the Partners and the administration, dissolution and termination of the Partnership shall be governed by the Delaware Act. All Partnership Interests shall constitute personal property of the owner thereof for all purposes and a Partner has no interest in specific Partnership property.

SECTION 2.2. Name.

The name of the Partnership shall be "Dorchester Minerals, L.P." The Partnership's business may be conducted under any other name or names deemed necessary or appropriate by the General Partner in its sole discretion, including the name of the General Partner. The words "Limited Partnership," "Ltd." or similar words or letters shall be included in the Partnership's name where necessary for the purpose of complying with the laws of any jurisdiction that so requires. The General Partner in its discretion may change the name of the Partnership at any time and from time to time and shall notify the Limited Partners of such change in the next regular communication to the Limited Partners.

SECTION 2.3. Registered Office; Registered Agent; Principal Office; Other Offices.

Unless and until changed by the General Partner, the registered office of the Partnership in the State of Delaware shall be located at [ ], and the registered agent for service of process on the Partnership in the State of Delaware at such registered office shall be [The Corporation Trust Company]. The principal office of the Partnership shall be located at 3738 Oak Lawn Avenue, Dallas, Texas or such other place as the General Partner may from time to time designate by notice to the Limited Partners in the next regular communication to the Limited Partners. The Partnership may maintain offices at such other place or places within or outside the State of Delaware as the General Partner deems necessary or appropriate. The address of the General Partner shall be 3738 Oak Lawn Avenue, Dallas, Texas or such other place as the General Partner may from time to time designate by notice to the Limited Partners in the next regular communication to the Limited Partners.

SECTION 2.4. Purpose and Business

The purpose and nature of the business to be conducted by the Partnership shall be to (a) acquire, manage, operate, and sell the Assets and any similar assets or properties now or hereafter acquired by the Partnership and to distribute all Available Cash to owners of Partnership Interests according to their respective Percentage Interests, (b) engage directly in or enter into or form any corporation, partnership, joint venture, limited liability company or other entity or arrangement to engage indirectly in, any business activity that the General Partner approves and which lawfully may be conducted by a limited partnership organized pursuant to the Delaware Act and, in

connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity; provided, however, that the General Partner reasonably determines, as of the date of the acquisition or commencement of such activity, that the income generated by such activity is (i) "qualifying income" (as such term is defined pursuant to Section 7704 of the Code), and (ii) enhances the operations of an activity of the Partnership, and (c) do anything necessary or appropriate to the foregoing. In managing the business of the Partnership, the General Partner shall use all reasonable efforts to prevent the Partnership from realizing income that would be treated as "unrelated business taxable income" (as such term is defined in Section 512 of the Code) to a Limited Partner or Assignee that is otherwise exempt from United States federal income tax. The General Partner has no obligation or duty to the Partnership, the Limited Partners or the Assignees to propose or approve, and in its discretion may decline to propose or approve, the conduct by the Partnership of any business, except as provided for in Section 7.3.

SECTION 2.5. Powers.

The Partnership shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described in Section 2.4 and for the protection and benefit of the Partnership.

SECTION 2.6. Power of Attorney.

(a) Each Limited Partner and each Assignee hereby constitutes and appoints the General Partner and, if a Liquidator shall have been selected pursuant to Section 12.3, the Liquidator, (and any successor to the Liquidator by merger, transfer, assignment, election or otherwise) and each of their authorized officers and attorneys-in-fact, as the case may be, with full power of substitution, as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead, to:

(i) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (A) all certificates, documents and other instruments (including this Agreement and the Certificate of Limited Partnership and all amendments or restatements hereof or thereof) that the General Partner or the Liquidator deems necessary or appropriate to form, qualify or continue the existence or qualification of the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware and in all other jurisdictions in which the Partnership may conduct business or own property; (B) all certificates, documents and other instruments that the General Partner or the Liquidator deems necessary or appropriate to reflect, in accordance with its terms, any amendment, change, modification or restatement of this Agreement; (C) all certificates, documents and other instruments (including conveyances and a certificate of cancellation) that the General Partner or the Liquidator deems necessary or appropriate to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement; (D) all certificates, documents and other instruments relating to the admission, withdrawal, removal or substitution of any Partner pursuant to, or other events described in, Article IV, X, XI or XII; (E) all certificates, documents and other instruments relating to the determination of the rights, preferences and privileges of any class or series of Partnership Securities issued pursuant to Section 5.6; and (F) all certificates, documents and other instruments (including agreements and a certificate of merger) relating to a merger, consolidation or conversion of the Partnership pursuant to Article XIV; and

(ii) execute, swear to, acknowledge, deliver, file and record all ballots, consents, approvals, waivers, certificates, documents and other instruments necessary or appropriate, in the discretion of the General Partner or the Liquidator, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action that is made or given by the Partners hereunder or is consistent with the terms of this Agreement or is necessary or appropriate, in the discretion of the General Partner or the Liquidator, to effectuate the terms or intent of this Agreement; provided, that when required by Section 13.3 or any other provision of this Agreement that establishes a percentage of the Limited Partners or of the Limited Partners of any class or series required to take any action, the General Partner and the Liquidator may exercise the power of attorney made in this Section 2.6(a)(ii) only after the necessary vote, consent or approval of the Limited Partners or of the Limited Partners of such class or series, as applicable.

Nothing contained in this Section 2.6(a) shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XIII or as may be otherwise expressly provided for in this Agreement.

(b) The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, and it shall survive and, to the maximum extent permitted by law, not be affected by the subsequent death, incompetency, disability, incapacity, dissolution, bankruptcy or termination of any Limited Partner or Assignee and the transfer of all or any portion of such Limited Partner's or Assignee's Partnership Interest and shall extend to such Limited Partner's or Assignee's heirs, successors, assigns and personal representatives. Each such Limited Partner or Assignee hereby agrees to be bound by any representation made by the General Partner or the Liquidator acting in good faith pursuant to such power of attorney; and each such Limited Partner or Assignee, to the maximum extent permitted by law, hereby waives any and all defenses that may be available to contest, negate or disaffirm the action of the General Partner or the Liquidator taken in good faith under such power of attorney. Each Limited Partner or Assignee shall execute and deliver to the General Partner or the Liquidator, within 15 days after receipt of the request therefor, such further designation, powers of attorney, and other instruments as the General Partner or the Liquidator deems necessary to effectuate this Agreement and the purposes of the Partnership.

SECTION 2.7. Term.

The term of the Partnership commenced upon the filing of the Certificate of Limited Partnership in accordance with the Delaware Act and shall continue in existence until the dissolution of the Partnership in accordance with the provisions of Article XII. The existence of the Partnership as a separate legal entity shall continue until the cancellation of the Certificate of Limited Partnership as provided in the Delaware Act.

SECTION 2.8. Title to Partnership Assets.

Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner or Assignee, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name

of the Partnership, the General Partner, one or more of its Affiliates or one or more nominees, as the General Partner may determine. The General Partner hereby declares and warrants that any Partnership assets for which record title is held in the name of the General Partner or one or more of its Affiliates or one or more nominees shall be held by the General Partner or such Affiliate or nominee for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, however, that the General Partner shall use reasonable efforts to cause record title to such assets (other than those assets in respect of which the General Partner determines that the expense and difficulty of conveyancing makes transfer of record title to the Partnership impracticable) to be vested in the Partnership or a wholly-owned Subsidiary of the Partnership as soon as reasonably practicable; provided, further, that, prior to the withdrawal or removal of the General Partner or as soon thereafter as practicable, the General Partner shall use reasonable efforts to effect the transfer of record title to the Partnership and, prior to any such transfer, will provide for the use of such assets for the benefit of the Partnership in a manner satisfactory to the General Partner. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which record title to such Partnership assets is held.

ARTICLE III.

RIGHTS OF LIMITED PARTNERS

SECTION 3.1. Limitation of Liability.

The Limited Partners and the Assignees shall have no liability under this Agreement except as expressly provided in this Agreement or the Delaware Act.

SECTION 3.2. Management of Business.

No Limited Partner or Assignee, in its capacity as such, shall participate in the operation, management or control (within the meaning of the Delaware Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. Any action taken by any Affiliate of the General Partner or any officer, director, employee, manager, member, general partner, agent or trustee of the General Partner or any of its Affiliates, or any officer, director, employee, manager, member, general partner, agent or trustee of a Group Member, in its capacity as such, shall not be deemed to be participation in the control of the business of the Partnership by a limited partner of the Partnership (within the meaning of Section 17-303(a) of the Delaware Act) and shall not affect, impair or eliminate the limitations on the liability of the Limited Partners or Assignees under this Agreement.

SECTION 3.3. Outside Activities of the Limited Partners.

Subject to the provisions of Section 7.5 and the Business Opportunities Agreement, which shall continue to be applicable to the Persons referred to therein, regardless of whether such Persons shall also be Limited Partners or Assignees, any Limited Partner or Assignee shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership Group. Neither the Partnership nor any of the other Partners or Assignees shall have any rights by virtue of this Agreement in any business ventures of any Limited Partner or Assignee.

SECTION 3.4. Rights of Limited Partners.

(a) In addition to other rights provided by this Agreement or by applicable law, and except as limited by Section 3.4(b), each Limited Partner shall have the right, for a purpose reasonably related to such Limited Partner's interest as a limited partner in the Partnership, upon reasonable written demand setting forth the purpose of such demand and at such Limited Partner's own expense:

(i) to obtain true and full information regarding the status of the business and financial condition of the Partnership;

(ii) promptly after becoming available, to obtain a copy of the Partnership's federal, state and local income tax returns for each year;

(iii) to have furnished to him a current list of the name and last known business, residence or mailing address of each Partner;

(iv) to have furnished to him a copy of this Agreement and the Certificate of Limited Partnership and all amendments thereto, together with a copy of the executed copies of all powers of attorney pursuant to which this Agreement, the Certificate of Limited Partnership and all amendments thereto have been executed;

(v) to obtain true and full information regarding the amount of cash and a description and statement of the Net Agreed Value of any other Capital Contribution by each Partner and which each Partner has agreed to contribute in the future, and the date on which each became a Partner; and

(vi) to obtain such other information regarding the affairs of the Partnership as is just and reasonable.

(b) The General Partner may keep confidential from the Limited Partners and Assignees, for such period of time as the General Partner deems reasonable, (i) any information that the General Partner reasonably believes to be in the nature of trade secrets or (ii) other information the disclosure of which the General Partner in good faith believes (A) is not in the best interests of the Partnership, (B) could damage the Partnership or (C) that any Partner is required by law or by agreement with any third party to keep confidential (other than agreements with Affiliates of the Partnership the primary purpose of which is to circumvent the obligations set forth in this Section 3.4).

ARTICLE IV.

CERTIFICATES; RECORD HOLDERS; TRANSFER OF PARTNERSHIP INTERESTS; REDEMPTION OF PARTNERSHIP INTERESTS

SECTION 4.1. Certificates.

Upon the Partnership's issuance of Common Units to any Person, the Partnership shall issue one or more Certificates in the name of such Person evidencing the number of such Units being so issued. In addition, upon the General Partner's request, the Partnership shall issue to it one or more Certificates in the name of the General Partner evidencing its interests in the Partnership. Such Certificates shall be executed on behalf of the Partnership by the Chairman of the Board, President, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer or any Vice President, and by the Secretary or any Assistant Secretary of the General Partner (or its general partner, if applicable). No Common Unit Certificate shall be valid for any purpose until it has been countersigned by the Transfer Agent; provided, however, that if the General Partner elects to issue Common Units in global form, the Common Unit Certificates shall be valid upon receipt of a certificate from the Transfer Agent certifying that the Common Units have been duly registered in accordance with the directions of the General Partner; and provided further that this requirement shall not apply to Common Unit Certificates issued pursuant to the Combination Agreement to the general partners of DHL with respect to their general partner interests in DHL.

SECTION 4.2. Mutilated, Destroyed, Lost or Stolen Certificates.

(a) If any mutilated Certificate is surrendered to the Transfer Agent, the appropriate officers of the General Partner on behalf of the Partnership shall execute, and the Transfer Agent shall countersign and deliver in exchange therefor, a new Certificate evidencing the same number and type of Partnership Securities as the Certificate so surrendered.

(b) The appropriate officers of the General Partner on behalf of the Partnership shall execute and deliver, and the Transfer Agent shall countersign a new Certificate in place of any Certificate previously issued if the Record Holder of the Certificate does each of the following:

(i) makes proof by affidavit, in form and substance satisfactory to the Partnership, that a previously issued Certificate has been lost, destroyed or stolen;

(ii) requests the issuance of a new Certificate before the Partnership has notice that the Certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;

(iii) if requested by the Partnership, delivers to the Partnership a bond, in form and substance satisfactory to the Partnership, with surety or sureties and with fixed or open penalty as the Partnership may reasonably direct, in its sole discretion, to indemnify the Partnership, the Partners, the General Partner and the Transfer Agent against any claim that may be made on account of the alleged loss, destruction or theft of the Certificate; and

(iv) satisfies any other reasonable requirements imposed by the Partnership.

If a Limited Partner or Assignee fails to notify the Partnership within a reasonable time after he has notice of the loss, destruction or theft of a Certificate, and a transfer of the Limited Partner Interests represented by the Certificate is registered before the Partnership, the General Partner or the Transfer Agent receives such notification, the Limited Partner or Assignee shall be precluded from making any claim against the Partnership, the General Partner or the Transfer Agent for such transfer or for a new Certificate.

(c) As a condition to the issuance of any new Certificate under this Section 4.2, the

Partnership may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Transfer Agent) reasonably connected therewith.

SECTION 4.3. Record Holders.

The Partnership shall be entitled to recognize the Record Holder as the Partner or Assignee with respect to any Partnership Interest and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Partnership Interest on the part of any other Person, regardless of whether the Partnership shall have actual or other notice thereof, except as otherwise provided by law or any applicable rule, regulation, guideline or requirement of any National Securities Exchange on which such Partnership Interests are listed for trading. Without limiting the foregoing, when a Person (such as a broker, dealer, bank, trust company or clearing corporation or an agent of any of the foregoing) is acting as nominee, agent or in some other representative capacity for another Person in acquiring and/or holding Partnership Interests, as between the Partnership on the one hand, and such other Persons on the other, such representative Person (a) shall be the Partner or Assignee (as the case may be) of record and beneficially, (b) must execute and deliver a Transfer Application and (c) shall be bound by this Agreement and shall have the rights and obligations of a Partner or Assignee (as the case may be) hereunder and as, and to the extent, provided for herein.

SECTION 4.4. Transfer Generally.

(a) The term "transfer," when used in this Agreement with respect to a Partnership Interest, shall be deemed to refer to a transaction by which the General Partner assigns its General Partner Interest or any portion thereof or interest therein to another Person who becomes the General Partner, by which the holder of a Limited Partner Interest assigns such Limited Partner Interest or any portion thereof or interest therein to another Person who is or becomes a Limited Partner or an Assignee, and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise.

(b) No Partnership Interest or any portion thereof or interest therein shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article IV. Any transfer or purported transfer of a Partnership Interest or any portion thereof or interest therein not made in accordance with this Article IV shall be null and void.

(c) Nothing contained in this Agreement shall be construed to prevent a disposition by any owner of equity interests of the General Partner (or its general partner, if applicable) of any or all of the issued and outstanding equity interests of the General Partner (or its general partner, if applicable).

SECTION 4.5. Registration and Transfer of Limited Partner Interests.

(a) The Partnership shall keep or cause to be kept on behalf of the Partnership a register in which, subject to such reasonable regulations as it may prescribe and subject to the provisions of Section 4.5(b), the Partnership will provide for the registration and transfer of Limited Partner Interests. The Transfer Agent is hereby appointed registrar and transfer agent for the purpose of registering Common Units and transfers of such Common Units as herein provided. The Partnership shall not recognize transfers of Certificates evidencing Limited Partner Interests unless such transfers are effected in the manner described in this Section 4.5. Upon surrender of

a Certificate for registration of transfer of any Limited Partner Interests evidenced by a Certificate, and subject to the provisions of Section 4.5(b), the appropriate officers of the General Partner on behalf of the Partnership shall execute and deliver, and in the case of Common Units, the Transfer Agent shall countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder's instructions, one or more new Certificates evidencing the same aggregate number and type of Limited Partner Interests as was evidenced by the Certificate so surrendered.

(b) Except as otherwise provided in Section 4.9, the Partnership shall not recognize any transfer of Limited Partner Interests until the Certificates evidencing such Limited Partner Interests are surrendered for registration of transfer and such Certificates are accompanied by a Transfer Application duly executed by the transferee (or the transferee's attorney-in-fact duly authorized in writing). No charge shall be imposed by the Partnership for such transfer; provided, that as a condition to the issuance of any new Certificate under this Section 4.5, the Partnership may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed with respect thereto.

(c) Limited Partner Interests may be transferred only in the manner described in this Section 4.5. The transfer of any Limited Partner Interests and the admission of any new Limited Partner shall not constitute an amendment to this Agreement.

(d) Until admitted as a Substituted Limited Partner pursuant to Section 10.2, the Record Holder of a Limited Partner Interest shall be an Assignee in respect of such Limited Partner Interest. Limited Partners may include custodians, nominees or any other individual or entity in its own or any representative capacity.

(e) A transferee of a Limited Partner Interest who has completed and delivered a Transfer Application shall be deemed to have (i) requested admission as a Substituted Limited Partner, (ii) agreed to comply with and be bound by and to have executed this Agreement, (iii) represented and warranted that such transferee has the right, power and authority and, if an individual, the capacity to enter into this Agreement, (iv) granted the powers of attorney set forth in this Agreement and (v) given the consents and approvals and made the waivers contained in this Agreement.

(f) The General Partner and its Affiliates shall have the right at any time to transfer their Common Units to one or more Persons, subject to the other requirements of this Section 4.5 and Sections 4.7 and 4.8.

(g) Notwithstanding the foregoing, the provisions of this Section 4.5 shall not apply to the transfer on the Closing Date of Common Units to the General Partner pursuant to the Contribution Agreement.

SECTION 4.6. Transfer of the General Partner's General Partner Interest.

(a) Subject to Section 4.6(b) below, unless a Limited Partner Amendment has been effected, the General Partner shall not transfer all or any part of its General Partner Interest to a Person prior to December 31, 2010, unless such transfer (i) has been approved by the prior written consent or vote of the holders of at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partner and its Affiliates) or (ii) is of all, but not less than all, of its General Partner Interest to (A) an Affiliate of the General Partner or (B) another Person in

connection with the merger or consolidation of the General Partner with or into another Person or the transfer by the General Partner of all or substantially all of its assets to another Person. Subject to Section 4.6(b) below, on or after December 31, 2010, the General Partner may transfer all or any of its General Partner Interest without Unitholder approval.

(b) Notwithstanding anything herein to the contrary, no transfer by the General Partner of all or any part of its General Partner Interest to another Person shall be permitted unless (i) the transferee agrees to assume the rights and duties of the General Partner under this Agreement and to be bound by the provisions of this Agreement, (ii) the Partnership receives an Opinion of Counsel that such transfer would not result in the loss of limited liability of any Limited Partner or cause the Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not already so treated or taxed), (iii) such transferee also agrees to purchase all (or the appropriate portion thereof, if applicable) of the partnership or membership interest of the General Partner as the general partner of the Partnership, and (iv) the General Partner sells to the transferee either (A) all of the equity interests in the Operating Subsidiary or (B) all of the assets of the Operating Subsidiary, such price for the equity interests and/or the assets of the Operating Subsidiary shall be fair market value. In the case of a transfer pursuant to and in compliance with this Section 4.6, the transferee or successor (as the case may be) shall, subject to compliance with the terms of Section 10.3, be admitted to the Partnership as a General Partner immediately prior to the transfer of the Partnership Interest, and the business of the Partnership shall continue without dissolution.

(c) Notwithstanding the foregoing, the provisions of this Section 4.6 shall not apply to the transfer on the Closing Date of general partner interests in the Partnership to the General Partner pursuant to the Contribution Agreement.

SECTION 4.7. Restrictions on Transfers.

(a) Except as provided in Section 4.7(c) below, but notwithstanding the other provisions of this Article IV, no transfer of any Partnership Interests shall be made if such transfer would (i) violate the then applicable federal or state securities laws or rules and regulations of the Commission, any state securities commission or any other governmental authority with jurisdiction over such transfer, (ii) terminate the existence or qualification of the Partnership under the laws of the jurisdiction of its formation, or (iii) cause the Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not already so treated or taxed).

(b) The General Partner may impose restrictions on the transfer of Partnership Interests if a subsequent Opinion of Counsel determines that such restrictions are necessary to avoid a significant risk of the Partnership becoming taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes. The restrictions may be imposed by making such amendments to this Agreement as the General Partner may determine to be necessary or appropriate to impose such restrictions; provided, however, that any amendment that the General Partner believes, in the exercise of its reasonable discretion, could result in the delisting or suspension of trading of any class of Limited Partner Interests on the principal National Securities Exchange on which such class of Limited Partner Interests is then traded must be approved, prior to such amendment being effected, by the holders of at least a majority of the Outstanding Limited Partner Interests of such class, unless the Partnership has been approved for listing or trading on another National Securities Exchange.

(c) Nothing contained in this Article IV, or elsewhere in this Agreement, shall preclude the settlement of any transactions involving Partnership Interests entered into through the facilities of any National Securities Exchange on which such Partnership Interests are listed for trading.

SECTION 4.8. Citizenship Certificates; Non-citizen Assignees.

(a) If any Group Member is or becomes subject to any federal, state or local law or regulation that, in the reasonable determination of the General Partner, creates a substantial risk of cancellation or forfeiture of any property in which the Group Member has an interest based on the nationality, citizenship or other related status of a Limited Partner or Assignee, the General Partner may request any Limited Partner or Assignee to furnish to the General Partner, within 30 days after receipt of such request, an executed Citizenship Certification or such other information concerning his nationality, citizenship or other related status (or, if the Limited Partner or Assignee is a nominee holding for the account of another Person, the nationality, citizenship or other related status of such Person) as the General Partner may request. If a Limited Partner or Assignee fails to furnish to the General Partner within the aforementioned 30-day period such Citizenship Certification or other requested information or if upon receipt of such Citizenship Certification or other requested information the General Partner determines, with the advice of counsel, that a Limited Partner or Assignee is not an Eligible Citizen, the Partnership Interests owned by such Limited Partner or Assignee shall be subject to redemption in accordance with the provisions of Section 4.9. In addition, the General Partner may require that the status of any such Partner or Assignee be changed to that of a Non-citizen Assignee and, thereupon, the General Partner shall be substituted for such Non-citizen Assignee as the Limited Partner in respect of his Limited Partner Interests and hold such Limited Partner Interests on behalf of such Non-citizen Assignee.

(b) The General Partner shall, in exercising voting rights in respect of Limited Partner Interests held by it on behalf of Non-citizen Assignees, distribute the votes in the same ratios as the votes of Partners (including without limitation the General Partner) in respect of Limited Partner Interests other than those of Non-citizen Assignees are cast, either for, against or abstaining as to the matter.

(c) Upon dissolution of the Partnership, a Non-citizen Assignee shall have no right to receive a distribution in kind pursuant to Section 12.4 but shall be entitled to the cash equivalent thereof, and the Partnership shall provide cash in exchange for an assignment of the Non-citizen Assignee's share of the distribution in kind. Such payment and assignment shall be treated for Partnership purposes as a purchase by the Partnership from the Non-citizen Assignee of his Limited Partner Interest (representing his right to receive his share of such distribution in kind).

(d) At any time after he can and does certify that he has become an Eligible Citizen, a Non-citizen Assignee may, upon application to the General Partner, request admission as a Substituted Limited Partner with respect to any Limited Partner Interests of such Non-citizen Assignee not redeemed pursuant to Section 4.9, and upon his admission pursuant to Section 10.2, the General Partner shall cease to be deemed to be the Limited Partner in respect of the Non-citizen Assignee's Limited Partner Interests.

SECTION 4.9. Redemption of Partnership Interests of Non-citizen Assignees.

(a) If at any time a Limited Partner or Assignee fails to furnish a Citizenship Certification or other information requested within the 30-day period specified in Section 4.8(a), or if upon

receipt of such Citizenship Certification or other information the General Partner determines, with the advice of counsel, that a Limited Partner or Assignee is not an Eligible Citizen, the Partnership may, unless the Limited Partner or Assignee establishes to the satisfaction of the General Partner that such Limited Partner or Assignee is an Eligible Citizen or has transferred his Partnership Interests to a Person who is an Eligible Citizen and who furnishes a Citizenship Certification to the General Partner prior to the date fixed for redemption as provided below, redeem the Partnership Interest of such Limited Partner or Assignee as follows:

(i) The General Partner shall, not later than the 30th day before the date fixed for redemption, give notice of redemption to the Limited Partner or Assignee, at his last address designated on the records of the Partnership or the Transfer Agent, by registered or certified mail, postage prepaid. The notice shall be deemed to have been given when so mailed. The notice shall specify the Redeemable Interests, the date fixed for redemption, the place of payment, that payment of the redemption price will be made upon surrender of the Certificate evidencing the Redeemable Interests and that on and after the date fixed for redemption no further allocations or distributions to which the Limited Partner Assignee would otherwise be entitled in respect of the Redeemable Interests will accrue or be made.

(ii) The aggregate redemption price for Redeemable Interests shall be an amount equal to the Current Market Price (the date of determination of which shall be the date fixed for redemption) of Limited Partner Interests of the class to be so redeemed multiplied by the number of Limited Partner Interests of each such class included among the Redeemable Interests. The redemption price shall be paid, in the discretion of the General Partner, in cash or by delivery of a promissory note of the Partnership in the principal amount of the redemption price, bearing interest at the Prime Rate and payable in three equal annual installments of principal together with accrued interest, commencing one year after the redemption date.

(iii) Upon surrender by or on behalf of the Limited Partner or Assignee, at the place specified in the notice of redemption, of the Certificate evidencing the Redeemable Interests, duly endorsed in blank or accompanied by an assignment duly executed in blank, the Limited Partner or Assignee or his duly authorized representative shall be entitled to receive the payment therefor.

(iv) After the redemption date, Redeemable Interests shall no longer constitute issued and Outstanding Limited Partner Interests.

(b) The provisions of this Section 4.9 shall also be applicable to Limited Partner Interests held by a Limited Partner or Assignee as nominee of a Person determined to be other than an Eligible Citizen.

(c) Nothing in this Section 4.9 shall prevent the recipient of a notice of redemption from transferring his Limited Partner Interest before the redemption date if such transfer is otherwise permitted under this Agreement. Upon receipt of notice of such a transfer, the General Partner shall withdraw the notice of redemption, provided the transferee of such Limited Partner Interest certifies to the satisfaction of the General Partner in a Citizenship Certification delivered in connection with the Transfer Application that he is an Eligible Citizen. If the transferee fails to make such certification, such redemption shall be effected from the transferee on the original redemption date.

ARTICLE V.

CAPITAL CONTRIBUTIONS AND ISSUANCE OF PARTNERSHIP INTERESTS

SECTION 5.1. Organizational Contributions.

(a) In connection with the formation of the Partnership under the Delaware Act, the General Partner made an initial Capital Contribution to the Partnership in the amount of $50.00 for an interest in the Partnership and has been admitted as the General Partner of the Partnership, and the Organizational Limited Partner made an initial Capital Contribution to the Partnership in the amount of $950.00 for an interest in the Partnership and has been admitted as a Limited Partner of the Partnership. As of the Closing Date, the interest of the Organizational Limited Partner shall be redeemed upon the admission of the first Initial Limited Partner (other than a general partner of DHL with respect to the Common Units received by such general partner with respect to its general partner interest in DHL, which Common Units shall be converted into a general partner interest pursuant to Section 5.2); the initial Capital Contributions of each Partner shall thereupon be refunded; and the Organizational Limited Partner shall cease to be a Limited Partner of the Partnership. Ninety-five percent of any interest or other profit that may have resulted from the investment or other use of such initial Capital Contributions shall be allocated and distributed to the Organizational Limited Partner, and the balance thereof shall be allocated and distributed to the General Partner.

SECTION 5.2. Issuance of Common Units in the Combination.

Pursuant to the Combination Agreement, the Partnership shall issue Common Units as specified in the Combination Agreement.

SECTION 5.3. Issuance of General Partner Interests; Closing of the Contribution Agreement.

(a) Upon the closing of the mergers of Spinnaker and Republic into the Partnership as contemplated by the Combination Agreement, the general partner interests in the Partnership into which the general partner interests in Spinnaker and Republic are converted pursuant to the Combination Agreement shall be deemed to have been issued by the Partnership.

(b) Upon the closing of the transactions contemplated by the Contribution Agreement, including the contribution by the General Partner to the Partnership of the cash required to be contributed to the General Partner pursuant to the Contribution Agreement, the Common Units contributed to the General Partner pursuant to the Contribution Agreement shall be deemed to be converted into a general partner interest in the Partnership constituting a 1% interest in the capital and profits of the Partnership relating solely to the assets conveyed to the Partnership by DHL pursuant to the Combination Agreement and the certificates representing such Common Units shall be surrendered by the General Partner to the Partnership for cancellation.

(c) Immediately following the consummation of the transactions contemplated by the Contribution Agreement, the general partner interests in the Partnership described in Sections 5.3(a) and (b) shall automatically be converted into and become the General Partner Interest.

SECTION 5.4. Interest and Withdrawal.

No interest on Capital Contributions shall be paid by the Partnership. No Partner or Assignee shall be entitled to the withdrawal or return of its Capital Contribution, except to the extent, if any, that distributions made pursuant to this Agreement or upon termination of the Partnership may be considered as such by law and then only to the extent provided for in this Agreement. Except to the extent expressly provided in this Agreement, no Partner or Assignee shall have priority over any other Partner or Assignee either as to the return of Capital Contributions or as to profits, losses or distributions. Any such return shall be a compromise to which all Partners and Assignees agree within the meaning of Section 17-502(b) of the Delaware Act.

SECTION 5.5. Capital Accounts.

(a) The Partnership shall maintain for each Partner (or a beneficial owner of Partnership Interests held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the General Partner in its sole discretion) owning a Partnership Interest a separate Capital Account with respect to such Partnership Interest in accordance with the rules of Treasury Regulation Section 1.704-1(b)(2)(iv). Such Capital Account shall be increased by (i) the amount of all Capital Contributions made to the Partnership with respect to such Partnership Interest pursuant to this Agreement and (ii) all items of Partnership income and gain (including, without limitation, income and gain exempt from tax) computed in accordance with Section 5.5(b) and allocated with respect to such Partnership Interest pursuant to Section 6.1, and decreased by (x) the amount of cash or Net Agreed Value of all distributions of cash or property made with respect to such Partnership Interest pursuant to this Agreement and (y) all items of Partnership deduction and loss computed in accordance with Section 5.5(b) and allocated with respect to such Partnership Interest pursuant to Section 6.1.

(b) For purposes of computing the amount of any item of income, gain, loss or deduction that is to be allocated pursuant to Article VI and is to be reflected in the Partners' Capital Accounts, the determination, recognition, and classification of any such item shall be the same as its determination, recognition, and classification for federal income tax purposes (including, without limitation, any method of depreciation, cost recovery or amortization used for that purpose), provided, that:

(i) Solely for purposes of this Section 5.5, the Partnership shall be treated as owning directly its proportionate share (as determined by the General Partner based upon the provisions of this Agreement) of all property owned by any Subsidiary of the Partnership that is classified as a partnership for federal income tax purposes.

(ii) All fees and other expenses incurred by the Partnership to promote the sale of (or to sell) a Partnership Interest that can neither be deducted nor amortized under Section 709 of the Code, if any, shall, for purposes of Capital Account maintenance, be treated as an item of deduction at the time such fees and other expenses are incurred and shall be allocated among the Partners pursuant to Section 6.1.

(iii) Except as otherwise provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(m), the computation of all items of income, gain, loss and deduction shall be made without regard to any election under Section 754 of the Code which may be made by the Partnership and, as to those items described in Section 705(a)(1)(B) or 705(a)(2)(B) of the Code, without regard to the fact that such items are not includable in gross income

or are neither currently deductible nor capitalized for federal income tax purposes. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(b) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment in the Capital Accounts shall be treated as an item of gain or loss.

(iv) Any income, gain or loss attributable to the taxable disposition of any Partnership property shall be determined as if the adjusted basis of such property as of such date of disposition were equal in amount to the Partnership's Carrying Value with respect to such property as of such date.

(v) In accordance with the requirements of Section 704(b) of the Code, any deductions for depreciation, cost recovery or amortization attributable to any Contributed Property shall be determined as if the adjusted basis of such property on the date it was acquired by the Partnership were equal to the Agreed Value of such property. Upon an adjustment pursuant to Section 5.5(d) to the Carrying Value of any Partnership property subject to depreciation, cost recovery or amortization, any further deductions for such depreciation, cost recovery or amortization attributable to such property shall be determined (A) as if the adjusted basis of such property were equal to the Carrying Value of such property immediately following such adjustment and (B) using a rate of depreciation, cost recovery or amortization derived from the same method and useful life (or, if applicable, the remaining useful life) as is applied for federal income tax purposes; provided, however, that, if the asset has a zero adjusted basis for federal income tax purposes, depreciation, cost recovery or amortization deductions shall be determined using any reasonable method that the General Partner may adopt.

(vi) Any depletion deductions attributable to a separate oil and gas property (as defined in Section 614 of the Code) shall be computed by the Partnership using the cost or percentage method of depletion (without regard to limitations imposed on the percentage method under Section 613A of the Code which theoretically could apply to less than all of the Partners), whichever results in the greater deduction. For purposes hereof, any cost depletion determined with respect to an oil and gas property shall be determined as if the adjusted basis of such property on the date of such determination was equal in amount to the Partnership's Carrying Value with respect to such property as of such date. Depletion deductions determined with respect to an oil and gas property shall, in the aggregate, reduce the Capital Accounts of the Partners only to the extent of the Partnership's Carrying Value with respect to such property. The allocations of basis and amount realized (and all items of income, gain, deduction or loss computed with respect thereto) required by Section 613A(c)(7)(D) of the Code shall not affect the Capital Accounts of the Partners.

(c) A transferee of a Partnership Interest shall succeed to a pro rata portion of the Capital Account of the transferor relating to the Partnership Interest so transferred in accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(l).

(d) (i) In accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(f), on an issuance of additional Partnership Interests for cash or Contributed Property, the General Partner may adjust the Capital Accounts of all Partners and the Carrying Value of each Partnership property immediately prior to such issuance upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or

Unrealized Loss had been recognized on an actual sale of each such property immediately prior to such issuance and had been allocated to the Partners at such time pursuant to Section 6.1 in the same manner as any item of gain or loss actually recognized during such period would have been allocated. In determining such Unrealized Gain or Unrealized Loss, the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to the issuance of additional Partnership Interests shall be determined by the General Partner using such reasonable method of valuation as it may adopt; provided, however, that the General Partner, in arriving at such valuation, must take fully into account the fair market value of the Partnership Interests of all Partners at such time. The General Partner shall allocate such aggregate value among the assets of the Partnership (in such manner as it determines in its discretion to be reasonable) to arrive at a fair market value for individual properties.

(ii) In accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(f), immediately prior to any distribution to a Partner of any Partnership property (other than a distribution of cash that is not in redemption or retirement of a Partnership Interest), the General Partner may adjust the Capital Accounts of all Partners and the Carrying Value of all Partnership property upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized in a sale of such property immediately prior to such distribution for an amount equal to its fair market value, and had been allocated to the Partners, at such time, pursuant to Section 6.1 in the same manner as any item of gain or loss actually recognized during such period would have been allocated. In determining such Unrealized Gain or Unrealized Loss the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to a distribution shall (A) in the case of a distribution that is not made pursuant to Section 12.4, be determined and allocated in the same manner as that provided in Section 5.5(d)(i) or (B) in the case of a liquidating distribution pursuant to Section 12.4, be determined and allocated by the Liquidator using such reasonable method of valuation as it may adopt.

SECTION 5.6. Issuances of Additional Partnership Securities.

(a) Subject to Section 5.7, the Partnership may issue additional Partnership Securities and options, rights, warrants, and appreciation rights relating to the Partnership Securities for any Partnership purpose at any time and from time to time to such Persons for such consideration and on such terms and conditions as shall be established by the General Partner in its sole discretion.

(b) Each additional Partnership Security authorized to be issued by the Partnership pursuant to Section 5.6(a) may be issued in one or more classes, or one or more series, with such designations, preferences, rights, powers, and duties (which may be senior to existing classes and series of Partnership Securities), as shall be fixed by the General Partner in the exercise of its sole discretion, including (i) the right to share Partnership profits and losses or items thereof; (ii) the right to have separate rights, powers or duties with respect to specified property or obligations of the Partnership; (iii) the right to share in Partnership distributions; (iv) the rights upon dissolution and liquidation of the Partnership; (v) whether, and the terms and conditions upon which, the Partnership may redeem the Partnership Security; (vi) whether such Partnership Security is issued with the privilege of conversion or exchange and, if so, the terms and conditions of such conversion or exchange; (vii) the terms and conditions upon which each Partnership Security will be issued, evidenced by certificates and assigned or transferred; and (viii) the right, if any, of each such Partnership Security to vote on Partnership matters, including matters relating to the relative designations, preferences, rights, powers, and duties of such Partnership Security.

(c) The General Partner is hereby authorized and directed to take all actions that it deems necessary or appropriate in connection with (i) each issuance of Partnership Securities and options, rights, warrants, and appreciation rights relating to Partnership Securities pursuant to this Section 5.6, (ii) the conversion of the General Partner Interest into Units pursuant to the terms of this Agreement, (iii) the admission of Additional Limited Partners, and (iv) all additional issuances of Partnership Securities. The General Partner is further authorized and directed to specify the relative rights, powers, and duties of the holders of the Units or other Partnership Securities being so issued. The General Partner shall do all things necessary to comply with the Delaware Act and is authorized and directed to do all things it deems to be necessary or advisable in connection with any future issuance of Partnership Securities or in connection with the conversion of the General Partner Interest into Units pursuant to the terms of this Agreement, including compliance with any statute, rule, regulation or guideline of any federal, state or other governmental agency or any National Securities Exchange on which the Units or other Partnership Securities are listed for trading.

SECTION 5.7. Limitations on Issuance of Additional Partnership Securities.

The issuance of Partnership Securities pursuant to Section 5.6 shall be subject to the following restrictions and limitations:

(a) Without approval of a Unit Majority, the Partnership shall not issue in a single transaction or group of related transactions any Partnership Securities representing Limited Partner Interests if, immediately after giving effect to such issuance, such newly issued Partnership Securities would represent over 20% of the outstanding Limited Partner Interests.

(b) No fractional Units shall be issued by the Partnership. Notwithstanding anything to the contrary herein, fractional Common Units may, pursuant to the Combination Agreement, be issued to the general partners of DHL with respect to their general partner interests in DHL.

SECTION 5.8. Limited Preemptive Right.

Except as provided in this Section 5.8 and in Section 5.2, no Person shall have any preemptive, preferential or other similar right with respect to the issuance of any Partnership Security, whether unissued, held in the treasury or hereafter created. The General Partner shall have the right, which it may from time to time assign in whole or in part to any of its Affiliates, to purchase Partnership Securities from the Partnership whenever, and on the same terms that, the Partnership issues Partnership Securities to Persons other than the General Partner and its Affiliates, to the extent necessary to maintain the Percentage Interests of the General Partner and its Affiliates equal to that which existed immediately prior to the issuance of such Partnership Securities.

SECTION 5.9. Splits and Combination.

(a) Subject to Sections 5.9(d), 6.6 and 6.9 (dealing with adjustments of distribution levels), the Partnership may make a Pro Rata distribution of Partnership Securities to all Record Holders or may effect a subdivision or combination of Partnership Securities so long as, after any such event, each Partner shall have the same Percentage Interest in the Partnership as before such event, and any amounts calculated on a per Unit basis or stated as a number of Units are proportionately adjusted retroactive to the beginning of the Partnership.

(b) Whenever such a distribution, subdivision or combination of Partnership Securities is declared, the General Partner shall select a Record Date as of which the distribution, subdivision or combination shall be effective and shall send notice thereof at least 20 days prior to such Record Date to each Record Holder as of a date not less than 10 days prior to the date of such notice. The General Partner also may cause a firm of independent public accountants selected by it to calculate the number of Partnership Securities to be held by each Record Holder after giving effect to such distribution, subdivision or combination. The General Partner shall be entitled to rely on any certificate provided by such firm as conclusive evidence of the accuracy of such calculation.

(c) Promptly following any such distribution, subdivision or combination, the Partnership may issue Certificates to the Record Holders of Partnership Securities as of the applicable Record Date representing the new number of Partnership Securities held by such Record Holders, or the General Partner may adopt such other procedures as it may deem appropriate to reflect such changes. If any such combination results in a smaller total number of Partnership Securities Outstanding, the Partnership shall require, as a condition to the delivery to a Record Holder of such new Certificate, the surrender of any Certificate held by such Record Holder immediately prior to such Record Date.

(d) The Partnership shall not issue fractional Units upon any distribution, subdivision or combination of Units. If a distribution, subdivision or combination of Units would result in the issuance of fractional Units but for the provisions of Section 5.7(b) and this Section 5.9(d), each fractional Unit shall be rounded to the nearest whole Unit (and a 0.5 Unit shall be rounded to the next higher Unit).

SECTION 5.10. Fully Paid and Non-Assessable Nature of Limited Partner Interests.

All Limited Partner Interests issued pursuant to, and in accordance with the requirements of, this Article V shall be fully paid and non-assessable Limited Partner Interests in the Partnership, except as such non-assessability may be affected by Section 17-607 of the Delaware Act.

ARTICLE VI.

ALLOCATIONS AND DISTRIBUTIONS

SECTION 6.1. Allocations for Capital Account Purposes.

For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, the Partnership's items of income, gain, loss, and deduction (computed in accordance with Section 5.5(b)) shall be allocated among the Partners in each taxable year (or portion thereof) as provided herein below.

(a) Net Income. After giving effect to the allocations set forth in Sections 6.1(c), Net Income for each taxable year (and all items of income, gain, loss and deduction taken into account in computing Net Income for such taxable year) shall be allocated as follows:

(i) First, to the General Partner, to the extent of Net Loss previously allocated to it under Section 6.1(b)(ii) for which Net Income has not previously been allocated pursuant to this Section 6.1(a)(i); and

(ii) Second, to the Partners in proportion to their respective Percentage Interests.

(b) Net Loss. After giving effect to the allocations set forth in Section 6.1(c), Net Loss for each taxable year (and all items of income, gain, loss and deduction taken into account in computing Net Loss for such taxable year) shall be allocated as follows:

(i) First, to the Partners in proportion to their respective Percentage Interests provided that Net Loss shall not be allocated pursuant to this Section 6.1(b)(i) to the extent that such allocation would cause any Limited Partner to have a deficit balance in its Adjusted Capital Account at the end of such taxable year (or increase any existing deficit balance in its Adjusted Capital Account); and

(ii) Second, the balance to the General Partner.

(c) Special Allocations. Notwithstanding any other provision of this Section 6.1, the following special allocations shall be made for such taxable period:

(i) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Section 6.1, if there is a net decrease in Partnership Minimum Gain during any Partnership taxable period, each Partner shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(f)(6), 1.704-2(g)(2) and 1.704-2(j)(2)(i), or any successor provision. For purposes of this Section 6.1(c), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 6.1(c) with respect to such taxable period (other than an allocation pursuant to Sections 6.1(c)(vi) and 6.1(c)(vii)). This Section 6.1(c)(i) is intended to comply with the Partnership Minimum Gain chargeback requirement in Treasury Regulation Section 1.704-2(f) and shall be interpreted consistently therewith.

(ii) Chargeback of Partner Nonrecourse Debt Minimum Gain. Notwithstanding the other provisions of this Section 6.1 (other than Section 6.1(c)(i)), except as provided in Treasury Regulation Section 1.704-2(i)(4), if there is a net decrease in Partner Nonrecourse Debt Minimum Gain during any Partnership taxable period, any Partner with a share of Partner Nonrecourse Debt Minimum Gain at the beginning of such taxable period shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(i)(4) and 1.704-2(j)(2)(ii), or any successor provisions. For purposes of this Section 6.1(c), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 6.1(c), other than Section 6.1(c)(i) and other than an allocation pursuant to Sections 6.1(c)(v) and 6.1(c)(vi), with respect to such taxable period. This Section 6.1(c)(ii) is intended to comply with the chargeback of items of income and gain requirement in Treasury Regulation Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(iii) Qualified Income Offset. In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations promulgated under Section 704(b) of the Code, the deficit balance, if any, in its Adjusted Capital Account created by such adjustments, allocations or distributions as quickly as possible unless such deficit balance is otherwise eliminated pursuant to Section 6.1(c)(i) or (ii).

(iv) Gross Income Allocations. In the event any Partner has a deficit balance in its Capital Account at the end of any Partnership taxable period in excess of the sum of (A) the amount such Partner is required to restore pursuant to the provisions of this Agreement and (B) the amount such Partner is deemed obligated to restore pursuant to Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5), such Partner shall be specially allocated items of Partnership gross income and gain in the amount of such excess as quickly as possible; provided that an allocation pursuant to this Section 6.1(c)(iv) shall be made only if and to the extent that such Partner would have a deficit balance in its Capital Account as adjusted after all other allocations provided for in this Section 6.1 have been tentatively made as if this Section 6.1(c)(iv) were not in this Agreement.

(v) Nonrecourse Deductions. Nonrecourse Deductions for any taxable period shall be allocated to the Partners in accordance with their respective Percentage Interests. If the General Partner determines in its good faith discretion that the Partnership's Nonrecourse Deductions must be allocated in a different ratio to satisfy the safe harbor requirements of the Treasury Regulations promulgated under Section 704(b) of the Code, the General Partner is authorized, upon notice to the other Partners, to revise the prescribed ratio to the numerically closest ratio that does satisfy such requirements.

(vi) Partner Nonrecourse Deductions. Partner Nonrecourse Deductions for any taxable period shall be allocated 100% to the Partner that bears the Economic Risk of Loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulation Section 1.704-2(i). If more than one Partner bears the Economic Risk of Loss with respect to a Partner Nonrecourse Debt, such Partner Nonrecourse Deductions attributable thereto shall be allocated between or among such Partners in accordance with the ratios in which they share such Economic Risk of Loss.

(vii) Nonrecourse Liabilities. For purposes of Treasury Regulation Section 1.752-3(a)(3), the Partners agree that Nonrecourse Liabilities of the Partnership in excess of the amount of Partnership Minimum Gain shall be allocated among the Partners in accordance with their respective Percentage Interests.

(viii) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(c) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Treasury Regulations.

(ix) Curative Allocation.

(A) Notwithstanding any other provision of this Section 6.1, other than the Required Allocations, the Required Allocations shall be taken into account in making the Agreed Allocations so that, to the extent possible, the net amount of items of income, gain, loss, and deduction allocated to each Partner pursuant to the Required Allocations and the Agreed Allocations, together, shall be equal to the net amount of such items that would have been allocated to each such Partner under the Agreed Allocations had the Required Allocations and the related Curative Allocation not otherwise been provided in this Section 6.1. Allocations pursuant to this Section 6.1(c)(ix)(A) shall only be made with respect to Required Allocations to the extent the General Partner reasonably determines that such allocations will otherwise be inconsistent with the economic agreement among the Partners.

(B) The General Partner shall have reasonable discretion, with respect to each taxable period, to (1) apply the provisions of Section 6.1(c)(ix)(A) in whatever order is most likely to minimize the economic distortions that might otherwise result from the Required Allocations, and (2) divide all allocations pursuant to Section 6.1(c)(ix)(A) among the Partners in a manner that is likely to minimize such economic distortions.

SECTION 6.2. Allocations for Tax Purposes.

(a) Except as otherwise provided herein, for federal income tax purposes, each item of income, gain, loss, and deduction shall be allocated among the Partners in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to Section 6.1.

(b) The deduction for depletion with respect to each separate oil and gas property (as defined in Section 614 of the Code) shall be computed for federal income tax purposes separately by the Partners rather than the Partnership in accordance with Section 613A(c)(7)(D) of the Code. For purposes of such computation, the proportionate share of the adjusted basis (before taking into account any adjustments resulting from an election made by the Partnership on behalf of such Partner under Section 754 of the Code) of each oil and gas property (as defined in Section 614 of the Code) allocated to each Partner shall be determined in accordance with the following principles:

(i) In the case of a Contributed Property (or Adjusted Property that was originally a Contributed Property), the adjusted basis of such property shall be allocated at the time of contribution to the Partners who contributed such property to the Partnership in amounts equal to their respective tax basis in such property immediately prior to such contribution. For purposes of this Section 6.2(b), the Assets shall be deemed to have been contributed to the Partnership by the partners of Republic, Spinnaker or DHL, as applicable, or their successors.

(ii) In all other cases, the adjusted basis of each oil and gas property shall be allocated to the Partners in accordance with their respective Percentage Interests.

Each Partner shall separately keep records of his share of the adjusted basis in each oil and gas property, allocated as provided above, adjust such share of the adjusted basis for any cost or

percentage depletion allowable on such property and use such adjusted basis in the computation of his cost depletion or in the computation of his gain or loss on the disposition of such property by the Partnership.

(c) For the purpose of the separate computation of gain or loss by each Partner on the sale or disposition of each separate oil and gas property (as defined in Section 614 of the Code), the Partnership's allocable share of the "amount realized" (as such term is defined in Section 1001(b) of the Code) from such sale shall be allocated for federal income tax purposes to the Partners as follows:

(i) In the case of the Contributed Property (or Adjusted Property that was originally a Contributed Property), such "amount realized" shall be allocated (A) first, to the Partners who contributed such property, in a manner consistent with Section 704(c) of the Code, and (B) second, the balance to the Partners in accordance with their respective Percentage Interests.

(ii) In all other cases, the "amount realized" shall be allocated to the Partners in accordance with their respective Percentage Interests.

(d) In an attempt to eliminate Book-Tax Disparities attributable to a Contributed Property or Adjusted Property, other than with respect to oil and gas properties as provided in Section 6.2(b) and Section 6.2(c), items of income, gain, loss, depreciation, amortization, and cost recovery deductions shall be allocated for federal income tax purposes among the Partners as follows:

(i) (A) In the case of a Contributed Property, such items attributable thereto shall be allocated among the Partners in the manner provided under Section 704(c) of the Code that takes into account the variation between the Agreed Value of such property and its adjusted basis at the time of contribution; and (B) any item of Residual Gain or Residual Loss attributable to a Contributed Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 6.1.

(ii) (A) In the case of an Adjusted Property, such items shall (1) first, be allocated among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account the Unrealized Gain or Unrealized Loss attributable to such property and the allocations thereof pursuant to Section 5.5(d)(i) or 5.5(d)(ii), and (2) second, in the event such property was originally a Contributed Property, be allocated among the Partners in a manner consistent with Section 6.2(d)(i)(A); and (B) any item of Residual Gain or Residual Loss attributable to an Adjusted Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 6.1.

(e) For the proper administration of the Partnership and for the preservation of uniformity of the Limited Partner Interests (or any class or classes thereof), the General Partner shall have sole discretion to (i) adopt such conventions as it deems appropriate in determining the amount of depletion, depreciation, amortization, and cost recovery deductions; (ii) make special allocations for federal income tax purposes of income (including, without limitation, gross income) or deductions; and (iii) amend the provisions of this Agreement as appropriate (x) to reflect the proposal or promulgation of Treasury Regulations under Section 704(b) or Section 704(c) of the Code or (y) otherwise to preserve or achieve uniformity of the Limited Partner Interests (or any

class or classes thereof). The General Partner may adopt such conventions, make such allocations, and make such amendments to this Agreement as provided in this Section 6.2(e) only if such conventions, allocations or amendments would not have a material adverse effect on the Partners, the holders of any class or classes of Limited Partner Interests issued and Outstanding or the Partnership, and if such allocations are consistent with the principles of Section 704 of the Code.

(f) The General Partner in its discretion may determine to depreciate, deplete or amortize the portion of an adjustment under Section 743(b) of the Code attributable to unrealized appreciation in any Adjusted Property (to the extent of the unamortized Book-Tax Disparity) using a predetermined rate derived from the depreciation, depletion or amortization method and useful life applied to the Partnership's common basis of such property, despite any inconsistency of such approach with Treasury Regulation Section 1.167(c)-1(a)(6) or other applicable regulation or any successor regulations thereto. If the General Partner determines that such reporting position cannot reasonably be taken, the General Partner may adopt depreciation, depletion, and amortization conventions under which all purchasers acquiring Limited Partner Interests in the same month would receive depreciation, depletion, and amortization deductions, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's property. If the General Partner chooses not to utilize such method, the General Partner may use any other reasonable depreciation, depletion, and amortization conventions to preserve the uniformity of the intrinsic tax characteristics of any Limited Partner Interests that would not have a material adverse effect on the Limited Partners or the Record Holders of any class or classes of Limited Partner Interests.

(g) Any gain allocated to the Partners upon the sale or other taxable disposition of any Partnership asset shall, to the extent possible, after taking into account other required allocations of gain pursuant to this Section 6.2, be characterized as Recapture Income in the same proportions and to the same extent as such Partners (or their predecessors in interest) have been allocated any deductions directly or indirectly giving rise to the treatment of such gains as Recapture Income.

(h) All items of income, gain, loss, deduction, and credit recognized by the Partnership for federal income tax purposes and allocated to the Partners in accordance with the provisions hereof shall be determined without regard to any election under Section 754 of the Code which may be made by the Partnership; provided, however, that such allocations, once made, shall be adjusted as necessary or appropriate to take into account those adjustments permitted or required by Sections 734 and 743 of the Code.

(i) Each item of Partnership income, gain, loss, and deduction, shall for federal income tax purposes, be determined on a monthly basis and shall be allocated to the Partners on the last Business Day of each month; provided, however, that such items for the period beginning on the Closing Date and ending on the last day of the month shall be allocated to the Partners on the last Business Day of the such month; and provided, further, that gain or loss on a sale or other disposition of any assets of the Partnership or any other extraordinary item of income or loss realized and recognized other than in the ordinary course of business, as determined by the General Partner in its sole discretion, shall be allocated to the Partners on the last Business Day of the month in which such gain or loss is recognized for federal income tax purposes. The General Partner may revise, alter or otherwise modify such methods of allocation as it determines necessary or appropriate in its sole discretion, to the extent permitted or required by Section 706 of the Code and the regulations or rulings promulgated thereunder.

(j) Allocations that would otherwise be made to a Limited Partner under the provisions of this Article VI shall instead be made to the beneficial owner of Limited Partner Interests held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the General Partner in its sole discretion.

SECTION 6.3. Requirement and Characterization of Distributions; Distributions to Record Holders.

(a) Within 45 days following the end of each Quarter commencing with the Quarter ending on __________, 2002, an amount equal to 100% of Available Cash with respect to such Quarter shall, subject to Section 17-607 of the Delaware Act, be distributed in accordance with this Article VI by the Partnership to the Partners as of the Record Date selected by the General Partner in its reasonable discretion.

(b) Notwithstanding Section 6.3(a), in the event of the dissolution and liquidation of the Partnership, all receipts received during or after the Quarter in which the Liquidation Date occurs, other than from borrowings described in (a)(ii) of the definition of Available Cash, shall be applied and distributed solely in accordance with, and subject to the terms and conditions of, Section 12.4.

(c) The General Partner shall have the discretion to treat taxes paid by the Partnership on behalf of, or amounts withheld with respect to, all or less than all of the Partners, as a distribution of Available Cash to such Partners.

(d) Each distribution in respect of a Partnership Interest shall be paid by the Partnership, directly or through the Transfer Agent or through any other Person or agent, only to the Record Holder of such Partnership Interest as of the Record Date set for such distribution. Such payment shall constitute full payment and satisfaction of the Partnership's liability in respect of such payment, regardless of any claim of any Person who may have an interest in such payment by reason of an assignment or otherwise.

(e) Available Cash with respect to any Quarter, subject to Section 17-607 of the Delaware Act, shall be distributed, except as otherwise required by Section 5.6(b) in respect of additional Partnership Securities issued pursuant thereto, according to the Partners' respective Percentage Interests.

ARTICLE VII.

MANAGEMENT AND OPERATION OF BUSINESS

SECTION 7.1. Management.

(a) The General Partner shall conduct, direct, and manage all activities of the Partnership. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the General Partner, and no Limited Partner or Assignee shall have any management power over the business and affairs of the Partnership. In addition to the powers now or hereafter granted a general partner of a limited

partnership under applicable law or that are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to the other provisions of this Article VII, shall have full power and authority to do all things and on such terms as it, in its sole discretion, may deem necessary or appropriate to conduct the business of the Partnership, to exercise all powers set forth in Section 2.5 and to effectuate the purposes set forth in Section 2.4, including the following:

(i) the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible into Partnership Securities, and the incurring of any other obligations;

(ii) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership;

(iii) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership or the merger or other combination of the Partnership with or into another Person (the matters described in this clause (iii) being subject, however, to any prior approval that may be required by Section 7.3);

(iv) the use of the assets of the Partnership (including cash on hand) for any purpose consistent with the terms of this Agreement;

(v) the negotiation, execution and performance of any contracts, conveyances or other instruments (including instruments that limit the liability of the Partnership under contractual arrangements to all or particular assets of the Partnership, with the other party to the contract to have no recourse against the General Partner or its assets other than its interest in the Partnership, even if same results in the terms of the transaction being less favorable to the Partnership than would otherwise be the case);

(vi) the distribution of Partnership cash;

(vii) the selection and dismissal of employees (including employees having titles such as "president," "chief executive officer," "chief operating officer," "chief financial officer," "vice president," "secretary," "treasurer" and "controller") and agents, outside attorneys, accountants, consultants, and contractors and the determination of their compensation and other terms of employment or hiring;

(viii) the formation of, or acquisition of, an interest in, and the contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, limited liability companies, corporations or other relationships subject to the restrictions set forth in Section 2.4;

(ix) the control of any matters affecting the rights and obligations of the Partnership, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation and the incurring of legal expense and the settlement of claims and litigation;

(x) the indemnification of any Person against liabilities and contingencies to the extent permitted by law;

(xi) the entering into of listing agreements with any National Securities Exchange and the delisting of some or all of the Limited Partner Interests from, or requesting that trading be suspended on, any such exchange;

(xii) unless restricted or prohibited by Section 5.7, the purchase, sale or other acquisition or disposition of Partnership Securities, or the issuance of additional options, rights, warrants, and appreciation rights relating to Partnership Securities; and

(xiii) the assigning of working interests (including those acquired in any consummated acquisition or through participation elections) to any Subsidiary of the Partnership or to the Operating Subsidiary (or the successor to its assets) for a royalty or net profits interest, on terms deemed appropriate and in the best interests of the Partnership.

(b) Notwithstanding any other provision of this Agreement, the Delaware Act or any applicable law, rule or regulation, each of the Partners and the Assignees and each other Person who may acquire an interest in Partnership Securities hereby (i) approves, ratifies, and confirms the execution, delivery and performance by the parties thereto of the Business Opportunities Agreement, the Contribution Agreement, and the other agreements and other described in or filed as exhibits to the Registration Statement that are related to the transactions contemplated by the Registration Statement; (ii) agrees that the General Partner (on its own or through any officer of the Partnership) is authorized to execute, deliver, and perform the agreements referred to in clause (i) of this sentence and the other agreements, acts, transactions, and matters described in or contemplated by the Registration Statement on behalf of the Partnership without any further act, approval or vote of the Partners or the Assignees or the other Persons who may acquire an interest in Partnership Securities; and (iii) agrees that the execution, delivery or performance by the General Partner, any Group Member or any Affiliate of any of them, of this Agreement or any agreement authorized or permitted under this Agreement (including the exercise by the General Partner or any Affiliate of the General Partner of the rights accorded pursuant to Article XV), shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners or any other Persons under this Agreement (or any other agreements) or of any duty stated or implied by law or equity.

SECTION 7.2. Certificate of Limited Partnership.

The General Partner has caused the Certificate of Limited Partnership to be filed with the Secretary of State of the State of Delaware as required by the Delaware Act and shall use all reasonable efforts to cause to be filed such other certificates or documents as may be determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware or any other state in which the Partnership may elect to do business or own property. To the extent that such action is determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate of Limited Partnership and do all things to maintain the Partnership as a limited partnership (or a partnership or other entity in which the limited partners have limited liability) under the laws of the State of Delaware or of any other state in which the Partnership may elect to do business or own property. Subject to the terms of Section 3.4(a), the General Partner shall not be required,

before or after filing, to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto to any Limited Partner.

SECTION 7.3. Restrictions on General Partner's Authority.

(a) The General Partner may not, without written approval of the specific act by holders of all of the Outstanding Limited Partner Interests or by other written instrument executed and delivered by holders of all of the Outstanding Limited Partner Interests subsequent to the date of this Agreement, take any action in contravention of this Agreement, including, except as otherwise provided in this Agreement, (i) committing any act that would make it impossible to carry on the ordinary business of the Partnership; (ii) possessing Partnership property, or assigning any rights in specific Partnership property, in each case for other than a Partnership purpose; (iii) admitting a Person as a Partner; (iv) amending this Agreement in any manner; or (v) transferring its interest as general partner of the Partnership.

(b) Except as provided in Articles XII and XIV, the General Partner may not sell, exchange or otherwise dispose of all or substantially all of the Partnership's assets in a single transaction or a series of related transactions (including by way of merger, consolidation or other combination) or approve on behalf of the Partnership the sale, exchange or other disposition of all or substantially all of the assets of the Partnership, without the approval of holders of a Unit Majority; provided however that this provision shall not preclude or limit the General Partner's ability to mortgage, pledge, hypothecate or grant a security interest in all or substantially all of the assets of the Partnership and shall not apply to any forced sale of any or all of the assets of the Partnership pursuant to the foreclosure of, or other realization upon, any such encumbrance. Without the approval of holders of a Unit Majority, the General Partner shall not, on behalf of the Partnership, except as permitted under Sections 4.6, 11.1 and 11.2, elect or cause the Partnership to elect a successor general partner of the Partnership.

(c) After consummation of the transactions contemplated by the Combination Agreement, the General Partner may not, without written approval of a Unit Majority, cause the Partnership to acquire or obtain any oil or gas property interest (including mineral fee interests, royalty and overriding royalty interests) unless such acquisition is complementary to the Partnership's objectives and is made either (A) in exchange for Partnership Interests (other than General Partner Interests, and subject to the restrictions described in Section 5.7) or (B) in exchange for cash, provided this clause (B) shall only be available to the extent the aggregate cost of any acquisitions (including acquisition expenses) made in exchange for cash during the 12-month period ending on the first to occur of the execution of a definitive agreement for such acquisition and its consummation (the "Determination Date") is equal to or less than 10% of the Partnership's aggregate cash distributions made pursuant to Section 6.3(a) with respect to the four most recent Quarters for which such cash distributions have been made as of the Determination Date. The Partnership Interests referred to in this Section 7.3(c) include but are not limited to Common Units.

SECTION 7.4. Reimbursement of the General Partner.

(a) Except as provided in this Section 7.4 and elsewhere in this Agreement, the General Partner shall not be compensated for its services as general partner of the Partnership.

(b) Subject to Section 7.4(c), the General Partner shall be reimbursed on a monthly basis, or such other reasonable basis as the General Partner may determine in its sole discretion, for (i) all

direct and indirect expenses it incurs or payments it makes on behalf of the Partnership (or that one of its Affiliates so incurs or makes, to the extent allocated or charged to the General Partner), and (ii) all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by the General Partner in connection with operating the Partnership's business (including expenses allocated to the General Partner by its Affiliates); provided that Production Costs incurred by the Operating Subsidiary shall be separately paid under the terms of the net profits interest agreements between any Group Member and the Operating Subsidiary and to the extent such Production Costs so separately paid include general and administrative costs, such expenses so separately paid shall reduce Management Expenses. The General Partner shall determine the expenses that are allocable to the Partnership in any reasonable manner determined by the General Partner in its sole discretion. Reimbursements pursuant to this Section 7.4 shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to Section 7.7.

(c) Except as provided in Section 7.4(d), the Partnership's reimbursement for Management Expenses during any fiscal year of the Partnership shall be limited to an amount not greater than five percent of the Partnership's Adjusted Distribution Amount during such fiscal year (the "Management Expense Limitation"). Upon the determination of the Adjusted Distribution Amount with respect to the last Quarter of a fiscal year, the General Partner shall promptly calculate the Management Expense Limitation for such fiscal year. Unless otherwise provided in Section 7.4(d), if the reimbursements for Management Expenses made during such fiscal year exceed the Management Expense Limitation, the General Partner shall promptly refund such excess to the Partnership after determination thereof.

(d) If the Management Expenses that would otherwise be reimbursable to the General Partner for a fiscal year exceed the Management Expense Limitation for such year, the excess (a "Reimbursement Deficit") shall nevertheless be reimbursed to the General Partner up to an amount equal to any remaining Reimbursement Surplus (as defined below) for any of the preceding three fiscal years, and the Reimbursement Surplus for each of such preceding years shall be correspondingly reduced (first by reducing the third preceding year, then the second and then the first). The balance of any such Reimbursement Deficit, to the extent not offset by Reimbursement Surpluses, shall be reflected in a memorandum account for the Partnership and may be recouped in any of the succeeding three fiscal years in which there is a Reimbursement Surplus as provided below. If the Management Expense Limitation for any fiscal year exceeds the amount of Management Expenses that would otherwise be reimbursable to the General Partner for such year (a "Reimbursement Surplus"), the General Partner shall be entitled to an additional reimbursement in such year of an amount equal to the lesser of such Reimbursement Surplus or the remaining balances of the Reimbursement Deficits for the three preceding fiscal years and the Reimbursement Deficits for such preceding years shall be correspondingly reduced (first by reducing the third preceding year, then the second and then the first). If the Reimbursement Surplus is greater than the sum of the remaining balances of the Reimbursement Deficits for such preceding years, the balance of the Reimbursement Surplus shall be reflected in a memorandum account for the Partnership and applied against future Reimbursement Deficits as provided above.

(e) Subject to Section 5.7, the General Partner, in its sole discretion and without the approval of the Limited Partners (who shall have no right to vote in respect thereof), may propose and adopt (or cause the Operating Subsidiary to adopt) on behalf of the Partnership employee benefit plans, employee programs and employee practices (including plans, programs and practices involving the issuance of Partnership Securities or options to purchase Partnership Securities), or

cause the Partnership to issue Partnership Securities in connection with, or pursuant to, any employee benefit plan, employee program or employee practice maintained or sponsored by the General Partner or any of its Affiliates, in each case for the benefit of employees of the General Partner or any Affiliate, or any of them, in respect of services performed, directly or indirectly, for the benefit of the Partnership. The Partnership agrees to issue and sell to the General Partner or any of its Affiliates any Partnership Securities that the General Partner or such Affiliate is obligated to provide to any employees pursuant to any such employee benefit plans, employee programs or employee practices. Expenses incurred by the General Partner in connection with any such plans, programs, and practices (including the net cost to the General Partner or such Affiliate of Partnership Securities purchased by the General Partner or such Affiliate from the Partnership to fulfill options or awards under such plans, programs, and practices) shall be reimbursed in accordance with Section 7.4(b). Any and all obligations of the General Partner or the Operating Subsidiary under any employee benefit plans, employee programs or employee practices adopted by the General Partner or the Operating Subsidiary as permitted by this Section 7.4(e) shall constitute obligations of the General Partner hereunder and shall be assumed by any successor General Partner approved pursuant to Section 11.1 or 11.2 or the transferee of or successor to all of the General Partner's General Partner Interest pursuant to Section 4.6. In any fiscal year, the aggregate number of Common Units issued pursuant to this Section 7.4(e) (treating Common Units issuable upon the exercise of options, warrants or other rights as being issued on the date of the issuance of such option, warrant or other right) shall not exceed .333% of the number of Common Units outstanding at the beginning of such fiscal year.

SECTION 7.5. Outside Activities.

(a) After the Closing Date, the General Partner, for so long as it is the General Partner of the Partnership, agrees that its sole business will be to act as the general partner or managing member of the Partnership, the Operating Subsidiary and its general partner, and any other partnership or limited liability company of which the Partnership is, directly or indirectly, a partner or member and to undertake activities that are ancillary or related thereto (including being a limited partner in the Partnership and the Operating Subsidiary).

(b) Except as specifically restricted by Section 7.5(a) or the Business Opportunities Agreement, each Separate Person shall have the right to engage in businesses of every type and description and other activities for profit and to engage in and possess an interest in other business ventures of any and every type or description, whether in businesses engaged in or anticipated to be engaged in by any Group Member, independently or with others, including business interests and activities in direct competition with the business and activities of any Group Member or the Operating Subsidiary or their respective Affiliates, and none of the same shall constitute a breach of this Agreement or any duty express or implied by law to any Partner or Assignee. Neither any Group Member, any Limited Partner nor any other Person shall have any rights by virtue of this Agreement or the partnership relationship established hereby or thereby in any business ventures of any Separate Person.

(c) Subject to the terms of Section 7.5(a), Section 7.5(b), and the Business Opportunities Agreement, but otherwise notwithstanding anything to the contrary in this Agreement, (i) the engaging in competitive activities by any Separate Person in accordance with the provisions of this Section 7.5 is hereby approved by the Partnership and all Partners, (ii) it shall be deemed not to be a breach of the General Partner's fiduciary duty or any other obligation of any type whatsoever of the General Partner for the Separate Persons to engage in such business interests and activities in preference to or to the exclusion of the Partnership, (iii) Separate Persons shall

have no obligation to present business opportunities to the Partnership, and (iv) the General Partner shall have no obligation to present business opportunities to the Partnership, provided the General Partner does not engage in competitive activities or engage in business interests and activities in preference to or to the exclusion of the Partnership with respect to such business opportunities.

(d) The General Partner and any of its Affiliates may acquire Units or other Partnership Securities in addition to those acquired on the Closing Date and, except as otherwise provided in this Agreement, shall be entitled to exercise all rights of the General Partner or Limited Partner, as applicable, relating to such Units or Partnership Securities.

SECTION 7.6. Loans from the General Partner; Loans or Contributions from the Partnership; Contracts with Affiliates; Certain Restrictions on the General Partner.

(a) The General Partner or its Affiliates may lend to any Group Member, and any Group Member may borrow from the General Partner or any of its Affiliates, funds needed or desired by the Group Member for such periods of time and in such amounts as the General Partner may determine; provided, however, that in any such case the lending party may not charge the borrowing party interest at a rate greater than the rate that would be charged the borrowing party or impose terms less favorable to the borrowing party than would be charged or imposed on the borrowing party by unrelated lenders on comparable loans made on an arm's-length basis (without reference to the lending party's financial abilities or guarantees). The borrowing party shall reimburse the lending party for any costs (other than any additional interest costs) incurred by the lending party in connection with the borrowing of such funds. For purposes of this Section 7.6(a) and Section 7.6(b), the term "Group Member" shall include any Affiliate of a Group Member that is controlled by the Group Member. [No Group Member may lend funds to the General Partner or any of its Affiliates (other than another Group Member).]

(b) The Partnership may lend or contribute to any Subsidiary of the Partnership, and any such Subsidiary may borrow from the Partnership, funds on terms and conditions established in the sole discretion of the General Partner[; provided, however, that the Partnership may not charge the Subsidiary interest at a rate less than the rate that would be charged to the Subsidiary (without reference to the General Partner's financial abilities or guarantees) by unrelated lenders on comparable loans]. The foregoing authority shall be exercised by the General Partner in its sole discretion and shall not create any right or benefit in favor of any Person.

(c) The General Partner may itself, or may enter into an agreement with any of its Affiliates to, render services to a Group Member or to the General Partner in the discharge of its duties as general partner of the Partnership. Any such services rendered to or for a Group Member by the General Partner or any of its Affiliates shall be on terms that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 7.6(c) shall be deemed satisfied as to (i) any transaction approved by Special Approval, (ii) any transaction, the terms of which are no less favorable to the Partnership Group than those generally being provided to or available from unrelated third parties, or (iii) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership. The provisions of Section 7.4, including the Management Expense Limitation, shall apply to the rendering of services chargeable to the Partnership described in this Section 7.6(c).

(d) The Partnership Group may transfer assets to joint ventures, other partnerships,

corporations, limited liability companies or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions as are consistent with this Agreement and applicable law.

(e) Neither the General Partner nor any of its Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 7.6(e) shall be deemed to be satisfied as to (i) the transactions effected pursuant to Sections 5.2 and 5.3, the Contribution Agreement, the Business Opportunities Agreement and any other transactions described in or contemplated by the Registration Statement, (ii) any transaction approved by Special Approval, (iii) any transaction, the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties, or (iv) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership. With respect to any contribution of assets to the Partnership in exchange for Partnership Securities, the Advisory Committee, in determining whether the appropriate number of Partnership Securities are being issued, may take into account, among other things, the fair market value of the assets, the liquidated and contingent liabilities assumed, the tax basis in the assets, the extent to which tax-only allocations to the transferor will protect the existing partners of the Partnership against a low tax basis, and such other factors as the Advisory Committee deems relevant under the circumstances.

(f) Without limitation of Sections 7.6(a) through 7.6(e), and notwithstanding anything to the contrary in this Agreement, the existence of the conflicts of interest described in the Registration Statement are hereby approved by all Partners.

SECTION 7.7. Indemnification.

(a) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, all Indemnitees shall be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as an Indemnitee; provided, that in each case the Indemnitee acted in good faith and in a manner that such Indemnitee reasonably believed to be in, or (in the case of a Person other than the General Partner) not opposed to, the best interests of the Partnership and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnitee acted in a manner contrary to that specified above. Any indemnification pursuant to this Section 7.7 shall be made only out of the assets of the Partnership, it being agreed that the General Partner shall not be personally liable for such indemnification and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate such indemnification.

(b) To the fullest extent permitted by law, expenses (including legal fees and expenses) incurred by an Indemnitee who is indemnified pursuant to Section 7.7(a) in defending any claim, demand, action, suit or proceeding shall, from time to time promptly upon the request of such

Indemnitee, be advanced by the Partnership prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Partnership of any undertaking by or on behalf of the Indemnitee to repay such amount (which undertaking shall not be secured) if it shall be determined that the Indemnitee is not entitled to be indemnified as authorized in this Section 7.7.

(c) The indemnification provided by this Section 7.7 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, pursuant to any vote of the holders of Outstanding Limited Partner Interests, as a matter of law or otherwise, both as to actions in the Indemnitee's capacity as an Indemnitee and as to actions in any other capacity, and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns, and administrators of the Indemnitee.

(d) The Partnership may purchase and maintain (or reimburse the General Partner or its Affiliates for the cost of) insurance, on behalf of the General Partner, its Affiliates, Indemnitees and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expense that may be incurred by such Person in connection with the Partnership's activities or such Person's activities on behalf of the Partnership, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 7.7, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute "fines" within the meaning of Section 7.7(a); and action taken or omitted by the Indemnitee with respect to any employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is in, or not opposed to, the best interests of the Partnership.

(f) In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 7.7 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 7.7 are for the benefit of the Indemnitees, their heirs, successors, assigns, and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(i) The rights granted under this Section 7.7 shall be deemed contract rights, and no amendment, modification or repeal of this Section 7.7 or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitee to be indemnified by the Partnership, nor the obligations of the Partnership to indemnify any such Indemnitee under and in accordance with the provisions of this Section 7.7 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

(j) The Partnership may indemnify and advance expenses to any Employee to the same extent permitted under this Section 7.7 for Indemnitees. The Partnership may pay or reimburse expenses incurred by an Indemnitee or Employee in connection with his appearance as a witness or other participation in a claim, demand, action, suit or proceeding at a time when he is not a named defendant or respondent in such claim, demand, action, suit or proceeding.

(k) IT IS EXPRESSLY ACKNOWLEDGED THAT THE INDEMNIFICATION PROVIDED IN THIS SECTION 7.7 COULD INVOLVE INDEMNIFICATION FOR NEGLIGENCE OR UNDER THEORIES OF STRICT LIABILITY.

(l) If all or any portion of this Section 7.7 shall be invalidated on any ground by any court of competent jurisdiction, then the Partnership shall nevertheless indemnify and hold harmless any Indemnitee indemnified pursuant to this Section 7.7 as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, to the fullest extent permitted by any applicable portion of this Section 7.7 that shall not have been invalidated and, subject to this Section 7.7, to the fullest permitted by applicable law.

SECTION 7.8. Liability of Indemnitees.

(a) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnitee shall be liable for monetary damages to the Partnership, the Limited Partners, the Assignees or any other Persons who have acquired interests in the Partnership Securities, for losses sustained or liabilities incurred as a result of any act or omission if such Indemnitee acted in good faith.

(b) Subject to its obligations and duties as General Partner set forth in Section 7.1(a), the General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents, and the General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by the General Partner in good faith.

(c) To the extent that, at law or in equity, an Indemnitee or Employee has duties (including fiduciary duties) and liabilities relating thereto to the Partnership or to the Partners, the General Partner and any other Indemnitee or Employee acting in connection with the Partnership's business or affairs shall not be liable to the Partnership or to any Partner for its good faith reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they restrict or otherwise modify the duties and liabilities of an Indemnitee otherwise existing at law or in equity, are agreed by the Partners to replace such other duties and liabilities of such Indemnitee.

(d) Any amendment, modification or repeal of this Section 7.8 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability to the Partnership, the Limited Partners, the General Partner, and the Partnership's and General Partner's directors, officers and employees under this Section 7.8 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

SECTION 7.9. Resolution of Conflicts of Interest.

(a) Unless otherwise expressly provided in this Agreement, whenever a potential conflict of interest exists or arises between the General Partner or any of its Affiliates, on the one hand, and the Partnership, any Partner or any Assignee, on the other, any resolution or course of action by the General Partner or its Affiliates in respect of such conflict of interest shall be permitted and deemed approved by all Partners, and shall not constitute a breach of this Agreement, of any agreement contemplated herein, or of any duty stated or implied by law or equity, if the resolution or course of action is, or by operation of this Agreement is deemed to be, fair and reasonable to the Partnership. The General Partner shall be authorized but not required in connection with its resolution of such conflict of interest to seek Special Approval of such resolution. Any conflict of interest and any resolution of such conflict of interest shall be conclusively deemed fair and reasonable to the Partnership if such conflict of interest or resolution is (i) approved by Special Approval (as long as the material facts known to the General Partner or any of its Affiliates regarding any proposed transaction were disclosed to the Advisory Committee at the time it gave its approval), (ii) on terms no less favorable to the Partnership than those generally being provided to or available from unrelated third parties, or (iii) fair to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership). The General Partner may also adopt a resolution or course of action that has not received Special Approval, and the General Partner shall not be required to seek a Special Approval on any matter unless expressly required elsewhere in this Agreement. The General Partner (including the Advisory Committee in connection with any Special Approval) shall be authorized in connection with its determination of what is "fair and reasonable" to the Partnership and in connection with its resolution of any conflict of interest to consider (A) the relative interests of any party to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interest; (B) any customary or accepted industry practices and any customary or historical dealings with a particular Person; (C) any applicable generally accepted accounting practices or principles; and (D) such additional factors as the General Partner (including the Advisory Committee) determines in its sole discretion to be relevant, reasonable or appropriate under the circumstances. Nothing contained in this Agreement, however, is intended to nor shall it be construed to require the General Partner (including the Advisory Committee) to consider the interests of any Person other than the Partnership. In the absence of bad faith by the General Partner, the resolution, action or terms so made, taken or provided by the General Partner with respect to such matter shall not constitute a breach of this Agreement or any other agreement contemplated herein or a breach of any standard of care or duty imposed herein or therein or, to the extent permitted by law, under the Delaware Act or any other law, rule or regulation.

(b) Whenever this Agreement or any other agreement contemplated hereby provides that the General Partner or any of its Affiliates is permitted or required to make a decision (i) in its "sole discretion" or "discretion," that it deems "necessary or appropriate" or "necessary or advisable" or under a grant of similar authority or latitude, except as otherwise provided herein, the General Partner or such Affiliate shall be entitled to consider only such interests and factors as it desires and shall have no duty or obligation to give any consideration to any interest of or factors affecting, the Partnership, any Limited Partner or any Assignee, (ii) it may make such decision in its sole discretion (regardless of whether there is a reference to "sole discretion" or "discretion") unless another express standard is provided for, or (iii) in "good faith" or under another express standard, the General Partner or such Affiliate shall act under such express standard and shall not be subject to any other or different standards imposed by this Agreement, any other agreement contemplated hereby or under the Delaware Act or any other law, rule or regulation. In addition, any actions taken by the General Partner or such Affiliate consistent with authorization, in the

definition of Available Cash, of the General Partner's exercise of "reasonable discretion" shall not constitute a breach of any duty of the General Partner to the Partnership or the Limited Partners. The General Partner shall have no duty, express or implied, to sell or otherwise dispose of any asset of the Partnership other than in the ordinary course of business.

(c) Whenever a particular transaction, arrangement or resolution of a conflict of interest is required under this Agreement to be "fair and reasonable" to any Person, the fair and reasonable nature of such transaction, arrangement or resolution shall be considered in the context of all similar or related transactions.

SECTION 7.10. Other Matters Concerning the General Partner.

(a) The General Partner and its Affiliates may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) The General Partner and its Affiliates may consult with legal counsel, accountants, appraisers, management consultants, investment bankers, engineers and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the opinion (including an Opinion of Counsel) of such Persons as to matters that the General Partner or Affiliate reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

(c) The General Partner shall have the right, in respect of any of its powers or obligations hereunder, to act through any of its duly authorized officers, a duly appointed attorney or attorneys-in-fact or the duly authorized officers of the Partnership or the Operating Subsidiary, its general partner or its duly authorized officers.

(d) Any standard of care and duty imposed by this Agreement or under the Delaware Act or any applicable law, rule or regulation shall be modified, waived or limited to the extent permitted by law, as required to permit the General Partner and its Affiliates to act under this Agreement or any other agreement contemplated by this Agreement and to make any decision pursuant to the authority prescribed in this Agreement, so long as such action is reasonably believed by the General Partner to be in, or not inconsistent with, the best interests of the Partnership.

SECTION 7.11. Purchase or Sale of Partnership Securities.

The General Partner may cause the Partnership to purchase or otherwise acquire Partnership Securities. The General Partner or any Affiliate of the General Partner may also purchase or otherwise acquire and sell or otherwise dispose of Partnership Securities for its own account, subject to the provisions of Articles IV and X.

SECTION 7.12. Registration Rights of the General Partner and its Affiliates.

(a) If (i) the General Partner or any Affiliate of the General Partner (including for purposes of this Section 7.12, any Person that is an Affiliate of the General Partner at the date of this Agreement notwithstanding that it may later cease to be an Affiliate of the General Partner) holds Partnership Securities that it desires to sell and (ii) Rule 144 of the Securities Act (or any

successor rule or regulation to Rule 144) or another exemption from registration is not available to enable such holder of Partnership Securities (the "Holder") to dispose of the number of Partnership Securities it desires to sell at the time it desires to do so without registration under the Securities Act, then upon the request of the General Partner or any of its Affiliates, the Partnership shall file with the Commission as promptly as practicable after receiving such request, and use all reasonable efforts to cause to become effective and remain effective for a period of not less than six months following its effective date or such shorter period as shall terminate when all Partnership Securities covered by such registration statement have been sold, a registration statement under the Securities Act registering the offering and sale of the number of Partnership Securities specified by the Holder; provided, however, that the Partnership shall not be required to effect more than three registrations pursuant to this Section 7.12(a); and provided further, that if the Advisory Committee determines in its good faith judgment that a postponement of the requested registration for up to six months would be in the best interests of the Partnership and its Partners due to a pending transaction, investigation or other event, the filing of such registration statement or the effectiveness thereof may be deferred for up to six months, but not thereafter. In connection with any registration pursuant to the immediately preceding sentence, the Partnership shall promptly prepare and file (x) such documents as may be necessary to register or qualify the securities subject to such registration under the securities laws of such states as the Holder shall reasonably request; provided, however, that no such qualification shall be required in any jurisdiction where, as a result thereof, the Partnership would become subject to general service of process or to taxation or qualification to do business as a foreign corporation or partnership doing business in such jurisdiction solely as a result of such registration, and (y) such documents as may be necessary to apply for listing or to list the Partnership Securities subject to such registration on such National Securities Exchange as the Holder shall reasonably request, and do any and all other acts and things that may reasonably be necessary or advisable to enable the Holder to consummate a public sale of such Partnership Securities in such states. Except as set forth in Section 7.12(c), all costs and expenses of any such registration and offering (other than the underwriting discounts and commissions) shall be paid by the Partnership, without reimbursement by the Holder.

(b) If the Partnership shall at any time propose to file a registration statement under the Securities Act for an offering of equity securities of the Partnership for cash (other than an offering relating solely to an employee benefit plan), the Partnership shall use all reasonable efforts to include such number or amount of securities held by the Holder in such registration statement as the Holder shall request. If the proposed offering pursuant to this Section 7.12(b) shall be an underwritten offering, then, in the event that the managing underwriter or managing underwriters of such offering advise the Partnership and the Holder in writing that in their opinion the inclusion of all or some of the Holder's Partnership Securities would adversely and materially affect the success of the offering, the Partnership shall include in such offering only that number or amount, if any, of securities held by the Holder which, in the opinion of the managing underwriter or managing underwriters, will not so adversely and materially affect the offering. Except as set forth in Section 7.12(c), all costs and expenses of any such registration and offering (other than the underwriting discounts and commissions) shall be paid by the Partnership, without reimbursement by the Holder.

(c) If underwriters are engaged in connection with any registration referred to in this Section 7.12, the Partnership shall provide indemnification, representations, covenants, opinions and other assurance to the underwriters in form and substance reasonably satisfactory to such underwriters. Further, in addition to and not in limitation of the Partnership's obligation under Section 7.7, the Partnership shall, to the fullest extent, permitted by law, indemnify and hold

harmless the Holder, its officers, directors and each Person who controls the Holder (within the meaning of the Securities Act) and any agent thereof (collectively, "Indemnified Persons") against any losses, claims, demands, actions, causes of action, assessments, damages, liabilities (joint or several), costs and expenses (including interest, penalties and reasonable attorneys' fees and disbursements), resulting to, imposed upon, or incurred by the Indemnified Persons, directly or indirectly, under the Securities Act or otherwise (hereinafter referred to in this Section 7.12(c) as a "Claim" and in the plural as "Claims") based upon, arising out of or resulting from any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which any Partnership Securities were registered under the Securities Act or any state securities or Blue Sky laws, in any preliminary prospectus (if used prior to the effective date of such registration statement), or in any summary or final prospectus or in any amendment or supplement thereto (if used during the period the Partnership is required to keep the registration statement current), or arising out of, based upon or resulting from the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein not misleading; provided, however, that the Partnership shall not be liable to any Indemnified Person to the extent that any such Claim arises out of, is based upon or results from an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, such preliminary, summary or final prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Partnership by or on behalf of such Indemnified Person specifically for use in the preparation thereof.

(d) The provisions of Section 7.12(a) and 7.12(b) shall continue to be applicable with respect to the General Partner (and any of the General Partner's Affiliates) after it ceases to be a Partner of the Partnership, during a period of two years subsequent to the effective date of such cessation and for so long thereafter as is required for the Holder to sell all of the Partnership Securities with respect to which it has requested during such two-year period inclusion in a registration statement otherwise filed or that a registration statement be filed; provided, however, that the Partnership shall not be required to file successive registration statements covering the same Partnership Securities for which registration was demanded during such two-year period. The provisions of Section 7.12(c) shall continue in effect thereafter.

(e) Any request to register Partnership Securities pursuant to this Section 7.12 shall (i) specify the Partnership Securities intended to be offered and sold by the Person making the request, (ii) express such Person's present intent to offer such shares for distribution, (iii) describe the nature or method of the proposed offer and sale of Partnership Securities, and (iv) contain the undertaking of such Person to provide all such information and materials and take all action as may be required in order to permit the Partnership to comply with all applicable requirements in connection with the registration of such Partnership Securities.

SECTION 7.13. Reliance by Third Parties.

Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner (and its general partner, if applicable) and any officer of the General Partner (or its general partner, if applicable) authorized by the General Partner (or its general partner, if applicable) to act on behalf of and in the name of the Partnership has full power and authority to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any authorized contracts on behalf of the Partnership, and such Person shall be entitled to deal with the General Partner or any such officer as if it were the Partnership's sole party in interest, both legally and beneficially. Each Limited

Partner hereby waives any and all defenses or other remedies that may be available against such Person to contest, negate or disaffirm any action of the General Partner or any such officer in connection with any such dealing. In no event shall any Person dealing with the General Partner or any such officer or its representatives be obligated to ascertain that the terms of the Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or any such officer or its representatives. Each and every certificate, document or other instrument executed on behalf of the Partnership by the General Partner (or its general partner, if applicable) or its representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership, and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

SECTION 7.14. Officers; Compensation; Terms.

(a) Officers. The General Partner may designate one or more individuals to serve as officers of the Partnership. The Partnership shall have such officers as the General Partner may from time to time determine, which officers may (but need not) include a President, a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer, one or more Vice Presidents (and in case of each such Vice President, with such descriptive title, if any, as the General Partner shall deem appropriate), a Secretary, a Treasurer, a Controller and one or more Assistant Secretaries and Assistant Treasurers. Any two or more offices may be held by the same person.

(b) Compensation. No officer of the Partnership will be compensated for serving as an officer or employee of the Partnership, but such Persons may hold positions with the General Partner or one or more of its Affiliates and may be compensated thereby and such compensation may be reimbursed by the Partnership as Management Expenses or charged against any ORRI as Production Costs.

(c) Term of Office; Removal; Filling of Vacancies. Each officer of the Partnership shall hold office until his successor is chosen and qualified in his stead or until his earlier death, resignation, retirement, disqualification or removal from office. Any officer designated by the General Partner may be removed at any time by the General Partner whenever in its judgment the best interests of the Partnership will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Designation of an officer shall not of itself create contract rights. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the General Partner.

(d) Powers and Duties. The several officers of the Partnership shall perform such duties and services and exercise such further powers as may be provided by statute, the Certificate of Formation or this Agreement or as the General Partner may from time to time determine or as may be assigned to them by any competent superior officer.

(e) Limitations on Powers and Duties of Officers. Notwithstanding the foregoing especially enumerated duties, services, and powers, the several officers of the Partnership shall not have the power and authority to cause the Partnership to take any action that requires the approval of the Limited Partners pursuant to Section 7.3 unless the Limited Partners have specifically approved such action.

ARTICLE VIII.

BOOKS, RECORDS, ACCOUNTING, AND REPORTS

SECTION 8.1. Records and Accounting.

The General Partner shall keep or cause to be kept at the principal office of the Partnership appropriate books and records with respect to the Partnership's business, including all books and records necessary to provide to the Limited Partners any information required to be provided pursuant to Section 3.4(a). Any books and records maintained by or on behalf of the Partnership in the regular course of its business, including the record of the Record Holders and Assignees of Units or other Partnership Securities, books of account and records of Partnership proceedings, may be kept on, or be in the form of, computer disks, hard drives, punch cards, magnetic tape, photographs, micrographics or any other information storage device; provided, that the books and records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for financial reporting purposes, on an accrual basis in accordance with U.S. GAAP.

SECTION 8.2. Fiscal Year.

The fiscal year of the Partnership shall be a fiscal year ending December 31.

SECTION 8.3. Reports.

(a) As soon as practicable, but in no event later than 120 days after the close of each fiscal year of the Partnership, the General Partner shall cause to be mailed or furnished to each Record Holder of a Unit as of a date selected by the General Partner in its discretion, an annual report containing financial statements of the Partnership for such fiscal year of the Partnership, presented in accordance with U.S. GAAP, including a balance sheet and statements of operations, Partnership equity and cash flows, such statements to be audited by a firm of independent public accountants selected by the General Partner.

(b) To the extent required by applicable law, regulation or rule of any National Securities Exchange on which the Units are listed for trading, as soon as practicable, but in no event later than 90 days after the close of each Quarter except the last Quarter of each fiscal year, the General Partner shall cause to be mailed or furnished to each Record Holder of a Unit, as of a date selected by the General Partner in its discretion, a report containing unaudited financial statements of the Partnership and such other information as may be required by applicable law, regulation or rule of any National Securities Exchange on which the Units are listed for trading, or as the General Partner determines to be necessary or appropriate.

ARTICLE IX.

TAX MATTERS

SECTION 9.1. Tax Returns and Information.

The Partnership shall timely file all returns of the Partnership that are required for federal, state, and local income tax purposes on the basis of the accrual method and a taxable year ending on December 31. The tax information reasonably required by Record Holders for federal and state income tax reporting purposes with respect to a taxable year shall be furnished to them within 90 days of the close of the calendar year in which the Partnership's taxable year ends. The classification, realization, and recognition of income, gain, losses, and deductions and other items shall be on the accrual method of accounting for federal income tax purposes.

SECTION 9.2. Tax Elections.

(a) The Partnership shall make the election under Section 754 of the Code in accordance with applicable regulations thereunder, subject to the reservation of the right to seek to revoke any such election upon the General Partner's determination that such revocation is in the best interests of the Limited Partners. Notwithstanding any other provision herein contained, for the purposes of computing the adjustments under Section 743(b) of the Code, the General Partner shall be authorized (but not required) to adopt a convention whereby the price paid by a transferee of a Limited Partner Interest will be deemed to be the lowest quoted closing price of the Limited Partner Interests on any National Securities Exchange on which such Limited Partner Interests are traded during the calendar month in which such transfer is deemed to occur pursuant to Section 6.2(i) without regard to the actual price paid by such transferee.

(b) The Partnership shall elect to deduct expenses incurred in organizing the Partnership ratably over a sixty-month period as provided in Section 709 of the Code.

(c) Except as otherwise provided herein, the General Partner shall determine whether the Partnership should make any other elections permitted by the Code.

SECTION 9.3. Tax Controversies.

Subject to the provisions hereof, the General Partner is designated as the Tax Matters Partner (as defined in the Code) and is authorized and required to represent the Partnership (at the Partnership's expense) in connection with all examinations of the Partnership's affairs by tax authorities, including resulting administrative and judicial proceedings, and to expend Partnership funds for professional services and costs associated therewith. Each Partner agrees to cooperate with the General Partner and to do or refrain from doing any or all things reasonably required by the General Partner to conduct such proceedings.

SECTION 9.4. Withholding.

Notwithstanding any other provision of this Agreement, the General Partner is authorized to take any action that it determines in its discretion to be necessary or appropriate to cause the Partnership to comply with any withholding requirements established under the Code or any other federal, state or local law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Partnership is required or elects to withhold and pay over to any taxing authority any amount resulting from the allocation or distribution of income to any Partner or Assignee (including, without limitation, by reason of Section 1446 of the Code), the amount withheld may at the discretion of the General Partner be treated by the Partnership as a distribution of cash pursuant to Section 6.3 in the amount of such withholding from such Partner.

ARTICLE X.

ADMISSION OF PARTNERS

SECTION 10.1. Admission of Initial Limited Partners.

Upon the issuance by the Partnership of Common Units to the limited partners of Republic and Spinnaker and to the partners of DHL as described in the Combination Agreement in connection with the Combination, each such recipient of Common Units shall have the rights of an Assignee. Upon the execution of each such party of a Transfer Application, the General Partner shall admit such parties to the Partnership as "Initial Limited Partners" in respect of the Common Units issued to them.

SECTION 10.2. Admission of Substituted Limited Partner.

By transfer of a Limited Partner Interest in accordance with Article IV, the transferor shall be deemed to have given the transferee the right to seek admission as a Substituted Limited Partner subject to the conditions of, and in the manner permitted under, this Agreement. A transferor of a Certificate representing a Limited Partner Interest shall, however, only have the authority to convey to a purchaser or other transferee who does not execute and deliver a Transfer Application (a) the right to negotiate such Certificate to a purchaser or other transferee and (b) the right to transfer the right to request admission as a Substituted Limited Partner to such purchaser or other transferee in respect of the transferred Limited Partner Interests. Each transferee of a Limited Partner Interest (including any nominee holder or an agent acquiring such Limited Partner Interest for the account of another Person) who executes and delivers a Transfer Application shall, by virtue of such execution and delivery, be an Assignee and be deemed to have applied to become a Substituted Limited Partner with respect to the Limited Partner Interests so transferred to such Person. Such Assignee shall become a Substituted Limited Partner (x) at such time as the General Partner consents thereto, which consent may be given or withheld in the General Partner's discretion, and (y) when any such admission is shown on the books and records of the Partnership. If such consent is withheld, such transferee shall be an Assignee. An Assignee shall have an interest in the Partnership equivalent to that of a Limited Partner with respect to allocations and distributions, including liquidating distributions, of the Partnership. With respect to voting rights attributable to Limited Partner Interests that are held by Assignees, the General Partner shall be deemed to be the Limited Partner with respect thereto and shall, in exercising the voting rights in respect of such Limited Partner Interests on any matter, vote such Limited Partner Interests at the written direction of the Assignee who is the Record Holder of such Limited Partner Interests. If no such written direction is received, such Limited Partner Interests will not be voted. An Assignee shall have no other rights of a Limited Partner.

SECTION 10.3. Admission of Successor General Partner.

A successor General Partner approved pursuant to Section 11.1 or 11.2 or the transferee of or successor to all of the General Partner Interest pursuant to Section 4.6 who is proposed to be admitted as a successor General Partner shall be admitted to the Partnership as the General Partner, effective immediately prior to the withdrawal or removal of the predecessor or transferring General Partner pursuant to Section 11.1 or 11.2 or the transfer of the General Partner Interest pursuant to Section 4.6; provided, however, that no such successor shall be admitted to the Partnership until compliance with the terms of Section 4.6 has occurred and such successor

has executed and delivered such other documents or instruments as may be required to effect such admission. Any such successor shall, subject to the terms hereof, carry on the business of the members of the Partnership Group without dissolution.

SECTION 10.4. Admission of Additional Limited Partners.

(a) A Person (other than the General Partner, an Initial Limited Partner or a Substituted Limited Partner) who makes a Capital Contribution to the Partnership in accordance with this Agreement shall be admitted to the Partnership as an Additional Limited Partner only upon furnishing to the General Partner (i) evidence of acceptance in form satisfactory to the General Partner of all of the terms and conditions of this Agreement, including the power of attorney granted in Section 2.6, and (ii) such other documents or instruments as may be required in the discretion of the General Partner to effect such Person's admission as an Additional Limited Partner.

(b) Notwithstanding anything to the contrary in this Section 10.4, no Person shall be admitted as an Additional Limited Partner without the consent of the General Partner, which consent may be given or withheld in the General Partner's discretion. The admission of any Person as an Additional Limited Partner shall become effective on the date upon which the name of such Person is recorded as such in the books and records of the Partnership, following the consent of the General Partner to such admission.

SECTION 10.5. Amendment of Agreement and Certificate of Limited Partnership.

To effect the admission to the Partnership of any Partner, the General Partner shall take all steps necessary and appropriate under the Delaware Act to amend the records of the Partnership to reflect such admission and, if necessary, to prepare as soon as practicable an amendment to this Agreement and, if required by law, the General Partner shall prepare and file an amendment to the Certificate of Limited Partnership, and the General Partner may for this purpose, among others, exercise the power of attorney granted pursuant to Section 2.6.

ARTICLE XI.

WITHDRAWAL OR REMOVAL OF PARTNERS

SECTION 11.1. Withdrawal of the General Partner.

(a) The General Partner shall be deemed to have withdrawn from the Partnership upon the occurrence of any one of the following events (each such event herein referred to as an "Event of Withdrawal");

(i) The General Partner voluntarily withdraws from the Partnership by giving written notice to the other Partners (and it shall be deemed that the General Partner has withdrawn pursuant to this Section 11.1(a)(i) if the General Partner voluntarily withdraws as general partner of the Partnership);

(ii) The General Partner transfers all of its rights as General Partner pursuant to Section 4.6;

(iii) The General Partner is removed pursuant to Section 11.2;

(iv) The General Partner (A) makes a general assignment for the benefit of creditors; (B) files a voluntary bankruptcy petition for relief under Chapter 7 of the United States Bankruptcy Code; (C) files a petition or answer seeking for itself a liquidation, dissolution or similar relief (but not a reorganization) under any law; (D) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the General Partner in a proceeding of the type described in clauses (A)-(C) of this Section 11.1(a)(iv); or (E) seeks, consents to or acquiesces in the appointment of a trustee (but not a debtor-in-possession), receiver or liquidator of the General Partner or of all or any substantial part of its properties;

(v) A final and non-appealable order of relief under Chapter 7 of the United States Bankruptcy Code is entered by a court with appropriate jurisdiction pursuant to a voluntary or involuntary petition by or against the General Partner; or

(vi) (A) in the event the General Partner is a corporation, a certificate of dissolution or its equivalent is filed for the General Partner, or 90 days expire after the date of notice to the General Partner of revocation of its charter without a reinstatement of its charter, under the laws of its state of incorporation; (B) in the event the General Partner is a partnership or a limited liability company, the dissolution and commencement of winding up of the General Partner; (C) in the event the General Partner is acting in such capacity by virtue of being a trustee of a trust, the termination of the trust; (D) in the event the General Partner is a natural person, his death or adjudication of incompetency; and (E) otherwise in the event of the termination of the General Partner.

If an Event of Withdrawal specified in Section 11.1(a)(iv), (v) or (vi)(A), (B), (C) or (E) occurs, the withdrawing General Partner shall give notice to the Limited Partners within 30 days after such occurrence. The Partners hereby agree that only the Events of Withdrawal described in this Section 11.1 shall result in the withdrawal of the General Partner from the Partnership.

(b) Withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall not constitute a breach of this Agreement under the following circumstances: (i) at any time during the period beginning on the Closing Date and ending at 12:00 midnight, Central Standard Time, on December 31, 2010, the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partners; provided that prior to the effective date of such withdrawal, the withdrawal is approved by Unitholders holding at least a majority of the Outstanding Common Units (excluding any Partnership Units held by the General Partner and its Affiliates), and the General Partner delivers to the Partnership an Opinion of Counsel ("Withdrawal Opinion of Counsel") that such withdrawal (following the selection of the successor General Partner) would not result in the loss of the limited liability of any Limited Partner or cause the Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not previously treated as such); (ii) at any time after 12:00 midnight, Central Standard Time, on December 31, 2010, the General Partner voluntarily withdraws by giving at least 90 days' advance notice to the Unitholders, such withdrawal to take effect on the date specified in such notice; (iii) at any time that the General Partner ceases to be the General Partner pursuant to Section 11.1(a)(ii) or is removed pursuant to Section 11.2; (iv) notwithstanding clause (i) of this sentence, at any time that the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited

Partners, such withdrawal to take effect on the date specified in the notice, if at the time such notice is given one Person and its Affiliates (other than the General Partner and its Affiliates) own beneficially or of record or control at least 50% of the Outstanding Common Units; or [(v) at any time after the effectiveness of a Limited Partner Amendment, the General Partner voluntarily withdraws by giving at least [30] days' advance notice to the Unitholders, such withdrawal to take effect on the date specified in such notice. If the General Partner gives a notice of withdrawal pursuant to Section 11.1(a)(i), the holders of a Unit Majority, may, prior to the effective date of such withdrawal, elect a successor General Partner. If, prior to the effective date of the General Partner's withdrawal, a successor is not selected by the Unitholders as provided herein or the Partnership does not receive a Withdrawal Opinion of Counsel, the Partnership shall be dissolved in accordance with Section 12.1. Any successor General Partner elected in accordance with the terms of this Section 11.1 shall be subject to the provisions of Section 10.3.

SECTION 11.2. Removal of the General Partner.

The General Partner may be removed if such removal is approved by the Unitholders holding at least a Unit Majority (including Units held by the General Partner and its Affiliates). Any such action by such holders for removal of the General Partner must also provide for the election of a successor General Partner by the Unitholders holding a Unit Majority (including Units held by the General Partner and its Affiliates). Such removal shall be effective immediately following the admission of a successor General Partner pursuant to Section 10.3. The right of the holders of Outstanding Units to remove the General Partner shall not exist or be exercised unless the Partnership has received an opinion opining as to the matters covered by a Withdrawal Opinion of Counsel. Any successor General Partner elected in accordance with the terms of this Section 11.2 shall be subject to the provisions of Section 10.3.

SECTION 11.3. Interest of Departing Partner and Successor General Partner.

(a) In the event of (i) withdrawal of the General Partner under circumstances where such withdrawal does not violate this Agreement or (ii) removal of the General Partner by the holders of Outstanding Units where Cause does not exist, if a successor General Partner is elected in accordance with the terms of Section 11.1 or Section 11.2, the Departing Partner shall have the option exercisable prior to the effective date of departure of such Departing Partner to require its successor to purchase its General Partner Interest and either (A) purchase all of the equity interests of the Operating Subsidiary or (B) purchase all of the assets of the Operating Subsidiary and assume all of its liabilities (collectively, the "Combined Interest") in exchange for an amount equal to the fair market value of such Combined Interest, such amount to be determined and payable as of the effective date of its departure. If the General Partner is removed by the Unitholders under circumstances where Cause exists or if the General Partner withdraws under circumstances where such withdrawal violates this Agreement, and if a successor General Partner is elected in accordance with the terms of Section 11.1 or Section 11.2, such successor shall have the option, exercisable prior to the effective date of the departure of such Departing Partner, to purchase the Combined Interest for such fair market value of such Combined Interest. In either event, the Departing Partner shall be entitled to receive all reimbursements due such Departing Partner pursuant to Section 7.4, including any employee-related liabilities (including severance liabilities), incurred in connection with the termination of any employees employed by the General Partner for the benefit of the Partnership.

For purposes of this Section 11.3, the fair market value of the Combined Interest shall be determined by agreement between the Departing Partner and its successor or, failing agreement

within 30 days after the effective date of such Departing Partner's departure, by an independent investment banking firm or other independent expert selected by the Departing Partner and its successor, which, in turn, may rely on other experts, and the determination of which shall be conclusive as to such matter. If such parties cannot agree upon one independent investment banking firm or other independent expert within 45 days after the effective date of such departure, then the Departing Partner shall designate an independent investment banking firm or other independent expert, the Departing Partner's successor shall designate an independent investment banking firm or other independent expert, and such firms or experts shall mutually select a third independent investment banking firm or independent expert, which third independent investment banking firm or other independent expert shall determine the fair market value of the respective interest or assets. In making its determination, such third independent investment banking firm or other independent expert may consider the then current trading price of Units on any National Securities Exchange on which Units are then listed, the value of the Partnership's assets, including assets held by subsidiaries, the rights and obligations of the Departing Partner, and other factors it may deem relevant.

(b) If a successor General Partner is elected in accordance with the terms of Section 11.1 or Section 11.2 and the Combined Interest is not purchased in the manner set forth in Section 11.3(a), then the following shall apply:

(i) The Departing Partner (or its transferee) shall become a Limited Partner and its General Partner Interest shall be converted into Common Units having a value equal to the value of the General Partner Interest as determined pursuant to a valuation made by an investment banking firm or other independent expert selected pursuant to Section 11.3(a), without reduction in such Partnership Interests (but subject to proportionate dilution by reason of the admission of its successor), which valuation shall take into account the Percentage Interest attributable to the General Partner Interest. Any successor General Partner shall indemnify the Departing Partner (or its transferee) as to all debts and liabilities of the Partnership arising on or after the date on which the Departing Partner (or its transferee) becomes a Limited Partner. For purposes of this Agreement, conversion of the General Partner Interest to Common Units will be characterized as if the General Partner (or its transferee) contributed its General Partner Interest to the Partnership in exchange for the newly issued Common Units.

(ii) The successor General Partner shall, at the effective date of its admission to the Partnership, contribute to the Partnership cash in the amount equal to 1/199th of the Net Agreed Value of the Partnership's assets on such date. In such event, such successor General Partner shall be entitled to a 0.5% Percentage Interest in the Partnership.

(iii) Upon such conversion of the Departing Partner's General Partner Interest and the admission of the successor General Partner, this Agreement shall be amended to reflect such conversion and to provide for the issuance of the new General Partner Interest to the successor General Partner.

(iv) The successor General Partner shall be obligated to buy, and the Departing Partner shall be obligated to sell to the successor General Partner, all of the equity interests in the Operating Subsidiary for an amount equal to the fair market value thereof, determined using the methodology provided for in the last paragraph of Section 11.3(a).

SECTION 11.4. Withdrawal of Limited Partners.

No Limited Partner shall have any right to withdraw from the Partnership; provided, however, that when a transferee of a Limited Partner's Limited Partner Interest becomes a Record Holder of the Limited Partner Interest so transferred, such transferring Limited Partner shall cease to be a Limited Partner with respect to the Limited Partner Interest so transferred.

ARTICLE XII.

DISSOLUTION AND LIQUIDATION

SECTION 12.1. Dissolution.

The Partnership shall not be dissolved by the admission of Substituted Limited Partners or Additional Limited Partners or by the admission of a successor General Partner in accordance with the terms of this Agreement. Upon the removal or withdrawal of the General Partner, if a successor General Partner is elected pursuant to Section 11.1 or 11.2, the Partnership shall not be dissolved and such successor General Partner shall continue the business of the Partnership. The Partnership shall dissolve, and (subject to Section 12.2) its affairs shall be wound up, upon:

(a) an Event of Withdrawal of the General Partner as provided in Section 11.1(a) (other than Section 11.1(a)(ii)), unless a successor is elected and a Withdrawal Opinion of Counsel is received as provided in Section 11.1(b) or 11.2 and such successor is admitted to the Partnership pursuant to Section 10.3;

(b) the approval of the dissolution of the Partnership by the holders of a majority of the Limited Partner Interests.

(c) the entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Delaware Act; or

(d) the sale of all or substantially all of the assets and properties of the Partnership.

SECTION 12.2. Continuation of the Business of the Partnership After Dissolution.

Upon (a) dissolution of the Partnership following an Event of Withdrawal caused by the withdrawal or removal of the General Partner as provided in Section 11.1(a)(i) or (iii) and the failure of the Partners to select a successor to such Departing Partner pursuant to Section 11.1 or 11.2, then within 90 days thereafter, or (b) dissolution of the Partnership upon an event constituting an Event of Withdrawal as defined in Section 11.1(a)(iv), (v) or (vi), then, to the maximum extent permitted by law, within 180 days thereafter, the holders of a Unit Majority may elect to reconstitute the Partnership and continue its business on the same terms and conditions set forth in this Agreement by forming a new limited partnership on terms identical to those set forth in this Agreement and having as the successor general partner a Person approved by the holders of a Unit Majority. Unless such an election is made within the applicable time period as set forth above, the Partnership shall conduct only activities necessary to wind up its affairs. If such an election is so made, then:

(i) the reconstituted Partnership shall continue unless earlier dissolved in accordance with this Article XII;

(ii) if the successor General Partner is not the former General Partner, then the interest of the former General Partner shall be treated in the manner provided in Section 11.3; and

(iii) all necessary steps shall be taken to cancel this Agreement and the Certificate of Limited Partnership and to enter into and, as necessary, to file a new partnership agreement and certificate of limited partnership, and the successor general partner may for this purpose exercise the powers of attorney granted the General Partner pursuant to Section 2.6; provided, that the right of the holders of a Unit Majority to approve a successor General Partner and to reconstitute and to continue the business of the Partnership shall not exist and may not be exercised unless the Partnership has received an Opinion of Counsel that (x) the exercise of the right would not result in the loss of limited liability of any Limited Partner and (y) neither the Partnership, nor the reconstituted limited partnership would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of such right to continue.

SECTION 12.3. Liquidator.

Upon dissolution of the Partnership, unless the Partnership is continued under an election to reconstitute and continue the Partnership pursuant to Section 12.2, the General Partner shall select one or more Persons (which may include the General Partner) to act as Liquidator. The Liquidator (if other than the General Partner) shall be entitled to receive such compensation for its services as may be approved by a Unit Majority. The Liquidator (if other than the General Partner) shall agree not to resign at any time without 15 days' prior notice and may be removed at any time, with or without cause, by notice of removal approved by a Unit Majority. Upon dissolution, removal or resignation of the Liquidator, a successor and substitute Liquidator (who shall have and succeed to all rights, powers, and duties of the original Liquidator) shall within 30 days thereafter be approved by holders of at least a majority of the Outstanding Common Units. The right to approve a successor or substitute Liquidator in the manner provided herein shall be deemed to refer also to any such successor or substitute Liquidator approved in the manner herein provided. Except as expressly provided in this Article XII, the Liquidator approved in the manner provided herein shall have and may exercise, without further authorization or consent of any of the parties hereto, all of the powers conferred upon the General Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual and otherwise, upon the exercise of such powers, other than the limitation on sale set forth in Section 7.3(b)) to the extent necessary or desirable in the good faith judgment of the Liquidator to carry out the duties and functions of the Liquidator hereunder for and during such period of time as shall be reasonably required in the good faith judgment of the Liquidator to complete the winding up and liquidation of the Partnership as provided for herein.

SECTION 12.4. Liquidation.

The Liquidator shall proceed to dispose of the assets of the Partnership, discharge its liabilities, and otherwise wind up its affairs in such manner and over such period as the Liquidator determines to be in the best interest of the Partners, subject to Section 17-804 of the Delaware Act and the following:

(a) Disposition of Assets. The assets may be disposed of by public or private sale or by

distribution in kind to one or more Partners on such terms as the Liquidator and such Partner or Partners may agree. If any property is distributed in kind, the Partner receiving the property shall be deemed for purposes of Section 12.4(c) to have received cash equal to its fair market value; and contemporaneously therewith, appropriate cash distributions must be made to the other Partners. The Liquidator may, in its absolute discretion, defer liquidation or distribution of the Partnership's assets for a reasonable time if it determines that an immediate sale or distribution of all or some of the Partnership's assets would be impractical or would cause undue loss to the Partners. The Liquidator may, in its absolute discretion, distribute the Partnership's assets, in whole or in part, in kind if it determines that a sale would be impractical or would cause undue loss to the Partners.

(b) Discharge of Liabilities. Liabilities of the Partnership include amounts owed to the Liquidator as compensation for serving in such capacity (subject to the terms of Section 12.3) and amounts owed to Partners otherwise than in respect of their distribution rights under Article VI. With respect to any liability that is contingent, conditional or unmatured or is otherwise not yet due and payable, the Liquidator shall either settle such claim for such amount as it thinks appropriate or establish a reserve of cash or other assets to provide for its payment. When paid, any unused portion of the reserve shall be distributed as additional liquidation proceeds.

(c) Liquidation Distributions. All property and all cash in excess of that required to discharge liabilities as provided in Section 12.4(b) shall be distributed to the Partners in accordance with, and to the extent of, the positive balances in their respective Capital Accounts, as determined after taking into account all Capital Account adjustments (other than those made by reason of distributions pursuant to this Section 12.4(c)) for the taxable year of the Partnership during which the liquidation of the Partnership occurs (with such date of occurrence being determined pursuant to Treasury Regulation Section 1.704-1(b)(2)(ii)(g)), and such distribution shall be made by the end of such taxable year (or, if later, within 90 days after said date of such occurrence).

SECTION 12.5. Cancellation of Certificate of Limited Partnership.

Upon the completion of the distribution of Partnership cash and property as provided in Section 12.4 in connection with the liquidation of the Partnership, the Partnership shall be terminated and the Certificate of Limited Partnership and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be canceled and such other actions as may be necessary to terminate the Partnership shall be taken.

SECTION 12.6. Return of Contributions.

The General Partner shall not be personally liable for, and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate, the return of the Capital Contributions of the Limited Partners or Unitholders, or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership assets.

SECTION 12.7. Waiver of Partition.

To the maximum extent permitted by law, each Partner hereby waives any right to partition of the Partnership property.

SECTION 12.8. Capital Account Restoration.

No Partner shall have any obligation to restore any negative balance in its Capital Account upon liquidation of the Partnership.

ARTICLE XIII.

AMENDMENT OF PARTNERSHIP AGREEMENT; MEETINGS; RECORD DATE

SECTION 13.1. Amendment to be Adopted Solely by the General Partner.

Each Partner agrees that the General Partner, without the approval of any Partner or Assignee, may amend any provision of this Agreement and execute, swear to, acknowledge, deliver, file, and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Partnership, the location of the principal place of business of the Partnership, the registered agent of the Partnership or the registered office of the Partnership;

(b) admission, substitution, withdrawal or removal of Partners in accordance with this Agreement;

(c) a change that, in the sole discretion of the General Partner, is necessary or advisable to qualify or continue the qualification of the Partnership as a limited partnership or a partnership in which the Limited Partners have limited liability under the laws of any state or to ensure that the Partnership will not be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

(d) a change that, in the discretion of the General Partner, (i) does not adversely affect the Limited Partners in any material respect, (ii) is necessary or advisable to (A) satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute (including the Delaware Act) or (B) facilitate the trading of the Limited Partner Interests or comply with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Limited Partner Interests are or will be listed for trading, compliance with any of which the General Partner determines in its discretion to be in the best interests of the Partnership and the Limited Partners, (iii) is necessary or advisable in connection with action taken by the General Partner pursuant to Section 5.9, or (iv) is required to effect the intent expressed in the Registration Statement or the intent of the provisions of this Agreement or is otherwise contemplated by this Agreement;

(e) a change in the fiscal year or taxable year of the Partnership and any changes that, in the discretion of the General Partner, are necessary or advisable as a result of a change in the fiscal year or taxable year of the Partnership including, if the General Partner shall so determine, a change in the definition of "Quarter" and the dates on which distributions are to be made by the Partnership;

(f) an amendment that is necessary, in the Opinion of Counsel, to prevent the Partnership, or the General Partner or its directors, officers, trustees or agents from in any manner being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, regardless of whether such are

substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor;

(g) subject to the terms of Section 5.7, an amendment that, in the discretion of the General Partner, is necessary or advisable in connection with the authorization of issuance of any class or series of Partnership Securities pursuant to Section 5.6;

(h) any amendment expressly permitted in this Agreement to be made by the General Partner acting alone;

(i) an amendment effected, necessitated or contemplated by a Merger Agreement approved in accordance with Section 14.3;

(j) an amendment that, in the discretion of the General Partner, is necessary or advisable to reflect, account for and deal with appropriately the formation by the Partnership of, or investment by the Partnership in, any corporation, partnership, joint venture, limited liability company or other entity, in connection with the conduct by the Partnership of activities permitted by the terms of Section 2.4;

(k) a merger or conveyance pursuant to Section 14.3(d); or

(l) any other amendments substantially similar to the foregoing.

SECTION 13.2. Amendment Procedures.

(a) Except as provided in Sections 13.1, 13.2(b) and 13.3, all amendments to this Agreement shall be made in accordance with the following requirements. Amendments to this Agreement may be proposed only by or with the consent of the General Partner which consent may be given or withheld in its sole discretion. A proposed amendment shall be effective upon its approval by the holders of a Unit Majority, unless a greater or different percentage is required under this Agreement or by Delaware law or by the requirements of an applicable National Securities Exchange. Each proposed amendment that requires the approval of the holders of a specified percentage of Outstanding Units shall be set forth in a writing that contains the text of the proposed amendment. If such an amendment is proposed, the General Partner shall seek the written approval of the requisite percentage of Outstanding Units or call a meeting of the Unitholders to consider and vote on such proposed amendment. The General Partner shall notify all Record Holders upon final adoption of any such proposed amendments.

(b) Subject to Section 13.3, this Agreement may be amended with the vote or consent of holders of a Unit Majority, unless a greater or different percentage is required by Delaware law or by the requirements of an applicable National Securities Exchange. The General Partner shall not be required to call a meeting for purposes of such vote, except pursuant to Section 13.4.

SECTION 13.3. Amendment Requirements.

(a) Notwithstanding the provisions of Sections 13.1 and 13.2, no provision of this Agreement that establishes a percentage of Outstanding Units (including Units deemed owned by the General Partner) required to take any action shall be amended, altered, changed, repealed or rescinded in any respect that would have the effect of reducing such voting percentage unless such amendment

is approved by the written consent or the affirmative vote of holders of Outstanding Units whose aggregate Outstanding Units constitute not less than the voting requirement sought to be reduced.

(b) Notwithstanding the provisions of Sections 13.1 and 13.2, no amendment to this Agreement may (i) enlarge the obligations of any Limited Partner without its consent, unless such shall be deemed to have occurred as a result of an amendment approved pursuant to Section 13.3(c), (ii) enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable to, the General Partner or any of its Affiliates without its consent, which consent may be given or withheld in its sole discretion, (iii) change Section 12.1(b), or (iv) change the term of the Partnership or, except as set forth in Section 12.1(b), give any Person the right to dissolve the Partnership.

(c) Except as provided in Section 14.3, and except as otherwise provided, and without limitation of the General Partner's authority to adopt amendments to this Agreement without the approval of any Partners or Assignees as contemplated in Section 13.1, any amendment that would have a material adverse effect on the rights or preferences of any class of Partnership Interests in relation to other classes of Partnership Interests must be approved by the holders of not less than a majority of the Outstanding Partnership Interests of the class affected.

(d) Except as provided in Section 13.1, this Section 13.3 shall only be amended with the approval of the holders of at least 90% of the Outstanding Units.

SECTION 13.4. Special Meetings.

All acts of Limited Partners to be taken pursuant to this Agreement shall be taken in the manner provided in this Article XIII. Special meetings of the Limited Partners may be called by the General Partner or by Limited Partners owning 50% or more of the Outstanding Limited Partner Interests of the class or classes for which a meeting is proposed. Limited Partners shall call a special meeting by delivering to the General Partner one or more requests in writing stating that the signing Limited Partners wish to call a special meeting and indicating the general or specific purposes for which the special meeting is to be called. Within 60 days after receipt of such a call from Limited Partners or within such greater time as may be reasonably necessary for the Partnership to comply with any statutes, rules, regulations, listing, agreements or similar requirements governing the holding of a meeting or the solicitation of proxies for use at such a meeting, the General Partner shall send a notice of the meeting to the Limited Partners either directly or indirectly through the Transfer Agent. A meeting shall be held at a time and place determined by the General Partner on a date not less than 10 days nor more than 60 days after the mailing of notice of the meeting. Limited Partners shall not vote on matters that would cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability under the Delaware Act or the law of any other state in which the Partnership is qualified to do business.

SECTION 13.5. Notice of a Meeting.

Notice of a meeting called pursuant to Section 13.4 shall be given to the Record Holders of the class or classes of Limited Partner Interests for which a meeting is proposed in writing by mail or other means of written communication in accordance with Section 15.1. The notice shall be deemed to have been given at the time when deposited in the mail or sent by other means of written communication.

SECTION 13.6. Record Date.

For purposes of determining the Limited Partners entitled to notice of or to vote at a meeting of the Limited Partners or to give approvals without a meeting as provided in Section 13.11 the General Partner may set a Record Date that shall not be less than 10 nor more than 60 days before (a) the date of the meeting (unless such requirement conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Limited Partner Interests are listed for trading, in which case the rule, regulation, guideline or requirement of such exchange shall govern) or (b) in the event that approvals are sought without a meeting, the date by which Limited Partners are requested in writing by the General Partner to give such approvals.

SECTION 13.7. Adjournment.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting and a new Record Date need not be fixed, if the time and place thereof are announced at the meeting at which the adjournment is taken, unless such adjournment shall be for more than 45 days. At the adjourned meeting, the Partnership may transact any business that might have been transacted at the original meeting. If the adjournment is for more than 45 days or if a new Record Date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in accordance with this Article XIII.

SECTION 13.8. Waiver of Notice; Approval of Meeting; Approval of Minutes.

The transactions of any meeting of Limited Partners, however called and noticed, and whenever held, shall be as valid as if it had occurred at a meeting duly held after regular call and notice, if a quorum is present, either in person or by proxy, and if, either before or after the meeting, Limited Partners representing such quorum who were present in person or by proxy and entitled to vote, sign a written waiver of notice or an approval of the holding of the meeting or an approval of the minutes thereof. All waivers and approvals shall be filed with the Partnership records or made a part of the minutes of the meeting. Attendance of a Limited Partner at a meeting shall constitute a waiver of notice of the meeting, except when the Limited Partner objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened; and except that attendance at a meeting is not a waiver of any right to disapprove the consideration of matters required to be included in the notice of the meeting, but not so included, if the disapproval is expressly made at the meeting.

SECTION 13.9. Quorum.

The holders of a majority of the Outstanding Limited Partner Interests of the class or classes for which a meeting has been called (including Limited Partner Interests deemed owned by the General Partner on behalf of Assignees) represented in person or by proxy shall constitute a quorum at a meeting of Limited Partners of such class or classes unless any such action by the Limited Partners requires approval by holders of a greater percentage of such Limited Partner Interests, in which case the quorum shall be such greater percentage. At any meeting of the Limited Partners duly called and held in accordance with this Agreement at which a quorum is present, the act of Limited Partners holding Outstanding Limited Partner Interests that in the aggregate represent a majority of the Outstanding Limited Partner Interests entitled to vote, present in person or by proxy at such meeting (not including Limited Partner Interests deemed owned by the General Partner on behalf of Assignees for which the written direction contemplated by Section 10.2 has not been received by the General Partner), shall be deemed to

constitute the act of all Limited Partners, unless a greater or different percentage is required with respect to such action under the provisions of this Agreement, in which case the act of the Limited Partners holding Outstanding Limited Partner Interests that in the aggregate represent at least such greater or different percentage shall be required. The Limited Partners present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Limited Partners to leave less than a quorum, if any action taken (other than adjournment) is approved by the required percentage of Outstanding Limited Partner Interests specified in this Agreement. In the absence of a quorum, any meeting of Limited Partners may be adjourned from time to time by the affirmative vote of holders of at least a majority of the Outstanding Limited Partner Interests entitled to vote at such meeting represented either in person or by proxy, but no other business may be transacted, except as provided in Section 13.7.

SECTION 13.10. Conduct of a Meeting.

The General Partner shall have full power and authority concerning the manner of conducting any meeting of the Limited Partners or solicitation of approvals in writing, including the determination of Persons entitled to vote, the existence of a quorum, the satisfaction of the requirements of Section 13.4, the conduct of voting, the validity and effect of any proxies, and the determination of any controversies, votes or challenges arising in connection with or during the meeting or voting. The General Partner shall designate a Person to serve as chairman of any meeting and shall further designate a Person to take the minutes of any meeting. All minutes shall be kept with the records of the Partnership maintained by the General Partner. The General Partner may make such other regulations consistent with applicable law and this Agreement as it may deem advisable concerning the conduct of any meeting of the Limited Partners or solicitation of approvals in writing, including regulations in regard to the appointment of proxies, the appointment and duties of inspectors of votes and approvals, the submission and examination of proxies and other evidence of the right to vote, and the revocation of approvals in writing.

SECTION 13.11. Action Without a Meeting.

If authorized by the General Partner, any action that may be taken at a meeting of the Limited Partners may be taken without a meeting if an approval in writing setting forth the action so taken is signed by Limited Partners owning not less than the minimum percentage of the Outstanding Limited Partner Interests (including Limited Partner Interests deemed owned by the General Partner) that would be necessary to authorize or take such action at a meeting at which all the Limited Partners were present and voted (unless such provision conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Limited Partner Interests are listed for trading, in which case the rule, regulation, guideline or requirement of such exchange shall govern). Prompt notice of the taking of action without a meeting shall be given to the Limited Partners who have not approved in writing. The General Partner may specify that any written ballot submitted to Limited Partners for the purpose of taking any action without a meeting shall be returned to the Partnership within the time period, which shall be not less than 20 days, specified by the General Partner. If a ballot returned to the Partnership does not vote all of the Limited Partner Interests held by the Limited Partners the Partnership shall be deemed to have failed to receive a ballot for the Limited Partner Interests that were not voted. If approval of the taking of any action by the Limited Partners is solicited by any Person other than by or on behalf of the General Partner, the written approvals shall have no force and effect unless and until (a) they are deposited with the Partnership in care of the General Partner, (b) approvals sufficient to take the action proposed are dated as of a date not more than 90 days prior to the date

sufficient approvals are deposited with the Partnership, and (c) an Opinion of Counsel is delivered to the General Partner to the effect that the exercise of such right and the action proposed to be taken with respect to any particular matter (i) will not cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability and (ii) are otherwise permissible under the state statutes then governing the rights, duties, and liabilities of the Partnership and the Partners.

SECTION 13.12. Voting and Other Rights.

(a) Only those Record Holders of the Limited Partner Interests on the Record Date set pursuant to Section 13.6 (and also subject to the limitations contained in the definition of "Outstanding") shall be entitled to notice of, and to vote at, a meeting of Limited Partners or to act with respect to matters as to which the holders of the Outstanding Limited Partner Interests have the right to vote or to act. All references in this Agreement to votes of, or other acts that may be taken by, the Outstanding Limited Partner Interests shall be deemed to be references to the votes or acts of the Record Holders of such Outstanding Limited Partner Interests.

(b) With respect to Limited Partner Interests that are held for a Person's account by another Person (such as a broker, dealer, bank, trust company or clearing corporation, or an agent of any of the foregoing), in whose name such Limited Partner Interests are registered, such other Person shall, in exercising the voting rights in respect of such Limited Partner Interests on any matter, and unless the arrangement between such Persons provides otherwise, vote such Limited Partner Interests in favor of, and at the direction of, the Person who is the beneficial owner, and the Partnership shall be entitled to assume it is so acting without further inquiry. The provisions of this Section 13.12(b) (as well as all other provisions of this Agreement) are subject to the provisions of Section 4.3.

ARTICLE XIV.

MERGER

SECTION 14.1. Authority.

The Partnership may merge or consolidate with one or more corporations, limited liability companies, business trusts or associations, real estate investment trusts, common law trusts or unincorporated businesses, including a general partnership or limited partnership, formed under the laws of the State of Delaware or any other state of the United States of America, pursuant to a written agreement of merger or consolidation ("Merger Agreement") in accordance with this Article XIV.

SECTION 14.2. Procedure for Merger or Consolidation.

Merger or consolidation of the Partnership pursuant to this Article XIV requires the prior approval of the General Partner. If the General Partner shall determine, in the exercise of its discretion, to consent to the merger or consolidation, the General Partner shall approve the Merger Agreement that shall set forth:

(a) The names and jurisdictions of formation or organization of each of the business entities proposing to merge or consolidate;

(b) The name and jurisdiction of formation or organization of the business entity that is to survive the proposed merger or consolidation (the "Surviving Business Entity");

(c) The terms and conditions of the proposed merger or consolidation;

(d) The manner and basis of exchanging or converting the equity securities of each constituent business entity for, or into, cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity; and (i) if any general or limited partner interests, securities or rights of any constituent business entity are not to be exchanged or converted solely for, or into, cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity, the cash, property or general or limited partner interests, rights, securities or obligations of any limited partnership, corporation, trust or other entity (other than the Surviving Business Entity) that the holders of such general or limited partner interests, securities or rights are to receive in exchange for, or upon conversion of, their general or limited partner interests, securities or rights, and (ii) in the case of securities represented by certificates, upon the surrender of such certificates, which cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity or any general or limited partnership, corporation, trust or other entity (other than the Surviving Business Entity), or evidences thereof, are to be delivered;

(e) A statement of any changes in the constituent documents or the adoption of new constituent documents (the articles or certificate of incorporation, articles of trust, declaration of trust, certificate or agreement of limited partnership, operating agreement or other similar charter or governing document) of the Surviving Business Entity to be effected by such merger or consolidation;

(f) The effective time of the merger, which may be the date of the filing of the certificate of merger pursuant to Section 14.4 or a later date specified in or determinable in accordance with the Merger Agreement (provided, that if the effective time of the merger is to be later than the date of the filing of the certificate of merger, the effective time shall be fixed no later than the time of the filing of the certificate of merger and stated therein); and

(g) Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or appropriate by the General Partner.

SECTION 14.3. Approval by Limited Partners of Merger or Consolidation.

(a) Except as provided in Section 14.3(d), the General Partner, upon its approval of the Merger Agreement, shall direct that the Merger Agreement be submitted to a vote of Limited Partners, whether at a special meeting or by written consent, in either case in accordance with the requirements of Article XIII. A copy or a summary of the Merger Agreement shall be included in or enclosed with the notice of a special meeting or the written consent.

(b) Except as provided in Section 14.3(d), the Merger Agreement shall be approved upon receiving the affirmative vote or consent of the holders of a Unit Majority unless the Merger Agreement contains any provision that, if contained in an amendment to this Agreement, the provisions of this Agreement or the Delaware Act would require for its approval the vote or consent of a greater percentage of the Outstanding Limited Partner Interests or of any class of

Limited Partners, in which case such greater percentage vote or consent shall be required for approval of the Merger Agreement.

(c) Except as provided in Section 14.3(d), after such approval by vote or consent of the Limited Partners, and at any time prior to the filing of the certificate of merger pursuant to Section 14.4, the merger or consolidation may be abandoned pursuant to provisions therefor, if any, set forth in the Merger Agreement.

(d) Notwithstanding anything else contained in this Article XIV or in this Agreement, the General Partner is permitted, in its discretion, without Limited Partner approval, (i) to merge the Partnership into, or convey all of the Partnership's assets to, another limited liability entity that shall be newly formed and shall have no assets, liabilities or operations at the time of such Merger other than those it receives from the Partnership or (ii) to convert the Partnership into another limited liability entity in accordance with Section 17-219 of the Delaware Act if (A) the General Partner has received an Opinion of Counsel that the merger, conveyance or conversion, as the case may be, would not result in the loss of the limited liability of any Limited Partner or any partner in the Partnership or cause the Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not previously treated as such), (B) the sole purpose of such merger, conveyance or conversion is to effect a mere change in the legal form of the Partnership into another limited liability entity, and (C) the governing instruments of the new entity provide the Limited Partners and the General Partner with the same rights and obligations as are herein contained.

SECTION 14.4. Certificate of Merger.

Upon the required approval by the General Partner and the Unitholders of a Merger Agreement, a certificate of merger shall be executed and filed with the Secretary of State of the State of Delaware in conformity with the requirements of the Delaware Act.

SECTION 14.5. Effect of Merger.

(a) At the effective time of the certificate of merger:

(i) all of the rights, privileges, and powers of each of the business entities that has merged or consolidated, and all property, real, personal, and mixed, and all debts due to any of those business entities, and all other things and causes of action belonging to each of those business entities, shall be vested in the Surviving Business Entity and after the merger or consolidation shall be the property of the Surviving Business Entity to the extent they were of each constituent business entity;

(ii) the title to any real property vested by deed or otherwise in any of those constituent business entities shall not revert and is not in any way impaired because of the merger or consolidation;

(iii) all rights of creditors and all liens on or security interests in property of any of those constituent business entities shall be preserved unimpaired; and

(iv) all debts, liabilities, and duties of those constituent business entities shall attach to the Surviving Business Entity and may be enforced against it to the same extent as if the debts, liabilities, and duties had been incurred or contracted by it.

(b) A merger or consolidation effected pursuant to this Article shall not be deemed to result in a transfer or assignment of assets or liabilities from one entity to another.

ARTICLE XV.

GENERAL PROVISIONS

SECTION 15.1. Addresses and Notices.

Any notice, demand, request, report or proxy materials required or permitted to be given or made to a Partner or Assignee under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication to the Partner or Assignee at the address described below. Any notice, payment or report to be given or made to a Partner or Assignee hereunder shall be deemed conclusively to have been given or made, and the obligation to give such notice or report or to make such payment shall be deemed conclusively to have been fully satisfied, upon sending of such notice, payment or report to the Record Holder of such Partnership Securities at his address as shown on the records of the Transfer Agent or as otherwise shown on the records of the Partnership, regardless of any claim of any Person who may have an interest in such Partnership Securities by reason of any assignment or otherwise. An affidavit or certificate of making of any notice, payment or report in accordance with the provisions of this Section 15.1 executed by the General Partner, the Transfer Agent or the mailing organization shall be prima facie evidence of the giving or making of such notice, payment or report. If any notice, payment or report addressed to a Record Holder at the address of such Record Holder appearing on the books and records of the Transfer Agent or the Partnership is returned by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver it, such notice, payment or report and any subsequent notices, payments, and reports shall be deemed to have been duly given or made without further mailing (until such time as such Record Holder or another Person notifies the Transfer Agent or the Partnership of a change in his address) if they are available for the Partner or Assignee at the principal office of the Partnership for a period of one year from the date of the giving or making of such notice, payment or report to the other Partners and Assignees. Any notice to the Partnership shall be deemed given if received by the General Partner at the principal office of the Partnership designated pursuant to Section 2.3. The General Partner may rely and shall be protected in relying on any notice or other document from a Partner, Assignee or other Person if believed by it to be genuine.

SECTION 15.2. Further Action.

The parties shall execute and deliver all documents, provide all information, and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

SECTION 15.3. Binding Effect.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives, and permitted assigns.

SECTION 15.4. Integration.

This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

SECTION 15.5. Creditors.

None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

SECTION 15.6. Waiver.

No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach of any other covenant, duty, agreement or condition.

SECTION 15.7. Counterparts.

This Agreement may be executed in counterparts, all of which together shall constitute an agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature hereto or, in the case of a Person acquiring a Unit, upon accepting the certificate evidencing such Unit or executing and delivering a Transfer Application as herein described, independently of the signature of any other party.

SECTION 15.8. Applicable Law.

This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.

SECTION 15.9. Invalidity of Provisions.

If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained herein shall not be affected thereby.

SECTION 15.10. Consent of Partners.

Each Partner hereby expressly consents and agrees that, whenever in this Agreement it is specified that an action may be taken upon the affirmative vote or consent of less than all of the Partners, such action may be so taken upon the concurrence of less than all of the Partners and each Partner shall be bound by the results of such action.

[Rest of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

GENERAL PARTNER:

DORCHESTER MINERALS MANAGEMENT LP

By: Dorchester Minerals Management LLC

By: -------------------------------

Name: -----------------------------

Title: ----------------------------

ORGANIZATIONAL LIMITED PARTNER:

DORCHESTER MINERALS MANAGEMENT GP LLC

By: --

Name: -------------------------------------

Title: ------------------------------------

LIMITED PARTNERS:

All Limited Partners now and hereafter admitted as Limited Partners of the Partnership, pursuant to powers of attorney now and hereafter executed in favor of, and granted and delivered to the General Partner.

EXHIBIT A

TO THE AGREEMENT OF LIMITED PARTNERSHIP OF
DORCHESTER MINERALS, L.P.
CERTIFICATE EVIDENCING COMMON UNITS
REPRESENTING LIMITED PARTNER INTERESTS IN
DORCHESTER MINERALS, L.P.

No. ____________ ____________ Common Units

In accordance with Section 4.1 of the Agreement of Limited Partnership of Dorchester Minerals, L.P., as amended, supplemented or restated from time to time (the "Partnership Agreement"), Dorchester Minerals, L.P., a Delaware limited partnership (the "Partnership"), hereby certifies that (the "Holder") is the registered owner of Common Units representing limited partner interests in the Partnership (the "Common Units") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed and accompanied by a properly executed application for transfer of the Common Units represented by this Certificate. The rights, preferences, and limitations of the Common Units are set forth in, and this Certificate and the Common Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Partnership Agreement. Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 3738 Oak Lawn Avenue, Dallas, Texas. Capitalized terms used herein but not defined shall have the meanings given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power, and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement, and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

This Certificate shall not be valid far any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated: ______________ DORCHESTER MINERALS, L.P.

Countersigned and Registered by:
as Transfer Agent and Registrar

By: Dorchester Minerals Management LP,
its General Partner

By: Dorchester Minerals Management
GP LLC, its general partner

By:

Authorized Signature

By:

Secretary

[REVERSE OF CERTIFICATE]

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

TEN COM as tenants in common
UNIF GIFT/TRANSFERS MIN ACT Uniform Gifts/Transfers to CD Minors Act
TEN ENT as tenants by the entireties
JT TEN as joint tenants with right of survivorship and not as tenants in common

Additional abbreviations, though not in the above list, may also be used.

FOR VALUE RECEIVED, hereby assigns, conveys, sells, and transfers unto

- --------------------------------- --------------------------------------

(Please print or typewrite name and address of Assignee) (Please insert Social Security or other identifying number of Assignee)

Common Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint as its attorney-in-fact with full power of substitution to transfer the same on the books of Dorchester Minerals, L.P.

Date:

NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

- ------------------------------

(Signature)

- ------------------------------

(Signature)

SIGNATURE(S) MUST BE GUARANTEED BY A MEMBER FIRM OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY SIGNATURE(S) GUARANTEED.

No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Common Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Common Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Common Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Common Units.

EXHIBIT 3.1(a)(i)
TO EXHIBIT 2.1

ASSIGNMENT, CONVEYANCE AND ASSUMPTION AGREEMENT

This Assignment, Conveyance and Assumption Agreement is by and between:

Dorchester Hugoton, Ltd. ("Assignor")
1919 S. Shiloh Road
Suite 600 - LB 48
Garland, Texas 75042

Dorchester Minerals Operating LP ("Assignee")
3738 Oak Lawn Ave.
Dallas, Texas 75219

WHEREAS, Assignor and Assignee are parties to that certain Combination Agreement dated December 13, 2001 (the "Combination Agreement") pursuant to which Assignor is obligated to transfer certain assets to Assignee;

PART I

Assignor, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Assignee, does, subject to reservation by Assignor of a 96.97% net profits overriding royalty as described in Part II herein, hereby GRANT, BARGAIN, ASSIGN, TRANSFER, CONVEY, AND DELIVER, without warranties or covenants of title, express or implied, except as hereinafter set forth, unto Assignee and Assignee's successors and assigns, effective as of 7:00 a.m. local time of the location of the properties herein assigned, on ______________________ (such date and time being referred to herein as the "Effective Date"), the following properties, rights and interests ("Subject Properties"):

(1) All of Assignor's right, title and interest in and to the oil, gas and/or other minerals in, under and that may be produced from, or pursuant to the terms of, the properties, rights and interests described in Exhibit A attached hereto;

(2) All other right, title and interest of Assignor, of whatever kind or character (including, without limitation, interests in oil, gas and mineral leases, overriding royalty interests, fee royalty interests, lease royalty interests, fee mineral interests and other interests), in and to the oil, gas and/or other minerals in, under and that may be produced from the lands described in Exhibit A attached hereto;

(3) All of Assignor's rights, title and interest in, to or under or by virtue of all unitization, communitization and/or pooling agreements, declarations and/or orders (including, but not limited to, all units formed under orders, regulations, rules or other official acts of any federal, state or other governmental agency) which cover or affect the properties, rights and interests described or referred to in Clauses (1) or (2) above, and in and to the properties, rights and interests covered by the units, and/or pooled and/or communitized areas, created thereby;

(4) All of Assignor's rights, title and interest in and to rights under all joint operating agreements, operating agreements, production sales contracts, processing agreements, transportation agreements, gas balancing agreements, farmout agreements, farm in agreements, salt water disposal agreements, area of mutual interest agreements and other contracts and agreements which cover, affect or otherwise relate to the properties, rights and interests described in Clauses (1), (2), or (3) above or to the operation of such properties, rights and interests or to the treating, handling, storing, processing, transporting or marketing of oil, gas or other minerals produced from (or allocated to) such properties, rights and interests;

(5) All of Assignor's interest in and to all real property (including any value derived therefrom), improvements, fixtures, movable or immovable property and other real or personal property (including, without limitation, all wells, pumping units, wellhead equipment, tanks, pipelines, flow lines, gathering lines, compressors, dehydration units, separators, meters, buildings, injection facilities, salt water disposal facilities, and power, telephone and telegraph lines), and all easements, servitudes, rights-of-way, surface leases, licenses, permits and other surface rights, which are now or hereafter used, or held for use directly in connection with, the properties, rights and interests described in Clauses (1), (2) or (3) above, or directly in connection with the operation of such properties, rights and interests, or directly in connection with the treating, handling, storing, processing, transporting or marketing of oil, gas or other minerals produced from (or allocated to) such properties, rights and interests (such assets, subject to the following exclusions, being referred to herein as the "Field Production Tangible Assets"), including, without limitation, the real property and real property interests, and the furniture, fixtures, equipment, computer equipment, hardware and media, supplies, books and records and other tangible assets located at or used in connection with Assignor's offices at or near Rolla, Kansas, and Hooker, Oklahoma, but excluding the real property and real property interests, and the furniture, fixtures, equipment, computer equipment, hardware and media, supplies, books and records and other tangible assets located at or used in connection with Assignor's offices at or near Garland, Texas and Amarillo, Texas and excluding all vehicles, wherever located.

(6) All oil, gas and other minerals produced from or allocated to the properties, rights and interests described in Clauses (1), (2) and/or (3) above, and any products processed or obtained therefrom (herein collectively called the "Production"), together with (i) all proceeds of Production (regardless of whether the severance of the Production to which such proceeds relates occurred on, before or after the Effective Date hereof), other than proceeds of Production that are attributable to periods prior to the Effective Date and that are actually received by Assignor prior to the Effective Date, and (ii) all liens and security interests securing payment of the proceeds from the sale of such Production, including, but not limited to, those liens and security interests provided for under statutes enacted in the jurisdictions in which the Properties are located, or statutes made applicable to the Properties under federal law (or some combination of federal and state law);

(7) All payments of any type received and payments received in lieu of production from the properties, rights and interests described in Clauses (1), (2) and/or (3) above (regardless of whether such payments accrued, and/or the events which gave rise to such payments occurred, on, before or after the Effective Date hereof, other than payments attributable to periods prior to the Effective Date and are actually received by Assignor prior to the Effective Date), including, without limitation, (i) "take or pay" payments and similar payments, (ii) payments received in settlement of or pursuant to a judgment rendered with respect to take or pay or similar obligations or other obligations under a production sales contract, (iii) payments received in buyout or buydown or other settlement of a production sales contract, (iv) payments received under a gas balancing agreement or similar written or oral arrangement, as a result of (or received otherwise in settlement of or pursuant to judgment rendered with respect to) rights held by Seller as a result of Seller (and/or its predecessors in title) taking or having taken less gas from lands covered by a property right or interest described in Clauses (1), (2) and/or (3) above, than their ownership of such property right or interest would entitle them to receive and (v) shut-in rental or royalty payments (the payments described in this Clause (7) being herein called "Payments in Lieu of Production");

(8) All contract rights and choses in action (i.e., rights to enforce contracts or to bring claims thereunder) related to the properties, rights and interests described in Clauses (1) through (7) above (to the extent that the same arise, and/or the events which gave rise to the same occur after the Effective Date hereof, and further regardless of whether same arise under contract, the law or in equity);

(9) All rights, estates, powers and privileges appurtenant to the foregoing rights, interests and properties, including without limitation executive rights (i.e., rights to execute leases), rights to receive bonuses and delay rentals and rights to grant pooling authority; and

(10) All rights, estates, powers and privileges of Assignor appurtenant to any and all of the foregoing rights, interests and properties.

PART II

SAVE AND EXCEPT, there is excepted from this Assignment, Conveyance and Assumption Agreement, and Assignor expressly excepts and reserves unto itself, its representatives and assigns, that certain present vested property right; that is, an overriding royalty interest (the "Overriding Royalty Interest") in and to the Subject Minerals if, as and when produced and saved from the Subject Interests, payable solely out of Gross Proceeds from the Sale of Subject Minerals in an amount equal to 96.97% of the Net Proceeds attributable to the Subject Interests. The Overriding Royalty Interest shall be determined and administered in accordance with the provisions of Sections 1 through 3 of this PART II.

SECTION 1

Definitions

As used in this PART II, the following words, terms or phrases shall have the following meanings:

Section 1.1. "Business Day" means a day on which none of the banks to or from which a payment authorized hereunder may be made are closed as authorized or required by law.

Section 1.2. "Conveyance" means this Assignment, Conveyance and Assumption Agreement.

Section 1.3. "Excess Production Costs" at any point in time means an amount equal to the excess of Production Costs over Gross Proceeds for the period ending with such point and beginning with the end of the most recent Period in which there were Net Proceeds.

Section 1.4. "General and Administrative Costs" means those additional costs, of whatever nature, deemed necessary by Assignee to properly operate and/or manage the Subject Properties under this Conveyance and that are not properly classified as Production Costs. Initially, General and Administrative Costs will be charged on a cents-per-mile or dollars-per-well basis utilizing surveys and escalators normally used in the oil and gas industry; provided, however, that the use of such surveys and escalators shall not act to place a floor or cap on such costs.

Section 1.5. "Gross Proceeds" means the amounts received on or after the Effective Date, generally on the cash method of accounting, by WI Owner, without duplication, from the sale or other disposition of Subject Minerals, subject to the following:

(a) There shall be included any amount which WI Owner shall receive as a result of net profits interests, overriding and other royalty interests owned by WI Owner and included as part of the Subject Interests.

(b) There shall be excluded any amount for Subject Minerals attributable to nonconsent operations conducted with respect to the Subject Interests (or any portion thereof) as to which WI Owner shall be a nonconsenting party and which is dedicated to the recoupment or reimbursement of costs and expenses of the consenting party or parties by the terms of the relevant operating agreement, unit agreement, contract for development or other agreement providing for such nonconsent operations.

(c) If a controversy exists (whether by reason of any statute, order, decree, rule, regulation, contract or otherwise) between WI Owner and any purchaser from WI Owner or any other third party as to the correct sales price or sales volume of any Subject Minerals, then

(i) amounts withheld by the purchaser or any such third party or deposited by it in an interest bearing account with a commercial bank as escrow agent shall not be considered to be received by WI Owner and shall not be credited to the Net Proceeds Account (as defined in Section 2.4 below) until actually collected by WI Owner, and the

proceeds of such account less the interest earned thereon, if any, shall thereafter be distributed in accordance with this Conveyance and the interest earned thereon, if any, allocable to the Royalty Owner shall (if agreed upon by depositor and escrow agent) be paid directly to the Royalty Owner by any such escrow agent upon resolution of such controversy, and such interest shall not be deemed to constitute a portion of Gross Proceeds; and

(ii) amounts received by WI Owner and held in suspense (not paid) or promptly deposited by it in an interest bearing account with a commercial bank as escrow agent shall not be considered to have been received by WI Owner and shall not be credited to the Net Proceeds Account until removed by WI Owner from suspense or until disbursed to WI Owner by such escrow agent, and the proceeds of such account less the interest earned thereon, if any, shall thereafter be distributed in accordance with this Conveyance and the interest earned thereon, if any, allocable to the Royalty Owner shall be paid directly to the Royalty Owner by such escrow agent upon resolution of such controversy, and such interest shall not be deemed to constitute a portion of Gross Proceeds.

(d) During any Period when WI Owner is, for any Subject Interest, an Overproduced Party or an Underproduced Party under any gas balancing arrangement, there shall be included in Gross Proceeds amounts (other than those for cash balancing) received by WI Owner from a purchaser of Subject Minerals or an Overproduced Party as and when paid to WI Owner.

(e) If any portion of the amounts described in Section 1.5(d) above are in good faith determined by WI Owner to be subject to cash balancing and WI Owner determines in good faith that the potential cash balancing amount may exceed future Net Proceeds when the cash balancing contingency occurs, then:

(i) an amount up to the amount subject to cash balancing (or a reasonable estimate thereof) shall be excluded from future Gross Proceeds, shall be held in suspense (not paid) or deposited by WI Owner in an interest bearing escrow account with an escrow agent and shall not be credited to the Net Proceeds Account until disbursed in accordance with the provisions of (ii) below; and

(ii) amounts held in suspense (not paid) or placed in interest bearing escrow accounts as provided above shall be distributed either to (a) Royalty Owner and WI Owner in accordance with this Conveyance when WI Owner determines in good faith that the potential for cash balancing no longer exists as to all or a portion of the funds in suspense or in such account, provided, that interest earned, if any, on any such escrow account allocable to the Royalty Owner shall be paid directly to the Royalty Owner by the escrow agent, and such interest shall not be deemed to constitute either a portion of Gross Proceeds or a reduction to Production Costs as described in Section 1.14(c), or (b) WI Owner for the cash balancing due to any party due such cash balancing.

(f) There shall be excluded any amount for Subject Minerals unavoidably lost or used in the production thereof and any imputed or calculated amount for domestic gas delivered but not sold or for line loss or fuel gas used in the production of Subject Minerals or used by WI

Owner in conformity with prudent practices for drilling, production, operation or plant operations (including gas injection, compression, gathering, treating, conditioning, transporting, dehydration, secondary recovery, pressure maintenance, repressuring, recycling operations, plant fuel or shrinkage) (i) conducted for the purpose of producing Subject Minerals or marketing or making marketable the Subject Minerals or (ii) from any unit to which the Subject Interests are committed, but only so long as such Subject Minerals are so used and the cost thereof is not borne by others and paid to WI Owner.

(g) Gross Proceeds shall not include any amounts described in Section 1.14(c) hereof.

(h) Gross Proceeds shall not include any amounts received by WI Owner from third parties as the result of cash balancing obligations relating to underproduced positions which affect the Subject Interests.

(i) Gross Proceeds shall include any amount received as bonus for any oil, gas and/or mineral lease executed by WI Owner after the Effective Date and covering any portion of the Subject Interests.

(j) Gross Proceeds shall not include amounts attributable to the interests of parties other than WI Owner and the Royalty Owner in the lands described in Exhibit A and shall not include any amounts paid that are attributable to production payments, royalties or overriding royalties payable to such other parties.

(k) It is specifically understood that the liquefiable hydrocarbon interest identified in Exhibit A as subject to the McCormick, et al overriding royalty shall be included in Subject Interests such that proceeds relating to such interest in production therefrom shall be included in Gross Proceeds to the extent otherwise provided herein.

Section 1.6. "Lease" or "Leases" means the oil, gas and mineral leases (or portions thereof or interests therein, including, without limitation, any royalty interests, overriding royalty interests and similar interests) described in Exhibit A attached hereto.

Section 1.7. "Minerals" means oil, gas, other liquid and gaseous hydrocarbons and other minerals, whether similar or dissimilar.

Section 1.8. "Net Proceeds" for any Period after the Effective Date means the excess of Gross Proceeds received by WI Owner during such Period over the sum of (a) Production Costs paid during such Period and (b) Excess Production Costs as of the end of the immediately preceding Period, as such Net Proceeds are computed in accordance with Section 2.4 hereof.

Section 1.9. "Overproduced Party" means a party to a gas balancing arrangement who, as a result of producing, in addition to its own share of production, that portion of another party's share of production which such other party is unable or unwilling to market or otherwise to dispose of, is in a position of net over-production with respect to such other party or parties to such gas balancing arrangement.

Section 1.10. "Period" means one calendar month; provided, however, that the first Period shall run from the Effective Date to the last day of the calendar month in which the Effective Date falls.

Section 1.11. "Person" means any individual, corporation, partnership, trust, estate or other entity or organization.

Section 1.12. "Prime Interest Rate" means the interest rate announced from time to time by Bank of America at its principal office in Dallas, Texas as its "prime interest rate."

Section 1.13. "Process" or "Processing" means to manufacture, refine, process, fractionate, dehydrate, condition, treat, conduct absorption or plant operations, market (including without limitation gather, transport and exchange) or compress Subject Minerals in a manner which does not constitute Well Operations.

Section 1.14. "Production Costs" means, to the extent such costs are properly allocable to the Subject Interests and have been incurred and paid or otherwise discharged by WI Owner during any Period, on the cash method of accounting (or accrued, even if not paid or otherwise discharged, to the extent provided in this Section 1.14), and whether capital or non-capital in nature, without duplication:

(a) the sum of

(i) the maintenance, drilling, completing, equipping and operating costs for such Period and all other costs for such Period incurred by WI Owner applicable to the Subject Interests, including budgeted capital expenditures and/or unusual items of material cost;

(ii) an amount equal to all general property (ad valorem), production, severance, sales, gathering, energy, BTU and similar state, federal or other taxes (except income taxes) assessed or levied on or in connection with the Subject Interests, the Overriding Royalty Interest or the production therefrom or equipment thereon, or the processing, gas exchange or marketing of production attributable thereto, and which taxes (as adjusted or as finally determined) are deducted or excluded from proceeds of Sale received by WI Owner or paid by WI Owner and attributable to both WI Owner's and Royalty Owner's share in the Subject Minerals or the Subject Interests; provided, however, that in the case of any such taxes that accrue ratably over any period, such taxes shall be deemed to be Production Costs as they accrue;

(iii) all amounts borne by WI Owner in such Period as to any of the following: (a) to the extent allocable to the Subject Interests, payments made to others in the area in connection with the drilling or deferring of drilling of any well on or in the vicinity of any of the Subject Interests (including dry hole and bottom hole payments and payments made to others for refraining from drilling an offset well) or in connection with any cost adjustments with respect to any well and/or leasehold equipment upon unitization of any of the Subject Interests; (b) to the extent allocable to the Subject Interests, rent and other consideration paid for use of or damage to the surface and (c) all direct charges

applicable to the Subject Interests relating to lease renewals, geological and geophysical, seismic, engineering and preparation for drilling costs (including without limitation the cost of securing any seismic or geophysical permits or options);

(iv) to the extent allocable to the Subject Interests, all other costs, expenses and liabilities of, in connection with, arising out of or relating to operating any well on the Subject Interests and producing Subject Minerals and sale and marketing thereof for such Period, including without limitation: (a) costs of equipping, plugging back, reworking, recompleting, plugging and abandoning and surface restoration and other related costs as required by law and in accordance with the terms of the Leases (or instruments covering lands pooled with any Lease) and of making the Subject Minerals ready or available for market; (b) the costs of Well Operations and of Processing, together with any construction costs associated with facilities utilized in connection with Well Operations or Processing; (c) the costs of secondary recovery, pressure maintenance, repressuring, recycling and other operations commonly used in the oil and gas industry which are recognized as reputable methods of enhancing production; (d) the costs of claims or litigation concerning marketing the Subject Minerals or delivery of production from, title to, taxation (limited to ad valorem or any other property taxes and severance or any other taxes payable out of or measured by production) of or operation of the Subject Interests, including claims or litigation relating to the drilling, testing and completing of any well on the Subject Interests, and any other acts or omissions of WI Owner consistent herewith (as a prudent owner or operator) or brought by WI Owner to protect the Subject Interests as a prudent owner or operator; (e) the cost of insurance incurred for the protection of the Subject Interests, the Royalty Owner or WI Owner; (f) delay rentals and shut-in royalties, (g) the costs (including without limitation any reasonable legal fees) of negotiating and preparing oil, gas and/or mineral leases to be executed covering any of the Subject Interests, and (h) payments to others for production of Subject Minerals produced but not sold by WI Owner; provided, however, that in the case of any such costs and expenses in clauses (a) through (h) of this subsection (iv) that accrue ratably over any period, such costs and expenses shall be deemed to be Production Costs as they accrue;

(v) the costs incurred by WI Owner for audits, if any, conducted by or on behalf of the Royalty Owner, and the costs incurred for any statements and reports provided by WI Owner to the Royalty Owner, to the extent not otherwise included as a Production Cost hereunder;

(vi) to the extent allocable to the Subject Interests, refunds of revenues previously included as Gross Proceeds required to be made by WI Owner (including any interest thereon or penalties) as a result of the bankruptcy, insolvency or similar condition of a purchaser of production or other party, an order of the Federal Energy Regulatory Commission or other governmental unit or any other legal reason;

(vii) to the extent allocable to the Subject Interests, any amounts paid by WI Owner after the Effective Date as a prudent owner or operator, whether as refund, interest or penalty, to (A) a purchaser because the amount initially received by WI Owner as sales price attributable to operations after the Effective Date was more or allegedly more than

permitted by the terms of any applicable contract, statute, regulation, order, decree or other obligation, (B) any third party because an amount initially paid by such third party relating to the exploration, development, operation, production, maintenance or protection of the Subject Interests (or any part thereof) was in excess of that otherwise owing under the terms of any applicable contract or agreement, or (C) any third party royalty owner because the amount initially paid by WI Owner with respect to a Lease was less or allegedly less than required under such Lease; and

(viii) to the extent allocable to any Subject Interest which includes or consists of any surface estate, all costs, expenses and liabilities of, in connection with, arising out of or relating to the ownership, operation, maintenance and management of such surface estate.

(b) Production Costs shall not include depletion, depreciation and other non-cash deductions.

(c) Production Costs (to the extent thereof for any Period subsequent to the Period in which amounts described in this Section 1.14(c) are received) and/or Excess Production Costs (to the extent thereof) shall be reduced by the amount received by WI Owner to the extent allocable to the Subject Interests as a result of (i) delay rentals, (ii) damages to, or condemnation by a governmental authority of, the Subject Interests, (iii) shut-in gas well royalty or payments, (iv) sale of fixtures and equipment used with respect to the Subject Interests, (v) rentals from reservoir use, (vi) dry hole and bottom hole payments, (vii) any payments made to WI Owner in connection with the drilling or deferring of drilling of any well on any of the Subject Interests, (viii) any amounts which WI Owner shall receive in connection with any adjustment of any well and leasehold equipment constituting part of the Subject Interests upon pooling or unitization of any of the Subject Interests, (ix) recoveries for breaches of drilling contracts and recoveries in connection with other proceedings pertaining to or affecting the Subject Interests or operations thereon, (x) insurance proceeds received as a result of damage to the Subject Interests or to the fixtures and equipment used with respect to the Subject Interests, (xi) any bonuses or payments made by third parties in connection with farmout transactions, if any, (xii) any amounts received by WI Owner as rental or use fees for personalty, platform, equipment or gathering lines located on the Subject Interests, (xiii) any amounts referred to in this subsection (c) not so applied to reduce Production Costs or Excess Production Costs in prior Periods, (xiv) amounts received by WI Owner from a purchaser of Subject Minerals as advance payments and payments pursuant to take-or-pay and similar provisions of Sales Contracts as and when paid to WI Owner, (xv) if WI Owner is an Underproduced Party under any gas balancing arrangement, the receipt by WI Owner of a settlement in cash for any net underproduced position, regardless of whether such underproduced position arose before or after the Effective Date, (xvi) any interest that accrues on the credit balance in the Net Proceeds Account from time to time, such interest to be net of any applicable third party service charge, (xvii) with respect to any surface estate included in the Subject Interests, all lease or rental payments received from third parties, all receipts from the sale of livestock, crops and timber and all other income attributable to such surface estate, and (xviii) to the extent not otherwise included in Gross Proceeds, the excess of any revenues received by WI Owner from Processing Subject Minerals over the Processing costs incurred by WI Owner to the extent not otherwise treated as a Production Cost. With respect to item (xvi), above, it is hereby expressly agreed and understood that WI Owner shall not be obligated to

secure any particular interest rate or other return on credit balances from time to time existing, and any investment of such credit balances shall be made in the sole discretion of WI Owner.

(d) Other than any amounts placed in escrow pursuant to Section 1.5(e) hereof, if WI Owner is an Overproduced Party under any gas balancing arrangement and WI Owner is required to make settlement in cash for any net over-production accruing after the Effective Date, such payment shall be included in Production Costs.

(e) The General and Administrative Costs relating to any particular Period shall be considered a Production Cost which shall be debited to the Net Proceeds Account for such Period.

Section 1.15. "Royalty Owner" means Assignor, while Assignor owns an interest in the Overriding Royalty Interest, and any other Person or Persons who subsequently acquire legal title to all or any portion of or any interest in the Overriding Royalty Interest.

Section 1.16. "Sale" includes sale, exchanges and other dispositions for value.

Section 1.17. "Sales Contracts" means all contracts and agreements for the offer sale of, or commitment to offer or sell, or right of first refusal to purchase, Subject Minerals after production.

Section 1.18. "Subject Interests" means, prior to giving effect to this Conveyance, each kind and character of right, title, claim or interest which the Assignor has (i) in, on and under the lands described in and covered by the Leases which are described in Exhibit A, and (ii) in, on and under any lands which are described in Exhibit A and the unitization and pooling agreements and the units created in connection therewith, whether such right, title, claim or interest be under and by virtue of a Lease, a unitization or pooling agreement, a unitization or pooling order, a mineral deed, a royalty deed, an operating agreement, a division order, a transfer order or any other type of contract, conveyance or instrument or under any other type of title, legal or equitable, recorded or unrecorded, even though the Assignor's interests be incorrectly or incompletely described in Exhibit A, all as the same shall be enlarged by the discharge of any payments out of production, by the removal of any charges or encumbrances to which any of the same are or become subject or by the entering into of non-consent operations and any and all renewals and extensions thereof acquired by Assignor within one year after the termination of the prior Subject Interest.

Section 1.19. "Subject Minerals" means all Minerals in and under, and which may be produced, saved and sold from, and which shall accrue and be attributable to, the Subject Interests.

Section 1.20. "Underproduced Party" means a party to a gas balancing arrangement who, as a result of its inability or unwillingness to market or otherwise dispose of a portion of its share of production and another party's producing such share of production, is in a position of net underproduction with respect to such other party or parties to such gas balancing arrangement.

Section 1.21. "Well Operations" means pumping, gas lifting and gravity separation of Minerals and other operations (including without limitation compression, treatment, separation, storage, dehydration, metering, gathering, and/or transportation) in the immediate vicinity of the well but does not include compression or transportation of the Minerals beyond the immediate vicinity of the well, or absorption or fractionation and other plant operations.

Section 1.22. "WI Owner" means Assignee, while it owns all or part of the Subject Interests or any interest therein and any other Person or Persons who, as permitted herein, subsequently acquire legal title to all or any part of the Subject Interests or any interest therein other than the Overriding Royalty Interest reserved hereby.

SECTION 2

Payment

Section 2.1. Payment. On the 10th day of each Period (or, if such day is not a Business Day, on the Business Day next preceding such day), WI Owner shall pay to the Royalty Owner as an overriding royalty hereunder an amount equal to 96.97% of the Net Proceeds for the preceding Period, computed in accordance with Section 2.4 hereof.

Section 2.2. Interest on Past Due Payments. Any amount not paid by WI Owner to the Royalty Owner when due shall bear, and WI Owner will pay, interest at the weighted average Prime Interest Rate in effect during the period of underpayment; provided that such interest shall not be in excess of the maximum amount allowed by law. Under no circumstances, however, shall WI Owner willfully withhold payment properly due the Royalty Owner hereunder.

Section 2.3. Overpayment. If at any time WI Owner inadvertently pays the Royalty Owner more than the amount due, the Royalty Owner shall not be obligated to return any such overpayment, but the amount or amounts otherwise payable for any subsequent Period or Periods shall be reduced by such overpayment.

Section 2.4. Net Proceeds Account. A Net Proceeds account (the "Net Proceeds Account") shall be maintained by WI Owner for each Period after the Effective Date. The Net Proceeds Account shall be credited with the aggregate of any Gross Proceeds received during such Period, and shall be debited with the aggregate of any Production Costs paid during such Period. The amounts provided for in Section 1.14(c) hereof shall be taken into account for the sole and only purpose of reducing amounts that would otherwise be debited to the Net Proceeds Account in accordance herewith, and Royalty Owner shall have no right, title or claim to such amounts.

On or before the date of payment as set forth in Section 2.1 hereof, WI Owner shall furnish to the Royalty Owner a detailed statement clearly reflecting the credits and debits against and the balance of the Net Proceeds Account for the applicable Period. Any Excess Production Cost reflected by any such statement shall be carried forward to the next and succeeding Period or Periods until the Excess Production Costs shall have been liquidated. If, at the end of any Period, there are Excess Production Costs which have not been liquidated in accordance with the preceding sentence, then an amount equal to interest at the Prime Interest Rate in effect on the

last day of such Period shall be computed on the unliquidated balance of the Excess Production Costs from the last day of such Period to the last day of the following Period, and such amount shall be treated as a Production Cost in such following Period.

In the event that Net Proceeds exist in the Net Proceeds Account at the end of any month, payment to the Royalty Owner of the amount of the Net Proceeds pursuant to Section 2.1 shall be paid promptly by WI Owner to the Royalty Owner.

WI Owner shall maintain the Net Proceeds Account in accordance with good accounting practice and in a manner to minimize accounting difficulties but accomplish on a fiscal year basis the overall goal of this Conveyance, and the books and records relating thereto shall at all reasonable times be open to inspection, examination, copying and audit by the Royalty Owner and its duly authorized agents and representatives.

Section 2.5. Limitation. All payments made to Royalty Owner shall be made entirely and exclusively out of amounts received from the sale or other disposition of Subject Minerals produced from Subject Interests after the Effective Date, and in no event shall such payments exceed 100% of the value of such production at the wellhead (based upon the terms upon which such production is marketed by WI Owner) before the application of any Processing. Should the payments to Royalty Owner, computed in accordance herewith ever exceed such amount (such excess amount being herein referred to as the "Overage"), such Overage shall be suspended and accrued; and if the payments calculated in accordance herewith are ever again less than 100% of the value of such production at the wellhead before the application of any Processing, the Overage shall be added to subsequent payments but not in an amount which would then cause payments to exceed 100% of the value of such production at the wellhead before the application of any Processing, so that Royalty Owner, if possible, shall be entitled to receive the total amount to be distributed hereunder as if the limitation imposed by this Section had not been in effect.

SECTION 3

Miscellaneous

Section 3.1. Non-Liability of Royalty Owner. In no event shall the Royalty Owner be liable or responsible in any way for payment of any Production Costs or other costs or liabilities incurred by WI Owner or other lessees attributable to the Subject Interests or to the Minerals produced therefrom.

Section 3.2. Intention of the Parties. Nothing herein contained is intended to create, nor shall the same be construed as creating (under state law or for tax purposes), any mining partnership, commercial partnership or other partnership relation or joint venture. If, however, the parties hereto are deemed to constitute a partnership for federal or state income tax purposes, the parties elect to be excluded from the application of Subchapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1986, as amended (the "Code") or any similar state law, and agree not to take any position inconsistent with such election. In addition, the parties hereto intend that the Overriding Royalty Interest conveyed hereby by WI Owner to the Royalty Owner shall at all times be treated as a nonoperating "economic interest" in the Subject Minerals within the

meaning of the Code (or any corresponding provisions of succeeding law) and a non-operating mineral right for state law purposes.

THE OVERRIDING ROYALTY INTEREST CREATED BY THIS CONVEYANCE IS A RIGHT AFFECTING AND BURDENING THE SUBJECT INTERESTS. THIS CONVEYANCE CREATES AN INTEREST IN REAL PROPERTY, AND THE COVENANTS CONTAINED IN THIS CONVEYANCE ARE COVENANTS RUNNING WITH AND BURDENING THE LAND.

PART III

TO HAVE AND TO HOLD, all and singular, the Subject Properties, unto Assignee and Assignee's successors and assigns forever subject only to the reservation to Assignor described in Part II hereof. The assignment made hereunder is made with full substitution and subrogation of Assignee in and to all warranties heretofore given or made, but is otherwise without warranties or covenants of title, express or implied. All tangible equipment and personal property is assigned "AS IS, WHERE IS". ASSIGNOR HEREBY EXPRESSLY DISCLAIMS AND NEGATES ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, COMMON LAW, STATUTORY OR OTHERWISE RELATING TO THE SUBJECT PROPERTIES (INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OR COVENANT OF TITLE, EXPRESS OR IMPLIED, ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS) OR ENVIRONMENTAL CONDITION, OR ANY INFRINGEMENT BY ASSIGNOR OF ANY PATENT OR PROPRIETARY RIGHT OF ANY THIRD PERSON.

Assignor agrees to execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such instruments, and take such other actions, as may be necessary or advisable to more fully and effectively grant, convey and assign to Assignee the rights, properties and interests assigned to Assignee hereby or intended so to be.

PART IV

In connection with the foregoing transfer of the Subject Properties to the Assignee, the Assignee agrees, upon the terms and subject to the conditions set forth herein, to assume, at the Effective Date, and thereafter to pay (i) all Production Costs, as defined in PART II of this Conveyance, and any other costs, expenses, and liabilities relating to the Subject Properties, which are incurred on or after the Effective Date or relate to the period on or after the Effective Date, and (ii) all Production Costs which are incurred in the Period prior to the Effective Date and which are payable after the Effective Date in the ordinary course of business (collectively, the "Assumed Liabilities").

The Assignor agrees to pay all those Production Costs which are incurred prior to the Effective Date other than those referred to in clause (ii) of the preceding paragraph.

The Assignor and the Assignee agree to execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such instruments, and take such other actions, as may be

necessary or advisable to more fully and effectively provide for the payment of the liabilities and obligations covered hereby.

PART V

This Assignment, Conveyance and Assumption Agreement is being executed in several counterparts, all of which are identical, except that, to facilitate recordation, a counterpart hereof being filed or recorded in a particular jurisdiction may have omitted therefrom those portions of Exhibit A which describe properties, rights or interests located in other jurisdictions. All of such counterparts together shall constitute one and the same instrument. Complete copies of this Assignment, Conveyance and Assumption Agreement have been retained by Assignor and Assignee.

All of the terms, provisions, covenants and agreements herein contained shall extend to and be binding upon the parties hereto, and their respective successors and assigns.

IN WITNESS WHEREOF, this Assignment, Conveyance and Assumption Agreement is executed this ______________________ but effective as of the Effective Date.

ASSIGNOR:	ASSIGNEE:
DORCHESTER HUGOTON, LTD.	DORCHESTER MINERALS OPERATING LP
By: P. A Peak, Inc., General Partner	By: Dorchester Minerals Operating GP LLC, General Partner
By: --------------------------------- Preston A. Peak, President	
By: James E. Raley, Inc., General Partner	By: ----------------------------------- -----------, ------
By: --------------------------------- James E. Raley, President	

EXHIBIT 3.1(b)
TO EXHIBIT 2.1

ASSIGNMENT, CONVEYANCE, BILL OF SALE AND ASSUMPTION AGREEMENT

This Assignment, Conveyance, Bill of Sale and Assumption Agreement is by and between:

Dorchester Hugoton, Ltd. ("Assignor")
1919 S. Shiloh Road
Suite 600 - LB 48
Garland, Texas 75042

Dorchester Minerals Operating LP ("Assignee")
3738 Oak Lawn Ave.
Dallas, Texas 75219

PART I

Assignor and Assignee are parties to that certain Combination Agreement dated December 13, 2001 (the "Combination Agreement"), pursuant to which Assignor is obligated to transfer certain assets to Assignee. Assignor has heretofore conveyed to Assignee by a separate instrument of conveyance of even date herewith, captioned Assignment, Conveyance and Assumption Agreement ("WI Assets Conveyance"), all of Assignor's right, title and interest in and to the oil, gas and/or other minerals and related assets described therein (the "WI Assets"), save and except for the Overriding Royalty Interest (as defined in WI Assets Conveyance) excepted from such conveyance and reserved to Assignor under the terms of the WI Assets Conveyance, and Assignee has heretofore pursuant to the WI Assets Conveyance assumed and agreed to pay and perform certain liabilities and obligations of Assignor as described in the WI Assets Conveyance (the "WI Assumed Liabilities").

PART II

Assignor, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Assignee, does hereby GRANT, BARGAIN, SELL, ASSIGN, TRANSFER, CONVEY, AND DELIVER, without warranties or covenants of title, express or implied, except as hereinafter set forth, unto Assignee and Assignee's successors and assigns, effective as of __________________, Dallas, Texas time, on ____________ (such date and time being referred to herein as the "Effective Date"), the following properties, rights and interests ("Subject Properties"):

(1) The following assets of Assignor (other than those assets defined as the "Excluded Assets" in Part II, Clause (2) below), wherever located (such assets being referred to herein collectively as the "Management Assets"):

(A) The following real property and real property interests owned or held under lease or other right by Assignor:

(i) the leasehold estate under that certain lease effective June 1, 1997 between Leis `Ohana Hui Family Partnership, Ltd., Aikane Corporation, General Partner, as landlord, and Assignor, as lessee, relating to Suite 600 of the office building located at 1919 S. Shiloh Rd., Garland, Texas, and all rights (including rights of offset), privileges, claims, causes of action and options in favor of Assignor relating or pertaining to such leasehold estate and accruing or relating to the period after the Effective Date; and

(ii) the leasehold estate under that certain oral lease entered into in approximately 1989 between Cambridge Production, Inc., as lessor, and Assignor, as lessee, relating to an office in Suite 216 of the office building located at 2201 Civic Circle, Amarillo, Texas, and all rights (including rights of offset), privileges, claims, causes of action and options in favor of Assignor relating or pertaining to such leasehold estate and accruing or relating to the period after the Effective Date;

(the "Management Real Property")

(B) All furniture, equipment, machinery, materials, vehicles, rolling stock, apparatus, tools, dies, implements, appliances, spare parts, supplies, and other tangible personal property of every kind, character and description, and other than the vehicles referred to in Part II, Clause (1)(D) below, owned by Assignor and located on, or used at or primarily in connection with, or in route to, the Management Real Property, or used primarily in connection with the business of Assignor, as of the Effective Date and following the WI Assets Conveyance (the "Business");

(C) All Assignor's computer equipment and hardware, including, without limitation, all central processing units, terminals, disk drives, tape drives, electronic memory units, printers, keyboards, screens, peripherals (and other input/output devices), modems and other communication controllers, any media on which information is or may be stored, and any and all parts and appurtenances thereto, located on, or used at or primarily in connection with, the Management Real Property, or used primarily in connection with the Business, as of the Effective Date;

(D) All the trucks, trailers, and other certificated vehicles owned by Assignor as of the Effective Date;

(E) All right, title, and interest of Assignor in, to, and under the personal property leases held by Assignor, and all rights (including

rights of offset), privileges, claims, causes of action, and options in favor of Assignor relating or pertaining to such leases or any thereof and accruing or relating to the period after the Effective Date;

(F) All right, title, and interest of Assignor in, to and under the contracts and agreements to which Assignor is a party or under which it possesses rights, that relate to other items included in the Subject Properties or to the Business, including, without limitation, maintenance agreements for other items included in the Subject Properties, licenses relating to software included in other items included in the Subject Properties, utility contracts relating to other items included in the Subject Properties and insurance policies for casualty and property damage to other items included in the Subject Properties, and all rights (including rights of offset), privileges, claims, causes of action, and options in favor of Assignor relating or pertaining to such contracts and agreements or any thereof and accruing or relating to the period after the Effective Date;

(G) All rights, claims, and causes of action of Assignor under or pursuant to all warranties, representations, indemnifications, hold harmless provisions, and guarantees made by suppliers, licensors, manufacturers, contractors, and others (including Assignor's predecessors in title) relating to other items included in the Subject Properties and accruing or relating to the period after the Effective Date;

(H) All right, title, and interest of Assignor in and to all prepaid rentals and other prepaid expenses arising from payments made by Assignor in the ordinary course of the operation of the Business prior to the Effective Date for goods or services that comprise or relate to other items included in the Subject Properties or the Business where such goods or services have not been received by Assignor by the close of business on the Closing Date, but excluding the right to receive any refund or repayment thereof;

(I) All right, title, and interest of Assignor in and to all transferable bonds, deposits, and financial assurance requirements made by Assignor or its predecessors in title (or its or their agents) with any court or tribunal in any jurisdiction (domestic or foreign) or any public, governmental, or regulatory body, agency, department, commission, board, bureau or other authority or instrumentality (domestic or foreign) ("Governmental Entity"), utility company, or other person relating to the operation of the Business or the construction, use, operation, or enjoyment of other

items included in the Subject Properties, but excluding the right to receive any refund or repayment thereof;

(J) All right, title, and interest of Assignor in, to, and under all licenses, permits, franchises, consents, approvals and other authorizations of or from Governmental Entities ("Permits") relating to, or used in connection with the operation of, the Business or relating to the construction, use, operation, or enjoyment of other items included in the Subject Properties;

(K) All books, records, papers, and instruments of Assignor of whatever nature and wherever located that relate to other items included in the Subject Properties conveyed hereunder or the operation of the Business, including, without limitation, all financial and accounting records and all books and records relating to employees, the purchase of materials, supplies, and services, product research and development, the manufacture and sale of products, and dealings with customers, vendors, and suppliers of the Business, and including computerized books and records and other computerized storage media and the software (including documentation and object and source codes) used in connection therewith;

(L) All right, title, and interest of Assignor in, to, and under all patents, trademarks, service marks, trade names, copyrights and similar rights and intellectual property and any applications in respect thereof ("Intellectual Property") held by or licensed to Assignor relating to other items included in the Subject Properties, or used in connection with the operation of the Business, and all rights to recover for infringement thereon accruing or relating to the period after the Effective Date;

(M) All rights, claims, and causes of action of Assignor against third parties (including Assignor's predecessors in title) in respect of obligations and liabilities assumed by Assignee hereunder that are in the nature of counterclaims, crossclaims, rights of setoff, credits and other claims and rights of recovery that would reduce or mitigate such assumed obligations and liabilities;

(N) Cash in an amount equal to [$ *];

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* To be completed at closing with that amount required to be conveyed to Assignee by Assignor pursuant to Section 10.5 of the Combination Agreement, provided, that for such purpose, such cash amount shall be deemed to include any cash contained in the bank account referenced in Part II, Clause (O).

(O) Assignor's bank account number [**] at [**] bank used for the payment of royalties owed by Assignor to third parties with respect to oil and gas interests formerly owned by it and conveyed to Assignee pursuant to the WI Assets Conveyance, and all rights to the cash in such account, which account shall contain cash in an amount sufficient to pay all outstanding royalty obligations assumed by Assignee pursuant to Part IV, Clause (3) below;

(P) All rights, estates, powers and privileges of Assignor appurtenant to any and all of the foregoing rights, interests and properties.

(2) Notwithstanding any provision in Part II, Clause (1) above to the contrary, the following assets and properties of Assignor (the "Excluded Assets") are excluded from the Subject Properties and are not conveyed hereunder:

(A) The WI Assets, which have heretofore been conveyed pursuant to the WI Assets Conveyance;

(B) The Overriding Royalty Interest;

(C) All right title and interest of Assignor in and to (i) the trade name, "Dorchester Hugoton, Ltd." and variants thereof, (ii) the mark used in conjunction with the name Dorchester Hugoton, Ltd. and (iii) all registrations, applications, license and rights with respect to the foregoing tradename and mark, including, without limitation, Service Mark Registration 1,434,926 issued March 31, 1987 for mark consisting of fanciful letter "D" and design, in effect until March 31, 2007, and all rights to recover for infringement thereon;

(D) All books, records, papers and instruments of Assignor that relate to its existence as an entity (including, without limitation, and by way of example, its Certificate and Agreement of Limited Partnership and amendments thereto and records relating to its qualification to do business in other jurisdictions), or that relate to its securities or its relationship with its unitholders (including, without limitation, and by way of example, records relating to its filings with the Securities and Exchange Commission and the National Association of Securities Dealers and NASDAQ, its Depositary Agreement, its Nominee Agreement, and records relating to the transfer of its securities);

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** To be completed at Closing.

(E) All rights, claims and causes of action of Assignor against third parties (including Assignor's predecessors in title) where such rights, claims and causes of action accrue, or relate to the period, prior to the Effective Date, but excluding those rights, claims and causes of action against third parties that are described in Part II, Clause (1)(M) above;

(F) All rights (include rights of refund), privileges, claims and causes of action, accruing or relating to the period prior to the Effective Date, under the leasehold estates referenced in Part II, Clause (1)(A) above, the personal property leases referenced in Part II, Clause (1)(E) above, the contracts and agreements referenced in Part II, Clause (1)(F) above, and the warranties, representations, indemnifications, hold harmless provisions and guarantees referenced in Part II, Clause (1)(G) above;

(G) All rights to receive refunds or repayments (i) of prepaid rentals and other prepaid expenses of the type referenced in Part II, Clause (1)(H) above and (ii) with respect to transferable bonds, deposits and financial assurances referenced in Part II, Clause (1)(I) above;

(H) All cash (other than the cash amount, if any, conveyed under Part II, Clause (1)(N)) and cash equivalents, securities, instruments, notes receivable, accounts receivable, bank accounts and accounts with other financial institutions (other than the bank account conveyed under Part II, Clause (O) above);

(I) The rights under Assignor's Letter of Understanding to Provide Partnership Tax Accounting and Reporting Services with PricewaterhouseCoopers LLP dated September 24, 2001, including the contingent right to acquire the tax accounting software covered thereby in certain circumstances described therein; and

(J) All goodwill, if any, associated with, and the going concern value of, the business heretofore conducted by Assignor.

PART III

TO HAVE AND TO HOLD, all and singular, the Subject Properties, unto Assignee and Assignee's successors and assigns forever. The assignment made hereunder is made with full substitution and subrogation of Assignee in and to all warranties heretofore given or made, but is otherwise without warranties or covenants of title, express or implied. All tangible equipment and personal property is assigned "AS IS, WHERE IS". ASSIGNOR HEREBY EXPRESSLY DISCLAIMS AND NEGATES ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, COMMON LAW, STATUTORY OR OTHERWISE RELATING TO THE SUBJECT PROPERTIES (INCLUDING, WITHOUT LIMITATION, ANY WARRANTY

OR COVENANT OF TITLE, EXPRESS OR IMPLIED, ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS) OR ENVIRONMENTAL CONDITION, OR ANY INFRINGEMENT BY ASSIGNOR OF ANY PATENT OR PROPRIETARY RIGHT OF ANY THIRD PERSON.

Assignor agrees to execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such instruments, and take such other actions, as may be necessary or advisable to more fully and effectively grant, convey and assign to Assignee the rights, properties and interests assigned to Assignee hereby or intended so to be.

PART IV

As further consideration for the transfer of the Subject Properties to the Assignee, the Assignee agrees, upon the terms and subject to the conditions set forth herein, to assume, at the Effective Date, and thereafter to pay, perform, and discharge in accordance with their terms, the following liabilities and obligations of Assignor:

(1) All liabilities and obligations of Assignor, direct or indirect, known or unknown, absolute or contingent, relating to the Subject Properties, arising out of events occurring after the Effective Date or otherwise relating to the period after the Effective Date;

(2) The liabilities relating to the Subject Properties listed on Exhibit A hereto [to be quantified at Closing]; and

(3) All obligations of Assignor to pay royalties to third parties with respect to the oil and gas interests formerly owned by it and conveyed to Assignee pursuant to the WI Assets Conveyance, the obligation to pay which royalties exists at the Effective Date and which obligation has not been assumed by Assignee pursuant to the WI Assets Conveyance.

But in the case of each of Clauses (1), (2) and (3) of this Part IV excluding the WI Assumed Liabilities, which have heretofore been assumed pursuant to the WI Asset Conveyance (collectively, the "Assumed Liabilities").

Assignee agrees to execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such instruments, and take such other actions, as may be necessary or advisable to more fully and effectively assume the liabilities and obligations of Assignor assumed or intended to be assumed by Assignee hereunder.

PART V

This Assignment, Conveyance, Bill of Sale and Assumption Agreement is being executed in several counterparts, all of which are identical. All of such counterparts together shall constitute one and the same instrument. Complete copies of this Assignment, Conveyance, Bill of Sale and Assumption Agreement have been retained by Assignor and Assignee.

All of the terms, provisions, covenants and agreements herein contained shall extend to and be binding upon the parties hereto, and their respective successors and assigns.

IN WITNESS WHEREOF, this Assignment, Conveyance, Bill of Sale and Assumption Agreement is executed this ____________________ but effective as of the Effective Date.

ASSIGNOR:	ASSIGNEE:
DORCHESTER HUGOTON, LTD.	DORCHESTER MINERALS OPERATING LP
By: P. A Peak, Inc., General Partner	By: Dorchester Minerals Operating GP LLC, General Partner
By: --------------------------------- Preston A. Peak, President	
By: James E. Raley, Inc., General Partner	By: ----------------------------------- -----------, ------
By: --------------------------------- James E. Raley, President	

EXHIBIT A

LIABILITIES RELATING TO THE SUBJECT PROPERTIES
TO BE ASSUMED BY ASSIGNEE

Payables relating to the following categories of costs and expenses:

Ad Valorem taxes on F&E
Automobile expenses
Bank Service Charges
Maintenance Agreement Renewals
Computer services and supplies
Dues & Subscriptions
General Partner G&A reimbursements
Mobile phone expenses
Office supplies
Unpaid Administrative Payroll and applicable taxes
Postage and Courier Invoices
Equipment Maintenance & Repairs
Rent
Telephone
Miscellaneous Meals or Travel Reimbursements

EXHIBIT 3.3(c)(i)
TO EXHIBIT 2.1

ASSIGNMENT AND CONVEYANCE

This Assignment and Conveyance ("Assignment") is

From: Dorchester Hugoton, Ltd. ("Assignor")
1919 S. Shiloh Road
Suite 600 - LB 48
Garland, Texas 75042

To: Dorchester Minerals, LP ("Assignee")
3738 Oak Lawn Ave.
Dallas, Texas 75219

WHEREAS, Assignor and Assignee are parties to that certain Combination Agreement dated December 13, 2001 (the "Combination Agreement") pursuant to which Assignor is obligated to transfer certain assets to Assignee;

WHEREAS, by that certain Assignment, Conveyance and Assumption Agreement by and between Dorchester Hugoton, Ltd., as Assignor and Dorchester Minerals Operating LP as Assignee dated ________________________ with an Effective Date of __________________, Assignor, Dorchester Hugoton Ltd., transferred to Dorchester Minerals Operating LP, as Assignee therein, the rights, title and interests to oil, gas, and/or other minerals all as set forth in the above-referenced Assignment, Conveyance and Assumption Agreement which is recorded in __________________ for purposes of identification herein, and

WHEREAS, Assignor, Dorchester Hugoton Ltd., saved, reserved and excepted from the above-referenced Assignment, Conveyance and Assumption Agreement in Part II therein an Overriding Royalty Interest. Such reservation and exception is set forth in full herein below:

PART II

SAVE AND EXCEPT, there is excepted from this Assignment, Conveyance and Assumption Agreement, and Assignor expressly excepts and reserves unto itself, its representatives and assigns, that certain present vested property right; that is, an overriding royalty interest (the "Overriding Royalty Interest") in and to the Subject Minerals if, as and when produced and saved from the Subject Interests, payable solely out of Gross Proceeds from the Sale of Subject Minerals in an amount equal to 96.97% of the Net Proceeds attributable to the Subject Interests. The Overriding Royalty Interest shall be determined and administered in accordance with the provisions of Sections 1 through 3 of this PART II.

SECTION 1

Definitions

As used in this PART II, the following words, terms or phrases shall have the following meanings:

Section 1.1. "Business Day" means a day on which none of the banks to or from which a payment authorized hereunder may be made are closed as authorized or required by law.

Section 1.2. "Conveyance" means this Assignment, Conveyance and Assumption Agreement.

Section 1.3. "Excess Production Costs" at any point in time means an amount equal to the excess of Production Costs over Gross Proceeds for the period ending with such point and beginning with the end of the most recent Period in which there were Net Proceeds.

Section 1.4. "General and Administrative Costs" means those additional costs, of whatever nature, deemed necessary by Assignee to properly operate and/or manage the Subject Properties under this Conveyance and that are not properly classified as Production Costs. Initially, General and Administrative Costs will be charged on a cents-per-mile or a dollars-per-well basis utilizing surveys and escalators normally used in the oil and gas industry; provided, however, that the use of such surveys and escalators shall not act to place a floor or cap on such costs.

Section 1.5. "Gross Proceeds" means the amounts received on or after the Effective Date, generally on the cash method of accounting, by WI Owner, without duplication, from the sale or other disposition of Subject Minerals, subject to the following:

(a) There shall be included any amount which WI Owner shall receive as a result of net profits interests, overriding and other royalty interests owned by WI Owner and included as part of the Subject Interests.

(b) There shall be excluded any amount for Subject Minerals attributable to nonconsent operations conducted with respect to the Subject Interests (or any portion thereof) as to which WI Owner shall be a nonconsenting party and which is dedicated to the recoupment or reimbursement of costs and expenses of the consenting party or parties by the terms of the relevant operating agreement, unit agreement, contract for development or other agreement providing for such nonconsent operations.

(c) If a controversy exists (whether by reason of any statute, order, decree, rule, regulation, contract or otherwise) between WI Owner and any purchaser from WI Owner or any other third party as to the correct sales price or sales volume of any Subject Minerals, then

> (i) amounts withheld by the purchaser or any such third party or deposited by it in an interest bearing account with a commercial bank as escrow agent shall not be considered to be received by WI Owner and shall not be credited to the Net Proceeds Account (as defined in Section 2.4 below) until actually collected by WI Owner, and the

proceeds of such account less the interest earned thereon, if any, shall thereafter be distributed in accordance with this Conveyance and the interest earned thereon, if any, allocable to the Royalty Owner shall (if agreed upon by depositor and escrow agent) be paid directly to the Royalty Owner by any such escrow agent upon resolution of such controversy, and such interest shall not be deemed to constitute a portion of Gross Proceeds; and

(ii) amounts received by WI Owner and held in suspense (not paid) or promptly deposited by it in an interest bearing account with a commercial bank as escrow agent shall not be considered to have been received by WI Owner and shall not be credited to the Net Proceeds Account until removed by WI Owner from suspense or until disbursed to WI Owner by such escrow agent, and the proceeds of such account less the interest earned thereon, if any, shall thereafter be distributed in accordance with this Conveyance and the interest earned thereon, if any, allocable to the Royalty Owner shall be paid directly to the Royalty Owner by such escrow agent upon resolution of such controversy, and such interest shall not be deemed to constitute a portion of Gross Proceeds.

(d) During any Period when WI Owner is, for any Subject Interest, an Overproduced Party or an Underproduced Party under any gas balancing arrangement, there shall be included in Gross Proceeds amounts (other than those for cash balancing) received by WI Owner from a purchaser of Subject Minerals or an Overproduced Party as and when paid to WI Owner.

(e) If any portion of the amounts described in Section 1.5(d) above are in good faith determined by WI Owner to be subject to cash balancing and WI Owner determines in good faith that the potential cash balancing amount may exceed future Net Proceeds when the cash balancing contingency occurs, then:

(i) an amount up to the amount subject to cash balancing (or a reasonable estimate thereof) shall be excluded from future Gross Proceeds, shall be held in suspense (not paid) or deposited by WI Owner in an interest bearing escrow account with an escrow agent and shall not be credited to the Net Proceeds Account until disbursed in accordance with the provisions of (ii) below; and

(ii) amounts held in suspense (not paid) or placed in interest bearing escrow accounts as provided above shall be distributed either to (a) Royalty Owner and WI Owner in accordance with this Conveyance when WI Owner determines in good faith that the potential for cash balancing no longer exists as to all or a portion of the funds in suspense or in such account, provided, that interest earned, if any, on any such escrow account allocable to the Royalty Owner shall be paid directly to the Royalty Owner by the escrow agent, and such interest shall not be deemed to constitute either a portion of Gross Proceeds or a reduction to Production Costs as described in Section 1.14(c), or (b) WI Owner for the cash balancing due to any party due such cash balancing.

(f) There shall be excluded any amount for Subject Minerals unavoidably lost or used in the production thereof and any imputed or calculated amount for domestic gas delivered but not sold or for line loss or fuel gas used in the production of Subject Minerals or used by WI

Owner in conformity with prudent practices for drilling, production, operation or plant operations (including gas injection, compression, gathering, treating, conditioning, transporting, dehydration, secondary recovery, pressure maintenance, repressuring, recycling operations, plant fuel or shrinkage) (i) conducted for the purpose of producing Subject Minerals or marketing or making marketable the Subject Minerals or (ii) from any unit to which the Subject Interests are committed, but only so long as such Subject Minerals are so used and the cost thereof is not borne by others and paid to WI Owner.

(g) Gross Proceeds shall not include any amounts described in Section 1.14(c) hereof.

(h) Gross Proceeds shall not include any amounts received by WI Owner from third parties as the result of cash balancing obligations relating to underproduced positions which affect the Subject Interests.

(i) Gross Proceeds shall include any amount received as bonus for any oil, gas and/or mineral lease executed by WI Owner after the Effective Date and covering any portion of the Subject Interests.

(j) Gross Proceeds shall not include amounts attributable to the interests of parties other than WI Owner and the Royalty Owner in the lands described in Exhibit A and shall not include any amounts paid that are attributable to production payments, royalties or overriding royalties payable to such other parties.

(k) It is specifically understood that the liquefiable hydrocarbon interest identified in Exhibit A as subject to the McCormick, et al overriding royalty shall be included in Subject Interests such that proceeds relating to such interest in production therefrom shall be included in Gross Proceeds to the extent otherwise provided herein.

Section 1.6. "Lease" or "Leases" means the oil, gas and mineral leases (or portions thereof or interests therein, including, without limitation, any royalty interests, overriding royalty interests and similar interests) described in Exhibit A attached hereto.

Section 1.7. "Minerals" means oil, gas, other liquid and gaseous hydrocarbons and other minerals, whether similar or dissimilar.

Section 1.8. "Net Proceeds" for any Period after the Effective Date means the excess of Gross Proceeds received by WI Owner during such Period over the sum of (a) Production Costs paid during such Period and (b) Excess Production Costs as of the end of the immediately preceding Period, as such Net Proceeds are computed in accordance with Section 2.4 hereof.

Section 1.9. "Overproduced Party" means a party to a gas balancing arrangement who, as a result of producing, in addition to its own share of production, that portion of another party's share of production which such other party is unable or unwilling to market or otherwise to dispose of, is in a position of net over-production with respect to such other party or parties to such gas balancing arrangement.

Section 1.10. "Period" means one calendar month; provided, however, that the first Period shall run from the Effective Date to the last day of the calendar month in which the Effective Date falls.

Section 1.11. "Person" means any individual, corporation, partnership, trust, estate or other entity or organization.

Section 1.12. "Prime Interest Rate" means the interest rate announced from time to time by Bank of America at its principal office in Dallas, Texas as its "prime interest rate."

Section 1.13. "Process" or "Processing" means to manufacture, refine, process, fractionate, dehydrate, condition, treat, conduct absorption or plant operations, market (including without limitation gather, transport and exchange) or compress Subject Minerals in a manner which does not constitute Well Operations.

Section 1.14. "Production Costs" means, to the extent such costs are properly allocable to the Subject Interests and have been incurred and paid or otherwise discharged by WI Owner during any Period, on the cash method of accounting (or accrued, even if not paid or otherwise discharged, to the extent provided in this Section 1.14), and whether capital or non-capital in nature, without duplication:

(a) the sum of

(i) the maintenance, drilling, completing, equipping and operating costs for such Period and all other costs for such Period incurred by WI Owner applicable to the Subject Interests, including budgeted capital expenditures and/or unusual items of material cost;

(ii) an amount equal to all general property (ad valorem), production, severance, sales, gathering, energy, BTU and similar state, federal or other taxes (except income taxes) assessed or levied on or in connection with the Subject Interests, the Overriding Royalty Interest or the production therefrom or equipment thereon, or the processing, gas exchange or marketing of production attributable thereto, and which taxes (as adjusted or as finally determined) are deducted or excluded from proceeds of Sale received by WI Owner or paid by WI Owner and attributable to both WI Owner's and Royalty Owner's share in the Subject Minerals or the Subject Interests; provided, however, that in the case of any such taxes that accrue ratably over any period, such taxes shall be deemed to be Production Costs as they accrue;

(iii) all amounts borne by WI Owner in such Period as to any of the following: (a) to the extent allocable to the Subject Interests, payments made to others in the area in connection with the drilling or deferring of drilling of any well on or in the vicinity of any of the Subject Interests (including dry hole and bottom hole payments and payments made to others for refraining from drilling an offset well) or in connection with any cost adjustments with respect to any well and/or leasehold equipment upon unitization of any of the Subject Interests; (b) to the extent allocable to the Subject Interests, rent and other consideration paid for use of or damage to the surface and (c) all direct charges applicable to the Subject Interests relating to lease renewals, geological and geophysical,

seismic, engineering and preparation for drilling costs (including without limitation the cost of securing any seismic or geophysical permits or options);

(iv) to the extent allocable to the Subject Interests, all other costs, expenses and liabilities of, in connection with, arising out of or relating to operating any well on the Subject Interests and producing Subject Minerals and sale and marketing thereof for such Period, including without limitation: (a) costs of equipping, plugging back, reworking, recompleting, plugging and abandoning and surface restoration and other related costs as required by law and in accordance with the terms of the Leases (or instruments covering lands pooled with any Lease) and of making the Subject Minerals ready or available for market; (b) the costs of Well Operations and of Processing, together with any construction costs associated with facilities utilized in connection with Well Operations or Processing; (c) the costs of secondary recovery, pressure maintenance, repressuring, recycling and other operations commonly used in the oil and gas industry which are recognized as reputable methods of enhancing production; (d) the costs of claims or litigation concerning marketing the Subject Minerals or delivery of production from, title to, taxation (limited to ad valorem or any other property taxes and severance or any other taxes payable out of or measured by production) of or operation of the Subject Interests, including claims or litigation relating to the drilling, testing and completing of any well on the Subject Interests, and any other acts or omissions of WI Owner consistent herewith (as a prudent owner or operator) or brought by WI Owner to protect the Subject Interests as a prudent owner or operator; (e) the cost of insurance incurred for the protection of the Subject Interests, the Royalty Owner or WI Owner; (f) delay rentals and shut-in royalties, (g) the costs (including without limitation any reasonable legal fees) of negotiating and preparing oil, gas and/or mineral leases to be executed covering any of the Subject Interests, and (h) payments to others for production of Subject Minerals produced but not sold by WI Owner; provided, however, that in the case of any such costs and expenses in clauses (a) through (h) of this subsection (iv) that accrue ratably over any period, such costs and expenses shall be deemed to be Production Costs as they accrue;

(v) the costs incurred by WI Owner for audits, if any, conducted by or on behalf of the Royalty Owner, and the costs incurred for any statements and reports provided by WI Owner to the Royalty Owner, to the extent not otherwise included as a Production Cost hereunder;

(vi) to the extent allocable to the Subject Interests, refunds of revenues previously included as Gross Proceeds required to be made by WI Owner (including any interest thereon or penalties) as a result of the bankruptcy, insolvency or similar condition of a purchaser of production or other party, an order of the Federal Energy Regulatory Commission or other governmental unit or any other legal reason;

(vii) to the extent allocable to the Subject Interests, any amounts paid by WI Owner after the Effective Date as a prudent owner or operator, whether as refund, interest or penalty, to (A) a purchaser because the amount initially received by WI Owner as sales price attributable to operations after the Effective Date was more or allegedly more than permitted by the terms of any applicable contract, statute, regulation, order, decree or

other obligation, (B) any third party because an amount initially paid by such third party relating to the exploration, development, operation, production, maintenance or protection of the Subject Interests (or any part thereof) was in excess of that otherwise owing under the terms of any applicable contract or agreement, or (C) any third party royalty owner because the amount initially paid by WI Owner with respect to a Lease was less or allegedly less than required under such Lease; and

(viii) to the extent allocable to any Subject Interest which includes or consists of any surface estate, all costs, expenses and liabilities of, in connection with, arising out of or relating to the ownership, operation, maintenance and management of such surface estate.

(b) Production Costs shall not include depletion, depreciation and other non-cash deductions.

(c) Production Costs (to the extent thereof for any Period subsequent to the Period in which amounts described in this Section 1.14(c) are received) and/or Excess Production Costs (to the extent thereof) shall be reduced by the amount received by WI Owner to the extent allocable to the Subject Interests as a result of (i) delay rentals, (ii) damages to, or condemnation by a governmental authority of, the Subject Interests, (iii) shut-in gas well royalty or payments, (iv) sale of fixtures and equipment used with respect to the Subject Interests, (v) rentals from reservoir use, (vi) dry hole and bottom hole payments, (vii) any payments made to WI Owner in connection with the drilling or deferring of drilling of any well on any of the Subject Interests, (viii) any amounts which WI Owner shall receive in connection with any adjustment of any well and leasehold equipment constituting part of the Subject Interests upon pooling or unitization of any of the Subject Interests, (ix) recoveries for breaches of drilling contracts and recoveries in connection with other proceedings pertaining to or affecting the Subject Interests or operations thereon, (x) insurance proceeds received as a result of damage to the Subject Interests or to the fixtures and equipment used with respect to the Subject Interests, (xi) any bonuses or payments made by third parties in connection with farmout transactions, if any, (xii) any amounts received by WI Owner as rental or use fees for personalty, platform, equipment or gathering lines located on the Subject Interests, (xiii) any amounts referred to in this subsection (c) not so applied to reduce Production Costs or Excess Production Costs in prior Periods, (xiv) amounts received by WI Owner from a purchaser of Subject Minerals as advance payments and payments pursuant to take-or-pay and similar provisions of Sales Contracts as and when paid to WI Owner, (xv) if WI Owner is an Underproduced Party under any gas balancing arrangement, the receipt by WI Owner of a settlement in cash for any net underproduced position, regardless of whether such underproduced position arose before or after the Effective Date, (xvi) any interest that accrues on the credit balance in the Net Proceeds Account from time to time, such interest to be net of any applicable third party service charge, (xvii) with respect to any surface estate included in the Subject Interests, all lease or rental payments received from third parties, all receipts from the sale of livestock, crops and timber and all other income attributable to such surface estate, and (xviii) to the extent not otherwise included in Gross Proceeds, the excess of any revenues received by WI Owner from Processing Subject Minerals over the Processing costs incurred by WI Owner to the extent not otherwise treated as a Production Cost. With respect to item (xvi), above, it is hereby expressly agreed and understood that WI Owner shall not be obligated to

secure any particular interest rate or other return on credit balances from time to time existing, and any investment of such credit balances shall be made in the sole discretion of WI Owner.

(d) Other than any amounts placed in escrow pursuant to Section 1.5(e) hereof, if WI Owner is an Overproduced Party under any gas balancing arrangement and WI Owner is required to make settlement in cash for any net over-production accruing after the Effective Date, such payment shall be included in Production Costs.

(e) The General and Administrative Costs relating to any particular Period shall be considered a Production Cost which shall be debited to the Net Proceeds Account for such Period.

Section 1.15. "Royalty Owner" means Assignor, while Assignor owns an interest in the Overriding Royalty Interest, and any other Person or Persons who subsequently acquire legal title to all or any portion of or any interest in the Overriding Royalty Interest.

Section 1.16. "Sale" includes sale, exchanges and other dispositions for value.

Section 1.17. "Sales Contracts" means all contracts and agreements for the offer sale of, or commitment to offer or sell, or right of first refusal to purchase, Subject Minerals after production.

Section 1.18. "Subject Interests" means, prior to giving effect to this Conveyance, each kind and character of right, title, claim or interest which the Assignor has (i) in, on and under the lands described in and covered by the Leases which are described in Exhibit A, and (ii) in, on and under any lands which are described in Exhibit A and the unitization and pooling agreements and the units created in connection therewith, whether such right, title, claim or interest be under and by virtue of a Lease, a unitization or pooling agreement, a unitization or pooling order, a mineral deed, a royalty deed, an operating agreement, a division order, a transfer order or any other type of contract, conveyance or instrument or under any other type of title, legal or equitable, recorded or unrecorded, even though the Assignor's interests be incorrectly or incompletely described in Exhibit A, all as the same shall be enlarged by the discharge of any payments out of production, by the removal of any charges or encumbrances to which any of the same are or become subject or by the entering into of non-consent operations and any and all renewals and extensions thereof acquired by Assignor within one year after the termination of the prior Subject Interest.

Section 1.19. "Subject Minerals" means all Minerals in and under, and which may be produced, saved and sold from, and which shall accrue and be attributable to, the Subject Interests.

Section 1.20. "Underproduced Party" means a party to a gas balancing arrangement who, as a result of its inability or unwillingness to market or otherwise dispose of a portion of its share of production and another party's producing such share of production, is in a position of net underproduction with respect to such other party or parties to such gas balancing arrangement.

Section 1.21. "Well Operations" means pumping, gas lifting and gravity separation of Minerals and other operations (including without limitation compression, treatment, separation, storage, dehydration, metering, gathering, and/or transportation) in the immediate vicinity of the well but does not include compression or transportation of the Minerals beyond the immediate vicinity of the well, or absorption or fractionation and other plant operations.

Section 1.22. "WI Owner" means Assignee, while it owns all or part of the Subject Interests or any interest therein and any other Person or Persons who, as permitted herein, subsequently acquire legal title to all or any part of the Subject Interests or any interest therein other than the Overriding Royalty Interest reserved hereby.

SECTION 2

Payment

Section 2.1. Payment. On the 10th day of each Period (or, if such day is not a Business Day, on the Business Day next preceding such day), WI Owner shall pay to the Royalty Owner as an overriding royalty hereunder an amount equal to 96.97% of the Net Proceeds for the preceding Period, computed in accordance with Section 2.4 hereof.

Section 2.2. Interest on Past Due Payments. Any amount not paid by WI Owner to the Royalty Owner when due shall bear, and WI Owner will pay, interest at the weighted average Prime Interest Rate in effect during the period of underpayment; provided that such interest shall not be in excess of the maximum amount allowed by law. Under no circumstances, however, shall WI Owner willfully withhold payment properly due the Royalty Owner hereunder.

Section 2.3. Overpayment. If at any time WI Owner inadvertently pays the Royalty Owner more than the amount due, the Royalty Owner shall not be obligated to return any such overpayment, but the amount or amounts otherwise payable for any subsequent Period or Periods shall be reduced by such overpayment.

Section 2.4. Net Proceeds Account. A Net Proceeds account (the "Net Proceeds Account") shall be maintained by WI Owner for each Period after the Effective Date. The Net Proceeds Account shall be credited with the aggregate of any Gross Proceeds received during such Period, and shall be debited with the aggregate of any Production Costs paid during such Period. The amounts provided for in Section 1.14(c) hereof shall be taken into account for the sole and only purpose of reducing amounts that would otherwise be debited to the Net Proceeds Account in accordance herewith, and Royalty Owner shall have no right, title or claim to such amounts.

On or before the date of payment as set forth in Section 2.1 hereof, WI Owner shall furnish to the Royalty Owner a detailed statement clearly reflecting the credits and debits against and the balance of the Net Proceeds Account for the applicable Period. Any Excess Production Cost reflected by any such statement shall be carried forward to the next and succeeding Period or Periods until the Excess Production Costs shall have been liquidated. If, at the end of any Period, there are Excess Production Costs which have not been liquidated in accordance with the preceding sentence, then an amount equal to interest at the Prime Interest Rate in effect on the

last day of such Period shall be computed on the unliquidated balance of the Excess Production Costs from the last day of such Period to the last day of the following Period, and such amount shall be treated as a Production Cost in such following Period.

In the event that Net Proceeds exist in the Net Proceeds Account at the end of any month, payment to the Royalty Owner of the amount of the Net Proceeds pursuant to Section 2.1 shall be paid promptly by WI Owner to the Royalty Owner.

WI Owner shall maintain the Net Proceeds Account in accordance with good accounting practice and in a manner to minimize accounting difficulties but accomplish on a fiscal year basis the overall goal of this Conveyance, and the books and records relating thereto shall at all reasonable times be open to inspection, examination, copying and audit by the Royalty Owner and its duly authorized agents and representatives.

Section 2.5. Limitation. All payments made to Royalty Owner shall be made entirely and exclusively out of amounts received from the sale or other disposition of Subject Minerals produced from Subject Interests after the Effective Date, and in no event shall such payments exceed 100% of the value of such production at the wellhead (based upon the terms upon which such production is marketed by WI Owner) before the application of any Processing. Should the payments to Royalty Owner, computed in accordance herewith ever exceed such amount (such excess amount being herein referred to as the "Overage"), such Overage shall be suspended and accrued; and if the payments calculated in accordance herewith are ever again less than 100% of the value of such production at the wellhead before the application of any Processing, the Overage shall be added to subsequent payments but not in an amount which would then cause payments to exceed 100% of the value of such production at the wellhead before the application of any Processing, so that Royalty Owner, if possible, shall be entitled to receive the total amount to be distributed hereunder as if the limitation imposed by this Section had not been in effect.

SECTION 3

Miscellaneous

Section 3.1. Non-Liability of Royalty Owner. In no event shall the Royalty Owner be liable or responsible in any way for payment of any Production Costs or other costs or liabilities incurred by WI Owner or other lessees attributable to the Subject Interests or to the Minerals produced therefrom.

Section 3.2. Intention of the Parties. Nothing herein contained is intended to create, nor shall the same be construed as creating (under state law or for tax purposes), any mining partnership, commercial partnership or other partnership relation or joint venture. If, however, the parties hereto are deemed to constitute a partnership for federal or state income tax purposes, the parties elect to be excluded from the application of Subchapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1986, as amended (the "Code") or any similar state law, and agree not to take any position inconsistent with such election. In addition, the parties hereto intend that the Overriding Royalty Interest conveyed hereby by WI Owner to the Royalty Owner shall at all times be treated as a nonoperating "economic interest" in the Subject Minerals within the

meaning of the Code (or any corresponding provisions of succeeding law) and a non-operating mineral right for state law purposes.

THE OVERRIDING ROYALTY INTEREST CREATED BY THIS CONVEYANCE IS A RIGHT AFFECTING AND BURDENING THE SUBJECT INTERESTS. THIS CONVEYANCE CREATES AN INTEREST IN REAL PROPERTY, AND THE COVENANTS CONTAINED IN THIS CONVEYANCE ARE COVENANTS RUNNING WITH AND BURDENING THE LAND.

WHEREAS, Assignor herein, Dorchester Hugoton, Ltd., now desires to transfer, assign and convey the above reserved Overriding Royalty Interest to Dorchester Minerals, L.P., Assignee herein.

NOW THEREFORE, Assignor herein, Dorchester Hugoton Ltd., for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, does hereby GRANT, BARGAIN, ASSIGN, TRANSFER, CONVEY, AND DELIVER, without warranties or covenants of title, express or implied, except as hereinafter set forth, unto Dorchester Minerals, L.P., Assignee herein, and its successors and assigns, effective as of 7:00 a.m. local time of the location of the properties herein assigned, on ____________ (the "Effective Date"), the following properties, rights and interests:

(A) All of Assignor herein, Dorchester Hugoton, Ltd.'s right, title and interest in and to that certain Overriding Royalty Interest reserved by Assignor, Dorchester Hugoton Ltd., in Part II and Exhibit A of that certain Assignment, Conveyance and Assumption Agreement by and between Dorchester Hugoton Ltd. as Assignor and Dorchester Minerals Operating LP as Assignee therein dated _________________ with an effective date of __________________ and which is recorded in ______________ for purposes of identification herein. Such Part II and Exhibit A thereto are incorporated herein by reference for all purposes and said Exhibit A is attached hereto as an exhibit to this Assignment and Conveyance.

(B) TO HAVE AND TO HOLD, all and singular, such Overriding Royalty Interest, unto Assignee and Assignee's successors and assigns forever. This Assignment is made with full substitution and subrogation of Assignee in and to all warranties heretofore given or made, but is otherwise without warranties or covenants of title, express or implied. All tangible equipment and personal property is assigned "AS IS, WHERE IS". ASSIGNOR HEREBY EXPRESSLY DISCLAIMS AND NEGATES ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, COMMON LAW, STATUTORY OR OTHERWISE RELATING TO THE SUBJECT PROPERTIES (INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OR COVENANT OF TITLE, EXPRESS OR IMPLIED, ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS) OR ENVIRONMENTAL CONDITION, OR ANY INFRINGEMENT BY ASSIGNOR OF ANY PATENT OR PROPRIETARY RIGHT OF ANY THIRD PERSON.

Assignor agrees to execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such instruments, and take such other actions, as may be necessary or advisable to more fully and effectively grant, convey and assign to Assignee the rights, properties and interests assigned to Assignee hereby or intended so to be.

This Assignment is being executed in several counterparts, all of which are identical, except that, to facilitate recordation, a counterpart hereof being filed or recorded in a particular jurisdiction may have omitted therefrom those portions of Exhibit A which describe properties, rights or interests located in other jurisdictions. All of such counterparts together shall constitute one and the same instrument. Complete copies of this Assignment have been retained by Assignor and Assignee.

All of the terms, provisions, covenants and agreements herein contained shall extend to and be binding upon the parties hereto, and their respective successors and assigns.

IN WITNESS WHEREOF, this Assignment and Conveyance is executed this ____________________ but effective as of the Effective Date.

ASSIGNOR:
ASSIGNEE:
DORCHESTER
HUGOTON,
LTD.
DORCHESTER
MINERALS,
L.P. By:
P.A. Peak,
Inc.,
General
Partner
By:
Dorchester
Minerals
Management
LP,
General
Partner
By: By:
Dorchester
Minerals
Management
GP -------

-- LLC,
General
Partner
Preston A.
Peak,
President
By: James
E. Raley,
Inc.,
General
Partner
By: ------

------- --

--------,

- By: ----

James E.
Raley,
President

EXHIBIT 3.3(c)(ii)
TO EXHIBIT 2.1

ASSIGNMENT, CONVEYANCE AND ASSUMPTION AGREEMENT

This Assignment, Conveyance, Bill of Sale and Assumption Agreement is by and between:

Dorchester Hugoton, Ltd. ("Assignor")
1919 S. Shiloh Road
Suite 600 - LB 48
Garland, Texas 75042

Dorchester Minerals, L.P. ("Assignee")
3738 Oak Lawn Ave.
Dallas, Texas 75219

WHEREAS, Assignor and Assignee are parties to that certain Combination Agreement dated December 13, 2001 (the "Combination Agreement") pursuant to which Assignor is obligated to transfer certain assets to Assignee;

WHEREAS, by that certain Assignment, Conveyance and Assumption Agreement by and between Dorchester Hugoton, Ltd. as assignor and Dorchester Minerals Operating LP as assignee dated ___________________ with an Effective Date of ________________________ (the "WI Assets Conveyance"), Dorchester Hugoton Ltd. transferred to Dorchester Minerals Operating LP the rights, title and interests to oil, gas, and/or other minerals all as set forth in the WI Asset Conveyance (the "WI Assets"), and Dorchester Minerals Operating LP assumed certain obligation of Dorchester Hugoton, Ltd. as set forth in the WI Asset Conveyance (the "WI Assumed Liabilities");

WHEREAS, Dorchester Hugoton, Ltd., saved, reserved and excepted from the above-referenced Assignment, Conveyance and Assumption Agreement in Part II an Overriding Royalty Interest as defined therein;

WHEREAS, following the WI Asset Conveyance, by that certain Assignment, Conveyance, Bill of Sale and Assumption Agreement by and between Dorchester Hugoton, Ltd. as assignor and Dorchester Minerals Operating LP as assignee dated ______________________ with an Effective Date of _________________ (the "Management Assets Conveyance"), Dorchester Hugoton, Ltd. transferred to Dorchester Minerals Operating LP certain assets of Dorchester Hugoton, Ltd., all as set forth in the Management Assets Conveyance (the "Management Assets"), and Dorchester Minerals Operating LP assumed certain obligations of Dorchester Hugoton, Ltd. as set forth in the Management Assets Conveyance (the "Management Assumed Liabilities");

WHEREAS, by that certain Assignment and Conveyance by and between Dorchester Hugoton, Ltd. as assignor and Dorchester Minerals, L.P. as assignee dated _________________ with an Effective Date of ________________ (the "Overriding Royalty Interest Conveyance"), Dorchester Hugoton Ltd. transferred to Dorchester Minerals, L.P. the Overriding Royalty Interest;

WHEREAS, Assignor herein, Dorchester Hugoton, Ltd., now desires to transfer, assign and convey to Dorchester Minerals, L.P., as assignee herein, certain of its assets that were not heretofore conveyed pursuant to the WI Assets Conveyance, the Management Assets Conveyance and the Overriding Royalty Interest Conveyance (collectively, the "Prior Conveyances");

WHEREAS, Assignee herein, Dorchester Minerals, L.P., now desires to assume certain obligations and liabilities of Dorchester Hugoton, Ltd. remaining after the assumptions pursuant to the Prior Conveyances;

PART I

Assignor, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Assignee, does hereby GRANT, BARGAIN, ASSIGN, TRANSFER, CONVEY, AND DELIVER, without warranties or covenants of title, express or implied, except as hereinafter set forth, unto Assignee and Assignee's successors and assigns, effective as of __________________, Dallas, Texas time, on ____________ (such date and time being referred to herein as the "Effective Date"), the following properties, rights and interests ("Subject Properties"):

(1) All assets of Assignor (other than those assets defined as the "Excluded Assets" in Part I, Clause (2) below), wherever located, including, without limitation:

(A) All right title and interest of Assignor in and to (i) the trade name, "Dorchester Hugoton, Ltd." and variants thereof, (ii) the mark used in conjunction with the name Dorchester Hugoton, Ltd. and (iii) all registrations, applications, license and rights with respect to the foregoing tradename and mark, including, without limitation, Service Mark Registration 1,434,926 issued March 31, 1987 for mark consisting of fanciful letter "D" and design, in effect until March 31, 2007, and all rights to recover for infringement thereon;

(B) All books, records, papers and instruments of Assignor that relate to its existence as an entity (including, without limitation, and by way of example, its Certificate and Agreement of Limited Partnership and amendments thereto and records relating to its qualification to do business in other jurisdictions), or that relate to its securities or its relationship with its unitholders (including, without limitation, and by way of example, records relating to its filings with the Securities and Exchange Commission and the National Association of Securities Dealers and NASDAQ, its Depositary Agreement, its Nominee Agreement and records relating to the transfer of its securities);

(C) All rights, claims and causes of action of Assignor against third parties (including Assignor's predecessors in title) where such rights, claims and causes of action accrue, or relate to the period, prior to the Effective Date, but excluding those rights, claims and causes of action against third parties that are described in Part II, Clause (1)(M) of the Management Assets Conveyance;

(D) All rights (include rights of refund), privileges, claims and causes of action, accruing or relating to the period prior to the Effective Date, under the leasehold estates referenced in Part II, Clause (1)(A) of the Management Assets Conveyance, the personal property leases referenced in Part II, Clause (1)(E) of the Management Assets Conveyance, the contracts and agreements referenced in Part II, Clause (1)(F) of the Management Assets Conveyance, and the warranties, representations, indemnifications, hold harmless provisions and guarantees referenced in Part II, Clause (1)(G) of the Management Assets Conveyance;

(E) All rights to receive refunds or repayments (i) of prepaid rentals and other prepaid expenses of the type referenced in Part II, Clause (1)(H) of the Management Assets Conveyance and (ii) with respect to transferable bonds, deposits and financial assurances referenced in Part II, Clause (1)(I) of the Management Assets Conveyance;

(F) The rights under Assignor's Letter of Understanding to provide Partnership Tax Accounting and Reporting Services agreement with PricewaterhouseCoopers LLP dated September 24, 2001, including the contingent right to acquire such software in certain circumstances described therein;

(G) All uncollected accounts receivable, if any, and notes receivable, if any, as of the Effective Date;

(H) Cash in an amount equal to [$ *];

(I) All Assignor's bank and accounts with other financial institutions after the "Excess Cash Amount" has been transferred to or for the benefit of the partners of Assignor pursuant to the Combination Agreement, but excluding the bank account referenced in Part II, Clause (O) of the Management Assets Conveyance;

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* To be completed at Closing with that amount required to be conveyed to Assignee by Assignor pursuant to Section 10.5 of the Combination Agreement, if any.

(J) All securities and instruments, if any, following the sale by Assignor of securities pursuant to Section 10.7(b) of the Combination Agreement; and

(K) All goodwill, if any, associated with, and the going concern value of, the business heretofore conducted by Assignor.

The assets in this Part I, Clause (1) are referred to herein collectively as the "Residual Assets".

(2) Notwithstanding any provision in Part I, Clause (1) above to the contrary, the following assets and properties of Assignor (the "Excluded Assets") are excluded from the Subject Properties and are not conveyed hereunder:

(A) The WI Assets, which have heretofore been conveyed pursuant to the WI Assets Conveyance;

(B) The Management Assets, which have heretofore been conveyed pursuant to the Management Assets Conveyance;

(C) The Overriding Royalty Interest, which has heretofore been conveyed pursuant to the Overriding Royalty Interest Conveyance; and

(D) All cash and cash equivalents, (other than the cash amount conveyed under Part I, Clause (1)(H) above and other than any cash contained in the bank accounts transferred to Assignee pursuant to Part I, Clause (1)(I) above).

PART II

TO HAVE AND TO HOLD, all and singular, the Subject Properties, unto Assignee and Assignee's successors and assigns forever. The assignment made hereunder is made with full substitution and subrogation of Assignee in and to all warranties heretofore given or made, but is otherwise without warranties or covenants of title, express or implied. All tangible equipment and personal property, if any, is assigned "AS IS, WHERE IS". ASSIGNOR HEREBY EXPRESSLY DISCLAIMS AND NEGATES ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, COMMON LAW, STATUTORY OR OTHERWISE RELATING TO THE SUBJECT PROPERTIES (INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OR COVENANT OF TITLE, EXPRESS OR IMPLIED, ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS) OR ENVIRONMENTAL CONDITION, OR ANY INFRINGEMENT BY ASSIGNOR OF ANY PATENT OR PROPRIETARY RIGHT OF ANY THIRD PERSON.

Assignor agrees to execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such instruments, and take such other actions, as may be necessary

or advisable to more fully and effectively grant, convey and assign to Assignee the rights, properties and interests assigned to Assignee hereby or intended so to be.

PART III

As further consideration for the transfer of the Subject Properties to the Assignee, the Assignee agrees, upon the terms and subject to the conditions set forth herein, to assume, at the Effective Date, and thereafter to pay, perform, and discharge in accordance with their terms, all liabilities and obligations of Assignor, direct or indirect, known or unknown, absolute or contingent, excluding the WI Assumed Liabilities and the Management Assumed Liabilities, which have heretofore been assumed pursuant to the Prior Conveyances (collectively, the "Assumed Liabilities").

Assignee agrees to execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such instruments, and take such other actions, as may be necessary or advisable to more fully and effectively assume the liabilities and obligations of Assignor assumed or intended to be assumed by Assignee hereunder.

PART IV

This Assignment, Conveyance and Assumption Agreement is being executed in several counterparts, all of which are identical. All of such counterparts together shall constitute one and the same instrument. Complete copies of this Assignment, Conveyance and Assumption Agreement have been retained by Assignor and Assignee.

All of the terms, provisions, covenants and agreements herein contained shall extend to and be binding upon the parties hereto, and their respective successors and assigns.

IN WITNESS WHEREOF, this Assignment, Conveyance and Assumption Agreement is executed this ____________________ but effective as of the Effective Date.

ASSIGNOR: ASSIGNEE: DORCHESTER HUGOTON, LTD. DORCHESTER MINERALS, L.P. By: P. A Peak, Inc., General Partner By: Dorchester Minerals Management LP, General Partner By: Dorchester Minerals Management GP LLC, By: General Partner ------------------------------------ Preston A. Peak, President By: James E. Raley, Inc., General Partner By: ---------------------------- By: --------------------------------------- ---------------, ----------- James E. Raley, President

EXHIBIT 4.1(c)
TO EXHIBIT 2.1

AGREEMENT OF DISSENTER

December ___, 2001

Dorchester Hugoton, Ltd.
1919 S. Shiloh Rd.
Suite 600 B LB 48
Garland, Texas 75042

In addition to voting against the transactions contemplated by that certain Combination Agreement (the "Agreement") dated as of December 13, 2001, by and among Republic Royalty Company, a Texas general partnership, Spinnaker Royalty Company, L.P., a Texas limited partnership, Dorchester Hugoton, Ltd., a Texas limited partnership ("DHL"), Dorchester Minerals, L.P., a Delaware limited partnership, Dorchester Minerals Management LP, a Delaware limited partnership, Dorchester Minerals Management GP LLC, a Delaware limited liability company, and Dorchester Minerals Operating LP, a Delaware limited partnership, the undersigned DHL limited partner demands cash payment for DHL limited partnership units pursuant to this Agreement of Dissenter. Capitalized terms used and not otherwise defined herein have the meaning ascribed to them in the Agreement.

The undersigned DHL limited partner, for the benefit of DHL, DHL's general partners and the Partnership, (i) agrees, subject to consummation of the Asset Conveyance, and for the benefit of DHL, its general partners and Dorchester Minerals, L.P. that notwithstanding anything to the contrary in the DHL Partnership Agreement, the Depositary Agreement or the Nominee Agreement, such limited partner shall not be entitled to receive any assets of the Partnership or any portion of the LP Units or Excess Cash Amount upon winding up of DHL after dissolution, but instead shall solely be entitled to receive the amount provided in Article IV of the Agreement, and (ii) irrevocably waives, relinquishes and releases any such right or entitlement to LP Units or Excess Cash Amount.

Very truly yours,

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

EXHIBIT 11.10
TO EXHIBIT 2.1

FORM OF AFFILIATE AGREEMENT

_______________, 2001

Dorchester Minerals, L.P.
3738 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219

Gentlemen:

Pursuant to the terms of the Combination Agreement (the "Agreement") dated as of December 13, 2001 by and among Republic Royalty Company, a Texas general partnership ("RRC"), Spinnaker Royalty Company, L.P., a Texas limited partnership ("SRC"), Dorchester Hugoton, Ltd., a Texas limited partnership ("DHL", and together with RRC and SRC, the "Subject Partnerships"), Dorchester Minerals, L.P., a Delaware limited partnership (the "Partnership"), Dorchester Minerals Management LP, a Delaware limited partnership, Dorchester Minerals Management GP LLC, a Delaware limited liability company, and Dorchester Minerals Operating LP, a Delaware limited partnership, upon the consummation of the transactions contemplated by the Agreement (the "Combination"), the undersigned will receive LP Units of the Partnership in exchange for the undersigned's partnership interest in the respective Subject Partnership. Capitalized terms used and not otherwise defined herein have the meaning ascribed to them in the Agreement.

The undersigned understands that as of the date of this letter the undersigned may be deemed to be an "affiliate" of a Subject Partnership, as the term "affiliate" is defined for purposes of Rule 145 of the rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"). The undersigned is delivering this letter to the Partnership as an undertaking and commitment pursuant to Section 11.10 of the Agreement.

With respect to such LP Units of the Partnership as may be received by the undersigned pursuant to the Agreement, the undersigned represents to and agrees with the Partnership that:

A. The undersigned will not make any sale, transfer or other disposition of the LP Units in violation of the Securities Act or the Rules and Regulations, including without limitation Rule 145.

B. The undersigned has been advised that the offering, sale and delivery of the LP Units to the undersigned pursuant to the Agreement has been registered with the Commission under the Securities Act on a Registration Statement on Form S-4. However, because the undersigned may be deemed to be an affiliate of a Subject Partnership, and because the re-sale or other distribution by the undersigned of the LP Units has not been registered under the Securities Act, the undersigned may not sell, transfer or otherwise dispose of the LP Units issued to the

undersigned in the Combination unless (i) such sale, transfer or other disposition has been registered under the Securities Act, (ii) such sale, transfer or other disposition is made in compliance with Rule 145 promulgated by the Commission under the Securities Act, (iii) in the opinion of counsel reasonably acceptable to the Partnership in form and substance, such sale, transfer or other disposition is deemed otherwise exempt from registration under the Securities Act, or (iv) a "No Action" letter obtained by the undersigned from the staff of the Commission confirms that such sale, transfer or other disposition is otherwise exempt from registration under the Securities Act. [*Note: The legend quoted below does not contemplate allowing a transfer solely on the basis of a no action letter; the legend has been broadened to allow transfer upon "evidence satisfactory to the issuer" which could include either an opinion or a no-action letter.]

C. The undersigned understands that the Partnership is under no obligation to register the sale, transfer or other disposition of the LP Units by the undersigned or on behalf of the undersigned under the Securities Act or to take any other action necessary in order to make compliance with an exemption from such registration available.

D. Stop transfer instructions will be given to the Partnership's transfer agents with respect to the LP Units issued to the undersigned and there will be placed on the certificates for the LP Units issued to the undersigned, or any substitutions therefor, a legend stating in substance:

> "THE UNITS REPRESENTED BY THIS CERTIFICATE WERE ISSUED IN A TRANSACTION UNDER RULE 145 PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY ONLY BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED IN COMPLIANCE WITH RULE 145, PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR UPON EVIDENCE SATISFACTORY TO THE ISSUER (WHICH, IN THE DISCRETION OF THE ISSUER, MAY INCLUDE A WRITTEN OPINION OF COUNSEL, REASONABLY ACCEPTABLE TO THE ISSUER IN FORM AND SUBSTANCE) THAT SUCH TRANSFER IS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT."

Execution of this letter shall not be considered an admission on the part of the undersigned that the undersigned is an "affiliate" of a Subject Partnership as described in the first paragraph of this letter or as a waiver of any rights the undersigned may have to object to any claim that the undersigned is such an affiliate on or after the date of this letter.

Very truly yours,

Name: ------------------------------

Title: -----------------------------

EXHIBIT 11.17
TO EXHIBIT 2.1

ROYALTY/NPI AGREEMENT

This Royalty/NPI Agreement (this "Agreement"), dated as of _________, 2002, is made by and between Dorchester Minerals L.P., a Delaware limited partnership (the "Partnership"), and Dorchester Minerals Operating LP, a Delaware limited partnership ("Operating").

WHEREAS, the Partnership owns, and may acquire in the future, mineral interests, royalty and overriding royalty interests, and other nonoperating interests in oil and gas properties (individually, a "Nonoperating Interest" and collectively, the "Nonoperating Interests");

WHEREAS, Operating owns certain working or operating interests in oil and gas properties which are burdened by one or more of the Nonoperating Interests (individually, an "Operating Interest" and collectively, the "Operating Interests");

WHEREAS, certain of the mineral interests or other interests in properties owned or acquired by the Partnership may from time to time become Operating Interests as a result of the conduct of development activities on such properties by third parties;

WHEREAS, the Partnership desires to avoid the ownership of Operating Interests and the attendant responsibilities and obligations associated therewith; and

WHEREAS, Operating has agreed to assume all operating responsibilities and obligations associated with any of the Partnership's interests which might otherwise become Operating Interests in exchange for the right to receive 3.03% of the Partnership's net revenue resulting from such interests, all in accordance with the terms of this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein, the parties agree as follows:

1. The Partnership agrees to assign to Operating, and Operating agrees to accept from the Partnership, an assignment of all of the Partnership's Operating Interest in any oil and gas mineral property on which a well has been drilled and completed if such Operating Interest has not been previously assigned pursuant to an oil and gas lease or otherwise to a third party. Each such assignment made under this Agreement will be effective as of the date of completion of such well (or immediately prior to the commencement of drilling if the Partnership would otherwise be incurring drilling expenses).

2. Each assignment shall reserve to the Partnership a 96.97% net profits overriding royalty interest (an "NPI") providing for the calculation of net profits in a manner substantially the same as provided in the Assignment, Conveyance and Assumption Agreement between Dorchester Hugoton, Ltd., a Texas limited partnership, and Operating dated of even date herewith.

3. If, in any calendar year, more than one NPI is established, Operating shall have the right and option to require that all NPIs established in such year be exchanged at the end of such year

for a single NPI burdening all of the Operating Interests assigned to Operating in such year.

4. Each NPI shall become effective on the date of completion of the well in question (or earlier as provided in paragraph 1 above) and Operating shall assume full responsibility for all of the working or operating interest obligations and liabilities associated with the Operating Interest assigned at such time, notwithstanding the fact that assignment of legal title shall be deferred as provided in the following sentence. For administrative convenience, the parties agree that the assignment of legal title to the interests assigned hereunder may be deferred until after Operating has exercised or not exercised its option to cause the individual NPIs to be exchanged for a single NPI as provided in paragraph 3 above; provided however, that all documentation shall be complete and legal title to the interests in question assigned no later than 90 days after the end of the calendar year in which such interests were established.

IN WITNESS WHEREOF, the parties have executed this Agreement this ____ day of ___________________, 2002.

DORCHESTER MINERALS, L.P.
By: Dorchester Minerals Management LP, General Partner
By: Dorchester Minerals Management GP, LLC,
General Partner

By:

DORCHESTER MINERALS OPERATING, LP
By: Dorchester Minerals Operating GP LLC, General
Partner

By:

EXHIBIT 11.18
TO EXHIBIT 2.1

INDEMNITY AGREEMENT

This Indemnity Agreement (this "Agreement") dated as of _____ p.m. on _______________, 2002, is by and between Dorchester Minerals, L.P. (the "Partnership") and ________________, a Texas limited partnership ("APO"). The Partnership and APO are sometimes individually referred to herein as a "Party" and collectively as the "Parties."

WITNESSETH:

WHEREAS, the Partnership and Republic Royalty Company, L.P. (previously Republic Royalty Company) ("RRC") are among the parties to that certain Combination Agreement dated as of December 13, 2001 (the "Combination Agreement");

WHEREAS, pursuant to the Combination Agreement, RRC will be merged with and into the Partnership;

WHEREAS, APO is a limited partner of RRC;

WHEREAS, pursuant to Section 12.2(f) of the Combination Agreement, RRC's obligation to consummate the transactions contemplated by the Combination Agreement is conditioned upon the Partnership's entering into an agreement in substantially this form, and pursuant to Sections 12.3(e), 12.4(f) and 12.5(d) of the Combination Agreement, the obligations of the Partnership (and such other parties thereto) to consummate such transaction is conditioned upon APO's (and in the case of such other parties, APO's and the Partnership's) entering into an agreement in substantially this form; and

WHEREAS, the Partnership and APO desire to set forth in writing their understanding of certain indemnification responsibilities with respect to certain matters involving RRC;

NOW, THEREFORE, in consideration of the premises of the covenants made herein and of the mutual benefits to be derived herefrom, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, agree as follows:

1. Certain Defined Terms. The following terms used in this Agreement shall have the following meanings:

"Governmental Entity" shall mean any court or tribunal in any jurisdiction (domestic or foreign) or any public, governmental, or regulatory body, agency, department, commission, board, bureau or other authority or instrumentality (domestic or foreign).

"Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, enterprise, unincorporated organization or Governmental Entity.

2. Indemnification by APO. APO will indemnify and hold harmless the Partnership and will reimburse the Partnership for any loss, liability, damage or expense actually incurred

by the Partnership (including costs of investigation and defense and reasonable attorneys' fees and expenses)(collectively, "Damages"), arising from or in connection with Amelia Garza de Salinas, et al. v. Coastal Oil & Gas Corporation, et al., Cause No. C-6239-95-F, 332nd Judicial District, Hidalgo County, Texas (the "Salinas Litigation"). The Partnership shall control the conduct of the Salinas Litigation. APO shall have the right to participate in the conduct of such litigation and be represented by its own counsel, provided that the costs thereof shall be borne by APO. No compromise or settlement of the Salinas Litigation may be effected by the Partnership without the consent of APO (which may not be unreasonably withheld).

3. Payments to APO.

(a) Garza Litigation Legal Fees. The Partnership will use commercially reasonable efforts to pursue the recovery of legal fees in connection with the judgment obtained by RRC in connection with Juan Lino Garza, et al. v. Elizabeth H. Coates Maddux, et al., Cause No. C-035-88-GA, 370th Judicial District, Hidalgo County, Texas, and which are now being pursued in Juan Lina Garza, Sr., Debtor, Case No. 00-21653-M-11, United States Bankruptcy Court, Southern District of Texas, McAllen Division and Juan Lino Garza et al. v. Elizabeth H. Coates Maddux, et al., Adversary No 00-020877-M, United States Bankruptcy Court, Southern District of Texas, McAllen Division (collectively, the "Garza Litigation") to the same extent as if the Partnership was the party originally entitled to recover such fees. No compromise, settlement, release, forgiveness or waiver of the Partnership's (as successor to RRC) claims in respect of the Garza Litigation may be effected by the Partnership without the consent of APO (which may not be unreasonably withheld). The Partnership will promptly remit to APO any and all amounts received by the Partnership after the closing of the transactions contemplated by the Combination Agreement (the "Closing") in connection with such fees, less only the actual out-of-pocket costs borne by the Partnership in the Garza Litigation. The Partnership shall control the conduct of the Garza Litigation. APO shall have the right to participate in the conduct of such litigation and be represented by its own counsel, provided that the costs thereof shall be borne by APO.

(b) Salinas Litigation Escrow. In connection with the escrow (the "Escrow") created and governed by that certain Agreement Pursuant to T.R.C.P. Rule 11 and T.R.C.P. Rule 408 dated May 30, 1997 and established in connection with the Salinas Litigation, the Partnership will promptly remit to APO any and all amounts received by the Partnership from the Escrow after the Closing which represent proceeds of Production (as defined below) that are attributable to periods prior to the date of this Agreement. For purposes of this section, "Production" means all oil, gas and other minerals produced from or allocated to the property, rights and interests that are the subject of the Escrow, and any products processed or obtained therefrom.

4. Funding.

(a) Any amounts payable by the Partnership under this Agreement shall be paid within thirty (30) days after the event giving rise to the obligation to make such payment has occurred. Any amounts payable by APO under this Agreement shall be paid (x) within 30 days after the event giving rise to the obligation to make such payment has occurred, or (y) within 10 days after the distribution by the Partnership to its limited partners first occurring after the event giving rise to the obligation to make such payment has occurred, whichever period is longer.

(b) Until both there has occurred a final, nonappealable judgment in, or settlement of, the Salinas Litigation and APO has fulfilled its payment obligations under Section 2 hereof, APO shall (i) maintain its existence and (ii) not dissolve or liquidate or distribute, transfer or grant any pledge, lien or security interest in any interests held by it in the Partnership.

5. Information Matters.

(a) With respect to the Salinas Litigation and the Garza Litigation, both the Partnership and APO, as the case may be, shall keep the other Party fully informed of the status of the Salinas Litigation and the Garza Litigation and any related proceedings at all stages thereof where such Party is not represented by its own counsel.

(b) With respect to the Salinas Litigation and the Garza Litigation, the Parties agree to cooperate in such a manner as to preserve in full (to the extent possible) the confidentiality of all confidential information and the attorney-client and work-product privileges. In connection therewith, each Party agrees that all communications between any Party hereto and counsel responsible for or participating in the defense of the Salinas Litigation or the Garza Litigation shall, to the extent possible, be made so as to preserve any applicable attorney-client or work-product privilege.

6. Amendment and Modification; Waivers. This Agreement or any term hereof may be changed, waived, or discharged only by an agreement in writing signed by both Parties. No waiver by a Party of any obligation of any breach of any term or covenant contained herein shall be effective unless in writing, and no waiver in any one or more instances shall be deemed to be a further or continuing waiver of any such condition or breach in any other instances or a waiver of any other condition or breach of any other term or covenant.

7. Assignment; Successors. This Agreement shall not be assigned by a Party without the prior written consent of the other Party. This Agreement is intended for the exclusive benefit of the Parties and their respective heirs, successors and permitted assigns, and shall not create any rights in or be enforceable by any other Person whomsoever, it being the intention of the Parties that no one shall be deemed to be a third party beneficiary of this Agreement.

8. Notices.

(a) All notices, requests, demands and other communications required or permitted to be given or made hereunder by any Party shall be in writing and shall be deemed to have been duly given or made if (i) delivered personally, (ii) transmitted by first class registered or certified mail, postage prepaid, return receipt requested, (iii) sent by prepaid overnight courier service or (iv) sent by telecopy or facsimile transmission, answer back requested, to the Parties at the following addresses (or at such other addresses as shall be specified by the Parties by like notice):

(a) If to the Partnership:

c/o Dorchester Minerals Management GP LLC

Attention: -------------------------

Telefax: ---------------------------

(b) If to APO:

c/o

Attention: -------------------------

Telefax: ---------------------------

Such notices, requests, demands and other communications shall be effective (i) if delivered personally or sent by courier service, upon actual receipt by the intended recipient, (ii) if mailed, upon the earlier of five days after deposit in the mail or the date of delivery as shown by the return receipt therefor or (iii) if sent by telecopy or facsimile transmission, when the answer back is received.

9. Governing Law; Submission to Jurisdiction. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Texas. Each of the Parties submits to the jurisdiction of any state or federal court sitting in the State of Texas, County of Dallas, or, if it has or can acquire jurisdiction, in the United States District Court for the Northern District of Texas, in any action or proceeding arising out of or relating to this Agreement, agrees that all claims in respect of the action or proceeding shall be heard and determined only in any such court, and agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court. Each of the Parties waives any defense of inconvenient forum to maintenance of any action or proceeding so brought.

10. Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof.

11. Counterparts. This Agreement may be executed by the Parties in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all, the Parties.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first written above.

DORCHESTER MINERALS, L.P.

By: Dorchester Minerals Management LP, General Partner

By: Dorchester Minerals Management GP LLC, General Partner

By: --

By: ------------------------- , General Partner

By: --

EXHIBIT 2.2

CONTRIBUTION AGREEMENT

BY AND AMONG

SAM PARTNERS, LTD.,

VAUGHN PETROLEUM, LTD.,

SMITH ALLEN OIL & GAS, INC.,

P.A. PEAK, INC.,

JAMES E. RALEY, INC.,

DORCHESTER MINERALS MANAGEMENT GP LLC, AND

DORCHESTER MINERALS MANAGEMENT LP

DATED AS OF DECEMBER 13, 2001

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Exhibit B	Form of Limited Partnership Agreement of General Partner
Exhibit C	Form of Transfer Restriction Agreement
Exhibit D	Percentage Interests in DMMLLC
Exhibit E	Form of Assignment

CONTRIBUTION AGREEMENT

This Contribution Agreement (the "Agreement"), dated as of December 13, 2001, is by and among SAM Partners, Ltd., a Texas limited partnership ("SAM"), Vaughn Petroleum, Ltd., a Texas limited partnership ("Vaughn"), Smith Allen Oil & Gas Company, Inc., a Texas corporation ("SAOG"), P.A. Peak, Inc., a Delaware corporation ("Peak"), James E. Raley, Inc., a Delaware corporation ("Raley"), Dorchester Minerals Management LP, a Delaware limited partnership ("General Partner") and its general partner, Dorchester Minerals Management GP LLC, a Delaware limited liability company ("DMMLLC"). Each of SAM, Vaughn, SAOG, Peak and Raley is a "Contributor" and, collectively, they are sometimes referred to as the "Contributors." Each of SAM, Vaughn, SAOG, Peak, Raley, General Partner and DMMLLC is a "Party" and, collectively, they are sometimes referred to as the "Parties."

RECITALS

WHEREAS, General Partner was formed on December 12, 2001 pursuant to the Delaware Revised Uniform Limited Partnership Act upon the filing of a certificate of limited partnership with the office of the Secretary of State of Delaware. DMMLLC is the sole general partner of General Partner. The Contributors are currently the sole limited partners of General Partner;

WHEREAS, DMMLLC was formed on December 12, 2001 pursuant to the Delaware Limited Liability Company Act upon the filing of a certificate of formation with the office of the Secretary of State of Delaware. The Contributors are currently the sole members of DMMLLC;

WHEREAS, Republic Royalty Company, a Texas general partnership of which SAM and Vaughn are the general partners ("RRC"), Spinnaker Royalty Company, L.P., a Texas limited partnership, of which SAOG is the general partner ("SRC") and Dorchester Hugoton, Ltd., a Texas limited partnership of which Peak and Raley are the general partners ("DHL"), are engaged in a transaction which will result in the combination of the businesses and properties of RRC, SRC and DHL (the "Transaction") pursuant to a Combination Agreement of even date herewith (the "Combination Agreement");

WHEREAS, prior to or simultaneously with the closing of the Transaction, RRC will be converted into a Delaware limited partnership (and after such conversion the term "RRC" shall be deemed to refer to such limited partnership as well);

WHEREAS, as a result of the Transaction, but prior to the Closing (as defined herein), SAM, Vaughn, and SAOG will each own general partner interests in Dorchester Minerals, L.P., a Delaware limited partnership (the "Partnership");

WHEREAS, as a result of the Transaction, but prior to the Closing, Peak and Raley will each own limited partner interests in the Partnership;

WHEREAS, SAM, Vaughn and SAOG desire to contribute their general partner interests in the Partnership to General Partner and certain cash to DMMLLC in accordance with the terms and provisions of this Agreement;

WHEREAS, Peak desires to contribute its limited partner interests in the Partnership and certain cash to a limited partnership to be formed prior to the Closing as an indirect subsidiary of Peak ("Peak LP"), and immediately thereafter, to cause Peak LP to contribute such limited partner interests and certain cash to General Partner and certain cash to DMMLLC (collectively, the "Peak Contribution"), and at Closing, Peak LP shall replace Peak as a member of DMMLLC and as a limited partner of General Partner;

WHEREAS, in order to effect the steps contemplated by the Peak Contribution in a single transaction with the contributions by the other Contributors pursuant to the terms and provisions of this Agreement, Peak will contribute (i) its limited partner interests in the Partnership and certain cash directly to General Partner in exchange for Peak LP's receipt from the General Partner of the consideration provided for herein and (ii) certain cash to DMMLLC in exchange for Peak LP's receipt from DMMLLC of the consideration provided for herein;

WHEREAS, Raley will be converted into a Delaware general partnership prior to Closing (and after such conversion the term "Raley" shall be deemed to refer to such general partnership as well), and Raley desires to contribute its limited partner interests in the Partnership and certain cash to General Partner and certain cash to DMMLLC;

WHEREAS, in connection with these capital contributions to General Partner and DMMLLC and to admit Peak LP as a substituted member in DMMLLC and a substituted limited partner in General Partner (in each case replacing Peak), the original limited liability company agreement of DMMLLC will be amended and restated in substantially the form attached hereto as Exhibit A (the "LLC Agreement"), the original limited partnership agreement of General Partner will be amended and restated in substantially the form attached hereto as Exhibit B (the "Partnership Agreement"), and the members of DMLLC and partners of General Partner will enter into a transfer restriction agreement in substantially the form attached hereto as Exhibit C (the "Transfer Restriction Agreement");

WHEREAS, the Parties intend that for federal income tax purposes, the above contributions qualify for non-recognition treatment under Section 721 of the Internal Revenue Code of 1986, as amended (the "Code");

WHEREAS, the Parties are making certain representations, warranties, covenants and indemnities herein as an inducement to the other Parties to enter into this Agreement;

NOW, THEREFORE, in consideration of the respective representations, warranties and covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

ARTICLE I
CONTRIBUTION TRANSACTIONS

1.1 Contribution to General Partner by SAM and Vaughn. Subject to the terms and conditions of this Agreement, SAM and Vaughn shall each contribute, convey, assign, transfer, set over and deliver to General Partner at the Closing all of their respective right, title and interest in and to all general partner interests in the Partnership held by them, including, without

limitation, the general partner interests issued to them pursuant to the Combination Agreement (collectively, the "SAM/Vaughn Contribution").

1.2 Contribution to General Partner by SAOG. Subject to the terms and conditions of this Agreement, SAOG shall contribute, convey, assign, transfer, set over and deliver to General Partner at the Closing all of its right, title and interest in and to all general partner interests in the Partnership held by it, including, without limitation, the general partner interests issued to it pursuant to the Combination Agreement (the "SAOG Contribution").

1.3 Contribution to General Partner by Peak and Raley. Subject to the terms and conditions of this Agreement, Peak and Raley shall each contribute, convey, assign, transfer, set over and deliver to General Partner at the Closing (i) all of their respective right, title and interest in and to all limited partner interests in the Partnership issued to them pursuant to the Combination Agreement with respect to their general partner interests in DHL and (ii) cash in the amount such that if that amount were added to such Person's capital account in DHL immediately prior to the closing of the Transaction, such Person's capital account balance would equal one-half of one percent (0.5%) of the aggregate capital account balance of all partners of DHL after all cash amounts have been contributed under this Section 1.3 (collectively, the "Peak/Raley Contribution" and together with the SAM/Vaughn Contribution and the SAOG Contribution, the "GP Contributions").

1.4 Partnership Agreement and Consideration. Subject to the terms and conditions of this Agreement, at the Closing the following will occur: (i) DMMLLC, SAM, Vaughn, SAOG, Raley and Peak LP shall enter into the Partnership Agreement (with Peak joining to evidence its agreement with the substitution of Peak LP), (ii) in exchange for the GP Contributions, "Ownership Interests" as provided in the Partnership Agreement will be issued to SAM, Vaughn, SAOG, Raley and Peak LP (the "LP Interests) and (iii) DMMLLC shall contribute to the General Partner the amounts contributed to DMMLLC pursuant to Section 1.5.

1.5 Contributions to DMMLLC; LLC Agreement and Consideration. Subject to the terms and conditions of this Agreement, at the Closing the following will occur: (i) SAM, Vaughn, SAOG, Raley and Peak LP shall enter into the LLC Agreement (with Peak joining to evidence its agreement with the substitution of Peak LP) and (ii) each Contributor shall contribute to DMMLLC at Closing cash in an amount equal to the product of (A) the percentage set forth opposite its name on Exhibit D, (B) one-tenth of one percent (0.1%) and (C) the quotient of (x) the aggregate amount (expressed in dollars) at which the GP Contributions are or are to be credited to the capital accounts of the limited partners of the General Partner divided by (y) 0.999 (the "LLC Contributions"), in consideration for the issuance by DMMLLC of "Ownership Interests" as provided in the LLC Agreement ("Member Interests").

1.6 The Closing. The consummation of the transactions contemplated in this Agreement (the "Closing") will take place at the offices of Thompson & Knight L.L.P., 1700 Pacific Avenue, Suite 3300, Dallas, Texas 75201, simultaneously with or immediately following the closing of the Transaction, or at such other time and place as the Parties may agree. The date on which the Closing occurs is referred to herein as the "Closing Date". All documents entered into at the Closing shall be deemed to have been entered into simultaneously.

1.7 Closing Deliveries. Subject to the terms and conditions of this Agreement:

(a) At the Closing, each of the Contributors will execute and deliver to General Partner, or cause to be so executed and delivered, the following:

(i) An assignment in the form attached hereto as Exhibit E of the general and/or limited partner interests in the Partnership representing their respective GP Contributions; and

(ii) Such other documents as may be reasonably requested by General Partner.

(b) At the Closing, General Partner will execute and deliver to each Contributor, or cause to be so executed and delivered, such documents as may be reasonably requested by any Contributor.

(c) At the Closing, each of the Contributors will deliver, or cause to be delivered, to DMMLLC, the following:

(i) an amount of cash (which delivery may be effected by wire transfer of immediately available funds) equal to that determined in accordance with Section 1.5; and

(ii) such other documents as may be reasonably requested by DMMLLC.

(d) At the Closing, DMMLLC will execute and deliver to each Contributor, or cause to be so executed and delivered such documents as may be reasonably requested by any Contributor.

(e) At the Closing, the parties specified in Section 1.4 shall enter into the Partnership Agreement, the parties specified in Section 1.5 shall enter into the LLC Agreement, and each of SAM, Vaughn, SAOG, Raley and Peak LP shall enter into the Transfer Restriction Agreement.

ARTICLE II
REPRESENTATIONS AND WARRANTIES OF THE CONTRIBUTORS

Each Contributor hereby separately represents and warrants to General Partner and DMMLLC and to each other Contributor and to Peak LP as of the date hereof the following as to itself only (and, in the case of Section 2.1 and Sections 2.6 through 2.9, Peak also makes such representations and warranties on behalf of Peak LP, which for purposes of Sections 2.6 through 2.9 shall also be deemed a Contributor):

2.1 Existence and Good Standing. SAM is a limited partnership duly formed and validly existing under the laws of the State of Texas. Vaughn is a limited partnership duly formed and validly existing under the laws of the State of Texas. SAOG is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Texas. Peak is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. At Closing, Peak LP will be a limited partnership duly formed, validly existing and in good standing under the laws of the State of Delaware. Raley is a corporation duly

incorporated, validly existing and in good standing under the laws of the State of Delaware and at Closing will be a general partnership duly formed, validly existing and in good standing under the laws of the State of Delaware. Each Contributor has all requisite corporate or partnership power and authority to carry on its business as it is now being conducted.

2.2 Authority. Each Contributor has all requisite corporate or partnership power and authority to execute, deliver and perform this Agreement, the Partnership Agreement, the LLC Agreement and the Transfer Restriction Agreement. This Agreement and each other such agreement has been duly and validly executed and delivered by the Contributor and, assuming the due authorization, execution and delivery hereof and thereof by the other parties hereto and thereto, constitutes the valid and binding obligation of the Contributor, enforceable against such Contributor in accordance with its terms, subject to the effect of bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights generally and general equitable principles.

2.3 Equity Ownership. Each Contributor will at the time of Closing legally and beneficially own the outstanding partnership interests in the Partnership issued to such Contributor pursuant to the Combination Agreement with respect to their general partner interests in RRC, SRC or DHL (as applicable), free and clear of all security interests, claims, liens or other encumbrances of any nature whatsoever.

2.4 No Violation. The execution and delivery of this Agreement, the consummation of the GP Contributions and the LLC Contributions (collectively, the "Contributions") and the transactions contemplated hereby, including without limitation the execution and delivery of the Partnership Agreement, the LLC Agreement and the Transfer Restriction Agreement, by the Contributor will not (i) violate any of the formation or governing documents of the Contributor, (ii) violate any provision of or result in the breach of or entitle any party to accelerate (whether after the giving of notice or lapse of time or both) any obligation under any mortgage, lien, lease, contract, license, instrument or any other agreement to which such Contributor is a party, (iii) result in the creation or imposition of any lien, charge, pledge, security interest or other encumbrance upon the property of such Contributor, or (iv) to the knowledge of such Contributor, violate or conflict with any order, award, judgment or decree or other restriction of any law, ordinance or regulation to which such Contributor or any of such Contributor's interest, is subject.

2.5 Consents and Approvals. No prior consent, approval or authorization of, or declaration, filing or registration with any Governmental Authority, Person or entity, domestic or foreign, is required of or by the Contributor in connection with the execution, delivery and performance of this Agreement by the Contributor and the transactions contemplated hereby, except such, if any, as will have been received, made or done at the time of Closing.

2.6 Acquisition Entirely for Own Account. This Agreement is made with the Contributor in reliance upon its representation, which by its execution of this Agreement is hereby confirmed, that the LP Interests and Member Interests to be received by the Contributor will be acquired for investment for the Contributor's own account, and not with a view toward the distribution of any part thereof, and that such Contributor has no present intention of selling,

granting any participation in, or otherwise distributing the same in a manner contrary to the Securities Act or applicable state securities laws.

2.7 Disclosure of Information; Due Diligence. Each Contributor represents that it had the opportunity to ask questions of and receive answers from General Partner and DMMLLC regarding General Partner and DMMLLC regarding DMMLLC and the terms and conditions of the offering of the LP Interests and Member Interests hereunder and to obtain additional information necessary to verify the accuracy of the information supplied or to which such Contributor had access.

2.8 Investment Experience; Accredited Purchaser Status. Each Contributor is able to fend for itself in the transactions contemplated by this Agreement, can bear the economic risk of its investment (including the possible complete loss of such investment) for an indefinite period of time and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investments in the LP Interests and Member Interests. Each Contributor understands that the LP Interests and Member Interests to be acquired hereunder have not been registered under the Securities Act, or under the securities laws of any jurisdiction, by reason of reliance upon certain exemptions, and that the reliance on such exemptions is predicated, in part, upon the accuracy of the Contributor's representations and warranties in this Article II. Each Contributor is familiar with Regulation D promulgated under the Securities Act and each is an "accredited investor" as defined in Rule 501(a) of such Regulation D.

2.9 Restricted Securities. Each Contributor understands that the LP Interests and Member Interests to be acquired hereunder are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from General Partner and DMMLLC in transactions not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances and in accordance with the terms and conditions set forth in the LLC Agreement or Partnership Agreement, as applicable. Each Contributor represents that it is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF GENERAL PARTNER AND DMMLLC

General Partner and DMMLLC each hereby separately represents and warrants to each Contributor and to Peak LP, as of the date hereof, as follows as to itself only:

3.1 Existence and Good Standing. General Partner is a limited partnership duly formed, validly existing and in good standing under the laws of the State of Delaware. DMMLLC is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware. It has all requisite power and authority to carry on its business as it is now being conducted.

3.2 Authority. It has all requisite power and authority to execute, deliver and perform this Agreement. This Agreement has been duly and validly executed and delivered by it, and, assuming the due authorization, execution and delivery hereof by the other parties hereto, constitutes or will constitute, as applicable, its valid and binding obligation, enforceable against it in accordance with its terms, subject to the effect of bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights generally and general equitable principles.

3.3 No Violation. The execution and delivery of this Agreement, the consummation of the Contributions and the transactions contemplated hereby by it will not (i) violate any of its formation or governing documents, (ii) violate any provision of, or result in the breach of, or entitle any party to accelerate (whether after the giving of notice or lapse of time or both) any obligation under any mortgage, lien, lease, contract, license, instrument or any other agreement to which it is a party, (iii) result in the creation or imposition of any lien, charge, pledge, security interest or other encumbrance upon its property, or (iv) to its knowledge, violate or conflict with any order, award, judgment or decree or other restriction of any law, ordinance or regulation to which it or any of its interest, is subject.

3.4 Consents and Approvals. No prior consent, approval or authorization of, or declaration, filing or registration with any Governmental Authority, Person or entity, domestic or foreign, is required of or by it in connection with the execution, delivery and performance of this Agreement and the transactions contemplated hereby, except such, if any, as will have been received, made or done at the time of Closing.

ARTICLE IV
ADDITIONAL COVENANTS

4.1 Taxes. For federal income tax purposes, the Parties will treat the Contributions contemplated by this Agreement as qualifying under Section 721 of the Code. For federal income tax purposes, all Parties shall report the transactions under this Agreement in a manner consistent with the preceding sentence.

4.2 Amendment and Restatement of Agreements. At the Closing, each Contributor, DMMLLC and the General Partner shall take all such action as is within their control to cause the LLC Agreement, the Partnership Agreement and the Transfer Restriction Agreement to be entered into.

ARTICLE V
CONDITIONS TO THE CLOSING

5.1 Conditions to Each Party's Obligation to Close. The respective obligations of each Party to effect the transactions contemplated by this Agreement shall be subject to the fulfillment or waiver, if permissible, of the following conditions prior to the Closing:

(a) no preliminary or permanent injunction or other order or decree by any federal or state court which prevents the consummation of the transactions contemplated by this Agreement

shall have been issued and remain in effect (each Party hereby agreeing to use its reasonable efforts to have any such injunction, order or decree lifted);

(b) no action shall have been taken, and no statute, rule or regulation shall have been enacted, by any state or federal government or governmental agency in the United States which would prevent the consummation of the transactions contemplated by this Agreement or make the consummation of the transactions contemplated by this Agreement illegal; and

(c) the closing of the Transaction pursuant to the Combination Agreement shall have occurred or be occurring simultaneously with Closing.

ARTICLE VI
TERMINATION, AMENDMENT AND WAIVER

6.1 Termination.

(a) Any Contributor shall have the right to terminate this Agreement:

(i) upon the termination of the Combination Agreement; or

(ii) if the transactions contemplated by this Agreement are enjoined by a final, unappealable court order.

(b) This Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing by mutual written agreement of General Partner, DMMLLC and the Contributors.

6.2 Effect of Termination. If this Agreement is terminated by a Party pursuant to the provisions of Section 6.1, this Agreement shall forthwith become void and there shall be no further obligations on the part of any of the Parties, or their respective stockholders, partners, members, directors, officers, managers, employees, agents or representatives. Notwithstanding the preceding sentence or any other provision set forth herein, nothing in this Section 6.2 shall relieve any Party from liability for any breach of this Agreement.

6.3 Extensions; Waiver. At any time prior to the Closing, the Parties may (a) extend the time for the performance of any of the obligations or other acts of the other Parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant thereto and (c) waive compliance with any of the agreements or conditions herein. Any agreement on the part of a Party to any such extension or waiver shall be valid if set forth in an instrument in writing signed on behalf of such Party.

ARTICLE VII
REMEDIES

7.1 Right to Indemnification Not Affected by Knowledge. The right to indemnification in accordance with the provisions of this Article will not be affected by any investigation conducted with respect to, or any Knowledge of the Indemnified Party, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to

the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant or obligation.

7.2 Indemnification by the Contributors. Except as otherwise expressly provided in this Article VII and subject to the limitations stated in this Article VII, each Contributor agrees to, and shall, defend, indemnify and hold harmless General Partner, DMMLLC and each other Contributor from and against, and shall reimburse General Partner, DMMLLC and each other Contributor for, each and every claim, action, demand, cost, expense, Liability, penalty and other damage incurred by General Partner, DMMLLC and each other Contributor, including, without limitation, reasonable attorney's fees (collectively, a "Loss"), relating to, resulting from or arising out of (including, without limitation, as a result of any allegation by any third party) the following:

(a) any inaccuracy in any representation or warranty of the indemnifying Contributor (including, in the case of Peak, Peak LP) under this Agreement; or

(b) any breach or nonfulfillment of any covenant, agreement or other obligation of the indemnifying Contributor (including, in the case of Peak, Peak LP) under this Agreement.

7.3 Notice and Defense of Third-Party Claims. If any judicial, administrative, arbitration or investigatory proceeding or other proceeding, claim or controversy (collectively, a "Proceeding") shall be brought or asserted under this Article VII against an indemnified party or any successor thereto (the "Indemnified Person") in respect of which indemnity may be sought under this Article VII from an indemnifying person or any successor thereto (the "Indemnifying Person"), the Indemnified Person shall give prompt written notice of such Proceeding to the Indemnifying Person who shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Person and the payment of all reasonable expenses; provided, that any delay or failure so to notify the Indemnifying Person shall relieve the Indemnifying Person of its obligations hereunder only to the extent, if at all, that it is materially prejudiced by reason of such delay or failure. In no event shall any Indemnified Person be required to make any expenditure or bring any cause of action to enforce the Indemnifying Person's obligations and Liability under and pursuant to the indemnifications set forth in this Article VII. The Indemnified Person shall have the right to employ separate counsel in any of the foregoing Proceedings and to participate in the defense thereof, but the reasonable fees and expenses of such counsel shall be at the expense of the Indemnified Person unless the Indemnified Person shall in good faith determine that there exist actual or potential conflicts of interest which make representation by the same counsel inappropriate. The Indemnified Person's right to participate in the defense or response to any Proceeding should not be deemed to limit or otherwise modify its rights or obligations under this Article VII. In the event that the Indemnifying Person, within twenty (20) days after notice of any such Proceeding, fails to assume the defense thereof, the Indemnified Person shall have the right to undertake the defense, compromise or settlement of such Proceeding for the account of and at the expense of the Indemnifying Person. Anything in this Article VII to the contrary notwithstanding, the Indemnifying Person shall not, without the Indemnified Person's prior written consent (which consent shall not be unreasonably withheld), settle or compromise any Proceeding or consent to the entry of any judgment with respect to any Proceeding; provided, however, the Indemnified

Person's prior written consent is not required if (A) there is no finding or admission of any violation of law, rule, regulation or other legal requirement or any violation of the rights of any person and no effect on any other claims that may be made against the Indemnified Person, (B) the Indemnified Person receives as part of such settlement a legal, binding and enforceable unconditional satisfaction and/or release, in form and substance reasonably satisfactory to it, providing that any claimed liability of the Indemnified Person with respect thereto is being fully satisfied by reason of such compromise or settlement and that the Indemnified Person is being released from any and all obligations or liabilities it may have with respect thereto, and (C) the sole relief provided is monetary damages that are paid in full by the Indemnifying Person.

7.4 Limitations of Liability.

(a) No party will have any Liability (for indemnification or otherwise) with respect to the matters described in Section 7.2(a) until the total of all Losses incurred or suffered by an Indemnified Person with respect to such matters exceeds $10,000, and then such party shall have Liability for such Indemnified Party's Losses in their entirety, subject to the other limitations contained in this Section 7.4.

(b) In calculating the amount of any Loss for which any Indemnifying Person is liable under this Article VII there shall be taken into consideration the amount of any insurance recoveries from third-party insurers which the Indemnified Person actually receives as a direct consequence of the circumstances to which the Loss related or from which the Loss resulted or arose, except to the extent such insurance recoveries have or are reasonably anticipated to result in future or retroactive premium increases.

(c) Notwithstanding anything to the contrary in this Agreement, in no event shall any Party be liable to another Party, except with respect to a Liability imposed as a result of a third-party claim or allegation, for any exemplary, punitive, special, indirect, consequential, remote, or speculative damages, EVEN IF CAUSED BY THE SOLE, JOINT, AND/OR CONCURRENT NEGLIGENCE, STRICT LIABILITY, OR OTHER FAULT OF SUCH PARTY.

7.5 Specific Performance; Injunctive and Other Equitable Relief. Each Party hereto acknowledges that a violation or attempted violation of any of the covenants and agreements in Sections 1.1, 1.2, 1.3, 1.4 and 1.5 hereof will cause such damage to the other Parties as will be irreparable, the exact amount of which would be difficult or impossible to ascertain and for which there will be no adequate remedy at law, agrees that the other Parties hereto shall be entitled as a matter of right to specific performance and injunctive and other equitable relief in case of such violation or attempted violation as well as any injunctive and other equitable relief in case of such violation or attempted violation as well as any and all costs and expenses sustained or incurred in obtaining any such equitable relief, including, without limitation, reasonable attorneys' fees, and agrees to waive any requirement for the securing or posting of any bond or other security in connection with the obtaining of any such injunction or other equitable relief.

ARTICLE VIII
MISCELLANEOUS

8.1 Survival of Representations and Warranties. The Parties agree that all of their respective representations and warranties contained in this Agreement, the Schedules hereto or any certificate, agreement or document delivered under this Agreement shall survive the Closing.

8.2 Brokers and Finders. All negotiations on behalf of the Parties relating to this Agreement and the transactions contemplated by this Agreement have been carried on by the Parties and their respective agents directly without the intervention of any other person in such manner as to give rise to any claim against any other Party for financial advisory fees, brokerage or commission fees, finder's fees or other like payment in connection with the consummation of the transactions contemplated hereby.

8.3 Entire Agreement; Assignment. This Agreement (a) constitutes the entire agreement among the Parties with respect to the subject matter hereof, and supersedes all other prior agreements and understandings, both written and oral, among the Parties or any of them with respect to the subject matter hereof, and (b) shall not be assigned by operation of law or otherwise, except that Peak may assign this Agreement to Peak LP if the obligations of Peak hereunder are assumed in writing by Peak LP and that nothing contained herein shall be deemed to prevent or restrict the conversion of RRC from a Texas general partnership to a Delaware limited partnership or the conversion of Raley from a Delaware corporation to a Delaware general partnership. No assignment shall relieve the assigning party of any obligation hereunder.

8.4 Amendment and Modification. This Agreement may be amended, modified, terminated, rescinded or supplemented only by written agreement of all of the Parties.

8.5 Waiver; Consents. Any failure of a Party to comply with any obligation, covenant, agreement or condition herein may be waived by the Party affected thereby only by a written instrument signed by the Party granting such waiver. No waiver, or failure to insist upon strict compliance, by any Party of any condition or any breach of any obligation, term, covenant, representation, warranty or agreement contained in this Agreement, in any one or more instances, shall be construed to be a waiver of, or estoppel with respect to, any other condition or any other breach of the same or any other obligation, term, covenant, representation, warranty or agreement. Whenever this Agreement requires or permits consent by or on behalf of any Party hereto, such consent shall be given in writing in a manner consistent with the requirements for a waiver.

8.6 Further Assurances. From time to time, the Parties shall execute and deliver such further agreements, documents, certificates and other instruments and shall take or cause to be taken such other actions as shall be reasonably necessary or advisable to carry out the purposes of and effect the transactions contemplated by this Agreement.

8.7 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect.

8.8 Address for Notices. All notices, demands, consents and reports provided for in this Agreement shall be in writing and shall be given to the Parties at the addresses set forth herein or at such other addresses as a Party may hereafter specify in writing. Such notices may be delivered by hand or by telecopy or may be mailed, postage prepaid, by certified or registered mail, by a deposit in a depository for the receipt of mail regularly maintained by the United States Postal Service. All notices which are hand delivered or delivered by telecopy shall be deemed given on the date of delivery. Except as otherwise provided herein, all notices which are mailed in the manner provided above shall be deemed given upon receipt.

if to SAM:

SAM Partners, Ltd.
c/o SAM Partners Management, Inc.
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: H.C. Allen, Jr.
Telecopy No.: (214) 559-0301

with a copy to:

Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Attention: Joe Dannenmaier
Telecopy No.: (214) 969-1751

if to Vaughn:

Vaughn Petroleum, Ltd.
c/o VPL (GP), LLC
3738 Oak Lawn Ave., Suite 101
Dallas, Texas 75219
Attention: Benny D. Duncan
Telecopy No.: (214) 522-7433

with a copy to:

Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Attention: Joe Dannenmaier
Telecopy No.: (214) 969-1751

if to SAOG:

Smith Allen Oil & Gas, Inc.
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: William Casey McManemin
Telecopy No.: (214) 559-0301

with a copy to:

Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Attention: Joe Dannenmaier
Telecopy No.: (214) 969-1751

if to Peak or Peak LP:

P.A. Peak, Inc. or P.A. Peak Holdings, Ltd., as applicable
1919 S. Shiloh Road, Suite 600 - LB48
Garland, Texas 75042-8234
Attention: Preston A. Peak
Telecopy No.: (972) 864-9095

with a copy to:

Bryan E. Bishop, Esq.
Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201
Telecopy No.: (214) 740-8800

if to Raley:

James E. Raley, Inc. or James E. Raley General Partnership,
as applicable
1919 S. Shiloh Road, Suite 600 - LB48
Garland, Texas 75042-8234
Attention: James E. Raley
Telecopy No.: (972) 864-9095

with a copy to:

Bryan E. Bishop, Esq.
Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201
Telecopy No.: (214) 740-8800

if to General Partner:

Dorchester Minerals Management LLC
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: William Casey McManemin, Benny D. Duncan and
James E. Raley
Telecopy Nos.: (214) 559-0301, (214) 522-7433, and
(972) 864-9095

with a copies to:

Bryan E. Bishop, Esq.
Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201
Telecopy No.: (214) 740-8800

and

Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Attention: Joe Dannenmaier
Telecopy No.: (214) 969-1751

8.9 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

8.10 Descriptive Headings. The descriptive headings are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

8.11 Parties in Interest; No Third-Party Beneficiary. This Agreement shall be binding upon and inure solely to the benefit of each Party hereto, and nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

8.12 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

8.13 Incorporation by Reference. Any and all Schedules, Exhibits, annexes, statements, reports, certificates or other documents or instruments referred to herein or attached hereto are incorporated herein by reference hereto as though fully set forth at the point referred to in the Agreement.

8.14 Certain Definitions. For the purposes of this Agreement, the following terms shall have the meanings specified or referred to below whether or not capitalized when used in this Agreement.

(a) "GAAP" means generally accepted United States accounting principles, consistently applied.

(b) "Governmental Authority" means the governments of the United States and any state or county, city, and political subdivisions that exercises jurisdiction over any Party, and any agency, department, board, or other instrumentality thereof that exercises jurisdiction over any Party.

(c) "Knowledge." An individual shall be deemed to have "Knowledge" of a particular fact or other matter if the individual has current, actual knowledge of such fact or other matter. An entity shall be deemed to have "Knowledge" of a particular fact or other matter if any general partner, manager, director or executive officer of such entity or such entity's general partner or any member (as applicable) has current, actual knowledge of such fact or other matter.

(d) "Liability" means any debt, obligation, duty or liability of any nature (including any undisclosed, unfixed, unliquidated, unsecured, unmatured, unaccrued, unasserted, contingent, conditional, STRICT LIABILITY, inchoate, implied, vicarious, joint, several or secondary liability), regardless of whether such debt, obligation, duty or liability would be required to be disclosed on a balance sheet prepared in accordance with GAAP.

(e) "Person" means any natural person, corporation, joint venture, partnership, limited partnership, limited liability company, trust, estate, business trust, association, Governmental Authority, or any other juristic entity.

(a) "Rule 144" means Rule 144, promulgated under the authority of the Securities Act, as amended as of the date hereof.

(b) "Securities Act" means the Securities Act of 1933, as amended as of the date hereof.

IN WITNESS WHEREOF, each of the Parties has caused this Agreement to be executed on its behalf as of the date first above written.

SAM PARTNERS, LTD.

By: SAM Partners Management, Inc., its general partner

By: /s/ H. C. ALLEN, JR.

Name: H. C. Allen, Jr.

Title: Secretary

VAUGHN PETROLEUM, LTD.

By: VPL(GP), LLC, its general partner

By: /s/ ROBERT C. VAUGHN

Name: Robert C. Vaughn

Title: CEO and Manager

SMITH ALLEN OIL & GAS, INC.

By: /s/ WM. CASEY MCMANEMIN

Name: Wm. Casey McManemin

Title: Vice President

P.A. PEAK, INC.

By: /s/ PRESTON A. PEAK

Name: Preston A. Peak

Title: President

JAMES E. RALEY, INC.

By: /s/ JAMES E. RALEY

Name: James E. Raley

Title: President

DORCHESTER MINERALS
MANAGEMENT LP

By: Dorchester Minerals Management LLC,
its general partner

By: /s/ JAMES E. RALEY

Name: James E. Raley

Title: COO

DORCHESTER MINERALS
MANAGEMENT GP LLC

By: /s/ JAMES E. RALEY

Name: James E. Raley

Title: COO

EXHIBIT A

FORM OF AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF DMMLLC

AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF DORCHESTER MINERALS MANAGEMENT GP LLC

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THE MEMBERSHIP INTERESTS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY JURISDICTION. NO MEMBERSHIP INTEREST MAY BE SOLD OR OFFERED FOR SALE (WITHIN THE MEANING OF ANY SECURITIES LAW) UNLESS A REGISTRATION STATEMENT UNDER ALL APPLICABLE SECURITIES LAWS WITH RESPECT TO THE INTEREST IS THEN IN EFFECT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS IS THEN APPLICABLE TO THE INTEREST. A MEMBERSHIP INTEREST ALSO MAY NOT BE TRANSFERRED OR ENCUMBERED UNLESS THE APPLICABLE PROVISIONS OF THIS AGREEMENT AND THE TRANSFER RESTRICTION AGREEMENT ATTACHED HERETO AS EXHIBIT A ARE SATISFIED.

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AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF DORCHESTER MINERALS MANAGEMENT GP LLC

This Amended and Restated Limited Liability Company Agreement of Dorchester Minerals Management GP LLC dated as of ________ ____ _____ (the "Effective Date"), is entered into by and among SAM Partners, Ltd., a Texas limited partnership, Vaughn Petroleum, Ltd., a Texas limited partnership, Smith Allen Oil & Gas, Inc., a Texas corporation, P.A. Peak Holdings LP, a Delaware limited partnership, and James E. Raley General Partnership, a Delaware general partnership.

WITNESSETH

WHEREAS, effective December 12, 2001, a Certificate of Formation (the "Certificate") was filed in the office of the Secretary of State of Delaware for the formation of Dorchester Minerals Management GP LLC, a Delaware limited liability company (the "Company");

WHEREAS, in connection with the formation of the Company, its members executed that certain Limited Liability Company Agreement of Dorchester Minerals Management GP LLC dated December 12, 2001; (the "Original Agreement");

WHEREAS, the parties hereto desire to amend and restate the Original Agreement as of the date hereof upon the terms and conditions set forth herein and to substitute P.A. Peak Holdings LP, a Delaware limited partnership, as a Member of the Company in lieu of P.A. Peak, Inc., a Delaware corporation;

NOW, THEREFORE, in consideration of the mutual covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree to continue the Company upon the following terms and conditions and to amend and restate the Original Agreement upon the terms and conditions set forth herein:

I. DEFINITIONS

Section 1.1. Definitions. The following terms shall have the following meanings when used in this Agreement:

"AAA" shall have the meaning set forth in Section 18.14 hereof.

"Act" shall mean the Delaware Limited Liability Company Act, as amended.

"Actual Depletion Deductions" means with respect to any Member, such Member's actual depletion allowance with respect to such Member's share of production from the oil and gas properties owned by Dorchester Operating LP and Dorchester Minerals; provided that, for purposes of this Agreement and computing a Member's Capital Account, such Member's Actual

Depletion Deductions with respect to any single oil or gas property shall not exceed the adjusted basis of such oil or gas property allocated to such Member (or its predecessor in interest) pursuant to Code Section 613A(c)(7)(D). Each Member shall notify the Company of the amount of its Actual Depletion Deductions within ninety (90) days of the end of each Fiscal Year.

"Actual Gains or Actual Losses" means with respect to any Member (i) the excess, if any, of such Member's share of the total amount realized from the disposition of any oil or gas property over such Member's remaining adjusted tax basis in such property or (ii) the excess, if any, of such Member's remaining adjusted tax basis in such property over such Member's share of the total amount realized from the disposition of such property. A Member's share of the total amount realized from the disposition of oil or gas property shall be determined pursuant to Treasury Regulations Section 1.704-1(b)(4)(v).

"Affiliate" shall mean, with respect to any Person, (i) any Person directly or indirectly controlling, controlled by or under common control with such Person, (ii) any Person owning or controlling ten percent (10%) or more of the outstanding voting interests of such Person, (iii) any officer, director, member, manager or general partner of such Person, or (iv) any Person who is an officer, director, general partner, trustee, member, manager or holder of ten percent (10%) or more of the voting interests of any Person described in clauses (i) through (iii) of this sentence.

"Agreement" shall mean this Amended and Restated Limited Liability Company Agreement of Dorchester Minerals Management GP LLC.

"Appointed Managers" shall have the meaning set forth in Section 8.2 hereof.

"Appointing Member" shall have the meaning set forth in Section 8.3 hereof.

"Appointment Right" shall have the meaning set forth in Section 8.2 hereof.

"Board of Managers" shall mean the Board of Managers for the Company as established and operated pursuant to this Agreement.

"Book Value" shall mean with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(i) the initial Book Value of any asset contributed (or deemed contributed, including as a result of the constructive termination of the Company pursuant to Code Section 708(b)(1)(B)) to the Company shall be such asset's gross fair market value at the time of such contribution;

(ii) the Book Value of all Company assets shall be adjusted to equal their respective gross fair market values at the times specified in Treasury Regulations under Section 704(b) of the Code if the Company so elects; and

(iii) if the Book Value of an asset has been determined pursuant to clause (i) or (ii), such Book Value shall thereafter be adjusted in the same manner as would the asset's adjusted basis for federal income tax purposes, except that depreciation deductions shall be computed in accordance with Subparagraph (iv) of the definition of Net Profit and Net Loss and the Book

Value shall be adjusted by the Actual Depletion Deductions or Simulated Depletion Deductions, as applicable.

"Business Day" shall mean any day other than Saturday or Sunday or any other day upon which banks in Dallas, Texas are permitted or required by law to close.

"Business Opportunities Agreement" shall have the meaning set forth in Section 6.2.

"Capital Account" shall have the meaning set forth in Section 13.4 hereof.

"Certificate" shall have the meaning set forth in the recitals to this Agreement.

"Change in Control" shall mean for each Member that the Person or Persons who are in the original Member Control Group of such Member shall no longer directly, or indirectly through one or more entities, possess collectively both the exclusive power to vote or control the voting of, and the exclusive power to dispose or control the disposition of, at least a majority of the equity ownership of the Member.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or its successor.

"Company" shall mean the limited liability company formed by this Agreement.

"Company Minimum Gain" shall mean the amount computed under Treasury Regulations Section 1.704-2(d)(1) with respect to the Company's nonrecourse liabilities as determined under Treasury Regulations Section 1.752-1(a)(2).

"Company Nonrecourse Deductions" shall mean any loss, deduction, or Code Section 705(a)(2)(B) expenditure (or item thereof) that is attributable to nonrecourse liabilities (as defined in Treasury Regulations Section 1.752-1(a)(2)) of the Company and characterized as "nonrecourse deductions" pursuant to Treasury Regulations Section 1.704-2(b)(1) and Section 1.704-2(c).

"Contribution Agreement" shall mean that certain Contribution Agreement made by and among SAM, Vaughn, SAOG, P.A. Peak, Inc., a Delaware corporation, James E. Raley, Inc., a Delaware corporation, the Partnership and the Company, dated as of December 12, 2001.

"Covered Person" shall have the meaning set forth in Section 12.1 hereof.

"Depletable Property" means interests in oil, gas or other minerals eligible for depletion under Code Section 613 or 613A.

"Disabling Conduct" shall mean conduct that constitutes fraud, willful misconduct, bad faith or gross negligence or conduct that is outside the scope of conduct permitted in this Agreement or is in breach of this Agreement, any Governance Agreement or any other agreement between or among (i) any of the Company, the Partnership, Dorchester Minerals, Dorchester Operating LP and Dorchester Operating LLC and (ii) the Person whose conduct is in question or in knowing violation of applicable laws.

"Dorchester Minerals" shall mean Dorchester Minerals, Ltd., a Delaware limited partnership.

"Dorchester Minerals Limited Partnership Agreement" shall mean that certain Amended And Restated Agreement Of Limited Partnership of Dorchester Minerals, Ltd., dated _______________, 200__ made by and among the Partnership as general partner and the limited partners noted therein.

"Dorchester Operating LLC" shall mean Dorchester Minerals Operating GP LLC, a Delaware limited liability company.

"Dorchester Operating LP" shall mean Dorchester Minerals Operating LP, a Delaware limited partnership.

"Effective Date" shall have the meaning set forth in the preamble to this Agreement.

"Event of Dissolution" shall have the meaning set forth in Section 17.1 hereof.

"Familial Transfer" shall have the meaning assigned that term in the Transfer Restriction Agreement.

"Fiscal Year" shall mean the fiscal year of the Company as set forth in Section 16.3 hereof.

"Governance Agreements" shall mean this Agreement, the Limited Partnership Agreement, the Dorchester Minerals Limited Partnership Agreement, the limited liability company agreement of Dorchester Operating LLC, the limited partnership agreement of Dorchester Operating LP, the Business Opportunities Agreement, and the Transfer Restriction Agreement.

"Gross Income" shall mean for each Fiscal Year or other period, an amount equal to the Company's gross income as determined for federal income tax purposes for such Fiscal Year or period but computed with the adjustments specified in Subparagraphs (i) and (iii) of the definition of Net Profit and Net Loss.

"Independent Managers" shall have the meaning set forth in Section 8.2 hereof.

"Limited Partnership Agreement" shall mean that certain Amended and Restated Limited Partnership Agreement of Dorchester Minerals Management LP, a Delaware limited partnership, dated as of ______, ___ 200_ by and among the Company, as General Partner, and the Limited Partners noted therein.

"Managers" shall mean the Appointed Managers and the Independent Managers, and "Manager" shall mean either an Appointed Manager or an Independent Manager.

"Market Rules" shall have the meaning set forth in Section 8.2.

"Member" or "Members" shall mean SAM, Vaughn, SAOG, Peak LP, Raley GP and any assignee of all or any part of their respective interests in the Company who is admitted to the Company as a Member in conformity with the provisions of this Agreement.

"Member Consent" shall have the meaning assigned to it in Section 6.6 hereof.

"Member Control Group" shall mean (i) for Peak LP: Preston A Peak and his daughter Margaret Peak; (ii) for Raley GP: James E. Raley, his spouse Linda Raley, and his children, Scott E. Raley, Lesley Carver and Jennifer Crowder; (iii) for Vaughn: David C. Vaughn, Jack C. Vaughn, Jr., Robert C. Vaughn and Benny D. Duncan; (iv) for SAM: Frederick M. Smith, II, Allison Vose Smith and Charles W. Russell, as Trustees of the 2000 Allison Vose Smith Exempt Trust and beneficiaries named therein; Jeannette Smith Wilson and Charles W. Russell, as Trustees of the 2000 Jeannette Smith Wilson Exempt Trust and beneficiaries named therein; Christopher A. Smith and Charles W. Russell, as Trustees of the 2000 Christopher A. Smith Exempt Trust and beneficiaries named therein; Courtnay Smith Perevalova and Charles W. Russell, as Trustees of the 2000 Courtnay Smith Perevalova Exempt Trust and beneficiaries named therein; Juliette Smith Aston and Charles W. Russell, as Trustees of the 2000 Juliette Smith Aston Exempt Trust and beneficiaries named therein; H.C. Allen, Jr. and his daughters, Lisa Kay Chambless and Ann Michelle Peterson; and William Casey McManemin; and (v) for SAOG: Frederick M. Smith, II; H.C. Allen, Jr. and William Casey McManemin.

"Member Nonrecourse Debt" shall mean any nonrecourse debt of the Company which meets the requirements of "partner nonrecourse debt" set forth in Treasury Regulations Section 1.704-2(b)(4).

"Member Nonrecourse Debt Minimum Gain" shall mean the partner nonrecourse debt minimum gain attributable to "partner nonrecourse debt" as determined under Treasury Regulations Section 1.704-2(i)(3).

"Member Nonrecourse Deductions" shall mean any loss, deduction, or Code Section 705(a)(2)(B) expenditure, or item thereof, that is attributable to a Member Nonrecourse Debt, as determined by Treasury Regulations Section 1.704-2(i)(2).

"Net Cash Flow" shall have the meaning set forth in Section 14.1 hereof.

"Net Profit" and "Net Loss" shall mean for each Fiscal Year or other period, an amount equal to the Company's taxable income or loss for such Fiscal Year or other period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss with the following adjustments:

(i) any income of the Company that is exempt from federal income tax or not otherwise taken into account in computing Net Profit or Net Loss shall be added to such taxable income or loss;

(ii) any expenditures of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures under Code Section 704(b), and not otherwise taken into account in computing Net Profit or Net Loss, shall be subtracted from such taxable income or loss;

(iii) gain or loss resulting from any disposition of Company property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Book Value of such property rather than its adjusted tax basis;

(iv) in lieu of the depletion, depreciation, amortization and other cost recovery deductions taken into account in computing taxable income or loss, there shall be taken into account depreciation, amortization or other cost recovery deductions on the assets' respective Book Values for such Fiscal Year or other period determined in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv)(g);

(v) the amount of any Gross Income allocated to the Members pursuant to Sections 13.2(d), 13.2(e), 13.2(f), 13.2(j) and 13.2(k) shall not be included as income or revenue; and

(vi) any amount allocated to the Members pursuant to Sections 13.2(h), 13.2(i). 13.2(j) and 13.2(k) shall not be included as a loss, deduction or Code Section 705(a)(2)(B) expenditure.

"Ownership Interest" shall mean the interest in the Company held by a Member.

"Ownership Percentage" shall mean 20.5% for Vaughn, 20.5% for SAM, 20.0% for SAOG, 19.5% for Peak LP and 19.5% for Raley GP, until adjusted in accordance with this Agreement.

"Partnership" shall have the meaning set forth in Section 3.1 hereof.

"Peak LP" means P.A. Peak Holdings LP, a Delaware limited partnership, and (for purposes of the definition of "Member Control Group", of Section 8.2 and of Section 9.8) any assignee of all or any part of the interests in the Company originally held by Peak LP who is admitted to the Company as a Member in conformity with the provisions of this Agreement.

"Peak LP/Raley GP Appointment Right" shall have the meaning set forth in Section 8.2 hereof.

"Person" shall mean an individual person, partnership, limited partnership, limited liability company, trust, corporation or other entity or organization.

"Prime Rate" means the "prime," "reference" or "base" rate of interest for commercial loans as announced by Bank of America on the first Business Day following the date upon which the event occurs requiring reference to the Prime Rate and adjusted thereafter on the first day of each rate change or, if less, the maximum rate permitted by applicable law.

"Proportionate Share" means a Member's share of an item or obligation equal to the Ownership Percentage of the Member divided by the aggregate Ownership Percentages owned by all Members entitled or obligated to share in the item or obligation.

"Raley GP" means James E. Raley General Partnership, a Delaware general partnership, and (for purposes of the definition of "Member Control Group", of Section 8.2 and of Section 9.8) any assignee of all or any part of the interests in the Company originally held by Raley GP who is admitted to the Company as a Member in conformity with the provisions of this Agreement.

"SAM" means SAM Partners, Ltd., a Texas limited partnership, and (for purposes of the definition of "Member Control Group" and of Section 8.2) any assignee of all or any part of the interests in the Company originally held by SAM who is admitted to the Company as a Member in conformity with the provisions of this Agreement.

"SAOG" means Smith Allen Oil & Gas, Inc., a Texas corporation, and (for purposes of the definition of "Member Control Group" and of Section 8.2) any assignee of all or any part of the interests in the Company originally held by SAOG who is admitted to the Company as a Member in conformity with the provisions of this Agreement.

"SAM/SAOG Appointment Right" shall have the meaning set forth in Section 8.2 hereof.

"Simulated Depletion Deductions" means the simulated depletion allowance computed by the Company with respect to its oil and gas properties pursuant to Section 1.704-1(b)(2)(iv)(k)(2) of the Treasury Regulations. In computing such amounts, the Board of Managers shall have complete and absolute discretion to make any and all permissible elections.

"Simulated Gains" or "Simulated Losses" means the simulated gains or simulated losses computed by the Company with respect to its oil and gas properties pursuant to Section 1.704-1(b)(2)(iv)(k)(2) of the Treasury Regulations. In computing such simulated gains or losses, the Board of Managers shall have complete and absolute discretion to make any and all permissible elections.

"Tax Matters Partner" shall have the meaning set forth in Section 16.7 hereof.

"Transfer Restriction Agreement" shall mean the Transfer Restriction Agreement of even date herewith by and among the Company, the Partnership, Vaughn, SAM, SAOG, Peak LP and Raley GP, a copy of which is attached hereto as Exhibit A.

"Treasury Regulations" shall mean the Income Tax Regulations, including Temporary Regulations, promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"Vaughn" means Vaughn Petroleum, Ltd., a Texas limited partnership, and (for purposes of the definition of "Member Control Group" and of Section 8.2) any assignee of all or any part of the interests in the Company originally held by Vaughn who is admitted to the Company as a Member in conformity with the provisions of this Agreement.

"Vaughn Appointment Right" shall have the meaning set forth in Section 8.2 hereof.

II. NAME, PRINCIPAL OFFICE, REGISTERED OFFICES AND AGENTS, TERM, STATUS OF MEMBERS AND TAX STATUS

Section 2.1. Name of Company. The name of the Company is Dorchester Minerals Management GP LLC.

Section 2.2. Principal Office. The location of the principal office of the Company where records are to be kept or made available shall be 3738 Oak Lawn Avenue, Dallas, Texas 75219. The principal office of the Company may be changed by the Board of Managers.

Section 2.3. Registered Offices and Agents. The location of the registered office of the Company in the State of Delaware shall be c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, The City of Wilmington, County of Newcastle, Delaware. The Board of Managers shall establish such other registered offices and appoint such other registered agents as it deems necessary or appropriate for the business of the Company. The registered offices and agents of the Company may be changed from time to time by the Board of Managers.

Section 2.4. Term. The Company shall have perpetual existence unless an Event of Dissolution (as defined in Section 17.1 hereof) shall occur prior to such time and the Company is not continued as hereinafter provided.

Section 2.5. Status of Members. Upon the Effective Date the Members shall constitute all of the members of the Company.

Section 2.6. Tax Status. The Company shall be operated such that it will be classified as a "partnership" for federal and, as determined by the Board of Managers, state income tax purposes. No action shall be made to treat the Partnership, Dorchester Operating LP or Dorchester Operating LLC as a corporation for federal income tax purposes and Dorchester Operating LP and Dorchester Operating LLC will be disregarded and their assets treated as owned by the Partnership for federal income tax purposes.

III. CHARACTER OF BUSINESS

Section 3.1. Purposes of the Company. The purposes of the Company are to act as the general partner of Dorchester Minerals Management LP, a Delaware limited partnership (the "Partnership") which shall (i) act as the general partner of Dorchester Minerals, (ii) provide or cause to be provided certain management and administrative services to Dorchester Minerals, and (iii) own oil, gas and other mineral interests and other properties via Dorchester Operating LP, and conduct operations with respect thereto. The Company may accomplish its purposes through the agency of its own employees and independent contractors and/or the employees and independent contractors of its Members or any subsidiary of the Company or the Partnership including, but not limited to, Dorchester Operating LLC and Dorchester Operating LP.

IV. FORMATION, FOREIGN REGISTRATION AND NO PARTNERSHIP

Section 4.1. Formation. The Company was formed as a Delaware limited liability company by the filing of the Certificate under and pursuant to the Act with the Secretary of State

of the State of Delaware on December 12, 2001. Upon the Effective Date, the Company is hereby continued upon the terms set forth herein.

Section 4.2. Foreign Registration. The Company shall register to conduct business in such states and jurisdictions as the Board of Managers deems appropriate.

Section 4.3. No Partnership. The Members intend that the Company not be a partnership (including, without limitation, a limited partnership) or joint venture, and that no Member be a partner or joint venturer of any other Member with regard to the activities of the Company for any purposes other than federal and, if applicable, state tax purposes, and this Agreement may not be construed to suggest otherwise.

V. CAPITAL CONTRIBUTIONS

Section 5.1. Initial Contributions. Upon the execution of the Original Agreement, each Member made an initial capital contribution in the amount set forth on Schedule I hereto. Contemporaneously with the execution by such Member of this Agreement, each Member shall make the additional contribution required of such Member pursuant to the Contribution Agreement, which shall be credited to the Capital Account of such Member.

Section 5.2. Subsequent Contributions. All subsequent contributions require the consent of all the Members. No Member shall be required to make any subsequent contributions to the Company without the consent of all the Members.

Section 5.3. Return of Contributions. A Member is not entitled to the return of any part of its capital contributions or to be paid interest in respect of either its Capital Account or its capital contributions. An unrepaid capital contribution is not a liability of the Company or of any Member. A Member is not required to contribute or to lend any cash or property to the Company to enable the Company to return any Member's capital contribution.

Section 5.4. Advances by Members. If the Company does not have sufficient cash to pay its obligations, any Member(s) that may agree to do so may advance all or part of the needed funds to or on behalf of the Company if Member Consent is obtained. An advance described in this Section 5.4 constitutes a loan from the Member to the Company, bears interest at the Prime Rate from the date of the advance until the date of repayment, and is not a capital contribution.

VI. RIGHTS, POWERS AND OBLIGATIONS OF MEMBERS

Section 6.1. Members' Fees and Reimbursement of Expenses. Except as otherwise provided in Section 6.3 hereof, the Members shall not be paid any fees or other compensation whatsoever for services, whether ordinary or extraordinary, foreseen or unforeseen, rendered to or for the benefit of the Company. However, all expenses incurred by a Member for and on behalf of the Company in connection with the business of the Company hereunder (including, without limitation, charges for legal, accounting, data processing, administrative, executive, tax and other services rendered by employees of any Member) will be paid or promptly reimbursed by the Company; provided, however, that any salary or compensation expense incurred by a Member and attributable to the provision by the Member of the services of its officers in connection with the business of the Company hereunder shall not be reimbursed to such Member

but the actual out-of-pocket expenses incurred by the Member (other than salary or compensation expense) with respect to such provision of the services of its officers hereunder shall be reimbursed by the Company. Nothing contained in this Section 6.1 is intended to affect the Ownership Interest or Ownership Percentage of any Member or the amount that may be payable to any Member by reason of its interest in the Company.

Section 6.2. Duties of Members/Other Activities. The relationship existing pursuant to this Agreement shall not prohibit any Manager, any Member or any Person which is a member, manager, officer, director, parent, subsidiary or Affiliate of a Member or Manager, or any Person in which a Member, a Manager or the members, managers, officers, directors, parent, subsidiaries or Affiliates of a Member or Manager may have an interest, from engaging in any other business, investment or profession, except to the extent restricted herein or in a separate written agreement, including but not limited to the Dorchester Minerals Limited Partnership Agreement, the Limited Partnership Agreement and the Business Opportunities Agreement made by and among the Company, Dorchester Minerals and the Partnership dated as of December 13, _____ (the "Business Opportunities Agreement"). Neither the Company nor any of the Members shall have any rights by virtue of this Agreement in or to any of such businesses, professions or investments, or in or to any income or profit derived therefrom.

Section 6.3. Dealing with Related Persons. Subject to the provisions of Section 6.6 and Section 9.11 hereof, the Company may employ or retain a Manager, a Member or an Affiliate of a Member or Manager to render or perform a service, may contract to buy property or services from or sell property or services to a Member, a Manager or any such Affiliate, and may otherwise deal with such Member, Manager or any such Affiliate; provided, however, that if the Company employs, retains or contracts with a Member, Manager or an Affiliate thereof, the charges made for services rendered and materials furnished by such Member, Manager or Affiliate shall be a reasonable amount comparable to the amount that would have been charged by others in the same line of business and not so related, and such relationship and charges shall be promptly disclosed in writing to the other Members.

Section 6.4. Liability of Members. No Member shall be liable, responsible, or accountable in damages or otherwise to any other Member or the Company for any act performed by it within the scope of the authority conferred on it by this Agreement, or made in good faith, except such liability, if any, as it may have for Disabling Conduct.

Section 6.5. No Resignation. Except for assignments, sales or other transfers of a Member's entire Ownership Interest made in compliance with Article XV hereof, no Member shall have the right to resign or withdraw from the Company prior to the dissolution and winding up of the Company, without prior written Member Consent. Any Member who resigns or withdraws from the Company in violation of the foregoing provision or who has resigned or withdrawn from the Company in a manner not expressly permitted herein, shall be liable to the Company and the Members for any damages sustained by reason of such resignation or withdrawal.

Section 6.6. Power, Voting and Consent. Notwithstanding the fact that the Company is to be managed by its Board of Managers pursuant to Section 8.1 hereof, the Members shall have the right and obligation to make decisions with respect to the matters specified in this Section 6.6

and with respect to any other matter that is expressly designated herein as a matter within the control of the Members or submitted by the Managers to the Members for a vote. The Members hereby delegate to the Board of Managers all other decisions relating to the Company. Decisions by the Board of Managers shall be made in the manner provided in Article IX. Affirmative decisions by the Members shall require approval by a majority of the Members on a per capita basis; provided, however, that an affirmative decision with respect to any of the following matters shall require approval by two-thirds (2/3) of the Members on a per capita basis (as applicable, a "Member Consent") and the Managers and officers shall not take, or, to the extent within their control, permit the occurrence of, action with respect to any such matter without Member Consent:

(a) The issuance of any equity security of the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC or the issuance of any rights, warrants, options, convertible securities or indebtedness, exchangeable securities or indebtedness or other rights, exercisable for or convertible or exchangeable into any such equity security of the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC;

(b) The resignation or withdrawal of any Person as a Member of the Company or as a partner of the Partnership;

(c) Except as expressly authorized herein, the direct or indirect redemption, purchase or other acquisition by the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC of any membership interest or other equity security of the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC;

(d) Any amendment of this Agreement, the Limited Partnership Agreement, the limited partnership agreement of Dorchester Operating LP or the limited liability agreement of Dorchester Operating LLC or any amendment to the Transfer Restriction Agreement, the Business Opportunities Agreement or any other agreement between the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC and any Member or any Affiliate of any Member;

(e) Any merger, combination, consolidation, restructuring, reorganization, recapitalization, or any other major transaction involving the structure, ownership or voting of the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC;

(f) The sale, lease, pledge or other disposition of assets of the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC, other than in the ordinary course of business;

(g) Any acquisition by the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC of (i) the equity ownership or all or a substantial portion of the assets of any other entity, or (ii) any other assets other than in the ordinary course of business, or (iii) any other assets that are not consistent with its business;

(h) The filing by the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC of a petition under federal bankruptcy laws or any other insolvency law, or the admission in writing by the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC of its insolvency or general inability to pay its debts as they become due;

(i) An election to dissolve the Company, the Partnership, Dorchester Operating LP or Dorchester Operating LLC;

(j) Any borrowing from a Member pursuant to Section 5.4; and

(k) Any action or decision that is inconsistent with the purposes of the Company as set forth in Section 3 hereof or of the purposes of the Partnership, Dorchester Operating LP or Dorchester Operating LLC as set forth in their respective Governance Agreements.

In the event that a Member transfers his entire Ownership Interest to one or more other Persons, and: (i) no such transferee is admitted as a Member; or (ii) all such transferees were already Members or are wholly owned subsidiaries of Members and/or are Persons wholly owning one or more Members; then the total number of voting Members for purpose of any such per capita vote shall be reduced accordingly.

No Member has the authority to bind the Company unless the Member is expressly granted such authority by the Board of Managers by a vote pursuant to Section 9.7.

Section 6.7. Succession Plan. Prior to the date that less than three of the Persons who are Members as of the Effective Date continue to own Ownership Interests, the Members shall establish a succession plan that provides for officers or other Persons actually directing and in charge of the management of the Company's business to become Members, either directly or indirectly through ownership, in whole or in part, of a Member.

VII. MEETINGS OF THE MEMBERS

Section 7.1. Annual Meeting. Beginning in 200__, an annual meeting of the Members shall be held on May 1 of each year (or the next succeeding business day, if May 1 is not a business day) or at such other time and date as may be determined by Member Consent. The annual meeting shall be held at the Company's principal office or such other location agreed to by all the Members. At such meeting the Members entitled to vote thereat shall elect the Independent Managers, and may transact such other business as properly may be brought before the meeting and that is within the scope of the permitted decisions specified in Section 6.6 hereof.

Section 7.2. Special Meetings. Special meetings of the Members may be called by the Chairman of the Board of Managers, the Board of Managers or any two Members.

Section 7.3. Notice of Annual or Special Meeting. Written or printed notice stating the location, day and hour of the meeting and, in case of a special meeting, the general purpose or purposes for which the meeting is called, shall be delivered in accordance with Article X not less

than ten (10) days before the date of the meeting, either personally or by telefax communication (which shall be deemed given at the time the sender receives confirmation of delivery), by or at the direction of the Chairman of the Board of Managers, the Secretary, or the Member calling the meeting, to each Member.

Section 7.4. Business at Special Meeting. The business transacted at any special meeting of the Members shall be limited to such business that is within the scope of the permitted decisions specified in Section 6.6 hereof and that is stated in the notice thereof, and no unrelated business shall be conducted at such special meeting beyond the general scope identified in the notice unless all Members, whether such Member is present or not, agree in writing to consider and vote upon additional unrelated business.

Section 7.5. Quorum of Members. Unless otherwise provided by applicable law, the Certificate of Formation or this Agreement, the presence of a majority of the Members on a per capita basis and represented in person or by proxy, shall constitute a quorum at a meeting of the Members. The Members present at a duly organized meeting may continue to transact business until adjournment, and the subsequent withdrawal of any Member or the refusal of any Member to vote shall not affect the presence of a quorum at the meeting.

Section 7.6. Proxies. At any meeting of the Members, each Member having the right to vote shall be entitled to vote either in person or by proxy executed in writing by the Member or by his duly authorized attorney- in- fact. Proxies shall be valid until revoked or superseded by a subsequently dated proxy. Each proxy shall be revocable whether or not coupled with an interest, unless made irrevocable by law.

Section 7.7. Action by Written Consent Without a Meeting and Telephonic Meetings. Any action required or permitted by applicable law, the Certificate of Formation, or this Agreement to be taken at a meeting of the Members may be taken without a meeting, without prior notice, and without a vote, if a consent in writing, setting forth the action so taken, is signed by Members having not less than the minimum number of votes that would be necessary to take such action at a meeting at which Members entitled to vote on the action were present and voting. Any such written consent does not have to be unanimous (unless the action that is approved in such written consent would require the unanimous approval of all Members at a meeting at which all of the Members were present). Every written consent must bear the date of signature of each Member who signs the consent. No written consent shall be effective to take the action that is the subject of the consent unless, within sixty (60) days after the date of the earliest dated consent delivered to the Company in the manner required by this Section 7.7, a consent or consents signed by Members having not less than the minimum number of votes that would be necessary to take the action that is the subject of the consent are delivered to the Company by delivery to its registered office, its principal place of business, or an officer or agent of the Company having custody of the books in which proceedings of meetings of Members are recorded. Delivery shall be by hand or certified or registered mail, return receipt requested or confirmed telefax communication. Delivery to the Company's principal place of business shall be addressed to the Chief Executive Officer of the Company. Prompt notice of the taking of any action by Members without a meeting by less than unanimous written consent shall be given by the Company to those Members who did not consent in writing to the action. With prior Member Consent, Members may participate in and hold a meeting of the Members by conference

telephone or similar communications equipment by means of which all Persons participating in the meeting can hear each other, and participation in such a meeting shall constitute presence in person at such meeting, except where a Person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

VIII. BOARD OF MANAGERS

Section 8.1. Powers. The business and affairs of the Company shall be managed by or under the direction of its Board of Managers, which may exercise all such powers of the Company and do all such lawful acts and things as are not by non-waivable provisions of the Act or by the Certificate of Formation or by this Agreement directed or required to be exercised and done by the Members. No individual Manager has the authority to bind the Company unless the Manager is granted such authority by the Board of Managers.

Section 8.2. Number of Managers. The Board of Managers shall consist of (a) five (5) Managers, with each Member appointing one such Manager (collectively, the "Appointed Managers"); and (b) three independent managers (other than the Appointed Managers) or such other, greater number of independent managers (other than the Appointed Managers) as required by the rules and regulations of the market quotation system or securities exchange, as the case may be, on which units of Dorchester Minerals are or are intended to be listed (the "Market Rules"), which independent managers shall meet the requirements for members of the "Advisory Committee" as defined in the Dorchester Minerals Limited Partnership Agreement. The independent managers in clause (b) of the preceding sentence are referred to herein as the "Independent Managers." No two or more Members may designate the same individual as a Manager to serve on the Board of Managers. The initial Appointed Manager for each Appointing Member shall be as follows:

APPOINTING MEMBER	APPOINTED MANAGER
SAM	H.C. Allen, Jr.
Vaughn	Robert C. Vaughn
SAOG	William Casey McManemin
Peak LP	Preston A. Peak
Raley GP	James E. Raley

Peak LP and Raley GP shall collectively have the right to appoint one (1) Independent Manager (the "Peak LP/Raley GP Appointment Right"). Vaughn shall have the right to appoint one (1) Independent Manager (the "Vaughn Appointment Right"). SAM and SAOG shall collectively have the right to appoint one (1) Independent Manager (the "SAM/SAOG Appointment Right"). (Such rights are referred to herein collectively as the "Appointment Rights.") If any additional Independent Managers are required by the Market Rules or if any such Appointment Right is lost by any Members as to any Independent Managers pursuant to Section 8.4, such Independent

Managers shall be appointed by a vote of the majority of the Members. Each such Independent Manager shall meet the requirements for independent directors set forth in the Market Rules.

Section 8.3. Election and Term.

(a) Each Appointed Manager shall serve until the earlier of his death, resignation or removal from office which may be with or without cause by the Member that appointed such Manager (the "Appointing Member"). In the event of a vacancy on the Board of Managers (other than a vacancy which must be filled with an Independent Manager), then the Appointing Member that appointed the Appointed Manager whose failure to continue to serve as a Manager has created the vacancy shall fill such vacancy by delivery of written notice to the Company and each other Member designating a replacement Manager to fill such vacancy (or, if such appointment right has been lost pursuant to Section 8.4, such vacancy shall be filled by majority vote of the Members specified in Section 8.4). Upon receipt of such written notice by the Company, the replacement Appointed Manager shall be appointed as a Manager hereunder, unless objected to in writing on a reasonable basis by all of the Appointed Managers other than the Manager who is being replaced pursuant to this Section 8.3(a) and any Manager whose Appointing Member, or an Affiliate thereof, has the appointment right with respect to such replacement.

(b) Each Independent Manager shall hold office until the next annual meeting of the Members, unless such Independent Manager shall sooner cease to serve as a result of his death, resignation or removal. In the event of a vacancy on the Board of Managers which must be filled with an Independent Manager, such vacancy shall be filled by written notice to the Company and each Member given by the Member or Members having the Appointment Right with respect to the Independent Manager whose death, resignation or removal necessitated the appointment of a replacement Independent Manager (or, if such Appointment Right has been lost pursuant to Section 8.4, such vacancy shall be filled by majority vote of the Members specified in Section 8.4). Upon receipt of such written notice by the Company, the replacement Independent Manager shall be appointed as an Independent Manager hereunder, unless objected to in writing on a reasonable basis by all of the Appointed Managers other than any Manager whose Appointing Member, or an Affiliate thereof, has or shares the Appointment Right with respect to the replacement Independent Manager.

(c) Managers need not be residents of the State of Delaware or Members of the Company.

Section 8.4. Loss of Appointment Right. If at any time after the Effective Date a Change in Control of any Member occurs, then such Member shall lose all appointment and removal rights stated in Sections 8.2 and 8.3 unless and until the other Members unanimously consent to the continuation of such Member's appointment and removal rights following such Change in Control. In the event that a Member loses appointment and removal rights in accordance with this Section 8.4, then the remainder of the Members shall exercise such Member's appointment and removal rights by majority vote; provided, that no Manager appointed pursuant to such rights may concurrently be serving as either an Appointed Manager or an Independent Manager. Notwithstanding the foregoing, if either of the Members sharing a particular Appointment Right (but not both) experience a Change in Control, such Appointment

Right shall be solely vested in the Member, if any, which did not experience a Change in Control. In the event that both of the Members sharing a particular Appointment Right lose their appointment and removal rights in accordance with this Section 8.4, such Appointment Right shall immediately expire. A Change in Control of a Member shall not affect the right of that Member to vote on all matters on which Members are entitled to vote by law or under this Agreement or on any other matter presented to a vote of the Members, including without limitation, any vote that could in any way adversely affect such Member's interest in the capital or profits of the Company or of the Partnership.

Section 8.5. Resignation and Removal. Any Manager may resign at any time upon giving written notice to the Company. Any Appointed Manager or any Independent Manager appointed pursuant to an Appointment Right may be removed only by his Appointing Member, or the Member or Members having the Appointment Right with respect to such Independent Manager (as applicable), in accordance with Section 8.3. Any other Independent Manager may be removed at any time with or without cause by the vote of two-thirds (2/3) of the Members.

Section 8.6. Compensation of Managers. The Managers may be paid their expenses of attendance at each meeting of the Board of Managers; however, Appointed Managers shall not receive any compensation for serving as a Manager or as a member of any committee of the Board of Managers. The Independent Managers shall be compensated in such amounts as shall be established by the Appointed Managers. This provision shall not preclude any Manager from serving the Company in any other capacity and receiving compensation therefor. In addition to the foregoing, all expenses incurred by a Manager in the performance of its duties hereunder or for and on behalf of the Company in connection with the business of the Company (including, without limitation, charges for legal, accounting, data processing, administrative, executive, tax and other services rendered by employees of any Manager) will be paid or promptly reimbursed by the Company; provided, however, that any salary or compensation expense incurred by a Manager and attributable to the provision by the Manager of the services of its officers in connection with the business of the Company hereunder shall not be reimbursed to such Manager but the actual out-of-pocket expenses incurred by the Manager (other than salary or compensation expense) with respect to such provision of the services or its officers hereunder shall be reimbursed by the Company.

Section 8.7. Chairman of the Board of Managers. The Board may, but shall not be required to, from time to time, by majority vote designate one Manager to serve as Chairman of the Board of Managers; provided, however, that any such Chairman of the Board of Managers shall not, in such capacity, be an officer of the Company. The Chairman of the Board of Managers shall preside at all meetings of the Board of Managers and shall have such other powers and duties as usually pertain to such position or as may be delegated to him by the Board of Managers. The Chairman of the Board of Managers shall serve as such until the earlier of his death, resignation or removal from office by the Board of Managers.

IX. MEETINGS OF THE BOARD OF MANAGERS

Section 9.1. Annual Meeting. An annual meeting of the Board of Managers shall be held immediately following the annual meeting of the Members, and no notice of such meeting shall be necessary in order legally to constitute the meeting, provided a quorum shall be present.

Section 9.2. Regular Meetings. The Board of Managers shall schedule regular meetings of the Board of Managers at quarterly intervals, or such other regular intervals as the Board of Managers shall determine to be appropriate.

Section 9.3. Special Meetings. Upon not less than twenty-four (24) hours' prior written notice, special meetings of the Board of Managers may be called by any two Managers, the Chairman of the Board or the Chief Executive Officer, but notice need not be given to any Manager who shall, either before or after the meeting, submit a signed waiver of such notice or who shall attend such meeting without protesting, prior to or at its commencement, the lack of notice to such Manager.

Section 9.4. Location of and Business at Regular or Special Meeting. Meetings of the Board of Managers shall be held at the principal office of the Company, or at such other place or places as shall be agreed upon by the Board of Managers. Neither the business to be transacted at, nor the purpose of, any regular meeting of the Board of Managers need be specified. The business to be transacted at, and the general purpose of any special meeting shall be identified in the notice or waiver of notice of such meeting, and no unrelated business shall be conducted by the Board of Managers at such special meeting beyond the general scope of the business and purpose identified in the notice and waiver.

Section 9.5. Quorum of Managers. Five Managers, at least four of whom shall be Appointed Managers, shall constitute a quorum for the transaction of business by the Board of Managers.

Section 9.6. Votes. Each Manager on the Board of Managers shall have one vote. Managers shall not have the authority to permit voting by proxy.

Section 9.7. Act of Managers Meeting. The act of a majority of the total number of Managers, at a meeting at which a quorum is present, shall be the act of the Board of Managers, unless the act of a greater number is required by law, the Certificate of Formation or this Agreement. Tie votes do not constitute a majority. Notwithstanding the foregoing, the following actions shall require the consent of two-thirds (2/3) of the Appointed Managers or two-thirds (2/3) of the Operating Committee, in addition to any vote of the Advisory Committee that may be required under Section 9.11:

(a) The issuance of any equity security of Dorchester Minerals or the issuance of any rights, warrants, options, convertible securities or indebtedness, exchangeable securities or indebtedness or other rights, exercisable for or convertible or exchangeable securities into any such equity security of the Dorchester Minerals;

(b) The direct or indirect redemption, purchase or other acquisition of any membership interest or other equity security of Dorchester Minerals;

(c) Any amendment of or proposal to amend the Dorchester Minerals Limited Partnership Agreement or any amendment to the Business Opportunities Agreement or any other agreement between Dorchester Minerals and any Member or Manager or any Affiliate of any Member or Manager;

(d) Any merger, combination, consolidation, restructuring reorganization, recapitalization or any other major transaction involving the structure, ownership or voting of Dorchester Minerals;

(e) The sale, lease or other disposition of all or substantially all of the assets of Dorchester Minerals, other than in the ordinary course of business;

(f) Any acquisition by Dorchester Minerals of (i) the equity ownership or all or a substantial portion of the assets of any other entity, (ii) any other assets other than in the ordinary course of business, or (iii) any other assets that are not consistent with its business;

(g) The filing by Dorchester Minerals of a petition under federal bankruptcy laws or any other insolvency law, or the admission in writing by Dorchester Minerals of its insolvency or general inability to pay its debts as they become due;

(h) Any election to dissolve Dorchester Minerals;

(i) Any transaction between Dorchester Minerals and a Member or Manager or an Affiliate of a Member or Manager (and any other agreement for the benefit of a Member, a Manager or an Affiliate of a Member or Manager) other than immaterial transactions undertaken in the ordinary course of Dorchester Minerals' business;

(j) Any action or decision that is inconsistent with the purposes of Dorchester Minerals as set forth in the Dorchester Minerals Limited Partnership Agreement;

(k) Any removal of an officer of the Company, the Partnership, Dorchester Operating LLC or Dorchester Operating LP; and

(l) The submission to a vote of the Members of any other matter which does not under Section 6.6 already require the approval of the Members.

Section 9.8. Act of Managers as to Former Properties and Operations of Dorchester Hugoton, Ltd. For a period of two (2) years after the Effective Date, any of the following actions which involve properties or operations which were owned or conducted by Dorchester Hugoton, Ltd., must be approved by one of the Appointed Managers appointed by either Peak LP or Raley GP, or either of their respective successors or assigns, in addition to any other vote or approval which may be required under this Agreement:

(a) Material changes in personnel;

(b) Significant sales or transfers of assets or interests in assets;

(c) Changes in marketing strategy;

(d) Changes in lessee/lessor relationships, including but not limited to, termination, extension or amendment of leases; and

(e) Outsourcing of significant operations or functions.

Section 9.9. Action by Unanimous Written Consent Without a Meeting and Telephonic Meetings. Any action required or permitted to be taken at a meeting of the Board of Managers or committee thereof under the provisions of any applicable law, the Certificate of Formation or this Agreement may be taken without a meeting if a consent in writing setting forth the action so taken is signed by all members of the Board of Managers or committee thereof. Such consent shall have the same force and effect as a unanimous vote of the Board of Managers or committee thereof. Managers may participate in and hold a meeting of the Board of Managers by conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such a meeting shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 9.10. Interested Managers. No contract or transaction between the Company and one or more of its Managers or officers, or between the Company and any other corporation, partnership, association, or other organization in which one (1) or more of its Managers or officers are members, managers, shareholders, partners, officers or directors or have a financial interest, shall be void or voidable solely for this reason, or solely because the Manager or officer is present at or participates in the meeting of the Board of Managers or committee thereof that authorizes the contract or transaction by the vote otherwise required for such authorization hereunder, or solely because his or its or their votes are counted for such purpose, if:

(i) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Managers or the committee, and the Board of Managers or the committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested Managers or committee members, even though the disinterested Managers or committee members be less than a quorum;

(ii) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Members entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the Members; or

(iii) the contract or transaction is fair as to the Company as of the time it is authorized, approved or ratified by the Board of Managers, a committee thereof or the Members.

Interested Managers may be counted in determining the presence of a quorum at a meeting of the Board of Managers or committee thereof that authorizes the contract or transaction.

Section 9.11. The Advisory Committee.

(a) Designation. The Board of Managers, by resolution adopted by a majority of the full Board of Managers, which shall include not less than four of the Appointed

Managers, shall designate an advisory committee (the "Advisory Committee"), which shall have the authority assigned to it in Sections 9.11(b) and (c) below and such other authority as may be delegated to it by the Board of Managers, subject to the limitations imposed by applicable law, the Certificate and this Agreement.

(b) Audit Committee Function. The Advisory Committee will function as the audit committee for Dorchester Minerals to the extent required by Market Rules.

(c) Transactions with Affiliates. The Advisory Committee will act as the "Advisory Committee" as contemplated in the Dorchester Minerals Limited Partnership Agreement. The Advisory Committee will also review (i) any and all transactions between the Company, the Partnership, Dorchester Operating LLC or Dorchester Operating LP, on the one hand, and a Member or Affiliate (other than Dorchester Minerals) thereof, on the other hand, and (ii) any compensation or benefits paid by the Company, the Partnership, Dorchester Operating LLC, Dorchester Operating LP or Dorchester Minerals to any executive officer of any of such companies, and all such matters described in this sentence shall be subject to approval by the Advisory Committee.

(d) Membership. The Advisory Committee shall be composed of the Independent Managers. The designation of the Advisory Committee and the delegation thereto of authority shall not operate to relieve the Board of Managers, or any member thereof, of any responsibility imposed upon it or him by law.

(e) Required Vote. Any and all matters decided upon by the Advisory Committee shall require the majority approval of the members of the Advisory Committee.

Section 9.12. Operating Committee.

(a) Designation. The Board of Mangers, by resolution adopted by a majority of the full Board of Managers, may designate a committee to be known as the Operating Committee, which, to the extent provided in such resolution or in this Agreement, shall have and may exercise all the authority of the Board of Managers, subject to the limitations imposed by applicable law, the Certificate and this Agreement.

(b) Membership. The Operating Committee shall be composed of the Appointed Managers. The designation of the Operating Committee and the delegation thereto of authority shall not operate to relieve the Board of Managers, or any member thereof, of any responsibility imposed upon it or him by law.

(c) Required Vote Any and all matters decided upon by the Operating Committee shall require the approval of a majority of the total number of members of the Operating Committee, at a meeting at which a quorum is present, unless the act of a greater number is required by law, the Certificate of Formation or this Agreement. Tie votes do not constitute a majority.

Section 9.13. Other Committees. The Board of Managers, by resolution adopted by a majority of the full Board of Managers, which majority shall include not less than four of the Appointed Managers, may designate one or more other committees from among its members, each of which, to the extent provided in such resolution or in this Agreement, shall have and may exercise all the authority of the Board of Managers, subject to the limitations imposed by applicable law, the Certificate and this Agreement.

Section 9.14. Procedure, Meetings, Quorum of Committees. Regular meetings of the Operating Committee or any other committee of the Board of Managers, of which no notice shall be necessary, may be held at such times and places as shall be fixed by resolution adopted by a majority of the members thereof. Special meetings of the Operating Committee or any other committee of the Board shall be called at the request of the Board, the Chairman of the Board, or any two (2) members of such committee. Four-fifths of the Operating Committee, and a majority of any other committee of the Board, shall constitute a quorum for the transaction of business at any meeting. The Operating Committee or any other committee of the Board shall keep regular minutes of its proceedings and report the same to the Board of Managers when required.

X. NOTICES

Section 10.1. Methods of Giving Notice. Whenever any notice is required to be given to any Member or Manager under the provisions of any applicable law, the Certificate of Formation or this Agreement, it shall be given in writing and delivered personally or delivered by facsimile communication ("telefax") to such Member or Manager at such address (and at such member facsimile) as appears on the books of the Company; provided, however, notice of special meetings of the Managers may also be given by telephone, and, with the approval of all such Members or Managers, any other notice may be given by telephone or electronic mail. Any such notice shall be deemed to be given at the time the recipient actually receives the notice in the case of personal delivery, when the sender receives electronic confirmation of delivery with respect to any notice given by facsimile communication, when the sender actually speaks to the recipient in the case of telephonic notice or when the recipient reads the message in the case of electronic mail.

Section 10.2. Waiver of Notice. Whenever any notice is required to be given to any Member or Manager under the provisions of any applicable law, the Certificate of Formation or this Agreement, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

Section 10.3. Attendance as Waiver. Attendance of a Member or Manager at a meeting shall constitute a waiver of notice of such meeting, except where a Member or Manager attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, a meeting need be specified in any written waiver unless required by any applicable law, the Certificate of Formation or this Agreement.

XI. OFFICERS

Section 11.1. Officers. The Managers shall elect the officers of the Company as provided in this Agreement. The officers of the Company shall consist of a Chief Executive Officer (who initially shall be William Casey McManemin), a Chief Financial Officer (who initially shall be H.C. Allen, Jr.), a Chief Operating Officer (who initially shall be James E. Raley) and a Secretary (who initially shall be H. C. Allen, Jr.) to serve at the pleasure of the Managers and who shall hold their offices for such terms and shall exercise such power and perform such duties as shall be determined from time to time by the Board of Managers or the Operating Committee.

Section 11.2. Election and Qualification. The Managers, at each annual meeting, shall choose the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the Secretary. The Managers may, from time to time, choose such other officers as they may deem necessary or appropriate.

Section 11.3. Salaries. No person shall receive any compensation in such person's capacity as an elected officer of the Company.

Section 11.4. Term, Removal and Vacancies. Each officer of the Company shall hold office until his successor is chosen and qualified or until his death, resignation, or removal. Any officer may resign at any time upon giving written notice to the Company. Any officer may be removed by the Board of Managers or the Operating Committee with or without cause, upon the requisite approval under Section 9.8, if any, but such removal shall be without prejudice to the contract or other legal rights, if any, of the person so removed. Election or appointment of an officer shall not of itself create contract rights. Any vacancy occurring in any office of the Company by death, resignation, removal or otherwise shall be filled by the Board of Managers.

Section 11.5. Chief Executive Officer. The Chief Executive Officer shall have general powers of oversight, supervision and management of the business and affairs of the Company, and shall see that all orders and resolutions of the Board of Managers and/or the Operating Committee are carried into effect. The Chief Executive Officer shall have such other powers and duties as usually pertain to such office or as may be delegated by the Board of Managers or the Operating Committee. The other officers shall report to the Chief Executive Officer. The Chief Executive Officer shall execute bonds, mortgages, debt instruments, contracts, licenses, leases, agreements, legal pleadings (upon the advice of counsel), governmental filings, and other documentation, except where the signing and execution thereof shall be expressly delegated by the Board of Managers or the Operating Committee to some other officer or agent of the Company.

Section 11.6. Chief Operating Officer. The Chief Operating Officer shall, in the absence or disability of the Chief Executive Officer, perform the duties and exercise the powers of the Chief Executive Officer. The Chief Operating Officer shall have charge of the operations of the Company and shall have such other powers and duties as usually pertain to such office or as the Board of Managers or the Operating Committee shall prescribe or as the Chief Executive Officer shall delegate.

Section 11.7. Chief Financial Officer. The Chief Financial Officer shall have the charge of the funds and the financial condition of the Company and shall have such other powers and duties as usually pertain to such office or as the Board of Managers or the Operating Committee shall prescribe or as the Chief Executive Officer shall delegate.

XII. INDEMNIFICATION

Section 12.1. Right to Indemnification. Subject to the limitations and conditions set forth in this Article XII, each Person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (a "Proceeding"), or any appeal in such a Proceeding or any inquiry or investigation that could lead to such a Proceeding, by reason of the fact that he or she, or a Person of whom he or she is the legal representative, is or was a Member, Manager or officer of the Company or while a Member, Manager or officer of the Company is or was serving at the request of the Company as a partner, director, officer, manager, member, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise (a "Covered Person"), shall be indemnified by the Company to the fullest extent permitted by the Act, as the same exists or may be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than said law permitted the Company to provide prior to such amendment) against judgments, penalties (including excise and similar taxes and punitive damages), fines, settlements and reasonable expenses (including, without limitation, attorneys' fees) actually incurred by such Person in connection with such Proceeding, and indemnification under this Section 12.1 shall continue as to a Person who has ceased to serve in the capacity that initially entitled such Person to indemnity under this Section. Such actions covered by such indemnification shall include those brought by a Member or the Company. The rights granted pursuant to this Article XII shall be deemed contract rights, and no amendment, modification or repeal of this Article XII shall have the effect of limiting or denying any such rights with respect to actions taken or Proceedings arising prior to any such amendment, modification or repeal. IT IS EXPRESSLY ACKNOWLEDGED THAT THE INDEMNIFICATION PROVIDED IN THIS ARTICLE XII COULD INVOLVE INDEMNIFICATION FOR NEGLIGENCE OR UNDER THEORIES OF STRICT LIABILITY; provided, however, that notwithstanding the foregoing or any other provision of this Agreement, the Company shall not provide indemnification to any Person in respect of any Disabling Conduct. The negative disposition of any Proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that the Covered Person acted in a manner contrary to the standard set forth in this Section.

Section 12.2. Advance of Expenses. The right to indemnification conferred in this Article XII shall include the right to be paid or reimbursed by the Company the reasonable expenses incurred by a Person of the type entitled to be indemnified under Section 12.1 or 12.3 who was, is or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding and without any determination as to the Person's ultimate entitlement to indemnification; provided, however, that the payment of such expenses incurred by any such Person in advance of the final disposition of a Proceeding shall be

made only upon the delivery to the Company of a written affirmation by such Person of his good faith belief that he has met the standard of conduct necessary for indemnification under Section 12.1 or 12.3 and a written undertaking, by or on behalf of such Person, to repay all amounts so advanced if it shall ultimately be determined that such indemnified Person is not entitled to be indemnified under Section 12.1 or 12.3.

Section 12.3. Indemnification of Employees and Agents. The Company may indemnify and advance expenses to any employee or agent of the Company to the same extent permitted under Section 12.1 for Covered Persons. In addition, the Company may (by a resolution of the Members) indemnify and advance expenses to any Person whether or not he is an employee or agent of the Company but who is or was serving at the request of the Company as a manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in such a capacity or arising out of his status as such a Person, to the same extent permitted under Section 12.1 for Covered Persons.

Section 12.4. Appearance as a Witness. Notwithstanding any other provision of this Article XII the Company may pay or reimburse expenses incurred by a Member, Manager, officer, employee or agent in connection with his appearance as a witness or other participation in a Proceeding at a time when he is not a named defendant or respondent in the Proceeding.

Section 12.5. Non-Exclusivity of Rights. The right to indemnification and the advancement and payment of expenses conferred in this Article XII shall not be exclusive of any other right a Person indemnified pursuant to this Article XII may have or may acquire under any law (common or statutory), any provision of the Certificate or this Agreement, a vote of Members or Managers or otherwise.

Section 12.6. Insurance. The Company may purchase and maintain insurance, to the extent and in such amounts as the Board of Managers shall, in its sole discretion, deem reasonable, to protect itself, the Partnership, Dorchester Operating LP and/or Dorchester Operating LLC, and/or any Covered Persons or other Persons indemnifiable under the provisions of this Article XII. against any expense, liability or loss, whether or not the Company would have the power to indemnify such Person against such expenses, liability or loss under this Article XII.

Section 12.7. Member Notification. To the extent required by law, any indemnification of or advance of expenses to a Person in accordance with this Article XII shall be reported in writing to the Members within the thirty (30)-day period immediately following the date of the indemnification or advance.

Section 12.8. No Personal Liability. In no event may any Covered Person subject the Members to personal liability by reason of any indemnification of an Covered Person under this Agreement or otherwise.

Section 12.9. Interest in Transaction. A Covered Person shall not be denied indemnification in whole or in part under this Article XII because the Covered Person had an

interest in the transaction with respect to which the indemnification applies if the transaction is otherwise permitted by the terms of the Governance Agreements.

Section 12.10. Successors and Assigns. The provisions of this Article XII are for the benefit of the Covered Persons and their heirs, successors, assigns, administrators and personal representatives and shall not be deemed to be for the benefit of any other Persons. The provisions of this Section 12.10 shall not be amended in any way that would diminish the rights of Covered Persons under this Article XII without the consent of all Members.

Section 12.11. Savings Clause. If all or any portion of this Article XII shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify and hold harmless any Person indemnified pursuant to this Article XII as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, to the fullest extent permitted by any applicable portion of this Article XII that shall not have been invalidated and, subject to this Article XII, to the fullest extent permitted by applicable law.

Section 12.12. Exculpation. The following exculpatory provisions shall apply to this Agreement:

(a) General. Notwithstanding any other terms of this Agreement, whether express or implied, or obligation or duty at law or in equity, no Covered Person nor any officer, employee, representative or agent of the Company or its Affiliates shall be liable to the Company or any Member for any act or omission (in relation to the Company, this Agreement, any related document or any transaction or investment contemplated hereby or thereby) taken or omitted in good faith by such Person and in the reasonable belief that such act or omission is in or is not contrary to the best interests of the Company and is within the scope of authority granted to such Person by this Agreement or the other Governance Agreements except in the following circumstances: (i) such act or omission constitutes Disabling Conduct or (ii) with respect to liability that may arise under any other agreement, such act or omission constitutes a breach of that agreement.

(b) Reliance. A Covered Person or other officer, employee, representative or agent of the Company may rely and shall incur no liability in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, paper, document, signature or writing reasonably believed by it to be genuine, and may rely on a certificate signed by an officer of any Person in order to ascertain any fact with respect to such Person or within such Person's knowledge and may rely on an opinion of counsel selected by such Covered Person or other officer, employee, representative or agent of the Company with respect to legal matters unless such Covered Person acts in bad faith.

XIII. ALLOCATIONS

Section 13.1. Consent to Allocations. Each Member as a condition of becoming a Member expressly consents to the following allocations as set forth in this Article XIII.

Section 13.2. Distributive Shares for Tax Purposes. There shall be allocated to each Member for federal income tax purposes a separate distributive share of all Company income, gain, loss, deduction and credit as follows:

(a) Except as otherwise provided in this Article XIII, Net Profit, if any, of the Company (and each item thereof) for each Fiscal Year or other period shall be allocated among the Members pro rata in accordance with their Ownership Percentages.

(b) Except as otherwise provided in this Article XIII, Net Loss, if any, of the Company (and each item thereof) for each Fiscal Year or other period shall be allocated to the Members pro rata in accordance with their Ownership Percentages.

(c) The provisions of this Agreement relating to the allocation of Gross Income, Net Profit and Net Loss are intended to comply with the Treasury Regulations under Section 704(b) of the Code and shall be interpreted and applied in a manner consistent with such Treasury Regulations.

(d) Notwithstanding any other provision of this Agreement to the contrary, if in any Fiscal Year or other period there is a net decrease in the amount of the Company Minimum Gain, then each Member shall first be allocated items of Gross Income for such year (and, if necessary, subsequent years) in an amount equal to such Member's share of the net decrease in such minimum gain during such year (as determined under Treasury Regulations Section 1.704-2(g)(2)); provided, however, if there is insufficient Gross Income in a year to make the allocation specified above for all Members for such year, the Gross Income shall be allocated among the Members in proportion to the respective amounts they would have been allocated above had there been an unlimited amount of Gross Income for such year.

(e) Notwithstanding any other provision of this Agreement to the contrary other than Section 13.2(d), if in any year there is a net decrease in the amount of the Member Nonrecourse Debt Minimum Gain, then each Member shall first be allocated items of Gross Income for such year (and, if necessary, subsequent years) in an amount equal to such Member's share of the net decrease in such minimum gain during such year (as determined under Treasury Regulations Section 1.704-2(i)(4)); provided, however, if there is insufficient Gross Income in a Fiscal Year to make the allocation specified above for all Members for such year, the Gross Income shall be allocated among the Members in proportion to the respective amounts they would have been allocated had there been an unlimited amount of Gross Income for such Fiscal Year.

(f) Notwithstanding any other provision of this Agreement to the contrary (except Sections 13.2(d) and 13.2(e) which shall be applied first), if in any Fiscal Year or other period a Member unexpectedly receives an adjustment, allocation or distribution described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Gross Income shall first be allocated to Members with negative Capital Account balances (adjusted in accordance with Section 13.4(e)), in proportion to such negative balances, until such balances are increased to zero.

(g) Notwithstanding the provisions of Section 13.2(b), Net Loss (or items thereof) shall not be allocated to a Member if such allocation would cause or increase a negative balance in such Member's Capital Account (adjusted in accordance with Section 13.4(e)) and shall be reallocated to the other Members, subject to the limitations of this Section 13.2(g).

(h) Any Member Nonrecourse Deductions shall be allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such deductions are attributable.

(i) Company Nonrecourse Deductions shall be allocated to the Members pro rata in accordance with their Ownership Percentages.

(j) In the event that any Gross Income, Net Loss (or items thereof) or deductions are allocated pursuant to Sections 13.2(d) through 13.2(i), subsequent Gross Income, Net Profit or Net Loss (or items thereof) will first be allocated (subject to Sections 13.2(d) through 13.2(i)) to the Members in a manner which will result in each Member having a Capital Account balance equal to that which would have resulted had the original allocation of Gross Income, Net Loss (or items thereof) or deductions pursuant to Sections 13.2(d) through 13.2(i) not occurred; provided, however, no allocations pursuant to this Section 13.2(j), which are intended to offset allocations pursuant to Section 13.2(h) and Section 13.2(i), shall be made prior to the Fiscal Year during which there is a net decrease in Member Nonrecourse Debt Minimum Gain or Company Minimum Gain, and then only to the extent necessary to avoid any potential economic distortions caused by such net decrease in Member Nonrecourse Debt Minimum Gain or Company Minimum Gain, and no such allocation pursuant to this Section 13.2(j) shall be made to the extent that the Board of Managers reasonably determines that it is likely to duplicate a subsequent mandatory allocation pursuant to Section 13.2(d) or Section 13.2(e).

(k) Unless the Board of Managers elects to adjust Capital Accounts to reflect Actual Depletion Deductions pursuant to Section 1.704-1(b)(2)(iv)(k)(3) of the Treasury Regulations, the portion of the total amount realized by the Company upon the taxable disposition of a Depletable Property that represents recovery of its simulated adjusted tax basis therein will be allocated to the Members in the same proportion as the aggregate adjusted tax basis of such property was allocated to such Members (or their predecessors in interest). If the Board of Managers elects to use Actual Depletion Deductions pursuant to Section 1.704-1(b)(2)(iv)(k)(3) of the Treasury Regulations, the portion of the total amount realized by the Company upon a taxable disposition of such property that equals the Members' aggregate remaining adjusted basis therein will be allocated to the Members in proportion to their respective remaining adjusted tax bases in such property. Any amount realized in excess of the above amounts shall be allocated among the Members in accordance with their Ownership Percentages.

(l) If an interest in the Company is transferred, the Gross Income, Net Profit or Net Loss allocable to the holder of such Company interest for the then Fiscal Year shall be allocated proportionately between the assignor and the assignee based on the

number of calendar days during such Fiscal Year for which each party was the owner of the transferred interest in the Company or upon some other reasonable method.

Section 13.3. Code Section 704(c). In accordance with Code Section 704(c) and the Treasury Regulations thereunder, depletion, depreciation, amortization, income, gain and loss, as determined for tax purposes, with respect to any property whose Book Value differs from its adjusted basis for federal income tax purposes shall, for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its Book Value. The Company shall utilize such method to eliminate book-tax disparities attributable to a contributed property or adjusted property as shall be determined by the Board of Managers. Allocations pursuant to this Section 13.3 are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Net Profit, Net Loss, other items, or distributions pursuant to any provision of this Agreement.

Section 13.4. Capital Accounts. A separate capital account ("Capital Account") shall be maintained for each Member, as follows:

(a) There shall be credited to each Member's Capital Account the amount of any cash actually contributed by such Member to the capital of the Company (or deemed contributed pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(c)), the fair market value of any property contributed by such Member to the capital of the Company (net of any liabilities secured by such property that the Company is considered to assume or to take subject to under Code Section 752), such Member's share of the Gross Income and Net Profit (and all items thereof) of the Company and such Member's share of Simulated Gain or, if the Board of Managers elects to use Actual Depletion Deductions pursuant to Section 1.704-1(b)(2)(iv)(k)(3) of the Treasury Regulations, such Member's Actual Gains. There shall be charged against each Member's Capital Account the amount of all cash distributed to such Member by the Company (or deemed distributed pursuant to Treasury Regulations Section 1.704-1(b) (2) (iv) (c)), the fair market value of any property distributed to such Member by the Company (net of any liability secured by such property that the Member is considered to assume or take subject to under Code Section 752), such Member's share of the Net Loss (and all items thereof) of the Company and either such Member's distributive share of Simulated Losses and Simulated Depletion Deductions or, if the Board of Managers elects to use Actual Depletion Deductions pursuant to Section 1.704-1(b)(2)(iv)(k)(3) of the Treasury Regulations, such Member's Actual Losses and Actual Depletion Deductions.

(b) If the Company at any time distributes any of its assets in-kind to any Member, the Capital Account of each Member shall be adjusted to account for that Member's allocable share (as determined under this Article XIII) of the Net Profit or Net Loss that would have been realized by the Company had it sold the assets that were distributed at their respective fair market values immediately prior to their distribution, but only to the extent not previously reflected in the Members' Capital Accounts.

(c) Any adjustments to the tax basis (or Book Value) of Company property under Code Sections 732, 734 or 743 will be reflected as adjustments to the Capital

Accounts of the Members, only in the manner and to the extent provided in Treasury Regulations Section 1.704-1(b)(2)(iv)(m).

(d) Upon the decision of the Board of Managers, the Capital Accounts of the Members shall be adjusted to reflect a revaluation of Company property to its fair market value on the date of adjustment upon the occurrence of any of the following events:

(i) An increase in any new or existing Member's Ownership Interest resulting from the contribution of money or property by such Member to the Company,

(ii) Any reduction in a Member's Ownership Interest resulting from a distribution to such Member in redemption of all or part of its Ownership Interest, unless such distribution is pro rata to all Members in accordance with their respective Ownership Interests, and

(iii) Whenever otherwise allowed under Treasury Regulations Section 1.704-1(b)(2)(iv)(f).

The adjustments to Capital Accounts shall reflect the manner in which the unrealized Net Profit or Net Loss inherent in the property would be allocated if there were a disposition of the Company's property at its fair market value on the date of adjustment.

(e) For purposes of Sections 13.2(d) through 13.2(i) a Member's Capital Account shall be reduced by the net adjustments, allocations and distributions described in Treasury Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) which, as of the end of the Company's taxable year are reasonably expected to be made to such Member, and shall be increased by the sum of (i) any amount which the Member is required to restore to the Company upon liquidation of its Ownership Interest in the Company (or which is so treated pursuant to Treasury Regulations Section 1.704-1(b)(2)(ii)(c)) pursuant to the terms of this Agreement or under state law, (ii) the Member's share (as determined under Treasury Regulations Section 1.704-2(g)(1)) of Company Minimum Gain, (iii) the Member's share (as determined under Treasury Regulations Section 1.704-2(i)(5)) of Member Nonrecourse Debt Minimum Gain and (iv) the Member's share (as determined under Section 752 of the Code) of any recourse indebtedness of the Company to the extent that such indebtedness could not be repaid out of the Company's assets if all of the Company's assets were sold at their respective Book Values as of the end of the Fiscal Year or other period and the proceeds from the sales were used to pay the Company's liabilities. For the purposes of clause (iv) above, the amounts computed pursuant to clause (i) above for each Member shall be considered to be proceeds from the sale of the assets of the Company to the extent such amounts would be available to satisfy (directly or indirectly) the indebtedness specified in clause (iv).

(f) For purposes of computing the Members' Capital Accounts, Simulated Depletion Deductions, and Simulated Losses shall be allocated among the Members in the same proportions as they (or their predecessors in interest) were allocated the basis of

Partnership oil and gas properties pursuant to Code Section 613A(c)(7)(D), the Treasury Regulations thereunder, and Section 1.704-1(b)(4)(v) of the Treasury Regulations. Simulated Gains shall be allocated among the Partners in accordance with their Ownership Percentages. In accordance with Code Section 613A(c)(7)(D) and the Treasury Regulations thereunder and Section 1.704-1(b)(4)(v) of the Treasury Regulations, the adjusted basis of all oil and gas properties shall be shared by the Members in proportion to the Ownership Percentages.

(g) It is the intention of the Members that the Capital Accounts of the Company be maintained strictly in accordance with the Capital Account maintenance requirements of Treasury Regulations Section 1.704-1(b). The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Treasury Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such regulations and any amendment or successor provision thereto. The Members agree to make any appropriate modifications if events might otherwise cause this Agreement not to comply with Treasury Regulations Section 1.704-1(b).

(h) A deficit in a Member's Capital Account shall not be considered an asset of the Company, and no Member shall be obligated to restore or otherwise be responsible for a deficit or negative balance in such Member's Capital Account.

Section 13.5. Compliance with the Code. It is intended that the tax allocations in this Article XII effect an allocation for federal income tax purposes in a manner consistent with Sections 704 and 706 of the Code and comply with any limitations or restrictions therein. The Board of Managers shall have complete discretion to make the allocations pursuant to this Article XII and the allocations and adjustments to Capital Accounts in any manner consistent with Sections 704 and 706 of the Code.

XIV. DISTRIBUTIONS

Section 14.1. "Net Cash Flow" Defined. The term "Net Cash Flow" for any fiscal period shall mean all Company cash revenues resulting from the Company's business less the amount of all expenses, reserves and obligations of the Company (including, without limitation, expenses and obligations to which the assets of the Company are subject even if the expense or obligation was not originally incurred by the Company or assumed by the Company) plus the proceeds of sale (principal and interest), refinancing, condemnation, insurance, or otherwise, less the amount of all expenses and obligations of the Company relating thereto (including, without limitation, expenses and obligations to which the assets of the Company are subject even if the expense or obligation was not originally incurred by the Company or assumed by the Company).

Section 14.2. Distribution of Net Cash Flow. Except as provided in Article XVII, and subject to the last sentence of Section 8.4, Net Cash Flow, if any, shall be distributed to the Members pro rata in accordance with their Ownership Percentages at such time or times as determined by the Board of Managers.

Section 14.3. Amount Withheld. Notwithstanding any other provision of this Agreement to the contrary, the Board of Managers is authorized to take any action that it determines to be necessary or appropriate to cause the Company to comply with any withholding or other payment requirements established under the Code or any other federal, state or local law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Company is required to pay to any governmental authority any amount resulting from either the allocation of income or gain or a distribution to any Member (including, without limitation, by reason of Sections 1441, 1442, 1445 or 1446 of the Code), the amount so paid shall be treated as a distribution of cash to the Member and any future distributions to which such Member is entitled shall be reduced to the extent of any amount treated as a distribution pursuant to this Section 14.3. The Capital Account of the Member for which amounts are paid over to a governmental authority pursuant to this Section 14.3 shall be decreased by such amount paid over to the governmental authority. A Member who has had amounts paid over to a governmental authority pursuant to this Section 14.3 shall be entitled to receive any refund of any such tax, penalty, interest or other amount received by the Company on account of amounts paid on behalf of the Member pursuant to this Section 14.3; provided, however, that the amount due such Member shall be reduced by any expenses of the Company incurred in connection with the payment or refund of such tax, penalty, interest or other amount. The Company shall have no duty or obligation to seek to obtain or collect any refund or expend any amount to reduce the amount of any withholding, penalty, interest or other amount otherwise payable to any governmental authority; however, upon request by a Member, the Company shall take reasonable steps to cooperate with the Member on a refund request provided that the Company is reimbursed by the Member for the Company's costs and expenses arising from such cooperation. If at any time a Member's interest in the Company is transferred or assigned, the proposed assignee shall certify to non-foreign status prior to the transfer or assignment of the interest. Such certifications shall be made on a form to be provided by the Board of Managers. Each Member shall notify the Company if it becomes either a "Foreign Person", as defined in Code Section 1445, or a "Foreign Partner", as defined in Code Section 1446, within thirty (30) calendar days of such change.

XV. TRANSFER OF INTERESTS

Section 15.1. Transfer Restriction Agreement. Each Member as of the date of this Agreement is also a party to the Transfer Restriction Agreement. As a condition to being admitted as a Member, any other Person must become a party to the Transfer Restriction Agreement, in accordance with the procedures set forth therein. The Transfer Restriction Agreement, a copy of which is attached hereto as Exhibit A, is incorporated by reference in this Agreement as if fully set forth herein and forms a part of this Agreement.

Section 15.2. Transfers of Interests and Admission of New Members. No Member may assign, sell or otherwise transfer by operation of law or otherwise, any of its right, title or interest or any portion thereof in the Company unless such Member shall first comply with the provisions of the Transfer Restriction Agreement applicable to the proposed assignment, sale or transfer. In the event an Affiliate Transfer or a Familial Transfer results in the entirety of a Member's Ownership Interest in the Company being transferred, then (subject to such transferee's joining in this Agreement as provided below) such transferee shall be substituted for that Member automatically upon such transfer without the consent of the Members, and shall

have all the rights of such Member under this Agreement. In the event of an Affiliate Transfer or a Familial Transfer of the entirety of a Member's Ownership Interest divided between or among more than one transferee, only one such transferee may become a substituted Member and the remainder of such transferees shall be treated as and have the rights of assignees under the Act. The transferor shall designate in a written notice to the Company and to each other Member which such transferee shall become the substituted Member, and such designated transferee shall (subject to such transferee's joining in this Agreement as provided below) be substituted for the transferor Member automatically upon such transfer without the consent of the Members with respect to the Ownership Interest transferred to such transferee, and shall have all the rights of such transferring Member under this Agreement. In the event of an Affiliate Transfer or a Familial Transfer of less than the entirety of a Member's Ownership Interest, such transferee shall not be a substituted Member; but the transferring Member shall remain a Member and retain all rights as a Member under this Agreement. Any other transferee of a Member's Ownership Interest in the Company shall be admitted to the Company as a substituted Member only if (i) the assignment, sale or other transfer pursuant to which the transferee acquired such Ownership Interest was effected in accordance with the Transfer Restriction Agreement and (ii) "Holder Consent" (as defined in the Transfer Restriction Agreement) of such assignment sale or other transfer has been obtained. If such a transferee is not admitted as a substituted Member under this Article XV, it shall have none of the powers of a Member hereunder but shall, subject to the further provisions hereof, have only such rights of an assignee under the Act as are consistent with this Agreement. Such assignee shall have no voting rights or consent rights (and shall have no power to elect Managers) or any other power to participate in the management of the Company, but shall be subject to the provisions of the Transfer Restriction Agreement including, without limitation, the obligations under Articles II, IV and V thereof, but shall not be entitled to exercise the rights of a party thereto, including, without limitation, under Article III or VI thereof. In the event of any permitted transfer of an interest in the Company pursuant to this Article XV and the Transfer Restriction Agreement, the interest so transferred shall remain subject to all terms and provisions of this Agreement and the Transfer Restriction Agreement, and the transferee shall be deemed, by accepting the interest so transferred, to have assumed all the liabilities and unperformed obligations, under this Agreement, the Transfer Restriction Agreement or otherwise, which are appurtenant to the interest so transferred; shall hold such interest subject to all unperformed obligations of the transferor Member hereunder and under the Transfer Restriction Agreement; and shall agree in writing to the foregoing if requested by the Board of Managers or the Members and shall join in and be bound by the terms of this Agreement. No assignment shall relieve the assignor from its obligations prior to this Agreement or the Transfer Restriction Agreement, except that if the transferee is admitted as a Member, the assignor shall be relieved of obligations hereunder and under the Transfer Restriction Agreement accruing after the admission of the transferee as a Member.

Section 15.3. Securities Laws Restrictions. Notwithstanding any other provision of this Article XV, no transfer of an interest in the Company may be made if the transfer would violate federal or state securities laws.

XVI. BOOKS OF ACCOUNT AND COMPANY RECORDS

Section 16.1. Books of Account. At all times during the continuance of the Company, the Managers shall keep or cause to be kept, full and true books of account in which shall be entered fully and accurately all transactions of the Company.

Section 16.2. Inspection. All of the books of account of the Company, together with an executed copy of this Agreement and any amendments hereto, shall at all times be maintained at the principal office of the Company and shall be open to the inspection and examination of the Members or their representatives. Any Member may, at any time and from time to time, at its own expense, cause an audit of the books of the Company to be made by a certified public accountant or other person designated by such Member.

Section 16.3. Fiscal Year and Accounting Method. The fiscal year of the Company shall end on December 31 in each year, and the books of the Company shall be kept on a cash method of accounting by the Board of Managers.

Section 16.4. Financial Reports. For each Fiscal Year during the term hereof, the Board of Managers shall deliver to all the Members, as soon as reasonably practicable after the expiration of such Fiscal Year, an unaudited financial report of the Company, including a balance sheet, profit and loss statement, and a statement showing distributions to the Members and the allocation among the Members of taxable income, gains, losses, deductions and credits of the Company. In addition, the Board of Managers shall cause to be delivered to all the Members monthly unaudited statements of profit and loss prepared on a cash basis, such statements to reflect profit and loss on both a monthly and year-to-date basis. Each such monthly statement shall be so delivered within sixty (60) days after the end of the month to which the statement pertains. An accounting of all items of receipt, income, profit, cost, expense and loss shall also be prepared made by the Board of Managers upon the dissolution of the Company.

Section 16.5. Tax Returns. The Company shall cause all income tax returns to be prepared or reviewed in compliance with this Agreement (in particular the tax allocations in Article XIII hereof) by such firm of independent certified public accountants as shall be selected by the Board of Managers, shall cause such tax returns to be timely filed with the appropriate authorities and shall cause copies thereof and all related matters needed by any Member for the preparation of its tax returns to be promptly delivered to all Members. Copies of such tax returns shall be kept at the principal office of the Company and shall be available for inspection by any Member during normal business hours. The income tax documentation to be generated hereunder shall include any additional information reasonably requested by a Member for the preparation of its return.

Section 16.6. Tax Elections.

(a) In the event of a transfer of all or part of an interest of a Member authorized by this Agreement, the Company shall, upon the request of the transferee, elect pursuant to Section 754 of the Code to adjust the basis of Company property, and any basis adjustment relating to such transfer, whether made under Section 754 of the

Code or otherwise, shall be allocated solely to the transferee; provided, however, that each transferee shall pay the additional bookkeeping and accounting costs which result from the basis adjustment pertaining to such transferee. Each of the Members shall supply to the Company upon request the information necessary properly to give effect to such election.

(b) All other federal income tax elections required or permitted to be made by the Company shall be made in such manner as may be agreed upon by the Board of Managers. No Member shall take any action or refuse to take any action which would cause the Company to forfeit the benefits of any tax election previously made or agreed to be made.

Section 16.7. Tax Matters Partner. SAM is hereby designated as the "Tax Matters Partner" of the Company within the meaning of Section 6231(a)(7) of the Code and shall have the power to manage and control, on behalf of the Company, any administrative proceeding at the Company level with the Internal Revenue Service relating to the determination of any item of Company income, gain, loss, deduction, or credit for federal income-tax purposes. The Tax Matters Partner shall comply with all statutory provisions of the Code applicable to a "tax matters partner" and shall, without limitation, within thirty (30) calendar days of the receipt of any notice from the Internal Revenue Service in any administrative proceeding at the Company level relating to the determination of any Company item of income, gain, loss, deduction, or credit, mail a copy of such notice to each Member.

Section 16.8. Bank Accounts. The funds of the Company shall be deposited in the name of the Company in such bank accounts and with such signatories as shall be selected by the Board of Managers. All deposits, including security deposits, funds required to be escrowed and other funds not currently distributable or needed in the operation of the Company business shall, to the extent permitted by law, be deposited in such interest-bearing bank accounts or invested in such financial instruments (including, without limitation, hedge contracts and commodity contracts) as shall be approved by the Board of Managers.

XVII. DISSOLUTION, WINDING UP AND DISTRIBUTION

Section 17.1. Events of Dissolution. Each of the following shall be an "Event of Dissolution," and unless the Company and its business is continued pursuant to Section 17.5 hereof, the Company shall be dissolved:

(a) upon the approval by Member Consent of an election to dissolve the Company;

(b) at any time there are no Members, unless the business of the Company is continued pursuant to Section 18-801(4) of the Act; or

(c) upon the entry of a decree of judicial dissolution of the Company under Section 18-802 of the Act.

The death, retirement, resignation, expulsion, bankruptcy or dissolution of any Member or the occurrence of any other event that terminates the continued membership of any Member shall not cause the Company to be dissolved or its affairs to be wound up.

Section 17.2. Dissolution and Winding Up. Notwithstanding any other provision of this Agreement, upon the dissolution of the Company, the Board of Managers (which term, for purposes of this Section and Section 17.4 shall include the respective trustee, receiver or successor, if any, of either or both thereof) shall have the responsibility for expeditiously dissolving and liquidating the Company. They shall promptly proceed to wind up the affairs of the Company and, after payment (or making provision for payment) of liabilities owing to creditors, shall set up such reserves as they deem reasonably necessary or appropriate for any contingent or unforeseen liabilities or obligations of the Company. Said reserves may be paid over to a bank or an attorney-at-law, to be held in escrow for the purpose of paying any such contingent or unforeseen liabilities or obligations. After paying such liabilities and setting up such reserves, the Board shall cause the remaining net assets of the Company to be paid or distributed to the Members or their assigns in accordance with the positive Capital Account balances of the Members. At the expiration of such period as the Board of Managers may deem advisable, any remaining reserves shall be paid or distributed to the Members or their assigns in the same manner as the preceding sentence. No Member shall receive any additional compensation for any services performed pursuant to this Article XVII.

Section 17.3. Final Statement. Upon the dissolution of the Company, a final certified statement of its assets and liabilities shall be prepared by the Company's certified public accountants and furnished to the Members within ninety (90) days after such dissolution.

Section 17.4. Distribution In-Kind. If all the Members agree that it shall be impractical to liquidate part or all the assets of the Company, then assets which they agree are not suitable for liquidation may be distributed to the Members in-kind, subject to the order of priority set forth in Section 17.2 hereof and, further, subject to such conditions relating to the management and disposition of the assets distributed as the Board of Managers deems reasonable and equitable. If Company assets are to be distributed in-kind, then prior to any such distribution, the Capital Accounts of the Members shall be adjusted to reflect the manner in which the unrealized taxable income, gain, loss and deduction inherent in such property (to the extent that such items have not been previously reflected in the Capital Accounts) would be allocated among the Members if there were a taxable disposition of such property on the date of its distribution for its then fair market value determined mutually by the Members.

Section 17.5. Deemed Distribution and Recontribution. Notwithstanding any other provision of this Article XVII, in the event the Company is liquidated within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g) but no Event of Dissolution has occurred, the assets of the Company shall not be liquidated, the Company's liabilities shall not be paid or discharged, and the Company's affairs shall not be wound up. Instead, the Company shall be deemed to have contributed its assets in-kind to a new limited liability company, which shall be deemed to have assumed and taken all Company assets subject to all Company liabilities. Immediately thereafter, the Company shall be deemed to have liquidated and distributed the interests in the new limited liability company in-kind to the Members.

XVIII. MISCELLANEOUS

Section 18.1. Execution in Counterparts. This Agreement may be executed in counterparts, all of which taken together shall be deemed one original.

Section 18.2. Address and Notice. The address of each Member for all purposes shall be as follows:

If to Vaughn:
3738 Oak Lawn Ave., Suite 101
Dallas, Texas 75219
Attention: Robert C. Vaughn
Telecopy No.: (214) 522-7433

With copies to:
3738 Oak Lawn Ave., Suite 101
Dallas, Texas 75219
Attention: Benny D. Duncan
Telecopy No.: (214) 522-7433

With additional copies to:
Joe Dannenmaier
Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Telecopy No.: (214) 969-1751

If to SAM:
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: H. C. Allen, Jr.
Telecopy No.: (214) 559-0301

With copies to:
Joe Dannenmaier
Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Telecopy No.: (214) 969-1751

If to SAOG:
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: William Casey McManemin
Telecopy No.: (214) 559-0301

With copies to:
Joe Dannenmaier
Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Telecopy No.: (214) 969-1751

If to Peak LP:
1919 S. Shiloh Rd.
Suite 600 - LB48
Garland, Texas 75042
Attention: Preston A. Peak
Telecopy No.: (972) 864-9095

With copies to:
Bryan E. Bishop
Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201
Telecopy No.: (214) 740-8800

If to Raley GP:
1919 S. Shiloh Rd.
Suite 600 - LB48
Garland, Texas 75042
Attention: James E. Raley
Telecopy No.: (972) 864-9095

With copies to:
Bryan E. Bishop
Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201
Telecopy No.: (214) 740-8800

or such other address or addresses of which any Member shall have given the other Members notice. Any notice shall be in accordance with Section 10.1.

Section 18.3. Partition. The Members hereby agree that no Member shall have the right while this Agreement remains in effect to have the assets of the Company partitioned, or to file a complaint or institute any proceeding at law or in equity to have any Company asset partitioned, and each Member hereby waives any such right. It is the intention of the Members that during the term of this Agreement, the rights of the Members as among themselves shall be governed by the terms of this Agreement.

Section 18.4. Further Assurances. Each Member hereby covenants and agrees to execute and deliver such instruments as may be reasonably requested by any other Member to convey any interest or to take any other action required or permitted under this Agreement.

Section 18.5. Titles and Captions. All article, section, or subsection titles or captions contained in this Agreement or the table of contents hereof are for convenience only and shall not be deemed part of the context of this Agreement.

Section 18.6. Number and Gender of Pronouns. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the Person or Persons may require.

Section 18.7. Entire Agreement. This Agreement contains the entire understanding between and among the Members and supersedes any prior understandings and agreements between and among them respecting the subject matter of this Agreement.

Section 18.8. Amendment. This Agreement may be amended or modified only by a written document executed by such number of the Members as shall constitute Member Consent.

Section 18.9. Exhibits and Schedules. All exhibits and schedules referred to herein are attached hereto and made a part hereof for all purposes.

Section 18.10. Agreement Binding. This Agreement shall be binding upon the heirs, executors, administrators, successors, and assigns of the Members.

Section 18.11. Waiver. No failure by any Member to insist upon the strict performance of any covenant, duty, agreement, or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or any other covenant, agreement, term, or condition. Any Member by the issuance of written notice may, but shall be under no obligation to, waive any of its rights or any conditions to its obligations hereunder, or any duty, obligation or covenant of any other Member. No waiver shall affect or alter the remainder of this Agreement but each and every covenant, agreement, term, and condition of this Agreement shall continue in full force and effect with respect to any other then existing or subsequent breach thereof.

Section 18.12. Remedies. The rights and remedies of the Members set forth in this Agreement shall not be mutually exclusive or exclusive of any right, power or privilege provided by law or in equity or otherwise and the exercise of one or more of the provisions hereof shall not preclude the exercise of any other provisions hereof or of any legal, equitable or other right. Each of the Members confirms that damages at law may be an inadequate remedy for a breach or threatened breach of any provision hereof. The respective rights and obligations hereunder shall be enforceable by specific performance, injunction, or other equitable remedy, but nothing herein contained is intended to, or shall limit or affect any rights at law or by statute or otherwise of any Member aggrieved as against another Member for a breach or threatened breach of any provision hereof, it being the intention of this section to make clear the agreement of the Members that the respective rights and obligations of the Members hereunder shall be enforceable in equity as well as at law or otherwise.

Section 18.13. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED, ENFORCED, AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF DELAWARE (WITHOUT REGARD TO ITS CHOICE OF LAW PRINCIPLES).

Section 18.14. Dispute Resolution.

(a) NEGOTIATION. THE PARTNERS SHALL ATTEMPT TO RESOLVE ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TERMINATION, BREACH, OR VALIDITY OF THIS AGREEMENT, PROMPTLY BY GOOD FAITH NEGOTIATION AMONG EXECUTIVES WHO HAVE AUTHORITY TO RESOLVE THE CONTROVERSY. ANY PARTNER MAY GIVE THE OTHER PARTNERS WRITTEN NOTICE OF ANY DISPUTE NOT RESOLVED IN THE NORMAL COURSE OF BUSINESS. WITHIN 10 DAYS AFTER DELIVERY OF THE NOTICE, THE RECEIVING PARTNER SHALL SUBMIT TO THE OTHERS A WRITTEN RESPONSE. THE NOTICE AND THE RESPONSE SHALL INCLUDE (A) A STATEMENT OF THE PARTNER'S CONCERNS AND PERSPECTIVES ON THE ISSUES IN DISPUTE, (B) A SUMMARY OF SUPPORTING FACTS AND CIRCUMSTANCES AND (C) THE IDENTITY OF THE EXECUTIVE WHO WILL REPRESENT THAT PARTNER AND OF ANY OTHER PERSON WHO WILL ACCOMPANY THE EXECUTIVE. WITHIN 15 DAYS AFTER DELIVERY OF THE ORIGINAL NOTICE, THE EXECUTIVES OF THE PARTNERS SHALL MEET AT A MUTUALLY ACCEPTABLE TIME AND PLACE, AND THEREAFTER AS OFTEN AS THEY REASONABLY DEEM NECESSARY, TO ATTEMPT TO RESOLVE THE DISPUTE. ALL NEGOTIATIONS PURSUANT TO THIS CLAUSE AND CLAUSE (B) BELOW ARE CONFIDENTIAL AND SHALL BE TREATED AS COMPROMISE AND SETTLEMENT NEGOTIATIONS FOR PURPOSES OF APPLICABLE RULES OF EVIDENCE.

(b) MEDIATION. IF A DISPUTE HAS NOT BEEN RESOLVED BY DISCUSSION BETWEEN OR AMONG THE MEMBERS WITHIN 20 DAYS OF THE DISPUTING PARTNERS' NOTICE, ANY MEMBER MAY BY NOTICE TO THE OTHER MEMBERS WITH WHOM SUCH DISPUTE EXISTS REQUIRE MEDIATION OF THE DISPUTE, WHICH NOTICE SHALL IDENTIFY THE NAMES OF NO FEWER THAN THREE (3) POTENTIAL MEDIATORS. EACH MEMBER AMONG WHOM THE DISPUTE EXISTS WILL IN GOOD FAITH ATTEMPT TO AGREE UPON A MEDIATOR AND AGREES TO PARTICIPATE IN MEDIATION OF THE DISPUTE IN GOOD FAITH. IF THE PARTIES ARE UNABLE TO AGREE UPON A MEDIATOR WITHIN FIFTEEN (15) DAYS AFTER SUCH NOTICE, THE MEMBERS AGREE TO PROCEED TO MEDIATION UNDER THE COMMERCIAL MEDIATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION IN EFFECT ON THE DATE OF THIS AGREEMENT. IF SUCH DISPUTE SHALL NOT HAVE BEEN RESOLVED BY MEDIATION WITHIN THE TIME PERIOD SPECIFIED N SUBSECTION (C) BELOW, ARBITRATION MAY BE INITIATED PURSUANT TO SUBSECTION (C) BELOW. ALL EXPENSES OF THE MEDIATOR SHALL BE EQUALLY SHARED BY THE MEMBERS AMONG WHOM THE DISPUTE EXISTS.

(c) BINDING ARBITRATION.

(i) ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE BREACH, TERMINATION, OR VALIDITY OF THE

AGREEMENT WHICH HAS NOT BEEN RESOLVED BY MEDIATION WITHIN 30 DAYS OF THE INITIATION OF SUCH PROCEDURE, OR WHICH HAS NOT BEEN RESOLVED PRIOR TO THE TERMINATION OF MEDIATION, SHALL BE RESOLVED BY ARBITRATION IN ACCORDANCE WITH THE COMMERCIAL ARBITRATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA") IN EFFECT ON THE DATE OF THIS AGREEMENT. IF A PARTY TO A DISPUTE FAILS TO PARTICIPATE IN MEDIATION, THE OTHERS MAY INITIATE ARBITRATION BEFORE EXPIRATION OF THE ABOVE PERIOD. IF THE AMOUNT OF THE CLAIM ASSERTED BY ANY PARTY IN THE ARBITRATION EXCEEDS $1,000,000, THE PARTNERS AGREE THAT THE AMERICAN ARBITRATION ASSOCIATION OPTIONAL PROCEDURES FOR LARGE, COMPLEX COMMERCIAL DISPUTES WILL BE APPLIED TO THE DISPUTE.

(ii) THE AAA SHALL SUGGEST A PANEL OF ARBITRATORS, EACH OF WHOM SHALL BE KNOWLEDGEABLE WITH RESPECT TO THE SUBJECT MATTER OF THE DISPUTE. ARBITRATION SHALL BE BEFORE A SOLE ARBITRATOR IF THE DISPUTING PARTNERS AGREE ON THE SELECTION OF A SOLE ARBITRATOR. IF NOT, ARBITRATION SHALL BE BEFORE THREE INDEPENDENT AND IMPARTIAL ARBITRATORS, ALL OF WHOM SHALL BE APPOINTED BY THE AAA IN ACCORDANCE WITH ITS RULES.

(ii) THE PLACE OF ARBITRATION SHALL BE DALLAS, TEXAS.

(iii) THE ARBITRATOR(S) ARE NOT EMPOWERED TO AWARD DAMAGES IN EXCESS OF COMPENSATORY DAMAGES.

(iv) THE AWARD RENDERED BY THE ARBITRATORS SHALL BE IN WRITING AND SHALL INCLUDE A STATEMENT OF THE FACTUAL BASES AND THE LEGAL CONCLUSIONS RELIED UPON BY THE ARBITRATORS IN MAKING SUCH AWARD. THE ARBITRATORS SHALL DECIDE THE DISPUTE IN COMPLIANCE WITH THE APPLICABLE SUBSTANTIVE LAW AND CONSISTENT WITH THE PROVISIONS OF THE AGREEMENT, INCLUDING LIMITS ON DAMAGES. THE AWARD RENDERED BY THE ARBITRATOR(S) SHALL BE FINAL AND BINDING, AND JUDGMENT UPON THE AWARD MAY BE ENTERED BY ANY COURT HAVING JURISDICTION THEREOF.

(v) ALL MATTERS RELATING TO THE ENFORCEABILITY OF THIS ARBITRATION AGREEMENT AND ANY AWARD RENDERED PURSUANT TO THIS AGREEMENT SHALL BE GOVERNED BY THE FEDERAL ARBITRATION ACT, 9 U.S.C. Section 1-16. THE ARBITRATOR(S) SHALL APPLY THE SUBSTANTIVE LAW OF THE STATE OF DELAWARE, EXCLUSIVE OF ANY CONFLICT OF LAW RULES.

(vi) EACH PARTNER IS REQUIRED TO CONTINUE TO PERFORM ITS OBLIGATIONS UNDER THIS CONTRACT PENDING FINAL RESOLUTION OF ANY DISPUTE ARISING OUT OF OR RELATING TO THIS CONTRACT, UNLESS TO DO SO WOULD BE IMPOSSIBLE OR IMPRACTICABLE UNDER THE CIRCUMSTANCES.

(vii) NOTHING IN THIS SECTION 18.14 SHALL LIMIT THE PARTNERS' RIGHTS TO OBTAIN PROVISIONAL, ANCILLARY OR EQUITABLE RELIEF FROM A COURT OF COMPETENT JURISDICTION.

(d) EXPENSES. EACH PARTY SHALL PAY ITS OWN EXPENSES OF ARBITRATION AND THE EXPENSES OF THE ARBITRATORS SHALL BE EQUALLY SHARED; PROVIDED, HOWEVER, IF IN THE OPINION OF THE ARBITRATORS ANY CLAIM BY EITHER PARTY HEREUNDER OR ANY DEFENSE OR OBJECTION THERETO BY THE OTHER PARTY WAS UNREASONABLE AND NOT MADE IN GOOD FAITH, THE ARBITRATORS MAY ASSESS, AS PART OF THE AWARD, ALL OR ANY PART OF THE ARBITRATION EXPENSE (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES) OF THE OTHER PARTY AND OF THE ARBITRATORS AGAINST THE PARTY RAISING SUCH UNREASONABLE CLAIM, DEFENSE, OR OBJECTION. NOTHING HEREIN SET FORTH SHALL PREVENT THE PARTIES FROM SETTLING ANY DISPUTE BY MUTUAL AGREEMENT AT ANY TIME.

Section 18.15. WAIVER. EACH MEMBER WAIVES ANY RIGHT THAT THE MEMBER MAY HAVE TO COMMENCE ANY ACTION IN ANY COURT WITH RESPECT TO ANY DISPUTE AMONG THE MEMBERS RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RIGHTS OR OBLIGATIONS OF ANY MEMBER HEREUNDER, OTHER THAN AN ACTION BROUGHT TO ENFORCE THE ARBITRATION PROVISIONS OF SECTION 18.14 HEREOF. THE MEMBERS AGREE THAT ANY SUCH ACTION SHALL BE BROUGHT (AND VENUE FOR ANY SUCH ACTION SHALL BE APPROPRIATE) IN DALLAS, TEXAS.

Section 18.16. U.S. Dollars. Any reference in this Agreement to "dollars," "funds" or "sums" or any amounts denoted with a "$" shall be references to United States dollars.

[FOLLOWING ARE THE SIGNATURE PAGES.]

IN WITNESS WHEREOF, the undersigned parties have executed this Amended and Restated Limited Liability Company Agreement on the ____ day of _____________, ________.

SAM PARTNERS, LTD.

By: SAM Partners Management, Inc., its general partner

By: --
H. C. Allen, Jr., Secretary

VAUGHN PETROLEUM, LTD.

By: VPL (GP), LLC, its general partner

By: --
Name: --
Title: ---------------------------------------

SMITH ALLEN OIL & GAS, INC.

By: ---
William Casey McManemin, Vice President

P.A. Peak Holdings LP, a Delaware limited partnership

By: Peak Limited Liability Company No. 1,
a Texas limited liability company, its General Partner

By: ---
Preston A. Peak, President

JAMES E. RALEY GENERAL PARTNERSHIP,
a Texas general partnership

By: YELAR GP LLC, a Texas limited liability company,
its General Partner

By:

James E. Raley, President

By: YELAR LP, a Texas limited partnership,
its General Partner

By:

James E. Raley, President

And joined in for the limited purpose of agreeing to the substitution of Peak LP as a Member of the Company in lieu of P.A. Peak, Inc.:

P.A. Peak, Inc.,
a Delaware corporation

By:

Preston A. Peak, President

EXHIBIT A

Transfer Restriction Agreement

SCHEDULE I

Capital Contributions Under Original Agreement

Vaughn	$ 2.46
SAM	2.46
SAOG	2.40
Peak LP	2.34
Raley GP	2.34

	$12.00

EXHIBIT B

FORM OF AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF GENERAL PARTNER

AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF DORCHESTER MINERALS MANAGEMENT LP

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THE PARTNERSHIP INTERESTS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY JURISDICTION. NO PARTNERSHIP INTEREST MAY BE SOLD OR OFFERED FOR SALE (WITHIN THE MEANING OF ANY SECURITIES LAW) UNLESS A REGISTRATION STATEMENT UNDER ALL APPLICABLE SECURITIES LAWS WITH RESPECT TO THE INTEREST IS THEN IN EFFECT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS IS THEN APPLICABLE TO THE INTEREST. A PARTNERSHIP INTEREST ALSO MAY NOT BE TRANSFERRED OR ENCUMBERED UNLESS THE APPLICABLE PROVISIONS OF THIS AGREEMENT AND THE TRANSFER RESTRICTION AGREEMENT ATTACHED HERETO AS EXHIBIT A ARE SATISFIED.

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AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF DORCHESTER MINERALS MANAGEMENT LP

This Amended and Restated Limited Partnership Agreement of Dorchester Minerals Management LP dated as of ________ ____ _____ (the "Effective Date"), is entered into by and among Dorchester Minerals Management LLC, a Delaware limited liability company, as general partner, and SAM Partners, Ltd., a Texas limited partnership ("SAM"), Vaughn Petroleum, Ltd., a Texas limited partnership ("Vaughn"), Smith Allen Oil & Gas, Inc., a Texas corporation ("SAOG"), P.A. Peak Holdings LP, a Delaware limited partnership ("Peak LP") and James E. Raley General Partnership, a Delaware general partnership ("Raley GP"), as limited partners. Each of SAM, Vaughn, SAOG, Peak LP and Raley GP is a "Limited Partner" and, collectively, they are sometimes referred to as the "Limited Partners." The General Partner and each Limited Partner is a "Partner" and, collectively, they are sometimes referred to as the "Partners."

WITNESSETH

WHEREAS, effective December 12, 2001, a Certificate of Limited Partnership (the "Certificate") was filed in the office of the Secretary of State of Delaware for the formation of Dorchester Minerals Management LP, a Delaware limited partnership (the "Partnership");

WHEREAS, in connection with the formation of the Partnership, its partners executed that certain Limited Partnership Agreement of Dorchester Minerals Management LP (the "Original Agreement");

WHEREAS, the parties hereto desire to amend and restate the Original Agreement as of the date hereof upon the terms and conditions set forth herein and to substitute Peak LP as a Limited Partner of the Partnerships in lieu of P.A. Peak, Inc., a Delaware corporation;

NOW, THEREFORE, in consideration of the mutual covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree to continue the Partnership upon the following terms and conditions and to amend and restate the Original Agreement upon the terms and conditions set forth herein:

I. DEFINITIONS

Section 1.1. Definitions. The following terms shall have the following meanings when used in this Agreement:

"AAA" shall have the meaning set forth in Section 17.14 hereof.

"Act" shall mean the Delaware Revised Uniform Limited Partnership Act, as amended.

"Actual Depletion Deductions" means with respect to any Partner, such Partner's actual depletion allowance with respect to such Partner's share of production from the oil and gas properties owned by the Operating Subsidiaries and Dorchester Minerals; provided that, for purposes of this Agreement and computing a Partner's Capital Account, such Partner's Actual Depletion Deductions with respect to any single oil or gas property shall not exceed the adjusted basis of such oil or gas property allocated to such Partner (or its predecessor in interest) pursuant to Code Section 613A(c)(7)(D). If the General Partner elects to use Actual Depletion Deductions pursuant to Section 1.704-1(b)(2)(iv)(k) of the Treasury Regulations, each Partner shall notify the Partnership of the amount of its Actual Depletion Deductions within ninety (90) days of the end of each Fiscal Year.

"Actual Gains or Actual Losses" means with respect to any Partner (i) the excess, if any, of such Partner's share of the total amount realized from the disposition of any oil or gas property over such Partner's remaining adjusted tax basis in such property or (ii) the excess, if any, of such Partner's remaining adjusted tax basis in such property over such Partner's share of the total amount realized from the disposition of such property. A Partner's share of the total amount realized from the disposition of oil or gas property shall be determined pursuant to Treasury Regulations Section 1.704-1(b)(4)(v).

"Affiliate" shall mean, with respect to any Person, (i) any Person directly or indirectly controlling, controlled by or under common control with such Person, (ii) any Person owning or controlling ten percent (10%) or more of the outstanding voting interests of such Person, (iii) any officer, director, member, manager or general partner of such Person, or (iv) any Person who is an officer, director, general partner, trustee, member, manager or holder of ten percent (10%) or more of the voting interests of any Person described in clauses (i) through (iii) of this sentence.

"Affiliate Transfer" shall have the meaning assigned that term in the Transfer Restriction Agreement.

"Agreement" shall mean this Amended and Restated Limited Partnership Agreement of Dorchester Minerals Management LP.

"Book Value" shall mean with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(i) the initial Book Value of any asset contributed (or deemed contributed, including as a result of the constructive termination of the Partnership pursuant to Code Section 708(b)(1)(B)) to the Partnership shall be such asset's gross fair market value at the time of such contribution;

(ii) the Book Value of all Partnership assets shall be adjusted to equal their respective gross fair market values at the times specified in Treasury Regulations under Section 704(b) of the Code if the Partnership so elects; and

(iii) if the Book Value of an asset has been determined pursuant to clause (i) or (ii) , such Book Value shall thereafter be adjusted in the same manner as would the asset's adjusted basis for federal income tax purposes, except that depreciation deductions shall be computed in accordance with Subparagraph (iv) of the definition of Net Profit and Net Loss and the Book

Value shall be adjusted by the Actual Depletion Deductions or Simulated Depletion Deductions, as applicable.

"Business Day" shall mean any day other than Saturday or Sunday or any other day upon which banks in Dallas, Texas are permitted or required by law to close.

"Business Opportunities Agreement" shall have the meaning set forth in Section 6.2.

"Capital Account" shall have the meaning set forth in Section 12.4 hereof.

"Certificate" shall have the meaning set forth in the recitals to this Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or its successor.

"Contribution Agreement" shall mean that certain Contribution Agreement made by and among SAM, Vaughn, SAOG, P.A. Peak, Inc., a Delaware corporation, James E. Raley, Inc., a Delaware corporation, the Partnership and the General Partner, dated as of December 13, 2001.

"Covered Person" shall have the meaning set forth in Section 11.1 hereof.

"Depletable Property" means interests in oil, gas or other minerals eligible for depletion under Code Section 613 or 613A.

"Disabling Conduct" shall mean conduct that constitutes fraud, willful misconduct, bad faith or gross negligence or conduct that is outside the scope of conduct permitted in this Agreement or is in breach of this Agreement, any Governance Agreement or any other agreement between or among (i) any of the General Partner, the Partnership, Dorchester Minerals, Dorchester Operating LP and Dorchester Operating LLC and (ii) the Person whose conduct is in question or in knowing violation of applicable laws.

"Dorchester Minerals" shall mean Dorchester Minerals, L.P., a Delaware limited partnership.

"Dorchester Minerals Limited Partnership Agreement" shall mean that certain Amended And Restated Agreement Of Limited Partnership of Dorchester Minerals, L.P., dated ________________, 200__ made by and among the Partnership as general partner and the limited partners noted therein.

"Dorchester Operating LLC" shall mean Dorchester Minerals Operating LLC, a Delaware limited liability company.

"Dorchester Operating LP" shall mean Dorchester Minerals Operating LP, a Delaware limited partnership.

"Effective Date" shall have the meaning set forth in the preamble to this Agreement.

"Event of Dissolution" shall have the meaning set forth in Section 16.1 hereof.

"Familial Transfer" shall have the meaning assigned that term in the Transfer Restriction Agreement.

"Fiscal Year" shall mean the fiscal year of the Partnership as set forth in Section 15.3 hereof.

"General Partner" shall mean Dorchester Minerals Management LLC, a Delaware limited liability company, and any assignee of all or any part of its interest in the Partnership who is admitted to the Partnership as a General Partner in conformity with the provisions of this Agreement.

"Governance Agreements" shall mean this Agreement, the Limited Liability Company Agreement, the Dorchester Minerals Limited Partnership Agreement, the limited liability company agreement of Dorchester Operating LLC, the limited partnership agreement of Dorchester Operating LP, the Business Opportunities Agreement, and the Transfer Restriction Agreement.

"Gross Income" shall mean for each Fiscal Year or other period, an amount equal to the Partnership's gross income as determined for federal income tax purposes for such Fiscal Year or period but computed with the adjustments specified in Subparagraphs (i) and (iii) of the definition of Net Profit and Net Loss.

"Limited Liability Company Agreement" shall mean that certain Amended and Restated Limited Liability Company Agreement of Dorchester Minerals Management LLC, a Delaware limited liability company, dated as of _________, 200__ by and among Vaughn, SAM, SAOG, Peak LP and Raley GP.

"Limited Partner" or "Limited Partners" shall mean SAM, Vaughn, SAOG, Peak LP, Raley GP and any assignee of all or any part of their respective interests in the Partnership who is admitted to the Partnership as a Limited Partner in conformity with the provisions of this Agreement.

"Net Cash Flow" shall have the meaning set forth in Section 13.1 hereof.

"Net Profit" and "Net Loss" shall mean for each Fiscal Year or other period, an amount equal to the Partnership's taxable income or loss for such Fiscal Year or other period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss) with the following adjustments:

(i) any income of the Partnership that is exempt from federal income tax or not otherwise taken into account in computing Net Profit or Net Loss shall be added to such taxable income or loss;

(ii) any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures under Code Section 704(b), and not otherwise taken into account in computing Net Profit or Net Loss, shall be subtracted from such taxable income or loss;

(iii) gain or loss resulting from any disposition of Partnership property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Book Value of such property rather than its adjusted tax basis;

(iv) in lieu of the depletion, depreciation, amortization and other cost recovery deductions taken into account in computing taxable income or loss, there shall be taken into account depreciation, amortization or other cost recovery deductions on the assets' respective Book Values for such Fiscal Year or other period determined in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv)(g);

(v) the amount of any Gross Income allocated to the Partners pursuant to Sections 12.2(d), 12.2(e), 12.2(f), 12.2(j), 12.2(k) and 12.2(l) shall not be included as income or revenue; and

(vi) any amount allocated to the Partners pursuant to Sections 12.2(h), 12.2(i), 12.2(j), 12.2(k) and 12.2(l) shall not be included as a loss, deduction or Code Section 705(a)(2)(B) expenditure.

"Operating Subsidiaries" shall mean Dorchester Minerals Operating GP LLC and Dorchester Minerals Operating LP.

"Ownership Interest" shall mean the interest in the Partnership held by a Partner.

"Ownership Percentage" shall mean 0.1% for the General Partner, 20.48% for Vaughn, 20.48% for SAM, 19.98% for SAOG, 19.48% for Peak LP and 19.48% for Raley GP, until adjusted in accordance with this Agreement.

"Partner" means the General Partner or a Limited Partner.

"Partner Nonrecourse Debt" shall mean any nonrecourse debt of the Company which meets the requirements of "partner nonrecourse debt" set forth in Treasury Regulations Section 1.704-2(b)(4).

"Partner Nonrecourse Debt Minimum Gain" shall mean the partner nonrecourse debt minimum gain attributable to "partner nonrecourse debt" as determined under Treasury Regulations Section 1.704-2(i)(3).

"Partner Nonrecourse Deductions" shall mean any loss, deduction, or Code Section 705(a)(2)(B) expenditure, or item thereof, that is attributable to a Partner Nonrecourse Debt, as determined by Treasury Regulations Section 1.704-2(i)(2).

"Partnership" shall mean the limited partnership formed by this Agreement.

"Partnership Minimum Gain" shall mean the amount computed under Treasury Regulations Section 1.704-2(d)(1) with respect to the Partnership's nonrecourse liabilities as determined under Treasury Regulations Section 1.752-1(a)(2).

"Partnership Nonrecourse Deductions" shall mean any loss, deduction, or Code Section 705(a)(2)(B) expenditure (or item thereof) that is attributable to nonrecourse liabilities (as defined in Treasury Regulations Section 1.752-1(a)(2)) of the Partnership and characterized as "nonrecourse deductions" pursuant to Treasury Regulations Section 1.704-2(b)(1) and Section 1.704-2(c).

"Person" shall mean an individual person, partnership, limited partnership, limited liability company, trust, corporation or other entity or organization.

"Prime Rate" means the "prime," "reference" or "base" rate of interest for commercial loans as announced by Bank of America on the first Business Day following the date upon which the event occurs requiring reference to the Prime Rate and adjusted thereafter on the first day of each rate change or, if less, the maximum rate permitted by applicable law.

"Simulated Depletion Deductions" means the simulated depletion allowance computed by the Partnership with respect to its oil and gas properties pursuant to Section 1.704-1(b)(2)(iv)(k)(2) of the Treasury Regulations. In computing such amounts, the General Partner shall have complete and absolute discretion to make any and all permissible elections.

"Simulated Gains" or "Simulated Losses" means the simulated gains or simulated losses computed by the Partnership with respect to its oil and gas properties pursuant to Section 1.704-1(b)(2)(iv)(k)(2) of the Treasury Regulations. In computing such simulated gains or losses, the General Partner shall have complete and absolute discretion to make any and all permissible elections.

"Tax Matters Partner" shall mean as defined in Section 15.7 hereof.

"Transfer Restriction Agreement" shall mean the Transfer Restriction Agreement of even date herewith by and among the Company, the Partnership, Vaughn, SAM, SAOG, Peak LP and Raley GP, a copy of which is attached hereto as Exhibit A.

"Treasury Regulations" shall mean the Income Tax Regulations, including Temporary Regulations, promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

II. NAME, PRINCIPAL OFFICE, REGISTERED OFFICES AND AGENTS, TERM, STATUS OF MEMBERS AND TAX STATUS

Section 2.1. Name of Partnership. The name of the Partnership is Dorchester Minerals Management LP.

Section 2.2. Principal Office. The location of the principal office of the Partnership where records are to be kept or made available shall be 3738 Oak Lawn Avenue, Dallas, Texas 75219. The principal office of the Partnership may be changed by the General Partner.

Section 2.3. Registered Offices and Agents. The location of the registered office of the Partnership in the State of Delaware shall be c/o The Corporation Trust Company, Corporation

Trust Center, 1209 Orange Street, The City of Wilmington, County of Newcastle, Delaware. The General Partner shall establish such other registered offices and appoint such other registered agents as it deems necessary or appropriate for the business of the Partnership. The registered offices and agents of the Partnership may be changed from time to time by the General Partner.

Section 2.4. Term. The Partnership shall have a perpetual existence unless an Event of Dissolution (as defined in Section 16.1 hereof) shall occur and the Partnership is not continued as hereinafter provided.

Section 2.5. Status of Partners. Upon the Effective Date the Partners shall constitute all of the partners of the Partnership.

Section 2.6. Tax Status. The Partnership shall be operated such that it will be classified as a "partnership" for federal and, as determined by the General Partner, state income tax purposes. No action shall be made to treat either Operating Subsidiary as a corporation for federal income tax purposes and each Operating Subsidiary will be disregarded and its assets treated as owned by the Partnership for federal income tax purposes.

III. CHARACTER OF BUSINESS

Section 3.1. Purposes of the Company. The purposes of the Company are to (i) act as the general partner of Dorchester Minerals, (ii) provide or cause to be provided certain management and administrative services to Dorchester Minerals, and (iii) own oil, gas and other mineral interests and other properties through its subsidiary Dorchester Operating LP, and conduct operations with respect thereto. The Partnership may accomplish its purposes through the agency of its own employees and independent contractors and/or the members, managers, officers, employees, agents and independent contractors of its Partners or any subsidiary of the Partnership, including, but not limited to, Dorchester Operating LLC and Dorchester Operating LP.

IV. FORMATION AND FOREIGN REGISTRATION

Section 4.1. Formation. The Partnership was formed as a Delaware limited partnership by the filing of the Certificate under and pursuant to the Act with the Secretary of State of the State of Delaware on December 12, 2001. Upon the Effective Date, the Partnership is hereby continued upon the terms set forth herein.

Section 4.2. Foreign Registration. The Partnership shall register to conduct business in the State of Texas and such other states and jurisdictions as the General Partner deems appropriate.

V. CAPITAL CONTRIBUTIONS

Section 5.1. Initial Contributions. Upon the execution of the Original Agreement, each Partner made an initial capital contribution in the amount set forth on Schedule I hereto. Contemporaneously with the execution by such Partner of this Agreement, each Partner shall make the additional contribution required of such Partner pursuant to the Contribution Agreement, which shall be credited to the Capital Account of such Partner, which the Partners agree constitutes the net fair market value of the property contributed by such Partner to the capital of the Partnership as contemplated by Section 12.4 hereof.

Section 5.2. Subsequent Contributions. All subsequent contributions require the consent of all the Partners. No Partner shall be required to make any subsequent contributions to the Partnership without the consent of all the Partners.

Section 5.3. Return of Contributions. A Partner is not entitled to the return of any part of its capital contributions or to be paid interest in respect of either its Capital Account or its capital contributions. An unrepaid capital contribution is not a liability of the Partnership or of any Partner. A Partner is not required to contribute or to lend any cash or property to the Partnership to enable the Partnership to return any Partner's capital contribution.

Section 5.4. Advances by Partners. If the Partnership does not have sufficient cash to pay its obligations, any Partner(s) that may agree to do so may advance all or part of the needed funds to or on behalf of the Partnership if the Consent of the General Partner is obtained. An advance described in this Section 5.4 constitutes a loan from the Partner to the Partnership, bears interest at the Prime Rate from the date of the advance until the date of repayment, and is not a capital contribution.

VI. RIGHTS, POWERS AND OBLIGATIONS OF PARTNERS

Section 6.1. Partners' Fees and Reimbursement of Expenses. Except as otherwise provided in Section 6.3 hereof, the Partners shall not be paid any fees or other compensation whatsoever for services, whether ordinary or extraordinary, foreseen or unforeseen, rendered to or for the benefit of the Partnership. However, all expenses incurred by the General Partner in connection with the performance of its duties hereunder or for and on behalf of the Partnership in connection with the business of the Partnership (including, without limitation, charges for legal, accounting, data processing, administrative, executive, tax and other services rendered by employees of the General Partner) will be paid or promptly reimbursed by the Partnership. Nothing contained in this Section 6.1 is intended to affect the Ownership Interest or Ownership Percentage of any Partner or the amount that may be payable to any Partner by reason of its interest in the Partnership.

Section 6.2. Duties of Partners/Other Activities. The relationship existing pursuant to this Agreement shall not prohibit any Partner or any Person which is a member, manager, officer, director, parent, subsidiary or Affiliate of a Partner, or any Person in which a Partner or the members, managers, officers, directors, parent, subsidiaries or Affiliates of a Partner may have an interest, from engaging in any other business, investment or profession, except to the extent restricted herein or in a separate written agreement, including but not limited to the Dorchester

Minerals Limited Partnership Agreement, the Limited Liability Company Agreement and the Business Opportunities Agreement made by and among the Partnership, Dorchester Minerals, the General Partner, SAM, Vaughn, SAOG, P.A. Peak, Inc., a Delaware corporation, and James E. Raley, Inc., a Delaware corporation dated as of December 13, 2001 (the "Business Opportunities Agreement"). Neither the Partnership nor any of the Partners shall have any rights by virtue of this Agreement in or to any of such businesses, professions or investments, or in or to any income or profit derived therefrom.

Section 6.3. Dealing with Related Persons. The Partnership may employ or retain a Partner or an Affiliate of a Partner to render or perform a service, may contract to buy property or services from or sell property or services to a Partner or any such Affiliate, and may otherwise deal with such Partner or any such Affiliate; provided, however, that if the Partnership employs, retains or contracts with a Partner or an Affiliate thereof, the charges made for services rendered and materials furnished by such Partner or Affiliate shall be a reasonable amount comparable to the amount that would have been charged by others in the same line of business and not so related, and such relationship and charges shall be promptly disclosed in writing to the other Partners.

Section 6.4. Liability of Partners. No Partner shall be liable, responsible, or accountable in damages or otherwise to any other Partner or the Partnership for any act performed by it within the scope of the authority conferred on it by this Agreement, or made in good faith, except such liability, if any, as it may have for Disabling Conduct.

Section 6.5. No Resignation. Except for assignments, sales or other transfers of a Partner's entire Ownership Interest made in compliance with Article XIV hereof, no Partner shall have the right to resign or withdraw from the Partnership prior to the dissolution and winding up of the Partnership, without prior written consent of the General Partner. Any Partner who resigns or withdraws from the Partnership in violation of the foregoing provision or who has resigned or withdrawn from the Partnership in a manner not expressly permitted herein, shall be liable to the Partnership and the Partners for any damages sustained by reason of such resignation or withdrawal.

VII. THE GENERAL PARTNER

Section 7.1. Powers. The business and affairs of the Partnership shall be managed by or under the direction of the General Partner, which may exercise all such powers of the Partnership and do all such lawful acts and things as are not by non-waivable provisions of the Act or by the Certificate or by this Agreement directed or required to be exercised and done by the Limited Partners. The General Partner is authorized on behalf of the Partnership, consistent with the other provisions of this Agreement:

(a) To enter into and carry out contracts and agreements related to the operation of the Partnership (including, but not limited to, contracts and agreements for the purchase and sale of assets, the incurrence of indebtedness of the Partnership or any of its Operating Subsidiaries);

(b) To bring and defend actions at law or in equity;

(c) To manage and operate all of the assets of the Partnership;

(d) To discharge, employ or retain, on behalf of the Partnership, such persons, firms, or corporations as may be necessary in the operation and management of the business of the Partnership, including, without limitation, accountants and attorneys; and

(e) To undertake any other act or action to conduct the affairs of the Partnership consistent with this Agreement.

Section 7.2. No Removal. The General Partner shall not be subject to removal by the Limited Partners.

VIII. THE LIMITED PARTNERS

Section 8.1. No Authority Vested in Limited Partners. Except for such matters, if any, as by the non-waivable provisions of the Act or by the Certificate or by this Agreement are directed or required to be exercised and done by the Limited Partners, the Limited Partners shall have no authority to act on behalf of or bind the Partnership or to vote on, approve or consent to any matter. The Limited Partners shall have no authority to remove the General Partner.

Section 8.2. No Meetings. There shall be no meetings of the Partners or the Limited Partners. The Limited Partners shall take action they are required or permitted to take solely through written consents in the manner described in Section 8.3 below.

Section 8.3. Action by Written Consent Without a Meeting. Any Limited Partner action required or permitted by applicable law, the Certificate of Limited Partnership, or this Agreement shall be taken by consent in writing, setting forth the action so taken, signed by two-thirds (2/3) of the Limited Partners on a per capita basis, unless otherwise required by law. Any such written consent does not have to be unanimous (unless the action that is approved in such written consent would require the unanimous approval of all Limited Partners). Every written consent must bear the date of signature of each Limited Partner who signs the consent. No written consent shall be effective to take the action that is the subject of the consent unless, within sixty (60) days after the date of the earliest dated consent delivered to the Partnership in the manner required by this Section 8.3, a consent or consents signed by the required Limited Partners are delivered to the Partnership by delivery to its registered office, its principal place of business, or an officer or agent of the Partnership having custody of the books in which proceedings of meetings of Limited Partners are recorded. Delivery shall be by hand or certified or registered mail, return receipt requested or confirmed telefax communication. Delivery to the Partnership's principal place of business shall be addressed to the General Partner of the Partnership. Prompt notice of the taking of any action by Limited Partners without a meeting by less than unanimous written consent shall be given to those Limited Partners who did not consent in writing to the action.

IX. NOTICES

Section 9.1. Methods of Giving Notice. Whenever any notice is required to be given to any Partner or Manager under the provisions of any applicable law, the Certificate of Limited Partnership or this Agreement, it shall be given in writing and delivered personally or delivered by facsimile communication ("telefax") (or, with the approval of all such Partners, via telephone or electronic mail) to such Partners at such address (and at such member facsimile) as appears on the books of the Partnership, and such notice shall be deemed to be given at the time the recipient actually receives the notice in the case of personal delivery, when the sender receives electronic confirmation of delivery with respect to any notice given by facsimile communication, when the sender actually speaks to the recipient in the case of telephonic notice or when the recipient reads the message in the case of electronic mail.

Section 9.2. Waiver of Notice. Whenever any notice is required to be given to any Partner under the provisions of any applicable law, the Certificate of Limited Partnership or this Agreement, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

X. OFFICERS

Section 10.1. Officers. The General Partner may designate one or more individuals to serve as officers of the Partnership. The Partnership shall have such officers as the General Partner may from time to time determine, which officers may (but need not) include a President, a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer, one or more Vice Presidents (and in case of each such Vice President, with such descriptive title, if any, as the General Partner shall deem appropriate), a Secretary, a Treasurer, a Controller and one or more Assistant Secretaries and Assistant Treasurers. Any two or more offices may be held by the same person.

Section 10.2. Salaries. No person shall receive any compensation in such person's capacity as an elected officer. However, the General Partner may authorize the Partnership to pay reasonable and customary compensation to any such officer for services provided as an employee of the Partnership or of an Operating Subsidiary, subject to the limitations in Section 6.3 relating to transactions with Affiliates.

Section 10.3. Term, Removal and Vacancies. Each officer of the Partnership shall hold office until his successor is chosen and qualified or until his death, resignation, or removal. Any officer may resign at any time upon giving written notice to the Partnership. Any officer may be removed by the General Partner with or without cause, but such removal shall be without prejudice to the contract or other legal rights, if any, of the person so removed. Election or appointment of an officer shall not of itself create contract rights. Any vacancy occurring in any office of the Partnership by death, resignation, removal or otherwise shall be filled by the General Partner.

XI. INDEMNIFICATION

Section 11.1. Right to Indemnification. Subject to the limitations and conditions set forth in this Article XI, each Person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (a "Proceeding"), or any appeal in such a Proceeding or any inquiry or investigation that could lead to such a Proceeding, by reason of the fact that he or she, or a Person of whom he or she is the legal representative, is or was a Partner or officer of the Partnership or while a Partner or officer of the Partnership is or was serving at the request of the Partnership as a partner, director, officer, manager, member, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise (a "Covered Person"), shall be indemnified by the Partnership to the fullest extent permitted by the Act, as the same exists or may be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Partnership to provide broader indemnification rights than said law permitted the Partnership to provide prior to such amendment) against judgments, penalties (including excise and similar taxes and punitive damages), fines, settlements and reasonable expenses (including, without limitation, attorneys' fees) actually incurred by such Person in connection with such Proceeding, and indemnification under this Section 11.1 shall continue as to a Person who has ceased to serve in the capacity that initially entitled such Person to indemnity under this Section. Such actions covered by such indemnification shall include those brought by a Partner or the Partnership. The rights granted pursuant to this Article XI shall be deemed contract rights, and no amendment, modification or repeal of this Article XI shall have the effect of limiting or denying any such rights with respect to actions taken or Proceedings arising prior to any such amendment, modification or repeal. IT IS EXPRESSLY ACKNOWLEDGED THAT THE INDEMNIFICATION PROVIDED IN THIS ARTICLE XI COULD INVOLVE INDEMNIFICATION FOR NEGLIGENCE OR UNDER THEORIES OF STRICT LIABILITY; provided, however, that notwithstanding the foregoing or any other provision of this Agreement, the Partnership shall not provide indemnification to any Person in respect of any Disabling Conduct. The negative disposition of any Proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that the Covered Person acted in a manner contrary to the standard set forth in this Section.

Section 11.2. Advance of Expenses. The right to indemnification conferred in this Article XI shall include the right to be paid or reimbursed by the Partnership the reasonable expenses incurred by a Person of the type entitled to be indemnified under Section 11.1 or 11.3 who was, is or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding and without any determination as to the Person's ultimate entitlement to indemnification; provided, however, that the payment of such expenses incurred by any such Person in advance of the final disposition of a Proceeding shall be made only upon the delivery to the Partnership of a written affirmation by such Person of his good faith belief that he has met the standard of conduct necessary for indemnification under Section 11.1 or 11.3 and a written undertaking, by or on behalf of such Person, to repay all amounts so advanced if it shall ultimately be determined that such indemnified Person is not entitled to be indemnified under Section 11.1 or 11.3.

Section 11.3. Indemnification of Employees and Agents. The Partnership may indemnify and advance expenses to any employee or agent of the Partnership to the same extent permitted under Section 11.1 for Covered Persons. In addition, the Partnership may (by action of the General Partner) indemnify and advance expenses to any Person whether or not he is an employee or agent of the Partnership but who is or was serving at the request of the Partnership as a manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in such a capacity or arising out of his status as such a Person, to the same extent permitted under Section 11.1 for Covered Persons.

Section 11.4. Appearance as a Witness. Notwithstanding any other provision of this Article XI the Partnership may pay or reimburse expenses incurred by a Partner, officer, employee or agent in connection with his appearance as a witness or other participation in a Proceeding at a time when he is not a named defendant or respondent in the Proceeding.

Section 11.5. Non-Exclusivity of Rights. The right to indemnification and the advancement and payment of expenses conferred in this Article XI shall not be exclusive of any other right a Person indemnified pursuant to this Article XI may have or may acquire under any law (common or statutory), any provision of the Certificate or this Agreement, action of the General Partner or otherwise.

Section 11.6. Insurance. The Partnership may purchase and maintain insurance, to the extent and in such amounts as the General Partner shall, in its sole discretion, deem reasonable, to protect itself, the Partnership, Dorchester Operating LP and/or Dorchester Operating LLC, and/or any Covered Persons or other Persons indemnifiable under the provisions of this Article XI against any expense, liability or loss, whether or not the Partnership would have the power to indemnify such Person against such expenses, liability or loss under this Article XI.

Section 11.7. Partner Notification. To the extent required by law, any indemnification of or advance of expenses to a Person in accordance with this Article XI shall be reported in writing to the Limited Partners within the thirty (30)-day period immediately following the date of the indemnification or advance.

Section 11.8. No Personal Liability. In no event may any Covered Person subject the Limited Partners to personal liability by reason of any indemnification of a Covered Person under this Agreement or otherwise.

Section 11.9. Interest in Transaction. A Covered Person shall not be denied indemnification in whole or in part under this Article XI because the Covered Person had an interest in the transaction with respect to which the indemnification applies if the transaction is otherwise permitted by the terms of the Governance Agreements.

Section 11.10. Successors and Assigns. The provisions of this Article XI are for the benefit of the Covered Persons and their heirs, successors, assigns, administrators and personal representatives and shall not be deemed to be for the benefit of any other Persons. The

provisions of this Section 11.10 shall not be amended in any way that would diminish the rights of Covered Persons under this Article XI without the consent of all Partners.

Section 11.11. Savings Clause. If all or any portion of this Article XI shall be invalidated on any ground by any court of competent jurisdiction, then the Partnership shall nevertheless indemnify and hold harmless any Person indemnified pursuant to this Article XI as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, to the fullest extent permitted by any applicable portion of this Article XI that shall not have been invalidated and, subject to this Article XI, to the fullest extent permitted by applicable law.

Section 11.12. Exculpation. The following exculpatory provisions shall apply to this Agreement:

(a) General. Notwithstanding any other terms of this Agreement, whether express or implied, or obligation or duty at law or in equity, no Covered Person nor any officer, employee, representative or agent of the Partnership or its Affiliates shall be liable to the Partnership or any Partner for any act or omission (in relation to the Partnership, this Agreement, any related document or any transaction or investment contemplated hereby or thereby) taken or omitted in good faith by such Person and in the reasonable belief that such act or omission is in or is not contrary to the best interests of the Partnership and is within the scope of authority granted to such Person by this Agreement or the other Governance Agreements except in the following circumstances: (i) such act or omission constitutes Disabling Conduct or (ii) with respect to liability that may arise under any other agreement, such act or omission constitutes a breach of that agreement.

(b) Reliance. A Covered Person or other officer, employee, representative or agent of the Partnership may rely and shall incur no liability in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, paper, document, signature or writing reasonably believed by it to be genuine, and may rely on a certificate signed by an officer of any Person in order to ascertain any fact with respect to such Person or within such Person's knowledge and may rely on an opinion of counsel selected by such Covered Person or other officer, employee, representative or agent of the Partnership with respect to legal matters unless such Covered Person acts in bad faith.

XII. ALLOCATIONS

Section 12.1. Consent to Allocations. Each Partner as a condition of becoming a Partner expressly consents to the following allocations as set forth in this Article XII.

Section 12.2. Distributive Shares for Tax Purposes. There shall be allocated to each Partner for federal income tax purposes a separate distributive share of all Partnership income, gain, loss, deduction and credit as follows:

(a) Except as otherwise provided in this Article XII, Net Profit, if any, of the Partnership (and each item thereof) for each Fiscal Year or other period shall be allocated among the Partners pro rata in accordance with their Ownership Percentages.

(b) Except as otherwise provided in this Article XII, Net Loss, if any, of the Partnership (and each item thereof) for each Fiscal Year or other period shall be allocated to the Partners pro rata in accordance with their Ownership Percentages.

(c) The provisions of this Agreement relating to the allocation of Gross Income, Net Profit and Net Loss are intended to comply with the Treasury Regulations under Section 704(b) of the Code and shall be interpreted and applied in a manner consistent with such Treasury Regulations.

(d) Notwithstanding any other provision of this Agreement to the contrary, if in any Fiscal Year or other period there is a net decrease in the amount of the Partnership Minimum Gain, then each Partner shall first be allocated items of Gross Income for such year (and, if necessary, subsequent years) in an amount equal to such Partner's share of the net decrease in such minimum gain during such year (as determined under Treasury Regulations Section 1.704-2(g)(2)); provided, however, if there is insufficient Gross Income in a year to make the allocation specified above for all Partners for such year, the Gross Income shall be allocated among the Partners in proportion to the respective amounts they would have been allocated above had there been an unlimited amount of Gross Income for such year.

(e) Notwithstanding any other provision of this Agreement to the contrary other than Section 12.2(d), if in any year there is a net decrease in the amount of the Partner Nonrecourse Debt Minimum Gain, then each Partner shall first be allocated items of Gross Income for such year (and, if necessary, subsequent years) in an amount equal to such Partner's share of the net decrease in such minimum gain during such year (as determined under Treasury Regulations Section 1.704-2(i)(4)); provided, however, if there is insufficient Gross Income in a Fiscal Year to make the allocation specified above for all Partners for such year, the Gross Income shall be allocated among the Partners in proportion to the respective amounts they would have been allocated had there been an unlimited amount of Gross Income for such Fiscal Year.

(f) Notwithstanding any other provision of this Agreement to the contrary (except Sections 12.2(d) and 12.2(e) which shall be applied first), if in any Fiscal Year or other period a Partner unexpectedly receives an adjustment, allocation or distribution described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Gross Income shall first be allocated to Partners with negative Capital Account balances (adjusted in accordance with Section 12.4(e)), in proportion to such negative balances, until such balances are increased to zero.

(g) Notwithstanding the provisions of Section 12.2(b), Net Loss (or items thereof) shall not be allocated to a Partner if such allocation would cause or increase a negative balance in such Partner's Capital Account (adjusted in accordance with Section

12.4(e)) and shall be reallocated to the other Partners, subject to the limitations of this Section 12.2(g).

(h) Any Partner Nonrecourse Deductions shall be allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such deductions are attributable.

(i) Partnership Nonrecourse Deductions shall be allocated to the Partners pro rata in accordance with their Ownership Percentages.

(j) In the event that any Gross Income, Net Loss (or items thereof) or deductions are allocated pursuant to Sections 12.2(d) through 12.2(i) , subsequent Gross Income, Net Profit or Net Loss (or items thereof) will first be allocated (subject to Sections 12.2(d) through 12.2(i)) to the Partners in a manner which will result in each Partner having a Capital Account balance equal to that which would have resulted had the original allocation of Gross Income, Net Loss (or items thereof) or deductions pursuant to Sections 12.2(d) through 12.2(i) not occurred; provided, however, no allocations pursuant to this Section 12.2(j), which are intended to offset allocations pursuant to Section 12.2(h) and Section 12.2(i), shall be made prior to the Fiscal Year during which there is a net decrease in Partner Nonrecourse Debt Minimum Gain or Partnership Minimum Gain, and then only to the extent necessary to avoid any potential economic distortions caused by such net decrease in Partner Nonrecourse Debt Minimum Gain or Partnership Minimum Gain, and no such allocation pursuant to this Section 12.2(j) shall be made to the extent that the General Partner reasonably determines that it is likely to duplicate a subsequent mandatory allocation pursuant to Section 12.2(d) or Section 12.2(e).

(k) Unless the General Partner elects to adjust Capital Accounts to reflect Actual Depletion Deductions pursuant to Section 1.704-1(b)(2)(iv)(k)(3) of the Treasury Regulations, the portion of the total amount realized by the Partnership upon the taxable disposition of a Depletable Property that represents recovery of its simulated adjusted tax basis therein will be allocated to the Partners in the same proportion as the aggregate adjusted tax basis of such property was allocated to such Partners (or their predecessors in interest). If the General Partner elects to use Actual Depletion Deductions pursuant to Section 1.704-1(b)(2)(iv)(k)(3) of the Treasury Regulations, the portion of the total amount realized by the Partnership upon a taxable disposition of such property that equals the Partners' aggregate remaining adjusted basis therein will be allocated to the Partners in proportion to their respective remaining adjusted tax bases in such property. Any amount realized in excess of the above amounts shall be allocated among the Partners in accordance with their Ownership Percentages.

(l) Notwithstanding the other provisions of this Section 12.2, the Net Profits or Net Losses (and, if necessary, Gross Income and items thereof) of the Partnership for the taxable year of liquidation of the Partnership shall be allocated (and such allocations shall be taken into account in determining the final liquidating distributions of the Partnership), to the extent possible, in a manner such that the Capital Accounts of the Partners immediately prior to the final liquidating distributions stand in the ratio of their

Ownership Percentages, so that the distribution of positive Capital Account balances pursuant to Section 16.2 will, to the maximum extent possible, be in the same amounts if the distribution had been made pursuant to Ownership Percentages without regard to Section 16.2.

(m) If a Partnership interest is transferred, the Gross Income, Net Profit or Net Loss allocable to the holder of such Partnership interest for the then Fiscal Year shall be allocated proportionately between the assignor and the assignee based on the number of calendar days during such Fiscal Year for which each party was the owner of the transferred Partnership interest, or upon some alternative reasonable method.

Section 12.3. Code Section 704(c). In accordance with Code Section 704(c) and the Treasury Regulations thereunder, depletion, depreciation, amortization, income, gain and loss, as determined for tax purposes, with respect to any property whose Book Value differs from its adjusted basis for federal income tax purposes shall, for tax purposes, be allocated among the Partners so as to take account of any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its Book Value. The Partnership shall utilize such method to eliminate book-tax disparities attributable to a contributed property or adjusted property as shall be determined by the General Partner. Allocations pursuant to this Section 12.3 are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Partner's Capital Account or share of Net Profit, Net Loss, other items, or distributions pursuant to any provision of this Agreement.

Section 12.4. Capital Accounts. A separate capital account ("Capital Account") shall be maintained for each Partner, as follows:

(a) There shall be credited to each Partner's Capital Account the amount of any cash actually contributed by such Partner to the capital of the Partnership (or deemed contributed pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(c)), the fair market value of any property contributed by such Partner to the capital of the Partnership (net of any liabilities secured by such property that the Partnership is considered to assume or to take subject to under Code Section 752), such Partner's share of the Gross Income and Net Profit (and all items thereof) of the Partnership and such Partner's share of Simulated Gain or, if the General Partner elects to use Actual Depletion Deductions pursuant to Section 1.704-1(b)(2)(iv)(k)(3) of the Treasury Regulations, such Partner's Actual Gains. There shall be charged against each Partner's Capital Account the amount of all cash distributed to such Partner by the Partnership (or deemed distributed pursuant to Treasury Regulations Section 1.704-1(b) (2) (iv) (c)), the fair market value of any property distributed to such Partner by the Partnership (net of any liability secured by such property that the Partner is considered to assume or take subject to under Code Section 752), such Partner's share of the Net Loss (and all items thereof) of the Partnership and either such Partner's distributive share of Simulated Losses and Simulated Depletion Deductions or, if the General Partner elects to use Actual Depletion Deductions pursuant to Section 1.704-1(b)(2)(iv)(k)(3) of the Treasury Regulations, such Partner's Actual Losses and Actual Depletion Deductions.

(b) If the Partnership at any time distributes any of its assets in-kind to any Partner, the Capital Account of each Partner shall be adjusted to account for that Partner's allocable share (as determined under this Article XII) of the Net Profit or Net Loss that would have been realized by the Partnership had it sold the assets that were distributed at their respective fair market values immediately prior to their distribution, but only to the extent not previously reflected in the Partners' Capital Accounts.

(c) Any adjustments to the tax basis (or Book Value) of Partnership property under Code Sections 732, 734 or 743 will be reflected as adjustments to the Capital Accounts of the Partners, only in the manner and to the extent provided in Treasury Regulations Section 1.704-1(b)(2)(iv)(m).

(d) Upon the decision of the General Partner, the Capital Accounts of the Partners shall be adjusted to reflect a revaluation of Partnership property to its fair market value on the date of adjustment upon the occurrence of any of the following events:

(i) An increase in any new or existing Partner's Ownership Interest resulting from the contribution of money or property by such Partner to the Partnership,

(ii) Any reduction in a Partner's Ownership Interest resulting from a distribution to such Partner in redemption of all or part of its Ownership Interest, unless such distribution is pro rata to all Partners in accordance with their respective Ownership Interests, and

(iii) Whenever otherwise allowed under Treasury Regulations Section 1.704-1(b)(2)(iv)(f).

The adjustments to Capital Accounts shall reflect the manner in which the unrealized Net Profit or Net Loss inherent in the property would be allocated if there were a disposition of the Partnership's property at its fair market value on the date of adjustment.

(e) For purposes of Sections 12.2(d) through 12.2(i) a Partner's Capital Account shall be reduced by the net adjustments, allocations and distributions described in Treasury Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) which, as of the end of the Partnership's taxable year are reasonably expected to be made to such Partner, and shall be increased by the sum of (i) any amount which the Partner is required to restore to the Partnership upon liquidation of its Ownership Interest in the Partnership (or which is so treated pursuant to Treasury Regulations Section 1.704-1(b)(2)(ii)(c)) pursuant to the terms of this Agreement or under state law, (ii) the Partner's share (as determined under Treasury Regulations Section 1.704-2(g)(1)) of Partnership Minimum Gain, (iii) the Partner's share (as determined under Treasury Regulations Section 1.704-2(i)(5)) of Partner Nonrecourse Debt Minimum Gain and (iv) the Partner's share (as determined under Section 752 of the Code) of any recourse indebtedness of the Partnership to the extent that such indebtedness could not be repaid out of the Partnership's assets if all of the Partnership's assets were sold at their respective Book Values as of the end of the

Fiscal Year or other period and the proceeds from the sales were used to pay the Partnership's liabilities. For the purposes of clause (iv) above, the amounts computed pursuant to clause (i) above for each Partner shall be considered to be proceeds from the sale of the assets of the Partnership to the extent such amounts would be available to satisfy (directly or indirectly) the indebtedness specified in clause (iv).

(f) For purposes of computing the Partners' Capital Accounts, Simulated Depletion Deductions and Simulated Losses shall be allocated among the Partners in the same proportions as they (or their predecessors in interest) were allocated the basis of Partnership oil and gas properties pursuant to Code Section 613A(c)(7)(D), the Treasury Regulations thereunder, and Section 1.704-1(b)(4)(v) of the Treasury Regulations. Simulated Gains shall be allocated among the Partners in accordance with their Ownership Percentages, subject however to Section 12.2(l). In accordance with Code Section 613A(c)(7)(D) and the Treasury Regulations thereunder and Section 1.704-1(b)(4)(v) of the Treasury Regulations, the adjusted basis of all oil and gas properties shall be shared by the Partners in proportion to the Ownership Percentages; provided, however, that in the case of the Partnership's share of the basis of oil and gas properties contributed or deemed to be contributed by the Partners to Dorchester Minerals at the time of its formation, the adjusted basis of such oil and gas properties shall be allocated among the Partners in amounts equal to their respective shares of such basis in the properties so contributed.

(g) It is the intention of the Partners that the Capital Accounts of the Partnership be maintained strictly in accordance with the Capital Account maintenance requirements of Treasury Regulations Section 1.704-1(b). The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Treasury Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such regulations and any amendment or successor provision thereto. The Partners agree to make any appropriate modifications if events might otherwise cause this Agreement not to comply with Treasury Regulations Section 1.704-1(b).

(h) A deficit in a Partner's Capital Account shall not be considered an asset of the Partnership, and no Partner shall be obligated to restore or otherwise be responsible for a deficit or negative balance in such Partner's Capital Account.

Section 12.5. Compliance with the Code. It is intended that the tax allocations in this Article XII effect an allocation for federal income tax purposes in a manner consistent with Sections 704 and 706 of the Code and comply with any limitations or restrictions therein. The General Partner shall have complete discretion to make the allocations pursuant to this Article XII and the allocations and adjustments to Capital Accounts in any manner consistent with Sections 704 and 706 of the Code.

XIII. DISTRIBUTIONS

Section 13.1. "Net Cash Flow" Defined. The term "Net Cash Flow" for any fiscal period shall mean all Partnership cash revenues resulting from the Partnership's business plus the proceeds of sale (principal and interest), refinancing, condemnation, insurance, or otherwise of any Partnership assets less the amount of all expenses, reserves (for expenses reasonably anticipated to be paid within ninety (90) days) and obligations of the Partnership (including, without limitation, expenses and obligations to which the assets of the Partnership are subject even if the expense or obligation was not originally incurred by the Partnership or assumed by the Partnership) which have been paid, which are currently due and payable or in the case of reserves, which have been established.

Section 13.2. Distribution of Net Cash Flow. Except as provided in Article XVI, Net Cash Flow, if any, shall be distributed to the Partners pro rata in accordance with their Ownership Percentages at such time or times as determined by the General Partner provided, however, that no less frequently than quarterly, all Net Cash Flow shall be distributed in accordance with Ownership Percentages regardless of any action by the General Partner.

Section 13.3. Amount Withheld. Notwithstanding any other provision of this Agreement to the contrary, the General Partner is authorized to take any action that it determines to be necessary or appropriate to cause the Partnership to comply with any withholding or other payment requirements established under the Code or any other federal, state or local law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Partnership is required to pay to any governmental authority any amount resulting from either the allocation of income or gain or a distribution to any Partner (including, without limitation, by reason of Sections 1441, 1442, 1445 or 1446 of the Code), the amount so paid shall be treated as a distribution of cash to the Partner and any future distributions to which such Partner is entitled shall be reduced to the extent of any amount treated as a distribution pursuant to this Section 13.3. The Capital Account of the Partner for which amounts are paid over to a governmental authority pursuant to this Section 13.3 shall be decreased by such amount paid over to the governmental authority. A Partner who has had amounts paid over to a governmental authority pursuant to this Section 13.3 shall be entitled to receive any refund of any such tax, penalty, interest or other amount received by the Partnership on account of amounts paid on behalf of the Partner pursuant to this Section 13.3; provided, however, that the amount due such Partner shall be reduced by any expenses of the Partnership incurred in connection with the payment or refund of such tax, penalty, interest or other amount. The Partnership shall have no duty or obligation to seek to obtain or collect any refund or expend any amount to reduce the amount of any withholding, penalty, interest or other amount otherwise payable to any governmental authority; however, upon request by a Partner, the Partnership shall take reasonable steps to cooperate with the Partner on a refund request provided that the Partnership is reimbursed by the Partner for the Partnership's costs and expenses arising from such cooperation. If at any time a Partner's interest in the Partnership is transferred or assigned, the proposed assignee shall certify to non-foreign status prior to the transfer or assignment of the interest. Such certifications shall be made on a form to be provided by the General Partner. Each Partner shall notify the Partnership if it becomes either a "Foreign Person", as defined in Code Section 1445, or a "Foreign Partner", as defined in Code Section 1446, within thirty (30) calendar days of such change.

XIV. TRANSFER OF INTERESTS

Section 14.1. Transfer Restriction Agreement. Each Partner as of the date of this Agreement is also a party to the Transfer Restriction Agreement. As a condition to being admitted as a Partner, any other Person must become a party to the Transfer Restriction Agreement, in accordance with the procedures set forth therein. The Transfer Restriction Agreement, a copy of which is attached hereto as Exhibit A, is incorporated by reference in this Agreement as if fully set forth herein and forms a part of this Agreement.

Section 14.2. Transfers of Interests and Admission of New Partners. No Partner may assign, sell or otherwise transfer by operation of law or otherwise, any of its right, title or interest or any portion thereof in the Partnership unless such Partner shall first comply with the provisions of the Transfer Restriction Agreement applicable to the proposed assignment, sale or transfer. In the event an Affiliate Transfer or a Familial Transfer results in the entirety of a Partner's Ownership Interest in the Partnership being transferred, then such transferee shall (subject to such transferee's joining in this Agreement as provided below) be substituted for that Partner automatically upon such transfer without the consent of the Partners, and shall have all the rights of such Partner under this Agreement. In the event of an Affiliate Transfer or a Familial Transfer of the entirety of a Partner's Ownership Interest divided between or among more than one transferee, only one such transferee may become a substituted Partner and the remainder of such transferees shall be treated as and have the rights of assignees under the Act. The transferor shall designate in a written notice to the Partnership and to each other Partner which such transferee shall become the substituted Partner, and such designated transferee shall (subject to such transferee's joining in this Agreement as provided below) be substituted for the transferor Partner automatically upon such transfer without the consent of the Partners with respect to the Ownership Interest transferred to such transferee, and shall have all the rights of such transferring Partner under this Agreement. In the event of an Affiliate Transfer or a Familial Transfer of less than the entirety of a Partner's Ownership Interest, such transferee shall not be a substituted Partner; but the transferring Partner shall remain a Partner and retain all rights as a Partner under this Agreement. Any other transferee of a Partner's Ownership Interest in the Partnership shall be admitted to the Partnership as a substituted Partner only if (i) the assignment, sale or other transfer pursuant to which the transferee acquired such Ownership Interest was effected in accordance with the Transfer Restriction Agreement and (ii) "Holder Consent" (as defined in the Transfer Restriction Agreement) of such assignment sale or other transfer has been obtained. If such a transferee is not admitted as a substituted Partner under this Article XIV, it shall have none of the powers of a Partner hereunder but shall, subject to the further provisions hereof, have only such rights of an assignee under the Act as are consistent with this Agreement. Such assignee shall have no voting rights or consent rights (and shall have no power to elect officers) or any other power to participate in the management of the Partnership, but shall be subject to the provisions of the Transfer Restriction Agreement including, without limitation, the obligations under Articles II, IV and V thereof, but shall not be entitled to exercise the rights of a party thereto, including, without limitation, under Article III or VI thereof. In the event of any permitted transfer of an interest in the Partnership pursuant to this Article XIV and the Transfer Restriction Agreement, the interest so transferred shall remain subject to all terms and provisions of this Agreement and the Transfer Restriction Agreement, and the transferee shall be deemed, by accepting the interest so transferred, to have assumed all the liabilities and unperformed obligations, under this Agreement, the Transfer Restriction

Agreement or otherwise, which are appurtenant to the interest so transferred; shall hold such interest subject to all unperformed obligations of the transferor Partner hereunder and under the Transfer Restriction Agreement; and shall agree in writing to the foregoing if requested by the General Partner and shall join in and be bound by the terms of this Agreement. No assignment shall relieve the assignor from its obligations prior to this Agreement or the Transfer Restriction Agreement, except that if the transferee is admitted as a Partner, the assignor shall be relieved of obligations hereunder and under the Transfer Restriction Agreement accruing after the admission of the transferee as a Partner.

Section 14.3. Securities Laws Restrictions. Notwithstanding any other provision of this Article XIV, no transfer of an interest in the Partnership may be made if the transfer would violate federal or state securities laws.

XV. BOOKS OF ACCOUNT AND PARTNERSHIP RECORDS

Section 15.1. Books of Account. At all times during the continuance of the Partnership, the General Partner shall keep or cause to be kept, full and true books of account in which shall be entered fully and accurately all transactions of the Partnership.

Section 15.2. Inspection. All of the books of account of the Partnership, together with an executed copy of this Agreement and any amendments hereto, shall at all times be maintained at the principal office of the Partnership and shall be open to the inspection and examination of the Partners or their representatives. Any Partner may, at any time and from time to time, at its own expense, cause an audit of the books of the Partnership to be made by a certified public accountant or other person designated by such Partner.

Section 15.3. Fiscal Year and Accounting Method. The fiscal year of the Partnership shall end on December 31 in each year, and the books of the Partnership shall be kept on a cash method of accounting by the General Partner.

Section 15.4. Financial Reports. For each Fiscal Year during the term hereof, the General Partner shall deliver to all the Partners as soon as reasonably practicable after the expiration of such Fiscal Year, an unaudited financial report of the Partnership, including a balance sheet, profit and loss statement, and a statement showing distributions to the Partners and the allocation among the Partners of taxable income, gains, losses, deductions and credits of the Partnership. In addition, the General Partner shall cause to be delivered to all the Partners monthly unaudited statements of profit and loss prepared on a cash basis, such statements to reflect profit and loss on both a monthly and year-to-date basis. Each such monthly statement shall be so delivered within sixty (60) days after the end of the month to which the statement pertains. An accounting of all items of receipt, income, profit, cost, expense and loss shall also be prepared made by the General Partner upon the dissolution of the Partnership.

Section 15.5. Tax Returns. The Partnership shall cause all income tax returns to be prepared or reviewed in compliance with this Agreement (in particular the tax allocations in Article XII hereof) by such firm of independent certified public accountants as shall be selected by the General Partner, shall cause such tax returns to be timely filed with the appropriate authorities and shall cause copies thereof and all related matters needed by any Partner for the

preparation of its tax returns to be promptly delivered to all Partners. Copies of such tax returns shall be kept at the principal office of the Partnership and shall be available for inspection by any Partner during normal business hours. The income tax documentation to be generated hereunder shall include any additional information reasonably requested by a Partner for the preparation of its return.

Section 15.6. Tax Elections.

(a) In the event of a transfer of all or part of an interest of a Partner authorized by this Agreement, the Partnership shall, upon the request of the transferee, elect pursuant to Section 754 of the Code to adjust the basis of Partnership property, and any basis adjustment relating to such transfer, whether made under Section 754 of the Code or otherwise, shall be allocated solely to the transferee; provided, however, that each transferee shall pay the additional bookkeeping and accounting costs which result from the basis adjustment pertaining to such transferee. Each of the Partners shall supply to the Partnership upon request the information necessary properly to give effect to such election.

(b) All other federal income tax elections required or permitted to be made by the Partnership shall be made in such manner as may be agreed upon by the General Partner. No Partner shall take any action or refuse to take any action which would cause the Partnership to forfeit the benefits of any tax election previously made or agreed to be made.

Section 15.7. Tax Matters Partner. The General Partner is hereby designated as the "Tax Matters Partner" of the Partnership within the meaning of Section 6231(a)(7) of the Code and shall have the power to manage and control, on behalf of the Partnership, any administrative proceeding at the Partnership level with the Internal Revenue Service relating to the determination of any item of Partnership income, gain, loss, deduction, or credit for federal income-tax purposes. The Tax Matters Partner shall comply with all statutory provisions of the Code applicable to a "tax matters partner" and shall, without limitation, within thirty (30) calendar days of the receipt of any notice from the Internal Revenue Service in any administrative proceeding at the Partnership level relating to the determination of any Partnership item of income, gain, loss, deduction, or credit, mail a copy of such notice to each Partner.

Section 15.8. Bank Accounts. The funds of the Partnership shall be deposited in the name of the Partnership in such bank accounts and with such signatories as shall be selected by the General Partner. All deposits, including security deposits, funds required to be escrowed and other funds not currently distributable or needed in the operation of the Partnership business shall, to the extent permitted by law, be deposited in such interest-bearing bank accounts or invested in such financial instruments (including, without limitation, hedge contracts and commodity contracts) as shall be approved by the General Partner.

XVI. DISSOLUTION, WINDING UP AND DISTRIBUTION

Section 16.1. Events of Dissolution. Each of the following shall be an "Event of Dissolution," and unless the Partnership and its business is continued pursuant to Section 16.5 hereof, the Partnership shall be dissolved upon the withdrawal of the General Partner or the occurrence of any other event that results in the General Partner ceasing to be a General Partner, without the subsequent election of a successor general partner, which successor is hereby authorized to continue the business of the Partnership.

The Limited Partners shall have no right to dissolve the Partnership or to vote on or consent to any such dissolution.

Section 16.2. Dissolution and Winding Up. Notwithstanding any other provision of this Agreement, upon the dissolution of the Partnership, the General Partner (which term, for purposes of this Section and Section 16.4 shall include the respective trustee, receiver or successor, if any, of either or both thereof) shall have the responsibility for expeditiously dissolving and liquidating the Partnership. The General Partner shall promptly proceed to wind up the affairs of the Partnership and, after payment (or making provision for payment) of liabilities owing to creditors, shall set up such reserves as they deem reasonably necessary or appropriate for any contingent or unforeseen liabilities or obligations of the Partnership. Said reserves may be paid over to a bank or an attorney-at-law, to be held in escrow for the purpose of paying any such contingent or unforeseen liabilities or obligations. After paying such liabilities and setting up such reserves, the General Partner shall cause the remaining net assets of the Partnership to be paid or distributed to the Partners or their assigns in accordance with the positive Capital Account balances of the Partners. At the expiration of such period as the General Partner may deem advisable, any remaining reserves shall be paid or distributed to the Partners or their assigns in the same manner as the preceding sentence. No Partner shall receive any additional compensation for any services performed pursuant to this Article XVI.

Section 16.3. Final Statement. Upon the dissolution of the Partnership, a final certified statement of its assets and liabilities shall be prepared by the Partnership's certified public accountants and furnished to the Partners within ninety (90) days after such dissolution.

Section 16.4. Distribution In-Kind. If all the Partners agree that it shall be impractical to liquidate part or all the assets of the Partnership, then assets which they agree are not suitable for liquidation may be distributed to the Partners in-kind, subject to the order of priority set forth in Section 16.2 hereof and, further, subject to such conditions relating to the management and disposition of the assets distributed as the General Partner deems reasonable and equitable. If Partnership assets are to be distributed in-kind, then prior to any such distribution, the Capital Accounts of the Partners shall be adjusted to reflect the manner in which the unrealized taxable income, gain, loss and deduction inherent in such property (to the extent that such items have not been previously reflected in the Capital Accounts) would be allocated among the Partners if there were a taxable disposition of such property on the date of its distribution for its then fair market value determined mutually by the Partners.

Section 16.5. Continuation of Partnership. If dissolution occurs due to an "event of withdrawal" (as defined in Section 17-402(a) of the Act) with respect to the General Partner, the

Limited Partners hereby agree to continue the Partnership and elect a new General Partner by limited partner consent pursuant to Section 8.3 hereof and the Partnership automatically shall be reconstituted and the Limited Partners and the successor General Partner shall, and hereby agree to, carry on the business of the Partnership.

Section 16.6. Deemed Distribution and Recontribution. Notwithstanding any other provision of this Article XVI, in the event the Partnership is liquidated within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g) but no Event of Dissolution has occurred, the assets of the Partnership shall not be liquidated, the Partnership's liabilities shall not be paid or discharged, and the Partnership's affairs shall not be wound up. Instead, the Partnership shall be deemed to have contributed its assets in-kind to a new limited partnership, which shall be deemed to have assumed and taken all Partnership assets subject to all Partnership liabilities. Immediately thereafter, the Partnership shall be deemed to have liquidated and distributed the interests in the new limited partnership in-kind to the Partners.

XVII. MISCELLANEOUS

Section 17.1. Execution in Counterparts. This Agreement may be executed in counterparts, all of which taken together shall be deemed one original.

Section 17.2. Address and Notice. The address of each Partner for all purposes shall be as follows:

If to Vaughn:
3738 Oak Lawn Ave., Suite 101
Dallas, Texas 75219
Attention: Benny D. Duncan
Telecopy No.: (214) 522-7433

With copies to:
Joe Dannenmaier
Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Telecopy No.: (214) 969-1751

If to SAM:
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: H. C. Allen, Jr.
Telecopy No.: (214) 559-0301

With copies to:
Joe Dannenmaier
Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Telecopy No.: (214) 969-1751

If to SAOG:
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: William Casey McManemin
Telecopy No.: (214) 559-0301

With copies to:
Joe Dannenmaier
Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Telecopy No.: (214) 969-1751

If to Peak LP:
1919 S. Shiloh Rd.
Suite 600 - LB48
Garland, Texas 75042
Attention: Preston A. Peak
Telecopy No.: (972) 864-9095

With copies to:
Bryan E. Bishop
LOCKE LIDDELL & SAPP LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201-6776
Telecopy No.: (214) 740-8800

If to Raley GP:
1919 S. Shiloh Rd.
Suite 600 - LB48
Garland, Texas 75042
Attention: James E. Raley
Telecopy No.: (972) 864-9095

With copies to:
Bryan E. Bishop
LOCKE LIDDELL & SAPP LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201-6776
Telecopy No.: (214) 740-8800

or such other address or addresses of which any Partner shall have given the other Partners notice. Any notice shall be in accordance with Section 10.1.

Section 17.3. Partition. The Partners hereby agree that no Partner shall have the right while this Agreement remains in effect to have the assets of the Partnership partitioned, or to file a complaint or institute any proceeding at law or in equity to have any Partnership asset partitioned, and each Partner hereby waives any such right. It is the intention of the Partners that during the term of this Agreement, the rights of the Partners as among themselves shall be governed by the terms of this Agreement.

Section 17.4. Further Assurances. Each Partner hereby covenants and agrees to execute and deliver such instruments as may be reasonably requested by any other Partner to convey any interest or to take any other action required or permitted under this Agreement.

Section 17.5. Titles and Captions. All article, section, or subsection titles or captions contained in this Agreement or the table of contents hereof are for convenience only and shall not be deemed part of the context of this Agreement.

Section 17.6. Number and Gender of Pronouns. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the Person or Persons may require.

Section 17.7. Entire Agreement. This Agreement contains the entire understanding between and among the Partners and supersedes any prior understandings and agreements between and among them respecting the subject matter of this Agreement.

Section 17.8. Amendment. This Agreement may be amended or modified only by a written document executed by all the Partners.

Section 17.9. Exhibits and Schedules. All exhibits and schedules referred to herein are attached hereto and made a part hereof for all purposes.

Section 17.10. Agreement Binding. This Agreement shall be binding upon the heirs, executors, administrators, successors, and assigns of the Partners.

Section 17.11. Waiver. No failure by any Partner to insist upon the strict performance of any covenant, duty, agreement, or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or any other covenant, agreement, term, or condition. Any Partner by the issuance of written notice may, but shall be under no obligation to, waive any of its rights or any conditions to its obligations hereunder, or any duty, obligation or covenant of any other Partner. No waiver shall affect or alter the remainder of this Agreement but each and every covenant, agreement, term, and condition of this Agreement shall continue in full force and effect with respect to any other then existing or subsequent breach thereof.

Section 17.12. Remedies. The rights and remedies of the Partners set forth in this Agreement shall not be mutually exclusive or exclusive of any right, power or privilege provided

by law or in equity or otherwise and the exercise of one or more of the provisions hereof shall not preclude the exercise of any other provisions hereof or of any legal, equitable or other right. Each of the Partners confirms that damages at law may be an inadequate remedy for a breach or threatened breach of any provision hereof. The respective rights and obligations hereunder shall be enforceable by specific performance, injunction, or other equitable remedy, but nothing herein contained is intended to, or shall limit or affect any rights at law or by statute or otherwise of any Partner aggrieved as against another Partner for a breach or threatened breach of any provision hereof, it being the intention of this section to make clear the agreement of the Partners that the respective rights and obligations of the Partners hereunder shall be enforceable in equity as well as at law or otherwise.

Section 17.13. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED, ENFORCED, AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF DELAWARE (WITHOUT REGARD TO ITS CHOICE OF LAW PRINCIPLES).

Section 17.14. DISPUTE RESOLUTION.

(a) NEGOTIATION. THE PARTNERS SHALL ATTEMPT TO RESOLVE ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TERMINATION, BREACH, OR VALIDITY OF THIS AGREEMENT, PROMPTLY BY GOOD FAITH NEGOTIATION AMONG EXECUTIVES WHO HAVE AUTHORITY TO RESOLVE THE CONTROVERSY. ANY PARTNER MAY GIVE THE OTHER PARTNERS WRITTEN NOTICE OF ANY DISPUTE NOT RESOLVED IN THE NORMAL COURSE OF BUSINESS. WITHIN 10 DAYS AFTER DELIVERY OF THE NOTICE, THE RECEIVING PARTNER SHALL SUBMIT TO THE OTHERS A WRITTEN RESPONSE. THE NOTICE AND THE RESPONSE SHALL INCLUDE (A) A STATEMENT OF THE PARTNER'S CONCERNS AND PERSPECTIVES ON THE ISSUES IN DISPUTE, (B) A SUMMARY OF SUPPORTING FACTS AND CIRCUMSTANCES AND (C) THE IDENTITY OF THE EXECUTIVE WHO WILL REPRESENT THAT PARTNER AND OF ANY OTHER PERSON WHO WILL ACCOMPANY THE EXECUTIVE. WITHIN 15 DAYS AFTER DELIVERY OF THE ORIGINAL NOTICE, THE EXECUTIVES OF THE PARTNERS SHALL MEET AT A MUTUALLY ACCEPTABLE TIME AND PLACE, AND THEREAFTER AS OFTEN AS THEY REASONABLY DEEM NECESSARY, TO ATTEMPT TO RESOLVE THE DISPUTE. ALL NEGOTIATIONS PURSUANT TO THIS CLAUSE AND CLAUSE (B) BELOW ARE CONFIDENTIAL AND SHALL BE TREATED AS COMPROMISE AND SETTLEMENT NEGOTIATIONS FOR PURPOSES OF APPLICABLE RULES OF EVIDENCE.

(b) MEDIATION. IF A DISPUTE HAS NOT BEEN RESOLVED BY DISCUSSION BETWEEN OR AMONG THE PARTNERS WITHIN 20 DAYS OF THE DISPUTING PARTNERS' NOTICE, ANY MEMBER MAY BY NOTICE TO THE OTHER PARTNERS WITH WHOM SUCH DISPUTE EXISTS REQUIRE MEDIATION OF THE DISPUTE, WHICH NOTICE SHALL IDENTIFY THE NAMES OF NO FEWER THAN THREE (3) POTENTIAL MEDIATORS. EACH PARTNER AMONG WHOM THE DISPUTE EXISTS WILL IN GOOD FAITH ATTEMPT TO AGREE UPON A MEDIATOR AND AGREES TO PARTICIPATE IN MEDIATION

OF THE DISPUTE IN GOOD FAITH. IF THE PARTIES ARE UNABLE TO AGREE UPON A MEDIATOR WITHIN FIFTEEN (15) DAYS AFTER SUCH NOTICE, THE PARTNERS AGREE TO PROCEED TO MEDIATION UNDER THE COMMERCIAL MEDIATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION IN EFFECT ON THE DATE OF THIS AGREEMENT. IF SUCH DISPUTE SHALL NOT HAVE BEEN RESOLVED BY MEDIATION WITHIN THE TIME PERIOD SPECIFIED N SUBSECTION (C) BELOW, ARBITRATION MAY BE INITIATED PURSUANT TO SUBSECTION (C) BELOW. ALL EXPENSES OF THE MEDIATOR SHALL BE EQUALLY SHARED BY THE PARTNERS AMONG WHOM THE DISPUTE EXISTS.

(c) BINDING ARBITRATION.

(i) ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE BREACH, TERMINATION, OR VALIDITY OF THE AGREEMENT WHICH HAS NOT BEEN RESOLVED BY MEDIATION WITHIN 30 DAYS OF THE INITIATION OF SUCH PROCEDURE, OR WHICH HAS NOT BEEN RESOLVED PRIOR TO THE TERMINATION OF MEDIATION, SHALL BE RESOLVED BY ARBITRATION IN ACCORDANCE WITH THE COMMERCIAL ARBITRATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA") IN EFFECT ON THE DATE OF THIS AGREEMENT. IF A PARTY TO A DISPUTE FAILS TO PARTICIPATE IN MEDIATION, THE OTHERS MAY INITIATE ARBITRATION BEFORE EXPIRATION OF THE ABOVE PERIOD. IF THE AMOUNT OF THE CLAIM ASSERTED BY ANY PARTY IN THE ARBITRATION EXCEEDS $1,000,000, THE PARTNERS AGREE THAT THE AMERICAN ARBITRATION ASSOCIATION OPTIONAL PROCEDURES FOR LARGE, COMPLEX COMMERCIAL DISPUTES WILL BE APPLIED TO THE DISPUTE.

(ii) THE AAA SHALL SUGGEST A PANEL OF ARBITRATORS, EACH OF WHOM SHALL BE KNOWLEDGEABLE WITH RESPECT TO THE SUBJECT MATTER OF THE DISPUTE. ARBITRATION SHALL BE BEFORE A SOLE ARBITRATOR IF THE DISPUTING PARTNERS AGREE ON THE SELECTION OF A SOLE ARBITRATOR. IF NOT, ARBITRATION SHALL BE BEFORE THREE INDEPENDENT AND IMPARTIAL ARBITRATORS, ALL OF WHOM SHALL BE APPOINTED BY THE AAA IN ACCORDANCE WITH ITS RULES.

(iii) THE PLACE OF ARBITRATION SHALL BE DALLAS, TEXAS.

(iv) THE ARBITRATOR(S) ARE NOT EMPOWERED TO AWARD DAMAGES IN EXCESS OF COMPENSATORY DAMAGES.

(v) THE AWARD RENDERED BY THE ARBITRATORS SHALL BE IN WRITING AND SHALL INCLUDE A STATEMENT OF THE

FACTUAL BASES AND THE LEGAL CONCLUSIONS RELIED UPON BY THE ARBITRATORS IN MAKING SUCH AWARD. THE ARBITRATORS SHALL DECIDE THE DISPUTE IN COMPLIANCE WITH THE APPLICABLE SUBSTANTIVE LAW AND CONSISTENT WITH THE PROVISIONS OF THE AGREEMENT, INCLUDING LIMITS ON DAMAGES. THE AWARD RENDERED BY THE ARBITRATOR(S) SHALL BE FINAL AND BINDING, AND JUDGMENT UPON THE AWARD MAY BE ENTERED BY ANY COURT HAVING JURISDICTION THEREOF.

(vi) ALL MATTERS RELATING TO THE ENFORCEABILITY OF THIS ARBITRATION AGREEMENT AND ANY AWARD RENDERED PURSUANT TO THIS AGREEMENT SHALL BE GOVERNED BY THE FEDERAL ARBITRATION ACT, 9 U.S.C. SECTION 1-16. THE ARBITRATOR(S) SHALL APPLY THE SUBSTANTIVE LAW OF THE STATE OF DELAWARE, EXCLUSIVE OF ANY CONFLICT OF LAW RULES.

(vii) EACH PARTNER IS REQUIRED TO CONTINUE TO PERFORM ITS OBLIGATIONS UNDER THIS CONTRACT PENDING FINAL RESOLUTION OF ANY DISPUTE ARISING OUT OF OR RELATING TO THIS CONTRACT, UNLESS TO DO SO WOULD BE IMPOSSIBLE OR IMPRACTICABLE UNDER THE CIRCUMSTANCES.

(viii) NOTHING IN THIS SECTION 17.14 SHALL LIMIT THE PARTNERS' RIGHTS TO OBTAIN PROVISIONAL, ANCILLARY OR EQUITABLE RELIEF FROM A COURT OF COMPETENT JURISDICTION.

(d) EXPENSES. EACH PARTY SHALL PAY ITS OWN EXPENSES OF ARBITRATION AND THE EXPENSES OF THE ARBITRATORS SHALL BE EQUALLY SHARED; PROVIDED, HOWEVER, IF IN THE OPINION OF THE ARBITRATORS ANY CLAIM BY EITHER PARTY HEREUNDER OR ANY DEFENSE OR OBJECTION THERETO BY THE OTHER PARTY WAS UNREASONABLE AND NOT MADE IN GOOD FAITH, THE ARBITRATORS MAY ASSESS, AS PART OF THE AWARD, ALL OR ANY PART OF THE ARBITRATION EXPENSE (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES) OF THE OTHER PARTY AND OF THE ARBITRATORS AGAINST THE PARTY RAISING SUCH UNREASONABLE CLAIM, DEFENSE, OR OBJECTION. NOTHING HEREIN SET FORTH SHALL PREVENT THE PARTIES FROM SETTLING ANY DISPUTE BY MUTUAL AGREEMENT AT ANY TIME.

Section 17.15. WAIVER. EACH PARTNER WAIVES ANY RIGHT THAT THE PARTNER MAY HAVE TO COMMENCE ANY ACTION IN ANY COURT WITH RESPECT TO ANY DISPUTE AMONG THE PARTNERS RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RIGHTS OR OBLIGATIONS OF ANY PARTNER HEREUNDER, OTHER THAN AN ACTION BROUGHT TO ENFORCE THE ARBITRATION PROVISIONS OF SECTION 17.14 HEREOF. THE PARTNERS AGREE THAT ANY SUCH ACTION SHALL BE BROUGHT (AND VENUE FOR ANY SUCH ACTION SHALL BE APPROPRIATE) IN DALLAS, TEXAS.

Section 17.16. U.S. Dollars. Any reference in this Agreement to "dollars," "funds" or "sums" or any amounts denoted with a "$" shall be references to United States dollars.

[FOLLOWING ARE THE SIGNATURE PAGES.]

IN WITNESS WHEREOF, the undersigned parties have executed this Agreement on the ____ day of _____________, 2001.

GENERAL PARTNER:

DORCHESTER MINERALS MANAGEMENT GP LLC

By:

Name:

Title:

LIMITED PARTNERS:

SAM PARTNERS, LTD.

By: SAM Partners Management, Inc., its general partner

By:

H. C. Allen, Jr., Secretary

VAUGHN PETROLEUM, LTD.

By: VPL (GP), LLC, its general partner

By:

Name:

Title:

SMITH ALLEN OIL & GAS, INC.

By:

William Casey McManemin, Vice President

P.A. PEAK HOLDINGS LP, a Delaware limited partnership

By: Peak Limited Liability Company No. 1,
a Texas limited liability company, its General Partner

By:

Preston A. Peak, President

JAMES E. RALEY GENERAL PARTNERSHIP,
a Delaware general partnership

By: YELAR LLC, a Texas limited liability company,
its General Partner

By:

James E. Raley, President

By: YELAR LP, a Texas limited partnership,
is General Partner

By:

James E. Raley, President

And joined in for the limited purpose of agreeing to
the substitution of Peak LP as a Limited Partner of the
Partnership in lieu of P.A. Peak, Inc.:

P. A. Peak, Inc.,
a Delaware corporation

By:

Preston A. Peak, President

EXHIBIT A

Transfer Restriction Agreement

SCHEDULE I

Capital Contributions under Original Agreement

GENERAL
PARTNER:
DORCHESTER
MINERALS $
1.99
MANAGEMENT
GP LLC
LIMITED
PARTNERS:
VAUGHN $
576.13 SAM
576.13
SAOG
561.81
PEAK LP
136.97
RALEY GP
136.87 ---

$1,990.00

SCHEDULE II

Additional Capital Contributions Pursuant to
Contribution Agreement

PROPERTY
CONTRIBUTED
FAIR
MARKET
VALUE ----

------ ---

GENERAL
PARTNER:
DORCHESTER
MINERALS
MANAGEMENT
GP LLC
LIMITED
PARTNERS:
VAUGHN SAM
SAOG PEAK
LP RALEY
GP -------

EXHIBIT C

FORM OF TRANSFER RESTRICTION AGREEMENT

TRANSFER RESTRICTION AGREEMENT
OF DORCHESTER MINERALS MANAGEMENT GP LLC
AND DORCHESTER MINERALS MANAGEMENT LP

DECEMBER 13, 2001

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TRANSFER RESTRICTION AGREEMENT
OF DORCHESTER MINERALS MANAGEMENT GP LLC
AND DORCHESTER MINERALS MANAGEMENT LP

This Transfer Restriction Agreement (the "Agreement") dated as of December 13, 2001 (the "Effective Date"), is entered into by and among Dorchester Minerals Management LP, a Delaware limited partnership (the "Partnership"), Dorchester Minerals Management GP LLC, a Delaware limited liability company (the "Company"), SAM Partners, Ltd., a Texas limited partnership ("SAM"), Vaughn Petroleum, Ltd., a Texas limited partnership ("Vaughn"), Smith Allen Oil & Gas, Inc., a Texas corporation ("SAOG"), P.A. Peak Holdings LP, a Delaware limited partnership ("Peak LP") and James E. Raley General Partnership, a Delaware general partnership ("Raley GP"). Each of SAM, Vaughn, SAOG, Peak LP and Raley GP is a "Holder " and, collectively, they are sometimes referred to as the "Holders."

WITNESSETH

WHEREAS, the Holders are the members of the Company and the limited partners of the Partnership of which the Company is the general partner;

WHEREAS, the Amended and Restated Limited Liability Company Agreement of Dorchester Minerals Management GP LLC (the "LLC Agreement") and the Amended and Restated Limited Partnership Agreement of Dorchester Minerals Management LP ("Limited Partnership Agreement"), each of which has been executed and delivered by the Holders contemporaneously with this Agreement, each contemplates that the Holders, in their capacities as members of the Company and limited partners of the Partnership, will become parties to this Agreement providing for certain restrictions upon the transfer of, and certain rights to purchase and obligations to sell, ownership interests held by the Holders in the Company and limited partnership interests held by the Holders in the Partnership;

NOW, THEREFORE, in consideration of the mutual covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree upon the terms and conditions set forth herein:

I. DEFINITIONS

Section 1.1. Definitions. The following terms shall have the following meanings when used in this Agreement:

"AAA" means the American Arbitration Association and the office thereof located in Dallas, Texas.

"Acceptance Notice" shall mean a notice by a Remaining Holder to a Selling Holder that the Remaining Holder is exercising its right to purchase Ownership Interests of the Selling Holder pursuant to Article IV or Article V, as applicable.

"Affiliate" shall mean, with respect to any Person, (i) any other Person or Group of Persons beneficially owning eighty percent (80%) or more of the outstanding equity ownership interests of such Person, (ii) any other Person eighty percent (80%) or more of the outstanding equity ownership interests of which are beneficially owned by such Person or (iii) any other Person eighty percent (80%) or more of the outstanding equity ownership interests of which are beneficially owned by a third Person or Group of Persons who beneficially own eighty percent (80%) or more of the outstanding voting securities of such Person.

"Affiliate Transfer" shall have the meaning set forth in Section 3.1 of the Agreement.

"Agreement" shall mean this Transfer Restriction Agreement.

"Beneficially own," "beneficially owned" and "beneficial ownership" shall mean voting power which includes the power to vote, or to direct the voting of, a security and investment power, which includes the power to dispose or to direct the disposition of, a security.

"Business Day" shall mean any day other than Saturday or Sunday or any other day upon which banks in Dallas, Texas are permitted or required by law to close.

"Company" shall have the meaning set forth in the Preamble to this Agreement.

"Company Ownership Interest" shall mean the member interest in the Company held by a Holder.

"Effective Date" shall have the meaning set forth in the preamble to this Agreement.

"Electing Participant" shall have the meaning set forth in Section 6.3 of this Agreement.

"Electing Purchasers" shall mean the Remaining Holders who elect to participate in the purchase of a Selling Holder's Ownership Interest pursuant to Article IV or Article V, as applicable.

"Familial Transfer" shall have the meaning set forth in Section 3.2 of this Agreement.

"Family Members" shall mean as to any individual only such individual's spouse, son(s), daughter(s), grandchildren, mother, father, aunt(s), uncle(s), niece(s) or nephew(s) and shall include any Person so related by adoption if adopted before age eighteen (18).

"Group of Persons" shall mean not more than five (5) Persons.

"Holder" or "Holders" shall mean SAM, Vaughn, SAOG, Peak LP, Raley GP and any assignee of all or any part of their respective interests in the Company or the Partnership.

"Holder Consent" shall mean (i) as to a proposed transfer to another Holder, approval by both (A) Partners owning a majority of the Partnership Ownership Interest (measured by Partnership Ownership Percentage) and (B) Members owning a majority of the Company Ownership Interest (measured by Company Ownership Percentage) and (ii) as to a proposed transfer to a Person other than another Holder, approval by both (A) Partners owning a majority

of the Partnership Ownership Interest (measured by Partnership Ownership Percentage) owned by Partners not involved in the proposed transfer and (B) Members owning a majority of the Company Ownership Interest (measured by Company Ownership Percentage) owned by Members not involved in the proposed transfer. Holder Consent may be given or withheld in the sole discretion of the Members and Partners.

"LLC Agreement" shall have the meaning set forth in the Preamble to this Agreement.

"Limited Partnership Agreement" shall have the meaning set forth in the Preamble to this Agreement.

"Majority Seller" shall have the meaning set forth in Section 6.1 hereof.

"Member" or "Members" shall mean SAM, Vaughn, SAOG, Peak LP, Raley GP and any assignee of all or any part of their respective interests in the Company who is admitted to the Company as a Member in conformity with the provisions of the LLC Agreement.

"Offered Interest" shall mean a Selling Holder's Ownership Interest that is subject to purchase under Article IV or Article V, as applicable.

"Option Period" shall mean the sixty (60) day period specified in Section 4.3 or Section 5.3, as applicable.

"Ownership Interests" of a Holder shall mean, collectively, the Partnership Ownership Interest and the Company Ownership Interest held by such Holder.

"Partner" or "Partners" shall mean SAM, Vaughn, SAOG, Peak LP, Raley GP and any assignee of all or any part of their respective interests in the Partnership who is admitted to the Partnership as a Partner in conformity with the provisions of the Limited Partnership Agreement.

"Partnership" shall have the meaning set forth in the Preamble to this Agreement.

"Partnership Ownership Interest" shall mean the limited partnership interest in the Partnership held by a Holder.

"Partnership Ownership Percentage" shall mean the percentage of the limited partnership interest in the Partnership held by a Holder and shall mean 20.5% for Vaughn, 20.5% for SAM, 20.0% for SAOG, 19.5% for Peak LP and 19.5% for Raley GP, until adjusted in accordance with the Limited Partnership Agreement.

"Person" shall mean an individual person, partnership, limited partnership, limited liability company, trust, corporation or other entity or organization.

"Pro Rata Portion" shall mean a portion of an Offered Interest represented by a fraction, the numerator of which is the Proportionate Share of the purchasing Holder and the denominator of which is the total of the Proportionate Shares of all the purchasing Holders.

"Proportionate Share" shall mean the "Ownership Percentage" (as determined in accordance with the LLC Agreement) of a Holder divided by the total "Ownership Percentage" (as determined in accordance with the LLC Agreement) of all Holders.

"Purchase Event" shall have the meaning set forth in Section 5.1 hereof.

"Purchase Event Notice" shall have the meaning set forth in Section 5.2 hereof.

"Remaining Holders" shall mean all Holders other than the Selling Holder or, in the case of Article VI, other than the Holder or Holders comprising the Majority Seller.

"RFR Notice" shall have the meaning set forth in Section 4.2 hereof.

"Selling Holder" shall mean a Holder whose Ownership Interest is the subject of a sale under Article IV or a purchase option under Article V.

"Selling Party" shall have the meaning set forth in Section 6.3 hereof.

"Subject Interest" shall have the meaning set forth in Section 6.2 hereof.

"Take Along Notice" shall have the meaning set forth in Section 6.2 hereof.

"Take Along Option Period" shall have the meaning set forth in Section 6.3 hereof.

"Third Appraiser" shall have the meaning set forth in Section 5.9 hereof.

II. RESTRICTIONS ON TRANSFER

Section 2.1. General Restriction on Transfer. Except as expressly provided to the contrary in this Agreement, no Holder may assign, sell or otherwise transfer by operation of law or otherwise, any of its right, title or interest or any portion thereof of such Holder's Ownership Interest unless such Holder shall first obtain Holder Consent and comply with the requirements of Article IV hereof. Any purported or attempted assignment, sale or transfer of all or any part of a Holder's Ownership Interest made in violation of this Agreement shall be null and void.

Section 2.2. No Separate Transfers of Company Ownership and Partnership Ownership Interests. The provisions of this Section 2.2 shall apply to all assignments, sales or other transfer of Ownership Interests, whether or not permitted under any other provision of this Agreement. It is the intent of the parties hereto that assignments, sales and other transfers of Company Ownership Interests and Partnership Ownership Interests be made only as a unit so that the ownership of the Company Ownership Interests and the Partnership Ownership Interests are held in the same relative proportions by the Holders or other owners thereof. Accordingly, no Holder may assign, sell or otherwise transfer all or any portion of a Company Ownership Interest or a Partnership Ownership Interest to any Person, including, without limitation, pursuant to an assignment, sale or other transfer permitted under other provisions of this Agreement, unless the Holder also simultaneously assigns, sells or transfers to the same Person the same relative portion of his respective Partnership Ownership Interest or Company Ownership Interest.

Section 2.3. Securities Laws Restrictions. Notwithstanding any other provision of this Agreement, no transfer of an Ownership Interest may be made if the transfer would violate any federal or state securities laws. The Company or the Partnership may require evidence satisfactory to it in its reasonable discretion of compliance with such laws.

Section 2.4. Continuation of Restrictions After Transfer. In the event of any permitted transfer of an Ownership Interest pursuant to this Agreement, the interest so transferred shall remain subject to all terms and provisions of this Agreement, including this Section 2.4, and the transferee shall be deemed, by accepting the interest so transferred, to have assumed all the liabilities and unperformed obligations, under this Agreement or otherwise, which are appurtenant to the interest so transferred; shall hold such interest subject to all unperformed obligations of the transferor Holder; and shall agree in writing to the foregoing if requested by the Company or any Holder.

III. PERMITTED TRANSFERS

Section 3.1. Permitted Affiliate Transfers. Notwithstanding Section 2.1 hereof, but subject to Sections 2.2 and 2.3 and Article V hereof, without the consent of the other Holders and without compliance with Articles IV or VI, any Holder may transfer any or all of its Ownership Interest to:

(i) any Affiliate of such Holder; or

(ii) any liquidating trust or other trust if a Person or Group of Persons who beneficially own all of the equity ownership interests in the Holder are collectively the beneficiaries of eighty percent (80%) or more of the assets of such trust.

A transfer permitted under this Section 3.1 is referred to herein as an "Affiliate Transfer".

Section 3.2. Permitted Familial Transfers. Notwithstanding Section 2.1 hereof, but subject to Sections 2.2 and 2.3 and Article V hereof, without the consent of the other Holders and without compliance with Articles IV or VI, any Holder may transfer any or all of its Ownership Interest to:

(i) any Family Member of such Holder or of a Person who is the beneficial owner of a majority of the equity ownership interests of such Holder;

(ii) any partnership, limited partnership, limited liability company, corporation or other entity or organization eighty percent (80%) or more of the equity ownership interests of which are beneficially owned, collectively, by one or more Family Member(s) of such Holder or of a Person who is the beneficial owner of a majority of the equity ownership interests of such Holder; or

(iii) any trust, if one or more Family Members of such Holder or of a Person who is the beneficial owner of a majority of the equity ownership interests in such Holder are collectively the beneficiaries of eighty percent (80%) or more of the assets of such trust.

The provisions of this Section 3.2 shall not be applicable to transfers that are also subject to Section 5.1(x) hereof. A transfer permitted under this Section 3.2 is referred to herein as a "Familial Transfer".

Section 3.3. Pledges and Security Interests. Notwithstanding Section 2.1 hereof, but subject to Sections 2.2, 2.3 and Article V hereof, without the consent of the other Holders and without compliance with Articles IV and VI, any Holder may pledge or grant a security interest in its Ownership Interest to a bank or other lending institution to secure an obligation for borrowed money created in a bona fide financing transaction (a "Pledge") provided that the pledgee or holder of the security interest shall agree in writing, for the benefit of the other Holders, (i) that the Ownership Interest that is the subject of such pledge or security interest is subject to this Agreement, (ii) to give each Member not less than sixty (60) days prior written notice of any proposed foreclosure, sale, taking or other disposition of any Ownership Interest pursuant to, as a result of or in connection with such Pledge, and (iii) that the rights of the Members under Article V hereof, including, without limitation, Sections 5.1(xii) and 5.11 thereof, shall apply to any such proposed foreclosure, sale, taking or other disposition and to the Ownership Interest subject to such Pledge.

IV. PERMITTED SALES SUBJECT TO RIGHT OF FIRST REFUSAL

Section 4.1. Sale of Ownership Interests. If the Selling Holder desires to effect a Sale, as hereinafter defined, of all or a part of its Ownership Interest to any Person other than pursuant to Sections 3.1 or 3.2 hereof, then, in addition to obtaining Holder Consent pursuant to Section 2.1, the Selling Holder shall comply with the provisions of this Article IV. For purposes of this Agreement, the term "Sale" shall mean any transfer for value of any Ownership Interests, directly or indirectly, including, without limitation, any such transfer pursuant to a transaction, or a series of related transactions, as a consequence of which any Ownership Interests are assigned or transferred to an Affiliate of the transferor of such Ownership Interests, which Affiliate simultaneously or subsequently engages in any business combination with a Person which is not an Affiliate of the original transferor of such Ownership Interest.

Section 4.2. Notice of Sale. The Selling Holder must give written notice (the "RFR Notice") to all Remaining Holders of the specific terms and provisions of the proposed sale, including therewith copies of all relevant documents and other information pertaining to the proposed transaction.

Section 4.3. Right of First Refusal. The delivery of the RFR Notice shall automatically grant to the Remaining Holders an option to purchase the Ownership Interest or portion thereof being offered for sale (an "Offered Interest") on the same terms and provisions specified therein for a period of ninety (90) days from the date of the RFR Notice (an "Option Period").

Section 4.4. Exercise of Option. The Remaining Holders shall give written notice to the Selling Holder prior to the expiration of the Option Period (an "Acceptance Notice"), if they desire to exercise their option to purchase the Offered Interest.

Section 4.5. Allocation of Interest Among Remaining Holders. The Acceptance Notice shall specify the portion of the Offered Interest that each Remaining Holder who elects to participate (an "Electing Purchaser") in the purchase desires to purchase. The Electing Purchasers, collectively, may not purchase less than all of the Offered Interest. If the Electing Purchasers cannot agree upon the portion of the Offered Interest that each shall purchase, each Electing Purchaser may send a separate Acceptance Notice agreeing to purchase its Pro Rata Portion of the Offered Interest. In that case, each Electing Purchaser shall be entitled to purchase its Pro Rata Portion of the Company Ownership Interest and Partnership Ownership Interest comprising the Offered Interest.

Section 4.6. Closing of Sale. The closing of the sale of the Offered Interest to the Electing Purchasers shall take place at the principal place of business of the Company ten (10) days after the end of the Option Period (or, if such day is not a Business Day, the following Business Day), or at such other place and time as agreed to by the Selling Holder and the Electing Purchasers.

Section 4.7. Failure to Exercise Option. Subject to Section 2.5 hereof, if the right of first refusal option under this Article IV is not exercised within the Option Period as to all of the Offered Interest, or if the Electing Purchasers default on their obligation to purchase all of the Offered Interest, the Selling Holder may sell or transfer all but not less than all of the Offered Interest within ten (10) days thereafter to the prospective purchaser named in the RFR Notice at a price and on terms no more favorable to such purchaser than described in the RFR Notice, during which time such transfer shall be considered a permitted transfer hereunder and the prospective purchaser a permitted transferee hereunder. The Selling Holder shall not otherwise sell or transfer the Offered Interest to any Person without again complying with the terms of this Agreement.

V. PURCHASE OPTIONS

Section 5.1. Purchase Events. In the event that any of the following (each a "Purchase Event") shall have occurred to or in respect of a Selling Holder, the Remaining Holders shall have the right upon the terms set forth in this Article V to purchase the entire Ownership Interest of the Selling Holder (or, in the case of a Purchase Event pursuant to Section 5.1(x) below, such portion of the Selling Holder's Ownership Interest as is assigned, sold, or otherwise transferred as described in Section 5.1(x)):

(i) the Selling Holder shall make an assignment for the benefit of creditors, commence (as the debtor) a case in bankruptcy, or commence (as the debtor) any proceeding under any other insolvency law; or

(ii) a case in bankruptcy or any other proceeding under any other insolvency law is commenced against the Selling Holder (as the debtor) and is consented to by the Selling Holder or remains undismissed for sixty (60) days, or the Selling Holder consents to or admits the material allegations against it in any such case or proceeding; or

(iii) a trustee, receiver, agent, liquidator or sequestrator (however named) is appointed with respect to the Selling Holder (as the debtor) and is consented to by the Selling Holder or remains undismissed for sixty (60) days, or the Selling Holder consents to or admits the material allegations against it in any such case or proceeding; or

(iv) a trustee, receiver, agent, liquidator or sequestrator (however named) is appointed or authorized to take charge of all or substantially all of the property of the Selling Holder for the purpose of enforcing a lien against such property or for the purpose of general administration of such property for the benefit of creditors and such appointment or authorization is consented to by the Selling Holder or is not overturned within ninety (90) days; or

(v) the Selling Holder shall suffer any writ of attachment or execution or any similar process to be issued or levied against the interests of the Selling Holder in the Ownership Interest which is not released, stayed, bonded or vacated within ninety (90) days after its issue or levy; or

(vi) the Selling Holder shall fail to perform any of its obligations under this Agreement in a material respect and such failure continues for a period of at least thirty (30) days after written notice thereof from the Company, the Partnership or any Holder; or

(vii) any attempted assignment or hypothecation by the Selling Holder of any of its rights or interest in the Company, the LLC Agreement, the Partnership, the Limited Partnership Agreement or this Agreement, except as expressly permitted by this Agreement; or

(viii) the Selling Holder shall commence to dissolve or wind-up and liquidate the assets of its business otherwise than in connection with a transfer permitted under Section 3.1 or 3.2; or

(ix) the Selling Holder shall become deceased or be declared legally incompetent to administer his affairs and either an executor, administrator or guardian of such Selling Holder's estate has not been appointed within ninety (90) days of such event or such Selling Holder's interest is not transferred pursuant to a Familial Transfer within one (1) year of such event; or

(x) as a result of a divorce, separation or other domestic relations or family law proceeding an order is entered purporting to assign, transfer or divide ownership of, or to require the Selling Holder to assign, sell or otherwise transfer, all or any interest in Selling Holder's Ownership Interest, and either such order is not overturned within ninety (90) days or Selling Holder has not otherwise obtained sole ownership of the Ownership Interest within such period; or

(xi) the Selling Holder or any Affiliate thereof, by entry of a final judgment, order or decree of a court or governmental agency having proper

jurisdiction, shall be declared guilty of a felony involving moral turpitude, fraud or wrongdoing in connection with any business activity.

(xii) any Person to whom a pledge or security interest has been granted pursuant to Section 3.3 hereof gives notice of any proposed foreclosure, sale, taking or other disposition of any Ownership Interest of the Selling Holder or otherwise initiates, or attempts to initiate, any exercise of rights of foreclosure, sale, taking or other disposition with respect to any Ownership Interest of the Selling Holder.

Section 5.2. Notice of Sale. As soon as reasonably practicable following the occurrence of a Purchase Event, the Selling Holder shall give written notice (the "Purchase Event Notice") of the Purchase Event to all Remaining Holders. If the Selling Holder shall fail or refuse to give the Purchase Event Notice, the Company may, but shall have no obligation to, give the Purchase Event Notice.

Section 5.3. Purchase Option. During the sixty (60) day period following receipt of the Purchase Event Notice, the Remaining Holders may elect to exercise their right to purchase the Selling Holder's Ownership Interest (an "Offered Interest") under this Section 5.3 (an "Option Period"). Then upon the expiration of the Option Period such right to purchase the Selling Holder's Ownership Interest hereunder shall terminate, unless and until another Purchase Event shall occur with respect to the Selling Holder at which time the provisions of this Article V shall again be applicable to such Selling Holder's Ownership Interest.

Section 5.4. Exercise of Purchase Option. The Remaining Holders shall give written notice to the Selling Holder prior to the expiration of the Option Period (an "Acceptance Notice"), if they desire to exercise their option to purchase the Offered Interest.

Section 5.5. Allocation of Interest Among Remaining Holders. The Acceptance Notice shall specify the portion of the Offered Interest that each Remaining Holders who elects to participate (an "Electing Purchaser") in the purchase shall purchase. The Electing Purchasers, collectively, may not purchase less than all of the Offered Interest. If the Electing Purchasers cannot agree upon the portion of the Offered Interest that each shall purchase, each Electing Purchasers may send a separate Acceptance Notice agreeing to purchase its Pro Rata Portion of the Offered Interest. In that case, each Electing Purchaser shall be entitled to purchase its Pro Rata Portion of the Company Ownership Interest and Partnership Ownership Interest comprising the Offered Interest.

Section 5.6. Closing of Sale. The closing of the sale of the Offered Interest to the Electing Purchasers shall take place at the principal place of business of the Company thirty (30) days after the end of (i) the Option Period (or, if such day is not a Business Day, the following Business Day), or (ii) such longer period as may be required to complete the appraisal under Section 5.9, or at such other place and time as agreed to by the Selling Holder and the Electing Purchaser.

Section 5.7. Failure to Exercise Option. If the purchase option under this Article V is not exercised within the Option Period as to all of the Offered Interest, or if the Electing

Purchasers default on their obligation to purchase all of the Offered Interest, the Selling Holder shall not otherwise sell or transfer any of the Offered Interest to any Person without again complying with the terms of this Agreement.

Section 5.8. Purchase Price. The amount of the purchase price for the Selling Holder's Ownership Interest (unless agreed upon by the Selling Holder and the Remaining Holders electing to participate in the purchase) shall be determined in accordance with Section 5.9 hereof.

Section 5.9. Procedure for Appraisal and Determination of Fair Market Value. Unless the Electing Purchasers and Selling Holder shall mutually agree upon the value for the Offered Interest, the value of the Offered Interest shall be determined by appraisal hereunder. The appraised value of the Offered Interest shall be determined within thirty (30) days after selection, by a single independent appraiser selected by agreement between the Electing Purchasers and Selling Holder (or its estate or representative) and such appraiser in turn may rely on other experts. If the Electing Purchasers and Selling Holder (or its estate or representative) cannot agree on a single independent appraiser within thirty (30) days after the delivery of the Acceptance Notice by the Electing Purchasers to the Selling Holder, then the Electing Purchasers, as a group, and the Selling Holder (or its estate or representative) shall each designate an independent appraiser, which appraisers shall meet within ten (10) days after their designation and proceed to determine the value of the Offered Interest within thirty (30) days of such initial meeting. If, during such thirty (30) day period, the two appraisers cannot reach agreement on the value of the Offered Interest, then, if the higher appraisal does not equal or exceed 105% of the lower appraisal, the arithmetic average of the appraisals designated by the appraisers shall be deemed to be the value of the Offered Interest; provided, however, that if the higher appraisal exceeds 105% of the lower appraisal, then the appraisers shall jointly appoint a third appraiser (the "Third Appraiser") within ten (10) days after the expiration of such thirty (30) day period, whereupon the appraisal that is neither the highest nor the lowest of the three (3) appraisals shall be deemed to be the value of the Offered Interest and be binding and conclusive on the parties hereto. If any appraiser shall fail, refuse or become unable to act, a new appraiser shall be appointed in his place following the same method as was originally followed with respect to the appraiser to be replaced. If a single independent appraiser is selected by agreement between the Electing Purchasers, as a group, and the Selling Holder (or its estate or representative), the fees and expenses of such appraiser shall be borne equally by such parties; if the Electing Purchasers, as a group, and the Selling Holder (or its estate or representative) each designate appraisers, the fees and expenses of each such designated appraiser shall be borne by the party designating same; and if a Third Appraiser is designated, the fees and expenses of such Third Appraiser shall be borne equally by the Electing Purchasers and the Selling Holder (or its estate or representative). Any appraiser designated to serve in accordance with this Section 5.9 shall be independent of the party designating such appraiser. The determination of the value of the Offered Interest hereunder shall be conclusive on all parties. At any time during or following the determination of the value of the Offered Interest by any appraiser, the Electing Purchasers may elect to terminate their exercise of the option to purchase the Offered Interest, but in that case, the Electing Purchasers shall pay the fees and expenses of the appraiser selected by the Selling Holder and Third Appraiser, as well as its own appraiser.

Section 5.10. Effect on Seller's Interest. Without limiting the generality of any other provision of this Agreement, upon the sale of the Offered Interest under this Article V, the

Selling Holder, without further action, will have no rights in the Partnership or the Company or against the Partnership or the Company or any Member or Partner other than the right to receive payment for the Offered Interest in accordance with this Article.

Section 5.11. Applicability to Transferees. The rights of the Remaining Holders under this Article V shall not be affected or diminished by any assignment, sale or transfer of an Ownership Interest effected in connection with any Purchase Event or any order purporting to effect or to require any such assignment, sale or transfer, and any such Ownership Interest shall remain subject to the provisions of this Agreement irrespective of any such assignment, sale or transfer, whether or not completed, and the assignee, purchaser or transferee shall take subject to the provisions of this Agreement and shall be bound thereby to the same extent as the Selling Holder.

VI. TAKE ALONG RIGHT

Section 6.1. Transactions Covered. In the event that one or more Holders who collectively hold a majority of the Ownership Interests ("Majority Seller") propose to transfer all or any part of its or their Ownership Interests constituting majority of all the Ownership Interests in a single transaction or a series of related transactions to any Person other than pursuant to an Affiliate Transfer, a Familial Transfer or a Pledge, then such Holder or Holders shall first comply with this Article VI in addition to compliance with Article IV hereof.

Section 6.2. Notice. The Majority Seller shall give written notice (the "Take Along Notice") to each Remaining Holder, contemporaneously with the RFR Notice under Section 4.2 and, to the extent not specified therein, identifying that portion of the Majority Seller's Ownership Interest which it desires to transfer (the "Subject Interest"), the intended method of the transfer, the price the Majority Seller desires to receive for the Subject Interest, the proposed transfer date, and all other pertinent terms thereof, including, if known, the identity of any proposed buyer or buyers of the Subject Interest.

Section 6.3. Election to Participate. Any Remaining Holder may elect to participate in the contemplated transfer by delivering a written notice to the Majority Seller, within sixty (60) days (the "Take-Along Option Period") after receipt of the Take Along Notice, specifying that portion of the Remaining Holder's Ownership Interest (which may be all of such Ownership Interest) which such Remaining Holder elects to sell. Each such Remaining Holder who so elects (an "Electing Participant") shall have the right to transfer in the contemplated transaction, at the same price and on the same terms, all or any portion of its Ownership Interest, except as limited in the following sentence. If the Electing Participants and the Majority Seller (singularly, a "Selling Party", and collectively, the "Selling Parties") in the aggregate elect to sell a larger portion of the Ownership Interest than the proposed buyer or buyers wish to purchase, then each Selling Party shall be entitled to sell to such buyer or buyers that percentage of its Ownership Interest which is equal to the percentage of the Ownership Interest to be so purchased by such buyer or buyers from all the Selling Parties multiplied by a fraction the numerator of which is the percentage of the Ownership Interest such Selling Party has specified in its notice under the first sentence of this Section that it elects to sell (without reference to the limitation imposed by this sentence) and the denominator of which is the aggregate percentage of the Ownership Interests

all of such Selling Parties elect to sell (without reference to the limitation imposed by this sentence).

Section 6.4. Title. The Ownership Interest proposed to be transferred by each Majority Seller and Electing Participant shall be transferred free and clear of all liens, claims and encumbrances of any kind (other than those imposed by federal and state securities laws, this Agreement, the LLC Agreement or the Limited Partnership Agreement).

VII. OTHER PROVISIONS APPLICABLE TO TRANSFERS

Section 7.1. Waiver of Rights to Object. All Holders acknowledge that the methods provided for in this Agreement for determining the price of an Offered Interest, a Subject Interest or an Ownership Interest are fair as to dates used, notices, terms and in all other respects, and are administratively and in substance superior to other methods. Each Holder waives any right that it may have to use any other method to determine the value of any Offered Interest, a Subject Interest or an Ownership Interest in connection with this Agreement.

VIII. NOTICES

Section 8.1. Methods of Giving Notice. Whenever any notice is required to be given to any Holder under the provisions of any applicable law or this Agreement, it shall be given in writing and delivered personally or delivered by facsimile communication to such Holder at such address (and at such member facsimile) as appears on the books of the Company, and such notice shall be deemed to be given at the time the recipient actually receives the notice in the case of personal delivery or the sender receives electronic confirmation of delivery with respect to any notice given by facsimile communication.

Section 8.2. Waiver of Notice. Whenever any notice is required to be given to any Holder under the provisions of any applicable law or this Agreement, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

IX. MISCELLANEOUS

Section 9.1. Execution in Counterparts. This Agreement may be executed in counterparts, all of which taken together shall be deemed one original.

Section 9.2. Address and Notice. The address of each Holder for all purposes shall be as follows:

If to Vaughn:
3738 Oak Lawn Ave., Suite 101
Dallas, Texas 75219
Attention: Benny D. Duncan
Telecopy No.: (214) 522-7433

With copies to:
Joe Dannenmaier
Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Telecopy No.: (214) 969-1751

If to SAM:
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: H. C. Allen, Jr.
Telecopy No.: (214) 559-0301

With copies to:
Joe Dannenmaier
Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Telecopy No.: (214) 969-1751

If to SAOG:
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: William Casey McManemin
Telecopy No.: (214) 559-0301

With copies to:
Joe Dannenmaier
Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Telecopy No.: (214) 969-1751

If to Peak LP:
1919 S. Shiloh Rd.
Suite 600 - LB48
Garland, Texas 75042
Attention: Preston A. Peak
Telecopy No.: (972) 864-9095

With copies to:
Bryan E. Bishop
LOCKE LIDDELL & SAPP LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201-6776
Telecopy No.: (214) 740-8800

If to Raley GP:
1919 S. Shiloh Rd.
Suite 600 - LB48
Garland, Texas 75042
Attention: James E. Raley
Telecopy No.: (972) 864-9095

With copies to:
Bryan E. Bishop
LOCKE LIDDELL & SAPP LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201-6776
Telecopy No.: (214) 740-8800

or such other address or addresses of which any Holders shall have given the other Holders notice. Any notice shall be in accordance with Section 8.1.

Section 9.3. Further Assurances. Each Holder hereby covenants and agrees to execute and deliver such instruments as may be reasonably requested by any other Holder to convey any interest or to take any other action required or permitted under this Agreement.

Section 9.4. Titles and Captions. All article, section, or subsection titles or captions contained in this Agreement or the table of contents hereof are for convenience only and shall not be deemed part of the context of this Agreement.

Section 9.5. Number and Gender of Pronouns. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the Person or Persons may require.

Section 9.6. Entire Agreement. This Agreement, together with the LLC Agreement and the Limited Partnership Agreement, contains the entire understanding between and among the Holders and supersedes any prior understandings and agreements between and among them respecting the subject matter of this Agreement.

Section 9.7. Amendment. This Agreement may be amended or modified only by a written document executed by all the Holders.

Section 9.8. Agreement Binding. This Agreement shall be binding upon the heirs, executors, administrators, successors, and assigns of the Holders.

Section 9.9. Waiver. No failure by any Holder to insist upon the strict performance of any covenant, duty, agreement, or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or any other covenant, agreement, term, or condition. Any Holder by the issuance of written notice may, but shall be under no obligation to, waive any of its rights or any conditions to its obligations hereunder, or any duty, obligation or covenant of any other Holder. No waiver shall affect or alter the remainder of this Agreement but each and every covenant, agreement, term, and

condition of this Agreement shall continue in full force and effect with respect to any other then existing or subsequent breach thereof.

Section 9.10. Remedies. The rights and remedies of the Holders set forth in this Agreement shall not be mutually exclusive or exclusive of any right, power or privilege provided by law or in equity or otherwise and the exercise of one or more of the provisions hereof shall not preclude the exercise of any other provisions hereof or of any legal, equitable or other right. Each of the Holders confirms that damages at law may be an inadequate remedy for a breach or threatened breach of any provision hereof. The respective rights and obligations hereunder shall be enforceable by specific performance, injunction, or other equitable remedy, but nothing herein contained is intended to, or shall limit or affect any rights at law or by statute or otherwise of any Holder aggrieved as against another Holder for a breach or threatened breach of any provision hereof, it being the intention of this section to make clear the agreement of the Holder that the respective rights and obligations of the Holders hereunder shall be enforceable in equity as well as at law or otherwise.

Section 9.11. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED, ENFORCED, AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF DELAWARE (WITHOUT REGARD TO ITS CHOICE OF LAW PRINCIPLES).

Section 9.12. DISPUTE RESOLUTION.

(a) NEGOTIATION. THE PARTIES SHALL ATTEMPT TO RESOLVE ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TERMINATION, BREACH, OR VALIDITY OF THIS AGREEMENT, PROMPTLY BY GOOD FAITH NEGOTIATION AMONG EXECUTIVES WHO HAVE AUTHORITY TO RESOLVE THE CONTROVERSY. ANY PARTY MAY GIVE THE OTHER PARTIES WRITTEN NOTICE OF ANY DISPUTE NOT RESOLVED IN THE NORMAL COURSE OF BUSINESS. WITHIN 10 DAYS AFTER DELIVERY OF THE NOTICE, THE RECEIVING PARTY SHALL SUBMIT TO THE OTHERS A WRITTEN RESPONSE. THE NOTICE AND THE RESPONSE SHALL INCLUDE (A) A STATEMENT OF THE PARTIES' CONCERNS AND PERSPECTIVES ON THE ISSUES IN DISPUTE, (B) A SUMMARY OF SUPPORTING FACTS AND CIRCUMSTANCES AND (C) THE IDENTITY OF THE EXECUTIVE WHO WILL REPRESENT THAT PARTY AND OF ANY OTHER PERSON WHO WILL ACCOMPANY THE EXECUTIVE. WITHIN 15 DAYS AFTER DELIVERY OF THE ORIGINAL NOTICE, THE EXECUTIVES OF THE PARTIES SHALL MEET AT A MUTUALLY ACCEPTABLE TIME AND PLACE, AND THEREAFTER AS OFTEN AS THEY REASONABLY DEEM NECESSARY, TO ATTEMPT TO RESOLVE THE DISPUTE. ALL NEGOTIATIONS PURSUANT TO THIS CLAUSE AND CLAUSE (B) BELOW ARE CONFIDENTIAL AND SHALL BE TREATED AS COMPROMISE AND SETTLEMENT NEGOTIATIONS FOR PURPOSES OF APPLICABLE RULES OF EVIDENCE.

(b) MEDIATION. IF A DISPUTE HAS NOT BEEN RESOLVED BY DISCUSSION BETWEEN OR AMONG THE PARTIES WITHIN 20 DAYS OF THE DISPUTING PARTNERS' NOTICE, ANY PARTY MAY BY NOTICE TO THE

OTHER PARTIES WITH WHOM SUCH DISPUTE EXISTS REQUIRE MEDIATION OF THE DISPUTE, WHICH NOTICE SHALL IDENTIFY THE NAMES OF NO FEWER THAN THREE (3) POTENTIAL MEDIATORS. EACH PARTY AMONG WHOM THE DISPUTE EXISTS WILL IN GOOD FAITH ATTEMPT TO AGREE UPON A MEDIATOR AND AGREES TO PARTICIPATE IN MEDIATION OF THE DISPUTE IN GOOD FAITH. IF THE PARTIES ARE UNABLE TO AGREE UPON A MEDIATOR WITHIN FIFTEEN (15) DAYS AFTER SUCH NOTICE, THE PARTIES AGREE TO PROCEED TO MEDIATION UNDER THE COMMERCIAL MEDIATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION IN EFFECT ON THE DATE OF THIS AGREEMENT. IF SUCH DISPUTE SHALL NOT HAVE BEEN RESOLVED BY MEDIATION WITHIN THE TIME PERIOD SPECIFIED N SUBSECTION (C) BELOW, ARBITRATION MAY BE INITIATED PURSUANT TO SUBSECTION (C) BELOW. ALL EXPENSES OF THE MEDIATOR SHALL BE EQUALLY SHARED BY THE PARTIES AMONG WHOM THE DISPUTE EXISTS.

(c) BINDING ARBITRATION.

(i) ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE BREACH, TERMINATION, OR VALIDITY OF THE AGREEMENT WHICH HAS NOT BEEN RESOLVED BY MEDIATION WITHIN 30 DAYS OF THE INITIATION OF SUCH PROCEDURE, OR WHICH HAS NOT BEEN RESOLVED PRIOR TO THE TERMINATION OF MEDIATION, SHALL BE RESOLVED BY ARBITRATION IN ACCORDANCE WITH THE COMMERCIAL ARBITRATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA") IN EFFECT ON THE DATE OF THIS AGREEMENT. IF A PARTY TO A DISPUTE FAILS TO PARTICIPATE IN MEDIATION, THE OTHERS MAY INITIATE ARBITRATION BEFORE EXPIRATION OF THE ABOVE PERIOD. IF THE AMOUNT OF THE CLAIM ASSERTED BY ANY PARTY IN THE ARBITRATION EXCEEDS $1,000,000, THE PARTNERS AGREE THAT THE AMERICAN ARBITRATION ASSOCIATION OPTIONAL PROCEDURES FOR LARGE, COMPLEX COMMERCIAL DISPUTES WILL BE APPLIED TO THE DISPUTE.

(ii) THE AAA SHALL SUGGEST A PANEL OF ARBITRATORS, EACH OF WHOM SHALL BE KNOWLEDGEABLE WITH RESPECT TO THE SUBJECT MATTER OF THE DISPUTE. ARBITRATION SHALL BE BEFORE A SOLE ARBITRATOR IF THE DISPUTING PARTNERS AGREE ON THE SELECTION OF A SOLE ARBITRATOR. IF NOT, ARBITRATION SHALL BE BEFORE THREE INDEPENDENT AND IMPARTIAL ARBITRATORS, ALL OF WHOM SHALL BE APPOINTED BY THE AAA IN ACCORDANCE WITH ITS RULES.

(iii) THE PLACE OF ARBITRATION SHALL BE DALLAS, TEXAS.

(iv) THE ARBITRATOR(S) ARE NOT EMPOWERED TO AWARD DAMAGES IN EXCESS OF COMPENSATORY DAMAGES.

(v) THE AWARD RENDERED BY THE ARBITRATORS SHALL BE IN WRITING AND SHALL INCLUDE A STATEMENT OF THE FACTUAL BASES AND THE LEGAL CONCLUSIONS RELIED UPON BY THE ARBITRATORS IN MAKING SUCH AWARD. THE ARBITRATORS SHALL DECIDE THE DISPUTE IN COMPLIANCE WITH THE APPLICABLE SUBSTANTIVE LAW AND CONSISTENT WITH THE PROVISIONS OF THE AGREEMENT, INCLUDING LIMITS ON DAMAGES. THE AWARD RENDERED BY THE ARBITRATOR(S) SHALL BE FINAL AND BINDING, AND JUDGMENT UPON THE AWARD MAY BE ENTERED BY ANY COURT HAVING JURISDICTION THEREOF.

(vi) ALL MATTERS RELATING TO THE ENFORCEABILITY OF THIS ARBITRATION AGREEMENT AND ANY AWARD RENDERED PURSUANT TO THIS AGREEMENT SHALL BE GOVERNED BY THE FEDERAL ARBITRATION ACT, 9 U.S.C. Section 1-16. THE ARBITRATOR(S) SHALL APPLY THE SUBSTANTIVE LAW OF THE STATE OF DELAWARE, EXCLUSIVE OF ANY CONFLICT OF LAW RULES.

(vii) EACH PARTNER IS REQUIRED TO CONTINUE TO PERFORM ITS OBLIGATIONS UNDER THIS CONTRACT PENDING FINAL RESOLUTION OF ANY DISPUTE ARISING OUT OF OR RELATING TO THIS CONTRACT, UNLESS TO DO SO WOULD BE IMPOSSIBLE OR IMPRACTICABLE UNDER THE CIRCUMSTANCES.

(viii) NOTHING IN THIS SECTION 9.12 SHALL LIMIT THE PARTNERS' RIGHTS TO OBTAIN PROVISIONAL, ANCILLARY OR EQUITABLE RELIEF FROM A COURT OF COMPETENT JURISDICTION.

(d) EXPENSES. EACH PARTY SHALL PAY ITS OWN EXPENSES OF ARBITRATION AND THE EXPENSES OF THE ARBITRATORS SHALL BE EQUALLY SHARED; PROVIDED, HOWEVER, IF IN THE OPINION OF THE ARBITRATORS ANY CLAIM BY EITHER PARTY HEREUNDER OR ANY DEFENSE OR OBJECTION THERETO BY THE OTHER PARTY WAS UNREASONABLE AND NOT MADE IN GOOD FAITH, THE ARBITRATORS MAY ASSESS, AS PART OF THE AWARD, ALL OR ANY PART OF THE ARBITRATION EXPENSE (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES) OF THE OTHER PARTY AND OF THE ARBITRATORS AGAINST THE PARTY RAISING SUCH UNREASONABLE CLAIM, DEFENSE, OR OBJECTION. NOTHING HEREIN SET FORTH SHALL PREVENT THE PARTIES FROM SETTLING ANY DISPUTE BY MUTUAL AGREEMENT AT ANY TIME.

Section 9.13. WAIVER. EACH HOLDER WAIVES ANY RIGHT THAT THE HOLDER MAY HAVE TO COMMENCE ANY ACTION IN ANY COURT WITH RESPECT TO ANY DISPUTE AMONG THE HOLDERS RELATING TO OR ARISING UNDER THIS

AGREEMENT OR THE RIGHTS OR OBLIGATIONS OF ANY HOLDER HEREUNDER, OTHER THAN AN ACTION BROUGHT TO ENFORCE THE ARBITRATION PROVISIONS OF SECTION 9.12 HEREOF. THE HOLDERS AGREE THAT ANY SUCH ACTION SHALL BE BROUGHT (AND VENUE FOR ANY SUCH ACTION SHALL BE APPROPRIATE) IN DALLAS, TEXAS.

Section 9.14. U.S. Dollars. Any reference in this Agreement to "dollars," "funds" or "sums" or any amounts denoted with a "$" shall be references to United States dollars.

[FOLLOWING ARE THE SIGNATURE PAGES.]

IN WITNESS WHEREOF, the undersigned parties have executed this Agreement on the 13th day of December, 2001.

THE COMPANY

DORCHESTER MINERALS MANAGEMENT GP LLC,
a Delaware limited liability company

By:

Name:

Title:

THE PARTNERSHIP

DORCHESTER MINERALS MANAGEMENT LP,
a Delaware limited partnership

By: DORCHESTER MINERALS MANAGEMENT GP LLC, its general partner

By:

Name:

Title:

THE HOLDERS

SAM PARTNERS, LTD.

By: SAM Partners Management, Inc., its general partner

By:

H. C. Allen, Jr., Secretary

VAUGHN PETROLEUM, LTD.

By: VPL (GP), LLC, its general partner

By:

Name:

Title:

SMITH ALLEN OIL & GAS, INC.

By:

William Casey McManemin, Vice President

P.A. PEAK HOLDINGS LP, a Delaware limited partnership

By: Peak Limited Liability Company No. 1,
a Texas limited liability company, its General Partner

By:

Preston A. Peak, President

JAMES E. RALEY GENERAL PARTNERSHIP,
a Texas general partnership

By: YELAR GP LLC, a Texas limited liability company,
its General Partner

By:

James E. Raley, President

By: YELAR LP, a Texas limited partnership,
its General Partner

By:

James E. Raley, President

EXHIBIT D

PERCENTAGE INTERESTS IN DMMLLC

	Percentage Interests in DMMLLC
SAM Partners, Ltd.	20.5%
Vaughn Petroleum, Ltd.	20.5%
Smith Allen Oil & Gas, Inc.	20.0%
P.A. Peak, Inc. (P.A. Peak Holdings LP)	19.5%
James E. Raley, Inc. (James E. Raley General Partnership)	19.5%

EXHIBIT E

FORM OF ASSIGNMENT OF PARTNERSHIP INTEREST

THIS ASSIGNMENT OF PARTNERSHIP INTEREST (this "Assignment") is made and entered into effective this ____ day of ___________, ______, by and between ____________________, a ___________________ ("Assignor") and Dorchester Minerals Management LP, a Delaware limited partnership ("Assignee").

WITNESSETH

[*Alternative for general partners of RRC:

WHEREAS, Assignor owns a 2% general partnership interest in the capital and profits of Dorchester Minerals, L.P., a Delaware limited partnership (the "Partnership"), relating solely to the assets of the Partnership previously owned by Republic Royalty Company (the "Partnership Interest")].

[*Alternative for general partner of SAOG:

WHEREAS, Assignor owns a 4% general partnership interest in the capital and profits of Dorchester Minerals, L.P., a Delaware limited partnership (the "Partnership"), relating solely to the assets of the Partnership previously owned by Spinnaker Royalty Company, L.P. (the "Partnership Interest")].

[*Alternative for general partners of DHL:

WHEREAS, Assignor owns ______________ Common Units of Dorchester Minerals, L.P., a Delaware limited partnership (the "Partnership"), representing limited partnership interests in the Partnership (the "Partnership Interest")].

WHEREAS, Assignee desires to acquire from Assignor and Assignor desires to assign to Assignee, the Partnership Interest in the Partnership.

NOW, THEREFORE, in consideration of the premises, warranties and mutual covenants set forth herein, the parties hereto agree as follows:

1. Assignment. Assignor hereby assigns to Assignee, and Assignee hereby acquires from Assignor the Partnership Interest, including but not limited to, that portion of the rights, title and interests of Assignor in and to the properties (real and personal), capital, cash flow distributions and profits and losses of the Partnership which are allocable to the Partnership Interest. From and after the date hereof, Assignor shall have no rights, title or interests in the Partnership. [*For DHL general partners: Assignor is delivering herewith to Assignee the certificate representing the Partnership Interest, properly endorsed to Assignee.]

2. Effective Date. The Assignment herein is effective as of the date first set forth above, and from and after that date that portion of the net profits or net losses of the Partnership allocable to the Partnership Interest shall be credited to Assignee and Assignor shall have no interests therein or claims thereto.

3. Future Cooperation on Subsequent Documents. Assignor and Assignee mutually agree to cooperate at all times from and after the date hereof with respect to the supplying of any information requested by the other regarding any of the matters described in this Assignment, and each agrees to execute such further deeds, bills of sale and assignments as may be reasonably requested for the purpose of giving effect to, evidencing or giving notice of the transactions described herein.

4. Successors and Assigns. This Assignment shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective heirs, legal representatives, successors and assigns.

5. Modification and Waiver. No supplement, modification, waiver or termination of this Assignment or any provisions hereof shall be binding unless executed in writing by the parties to be bound thereby. No waiver of any of the provisions of this Assignment shall constitute a waiver of any other provision (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

6. Governing Law. This Assignment shall be governed by, and construed in accordance with the laws of, the State of Texas (without regard to principles of conflict of laws).

7. Counterparts. This Assignment may be executed in any number of counterparts each of which shall be an original and all of which shall together constitute one and the same agreement.

[The next page is the signature page]

IN WITNESS WHEREOF, the parties hereto have executed this Assignment to be effective as of the date first written above.

ASSIGNOR:

By: ---------------------------------------

Name: -------------------------------------

Title: ------------------------------------

ASSIGNEE:

DORCHESTER MINERALS
MANAGEMENT LP

By: Dorchester Minerals Management GP LLC,
its general partner

By: --------------------------------

Name: ------------------------------

Title: -----------------------------

EXHIBIT 3.1

CERTIFICATE OF LIMITED PARTNERSHIP
OF
DORCHESTER MINERALS, L.P.
(a Delaware limited partnership)

This Certificate of Limited Partnership (this "Certificate"), effective as of the date and time provided below, has been executed in connection with the formation of a limited partnership (the "Partnership") pursuant to the Delaware Revised Uniform Limited Partnership Act (the "Act"). The General Partner of the Partnership certifies that:

1. Name: The name of the Partnership is Dorchester Minerals, L.P.

2. General Partner: The General Partner of the Partnership is Dorchester Minerals Management LP, a Delaware limited partnership. The mailing and business address of the General Partner is 3738 Oak Lawn Ave., Dallas, Texas 75219.

3. Registered Office and Registered Agent: The Partnership's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801, and the name of the Company's registered agent at that address is The Corporation Trust Company.

4. Effective Date and Time. The effective date and time of the formation of the Partnership shall be 11:59 p.m. Eastern Standard Time on December 12, 2001.

IN WITNESS WHEREOF, the undersigned General Partner has caused this Certificate to be executed effective as of 11:59 Eastern Standard Time on December 12, 2001

Dorchester Minerals Management LP, a Delaware limited partnership

By: Dorchester Minerals Management GP LLC, a Delaware limited liability company, its general partner

By: /s/ James E. Raley
Name: James E. Raley
Title: Chief Operating Officer

EXHIBIT 3.2

AGREEMENT OF LIMITED PARTNERSHIP

OF

DORCHESTER MINERALS, L.P.

THIS AGREEMENT OF LIMITED PARTNERSHIP, dated as of December 12, 2001 is entered into and executed by DORCHESTER MINERALS MANAGEMENT LP, a Delaware limited partnership, as General Partner, and DORCHESTER MINERALS MANAGEMENT GP LLC, a limited liability company, as Organizational Limited Partner.

ARTICLE I

DEFINITIONS

The following definitions shall for all purposes, unless otherwise clearly indicated to the contrary, apply to the terms used in this Agreement.

"Certificate of Limited Partnership" means the Certificate of Limited Partnership filed with the Secretary of State of the State of Delaware as described in the first sentence of Section 2.5 as amended or restated from time to time.

"Delaware Act" means the Delaware Revised Uniform Limited Partnership Act, as amended from time to time, and any successor to such act.

"General Partner" means Dorchester Minerals Management LP, a Delaware limited partnership, in its capacity as the general partner of the Partnership, and any successor to Dorchester Minerals Management LP, as general partner.

"Limited Partner" means the Organizational Limited Partner and any other limited partner admitted to the Partnership from time to time.

"Organizational Limited Partner" means Dorchester Minerals Management GP LLC, a Delaware limited liability company, acting as the organizational limited partner pursuant to this Agreement.

"Partner" means the General Partner or any Limited Partner.

"Partnership" means Dorchester Minerals, L.P., a Delaware limited partnership.

"Percentage Interest" means, with respect to any Partner, the percentage of cash contributed by such Partner to the Partnership as a percentage of all cash contributed by all the Partners to the Partnership.

ARTICLE II

ORGANIZATIONAL MATTERS

2.1 Formation. Subject to the provisions of this Agreement, the General Partner and the Limited Partner have formed the Partnership as a limited partnership pursuant to the provisions of the Delaware Act. The General Partner and the Limited Partner hereby enter into this Agreement to set forth the rights and obligations of the Partners and certain matters related thereto. Except as expressly provided herein to the contrary, the rights and obligations of the Partners and the administration, dissolution, and termination of the Partnership shall be governed by the Delaware Act.

2.2 Name. The name of the Partnership shall be, and the business of the Partnership shall be conducted under the name of, "Dorchester Minerals, L.P."

2.3 Principal Office; Registered Office.

(a) The principal office of the Partnership shall be at 3738 Oak Lawn, Dallas, Texas 75219 or such other place as the General Partner may from time to time designate. The Partnership may maintain offices at such other places as the General Partner deems advisable.

(b) The address of the Partnership's registered office in the State of Delaware shall be Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, and the name of the Partnership's registered agent for service of process at such address shall be The Corporation Trust Company.

2.4 Term. The Partnership shall continue in existence until an election to dissolve the Partnership by the General Partner.

2.5 Organizational Certificate. A Certificate of Limited Partnership of the Partnership has been filed by the General Partner with the Secretary of State of the State of Delaware as required by the Delaware Act. The General Partner shall cause to be filed such other certificates or documents as may be required for the formation, operation, and qualification of a limited partnership in the State of Delaware and any state in which the Partnership may elect to do business. The General Partner shall thereafter file any necessary amendments to the Certificate of Limited Partnership and any such other certificates and documents and do all things requisite to the maintenance of the Partnership as a limited partnership (or as a partnership in which the Limited Partners have limited liability) under the laws of Delaware and any state or jurisdiction in which the Partnership may elect to do business.

2.6 Partnership Interests. Effective as of the date hereof, the General Partner shall have a 1% Percentage Interest and the Limited Partner shall have a 99% Percentage Interest.

ARTICLE III

PURPOSE

The purpose and business of the Partnership shall be to engage in any lawful activity for which limited partnerships may be organized under the Delaware Act.

ARTICLE IV

CAPITAL CONTRIBUTIONS

At or around the date hereof, the Limited Partner contributed to the Partnership $990 in cash and the General Partner contributed to the Partnership $10 in cash.

ARTICLE V

CAPITAL ACCOUNTS ALLOCATIONS

5.1 Capital Accounts. The Partnership shall maintain a capital account for each of the Partners in accordance with the regulations issued pursuant to Section 704 of the Internal Revenue Code of 1986, as amended (the "Code") and as determined by the General Partner as consistent therewith.

5.2 Allocations. For federal income tax purposes, each item of income, gain, loss, deduction, and credit of the Partnership shall be allocated among the Partners in accordance with their Percentage Interests, except that the General Partner shall have the authority to make such other allocations as are necessary and appropriate to comply with Section 704 of the Code and the regulations issued pursuant thereto.

5.3 Distributions. From time to time, but not less often than quarterly, the General Partner shall review the Partnership's accounts to determine whether distributions are appropriate. The General Partner may make such cash distributions as it, in its sole discretion, may determine without being limited to current or accumulated income or gains from any Partnership funds, including, without limitation, Partnership revenues, capital contributions, or borrowed funds; provided, however, that no such distribution shall be made if, after giving effect thereto, the liabilities of the Partnership exceed the fair market value of the assets of the Partnership. In its sole discretion, the General Partner may, subject to the foregoing proviso, also distribute to the Partners other Partnership property or other securities of the Partnership or other entities. All distributions by the General Partner shall be made in accordance with the Percentage Interests of the Partners.

ARTICLE VI

MANAGEMENT AND OPERATIONS OF BUSINESS

Except as otherwise expressly provided in this Agreement, all powers to control and manage the business and affairs of the Partnership shall be vested exclusively in the General Partner, and the Limited Partner shall not have any power to control or manage the Partnership.

ARTICLE VII

RIGHTS AND OBLIGATIONS OF LIMITED PARTNER

The Limited Partner shall have no liability under this Agreement except as provided in Article IV.

ARTICLE VII

DISSOLUTION AND LIQUIDATION

The Partnership shall be dissolved as provided in Section 2.4 and its affairs shall be wound up as provided by applicable law.

ARTICLE IX

AMENDMENT OF PARTNERSHIP AGREEMENT

The General Partner may amend any provision of this Agreement without the consent of the Limited Partner and may execute, swear to, acknowledge, deliver, file, and record whatever documents may be required in connection therewith.

ARTICLE X

GENERAL PROVISIONS

10.1 Addresses and Notices. Any notice to the Partnership, the General Partner, or the Limited Partner shall be deemed given if received by it in writing at the principal office of the Partnership designated pursuant to Section 2.3(a).

10.2 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns.

10.3 Integration. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

10.4 Severability. If any provision of this Agreement is or becomes invalid, illegal, or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions hereof, or of such provision in other respects, shall not be affected thereby.

10.5 Applicable Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the General Partner and the Organizational Limited Partner as of the date first above written.

GENERAL PARTNER:

DORCHESTER MINERALS MANAGEMENT LP

BY: DORCHESTER MINERALS MANAGMENT GP
LLC, its General Partner

By: /s/ James E. Raley

James E. Raley, Chief Operating Officer

ORGANIZATIONAL LIMITED PARTNER:

DORCHESTER MINERALS MANAGMENT GP LLC

By: /s/ James E. Raley

James E. Raley, Chief Operating Officer

EXHIBIT 3.4

CERTIFICATE OF LIMITED PARTNERSHIP
OF
DORCHESTER MINERALS MANAGEMENT LP
(a Delaware limited partnership)

This Certificate of Limited Partnership (this "Certificate"), effective as of the date and time provided below, has been executed in connection with the formation of a limited partnership (the "Partnership") pursuant to the Delaware Revised Uniform Limited Partnership Act (the "Act"). The General Partner of the Partnership certifies that:

1. <u>Name</u>: The name of the Partnership is Dorchester Minerals Management LP.

2. <u>General Partner</u>: The General Partner of the Partnership is Dorchester Minerals Management GP LLC, a Delaware limited liability company. The mailing and business address of the General Partner is 3738 Oak Lawn Ave., Dallas, Texas 75219.

3. <u>Registered Office and Registered Agent</u>: The Partnership's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801, and the name of the Company's registered agent at that address is The Corporation Trust Company.

4. <u>Effective Date and Time</u>. The effective date and time of the formation of the Partnership shall be 11:56 p.m. Eastern Standard Time on December 12, 2001.

IN WITNESS WHEREOF, the undersigned General Partner has caused this Certificate to be executed effective as of 11:56 p.m. Eastern Standard Time on December 12, 2001

Dorchester Minerals Management GP LLC

By: /s/ James E. Raley
____
Name: James E. Raley
Title: Chief Operating Officer

EXHIBIT 3.5

AGREEMENT OF LIMITED PARTNERSHIP

OF

DORCHESTER MINERALS MANAGEMENT LP

THIS AGREEMENT OF LIMITED PARTNERSHIP, dated as of December 12, 2001 is entered into and executed by Dorchester Minerals Management GP LLC, a Delaware limited liability company, as general partner (the "General Partner"), and SAM Partners, Ltd., a Texas limited partnership ("SAM"), Vaughn Petroleum, Ltd., a Texas limited partnership ("Vaughn"), Smith Allen Oil & Gas, Inc., a Texas corporation ("SAOG"), P.A. Peak Inc., a Delaware corporation ("Peak"), and James E. Raley, Inc., a Delaware corporation ("Raley"), as limited partners. Each of SAM, Vaughn, SAOG, Peak and Raley is a "Limited Partner" and, collectively, they are sometimes referred to as the "Limited Partners." The General Partner and each Limited Partners is a "Partner" and, collectively, they are sometimes referred to as the "Partners."

ARTICLE I
DEFINITIONS

The following definitions shall for all purposes, unless otherwise clearly indicated to the contrary, apply to the terms used in this Agreement.

"Certificate of Limited Partnership" means the Certificate of Limited Partnership filed with the Secretary of State of the State of Delaware as described in the first sentence of Section 2.5 as amended or restated from time to time.

"Delaware Act" means the Delaware Revised Uniform Limited Partnership Act, as amended from time to time, and any successor to such act.

"General Partner" means Dorchester Minerals Management GP LLC, a Delaware limited liability company, in its capacity as the general partner of the Partnership, and any successor to Dorchester Minerals Management GP LLC, as general partner.

"Limited Partner" means the limited partners named in the preamble and defined as the Limited Partners therein, and any other limited partner admitted to the Partnership from time to time.

"Partner" means the General Partner or any Limited Partner.

"Partnership" means Dorchester Minerals Management LP, a Delaware limited partnership.

"Percentage Interest" means, with respect to any Partner, the percentage set forth in Section 2.6 below.

ARTICLE II
ORGANIZATIONAL MATTERS

2.1 Formation. Subject to the provisions of this Agreement, the General Partner and the Limited Partners have formed the Partnership as a limited partnership pursuant to the provisions of the Delaware Act. The General Partner and the Limited Partners hereby enter into this Agreement to set forth the rights and obligations of the Partners and certain matters related thereto. Except as expressly provided herein to the contrary, the rights and obligations of the Partners and the administration, dissolution, and termination of the Partnership shall be governed by the Delaware Act.

2.2 Name. The name of the Partnership shall be, and the business of the Partnership shall be conducted under the name of, "Dorchester Minerals Management LP"

2.3 Principal Office; Registered Office.

(a) The principal office of the Partnership shall be at 3738 Oak Lawn Avenue, Suite 300, Dallas, Texas 75219 or such other place as the General Partner may from time to time designate. The Partnership may maintain offices at such other places as the General Partner deems advisable.

(b) The address of the Partnership's registered office in the State of Delaware shall be 1209 Orange Street, Wilmington, Delaware 19801, and the name of the Partnership's registered agent for service of process at such address shall be The Corporation Trust Company.

2.4 Term. The Partnership shall continue in existence until an election to dissolve the Partnership by the General Partner.

2.5 Organizational Certificate. A Certificate of Limited Partnership of the Partnership has been filed by the General Partner with the Secretary of State of the State of Delaware as required by the Delaware Act. The General Partner shall cause to be filed such other certificates or documents as may be required for the formation, operation, and qualification of a limited partnership in the State of Delaware and any state in which the Partnership may elect to do business. The General Partner shall thereafter file any necessary amendments to the Certificate of Limited Partnership and any such other certificates and documents and do all things requisite to the maintenance of the Partnership as a limited partnership (or as a partnership in which the Limited Partners have limited liability) under the laws of Delaware and any state or jurisdiction in which the Partnership may elect to do business.

2.6 Partnership Interests. Effective as of the date hereof, the General Partner shall have a 0.1% Percentage Interest and the Limited Partners shall collectively have a 99.9% Percentage Interest and each Limited Partner shall have a Percentage Interest equal to the fraction 99.9/5.

2.7 Tax Status. The Partnership shall be operated such that it will be classified as a "partnership" for federal and, as determined by the General Partner, state income tax purposes.

ARTICLE III
PURPOSE

The purpose and business of the Partnership shall be to engage in any lawful activity for which limited partnerships may be organized under the Delaware Act.

ARTICLE IV
CAPITAL CONTRIBUTIONS

At or around the date hereof, each of the Partners contributed to the Partnership the amount in cash set forth next to such Partner's name on Schedule I attached hereto.

ARTICLE V
CAPITAL ACCOUNTS ALLOCATIONS

5.1 Capital Accounts. The Partnership shall maintain a capital account for each of the Partners in accordance with the regulations issued pursuant to Section 704 of the Internal Revenue Code of 1986, as amended (the "Code") and as determined by the General Partner as consistent therewith.

5.2 Allocations. For federal income tax purposes, each item of income, gain, loss, deduction, and credit of the Partnership shall be allocated among the Partners in accordance with their Percentage Interests, except that the General Partner shall have the authority to make such other allocations as are necessary and appropriate to comply with Section 704 of the Code and the regulations issued pursuant thereto.

5.3 Distributions. From time to time, but not less often than quarterly, the General Partner shall review the Partnership's accounts to determine whether distributions are appropriate. The General Partner may make such cash distributions as it, in its sole discretion, may determine without being limited to current or accumulated income or gains from any Partnership funds, including, without limitation, Partnership revenues, capital contributions, or borrowed funds; provided, however, that no such distribution shall be made if, after giving effect thereto, the liabilities of the Partnership exceed the fair market value of the assets of the Partnership. In its sole discretion, the General Partner may, subject to the foregoing proviso, also distribute to the Partners other Partnership property or other securities of the Partnership or other entities. All distributions by the General Partner shall be made in accordance with the Percentage Interests of the Partners.

ARTICLE VI
MANAGEMENT AND OPERATIONS OF BUSINESS

Except as otherwise expressly provided in this Agreement, all powers to control and manage the business and affairs of the Partnership shall be vested exclusively in the General Partner, and the Limited Partners shall not have any power to control or manage the Partnership.

ARTICLE VII
RIGHTS AND OBLIGATIONS OF LIMITED PARTNER

7.1 Liability of Limited Partners. The Limited Partners shall have no liability under this Agreement except as provided in Article IV.

7.2 Transfer of Limited Partner Interest. None of the Limited Partners shall have the right to sell, transfer or assign their limited partnership interests in the Partnership or any interest therein without the prior written consent of the General Partner except that the conversion of Raley into a Delaware general partnership pursuant to the Delaware General Corporation Law and the Delaware Revised Uniform Partnership Act shall not be deemed to have effected a sale, transfer or assignment of the limited partnership interests held thereby.

ARTICLE VIII
DISSOLUTION AND LIQUIDATION

8.1 Dissolution. The Partnership shall be dissolved as provided in Section 2.4 and its affairs shall be wound up as provided by law.

8.2 No Resignation. No Partner shall have the right to resign or withdraw from the Partnership prior to the dissolution and winding up of the Partnership, without the prior written consent of the General Partner. Any Partner who resigns or withdraws from the Partnership in violation of the foregoing provision or who has resigned or withdrawn from the Partnership in a manner not expressly permitted herein, shall be liable to the Partnership and the Partners for any damages sustained by reason of such resignation or withdrawal.

ARTICLE IX
AMENDMENT OF PARTNERSHIP AGREEMENT

The General Partner may amend any provision of this Agreement without the consent of the Limited Partners and may execute, swear to, acknowledge, deliver, file, and record whatever documents may be required in connection therewith.

ARTICLE X
GENERAL PROVISIONS

10.1 Addresses and Notices. Any notice to the Partnership, the General Partner, or the Limited Partners shall be deemed given if received by it in writing at the principal office of the Partnership designated pursuant to Section 2.3(a).

10.2 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns.

10.3 Integration. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

10.4 Severability. If any provision of this Agreement is or becomes invalid, illegal, or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions hereof, or of such provision in other respects, shall not be affected thereby.

10.5 Applicable Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

[Signatures appear on following page]

IN WITNESS WHEREOF, this Agreement has been duly executed by the General Partner and the Limited Partners as of the date first above written.

GENERAL PARTNER:

DORCHESTER MINERALS MANAGEMENT GP LLC

By: /s/ James E. Raley
Name: James E. Raley
Title: Chief Operating Officer

LIMITED PARTNERS:

SAM PARTNERS, LTD.

By: SAM Partners Management, Inc., its general partner

By: /s/ H. C. Allen
H. C. Allen, Jr., Secretary

VAUGHN PETROLEUM, LTD.

By: VPL (GP), LLC, its general partner

By: /s/ Robert C. Vaughn
Name: Robert C. Vaughn
Title: Chief Executive Officer and Manager

SMITH ALLEN OIL & GAS, INC.

By: /s/ William Casey McManemin
William Casey McManemin, Vice President

P.A. PEAK, INC.

By: /s/ Preston A. Peak

Preston A. Peak, President

JAMES E. RALEY, INC.

By: /s/ James E. Raley

James E. Raley, President

SCHEDULE I

Capital Contributions

General Partner:	$1.99
Limited Partners:	
Vaughn	$576.13
SAM	576.13
SAOG	561.81
Peak	136.97
Raley	136.97

	$1,990.00

EXHIBIT 3.7

CERTIFICATE OF FORMATION

OF

DORCHESTER MINERALS MANAGEMENT GP LLC
(a Delaware limited liability company)

This Certificate of Formation of Dorchester Minerals Management GP LLC (the "Company"), effective as of the date and time provided below, has been duly executed and filed to form a limited liability company under the Delaware Limited Liability Company Act (6 Del C. (S) 18-101, et. seq.).

1. Name. The name of the limited liability company formed hereby is Dorchester Minerals Management GP LLC.

2. Registered Office. The address of the registered office of the Company in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801.

3. Registered Agent. The name and address of the registered agent for service of process on the Company in the State of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801.

4. Effective Date and Time. The effective date and time of the formation of the Company shall be 11:55 p.m. Eastern Standard Time on December 12, 2001.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation effective as of December 12, 2001.

/s/ James E. Raley

James E. Raley, Organizer

EXHIBIT 3.8

LIMITED LIABILITY COMPANY AGREEMENT

OF

DORCHESTER MINERALS MANAGEMENT GP LLC

THIS LIMITED LIABILITY COMPANY AGREEMENT, dated as of December 12, 2001 is entered into and executed by SAM Partners, Ltd., a Texas limited partnership ("SAM"), Vaughn Petroleum, Ltd., a Texas limited partnership ("Vaughn"), Smith Allen Oil & Gas, Inc., a Texas corporation ("SAOG"), P.A. Peak Inc., a Delaware corporation ("Peak"), and James E. Raley, Inc., a Delaware corporation ("Raley"), as the initial members. Each of SAM, Vaughn, SAOG, Peak and Raley is a "Member" and, collectively, they are sometimes referred to as the "Members."

ARTICLE I
DEFINITIONS

The following definitions shall for all purposes, unless otherwise clearly indicated to the contrary, apply to the terms used in this Agreement.

"Certificate of Formation" means the Certificate of Formation filed with the Secretary of State of the State of Delaware as described in the first sentence of Section 2.5 as amended or restated from time to time.

"Delaware Act" means the Delaware Limited Liability Company Act, as amended from time to time, and any successor to such act.

"Member" means the members named in the preamble and defined as the Members therein, and any other member admitted to the Company from time to time.

"Company" means Dorchester Minerals Management GP LLC, a Delaware limited liability company.

"Percentage Interest" means, with respect to any Member, the percentage set forth in Section 2.6 below.

ARTICLE II
ORGANIZATIONAL MATTERS

2.1 Formation. Subject to the provisions of this Agreement, the Members have formed the Company as a limited liability company pursuant to the provisions of the Delaware Act. The Members hereby enter into this Agreement to set forth the rights and obligations of the Members and certain matters related thereto. Except as expressly provided herein to the contrary, the rights and obligations of the Members and the administration, dissolution, and termination of the Company shall be governed by the Delaware Act.

2.2 Name. The name of the Company shall be, and the business of the Company shall be conducted under the name of, "Dorchester Minerals Management GP LLC."

2.3 Principal Office; Registered Office.

(a) The principal office of the Company shall be at 3738 Oak Lawn Avenue, Suite 300, Dallas, Texas 75219 or such other place as the Members may by a majority vote of the members on a per capita basis from time to time designate. The Company may maintain offices at such other places as the Members may by a majority vote of the members on a per capita basis from time to time designate deem advisable.

(b) The address of the Company's registered office in the State of Delaware shall be 1209 Orange Street, Wilmington, Delaware 19801, and the name of the Company's registered agent for service of process at such address shall be The Corporation Trust Company.

2.4 Term. The Company shall continue in existence until an election to dissolve the Company by the Members by unanimous vote.

2.5 Organizational Certificate. A Certificate of Formation of the Company has been filed with the Secretary of State of the State of Delaware as required by the Delaware Act. The Members shall cause to be filed such other certificates or documents as may be required for the formation, operation, and qualification of a limited partnership in the State of Delaware and any state in which the Company may elect to do business. The Members shall thereafter file any necessary amendments to the Certificate of Formation and any such other certificates and documents and do all things requisite to the maintenance of the Company as a limited liability company under the laws of Delaware and any state or jurisdiction in which the Company may elect to do business.

2.6 Company Interests. Effective as of the date hereof, each Member shall have a 20.0% Percentage Interest.

2.7 Tax Status. The Company shall be operated such that it will be classified as a "partnership" for federal and, as determined by the Board of Managers, state income tax purposes.

2.8 No Partnership. The Members intend that the company not be a partnership (including, without limitation, a limited partnership) or joint venture, and that no Member be a partner or joint venturer of any other Member with regard to the activities of the Company for any purposes other than federal and, if applicable, state tax purposes, and this Agreement may not be construed to suggest otherwise.

ARTICLE III
PURPOSE

The purpose and business of the Company shall be to engage in any lawful activity for which limited liability companies may be organized under the Delaware Act.

ARTICLE IV
CAPITAL CONTRIBUTIONS

At or around the date hereof, each Member shall contribute to the Company the amount in cash set forth next to such Member's name on Schedule I attached hereto.

ARTICLE V
CAPITAL ACCOUNTS ALLOCATIONS

5.1 Capital Accounts. The Company shall maintain a capital account for each of the Members in accordance with the regulations issued pursuant to Section 704 of the Internal Revenue Code of 1986, as amended (the "Code") and as determined by a majority of the Members as consistent therewith.

5.2 Allocations. For federal income tax purposes, each item of income, gain, loss, deduction, and credit of the Company shall be allocated among the Members in accordance with their Percentage Interests, except that a majority of the Members shall have the authority to make such other allocations as are necessary and appropriate to comply with Section 704 of the Code and the regulations issued pursuant thereto.

5.3 Distributions. From time to time, but not less often than quarterly, the Members shall review the Company's accounts to determine whether distributions are appropriate. The Company may make such cash distributions as it, in its sole discretion, may determine without being limited to current or accumulated income or gains from any Company funds, including, without limitation, Company revenues, capital contributions, or borrowed funds; provided, however, that no such distribution shall be made if, after giving effect thereto, the liabilities of the Company exceed the fair market value of the assets of the Company. By unanimous vote, the Members may, subject to the foregoing proviso, also distribute to the Members other Company property or other securities of the Company or other entities. All distributions shall be made in accordance with the Percentage Interests of the Members.

ARTICLE VI
MANAGEMENT AND OPERATIONS OF BUSINESS

The Members shall elect the officers of the Company as provided in this Agreement. The officers of the Company shall consist of a Chief Executive Officer (who initially shall be William Casey McManemin), a Chief Financial Officer (who initially shall be H.C. Allen, Jr.), and a Chief Operating Officer (who initially shall be James E. Raley) to serve at the pleasure of the Members and who shall hold their offices for such terms and shall exercise such power and perform such duties as shall be determined from time to time by the Members.

ARTICLE VII
RIGHTS AND OBLIGATIONS OF MEMBERS

7.1 Liability of Members. The Members shall have no liability under this Agreement except as provided in Article IV.

7.2 Transfer of Member Interests. None of the Members shall have the right to sell, transfer or assign their interests in the Company or any interest therein without the unanimous

written approval of the Members except that the conversion of Raley into a Delaware general partnership pursuant to the Delaware General Corporation Law and the Delaware Revised Uniform Partnership Act shall not be deemed to have effected a sale, transfer or assignment of the Member interests held thereby.

ARTICLE VIII
DISSOLUTION AND LIQUIDATION

8.1 Dissolution. The Company shall be dissolved as provided in Section 2.4 and its affairs shall be wound up as provided by law.

8.2 No Resignation. No Member shall have the right to resign or withdraw from the Company prior to the dissolution and winding up of the Company, without the unanimous written approval of the Members. Any Member who resigns or withdraws from the Company in violation of the foregoing provision or who has resigned or withdraw from the Company in a manner not expressly permitted herein, shall be liable to the Company and the Members for any damages sustained by reason of such resignation or withdrawal.

8.3 Resignation, Expulsion, Bankruptcy of Member. The death, retirement, resignation, expulsion, bankruptcy or dissolution of any Member or the occurrence of any other event that terminates the continued membership of any Member shall not cause the Company to be dissolved or its affairs to be wound up.

ARTICLE IX
AMENDMENT OF LIMITED LIABILITY COMPANY AGREEMENT

The Members, by unanimous vote, may amend any provision of this Agreement and may execute, swear to, acknowledge, deliver, file, and record whatever documents may be required in connection therewith.

ARTICLE X
GENERAL PROVISIONS

10.1 Addresses and Notices. Any notice to the Company or the Members shall be deemed given if received by it in writing at the principal office of the Company designated pursuant to Section 2.3(a).

10.2 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns.

10.3 Integration. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

10.4 Severability. If any provision of this Agreement is or becomes invalid, illegal, or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions hereof, or of such provision in other respects, shall not be affected thereby.

10.5 Applicable Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned Members as of the date first above written.

MEMBERS:

SAM PARTNERS, LTD.

By: SAM Partners Management, Inc., its general partner

By: /s/ H.C. Allen, Jr.

H. C. Allen, Jr., Secretary

VAUGHN PETROLEUM, LTD.

By: VPL (GP), LLC, its general partner

By: /s/ Robert C. Vaughn

Name: Robert C. Vaughn

Title: Chief Executive Officer and Manager

SMITH ALLEN OIL & GAS, INC.

By: /s/ William Casey McManemin

William Casey McManemin, Vice President

P.A. PEAK, INC.

By: /s/ Preston A. Peak

Preston A. Peak, President

JAMES E. RALEY, INC.

By: /s/ James E. Raley

James E. Raley, President

SCHEDULE I

Capital Contributions

Vaughn	$ 2.46
SAM	2.46
SAOG	2.40
Peak	2.34
Raley	2.34

	$12.00

EXHIBIT 3.10

CERTIFICATE OF FORMATION

OF

DORCHESTER MINERALS OPERATING GP LLC

(a Delaware limited liability company)

This Certificate of Formation of Dorchester Minerals Operating GP LLC (the "Company"), effective as of the date and time provided below, has been duly executed and filed to form a limited liability company under the Delaware Limited Liability Company Act (6 Del C. (S) 18-101, et. seq.).

1. Name. The name of the limited liability company formed hereby is Dorchester Minerals Operating GP LLC.

2. Registered Office. The address of the registered office of the Company in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801.

3. Registered Agent. The name and address of the registered agent for service of process on the Company in the State of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801.

4. Effective Date and Time. The effective date and time of the formation of the Company shall be 11:57 p.m. Eastern Standard Time on December 12, 2001.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation effective as of December 12, 2001.

/s/ James E. Raley

James E. Raley, Organizer

EXHIBIT 3.11

LIMITED LIABILITY COMPANY AGREEMENT

OF

DORCHESTER MINERALS OPERATING GP LLC

Dated as of December 12, 2001

THE MEMBERSHIP INTERESTS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY JURISDICTION. NO MEMBERSHIP INTEREST MAY BE SOLD OR OFFERED FOR SALE (WITHIN THE MEANING OF ANY SECURITIES LAW) UNLESS A REGISTRATION STATEMENT UNDER ALL APPLICABLE SECURITIES LAWS WITH RESPECT TO THE INTEREST IS THEN IN EFFECT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS IS THEN APPLICABLE TO THE INTEREST. A MEMBERSHIP INTEREST ALSO MAY NOT BE TRANSFERRED OR ENCUMBERED UNLESS THE APPLICABLE PROVISIONS OF THIS AGREEMENT ARE SATISFIED.

LIMITED LIABILITY COMPANY AGREEMENT
OF
DORCHESTER MINERALS OPERATING GP LLC

THIS LIMITED LIABILITY COMPANY AGREEMENT OF DORCHESTER MINERALS OPERATING GP LLC, (this "Agreement"), dated as of December 12, 2001, is adopted, executed and agreed to by DORCHESTER MINERALS MANAGEMENT LP, a Delaware limited partnership, as the sole Member:

R E C I T A L S:

The Member desires to form a Delaware limited liability company in accordance with the following terms and conditions.

A G R E E M E N T:

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein set forth and intending to be legally bound, the parties hereto hereby enter into this Agreement pursuant to the provisions and upon the terms and conditions herein contained, and hereby agree as follows:

ARTICLE I
DEFINITIONS

1.01 Definitions. As used in this Agreement, the following terms have the following meanings:

"Act" means the Delaware Limited Liability Company Act (6 Del C.(S)18-101, et seq.) and any successor statute, as amended from time to time.

"Agreement" has the meaning given that term in the introductory paragraph.

"Capital Contribution" means any contribution by the Member to the capital of the Company.

"Certificate" has the meaning given that term in Section 2.01.

"Company" means Dorchester Minerals Operating GP LLC, a Delaware limited liability company.

"Member" means Dorchester Minerals Management LP, a Delaware limited partnership.

"Person" has the meaning given that term in Section 18-101(12) of the Act.

"Proceeding" has the meaning given that term in Section 7.01.

Other terms defined herein have the meanings so given them.

1.02 Construction. Whenever the context requires, the gender of all words used in this Agreement includes the masculine, feminine and neuter. All references to Articles and Sections refer to articles and sections of this Agreement. Terms used with initial capital letters will have the meanings specified, applicable to both singular and plural forms, for all purposes of this Agreement. The word include (and any variation) is used in an illustrative sense rather than a limited sense. The word day means a calendar day.

ARTICLE II
ORGANIZATION

2.01 Formation. The Company has been formed as a Delaware limited liability company by the filing of a Certificate of Formation (the "Certificate") under and pursuant to the Act.

2.02 Name. The name of the Company is "Dorchester Minerals Operating GP LLC" and all Company business must be conducted in that name or such other names that comply with applicable law as the Member may select from time to time.

2.03 Registered Office; Registered Agent. The registered office of the Company required by the Act to be maintained in the State of Delaware shall be the office of the initial registered agent named in the Certificate or such other office (which need not be a place of business of the Company) as the Member may designate from time to time in the manner provided by law. The registered agent of the Company in the State of Delaware shall be the initial registered agent named in the Certificate or such other Person or Persons as the Member may designate from time to time in the manner provided by law.

2.04 Purpose. The business and purpose of the Company is to hold the sole general partner interest of Dorchester Minerals Operating LP, a Delaware limited partnership. The Company may engage in activities related or incidental to its business and purpose, as well as any other business or investment activity agreed to by the Member.

2.05 Powers. The Company has all of the powers necessary or convenient to achieve its purposes and to further its business.

2.06 Legal Title. Legal title to the assets of the Company will be taken and at all times held in the name of the Company.

2.07 Qualifications. The Member may take any and all actions deemed reasonably necessary by the Member to qualify the Company in foreign jurisdictions.

2.08 Mergers and Exchanges. With the consent of the Member, the Company may be a party to (a) a merger, or (b) an exchange or acquisition of the type described in Section 18-209 of the Act.

2.09 Liability to Third Parties. The Member shall not be liable for the debts, obligations or liabilities of the Company, including under a judgment decree or order of a court.

2.10 Resignation of the Member. The Member may resign from the Company prior to the dissolution and winding up of the Company.

2.11 Transfer or Pledge by the Member. The Member may transfer or pledge its interest in the Company without restriction. The pledge or hypothecation of, or the granting of any security interest or other lien or encumbrance against, all or part of the Member's membership interest in the Company by the Member will not cause the withdrawal of the Member from the Company.

2.12 Bankruptcy of the Member. The Member shall not cease to be a Member of the Company by virtue of the occurrence of any of the events listed in Section 18-304 of the Act.

ARTICLE III
CAPITAL CONTRIBUTIONS

3.01 Initial Contributions. The Member is making a Capital Contribution of One Dollar ($1.00) to the Company.

3.02 Additional Contributions. The Member shall not be required to make any additional contributions to the capital of the Company.

3.03 No Withdrawal of Contributions. The Member shall not be entitled to withdraw any part of the Member's capital account or to receive any distribution from the Company, except as specifically provided in this Agreement. There shall be no obligation to return to the Member any part of the Member's capital contributions to the Company until such time as the Company is dissolved and terminated.

3.04 Advances by the Member. If the Company does not have sufficient cash to pay its obligations, the Member may advance all or part of the needed funds to or on behalf of the Company. An advance described in this Section constitutes a loan from the Member to the Company, bears interest at a rate determined by the Member from the date of the advance until the date of payment, and is not a Capital Contribution.

ARTICLE IV
ALLOCATIONS AND DISTRIBUTIONS

4.01 Allocations. All items of income, gain, loss, deduction, and credit of the Company shall be allocated to the Member.

4.02 <u>Distributions</u>. Subject to the limitations of Section 18-607 of the Act, all cash receipts of the Company, less the payment of expenses and the then due liabilities of the Company, shall be paid to the Member in cash at such times as determined by the Member. From time to time the Member also may cause assets of the Company other than cash to be distributed to the Member, which distribution may be made subject to existing liabilities and obligations.

ARTICLE V
MANAGEMENT

5.01 <u>Management</u>. The Member shall have exclusive authority to act on behalf of the Company and manage the business and affairs of the Company.

5.02 <u>Officers</u>. The Member may, from time to time, designate one or more Persons to be officers of the Company. No officer need be a resident of the State of Delaware or a Member. Any officers so designated shall have such authority and perform such duties as the Member may, from time to time, delegate to them. The Member may assign titles to particular officers. Unless the Member decides otherwise, if the title is one commonly used for officers of a business corporation formed under the Delaware General Corporation Law, the assignment of such title shall constitute the delegation to such officer of the authority and duties that are normally associated with that office, subject to any specific delegation of authority and duties made to such officer by the Member pursuant to this Section 5.02. Each officer shall hold office until his successor shall be duly designated and shall qualify or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. The same Person may hold any number of offices. The salaries or other compensation, if any, of the officers and agents of the Company shall be fixed from time to time by the Member. Any officer may resign as such at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time be specified, at the time of its receipt by the Member. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation. Any officer may be removed as such, either with or without cause, by the Member whenever in its judgment the best interests of the Company will be served thereby; provided, however, that such removal shall be without prejudice to the contract rights, if any, of the Person so removed. Designation of an officer shall not of itself create contract rights. The Member may fill any vacancy occurring in any office of the Company. The initial officers of the Company shall consist of a Chief Executive Officer (who initially shall be William Casey McManemin), a Chief Financial Officer (who initially shall be H.C. Allen, Jr.), and a Chief Operating Officer (who initially shall be James E. Raley) to serve at the pleasure of the Member and who shall hold their offices for such terms and shall exercise such power and perform such duties as shall be determined from time to time by the Member.

5.03 <u>Action by Written Consent</u>. Whenever the approval or consent of the Member is required or permitted hereunder, such approval or consent shall take the form of a written consent executed by a duly authorized representative of the Member.

ARTICLE VI
TAXES AND BOOKS

6.01 Federal Income Tax Treatment. For federal income tax purposes, the Company shall be disregarded as an entity separate from the Member pursuant to Treasury Regulations Section 301.7701-3(b)(1)(ii). The Company shall file no federal income tax returns.

6.02 Other Tax Returns. Subject to Section 6.01, the Member shall cause to be prepared and filed all necessary tax returnsfor the Company.

6.03 Maintenance of Books and Records. The Company shall keep accurate books and records relating to the assets of the Company. The calendar year shall be the accounting year of the Company. The Member shall be permitted access to all books and records of the Company at the offices of the Company during business hours.

ARTICLE VII
INDEMNIFICATION

7.01 Right to Indemnification. Subject to the limitations and conditions set forth in this Article VII, each Person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (a "Proceeding"), or any appeal in such a Proceeding or any inquiry or investigation that could lead to such a Proceeding, by reason of the fact that he or she, or a Person of whom he or she is the legal representative, is or was a Member or officer of the Company or while a Member or officer of the Company is or was serving at the request of the Company as a partner, director, officer, manager, member, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, shall be indemnified by the Company to the fullest extent permitted by the Act, as the same exists or may be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than said law permitted the Company to provide prior to such amendment) against judgments, penalties (including excise and similar taxes and punitive damages), fines, settlements and reasonable expenses (including, without limitation, attorneys' fees) actually incurred by such Person in connection with such Proceeding, and indemnification under this Section 7.01 shall continue as to a Person who has ceased to serve in the capacity that initially entitled such Person to indemnity under this Section 7.01. Such actions covered by such indemnification shall include those brought by the Member or the Company. The rights granted pursuant to this Article VII shall be deemed contract rights, and no amendment, modification or repeal of this Article VII shall have the effect of limiting or denying any such rights with respect to actions taken or Proceedings arising prior to any such amendment, modification or repeal. It is expressly acknowledged that the indemnification provided in this Article VII could involve indemnification for negligence or under theories of strict liability; provided, however, that notwithstanding the foregoing or any other provision of this Agreement, the Company shall not provide indemnification to any Person in respect of judgments, penalties, fines, settlements or expenses

resulting from or arising out of actions by such Person that (i) constitute fraud, gross negligence or intentional wrongful acts, or (ii) materially violate this Agreement, unless otherwise agreed to by the Member.

7.02 Advance of Expenses. The right to indemnification conferred in this Article VII shall include the right to be paid or reimbursed by the Company the reasonable expenses incurred by a Person of the type entitled to be indemnified under Section 7.01 or 7.03 who was, is or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding and without any determination as to the Person's ultimate entitlement to indemnification; provided, however, that the payment of such expenses incurred by any such Person in advance of the final disposition of a Proceeding shall be made only (i) in the discretion of the Member, and (ii) upon the delivery to the Company of a written affirmation by such Person of his good faith belief that he has met the standard of conduct necessary for indemnification under Section 7.01 or 7.03 and a written undertaking, by or on behalf of such Person, to repay all amounts so advanced if it shall ultimately be determined that such indemnified Person is not entitled to be indemnified under Section 7.01 or 7.03.

7.03 Indemnification of Employees and Agents. The Company may indemnify and advance expenses to any employee or agent of the Company to the same extent permitted under Section 7.01 for Members. In addition, the Company may (by a resolution of the Members) indemnify and advance expenses to Persons whether or not they are employees or agents of the Company but who are or were serving at the request of the Company as a manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in such a capacity or arising out of his status as such a Person, to the same extent permitted under Section 7.01 for Members.

7.04 Appearance as a Witness. Notwithstanding any other provision of this Article VII the Company may pay or reimburse expenses incurred by a Member, officer, employee or agent in connection with his appearance as a witness or other participation in a Proceeding at a time when he is not a named defendant or respondent in the Proceeding.

7.05 Non-Exclusivity of Rights. The right to indemnification and the advancement and payment of expenses conferred in this Article VII shall not be exclusive of any other right a Person indemnified pursuant to this Article VII may have or may acquire under any law (common or statutory), any provision of the Certificate or this Agreement, a vote of Members or otherwise.

7.06 Insurance. The Company may purchase and maintain insurance, at its expense, to protect itself and any Person who is or was serving as a Member, officer, employee or agent of the Company or is or was serving at the request of the Company as a manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any expense, liability or loss, whether or

not the Company would have the power to indemnify such Person against such expenses, liability or loss under this Article VII.

7.07 Member Notification. To the extent required by law, any indemnification of or advance of expenses to a Person in accordance with this Article VII shall be reported in writing to the Members within the thirty (30)-day period immediately following the date of the indemnification or advance.

7.08 Savings Clause. If all or any portion of this Article VII shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify and hold harmless any Person indemnified pursuant to this Article VII as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, to the fullest extent permitted by any applicable portion of this Article VII that shall not have been invalidated and, subject to this Article VII, to the fullest extent permitted by applicable law.

ARTICLE VIII
DISSOLUTION, LIQUIDATION AND TERMINATION

8.01 Dissolution. The Company shall dissolve and its affairs shall be wound up on the first to occur of the following:

(a) The written consent of the Member;

(b) At any time there are no Members, unless the business of the Company is continued pursuant to Section 18-801(a)(4) of the Act; and

(c) Entry of a decree of judicial dissolution of the Company under Section 18-802 of the Act.

The death, retirement, resignation, expulsion, bankruptcy or dissolution of any Member or the occurrence of any other event that terminates the continued membership of any Member shall not cause the Company to be dissolved or its affairs to be wound up.

8.02 Liquidation and Termination. On dissolution of the Company, the Member shall act as liquidating trustee or the Member may appoint one or more other Persons to act as liquidating trustee. The liquidating trustee shall proceed diligently to wind up the affairs of the Company in accordance with Section 18-804 of the Act and make final distributions to the Member. The costs of liquidation shall be borne as a Company expense. Until final distribution, the liquidating trustee shall continue to operate the Company assets with all of the power and authority of the Member.

8.03 Deficit Capital Accounts. Notwithstanding anything to the contrary contained in this Agreement, and notwithstanding any custom or rule of law to the contrary, the Member shall not be responsible for any deficit in any capital account attributed to the Member, and upon dissolution of the Company any such deficit shall not be an asset of the Company and the Member shall not be

obligated to contribute such amount to the Company to bring the balance of the Member's capital account to zero.

8.04 Certificate of Cancellation. On completion of the distribution of Company assets as provided herein, the Company is terminated, and the Member (or such other Person or Persons as the Act may require or permit) shall file a Certificate of Cancellation with the Secretary of State of Delaware and take such other actions as may be necessary to terminate the Company.

ARTICLE IX
GENERAL PROVISIONS

9.01 Entire Agreement; Supersedure. This Agreement constitutes the entire agreement of the Member relating to the Company and supersedes all prior contracts or agreements with respect to the internal governance of the Company, whether oral or written.

9.02 Effect of Waiver or Consent. A waiver or consent, express or implied, to or of any breach or default by any Person in the performance by that Person of its obligations with respect to the Company is not a consent or waiver to or of any other breach or default in the performance by that Person of the same or any other obligations of that Person with respect to the Company. Failure on the part of a Person to complain of any act of any Person or to declare any Person in default with respect to the Company, irrespective of how long that failure continues, does not constitute a waiver by that Person of its rights with respect to that default until the applicable statute of limitations period has run.

9.03 Amendment or Modification. This Agreement may be amended or modified from time to time only by a written instrument adopted by the Member.

9.04 Binding Effect. This Agreement is binding on, and inures to the benefit of, the Member and its heirs, legalrepresentatives, successors, and assigns.

9.05 Severability. If any provision of this Agreement or the application thereof to any Person or circumstance is held invalid or unenforceable to any extent, the remainder of this Agreement and the application of that provision to other Persons or circumstances is not affected thereby and that provision shall be enforced to the greatest extent permitted by law.

9.06 Headings. Article and Section titles have been inserted for convenience of reference only, and they are not intended to affect the meaning or interpretation of this Agreement.

9.07 Governing Law. THIS AGREEMENT IS GOVERNED BY AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE, EXCLUDING ANY CONFLICT OF LAWS RULE OR PRINCIPLE THAT MIGHT REFER THE GOVERNANCE OR THE CONSTRUCTION OF THIS AGREEMENT TO THE LAW OF ANOTHER JURISDICTION. In the event of a direct conflict between the provisions of this Agreement and (a) any provision of the Certificate, or (b) any mandatory provision of the Act, the applicable provision of this Agreement shall control except to the extent required by the Act.

IN WITNESS WHEREOF, the Member has executed this Limited Liability Company Agreement as of the date first set forth above.

Sole Member:

DORCHESTER MINERALS MANAGEMENT LP,
a Delaware limited partnership

By: Its General Partner
DORCHESTER MINERALS MANAGEMENT GP LLC,
a Delaware limited liability company

By: /s/ James E. Raley

Name: James E. Raley

Title: Chief Operating Officer

EXHIBIT 3.12

CERTIFICATE OF LIMITED PARTNERSHIP
OF
DORCHESTER MINERALS OPERATING LP
(a Delaware limited partnership)

This Certificate of Limited Partnership (this "Certificate"), effective as of the date and time provided below, has been executed in connection with the formation of a limited partnership (the "Partnership") pursuant to the Delaware Revised Uniform Limited Partnership Act (the "Act"). The General Partner of the Partnership certifies that:

1. Name: The name of the Partnership is Dorchester Minerals Operating LP.

2. General Partner: The General Partner of the Partnership is Dorchester Minerals Operating GP LLC, a Delaware limited liability company. The mailing and business address of the General Partner is 3738 Oak Lawn Ave., Dallas, Texas 75219.

3. Registered Office and Registered Agent: The Partnership's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801, and the name of the Company's registered agent at that address is The Corporation Trust Company.

4. Effective Date and Time. The effective date and time of the . formation of the Partnership shall be 11:58 p.m Eastern Standard Time on December 12, 2001.

IN WITNESS WHEREOF, the undersigned General Partner has caused this Certificate to be executed effective as of 11:58 p.m. Eastern Standard Time on December 12, 2001.

Dorchester Minerals Operating GP LLC

By: /s/ James E. Raley
Name: James E. Raley
Title: Chief Operating Officer

EXHIBIT 3.13

AGREEMENT OF LIMITED PARTNERSHIP

OF

DORCHESTER MINERALS OPERATING LP

Dated as of December 12, 2001

THE PARTNERSHIP INTERESTS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY JURISDICTION. NO PARTNERSHIP INTEREST MAY BE SOLD OR OFFERED FOR SALE (WITHIN THE MEANING OF ANY SECURITIES LAW) UNLESS A REGISTRATION STATEMENT UNDER ALL APPLICABLE SECURITIES LAWS WITH RESPECT TO THE INTEREST IS THEN IN EFFECT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS IS THEN APPLICABLE TO THE INTEREST. A PARTNERSHIP INTEREST ALSO MAY NOT BE TRANSFERRED OR ENCUMBERED UNLESS THE APPLICABLE PROVISIONS OF THIS AGREEMENT ARE SATISFIED.

AGREEMENT OF LIMITED PARTNERSHIP
OF
DORCHESTER MINERALS OPERATING LP

THIS AGREEMENT OF LIMITED PARTNERSHIP of DORCHESTER MINERALS OPERATING LP (this "Agreement"), dated as of December 12, 2001, is adopted, executed and agreed to by Dorchester Minerals Operating GP LLC, a Delaware limited liability company, as the sole general partner (the "General Partner"), and Dorchester Minerals Management LP, a Delaware limited partnership, as the sole limited partner (the "Limited Partner"):

R E C I T A L S:

The General Partner and the Limited Partner desire to form a Delaware limited partnership in accordance with the following terms and conditions.

A G R E E M E N T:

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein set forth and intending to be legally bound, the parties hereto hereby enter into this Agreement pursuant to the provisions and upon the terms and conditions herein contained, and hereby agree as follows:

ARTICLE I
DEFINITIONS

1.01 Definitions. As used in this Agreement, the following terms have the following meanings:

"Act" means the Delaware Revised Uniform Limited Partnership Act, Title 6, Chapter 17 of the Delaware Code Annotated, as amended from time to time.

"Agreement" has the meaning given that term in the introductory paragraph.

"Capital Contribution" means any contribution by a Partner to the capital of the Partnership.

"Certificate" has the meaning given that term in Section 2.01.

"General Partner" has the meaning given that term in the preamble hereto.

"Limited Partner" has the meaning given that term in the preamble hereto.

"Officer" has the meaning given that term in Section 5.06.

"Partner" means the General Partner or the Limited Partner.

"Partnership" means Dorchester Minerals Operating LP, a Delaware limited partnership.

"Partnership Interest" means the percentage ownership interest of a Partner in the Partnership. The initial Partnership Interest of the General Partner is one-tenth of one percent (0.10%), and the initial Partnership Interest of the Limited Partner is ninety-nine and nine-tenths of one percent (99.90%).

"Person" has the meaning given that term in Section 101 of the Act.

Other terms defined herein have the meanings so given them.

1.02 Construction. Whenever the context requires, the gender of all words used in this Agreement includes the masculine, feminine and neuter. All references to Articles and Sections refer to articles and sections of this Agreement. Terms used with initial capital letters will have the meanings specified, applicable to both singular and plural forms, for all purposes of this Agreement. The word include (and any variation) is used in an illustrative sense rather than a limited sense. The word day means a calendar day.

ARTICLE II
ORGANIZATION

2.01 Formation. The Partnership has been formed as a Delaware limited partnership by the filing of a Certificate of Limited Partnership (the "Certificate") with the Delaware Secretary of State's office under and pursuant to the Act.

2.02 Name. The name of the Partnership is "Dorchester Minerals Operating LP" and all Partnership business must be conducted in that name or such other names that comply with applicable law as the General Partner may select from time to time.

2.03 Registered Office; Registered Agent; Principal Office in the United States; Other Offices. The registered office of the Partnership required by the Act to be maintained in the State of Delaware shall be the office of the initial registered agent named in the Certificate or such other office (which need not be a place of business of the Partnership) as the General Partner may designate from time to time in the manner provided by law. The registered agent of the Partnership in the State of Delaware shall be the initial registered agent named in the Certificate or such other Person or Persons as the General Partner may designate from time to time in the manner provided by law. The principal office of the Partnership in the United States shall be at such place as the General Partner may designate from time to time, which need not be in the State of Delaware. The initial principal office of the Partnership shall be at 3738 Oak Lawn Avenue, Suite 300, Dallas, Texas 75219. The Partnership may have such other offices as the General Partner may designate from time to time.

2.04 Purpose. The business and purpose of the Partnership is to engage in such activities as the General Partner shall deem appropriate, to the extent such activities may be carried on under applicable law and are not prohibited by the terms and provisions of this Agreement or the Act, including but not limited to, owning certain properties and providing accounting, land, tax and other operational support to the Limited Partner and to Dorchester Minerals, Ltd., a Delaware limited partnership ("Dorchester Minerals").

2.05 Powers. The Partnership shall have all of the powers necessary or convenient to achieve its purposes and to further its business and not restricted to it by law.

2.06 Legal Title. Legal title to the assets of the Partnership will be taken and at all times held in the name of the Partnership.

2.07 Qualifications. The General Partner may take any and all actions deemed reasonably necessary by the General Partner to qualify the Partnership in foreign jurisdictions.

2.08 Mergers and Exchanges. With the consent of the Partners, the Partnership may be a party to (a) a merger or (b) an exchange or acquisition of the type described in Section 201 of the Act.

2.09 Liability to Third Parties. Except as expressly provided in the Act, the Limited Partner shall not be liable for the debts, obligations or liabilities of the Partnership, including under a judgment decree or order of a court.

2.10 Withdrawal of the Limited Partner. The Limited Partner may not withdraw from the Partnership prior to the dissolution and winding up of the Partnership without the written consent of the General Partner.

2.11 Transfer or Pledge by a Partner. A Partner may transfer or pledge its Partnership Interest without restriction. The pledge or hypothecation of, or the granting of any security interest or other lien or encumbrance against, all or part of a Partner's interest in the Partnership by the Partner will not cause the withdrawal of the Partner from the Partnership.

ARTICLE III
CAPITAL CONTRIBUTIONS

3.01 Initial and Additional Contributions. Each Partner shall make an initial contribution to the capital of the Partnership as set forth opposite its name on the signature page hereto. No Partner shall be required to make any additional contribution to the capital of the Partnership unless agreed to in writing by both Partners. Any agreement between the Partners for additional capital contributions to the Partnership shall create rights and obligations only between the Partnership and the Partners, and shall not create any rights in any third party.

3.02 No Withdrawal of Contributions. A Partner shall not be entitled to withdraw any part of such Partner's capital account or to receive any distribution from the Partnership, except as specifically provided in this Agreement. There shall be no obligation to return to any Partner

any part of such Partner's capital contributions to the Partnership until such time as the Partnership is dissolved and terminated.

3.03 Advances by a Partner. If the Partnership does not have sufficient cash to pay its obligations, a Partner may advance all or part of the needed funds to or on behalf of the Partnership. An advance described in this Section constitutes a loan from the Partner to the Partnership, bears interest at a rate determined by the General Partner from the date of the advance until the date of payment, and is not a Capital Contribution.

ARTICLE IV
ALLOCATIONS AND DISTRIBUTIONS

4.01 Allocations. All items of income, gain, loss, deduction and credit of the Partnership shall be allocated to the Partners pro rata in accordance with their Partnership Interests.

4.02 Distributions. Subject to the limitations of Section 607 of the Act and after the establishment of any reasonable reserve which the General Partner in good faith deems necessary for any contingent liabilities or obligations of the Partnership, from time-to-time, as determined by the General Partner, all cash receipts of the Partnership, less the payment of expenses and the then due liabilities of the Partnership, shall be paid to the Partners pro rata in accordance with their Partnership Interests. From time to time the General Partner also may cause assets of the Partnership other than cash to be distributed to the Partners, which distribution may be made subject to existing liabilities and obligations and pro rata to the Partners in accordance with their Partnership Interests or upon such other basis as the Partners shall unanimously agree.

ARTICLE V
MANAGEMENT

5.01 Management. Subject to the provisions of this Agreement, the General Partner shall have exclusive authority to act on behalf of the Partnership. Subject to the provisions of this Agreement, the General Partner shall have the authority to manage the business and affairs of the Partnership. The Limited Partner shall have no authority to participate in the management or act on behalf of or bind the Partnership.

5.02 Removal of General Partner. The Limited Partner may remove the General Partner at any time, with or without cause, upon delivery to the General Partner at the principal office of the Partnership of written notice of such removal.

5.03 Compensation. The General Partner shall not receive any compensation for its duties as General Partner.

5.04 <u>No Voting Rights of Limited Partner</u>. Except as specifically set forth in this Agreement or required by applicable law, the Limited Partner shall not have any voting, approval or consent rights.

5.05 <u>Action by Written Consent</u>. Whenever the approval or consent of the Limited Partner is required or permitted hereunder or upon applicable law, such approval or consent shall take the form of a written consent executed by a duly authorized representative of the Limited Partner.

5.06 <u>Officers</u>. The General Partner may, from time to time, designate one or more Persons to be officers of the Partnership (each, an "Officer"). No Officer need be a resident of the State of Delaware or a Partner. Any Officers so designated shall have such authority and perform such duties as the General Partner may, from time to time, delegate to them. The General Partner may assign titles to particular Officers. Unless the General Partner decides otherwise, if the title is one commonly used for officers of a business corporation formed under the Delaware General Corporation Law, the assignment of such title shall constitute the delegation to such Officer of the authority and duties that are normally associated with that office, subject to any specific delegation of authority and duties made to such Officer by the General Partner pursuant to this Section 5.06. Each Officer shall hold office until his successor shall be duly designated and shall qualify or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. The same Person may hold any number of offices. The salaries or other compensation, if any, of the Officers and agents of the Partnership shall be fixed from time to time by the General Partner. Any Officer may resign as such at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time be specified, at the time of its receipt by the General Partner. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation. Any Officer may be removed as such, either with or without cause, by the General Partner whenever in its judgment the best interest of the Partnership will be served thereby; provided, however, that such removal shall be without prejudice to the contract rights, if any, of the Person so removed. Designation of an Officer shall not of itself create contract rights. The General Partner may fill any vacancy occurring in any office of the Partnership. The Officers, to the extent of their powers set forth in this Agreement or otherwise vested in them by action of the General Partner, are agents of the Partnership for the purpose of conducting the business and affairs of the Partnership. The actions of any Officer taken in accordance with such powers shall bind the Partnership and any third party dealing with such Officer shall be entitled to rely conclusively (without making inquiry of any kind) on any actions so taken as being properly authorized by the Partnership.

ARTICLE VI
TAXES AND BOOKS

6.01 <u>Federal Income Tax Treatment</u>. For federal income tax purposes, the Partnership shall be disregarded as an entity separate from the Partners pursuant to Treasury Regulations Section 301.7701-3(b)(1)(ii). The Partnership shall file no federal income tax returns.

6.02 Other Tax Returns. Subject to Section 6.01, the General Partner shall cause to be prepared and filed all necessary tax returns for the Partnership.

6.03 Maintenance of Books and Records. The Partnership shall keep accurate books and records relating to the assets of the Partnership in accordance with generally accepted accounting principles. The calendar year shall be the accounting year of the Partnership. The Limited Partner shall be permitted access to all books and records of the Partnership at the principal office of the Partnership during business hours.

ARTICLE VII
DISSOLUTION, LIQUIDATION AND TERMINATION

7.01 Dissolution. The Partnership shall dissolve and its affairs shall be wound up on the first to occur of the following:

(a) The written consent of the Partners;

(b) The withdrawal of the General Partner or the occurrence of any other event that results in the General Partner ceasing to be a General Partner, without the subsequent election of a successor general partner, which successor is hereby authorized to continue the business of the Partnership; or

(c) Entry of a decree of judicial dissolution of the Partnership under Section 802 of the Act.

Upon an event described in Section 7.01(b), the Partnership thereafter shall be dissolved and liquidated unless within ninety (90) days of such event the Limited Partner agrees in writing to continue the business of the Partnership and to the appointment of a successor general partner. If such election to continue the Partnership is made, then (i) the Partnership shall continue until another event causing dissolution in accordance with this Section 7.01 shall occur and (ii) all necessary steps shall be taken to amend this Agreement to reflect the continuation of the business of the Partnership.

The death, retirement, resignation, expulsion, bankruptcy or dissolution of the Limited Partner or the occurrence of any other event that terminates the continued existence of the Limited Partner shall not cause the Partnership to be dissolved or its affairs to be wound up.

The General Partner will not cease to be a general partner of the Partnership or be deemed to have withdrawn from the Partnership as a result of the occurrence of an event described in Paragraphs (4) or (5) of Section 402(a) of the Act.

7.02 Liquidation and Termination. On dissolution of the Partnership, the General Partner shall act as liquidating trustee or the Limited Partner may appoint one or more other Persons to act as liquidating trustee. The liquidating trustee shall proceed diligently to wind up the affairs of the Partnership in accordance with Section 804 of the Act and make final distributions to the Partners pro rata in accordance with their Partnership Interests. The costs of

liquidation shall be borne as a Partnership expense. Until final distribution, the liquidating trustee shall continue to operate the Partnership assets with all of the power and authority of the General Partner.

7.03 Deficit Capital Accounts. Notwithstanding anything to the contrary contained in this Agreement, and notwithstanding any custom or rule of law to the contrary, a Partner shall not be responsible for any deficit in any capital account attributed to such Partner, and upon dissolution of the Partnership any such deficit shall not be an asset of the Partnership and the Partner shall not be obligated to contribute such amount to the Partnership to bring the balance of the Partner's capital account to zero.

7.04 Certificate of Cancellation. On completion of the distribution of Partnership assets as provided herein, the Partnership is terminated, and the General Partner (or such other Person or Persons as the Act may require or permit) shall file a Certificate of Cancellation with the Delaware Secretary of State and take such other actions as may be necessary to terminate the Partnership.

ARTICLE VIII
GENERAL PROVISIONS

8.01 Entire Agreement; Supersedure. This Agreement constitutes the entire agreement of the Partners relating to the Partnership and supersedes all prior contracts or agreements with respect to the internal governance of the Partnership, whether oral or written.

8.02 Effect of Waiver or Consent. A waiver or consent, express or implied, to or of any breach or default by any Person in the performance by that Person of its obligations with respect to the Partnership is not a consent or waiver to or of any other breach or default in the performance by that Person of the same or any other obligations of that Person with respect to the Partnership. Failure on the part of a Person to complain of any act of any Person or to declare any Person in default with respect to the Partnership, irrespective of how long that failure continues, does not constitute a waiver by that Person of its rights with respect to that default until the applicable statute of limitations period has run.

8.03 Amendment or Modification. This Agreement may be amended or modified from time to time only by a written instrument adopted by the Partners.

8.04 Binding Effect. This Agreement is binding on, and inures to the benefit of, the Partners and their heirs, legal representatives, successors, and assigns.

8.05 Severability. If any provision of this Agreement or the application thereof to any Person or circumstance is held invalid or unenforceable to any extent, the remainder of this Agreement and the application of that provision to other Persons or circumstances is not affected thereby and that provision shall be enforced to the greatest extent permitted by law.

8.06 Headings. Article and Section titles have been inserted for convenience of reference only, and they are not intended to affect the meaning or interpretation of this Agreement.

8.07 Governing Law. THIS AGREEMENT IS GOVERNED BY AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE, EXCLUDING ANY CONFLICT OF LAWS RULE OR PRINCIPLE THAT MIGHT REFER THE GOVERNANCE OR THE CONSTRUCTION OF THIS AGREEMENT TO THE LAW OF ANOTHER JURISDICTION. In the event of a direct conflict between the provisions of this Agreement and (a) any provision of the Certificate or (b) any mandatory provision of the Act, the applicable provision of this Agreement shall control except to the extent required by the Act.

(The next page is the signature page.)

IN WITNESS WHEREOF, the Partners have executed this Agreement of Limited Partnership as of the date first set forth above.

GENERAL PARTNER:
DORCHESTER MINERALS OPERATING GP LLC,
a Delaware limited liability company

By: Its Sole Member:
DORCHESTER MINERALS MANAGEMENT LP,
a Delaware limited partnership

By: Its General Partner
DORCHESTER MINERALS MANAGEMENT GP LLC,
a Delaware limited liability company

By: /s/ James E. Raley

Name: James E. Raley

Title: Chief Operating Officer

CONTRIBUTION OF GENERAL PARTNER: $1.00

LIMITED PARTNER:
DORCHESTER MINERALS MANAGEMENT LP,
Delaware limited partnership

By: Its General Partner:
DORCHESTER MINERALS MANAGEMENT GP LLC,
a Delaware limited liability company

By: /s/ James E. Raley

Name: James E. Raley

Title: Chief Operating Officer

CONTRIBUTION OF LIMITED PARTNER: $999.00

EXHIBIT 8.1

THOMPSON & KNIGHT
L.L.P.
ATTORNEYS AND COUNSELORS

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DALLAS, TEXAS 75201-4693
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May 15, 2002

Dorchester Minerals, L.P.
3738 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219

Republic Royalty Company
3738 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219

Spinnaker Royalty Company, L.P.
3738 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219

Re: Dorchester Minerals, L.P. Filing of Securities Registration Statement - U.S. Tax Opinion

Ladies and Gentlemen:

This firm has acted as counsel to Dorchester Minerals, L.P., a Delaware limited partnership ("Dorchester Minerals"), Republic Royalty Company, a Texas general partnership ("Republic"), and Spinnaker Royalty Company, L.P. a Texas limited partnership ("Spinnaker"), in connection with the preparation and filing of the proxy statement/prospectus forming a part of the registration statement on Form S-4 and the supplements thereto (collectively, the "Registration Statement"), filed by Dorchester Minerals with the Securities and Exchange Commission (the "Commission"). In particular, we have participated in the preparation of the discussion in the Registration Statement under the heading "Material United States Federal Income Tax Consequences" (the "Tax Summary") and in the Supplement to the Proxy Statement and Prospectus for Dorchester Minerals, L.P. for Republic and Spinnaker under the heading "United States Federal Income Tax Consequences" (collectively with the Tax Summary, the "Tax Summaries"). Except as expressly provided otherwise, capitalized terms used in this opinion have the meanings assigned to them in the Combination Agreement dated December 13, 2001 (the "Combination Agreement") among Dorchester Hugoton, Ltd., a Texas limited partnership, Republic, Spinnaker, Dorchester Minerals, Dorchester Minerals Management LP, a Delaware limited partnership, Dorchester Minerals Management GP LLC, a Delaware limited liability company, and Dorchester Minerals Operating LP, a Delaware limited partnership.

As the basis for our opinion, which is described below, we have examined:

(i) the Combination Agreement;

(ii) the Amended and Restated Agreement of Limited Partnership of Dorchester Minerals (the "Dorchester Minerals Agreement"); and

(iii) the Registration Statement.

In addition to the above documents, (i) we have conducted such factual and legal research as we have deemed appropriate; (ii) we have assumed the validity and accuracy of the documents and corporate records that we have examined, and the facts and representations concerning the Combination that have come to our attention during our engagement; (iii) we have assumed that the Registration Statement does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading; (iv) we have assumed that the Combination will be consummated in the manner described in the Combination Agreement; (v) we have assumed that Dorchester Minerals will be managed and operated in accordance with the terms of the Dorchester Minerals Agreement; and (vi) we have assumed that at all times after the Combination at least 90% of the income of Dorchester Minerals will be income from oil and gas properties, including royalties and net profits interests.

On the basis of the foregoing, subject to the exceptions and qualifications specifically stated in the Tax Summaries, the Tax Summaries constitute our opinion with respect to the material United States federal income tax consequences (i) of the pre-Combination reorganization of Republic and Spinnaker, (ii) of the Combination to the partners of Republic and Spinnaker and (iii) of the receipt, ownership and disposition of the Dorchester Minerals' common units to the holders of the common units.

This opinion represents and is based upon our best judgment regarding the application of United States federal income tax laws arising under the Internal Revenue Code of 1986, as amended, existing judicial decisions, administrative regulations and published rulings and procedures. It is possible that contrary positions may be taken by the Internal Revenue Service and that a court may agree with such contrary positions. Furthermore, no assurance can be given that future legislation, judicial or administrative changes, either on a prospective or retroactive basis, would not adversely affect the accuracy of the conclusions reached in this opinion. This opinion is expressed as of the date hereof, and we are under no obligation to supplement or revise our opinion to reflect any changes in applicable law or in any information, document, covenant, statement, representation or assumption referenced herein that becomes untrue or incorrect.

This opinion is furnished to you solely for use in connection with the Combination, as described in the Combination Agreement and the Registration Statement, and it is not to be used, circulated, quoted or otherwise referred to for any other purpose without our express written consent. In accordance with Item 601(b)(23) of Regulation S-K under the Securities Act of 1933, as amended, we hereby consent to the filing of this opinion with the Commission as an exhibit to the Registration Statement and the use of our name in the Tax Summary and under the heading "Legal Matters" in the Registration Statement. In giving this consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the

Securities Act of 1933, as amended, or the rules and regulations of the Commission promulgated thereunder.

THOMPSON & KNIGHT L.L.P.

By: /s/ Thornton Hardie III

Thornton Hardie III, Partner

EXHIBIT 8.2

[FORM OF LOCKE LIDDELL SAPP LETTERHEAD]

May 15, 2002

Dorchester Hugoton, Ltd.
1919 S. Shiloh Road, Suite 600 - LB 48
Garland, Texas 75042

Dear Ladies and Gentlemen:

We have acted as counsel for Dorchester Hugoton, Ltd., a Texas limited partnership ("Dorchester Hugoton"), in connection with the proposed combination (the "Combination") of Dorchester Hugoton, Republic Royalty Company, L.P., a Texas limited partnership ("Republic") and Spinnaker Royalty Company, L.P., a Texas limited partnership ("Spinnaker" and, together with Dorchester Hugoton and Republic, the "Combining Partnerships") into Dorchester Minerals, Ltd., a Delaware limited partnership ("Dorchester Minerals"), pursuant to that certain Combination Agreement dated as of December 13, 2001 (the "Combination Agreement"), and as described in the Proxy Statement and Prospectus (the "Proxy Statement/Prospectus") included in the registration statement of Dorchester Minerals on Form S-4, which was filed with the Securities and Exchange Commission on May 15, 2002 (the "Registration Statement"). Capitalized terms used but not defined hereunder have the meaning ascribed to them in the Combination Agreement.

In rendering this opinion we have examined such documents as we have deemed relevant or necessary, including, but not limited to (i) the Combination Agreement, (ii) the Proxy Statement/Prospectus, and (iii) such other documents, records and instruments as we have deemed necessary or appropriate in order to enable us to render our opinion, and our opinion is conditioned upon (without any independent investigation or review thereof) the truth and accuracy, at all relevant times, of the representations and warranties, covenants and statements contained therein.

Except as otherwise specifically set forth therein, the discussion contained in the Proxy Statement/Prospectus in the subsection entitled "Material United States Federal Income Tax Consequences" represents our opinion with respect to the material United States federal income tax consequences of certain pre-Combination transactions, the Combination, and the ownership of common units in Dorchester Minerals after the Combination. This opinion is based upon existing provisions of the Code, the Treasury Regulations promulgated or proposed thereunder, and interpretations thereof by the Internal Revenue Service (the "IRS") and the courts, all of which are subject to change with prospective or retroactive effect, and our opinion could be adversely affected or rendered obsolete by any such change. No ruling has been or will be sought from the IRS by any of the Combining Partnerships or Dorchester Minerals as to the federal income tax consequences of any matter set forth in the above discussion. The opinion expressed herein is not binding on the IRS or any court, and there can be no assurance that the IRS or a court will not disagree with such opinion. Further, no assurance can be given that future legislative, judicial or administrative changes would not adversely affect the accuracy of the conclusions stated herein. Nevertheless, by rendering this opinion we undertake no responsibility to advise you of any new developments in the application or interpretation of the Federal tax laws.

This opinion is furnished to you solely for use in connection with the Proxy Statement/Prospectus. We hereby consent to the use of this opinion as an exhibit to the Registration Statement and to the reference of our Firm in the Registration Statement under the caption "Material United States Federal Income Tax Consequences." In giving the consent, however, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act and the rules and regulations of the Securities and Exchange Commission promulgated thereunder.

Very truly yours,

LOCKE LIDDELL & SAPP LLP

By: /s/ C. F. Allison, Jr.

C. F. Allison, Jr.

EXHIBIT 10.1

BUSINESS OPPORTUNITIES AGREEMENT

This BUSINESS OPPORTUNITIES AGREEMENT (this "Agreement"), dated as of December 13, 2001, is entered into by Dorchester Minerals, L.P., a Delaware limited partnership (the "Partnership"); Dorchester Minerals Management LP, a Delaware limited partnership and the general partner of the Partnership (the "General Partner"); Dorchester Minerals Management GP LLC, a Delaware limited liability company and the general partner of the General Partner ("Management GP"); SAM Partners, Ltd., a Texas limited partnership ("SAM"), Vaughn Petroleum, Ltd., a Texas limited partnership ("Vaughn"), Smith Allen Oil & Gas, Inc., a Texas corporation ("SAOG"), P.A. Peak, Inc., a Delaware corporation ("Peak"), and James E. Raley, Inc., a Delaware corporation ("Raley") (as used herein, each of SAM, Vaughn, SAOG, Peak and Raley are referred to as a "GP Party"), and each individual that both is an executive officer of any Operating Company (defined below) and has agreed in writing to be bound as an "Officer" under this Agreement (each, an "Officer").

RECITALS:

This Agreement is being executed and delivered simultaneously with the execution and delivery of the Combination Agreement dated December 13, 2001 (the "Combination Agreement") among the Partnership, the General Partner, the Management GP, Dorchester Minerals Operating LP, a Delaware limited partnership and a subsidiary of the General Partner (the "Operating Subsidiary" and, together with its general partner, Dorchester Minerals Operating GP LLC, the "Operating Companies"), Dorchester Hugoton, Ltd., a Texas limited partnership ("DHL"), Republic Royalty Company, a Texas general partnership ("RRC"), and Spinnaker Royalty Company, L.P., a Texas limited partnership ("SRC"). Pursuant to the Combination Agreement, DHL, RRC and SRC will combine their businesses and properties into the Partnership (the "Transaction"). All capitalized terms used and not defined herein (as well as the term person) have the meanings attributable to them in the Combination Agreement. As used herein, the term "Affiliate" means, in addition to any "affiliate" as defined in the Combination Agreement, any owner, director, manager, managing member, officer or employee of any such affiliate; provided, however, that the Operating Companies shall not be Affiliates of the General Partner for purposes of this Agreement, and neither the Operating Companies nor the General Partner shall be Affiliates of any GP Party for purposes of this Agreement.

The GP Parties are currently all of the general partners of RRC, SRC and DHL. Immediately following the Transaction, the GP Parties will (directly or indirectly) own all of the equity of the General Partner and own units of limited partnership interest in the Partnership.

Each of the GP Parties believes that it and its respective partners in RRC, SRC or DHL, as applicable, will benefit from the Transaction and that the Transaction is in its best interest and in the best interest of its respective partners. The GP Parties, however, are unwilling to permit the General Partner, the Management GP and the Operating Subsidiary to enter into the Combination Agreement and to agree in the Combination Agreement to enter into the Amended and Restated Partnership Agreement of the Partnership (the "Partnership Agreement") upon the

closing of the Transaction unless the respective rights and responsibilities of the GP Parties, the General Partner, the Management GP, the Operating Companies and their Affiliates and the Partnership with respect to the matters addressed in this Agreement are clearly delineated and agreed upon in advance for the reasons referred to below.

The GP Parties engage in the acquisition and ownership of oil and gas properties, including but not limited to oil and gas net profits interests, mineral interests and royalty interests in the United States. The businesses in which the GP Parties engage are similar to those in which the Partnership will engage following the Transaction.

As the owners of the General Partner following the Transaction, the GP Parties may owe certain duties to the Partnership. Pursuant to the Limited Liability Company Agreement of Management GP, each GP Party will have the right to designate a person (the "Designees") to serve on the committee of managers of the Management GP following the Transaction. Certain of the Designees may be directors, members, managers and/or officers of or employed by the General Partner, an Operating Company, a GP Party, an entity which possesses management authority over a GP Party, or a company in which the General Partner or a GP Party has an interest. These Designees will have duties to the Partnership and duties to the General Partner, an Operating Company, the GP Party or such other companies (as applicable).

The law relating to the duties that the GP Parties or their Designees or Affiliates may owe to the Partnership is not clear. The application of such law to particular circumstances is often difficult to predict, and if a court were to hold that a GP Party or one of their Designees or Affiliates breached any such duty, the GP Party or such Designee or Affiliate could be held liable for damages in a legal action brought on behalf of the Partnership.

In order to induce the GP Parties to permit the General Partner, the Management GP and the Operating Subsidiary to enter into the Combination Agreement and/or the Partnership Agreement, as applicable, the Partnership is willing to enter into this Agreement in order (i) to renounce, effective upon the consummation of the Transaction, any interest or expectancy it may have in the classes or categories of business opportunities specified herein that are presented to or identified by any Affiliate of the General Partner, a GP Party or any Affiliate thereof, or any of the Designees, as more fully described herein; (ii) to permit the GP Parties and their respective Affiliates to continue to conduct their respective businesses and to pursue certain business opportunities without an obligation, except as provided herein, to offer such opportunities to the Partnership, and (iii) to permit any Designee to continue to discharge his or her responsibilities as a director, member, manager, officer or employee of the General Partner, an Operating Company, a GP Party or Affiliate thereof or a company in which a GP Party has an interest.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants, rights, and obligations set forth in this Agreement, and the benefits to be derived herefrom, and other good and valuable consideration, the receipt and the sufficiency of which each of the parties hereto acknowledges and confesses, the parties hereto agree as follows:

1. Scope of Business of the Partnership Following the Transaction. The Partnership covenants and agrees that, following consummation of the Transaction, except with the consent of General Partner (which it may withhold in its sole discretion), the Partnership will not engage in any business not allowed by the Partnership Agreement as in effect immediately following the closing of the Transaction. The Partnership hereby renounces, effective upon consummation of the Transaction, any interest or expectancy in any business opportunity (each, together with those business opportunities so designated in Section 3(d) hereof, a "Renounced Opportunity") that does not consist of the Oil and Gas Business (as defined below) within the Designated Area (as defined below). The "Oil and Gas Business" means the acquisition, management, ownership or sale of oil and gas assets or properties, including but not limited to mineral fee interests, net profits interests and royalty and overriding royalty interests but specifically excluding working interests. "Designated Areas" means the areas identified on Schedule A attached hereto.

2. Business Opportunities. The Partnership recognizes that Affiliates of the General Partner, the GP Parties and their Affiliates, and the Designees (i) participate and will continue to participate in the Oil and Gas Business, directly and through Affiliates, (ii) may have interests in, participate with, and maintain seats on the boards of directors of or serve as officers, managers, partners, members or employees of other companies engaged in the Oil and Gas Business and (iii) may develop business opportunities for the GP Parties and their Affiliates and such other companies. The Partnership recognizes that the GP Parties and their Affiliates and the Designees may be engaged in the Oil and Gas Business in competition with the Partnership. The Partnership:

(a) acknowledges and agrees that Affiliates of the General Partner, the GP Parties and their Affiliates, the Designees, and such other companies shall not be restricted or proscribed by the relationship between the Partnership and General Partner and/or the Operating Companies, or otherwise, from engaging in the Oil and Gas Business or any other business, regardless of whether such business activity is in direct or indirect competition with the business or activities of the Partnership, if such business activity either

   (i) is a Renounced Opportunity; or

   (ii) is engaged in on any basis that is consistent with the standards set forth in Section 5 hereof;

(b) acknowledges and agrees that Affiliates of the General Partner, the GP Parties and their Affiliates, the Designees, and such other companies shall not have any obligation to offer the Partnership any business opportunity if either

   (i) such business opportunity is a Renounced Opportunity; or

   (ii) their activities are conducted in accordance with the standards set forth in Section 5 hereof;

(c) renounces any interest or expectancy in any business opportunity pursued by any Affiliate of the General Partner, any GP Party or any Affiliate thereof, any Designee, or any such other company if such business opportunity either

(i) is a Renounced Opportunity; or

(ii) is pursued in accordance with the standards set forth in Section 5 hereof; and

(d) waives any claim that any business opportunity pursued by any Affiliate of the General Partner, any GP Party or Affiliate thereof, any Designee, or any such other company constitutes a business opportunity of the Partnership that should have been presented to the Partnership, unless such business opportunity both

(i) is not a Renounced Opportunity; and

(ii) was pursued in violation of the standards set forth in Section 5 hereof.

The parties agree (x) that, notwithstanding the foregoing, the renouncement and other matters set forth above in this Section 2 shall not limit the contractual obligations in Sections 3 and 4 of the persons specified in such Sections 3 and 4, and (y) the contractual obligations contained in Sections 3 and 4 shall not be limited by virtue of the renouncement and other matters set forth above in this Section 2.

3. Notification of the Partnership Business Opportunities.

(a) If (i) a GP Party or any Subsidiary thereof or any Officer or any Subsidiary thereof has signed a binding agreement to purchase (a "Purchase Agreement") oil and gas interests, including but not limited to, oil and gas net profits interests, royalty interests and other mineral interests in the United States but specifically excluding working interests (the "Oil and Gas Interests") and (ii) the purchase price to be paid for such Oil and Gas Interests is greater than ten percent (10%) of the Market Capitalization of the Partnership (as defined herein) as determined on the date such Purchase Agreement is fully executed (a transaction meeting the requirements of both (i) and (ii) shall be referred to herein as a "Qualifying Acquisition Opportunity"), then such party (the "Notifying Party") hereby agrees to provide, or to cause its applicable Subsidiary to provide, written notice to the Partnership (the "Partnership Notice") of the Qualifying Acquisition Opportunity at least 15 days prior to the consummation the transactions contemplated by the Purchase Agreement, so that the Partnership may determine whether to pursue the purchase of the Oil and Gas Interests directly from the seller of the Oil and Gas Interests (the "Seller"). As used herein, "Market Capitalization of the Partnership" shall mean the total value of all outstanding units of limited partnership interest in the Partnership as determined by the "Current Market Price" (as defined in the Partnership Agreement). In the event that the purchase price to be paid by the Notifying Party to the Seller pursuant to the Purchase Agreement will be paid in consideration other than cash, the value of such

consideration shall be determined by the Advisory Committee (the "Advisory Committee") of the Partnership (as defined in the Agreement of Limited Partnership of the Partnership), upon request of the Notifying Party. At the option of the Notifying Party, the Notifying Party may (but is not obligated to) provide the Partnership Notice and the information described in subsection (b) below with respect to a transaction which would otherwise qualify as a Qualifying Acquisition Opportunity prior to signing a binding agreement with respect to such transaction.

(b) As general partner of the General Partner, Management GP shall, on behalf of the Partnership, forward copies of such Partnership Notice and other information to the persons serving on the Advisory Committee as promptly as practicable upon the Partnership's receipt thereof. Within 5 days of receipt of such notice, the Partnership shall notify the Notifying Party as to whether the Partnership will exercise its right to pursue such opportunity (the "Partnership Option"), unless such opportunity reasonably requires a shorter response time, in which case Notifying Party shall describe the circumstances giving rise to the need for a shorter response time in the Partnership Notice and the Partnership shall be required to respond within such shorter time period.

(c) If the Partnership timely notifies the Notifying Party of its intent to exercise a Partnership Option pursuant to subsection (b) above and, within 10 days after the Partnership's receipt of the Partnership Notice (or such extended period as is agreed by the Partnership and the Seller and is specified in a written notice of the Partnership and the Seller to the Notifying Party), the Notifying Party receives written notice from the Partnership and the Seller that the Seller desires to sell the oil and gas interests to the Partnership instead of the Notifying Party, the Notifying Party hereby agrees to take, or cause to be taken, any and all commercially reasonable action as is necessary to effect the termination of the Purchase Agreement between the Notifying Party and the Seller; provided Seller agrees such termination is to be effective only upon the execution of a binding agreement between the Partnership and the Seller. Upon exercise of the Partnership Option, the Partnership is not required to pursue such Qualifying Acquisition Opportunity on terms identical to those under which the Notifying Party intended to pursue such opportunity.

(d) If the Partnership notifies the Notifying Party that it declines to pursue such Qualifying Acquisition Opportunity, or fails to respond to a Partnership Notice within the time period provided in Section 3(b) above, the Notifying Party shall have no further obligation to the Partnership under this Section 3 with respect to such Qualifying Acquisition Opportunity and, in addition, such Qualifying Acquisition Opportunity shall be a "Renounced Opportunity" for purposes of this Agreement even if would not fall within such definition but for this sentence. If the binding agreement between the Seller and the Partnership with respect to the Qualifying Acquisition Agreement is terminated, then notwithstanding any other provision of this Section 3, the Notifying Party may pursue the relevant Qualifying Acquisition Opportunity without further obligation under this Section 3.

(e) Determinations regarding whether the Partnership shall exercise the Partnership Option shall be made by the Advisory Committee.

4. Other Rights to Purchase by the Partnership.

(a) In the event that any GP Party or a Subsidiary thereof or any Officer or any Subsidiary thereof (each, an "Offeror") acquires any Oil and Gas Interests or oil and gas working interests which are located in the Designated Areas or which as a package include Oil and Gas Interests or oil and gas working interests at least twenty percent (20%) of the net acreage of which is located within the Designated Area (any such interests are referred to herein as the "Restricted Assets"), then not later than one month after the consummation of the acquisition by such Offeror of the Restricted Assets, such Offeror shall notify the Partnership of such purchase and offer the Partnership the opportunity to purchase such Restricted Assets. Such notice shall furnish to the Partnership all information in Offeror's possession regarding such the Restricted Assets that is material to the Partnership's decision regarding whether or not to exercise the option set forth in this Section 4. Within twenty (20) days of receipt of such notice and information (forty (40) days in the event Offeror notifies the Partnership of more than one such opportunity during the same time period), the Partnership shall notify the Offeror that either (i) the General Partner has elected, with the approval of the Advisory Committee, not to cause the Partnership to purchase such Restricted Assets, in which event the Offeror shall be forever free to continue to own or operate such Restricted Assets, or (ii) the General Partner has elected to cause the Partnership to purchase such Restricted Assets, in which event the closing of such transaction shall occur on a mutually agreeable date not more than twenty (20) business days after the date of such notice of intent to exercise the option. The purchase price, which shall be payable in immediately available funds, shall be equal to the purchase price paid for the Restricted Assets. In the event that the Restricted Assets were purchased by the Offeror other than for cash and the Partnership and the Offeror are unable to agree on the value of such consideration, the value of such consideration shall be determined (the "Appraisal") by an appraiser appointed by mutual agreement of the Partnership and the Offeror (the "Appraiser"). The fees and expenses of the Appraisal shall be paid one-half by the Partnership and one-half by the Offeror. The Partnership and the Offeror shall furnish such information to the Appraiser as shall be needed to complete the appraisal. Such Appraisal shall be completed within thirty (30) days after the appointment of Appraiser. The Partnership may revoke its election to purchase the Restricted Assets within five (5) days of the receipt of the Appraisal, provided that if the Partnership so elects to revoke, it shall pay 100% of the fees and expenses of the Appraiser.

(b) The General Partner and its Subsidiaries and the GP Parties and their Subsidiaries shall have no obligation under this Section 4 with respect to interests or properties which were part of a Qualifying Acquisition Opportunity if such party has not violated the provisions of Section 3.

5. Standards for Separate Conduct of Business. Any GP Party or any Affiliate thereof, any Designee or any other company in which any Affiliate of the General Partner, or any GP Party or any Affiliate thereof, has an interest or of which a Designee is an owner, director, manager, partner, officer or employee (except for the Management GP, the General Partner and their Subsidiaries) ("Separate Parties") shall be deemed to meet the standards

referred to in Sections 2(a)(ii), 2(b)(ii), 2(c)(ii) and 2(d)(ii) if its businesses are conducted entirely through the use of its own personnel and assets and not with the use of any personnel or assets of the Partnership, the General Partner or the Operating Subsidiary. Without limiting the foregoing, such standards will be deemed met with respect to a business opportunity if (a) it is identified by or presented to such Designee or personnel of such Separate Party and developed and pursued solely through the use of their personnel and assets (and not based on confidential information disclosed by or on behalf of the Partnership, the Management GP, the General Partner or a Subsidiary of the General Partner during the course of the relationship of such Designee or such Separate Party's personnel with the Partnership, the Management GP, the General Partner or a Subsidiary of the General Partner), and (b) it did not come to the attention of such Designee or such Separate Party's personnel in, and as a direct result of, his or her capacity as a manager of the Management GP or an officer or employee of the General Partner, an Operating Company or a Subsidiary of either; provided that (i) if such opportunity is separately identified by a Designee or a Separate Party or its personnel or separately presented to a Separate Party or its personnel by a person other than such Designee, the Separate Party or such personnel, then the Designee, the Separate Party or its personnel, as applicable, shall be free to pursue such opportunity even if it also came to such person's attention as a result of and in his or her capacity as an owner or manager of the Management GP or a director, manager, officer or employee of the General Partner, an Operating Company or a Subsidiary of either and (ii) if such opportunity is presented to or identified by a Designee, a Separate Party or its personnel other than solely as a result of and in his or her capacity as an owner or manager of the Management GP or an owner or employee of the General Partner, an Operating Company or a Subsidiary thereof, such person shall be free to pursue such opportunity even if it also came to such person's attention as a result of and in his or her capacity as an owner or manager of the Management GP or an owner or employee of the General Partner, an Operating Company or a Subsidiary of either. Nothing in this Agreement will allow a Designee or personnel of a Separate Party to usurp a corporate opportunity solely for his or her personal benefit (as opposed to pursuing, for the benefit of a Separate Party, an opportunity in accordance with the standards set forth in this Section 5).

6. Ownership of Securities. Notwithstanding the foregoing, neither Section 3 nor Section 4 shall apply to the purchase or ownership of (i) limited partnership interests in the Partnership or (ii) securities of any class registered under Section 12 of the Securities Exchange Act of 1934 (regardless of the types or locations of businesses in which the issuer thereof engages) if, in the case of this clause (ii), following any such purchase the applicable party owns, in the aggregate, less than 5% of such class.

7. Termination of Restrictions.

(a) All restrictions imposed by this Agreement on any person (other than the Partnership) shall terminate at such time as the General Partner no longer serves as a general partner of the Partnership, with respect to any business opportunity or other matter that is first presented to or becomes known to such person after such time as the General Partner no longer serves as a general partner of the Partnership; and shall terminate as to all business opportunities

and other matters six (6) months after such time as the General Partner no longer serves as a general partner of the partnership, regardless of when such business opportunity arose or was presented to or became known to such person.

(b) Without limiting the generality of Section 7(a), all restrictions imposed by this Agreement on any Officer shall terminate at such time as such person no longer serves as an executive officer of any Operating Company, with respect to any business opportunity or other matter that is first presented to or becomes known to such person after such time as such person no longer serves as an executive officer of any Operating Company; and shall terminate as to all business opportunities and other matters six (6) months after such time as such Officer no longer serves as an executive officer of any Operating Company, regardless of when such business opportunity arose or was presented to or became known to such person.

8. Future Officers. Each GP Party agrees to use commercially reasonable efforts to cause any person elected or appointed as an executive officer of any Operating Company to agree to be bound as an "Officer" under this Agreement.

9. Waiver of Rights; Amendment. Any rights of the Partnership under this Agreement, including but not limited to rights to receive certain notices pursuant to Section 3 and 4, may be waived on behalf of the Partnership by the Advisory Committee. This Agreement may not be amended by or on behalf of the Partnership without the approval of the Advisory Committee (as defined in the Partnership Agreement) of the Partnership.

10. Notices. All notices, requests, demands and other communications required or permitted to be given or made hereunder by any party hereto shall be in writing and shall be deemed to have been duly given or made if (i) delivered personally, (ii) transmitted by first class registered or certified mail, postage prepaid, return receipt requested, (iii) sent by prepaid overnight courier service or (iv) sent by telecopy or facsimile transmission, answer back requested, to the parties at the following addresses (or at such other addresses as shall be specified by the parties by like notice):

If to the Partnership, the General Partner or the Management GP:
c/o Dorchester Minerals Management GP LLC
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: Chief Executive Officer
Telecopy No.: 214-559-0301

If to Vaughn:
c/o VPL(GP), LLC
3738 Oak Lawn Ave., Suite 101
Dallas, Texas 75219
Attention: Robert C. Vaughn
Telecopy No.: 214-522-7433

with a copy to:

c/o VPL(GP), LLC
3738 Oak Lawn Ave., Suite 101
Dallas, Texas 75219
Attention: Benny D. Duncan
Telecopy No.: 214-522-7433

If to SAM:
c/o SAM Partners Management, Inc.
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: H. C. Allen, Jr.
Telecopy No.: 214-559-0301

If to SAOG:
3738 Oak Lawn Ave., Suite 300
Dallas, Texas 75219
Attention: William Casey McManemin
Telecopy No.: 214-559-0301

If to Peak:
1919 S. Shiloh Rd.
Suite 600 - LB48
Garland, Texas 75042
Attention: Preston A. Peak
Telecopy No.: 972-864-9095

If to Raley :
1919 S. Shiloh Rd.
Suite 600 - LB48
Garland, Texas 75042
Attention: James E. Raley
Telecopy No.: 972-864-9095

Such notices, requests, demands and other communications shall be effective (i) if delivered personally or sent by courier service, upon actual receipt by the intended recipient, (ii) if mailed, upon the earlier of five days after deposit in the mail or the date of delivery as shown by the return receipt therefor or (iii) if sent by telecopy or facsimile transmission, when the answer back is received.

11. Binding Effect; Assignment; Third Party Benefit. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided, however, that neither this Agreement nor any of the rights,

interests or obligations hereunder shall be assigned by any of the parties hereto (by operation of law or otherwise) without the prior written consent of the other parties. This Agreement is intended to confer rights and benefits upon the Designees, Affiliates of the GP Parties and the companies referred to in Section 2. Except as provided in the preceding sentence, nothing in this Agreement, express or implied, is intended to or shall confer upon any person other than the parties hereto any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

12. Severability. If any provision of this Agreement is held to be unenforceable, this Agreement shall be considered divisible and such provision shall be deemed inoperative to the extent it is deemed unenforceable, and in all other respects this Agreement shall remain in full force and effect; provided, however, that if any such provision may be made enforceable by limitation thereof, then such provision shall be deemed to be so limited and shall be enforceable to the maximum extent permitted by Applicable Law.

13. Injunctive Relief. The parties hereto acknowledge and agree that irreparable damage would occur in the event any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement, and shall be entitled to enforce specifically the provisions of this Agreement, in any court of the United States or any state thereof having jurisdiction, in addition to any other remedy to which the parties may be entitled under this Agreement or at law or in equity.

14. Miscellaneous. This Agreement may be signed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and such counterparts together shall constitute one instrument. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to conflict of law principles.

[Remainder of page intentionally omitted]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the date set forth above.

DORCHESTER MINERALS, L.P.

By: Dorchester Minerals Management LP, General Partner

By: Dorchester Minerals Management GP LLC, General Partner

By: /s/ JAMES E. RALEY

James E. Raley, COO

DORCHESTER MINERALS MANAGEMENT LP

By: Dorchester Minerals Management GP LLC, General Partner

By: /s/ JAMES E. RALEY

James E. Raley, COO

DORCHESTER MINERALS MANAGEMENT GP LLC

By: /s/ JAMES E. RALEY

James E. Raley, COO

SAM PARTNERS, LTD.

By: SAM Partners Management, Inc., General Partner

By: /s/ H.C. ALLEN,JR.

H.C. Allen, Jr., Secretary

VAUGHN PETROLEUM, LTD.

By: VPL(GP), LLC, General Partner

By: /s/ ROBERT C. VAUGHN

Robert C. Vaughn, CEO & MANAGER

SMITH ALLEN OIL & GAS, INC.

By: /s/ WILLIAM CASEY MCMANEMIN

William Casey McManemin, Vice President

The following persons are executing this Agreement as "Officers":

/s/ WILLIAM CASEY MCMANEMIN

William Casey McManemin

/s/ JAMES E. RALEY

James E. Raley

/s/ H. C. ALLEN, JR.

H. C. Allen, Jr.

Schedule A

Designated Area

Texas County, Oklahoma:

T 2N - 6N
R 14 ECM - 19 ECM

Stevens County, Kansas:

T 33S - 35S
R 38W - 39W

Exhibit 23.1

Independent Auditors' Consent

The Owners
Republic Royalty Company and
Affiliated Partners of RRC NPI Holdings, L.P.:

We consent to the use of our report included herein and to the reference to our firm under the heading "Experts" in the registration statement.

/s/ KPMG, LLP

KPMG, LLP

Dallas, Texas

May 15, 2002

Exhibit 23.2

Independent Auditors' Consent

The Owners
Republic Unaffiliated ORRI Owners:

We consent to the use of our report included herein and to the reference to our firm under the heading "Experts" in the registration statement.

/s/ KPMG, LLP

KPMG, LLP

Dallas, Texas

May 15, 2002

Exhibit 23.3

Independent Auditors' Consent

The Partners
Spinnaker Royalty Company, L.P.:

We consent to the use of our report included herein and to the reference to our firm under the heading "Experts" in the registration statement.

/s/ KPMG, LLP

KPMG, LLP

Dallas, Texas

May 15, 2002

EXHIBIT 23.7

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated February 8, 2002, accompanying the financial statements of Dorchester Hugoton, Ltd. contained in the Registration Statement and Prospectus. We consent to the use of the aforementioned report in the Registration Statement and Prospectus and to the use of our name as it appears under the caption "Experts."

/s/ Grant Thornton LLP

GRANT THORNTON LLP

Dallas, Texas
May 14, 2002

EXHIBIT 23.8

CONSENT OF INDEPENDENT PETROLEUM CONSULTANTS

Calhoun, Blair & Associates does hereby consent to the use of its reports relating to the proved oil and gas reserves of Dorchester Hugoton, Ltd. and to the reference to the firm as an expert in the Form S-4 registration statement being filed by Dorchester Minerals, L.P.

CALHOUN, BLAIR & ASSOCIATES

/s/ Robert G. Blair

Dallas, Texas

May 3, 2002

Exhibit 23.9

Huddleston & Co., Inc.

Petroleum and Geological Engineers

1 Houston Center

1221 McKinney, Suite 3700

Houston, Texas 77010

Phone (713) 209-1000 o Fax (713) 752-0828

CONSENT OF INDEPENDENT PETROLEUM AND GEOLOGICAL ENGINEERS

Huddleston & Co., Inc. does hereby consent to the use of its reports relating to the Proved oil and gas reserves of Republic Royalty Company and Spinnaker Royalty Company, L.P. and to the reference to the firm as an expert in the Form S-4 registration statement being filed by Dorchester Minerals, L.P.

Huddleston & Co., Inc.

By: /s/ Peter D. Huddleston

Peter D. Huddleston, P.E.
President

Houston, Texas
May 7, 2002

EXHIBIT 23.10

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS

Harlan Consulting does hereby consent to the use of its reports relating to the proved oil and gas reserves of Republic Royalty Company and Spinnaker Royalty Company, L.P. by Huddleston & Co., Inc. in its reports relating to the proved oil and gas reserves of Republic Royalty Company and Spinnaker Royalty Company, L.P. and to the reference to the firm as an expert in the Form S-4 registration statement being filed by Dorchester Minerals, L.P.

/s/ Harlan Consulting

HARLAN CONSULTING

Dallas, Texas

May 3, 2002

EXHIBIT 99.3

CONSENT OF NAMED MANAGER NOMINEE

The undersigned does hereby consent to being named as a person about to become a manager in the Form S-4 registration statement filed by Dorchester Minerals, L.P.

Dated: May 2, 2002

/s/ William Casey McManemin

William Casey McManemin

EXHIBIT 99.4

CONSENT OF NAMED MANAGER NOMINEE

The undersigned does hereby consent to being named as a person about to become a manager in the Form S-4 registration statement filed by Dorchester Minerals, L.P.

Dated: May 2, 2002

/s/ H.C. Allen

H.C. Allen

EXHIBIT 99.5

CONSENT OF NAMED MANAGER NOMINEE

The undersigned does hereby consent to being named as a person about to become a manager in the Form S-4 registration statement filed by Dorchester Minerals, L.P.

Dated: May 2, 2002

/s/ James E. Raley

James E. Raley

EXHIBIT 99.6

CONSENT OF NAMED MANAGER NOMINEE

The undersigned does hereby consent to being named as a person about to become a manager in the Form S-4 registration statement filed by Dorchester Minerals, L.P.

Dated: May 2, 2002

/s/ Robert C. Vaughn

Robert C. Vaughn

EXHIBIT 99.7

CONSENT OF NAMED MANAGER NOMINEE

The undersigned does hereby consent to being named as a person about to become a manager in the Form S-4 registration statement filed by Dorchester Minerals, L.P.

Dated: May 2, 2002

/s/ Preston A. Peak

Preston A. Peak