

PETROLEUM & RESOURCES CORP  
Form N-30B-2  
April 14, 2004

**PETROLEUM & RESOURCES CORPORATION**

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**Board of Directors**

Enrique R. Arzac <sup>1,2</sup>  
Phyllis O. Bonanno <sup>1,3</sup>  
Daniel E. Emerson <sup>1,3</sup>  
Thomas H. Lenagh <sup>1,4</sup>  
W.D. MacCallan <sup>3,4</sup>  
Kathleen T. McGahran <sup>2,4</sup>

W. Perry Neff <sup>2,4</sup>  
Douglas G. Ober <sup>1</sup>  
Landon Peters <sup>2,3</sup>  
John J. Roberts <sup>1</sup>  
Susan C. Schwab <sup>2,4</sup>  
Robert J.M. Wilson <sup>1,3</sup>

1. *Member of Executive Committee*
2. *Member of Audit Committee*
3. *Member of Compensation Committee*
4. *Member of Retirement Benefits Committee*

**Officers**

Douglas G. Ober  
Joseph M. Truta  
Nancy J.F. Prue  
Lawrence L. Hooper, Jr.  
Maureen A. Jones  
Christine M. Sloan  
Geraldine H. Paré

*Chairman, President and Chief Executive Officer*  
*Executive Vice President*  
*Vice President Research*  
*Vice President, General Counsel and Secretary*  
*Vice President, Chief Financial Officer and Treasurer*  
*Assistant Treasurer*  
*Assistant Secretary*

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**Stock Data**

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|                           |          |
|---------------------------|----------|
| Market Price (3/31/04)    | \$ 23.57 |
| Net Asset Value (3/31/04) | \$ 24.71 |
| Discount:                 | 4.6%     |

New York Stock Exchange and Pacific Exchange ticker symbol: PEO

NASDAQ Mutual Fund Quotation Symbol: XPEOX

Newspaper stock listings are generally under the abbreviation: PetRs

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**Distributions in 2004**

|                                           |                |
|-------------------------------------------|----------------|
| From Investment Income (paid or declared) | \$ 0.17        |
| From Net Realized Gains                   | 0.09           |
| <b>Total</b>                              | <b>\$ 0.26</b> |

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**2004 Dividend Payment Dates**

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March 1, 2004

June 1, 2004

September 1, 2004\*

December 27, 2004\*

\*Anticipated

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**LETTER TO STOCKHOLDERS**

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We submit herewith the financial statements of the Corporation for the three months ended March 31, 2004. In addition, there is a schedule of investments, along with other financial information.

Net assets of the Corporation at March 31, 2004 were \$24.71 per share, compared with \$24.06 per share at December 31, 2003 on the 21,736,777 shares outstanding at each date. On March 1, 2004, a distribution of \$0.13 per share was paid, consisting of \$0.07 from 2003 long-term capital gain, \$0.02 from 2003 short-term capital gain, \$0.03 from 2003 investment income and \$0.01 from 2004 investment income, all taxable in 2004. A 2004 investment income dividend of \$0.13 per share has been declared to shareholders of record May 17, 2004, payable on June 1, 2004.

Net investment income for the three months ended March 31, 2004 amounted to \$1,873,966, compared with \$1,627,272 for the same period in 2003. These earnings are equal to \$0.09 and \$0.08 per share on the average number of shares outstanding during each period.

Net capital gain realized on investments for the three months ended March 31, 2004 amounted to \$7,098,540, the equivalent of \$0.33 per share.

The Annual Meeting, held on March 30, 2004 in Baltimore, was well attended. The Corporation marked its 75<sup>th</sup> year anniversary at the meeting, having commenced operations as an investment company in January 1929. The results of the voting at the Annual Meeting are shown on page 12.

Current and potential shareholders can find information about the Corporation, including the daily net asset value (NAV) per share, the market price, and the discount/premium to the NAV, at its site on the Internet. The address for the website is [www.peteres.com](http://www.peteres.com). Also available at the website are a brief history of the Corporation, historical financial information, and more general industry material. Further information regarding shareholder services is located on page 13 of this report.

Effective March 10, 2004, Edward J. Kelly, III, resigned from the Board of Directors due to time constraints from his position as President and Chief Executive Officer of Mercantile Bankshares Corporaion. Mr. Kelly served on our Board from 2001 to 2004 and his many contributions to the Board will be greatly missed.

The Corporation is an internally-managed equity fund emphasizing petroleum and other natural resource investments. The investment policy of the Corporation is based on the primary objectives of preservation of capital, the attainment of reasonable income from investments, and an opportunity for capital appreciation.

By order of the Board of Directors,

Douglas G. Ober,

*Chairman, President and*

*Chief Executive Officer*

April 16, 2004

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**STATEMENT OF ASSETS AND LIABILITIES**


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March 31, 2004

(unaudited)

**Assets**

Investments\* at value:

Common stocks and convertible securities

(cost \$285,883,538)

\$ 479,135,445

Short-term investments (cost \$57,529,650)

57,529,650

Securities lending collateral (cost \$42,637,274)

42,637,274

\$ 579,302,369

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Cash 242,394

Receivables:

Investment securities sold

320,999

Dividends and interest

763,226

Prepaid expenses and other assets

981,118

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*Total Assets* 581,610,106

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**Liabilities**

Open written option contracts at value (proceeds \$270,176)

316,635

Obligations to return securities lending collateral

42,637,274

Accrued expenses

1,435,292

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*Total Liabilities* 44,389,201

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**Net Assets** 537,220,905

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**Net Assets**

Common Stock at par value \$1.00 per share, authorized 50,000,000 shares; issued and outstanding

21,736,777 shares

\$ 21,736,777

Additional capital surplus

312,813,521

Undistributed net investment income

2,505,248

Undistributed net realized gain on investments

6,959,911

Unrealized appreciation on investments

193,205,448

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**Net Assets Applicable to Common Stock** \$ 537,220,905

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**Net Asset Value Per Share of Common Stock** \$24.71

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*\* See Schedule of Investments on pages 8 and 9.*

*The accompanying notes are an integral part of the financial statements.*

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**STATEMENT OF OPERATIONS**


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*Three Months Ended March 31, 2004*

*(unaudited)*

**Investment Income**

Income:

|                           |              |
|---------------------------|--------------|
| Dividends                 | \$ 2,540,679 |
| Interest and other income | 168,062      |

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|                     |                  |
|---------------------|------------------|
| <i>Total income</i> | <i>2,708,741</i> |
|---------------------|------------------|

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Expenses:

|                                                  |         |
|--------------------------------------------------|---------|
| Investment research                              | 235,063 |
| Administration and operations                    | 226,489 |
| Directors' fees                                  | 82,500  |
| Reports and stockholder communications           | 98,324  |
| Transfer agent, registrar and custodian expenses | 48,008  |
| Auditing and accounting services                 | 20,967  |
| Legal services                                   | 6,237   |
| Occupancy and other office expenses              | 69,818  |
| Travel, telephone and postage                    | 10,249  |
| Other                                            | 37,120  |

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|                       |                |
|-----------------------|----------------|
| <i>Total expenses</i> | <i>834,775</i> |
|-----------------------|----------------|

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|                              |                  |
|------------------------------|------------------|
| <b>Net Investment Income</b> | <b>1,873,966</b> |
|------------------------------|------------------|

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**Realized Gain and Change in Unrealized Appreciation on Investments**

|                                                  |           |
|--------------------------------------------------|-----------|
| Net realized gain on security transactions       | 7,098,540 |
| Change in unrealized appreciation on investments | 8,132,898 |

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|                                |                   |
|--------------------------------|-------------------|
| <b>Net Gain on Investments</b> | <b>15,231,438</b> |
|--------------------------------|-------------------|

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|                                                       |                      |
|-------------------------------------------------------|----------------------|
| <b>Change in Net Assets Resulting from Operations</b> | <b>\$ 17,105,404</b> |
|-------------------------------------------------------|----------------------|

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*The accompanying notes are an integral part of the financial statements.*

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**STATEMENTS OF CHANGES IN NET ASSETS**


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|                                                                                                            | Three Months Ended<br>March 31, 2004 | Year Ended<br>December 31, 2003 |
|------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------|
|                                                                                                            | (unaudited)                          |                                 |
| <b>From Operations:</b>                                                                                    |                                      |                                 |
| Net investment income                                                                                      | \$ 1,873,966                         | \$ 8,134,186                    |
| Net realized gain on investments                                                                           | 7,098,540                            | 17,219,079                      |
| Change in unrealized appreciation on investments                                                           | 8,132,898                            | 66,291,943                      |
| <hr/>                                                                                                      |                                      |                                 |
| <i>Change in net assets resulting from operations</i>                                                      | 17,105,404                           | 91,645,208                      |
| <hr/>                                                                                                      |                                      |                                 |
| <b>Distributions to Stockholders from:</b>                                                                 |                                      |                                 |
| Net investment income                                                                                      | (869,470)                            | (8,108,325)                     |
| Net realized gain from investment transactions                                                             | (1,956,308)                          | (17,260,893)                    |
| <hr/>                                                                                                      |                                      |                                 |
| <i>Decrease in net assets from distributions</i>                                                           | (2,825,778)                          | (25,369,218)                    |
| <hr/>                                                                                                      |                                      |                                 |
| <b>From Capital Share Transactions:</b>                                                                    |                                      |                                 |
| Value of shares issued in payment of distributions                                                         |                                      | 9,783,141                       |
| Cost of shares purchased (Note 4)                                                                          |                                      | (4,393,315)                     |
| <hr/>                                                                                                      |                                      |                                 |
| <i>Change in net assets from capital share transactions</i>                                                |                                      | 5,389,826                       |
| <hr/>                                                                                                      |                                      |                                 |
| <b>Total Increase in Net Assets</b>                                                                        | 14,279,626                           | 71,665,816                      |
| <hr/>                                                                                                      |                                      |                                 |
| <b>Net Assets:</b>                                                                                         |                                      |                                 |
| Beginning of period                                                                                        | 522,941,279                          | 451,275,463                     |
| <hr/>                                                                                                      |                                      |                                 |
| End of period (including undistributed net investment income of \$2,505,248 and \$1,500,752, respectively) | \$ 537,220,905                       | \$ 522,941,279                  |
| <hr/>                                                                                                      |                                      |                                 |

*The accompanying notes are an integral part of the financial statements.*



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**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

Petroleum & Resources Corporation (the Corporation) is registered under the Investment Company Act of 1940 as a non-diversified investment company. The Corporation's investment objectives as well as the nature and risk of its investment transactions are set forth in the Corporation's registration statement.

**Security Valuation** Investments in securities traded on national security exchanges are valued at the last reported sale price on the day of valuation. Over-the-counter and listed securities for which a sale price is not available are valued at the last quoted bid price. Short-term investments (excluding purchased options) are valued at amortized cost. Purchased and written options are valued at the last quoted asked price.

**Security Transactions and Investment Income** Investment transactions are accounted for on the trade date. Gain or loss on sales of securities and options is determined on the basis of identified cost. Dividend income and distributions to shareholders are recognized on the ex-dividend date, and interest income is recognized on the accrual basis.

**2. FEDERAL INCOME TAXES**

The Corporation's policy is to distribute all of its taxable income to its shareholders in compliance with the requirements of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. For federal income tax purposes, the identified cost of securities, including options, at March 31, 2004 was \$386,337,274, and net unrealized appreciation aggregated \$193,235,271, of which the related gross unrealized appreciation and depreciation were \$208,618,221 and \$15,382,950, respectively.

Distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. Accordingly, annual reclassifications are made within the Corporation's capital accounts to reflect income and gains available for distribution under income tax regulations.

**3. INVESTMENT TRANSACTIONS**

The Corporation's investment decisions are made by a committee, and no one person is primarily responsible for making recommendations to that committee.

Purchases and sales of portfolio securities, other than options and short-term investments, during the three months ended March 31, 2004 were \$19,774,316 and \$15,433,964, respectively. Options may be written (sold) or purchased by the Corporation. The Corporation, as writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. The risk associated with purchasing an option is limited to the premium originally paid. A schedule of outstanding option contracts as of March 31, 2004 can be found on page 10.

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Transactions in written covered call and collateralized put options during the three months ended March 31, 2004 were as follows:

|                                        | Covered Calls |            | Collateralized Puts |           |
|----------------------------------------|---------------|------------|---------------------|-----------|
|                                        | Contracts     | Premiums   | Contracts           | Premiums  |
| Options outstanding, December 31, 2003 | 550           | \$ 62,932  | 350                 | \$ 36,992 |
| Options written                        | 1,315         | 173,380    | 872                 | 92,330    |
| Options expired                        | (50)          | (6,733)    | (200)               | (20,999)  |
| Options exercised                      | (450)         | (51,733)   | (150)               | (15,993)  |
| Options outstanding, March 31, 2004    | 1,365         | \$ 177,846 | 872                 | \$ 92,330 |

4. CAPITAL STOCK

The Corporation has 5,000,000 authorized and unissued preferred shares without par value.

On December 27, 2003, the Corporation issued 450,110 shares of its Common Stock at a price of \$21.735 per share (the average market price on December 8, 2003) to stockholders of record on November 24, 2003 who elected to take stock in payment of the distribution from 2003 capital gain and investment income.

The Corporation may purchase shares of its Common Stock from time to time at such prices and amounts as the Board of Directors may deem advisable.

Transactions in Common Stock for 2004 and 2003 were as follows:

|                                                                                        | Shares                            |                              | Amount                            |                              |
|----------------------------------------------------------------------------------------|-----------------------------------|------------------------------|-----------------------------------|------------------------------|
|                                                                                        | Three months ended March 31, 2004 | Year ended December 31, 2003 | Three months ended March 31, 2004 | Year ended December 31, 2003 |
| Shares issued in payment of dividends                                                  |                                   | 450,110                      | \$                                | \$ 9,783,141                 |
| Shares purchased (at a weighted average discount from net asset value of 8.2% in 2003) |                                   | (223,400)                    |                                   | (4,393,315)                  |
| Net change                                                                             |                                   | 226,710                      | \$                                | \$ 5,389,826                 |

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There were no shares held by the Corporation at March 31, 2004 or December 31, 2003.

The Corporation has an employee incentive stock option and stock appreciation rights plan which provides for the

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**


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issuance of options and stock appreciation rights for the purchase of up to 895,522 shares of the Corporation's Common Stock at 100% of the fair market value at date of grant. Options are exercisable beginning not less than one year after the date of grant and extend and vest over ten years from the date of grant. Stock appreciation rights are exercisable beginning not less than two years after the date of grant and extend over the period during which the option is exercisable. The stock appreciation rights allow the holders to surrender their rights to exercise their options and receive cash or shares in an amount equal to the difference between the option price and the fair market value of the Common Stock at the date of surrender.

Under the plan, the exercise price of the options and related stock appreciation rights is reduced by the per share amount of capital gain paid by the Corporation during subsequent years. At the beginning of 2004, there were 129,447 options outstanding at a weighted average exercise price of \$18.35 per share. During the three months ended March 31, 2004, the Corporation granted options including stock appreciation rights for 14,767 shares of Common Stock with an original exercise price of \$23.02. During the three months ended March 31, 2004, stock appreciation rights relating to 500 stock option shares were exercised at a market price of \$23.84 per share and the stock options relating to these rights with an exercise price of \$8.31 per share were cancelled. At March 31, 2004, there were outstanding exercisable options to purchase 61,705 common shares at \$10.83-\$24.44 per share (weighted average price of \$17.24) and unexercisable options to purchase 82,009 common shares at \$15.05-\$24.44 per share (weighted average price of \$19.74). The weighted average remaining contractual life of outstanding exercisable and unexercisable options was 5.13 years and 6.77 years, respectively. The total compensation expense for stock options and stock appreciation rights recognized for the three months ended March 31, 2004 was \$75,237. At March 31, 2004, there were 264,847 shares available for future option grants.

#### 5. RETIREMENT PLANS

The Corporation's non-contributory qualified defined benefit pension plan covers substantially all full-time employees with at least one year of service. Benefits are based on length of service and compensation during the last five years of employment. The Corporation's policy is to contribute annually to the plan only those amounts that can be deducted for federal income tax purposes, plus additional amounts as the Corporation deems appropriate in order to provide assets sufficient to meet benefits to be paid to plan participants. As of March 31, 2004, no contributions to the plan have been made. The Corporation anticipates making a contribution to the plan in 2004. The amount of the contribution is contingent on the outcome of pending legislation and, therefore, cannot yet be determined.

In addition, the Corporation has a nonqualified defined benefit plan which provides eligible employees with retirement benefits to supplement the qualified plan.

The following table aggregates the components of the plans' net periodic pension cost for the three months ended March 31:

|                                    | March 31, 2004 |
|------------------------------------|----------------|
| Service Cost                       | \$ 34,270      |
| Interest Cost                      | 61,356         |
| Expected return on plan assets     | (54,199)       |
| Amortization of prior service cost | 14,463         |
| Amortization of net loss           | 33,182         |
| Net periodic pension cost          | \$ 89,072      |

The Corporation also sponsors a defined contribution plan that covers substantially all employees. For the three months ended March 31, 2004, the Corporation expensed matching contributions of \$13,747. The Corporation does not provide postretirement medical benefits.

## 6. EXPENSES

The cumulative amount of accrued expenses at March 31, 2004 for employees and former employees of the Corporation was \$1,261,821. Aggregate remuneration paid or accrued during the three months ended March 31, 2004 to directors and key employees amounted to \$283,873.

## 7. PORTFOLIO SECURITIES LOANED

The Corporation makes loans of securities to brokers, secured by cash deposits, U.S. Government securities, or bank letters of credit. The Corporation accounts for securities lending transactions as secured financing and receives compensation in the form of fees or retains a portion of interest on the investment of any cash received as collateral. The Corporation also continues to receive interest or dividends on the securities loaned. The loans are secured at all times by collateral of at least 102% of the fair value of the securities loaned plus accrued interest. Gain or loss in the fair value of securities loaned that may occur during the term of the loan will be for the account of the Corporation. At March 31, 2004, the Corporation had securities on loan of \$41,877,600 and held collateral of \$42,637,274, consisting of repurchase agreements, time deposits and commercial paper.

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**FINANCIAL HIGHLIGHTS**


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|                                                          | Three Months Ended |                   | Year Ended December 31 |           |           |           |           |
|----------------------------------------------------------|--------------------|-------------------|------------------------|-----------|-----------|-----------|-----------|
|                                                          | (unaudited)        |                   |                        |           |           |           |           |
|                                                          | March 31,<br>2004  | March 31,<br>2003 | 2003                   | 2002      | 2001      | 2000      | 1999      |
| <b>Per Share Operating Performance*</b>                  |                    |                   |                        |           |           |           |           |
| Net asset value, beginning of period                     | \$24.06            | \$20.98           | \$20.98                | \$24.90   | \$32.69   | \$26.32   | \$22.87   |
| Net investment income                                    | 0.09               | 0.08              | 0.38                   | 0.42      | 0.49      | 0.37      | 0.48      |
| Net realized gains and change in unrealized appreciation | 0.69               | (0.48)            | 3.89                   | (3.20)    | (6.81)    | 7.67      | 4.67      |
| Total from investment operations                         | 0.78               | (0.40)            | 4.27                   | (2.78)    | (6.32)    | 8.04      | 5.15      |
| <b>Less distributions</b>                                |                    |                   |                        |           |           |           |           |
| Dividends from net investment income                     | (0.04)             | (0.04)            | (0.38)                 | (0.43)    | (0.43)    | (0.39)    | (0.48)    |
| Distributions from net realized gains                    | (0.09)             | (0.09)            | (0.81)                 | (0.68)    | (1.07)    | (1.35)    | (1.07)    |
| Total distributions                                      | (0.13)             | (0.13)            | (1.19)                 | (1.11)    | (1.50)    | (1.74)    | (1.55)    |
| Capital share repurchases                                |                    |                   | 0.02                   | 0.01      | 0.06      | 0.28      | 0.01      |
| Reinvestment of distributions                            |                    |                   | (0.02)                 | (0.04)    | (0.03)    | (0.21)    | (0.16)    |
| Total capital share transactions                         |                    |                   | 0.00                   | (0.03)    | 0.03      | 0.07      | (0.15)    |
| Net asset value, end of period                           | \$24.71            | \$20.45           | \$24.06                | \$20.98   | \$24.90   | \$32.69   | \$26.32   |
| Per share market price, end of period                    | \$23.57            | \$19.19           | \$23.74                | \$19.18   | \$23.46   | \$27.31   | \$21.50   |
| <b>Total Investment Return</b>                           |                    |                   |                        |           |           |           |           |
| Based on market price                                    | (0.2)%             | 0.7%              | 30.8%                  | (13.7)%   | (8.7)%    | 36.1%     | 13.3%     |
| Based on net asset value                                 | 3.3%               | (1.9)%            | 21.2%                  | (11.1)%   | (19.0)%   | 33.1%     | 23.8%     |
| <b>Ratios/Supplemental Data</b>                          |                    |                   |                        |           |           |           |           |
| Net assets, end of period (in 000 s)                     | \$537,221          | \$438,962         | \$522,941              | \$451,275 | \$526,492 | \$688,173 | \$565,075 |
| Ratio of expenses to average net assets                  | 0.63%              | 0.68%             | 0.74%                  | 0.49%     | 0.35%     | 0.59%     | 0.43%     |
| Ratio of net investment income to average net assets     | 1.42%              | 1.47%             | 1.75%                  | 1.84%     | 1.67%     | 1.24%     | 1.86%     |
| Portfolio turnover                                       | 13.27%             | 3.89%             | 10.20%                 | 9.69%     | 6.74%     | 7.68%     | 11.89%    |

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|                                                              |        |        |        |        |        |        |        |
|--------------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Number of shares outstanding at<br>end of period (in 000 s)* | 21,737 | 21,461 | 21,737 | 21,510 | 21,148 | 21,054 | 21,471 |
|--------------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|

*\*Prior years have been adjusted to reflect the 3-for-2 stock split effected in October 2000. Certain prior year amounts have been reclassified to conform to current year presentation.*

*Ratios presented on an annualized basis.*

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**SCHEDULE OF INVESTMENTS**


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March 31, 2004

(unaudited)

|                                                | <b>Prin. Amt.</b> |                  |
|------------------------------------------------|-------------------|------------------|
|                                                | <b>or Shares</b>  | <b>Value (A)</b> |
|                                                | <hr/>             | <hr/>            |
| <b>Stocks And Convertible Securities 89.2%</b> |                   |                  |
| <b>Energy 75.4%</b>                            |                   |                  |
| <b>Internationals 25.5%</b>                    |                   |                  |
| BP plc ADR (B)                                 | 590,000           | \$ 30,208,000    |
| ChevronTexaco Corp.                            | 290,000           | 25,456,200       |
| Exxon Mobil Corp.                              | 1,050,000         | 43,669,500       |
| Royal Dutch Petroleum Co. ADR                  | 410,000           | 19,507,800       |
| Shell Transport and Trading Co., plc ADR       | 135,000           | 5,387,850        |
| Total S.A. ADR (B)                             | 140,000           | 12,880,000       |
|                                                |                   | <hr/>            |
|                                                |                   | 137,109,350      |
|                                                |                   | <hr/>            |
| <b>Domestics 8.4%</b>                          |                   |                  |
| Amerada Hess Corp.                             | 125,000           | 8,160,000        |
| ConocoPhillips                                 | 285,000           | 19,895,850       |
| Kerr McGee Corp.                               | 177,153           | 9,123,380        |
| Murphy Oil Corp.                               | 65,000            | 4,093,050        |
| Unocal Capital Trust \$3.125 Conv. Pfd.        | 72,540            | 3,767,546        |
|                                                |                   | <hr/>            |
|                                                |                   | 45,039,826       |
|                                                |                   | <hr/>            |
| <b>Producers 13.7%</b>                         |                   |                  |
| Apache Corp.                                   | 190,000           | 8,202,300        |
| Burlington Resources Inc.                      | 133,400           | 8,488,242        |
| Devon Energy Corp.                             | 198,720           | 11,555,568       |
| EOG Resources, Inc.                            | 200,000           | 9,178,000        |
| Noble Energy, Inc.                             | 141,000           | 6,641,100        |
| Occidental Petroleum Corp.                     | 200,000           | 9,210,000        |
| Pioneer Natural Resources Co. (C)              | 296,000           | 9,560,800        |
| Stone Energy Corp. (C)                         | 104,300           | 5,158,678        |
| XTO Energy Inc.                                | 218,900           | 5,525,036        |
|                                                |                   | <hr/>            |
|                                                |                   | 73,519,724       |
|                                                |                   | <hr/>            |
| <b>Distributors 15.1%</b>                      |                   |                  |
| AGL Resources Inc.                             | 250,000           | 7,255,000        |
| Duke Energy Corp. 8.25% Conv. Pfd. due 2004    | 160,000           | 2,368,000        |
| Duke Energy Corp.                              | 115,000           | 2,599,000        |
| Energen Corp.                                  | 200,000           | 8,250,000        |
| Equitable Resources Inc.                       | 250,000           | 11,105,000       |
| Keyspan Corp.                                  | 220,000           | 8,408,400        |
| Kinder Morgan, Inc.                            | 77,300            | 4,871,446        |
| MDU Resources Group, Inc.                      | 300,000           | 7,047,000        |
| National Fuel Gas Co.                          | 200,000           | 4,920,000        |
| New Jersey Resources Corp.                     | 277,500           | 10,489,500       |
| Questar Corp.                                  | 200,000           | 7,288,000        |
| TECO Energy, Inc. (B)                          | 200,000           | 2,926,000        |
|                                                | 120,000           | 1,528,800        |



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|                               |         |            |
|-------------------------------|---------|------------|
| Williams Companies, Inc. 9.0% |         |            |
| FELINE PACS due 2005 (B)      |         |            |
| Williams Companies, Inc.      | 200,000 | 1,914,000  |
|                               |         | <hr/>      |
|                               |         | 80,970,146 |
|                               |         | <hr/>      |

**Services 12.7%**

|                     |         |            |
|---------------------|---------|------------|
| Baker Hughes, Inc.  | 130,000 | 4,742,400  |
| BJ Services Co. (C) | 370,000 | 16,009,900 |

**Prin. Amt.**

**or Shares**

**Value (A)**

|                                        |         |              |
|----------------------------------------|---------|--------------|
| GlobalSantaFe Corp.                    | 200,000 | \$ 5,554,000 |
| Grant Prideco Inc. (C)                 | 308,000 | 4,774,000    |
| Nabors Industries Ltd. (C)             | 125,000 | 5,718,750    |
| Noble Corp. (C)                        | 135,000 | 5,186,700    |
| Schlumberger Ltd.                      | 280,000 | 17,878,000   |
| Weatherford International,<br>Ltd. (C) | 205,000 | 8,616,150    |
|                                        |         | <hr/>        |
|                                        |         | 68,479,900   |
|                                        |         | <hr/>        |

**Basic Industries 13.8%**

**Basic Materials & Other 10.1%**

|                                  |         |            |
|----------------------------------|---------|------------|
| Air Products and Chemicals, Inc. | 125,000 | 6,265,000  |
| Albemarle Corp.                  | 200,000 | 5,800,000  |
| Aqua America, Inc.               | 330,000 | 7,154,400  |
| Arch Coal Inc.                   | 250,000 | 7,847,500  |
| General Electric Co.             | 454,800 | 13,880,496 |
| Ingersoll-Rand Co. Ltd.          | 78,000  | 5,276,700  |
| Rohm & Haas Co.                  | 200,000 | 7,968,000  |
|                                  |         | <hr/>      |
|                                  |         | 54,192,096 |
|                                  |         | <hr/>      |

**Paper and Forest Products 3.7%**

|                                        |         |            |
|----------------------------------------|---------|------------|
| Boise Cascade Corp. 7.5% ACES due 2004 | 51,000  | 2,593,350  |
| Boise Cascade Corp.                    | 205,000 | 7,103,250  |
| Smurfit-Stone Container Corp. (C)      | 197,675 | 3,477,103  |
| Temple-Inland Inc.                     | 105,000 | 6,650,700  |
|                                        |         | <hr/>      |
|                                        |         | 19,824,403 |
|                                        |         | <hr/>      |

**Total Stocks And Convertible Securities**

|                          |  |             |
|--------------------------|--|-------------|
| (Cost \$285,883,538) (D) |  | 479,135,445 |
|                          |  | <hr/>       |

**Short-Term Investments 10.7%**

**U.S. Government Obligations 1.3%**

|                                            |              |           |
|--------------------------------------------|--------------|-----------|
| U.S. Treasury Bills,<br>0.85%, due 5/20/04 | \$ 7,000,000 | 6,991,901 |
|                                            |              | <hr/>     |

**Certificates of Deposit 1.0%**

|                                                              |              |           |
|--------------------------------------------------------------|--------------|-----------|
| Mercantile-Safe Deposit &<br>Trust Co., 0.85%,<br>due 6/7/04 | \$ 5,550,000 | 5,550,000 |
|                                                              |              | <hr/>     |

**Commercial Paper 8.4%**

|                                                                |              |           |
|----------------------------------------------------------------|--------------|-----------|
| AIG Funding Inc., 1.00%, due 4/8/04-4/22/04                    | \$ 2,200,000 | 2,198,872 |
| American General Finance Corp., 1.00-1.01%, due 4/8/04-4/20/04 | \$ 4,800,000 | 4,798,321 |

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|                                                          |    |           |           |
|----------------------------------------------------------|----|-----------|-----------|
| Cargill Global Funding plc,<br>0.98%, due 4/29/04        | \$ | 4,470,000 | 4,467,036 |
| Caterpillar Financial Services Corp., 0.96%, due 4/22/04 | \$ | 1,880,000 | 1,878,947 |
| ChevronTexaco Funding Corp., 0.99%, due 4/1/04           | \$ | 3,930,000 | 3,930,000 |

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**SCHEDULE OF INVESTMENTS (CONTINUED)**


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March 31, 2004

(unaudited)

|                                                                   | <u>Prin. Amt.</u> | <u>Value (A)</u>             |
|-------------------------------------------------------------------|-------------------|------------------------------|
| Exxon Project Investment Corp., 0.94%, due 4/1/04                 | \$ 1,000,000      | \$ 1,000,000                 |
| General Electric Capital Corp., 0.95-1.00%,<br>due 4/8/04-4/15/04 | 3,100,000         | 3,099,182                    |
| General Electric Capital Services Corp., 1.01%, due 4/20/04       | 3,800,000         | 3,797,974                    |
| GMAC MINT, 1.02%,<br>due 4/13/04-4/20/04                          | 7,000,000         | 6,997,223                    |
| Pfizer Inc., 0.97%,<br>due 4/12/04                                | 5,250,000         | 5,248,445                    |
| Toyota Motor Credit Corp., 0.94-1.00%, due 4/6/04-4/27/04         | 6,575,000         | 6,572,072                    |
| Unilever Capital Corp., 0.97%, due 4/13/04                        | 1,000,000         | 999,677                      |
|                                                                   |                   | <hr/> 44,987,749 <hr/>       |
| <b>Total Short-Term Investments</b><br>(Cost \$57,529,650)        |                   | <hr/> 57,529,650 <hr/>       |
| <b>Securities Lending Collateral 7.9%</b>                         |                   |                              |
| <b>Repurchase Agreements</b>                                      |                   |                              |
| Daiwa Securities America Inc., 1.11%, due 4/1/04                  |                   | 33,636,921                   |
| <b>Time Deposits</b>                                              |                   |                              |
| Caisse Des Depots et Consign Paris, 1.07%, due 4/9/04             |                   | 501,233                      |
| Dexia Bank Brussels,<br>1.03%, due 4/5/04                         |                   | 750,601                      |
| Fortis Bank Brussels, 1.05%,<br>due 4/27/04                       |                   | 500,943                      |
| Societe Generale Singapore, 1.04%, due 4/2/04                     |                   | 500,506                      |
|                                                                   |                   | <hr/> <b>Value (A)</b> <hr/> |
| Svenska Handelsbanken Stockholm, 1.07%, due 4/8/04                | \$                | 501,233                      |
| <b>Commercial Paper</b>                                           |                   |                              |
| Amstel Funding Corp.,<br>1.06%, due 5/17/04                       |                   | 499,299                      |
| Citi Corp., 1.04%,<br>due 4/19/04                                 |                   | 499,720                      |
| Erasmus Capital Corp.,<br>1.03%, due 4/7/04                       |                   | 749,871                      |
| Fairway Finance Corp.,<br>1.05%, due 6/4/04                       |                   | 748,540                      |
| Giro Multifunding,<br>1.06%, due 4/15/04                          |                   | 499,767                      |
| Hannover Funding,<br>1.05%, due 4/12/04                           |                   | 499,811                      |

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|                                                                   |                       |
|-------------------------------------------------------------------|-----------------------|
| Mane Funding Corp.,<br>1.05%, due 4/20/04                         | 499,706               |
| Scaldis Capital LLC,<br>1.05%, due 4/15/04                        | 999,533               |
| Sheffield Receivables Corp.,<br>1.03%, due 4/13/04                | 749,694               |
| Surrey Funding Corp.,<br>1.07%, due 4/8/04                        | 499,896               |
|                                                                   | <hr/>                 |
| <b>Total Securities Lending Collateral</b><br>(Cost \$42,637,274) | 42,637,274            |
|                                                                   | <hr/>                 |
| <b>Total Investments 107.8%</b><br>(Cost \$386,050,462)           | 579,302,369           |
| Cash, receivables and other assets, less liabilities (7.8)%       | (42,081,464)          |
|                                                                   | <hr/>                 |
| <b>Net Assets 100.0%</b>                                          | <b>\$ 537,220,905</b> |
|                                                                   | <hr/> <hr/>           |

Notes:

- (A) See note 1 to financial statements. Securities are listed on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ.
- (B) Some or all of these securities are on loan. See note 7 to financial statements.
- (C) Presently non-dividend paying.
- (D) The aggregate market value of stocks held in escrow at March 31, 2004 covering open call option contracts written was \$8,221,650. In addition, the aggregate market value of securities segregated by the custodian required to collateralize open put option contracts written was \$4,035,000.

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**SCHEDULE OF OUTSTANDING OPTION CONTRACTS**


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March 31, 2004

(unaudited)

| Contracts<br>(100 shares<br>each) | Security                      | Strike<br>Price | Contract<br>Expiration<br>Date |    | Appreciation/<br>(Depreciation) |
|-----------------------------------|-------------------------------|-----------------|--------------------------------|----|---------------------------------|
| <b>COVERED CALLS</b>              |                               |                 |                                |    |                                 |
| 150                               | Amerada Hess Corp.            | \$ 65           | Aug                            | 04 | \$ (41,176)                     |
| 200                               | ChevronTexaco Corp.           | 90              | Jun                            | 04 | (12,601)                        |
| 200                               | EOG Resources, Inc.           | 50              | Jul                            | 04 | 14,398                          |
| 100                               | Kinder Morgan, Inc.           | 60              | May                            | 04 | (25,801)                        |
| 100                               | Kinder Morgan, Inc.           | 65              | Aug                            | 04 | (8,750)                         |
| 65                                | Pioneer Natural Resources Co. | 35              | Jun                            | 04 | 1,905                           |
| 250                               | Royal Dutch Petroleum Co.     | 50              | Apr                            | 04 | 24,249                          |
| 200                               | Stone Energy Corp.            | 50              | Sep                            | 04 | (54,301)                        |
| 100                               | Total S.A.                    | 100             | May                            | 04 | 10,799                          |
| <hr/>                             |                               |                 |                                |    | <hr/>                           |
| 1,365                             |                               |                 |                                |    | (91,278)                        |
| <b>COLLATERALIZED PUTS</b>        |                               |                 |                                |    |                                 |
| 100                               | BP plc                        | 45              | Apr                            | 04 | 8,699                           |
| 100                               | BP plc                        | 45              | Jul                            | 04 | 8,699                           |
| 150                               | ConocoPhillips                | 60              | May                            | 04 | 12,599                          |
| 200                               | Murphy Oil Corp.              | 55              | Jul                            | 04 | 4,849                           |
| 72                                | Murphy Oil Corp.              | 50              | Oct                            | 04 | 1,224                           |
| 100                               | Schlumberger Ltd.             | 55              | May                            | 04 | 6,200                           |
| 150                               | Smurfit-Stone Container Corp. | 15              | Aug                            | 04 | 2,549                           |
| <hr/>                             |                               |                 |                                |    | <hr/>                           |
| 872                               |                               |                 |                                |    | 44,819                          |
| <hr/>                             |                               |                 |                                |    | <hr/>                           |
|                                   |                               |                 |                                |    | \$ (46,459)                     |

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**CHANGES IN PORTFOLIO SECURITIES**


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During the Three Months Ended March 31, 2004

(unaudited)

Shares

|                                       | <u>Additions</u>       | <u>Reductions</u> | <u>Held<br/>March 31, 2004</u> |
|---------------------------------------|------------------------|-------------------|--------------------------------|
| Air Products and Chemicals, Inc.      | 50,000                 |                   | 125,000                        |
| Apache Corp.                          | 105,000 <sup>(1)</sup> | 20,000            | 190,000                        |
| BP plc ADR                            | 50,000                 |                   | 590,000                        |
| ConocoPhillips                        | 25,000                 |                   | 285,000                        |
| General Electric Co.                  | 125,000                |                   | 454,800                        |
| Pioneer Natural Resources Co.         | 5,000                  |                   | 296,000                        |
| Smurfit-Stone Container Corp.         | 197,675                |                   | 197,675                        |
| XTO Energy Inc.                       | 218,900 <sup>(2)</sup> |                   | 218,900                        |
| Aqua America, Inc.                    |                        | 51,250            | 330,000                        |
| El Paso Corp.                         |                        | 180,000           |                                |
| Ingersoll-Rand Co. Ltd.               |                        | 22,000            | 78,000                         |
| Royal Dutch Petroleum Co. ADR         |                        | 190,000           | 410,000                        |
| Shell Transport & Trading Co. plc ADR |                        | 15,000            | 135,000                        |
| Temple-Inland Inc.                    |                        | 15,000            | 105,000                        |

<sup>(1)</sup> By stock split.

<sup>(2)</sup> Received 26,250 shares by stock split.

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**HISTORICAL FINANCIAL STATISTICS**


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| <u>December 31</u>         | <u>Value of<br/>Net Assets</u> | <u>Shares<br/>Outstanding*</u> | <u>Net<br/>Asset<br/>Value per<br/>Share*</u> | <u>Dividends<br/>from<br/>Net Investment<br/>Income<br/>per Share*</u> | <u>Distributions<br/>from<br/>Net Realized<br/>Gains<br/>per Share*</u> |
|----------------------------|--------------------------------|--------------------------------|-----------------------------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------|
| 1994                       | \$ 332,279,398                 | 18,570,450                     | \$ 17.89                                      | \$ .61                                                                 | \$ .79                                                                  |
| 1995                       | 401,404,971                    | 19,109,075                     | 21.01                                         | .58                                                                    | .81                                                                     |
| 1996                       | 484,588,990                    | 19,598,729                     | 24.73                                         | .55                                                                    | .88                                                                     |
| 1997                       | 556,452,549                    | 20,134,181                     | 27.64                                         | .51                                                                    | 1.04                                                                    |
| 1998                       | 474,821,118                    | 20,762,063                     | 22.87                                         | .52                                                                    | 1.01                                                                    |
| 1999                       | 565,075,001                    | 21,471,270                     | 26.32                                         | .48                                                                    | 1.07                                                                    |
| 2000                       | 688,172,867                    | 21,053,644                     | 32.69                                         | .39                                                                    | 1.35                                                                    |
| 2001                       | 526,491,798                    | 21,147,563                     | 24.90                                         | .43                                                                    | 1.07                                                                    |
| 2002                       | 451,275,463                    | 21,510,067                     | 20.98                                         | .43                                                                    | .68                                                                     |
| 2003                       | 522,941,279                    | 21,736,777                     | 24.06                                         | .38                                                                    | .81                                                                     |
| March 31, 2004 (unaudited) | 537,220,905                    | 21,736,777                     | 24.71                                         | .17                                                                    | .09                                                                     |

\* Prior years have been adjusted to reflect the 3-for-2 stock split effected in October 2000.  
Paid or declared.

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**Common Stock**

Listed on the New York Stock Exchange

and the Pacific Exchange

**Petroleum & Resources Corporation**

Seven St. Paul Street, Suite 1140, Baltimore, MD 21202

(410) 752-5900 or (800) 638-2479

**Website:** [www.peteres.com](http://www.peteres.com)

**E-mail:** [contact@peteres.com](mailto:contact@peteres.com)

**Counsel:** Chadbourne & Parke L.L.P.

**Independent Auditors:** PricewaterhouseCoopers LLP

**Transfer Agent & Registrar:** American Stock Transfer & Trust Co.

**Custodian of Securities:** The Bank of New York

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This report, including the financial statements herein, is transmitted to the stockholders of Petroleum & Resources Corporation for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Corporation or of any securities mentioned in this report. The rates of return will vary and the market value of an investment will fluctuate. Shares, if sold, may be worth more or less than their original cost. Past performance is not indicative of future investment results.



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**ANNUAL MEETING OF STOCKHOLDERS**


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The Annual Meeting of Stockholders was held on March 30, 2004. For those nominated, the following votes were cast for directors:

|                           | <u>votes for</u> | <u>votes withheld</u> |
|---------------------------|------------------|-----------------------|
| (A) Enrique R. Arzac:     | 19,134,133       | 349,341               |
| (B) Phyllis O. Bonanno:   | 19,209,585       | 273,889               |
| (C) Daniel E. Emerson:    | 19,109,564       | 373,910               |
| (D) Thomas H. Lenagh:     | 19,106,335       | 377,139               |
| (E) W.D. MacCallan:       | 19,109,902       | 373,572               |
| (F) Kathleen T. McGahran: | 19,207,336       | 276,138               |
| (G) W. Perry Neff:        | 19,121,413       | 362,061               |
| (H) Douglas G. Ober:      | 19,126,867       | 356,607               |
| (I) Landon Peters:        | 19,129,555       | 353,919               |
| (J) John J. Roberts:      | 19,116,336       | 367,138               |
| (K) Susan C. Schwab:      | 19,193,164       | 290,310               |
| (L) Robert J.M. Wilson:   | 19,114,964       | 368,510               |

A proposal to approve and ratify the selection of PricewaterhouseCoopers LLP as the firm of independent auditors of the Corporation for 2004 was approved with 19,212,888 votes for, 137,447 votes against and 133,146 votes abstaining.

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**SHAREHOLDER INFORMATION AND SERVICES**


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**DIVIDEND PAYMENT SCHEDULE**

The Corporation presently pays dividends four times a year, as follows: (a) three interim distributions on or about March 1, June 1, and September 1 and (b) a year-end distribution, payable in late December, consisting of the estimated balance of the net investment income for the year and the net realized capital gain earned through October 31. Stockholders may elect to receive the year-end distribution in stock or cash. In connection with this distribution, all **stockholders of record** are sent a dividend announcement notice and an election card in mid-November.

**Stockholders holding shares in street or brokerage accounts may make their elections by notifying their brokerage house representative.**

**INVESTORS CHOICE**

INVESTORS CHOICE is a direct stock purchase and sale plan, as well as a dividend reinvestment plan, sponsored and administered by our transfer agent, American Stock Transfer & Trust Company (AST). The plan provides registered stockholders and interested first time investors an affordable alternative for buying, selling, and reinvesting in Petroleum & Resources shares.

The costs to participants in administrative service fees and brokerage commissions for each type of transaction are listed below.

|                                                                          |                                                             |
|--------------------------------------------------------------------------|-------------------------------------------------------------|
| Initial Enrollment and Optional Cash Investments                         |                                                             |
| Service Fee                                                              | \$2.50 per investment                                       |
| Brokerage Commission                                                     | \$0.05 per share                                            |
| Reinvestment of Dividends**                                              |                                                             |
| Service Fee                                                              | 2% of amount invested<br>(maximum of \$2.50 per investment) |
| Brokerage Commission                                                     | \$0.05 per share                                            |
| Sale of Shares                                                           |                                                             |
| Service Fee                                                              | \$10.00                                                     |
| Brokerage Commission                                                     | \$0.05 per share                                            |
| Deposit of Certificates for safekeeping \$7.50                           |                                                             |
| Book to Book Transfers                                                   | Included                                                    |
| <i>To transfer shares to another participant or to a new participant</i> |                                                             |

***Fees are subject to change at any time.***

**Minimum and Maximum Cash Investments**

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|                                                |             |
|------------------------------------------------|-------------|
| Initial minimum investment (non-holders)       | \$500.00    |
| Minimum optional investment (existing holders) | \$50.00     |
| Electronic Funds Transfer<br>(monthly minimum) | \$50.00     |
| Maximum per transaction                        | \$25,000.00 |
| Maximum per year                               | NONE        |

A brochure which further details the benefits and features of INVESTORS CHOICE as well as an enrollment form may be obtained by contacting AST.

### **For Non-Registered Shareholders**

For shareholders whose stock is held by a broker in street name, the AST INVESTORS CHOICE Direct Stock Purchase and Sale Plan remains available through many registered investment security dealers. If your shares are currently held in a street name or brokerage account, please contact your broker for details about how you can participate in AST's Plan or contact AST.

---

### **The Corporation**

#### **Petroleum & Resources Corporation**

Lawrence L. Hooper, Jr.

Vice President, General Counsel and Secretary

Seven St. Paul Street, Suite 1140, Baltimore, MD 21202

(800) 638-2479

*Website:* [www.peteres.com](http://www.peteres.com)

*E-mail:* [contact@peteres.com](mailto:contact@peteres.com)

### **The Transfer Agent**

#### **American Stock Transfer & Trust Company**

*Address Shareholder Inquiries to:*

Shareholder Relations Department

59 Maiden Lane

New York, NY 10038

(866) 723-8330

**Website:** [www.amstock.com](http://www.amstock.com)

**E-mail:** [info@amstock.com](mailto:info@amstock.com)

***Investors Choice Mailing Address:***

Attention: Dividend Reinvestment

P.O. Box 922

Wall Street Station

New York, NY 10269

**Website:** [www.InvestPower.com](http://www.InvestPower.com)

**E-mail:** [info@InvestPower.com](mailto:info@InvestPower.com)

\*The year-end dividend and capital gain distribution will usually be made in newly issued shares of common stock. There will be no fees or commissions in connection with this dividend and capital gain distribution when made in newly issued shares.