

Dorchester Minerals, L.P. Rising Royalty Volume

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$mm)</i>	60
<i>Rating</i>	None	<i>North American Natural Gas/Ebitda (%)</i>	80
<i>Price (US\$/sh)</i>	21.85	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/12/05	<i>Adjusted Reserves/Production NTM</i>	13.3
<i>Shares (mm)</i>	28.24	<i>EV/Ebitda</i>	10.4
<i>Market Capitalization (US\$mm)</i>	617	<i>PV/Ebitda</i>	10.0
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (US\$mm)</i>	617	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.64
<i>Present Value (PV) (US\$mm)</i>	593	<i>Present Value Proven Reserves(US\$/boe)</i>	22.72
<i>Net Present Value (US\$/unit)</i>	21	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.79
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.21
<i>McDep Ratio - EV/PV</i>	1.04	<i>Price/Earnings Next Twelve Months</i>	18
<i>Distribution Yield (%/year)</i>	8.9	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.95

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary

Dorchester Minerals (DMLP) is an attractive stock for investors who value distributions with no financial risk, low operating risk and tax advantages. While our buy recommendations have lower McDep Ratios, none offer income approaching DMLP's estimated 8.9% distribution yield for the next year. Partly reflecting the judicious selection over the years by general partner Casey McManemin, the partnership's royalty properties may be delivering rising volume. New drilling on mineral interests also appears to be contributing incremental volume to otherwise predictably declining volume from mature net profits interest properties. The other important variable determining future income, oil price, or more importantly, natural gas price, depends on the commodity markets. Even a commodity price skeptic might own some of a stock like Dorchester Minerals to lower the risk of a diversified portfolio.

New Management Adds Value to a Ten Bagger from the Past

DMLP combines the private royalty properties assembled on behalf of endowed charitable institutions by Mr. McManemin with the publicly held Dorchester Hugoton (DHULZ). Fortunate investors fondly remember DHULZ for its ten-fold return after 1982 in an environment of stable-to-declining commodity price. As a young petroleum engineer, Mr. Manemin studied closely how value was created in the Sabine Royalty Trust, formed about the same time that Mr. Preston Peak formed DHULZ. He looked behind the arch conservative reporting of reserves in Sabine to see properties that had more life than indicated. In selecting properties that have become part of DMLP, he went one step further than Sabine and acquired the whole "mineral" interest that also includes the working interest portion along with the royalty portion.

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Maximize Value of Mineral Assets

In a recent presentation to the DMLP Annual Meeting and available online (<http://www.sec.gov/Archives/edgar/data/1172358/000119312505094322/dex992.htm>), management outlined how mineral assets contribute future opportunity in both royalty and net profits production. As J. Paul Getty is reputed to have counseled, "The meek may inherit the earth, but not the mineral rights." DMLP owns the mineral rights on prospective properties that assure it of a royalty interest and possible net profits interest.

Successful natural gas wells were drilled last year on part-interest DMLP royalty properties by **Cimarex (XEC)** in western Oklahoma and **Anadarko (APC)** in East Texas among examples cited. Net profits successes include Oklahoma, Arkansas and North Dakota. Management apparently tries to capture additional net profits opportunities on royalty properties with a unique "hybrid lease" model. Two examples both start with a 25% royalty. In one example, DMLP also negotiates a "look-back" 18.75% net profits interest and in another DMLP potentially gives up part of the royalty interest for an additional 20% net profits interest after the lessee achieves payout.

Royalty Interest and Understated Future Volumes

In estimating the present value of DMLP we make two adjustments to our usual process. Instead of taking reported reserves at face value we project current production for ten years before applying a decline rate. The cumulative volume exceeds reported reserves by about two-thirds and extends adjusted reserve life to a more reasonable indicator, we believe.

The other adjustment requires some recognition of the lower risk of royalty production where DMLP has no obligation for operating or development costs. Our technique is to discount future cash flow at a blended rate reflecting a 7% real return for net profits interest production and 5% per year for royalty, or net revenue interest production.

The present value for oil is consistent with a constant real price of \$40 a barrel compared to the current six-year average near \$50. Most of the present value for DMLP is concentrated in natural gas. The rising price pattern expected for natural gas relative to oil is approximated by a constant real price of \$8 a million btus (see table Functional Cash Flow and Present Value).

Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	50	12.2	9.6	480	80%
Oil	10	17.9	12.0	120	20%
	60	13.3	10.0	600	100%
Debt (US\$mm)				-	
Net Present Value (US\$mm)				600	
Shares (mm)				28	
Net Present Value (US\$/sh)				21	

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Distribution Estimates Depend on Commodity Price

Price is the variable that contributes the most change in projected quarterly distributions. Ironically, natural gas prices advanced in April after the end of winter. Distributions may be stable until climbing in the first quarter of next year in the pattern suggested by the futures market (see table Distributable Income).

Investors need to keep in mind that distributions are paid on a cash basis and quarterly results are reported on an accrual basis. That means that distributions depend on natural gas price two months earlier and oil price one month earlier than in the quarterly statement. For example, the distribution declared in April reflected natural price for November through January rather than January through March. We have taken account of that timing difference in projecting future distributions.

Kurt H. Wulff, CFA

Dorchester Minerals, L.P. Distributable Income

	Q3	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	9/30/04	12/31/04	2004	3/31/05	6/30/05	9/30/04	12/31/05	2005E	3/31/06	3/31/06
Volume										
Natural Gas (mmcf)	23.6	24.3	24.1	23.5	23.5	23.5	23.5	23.5	23.5	23.5
Oil (mbd)	0.82	0.88	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91
Total (mmcf)	29	30	29	29	29	29	29	29	29	29
Price										
Henry Hub (\$/mmbtu)	5.75	7.10	6.15	6.27	6.88	6.64	7.21	6.75	7.88	7.16
Differential (\$/mmbtu)	0.15	1.09	0.52	0.41	0.45	0.43	0.40	0.42	0.44	0.43
Company (\$/mcf)	5.60	6.01	5.63	5.86	6.43	6.21	6.81	6.33	7.45	6.72
WTI Cushing (\$/bbl)	43.89	48.31	41.44	49.65	50.48	50.85	51.85	50.71	51.92	51.27
Differential	3.84	3.49	3.03	7.20	7.32	7.37	7.52	7.35	7.53	7.43
Company	40.05	44.82	38.42	42.45	43.16	43.48	44.33	43.36	44.39	43.84
Total (\$/mcf)	5.78	6.27	5.76	6.09	6.58	6.41	6.92	6.50	7.44	6.83
Revenue (\$mm)										
Natural Gas	12.2	13.4	49.6	12.4	13.7	13.4	14.7	54.3	15.7	57.6
Oil	3.0	3.6	11.8	3.5	3.6	3.6	3.7	14.4	3.6	14.6
Other	(0.7)	(1.6)	(4.7)	(1.5)	(1.6)	(1.6)	(1.7)	(6.4)	(1.9)	(6.8)
Total	14.5	15.5	56.8	14.4	15.7	15.5	16.7	62.3	17.5	65.4
Expense										
Operating	0.7	0.8	2.5	0.7	0.7	0.7	0.7	2.8	0.7	2.8
General and administrative	0.8	1.2	3.6	0.7	0.7	0.7	0.7	3.0	0.7	3.0
Total	1.5	2.0	6.1	1.4	1.4	1.4	1.4	5.8	1.4	5.8
Ebitda										
Deprec., Deplet., & Amort.	5.1	5.4	20.8	5.1	6.1	6.1	6.1	23.4	6.0	24.3
Other Non Cash	(0.2)	0.0	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.1)
Ebit										
	8.1	8.1	30.0	7.8	8.2	7.9	9.1	33.1	10.1	35.3
Ebt										
	8.1	8.1	30.0	7.8	8.2	7.9	9.1	33.1	10.1	35.3
General Partner	0.2	0.2	0.8	0.2	0.2	0.2	0.3	1.0	0.3	1.1
Net Income (\$mm)										
	7.8	7.9	29.3	7.6	8.0	7.7	8.9	32.1	9.8	34.3
Per Share (\$)	0.29	0.28	1.07	0.27	0.28	0.27	0.31	1.14	0.35	1.21
Shares (millions)										
	27.1	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2
Distribution (\$/unit)										
	0.48	0.43	1.73	0.48	0.47	0.48	0.48	1.91	0.53	1.95

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